

CAPTION SHEET

CASE MANAGEMENT SYSTEM

1. REPORT DATE: 00/00/00 :  
 2. BUREAU: FUS :  
 3. SECTION(S) : 4. PUBLIC MEETING DATE:  
 5. APPROVED BY: : 00/00/00  
 DIRECTOR: :  
 SUPERVISOR: :  
 6. PERSON IN CHARGE: : 7. DATE FILED: 11/30/99  
 8. DOCKET NO: A-125058 : 9. EFFECTIVE DATE: 00/00/00

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PARTY/COMPLAINANT:

RESPONDENT/APPLICANT: DTE EDISON AMERICA INC

COMP/APP COUNTY:

UTILITY CODE: 125058

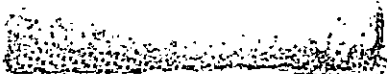
ALLEGATION OR SUBJECT

APP OF DTE EDISON AMERICA, INC. FOR APPROVAL TO OFFER, RENDER, FURNISH, OR SUPPLY NATURAL GAS SERVICES AS A SUPPLIER, BROKER/MARKETER AND AGGREGATOR TO THE PUBLIC IN THE COMMONWEALTH OF PENNSYLVANIA, SPECIFICALLY IN THE SERVICE TERRITORIES OF EQUITABLE GAS COMPANY; THE PEOPLES NATURAL GAS COMPANY; AND COLUMBIA GAS OF PA, INC.

**DOCKETED**

DEC 06 1999

**DOCUMENT  
FOLDER**



ORIGINAL



November 30, 1999

A-125058 RECEIVED

Mr. James J. McNulty  
Secretary  
Pennsylvania Public Utility Commission  
B-20, North Office Building  
Harrisburg, PA 17120

NOV 30 1999

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Dear Mr. McNulty

DTE Edison America, Inc. a subsidiary of DTE Energy Company, desires to obtain Pennsylvania Public Utility Commission approval to offer, render, furnish, or supply natural gas supply services to the public in the Commonwealth of Pennsylvania. Accordingly, please find enclosed an original and 8 copies of the required Natural Gas Supplier License Application Package. Also enclosed is an electronic version of the application document on a 3.5" disk in Microsoft Word.

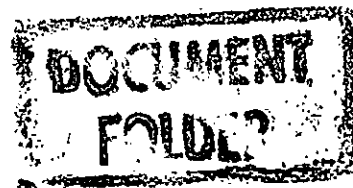
DTE Edison America, Inc. currently operates as an Electric Generation Supplier in Pennsylvania (license number A-110074) and also currently supplies natural gas to residential and small commercial customers on the Equitable Gas Company, The Peoples Natural Gas Company, and Columbia Gas of Pennsylvania, Inc. systems.

Please contact me if you have any questions. Thank you.

Sincerely,

Steven L. Sheppard, P.E.  
Vice President -- Regulatory and Supply Operations  
DTE Edison America

SS  
Enclosures



69

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of DTE Edison America, Inc., d/b/a \_\_\_\_\_, for approval to offer, render, furnish, or as a(n) [as specified in item #8 below] to the public in the Commonwealth of Pennsylvania.

To the Pennsylvania Public Utility Commission:

A-125058

- 1. **IDENTITY OF THE APPLICANT:** The name, address, telephone number, and FAX number of the Applicant are:

DTE Edison America, Inc.  
101 North Main, Suite 300  
Ann Arbor, Mi 48104  
Phone # 734-887-2126  
Fax # 734-887-2130

ORIGINAL

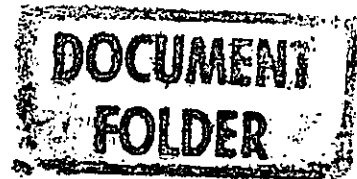
Please identify any predecessor(s) of the Applicant and provide other names under which the Applicant has operated within the preceding five (5) years, including name, address, and telephone number.

- 2. a. **CONTACT PERSON:** The name, title, address, telephone number, and FAX number of the person to whom questions about this Application should be addressed are:

Steven L. Sheppard, P.E.  
Vice President – Regulatory and Supply Operations  
101 North Main, Suite 300  
Ann Arbor, MI 48104  
Phone # 734-887-2126  
Fax # 734-887-2130

- b. **CONTACT PERSON-PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY:** The name, title, address telephone number and FAX number of the person with whom contact should be made by PEMA:

Steven L. Sheppard, P.E.  
Vice President – Regulatory and Supply Operations  
101 North Main, Suite 300  
Ann Arbor, MI 48104  
Phone # 734-887-2126  
Fax # 734-887-2130



- 3.a. **ATTORNEY:** If applicable, the name, address, telephone number, and FAX number of the Applicant's attorney are:

Raymond O. Sturdy  
2000 Second Avenue, Suite 688 WCB  
Detroit, MI 48226  
Phone # 313-235-8340  
Fax # 313-235-8500

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PENNSYLVANIA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

- b. **REGISTERED AGENT:** If the Applicant does not maintain a principal office in the Commonwealth, the required name, address, telephone number and FAX number of the Applicant's Registered Agent in the Commonwealth are:

**CT Corporation System**  
**1636 Market Street**  
**Philadelphia, PA 19103**  
**Phone # 215-563-7750**  
**Fax # 215-563-7771**

4. **FICTITIOUS NAME:** (select and complete appropriate statement)

The Applicant will be using a fictitious name or doing business as ("d/b/a"):

Attach to the Application a copy of the Applicant's filing with the Commonwealth's Department of State pursuant to 54 Pa. C.S. §311, Form PA-953.

**OR**

The Applicant will not be using a fictitious name.

5. **BUSINESS ENTITY AND DEPARTMENT OF STATE FILINGS:** (select and complete appropriate statement)

The Applicant is a sole proprietor.

If the Applicant is located outside the Commonwealth, provide proof of compliance with 15 Pa. C.S. §4124 relating to Department of State filing requirements.

**OR**

The Applicant is a:

- domestic general partnership (\*)
- domestic limited partnership (15 Pa. C.S. §8511)
- foreign general or limited partnership (15 Pa. C.S. §4124)
- domestic limited liability partnership (15 Pa. C.S. §8201)
- foreign limited liability general partnership (15 Pa. C.S. §8211)
- foreign limited liability limited partnership (15 Pa. C.S. §8211)

**Provide proof of compliance with appropriate Department of State filing requirements as indicated above.**

Give name, d/b/a, and address of partners. If any partner is not an individual, identify the business nature of the partner entity and identify its partners or officers.

\* If a corporate partner in the Applicant's domestic partnership is domiciled in Pennsylvania, attach a copy of the Applicant's Department of State filing pursuant to 15 Pa. C.S. §4124.

**OR**

**X** The Applicant is a :

- domestic corporation (none)
- X** foreign corporation (15 Pa. C.S. §4124)
- domestic limited liability company (15 Pa. C.S. §8913)
- foreign limited liability company (15 Pa. C.S. §8981)
- Other \_\_\_\_\_

Provide proof of compliance with appropriate Department of State filing requirements as indicated above. Additionally, provide a copy of the Applicant's Articles of Incorporation. **See Exhibit 1.**

Give name and address of officers.

<b>Robert J. Buckler (1)</b>	<b><u>Address (1)</u></b>
<b>Jean M. Redfield (2)</b>	<b>DTE Energy Co.</b>
<b>Leslie J. Christensen (2)</b>	<b>2000 Second Avenue</b>
<b>Steven L. Sheppard (2)</b>	<b>Detroit, MI 48226</b>
<b>Elaine M. Godfrey (1)</b>	
<b>Christopher C. Nern (1)</b>	<b><u>Address (2)</u></b>
<b>Christopher C. Arvani (1)</b>	<b>DTE Edison America, Inc.</b>
<b>Jack L. Somers (1)</b>	<b>101 North Main, Suite 300</b>
<b>William P. Murphey (1)</b>	<b>Ann Arbor, MI 48104</b>

The Applicant is incorporated in the state of **Michigan**.

6. **AFFILIATES AND PREDECESSORS WITHIN PENNSYLVANIA:** (select and complete appropriate statement)

**X** Affiliate(s) of the Applicant doing business in Pennsylvania are:

1. **DTE Energy Trading, Inc.**
2. **DTE-CoEnergy, L.L.C.**

Give name and address of the affiliate(s) and state whether the affiliate(s) are jurisdictional public utilities.

<b>DTE Energy Trading, Inc.</b>	<b>DTE-CoEnergy, L.L.C.</b>
<b>101 North Main, Suite 300</b>	<b>101 North Main, Suite 300</b>
<b>Ann Arbor, MI 48104</b>	<b>Ann Arbor, MI 48104</b>

**Neither of these affiliates are jurisdictional public utilities.**

**X** Does the Applicant have any affiliation with or ownership interest in:

- (a) any other Pennsylvania retail natural gas supplier licensee or licensee applicant,
- (b) any other Pennsylvania retail licensed electric generation supplier or license applicant,
- (c) any Pennsylvania natural gas producer and/or marketer,
- (d) any natural gas wells or
- (e) any local distribution companies (LDCs) in the Commonwealth

If the response to parts a, b, c, or d above is affirmative, provide a detailed description and explanation of the affiliation and/or ownership interest.

- (b) **DTE Edison America, Inc. is affiliated with DTE-CoEnergy, a licensed Electric Generation Supplier in Pennsylvania. DTE Edison America and DTE-CoEnergy are both affiliates of DTE Energy Company. DTE Energy Company is the parent company of Detroit Edison.**

X Provide specific details concerning the affiliation and/or ownership interests involving:

- (a) any natural gas producer and/or marketers,  
(b) any wholesale or retail supplier or marketer of natural gas, electricity, oil, propane or other energy sources.

- (b) **DTE Edison America, Inc. is affiliated with DTE Energy Trading, a wholesale supplier of electricity in Pennsylvania. DTE Edison America currently purchases all of its retail sales electricity from DTE Energy Trading. DTE Edison America and DTE Energy Trading are both affiliates of DTE Energy Company. DTE Energy Company is the parent company of Detroit Edison.**

X Provide the Pa PUC Docket Number if the applicant has ever applied:

- (a) for a Pennsylvania Natural Gas Supplier license, or  
(b) for a Pennsylvania Electric Generation Supplier license.

- (b) **DTE Edison America's Pennsylvania Electric Generation Supplier License (Docket) # A-110074**

X If the Applicant or an affiliate has a predecessor who has done business within Pennsylvania, give name and address of the predecessor(s) and state whether the predecessor(s) were jurisdictional public utilities.

**See above regarding DTE Edison America, DTE-CoEnergy, and DTE Energy Trading**

**OR**

- The Applicant has no affiliates doing business in Pennsylvania or predecessors which have done business in Pennsylvania.

7. **APPLICANT'S PRESENT OPERATIONS:** (select and complete the appropriate statement)

X The Applicant is presently doing business in Pennsylvania as a

- natural gas interstate pipeline.  
 municipal providing service outside its municipal limits.  
 local gas distribution company  
 retail supplier of natural gas services in the Commonwealth  
 a natural gas producer  
 Other. (Electric Generation Supplier in the Commonwealth.)

or

The Applicant is not presently doing business in Pennsylvania.

8. **APPLICANT'S PROPOSED OPERATIONS:** The Applicant proposes to operate as a:

- supplier of natural gas services.
- Municipal supplier of natural gas services.
- Cooperative supplier of natural gas services.
- Broker/Marketer engaged in the business of supplying natural gas services.
- Aggregator engaged in the business of supplying natural gas services.
- Other (Describe):

9. **PROPOSED SERVICE:** Generally describe the natural gas services which the Applicant proposes to offer.

**Retail energy sales and other non-energy products and services.**

10. **SERVICE AREA:** Generally describe the geographic area in which Applicant proposes to offer services.

**Commonwealth of Pennsylvania**

11. **CUSTOMERS:** Applicant proposes to initially provide services to:

- Residential Customers
- Commercial Customers - (Less than 6,000 Mcf annually)
- Commercial Customers - (6,000 Mcf or more annually)
- Industrial Customers
- Governmental Customers
- All of above
- Other (Describe):

12. **START DATE:** The Applicant proposes to begin delivering services on: **DTE Edison America is currently serving retail gas customers on the Equitable Gas Company, The Peoples Natural Gas Company, and Columbia Gas of PA, Inc. systems.**

13. **NOTICE:** Pursuant to Section 5.14 of the Commission's Regulations, 52 Pa. Code §5.14, serve a copy of the signed and verified Application with attachments on the following:

Irwin A. Popowsky  
Office of Consumer Advocate  
5th Floor, Forum Place  
555 Walnut Street  
Harrisburg, PA 17120-1921

Office of the Attorney General  
Bureau of Consumer Protection  
Strawberry Square, 14th Floor  
Harrisburg, PA 17120

Bernard A. Ryan, Jr.  
Commerce Building, Suite 1102  
Small Business Advocate  
300 North Second Street  
Harrisburg, PA 17101

Commonwealth of Pennsylvania  
Department of Revenue  
Bureau of Compliance  
Harrisburg, PA 17128-0946

Any of the following Natural Gas Distribution Companies through whose transmission and distribution facilities the applicant intends to supply customers:

<p><b>NUI Valley Cities Gas (NUI Transportation Services)</b> Mike Vogel PO Box 3175 Union, NJ 07083-1975 PH: 908.289.5000 ext. 5441      FAX: 908.2898.6444</p>	<p><b>National Fuel Gas Distribution Corp.</b> James E. Patterson 10 Lafayette Square Buffalo, NY 14203 PH: 716.857.7130      FAX: 716.857-7823</p>
<p><b>Penn Fuel [North Penn Gas Company &amp; Penn Fuel Gas]</b> Jim Evans      <u>or</u>      Tom Olsen 2 North 9th Street GENA94 Allentown, PA 18101 PH: 610.774.7981      610.774.4975 FAX: 610.774.5694      610.774.4975 e-mail: jevans@papl.com      <u>or</u>      teolson@papl.com</p>	<p><b>The Peoples Natural Gas Company</b> Joe Gregorini      <u>or</u>      Bill McKeown 625 Liberty Avenue Pittsburgh, PA 15222 e-mail: jgregorini@png.cng.com PH: 412.497.6851      <u>or</u>      412.497.6840 FAX: 412.497.6630</p>
<p><b>T. W. Phillips Gas and Oil Company</b> Robert M. Hovanec 205 North Main Street Butler, PA 16001 PH: 724.287.2725      FAX: 724.287.5021 e-mail: rhovanec@twphillips.com</p>	<p><b>UGI</b> David Beaston      <u>or</u>      Bob Krieger PO Box 12677      <u>or</u>      225 Morgantown Rd Reading, PA 15222      Reading, PA 15222 PH: 610.796.3425      PH: 610.796.3516 FAX: 610.796.3559</p>
<p><b>PG Energy</b> Richard N. Marshall      <u>or</u>      Wendy K. Saxe One PEI Center Wilkes-Barre, PA 18711-0601 e-mail: marshall@pgenergy.com      <u>or</u>      saxe@pgenergy.com PH: 570.829.8795      FAX: 570.829.8652</p>	<p><b>Equitable Gas Company</b> Antionette Litchy 200 Allegheny Center Mall Pittsburgh, PA 15212-5352 PH: 412.395.3117      FAX: 412.395.3156</p>
<p><b>Carnegie Natural Gas Company</b> Donald A. Melzer 800 Regis Avenue Pittsburgh, PA 19236 PH: 412.655.8510 ext. 331      FAX: 412.655.0335</p>	<p><b>Columbia Gas of PA, Inc.</b> Paula Frauen      <u>or</u>      Shirley Bardes-Hasson 650 Washington Road Pittsburgh, PA 15228 e-mail: pfrauen@columbiaenergygroup.com PH: 412.572.7131      FAX: 412.572.7161</p>
	<p><b>PECO</b> Kevin Carrabine 300 Front Street Building 2 Conshohocken, PA 19428 PH: 610.832.6413</p>

Pursuant to Sections 1.57 and 1.58 of the Commission's Regulations, 52 Pa. Code §§1.57 and 1.58, attach Proof of Service of the Application and attachments upon the above named parties. Upon review of the Application, further notice may be required pursuant to Section 5.14 of the Commission's Regulations, 52 Pa. Code §5.14. **DTE Edison America has served a copy of the signed and verified Application with all appropriate parties as designated above. We will provide Proof of Service of the Application and attachments as soon as they're available.**

14. **TAXATION:** Complete TAX CERTIFICATION STATEMENT attached as Appendix B to this application.

15. **COMPLIANCE:** State specifically whether the Applicant, an affiliate, a predecessor of either, or a person identified in this Application has been convicted of a crime involving fraud or similar activity. Identify all proceedings, by name, subject and citation, dealing with business operations, in the last five (5) years, whether before an administrative body or in a judicial forum, in which the Applicant, an affiliate, a predecessor of either, or a person identified herein has been a defendant or a respondent. Provide a statement as to the resolution or present status of any such proceedings.

**Not applicable**

16. **STANDARDS, BILLING PRACTICES, TERMS AND CONDITIONS OF PROVIDING SERVICE AND CONSUMER EDUCATION:** All services should be priced in clearly stated terms to the extent possible. Common definitions should be used. All consumer contracts or sales agreements should be written in plain language with any exclusions, exceptions, add-ons, package offers, limited time offers or other deadlines prominently communicated. Penalties and procedures for ending contracts should be clearly communicated.

a. **Contacts for Consumer Service and Complaints:** Provide the name, title, address, telephone number and FAX number of the person and an alternate person responsible for addressing customer complaints. These persons will ordinarily be the initial point(s) of contact for resolving complaints filed with Applicant, the Distribution Company, the Pennsylvania Public Utility Commission or other agencies.

**Yvette Culkar**  
**Manager – Customer Service**  
**DTE Edison America, Inc.**  
**101 North Main, Suite 300**  
**Ann Arbor, MI 48104**  
**Phone # 734-887-2122**  
**Fax # 734-887-2130**

b. Provide a copy of all standard forms or contracts that you use, or propose to use, for service provided to residential customers. **DTE Edison America doesn't have any current forms or contracts used for signing-up new residential gas customers. We currently aren't signing-up any new customers as our current intention is to retain our customer base.**

c. If proposing to serve Residential and/or Small Commercial customers, provide a disclosure statement. A sample disclosure statement is provided as Appendix B to this Application. **DTE Edison America is currently working with David Mick of the PA-PUC Bureau of Consumer Services regarding our electric disclosure statement. We will submit our gas version of the statement when we finalize our electric version.**

17. **FINANCIAL FITNESS:**

A. Applicant shall provide sufficient information to demonstrate financial fitness commensurate with the service proposed to be provided. Examples of such information which may be submitted include the following:

- Actual (or proposed) organizational structure including parent, affiliated or subsidiary companies. **See Exhibit 2.**
- Published parent company financial and credit information. **See Exhibit 3 for DTE Energy's 1998 Annual Report and 1998 Form 10-K, and Form 10-Q for Quarter Ended June 30, 1999.**
- Applicant's balance sheet and income statement for the most recent fiscal year. Published financial information such as 10K's and 10Q's may be provided, if available. **See Exhibit 4 for DTE Edison America's balance sheet and income statement.**

- Evidence of Applicant's credit rating. Applicant may provide copy of its Dun and Bradstreet Credit Report and Robert Morris and Associates financial form or other independent financial service reports. **See Exhibit 5 for DTE Edison America's Dun and Bradstreet Credit Report.**
- A description of the types and amounts of insurance carried by Applicant which are specifically intended to provide for or support its financial fitness to perform its obligations as a licensee. **Not applicable**
- Audited financial statements **See Exhibit 6 for DTE Capital Corporation's audited financial statements. DTE Capital Corporation will serve as the Guarantor in any financial instrument required by the PA-PUC for purposes of establishing DTE Edison America's creditworthiness.**
- Such other information that demonstrates Applicant's financial fitness. **See Exhibit 6 for a copy of a letter from Columbia Gas of Pennsylvania stating that DTE Edison America has been approved by Columbia Gas of Pennsylvania to participate in their Customer Choice Program. We have been approved to serve up to 1,500 Columbia Gas of Pennsylvania customers. Also, see Exhibit 6 for a copy of a Guaranty Agreement provided by DTE Capital Corporation, on behalf on DTE Edison America, in favor of Equitable Gas Company. The language and dollar amount of the Guaranty was mutually agreed to by Equitable Gas Company, DTE Capital Corporation, and DTE Edison America.**

B. Applicant must provide the following information:

- Identify Applicant's chief officers including names and their professional resumes. **See Exhibit 7.**
- Provide the name, title, address, telephone number and FAX number of Applicant's custodian for its accounting records.

**Steven L. Sheppard**  
**Vice President – Regulatory and Supply Operations**  
**DTE Edison America, Inc.**  
**101 North Main, Suite 300**  
**Ann Arbor, MI 48104**  
**Phone # 734-887-2126**  
**Pax # 734-887-2130**

- **18. TECHNICAL FITNESS:** To ensure that the present quality and availability of service provided by natural gas utilities does not deteriorate, the Applicant shall provide sufficient information to demonstrate technical fitness commensurate with the service proposed to be provided. Examples of such information which may be submitted include the following:
  - The identity of the Applicant's officers directly responsible for operations, including names and their professional resumes. **See Exhibit 7 for professional resumes of personnel who perform key operations functions for DTE Edison America under a contractual agreement.**
  - A copy of any Federal energy license currently held by the Applicant. **See Exhibit 8.**
  - Proposed staffing and employee training commitments.
  - Business plans.
- **19. TRANSFER OF LICENSE:** The Applicant understands that if it plans to transfer its license to another entity, it is required to request authority from the Commission for permission prior to transferring the license. See 66 Pa. C.S. Section 2208(D). Transferee will be required to file the appropriate licensing application.
- **20. UNIFORM STANDARDS OF CONDUCT AND DISCLOSURE:** As a condition of receiving a license, Applicant agrees to conform to any Uniform Standards of Conduct and Disclosure as set forth by the Commission.

21. **REPORTING REQUIREMENTS:** Applicant agrees to provide the following information to the Commission or the Department of Revenue, as appropriate:
- a. **Reports of Gross Receipts:** Applicant shall report its Pennsylvania intrastate gross receipts to the Commission on an annual basis no later than 30 days following the end of the calendar year.
- Applicant will be required to meet periodic reporting requirements as may be issued by the Commission to fulfill the Commission's duty under Chapter 22 pertaining to reliability and to inform the Governor and Legislature of the progress of the transition to a fully competitive natural gas market.**
22. **FURTHER DEVELOPMENTS:** Applicant is under a continuing obligation to amend its application if substantial changes occur in the information upon which the Commission relied in approving the original filing.
23. **FALSIFICATION:** The Applicant understands that the making of false statement(s) herein may be grounds for denying the Application or, if later discovered, for revoking any authority granted pursuant to the Application. This Application is subject to 18 Pa. C.S. §§4903 and 4904, relating to perjury and falsification in official matters.
24. **FEE:** The Applicant has enclosed the required initial licensing fee of \$350.00 payable to the Commonwealth of Pennsylvania.

Applicant: DTE Edison America, Inc.

By: Steven L. Sheppard, P.E.

Title: Vice President – Regulatory and Supply Operations



11/29/99

**AFFIDAVIT**

[Commonwealth/State] of **Michigan** :

ss.

County of **Wayne** :

**Steven L. Sheppard**, Affiant, being duly [sworn/affirmed] according to law, deposes and says that:

[He/she is the **Vice President** (Office of Affiant) of **DTE Edison America, Inc.** (Name of Applicant);]

[That he/she is authorized to and does make this affidavit for said Applicant;]

That **DTE Edison America, Inc.**, the Applicant herein, acknowledges that [Applicant] may have obligations pursuant to this Application consistent with the Public Utility Code of the Commonwealth of Pennsylvania, Title 66 of the Pennsylvania Consolidated Statutes; or with other applicable statutes or regulations including Emergency Orders which may be issued verbally or in writing during any emergency situations that may unexpectedly develop from time to time in the course of doing business in Pennsylvania.

That **DTE Edison America, Inc.**, the Applicant herein, asserts that [he/she/it] possesses the requisite technical, managerial, and financial fitness to render natural gas supply service within the Commonwealth of Pennsylvania and that the Applicant will abide by all applicable federal and state laws and regulations and by the decisions of the Pennsylvania Public Utility Commission.

That **DTE Edison America, Inc.**, the Applicant herein, certifies to the Commission that it is subject to , will pay, and in the past has paid, the full amount of taxes imposed by Articles II and XI of the Act of March 4, 1971 (P.L. 6, No. 2 ), known as the Tax Reform Act of 1971 and any tax imposed by Chapter 22 of Title 66. The Applicant acknowledges that failure to pay such taxes or otherwise comply with the taxation requirements of, shall be cause for the Commission to revoke the license of the Applicant. The Applicant acknowledges that it shall report to the Commission its jurisdictional natural gas sales for ultimate consumption, for the previous year or as otherwise required by the Commission. The Applicant also acknowledges that it is subject to 66 Pa. C.S. §506 (relating to the inspection of facilities and records).

Applicant, by filing of this application waives confidentiality with respect to its state tax information in the possession of the Department of Revenue, regardless of the source of the information, and shall consent to the Department of Revenue providing that information to the Pennsylvania Public Utility Commission.

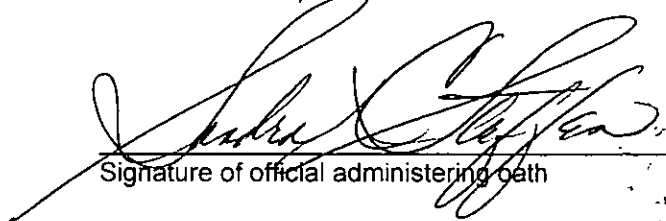
That **DTE Edison America, Inc.**, the Applicant herein, acknowledges that it has a statutory obligation to conform with 66 Pa. C.S. §506, and the standards and billing practices of 52 PA. Code Chapter 56.

That the Applicant agrees to provide all consumer education materials and information in a timely manner as requested by the Commission's Office of Communications or other Commission bureaus. Materials and information requested may be analyzed by the Commission to meet obligations under applicable sections of the law.

That the facts above set forth are true and correct/true and correct to the best of his/her knowledge, information, and belief.

  
Signature of Affiant

Sworn and subscribed before me this 27th day of November, 1999.

  
Signature of official administering oath

**SANDRA C. STEFFEN**  
Notary Public, Wayne County, MI  
My Commission Expires Jan. 6, 2002

My commission expires \_\_\_\_\_

**AFFIDAVIT**

[Commonwealth/State] of **Michigan** :

: ss.

County of **Wayne** :

**Steven L. Sheppard**, Affiant, being duly [sworn/affirmed] according to law, deposes and says that:

[He/she is the **Vice President** (Office of Affiant) of **DTE Edison America, Inc.** (Name of Applicant);]

[That he/she is authorized to and does make this affidavit for said Applicant;]

That **DTE Edison America, Inc.**, the Applicant herein certifies that it has caused the notice of the filing of its license appli published in the following newspapers on \_\_\_\_\_: (date)

A copy of the notice as it appeared in each of the above newspapers is attached. Noted on each copy is the newspaper section (name, number or letter), if applicable, and the page number on which the notice appeared.

That **DTE Edison America, Inc.**, the Applicant will submit to the Commission the proof of publication from each newspaper in which notice of the application filing was published as soon as it is available.

That the facts above set forth are true and correct to the best of his/her knowledge, information, and belief, and that he/she expects said Applicant to be able to prove the same at hearing.

\_\_\_\_\_  
Signature of Affiant

Sworn and subscribed before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

\_\_\_\_\_  
Signature of official administering oath

My commission expires \_\_\_\_\_.

**AFFIDAVIT**

[Commonwealth/State] of Michigan :

ss.

County of Wayne :

**Steven L. Sheppard**, Affiant, being duly [sworn/affirmed] according to law, deposes and says that:

[He/she is the **Vice President** (Office of Affiant) of **DTE Edison America, Inc.** (Name of Applicant);]

[That he/she is authorized to and does make this affidavit for said Applicant;]

That the Applicant herein **DTE Edison America, Inc.** has the burden of producing information and supporting documentation demonstrating its technical and financial fitness to be licensed as a natural gas supplier pursuant to 66 Pa. C.S. §2208(c)(1).

That the Applicant herein **DTE Edison America, Inc.** has answered the questions on the application correctly, truthfully, and completely and provided supporting documentation as required.

That the Applicant herein **DTE Edison America, Inc.** acknowledges that it is under a duty to update information provided in answer to questions on this application and contained in supporting documents.

That the Applicant herein **DTE Edison America, Inc.** acknowledges that it is under a duty to supplement information provided in answer to questions on this application and contained in supporting documents as requested by the Commission.

That the facts above set forth are true and correct to the best of his/her knowledge, information, and belief, and that he/she expects said Applicant to be able to prove the same at hearing.

  
Signature of Affiant

Sworn and subscribed before me this 29<sup>th</sup> day of November, 19 99.

  
Signature of official administering oath

**SANDRA C. STEFFEN**  
Notary Public, Wayne County, MI  
My Commission Expires Jan. 6, 2002

My commission expires \_\_\_\_\_.

# APPENDIX A

COMMONWEALTH OF PENNSYLVANIA  
PUBLIC UTILITY COMMISSION

## TAX CERTIFICATION STATEMENT

A completed Tax Certification Statement must accompany all applications for new licenses, renewals or transfers. Failure to provide the requested information and/or any outstanding state income, corporation, and sales (including failure to file or register) will cause your application to be rejected. If additional space is needed, please use white 8 1/2" x 11" paper. Type or print all information requested.

<b>1. CORPORATE OR APPLICANT NAME</b> DTE Edison America, Inc.	<b>2. BUSINESS PHONE NO. (734-887-2126)</b> <b>CONTACT PERSON(S) FOR TAX ACCOUNTS:</b> Greg Kapolnek (313-235-7809)
-------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------

**3. TRADE/FICTITIOUS NAME (IF ANY)**

**4. LICENSED ADDRESS** (STREET, RURAL ROUTE, P.O. BOX NO.) (POST OFFICE) STATE (ZIP)  
 101 North Main, Suite 300 Ann Arbor, MI 48104

**5. TYPE OF ENTITY**     SOLE PROPRIETOR     PARTNERSHIP     CORPORATION

**8. LIST OWNER(S), GENERAL PARTNERS, OR CORPORATE OFFICER(S)**

NAME (PRINT)	SOCIAL SECURITY NUMBER (OPTIONAL)
Robert J. Buckler Jean M. Redfield Steven L. Sheppard	_ _  -  _ _  -  _ _ _ _ _
Elaine M. Godfrey Christopher C. Nern Christopher C. Arvani	_ _  -  _ _  -  _ _ _ _ _
Jack L. Somers William P. Murphey	_ _  -  _ _  -  _ _ _ _ _
NAME (PRINT)	_ _  -  _ _  -  _ _ _ _ _
NAME (PRINT)	_ _  -  _ _  -  _ _ _ _ _

**9. LIST THE FOLLOWING STATE TAX IDENTIFICATION NUMBERS. (ALL ITEMS: A, B, AND C MUST BE COMPLETED).**

<b>A. SALES TAX LICENSE (8 DIGITS)</b> APPLICATION PENDING    N/A 80 - 93064 - 11 <input type="checkbox"/> <input type="checkbox"/>	<b>C. CORPORATE BOX NUMBER (7 DIGITS)</b> APPLICATION PENDING    N/A 2020 688 <input type="checkbox"/> <input type="checkbox"/>
<b>B. EMPLOYER ID (EIN) (9 DIGITS)</b> APPLICATION PENDING    N/A 38 - 3405708 <input type="checkbox"/> <input type="checkbox"/>	

**10. Do you have PA employees either resident or non-resident?**     YES     NO

**11. Do you own any assets or have an office in PA?**     YES     NO

**NAME AND PHONE NUMBER OF PERSON(S) RESPONSIBLE FOR FILING TAX RETURNS**

PA SALES AND USE TAX Greg Kapolnek PHONE (313-235-7809)	EMPLOYER TAXES Greg Kapolnek PHONE (313-235-7809)	CORPORATE TAXES Greg Kapolnek PHONE (313-235-7809)
---------------------------------------------------------------	---------------------------------------------------------	----------------------------------------------------------

Telephone inquiries about this form may be directed to the Pennsylvania Department of Revenue at the following numbers: (717) 772-2673, TDD# (717) 772-2252 (Hearing Impaired Only)

COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF REVENUEBUREAU OF BUSINESS TRUST FUND TAXES  
REGISTRATION DIVISION  
DEPT. 280901  
HARRISBURG, PA 17128-0901CERTIFICATE OF REGISTRATION  
SALES TAX LICENSEDTE EDISON AMERICA INC  
2000 SECOND AVE STE 104 WCB  
DETROIT, MI 48226Entity ID: 38-3405708/000  
Notice Date: July 11, 1998  
Notice Number: 819-570-698-070-  
License Number: 80930641  
Expiration Date: July 31, 2003**THIS LICENSE MUST BE PROMINENTLY DISPLAYED**

This license authorizes the holder to collect Local and/or State Sales, Use and Hotel Occupancy Tax.  
Always refer to your license number in correspondence.

This license is non-assignable and non-transferable.

**RETAIN THIS PORTION FOR YOUR RECORDS**

The Department has received and processed the application for registration of the sales tax license for the above captioned tax. The valid license is attached above. The license must be publicly displayed at the location for which it is issued. The account number on this license is used by the Department to identify the the account and must be shown on all reports and correspondence. The reverse side of this letter contains important information regarding *change and/or cancellation*.

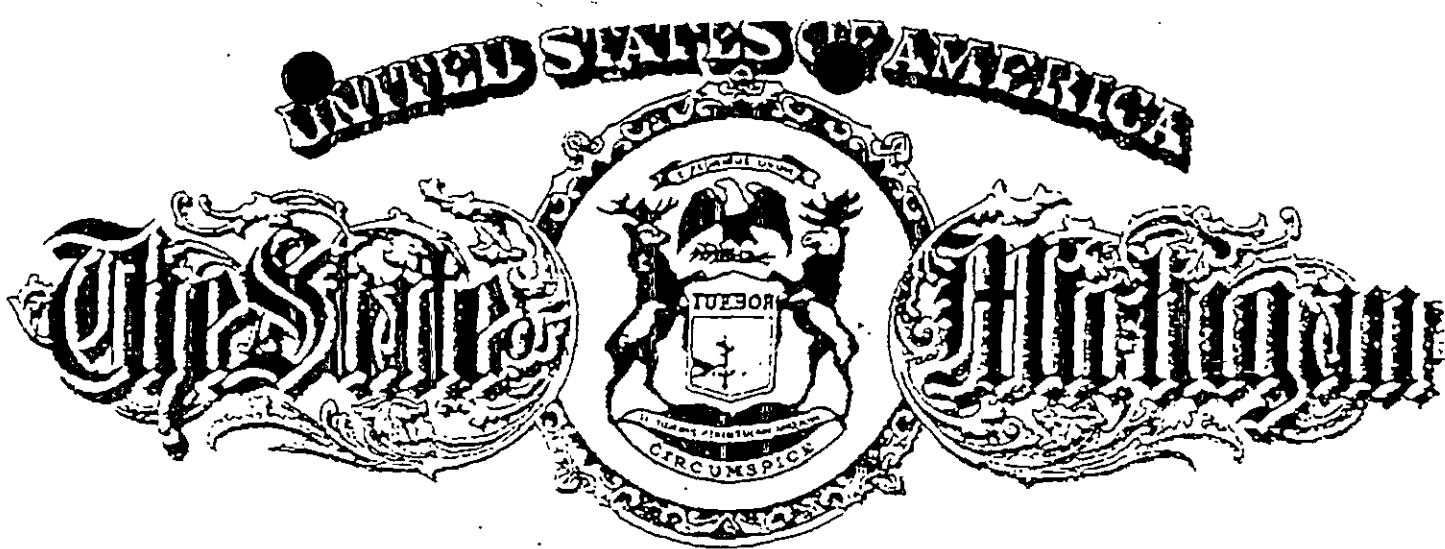
The licensee will receive reporting forms and instructions in the near future. Returns are required to be filed whether or not taxable transactions occur.

For additional information regarding this account, contact the Registration Division during regular business hours, Monday through Friday, with the exception of holidays. Direct telephone inquiries to (717) 772-2340; TDD# (717) 772-2252 (Hearing Impaired Only).

**IMPORTANT NOTICE**

Persuant to Section 208 (b.1) of Article II of the Tax Reform Code, if a person holding a license has not filed all required state tax reports and paid any state taxes not subject to a timely perfected administration or judicial appeal or subject to a duly authorized deferred payment plan, the Department may refuse to issue, suspend or revoke said license.

Prior to such action a Revenue Enforcement Agent will make contact regarding the account.



Michigan Department of Consumer and Industry Services

Lansing, Michigan

This is to Certify That

*DTE EDISON AMERICA, INC.*

*was incorporated on April 17, 1993, as a Michigan profit corporation,  
and said corporation is in existence under the laws of this State.*

*This certificate is issued to attest to the fact that the corporation is in good standing  
in this office as of this date and is duly authorized to transact business or conduct  
affairs in Michigan and for no other purpose. It is in the usual form, made by me  
as the proper officer, and is entitled to have full faith and credit given it in every  
court and office within the United States.*

*In testimony whereof, I have hereunto set my  
hand and affixed the Seal of the Department,  
in the City of Lansing, this 15th day  
of October, 1998.*

*Julie Cobb*

*, Director*

# Michigan Department of Consumer and Industry Services

## Filing Endorsement

This is to Certify that the *ARTICLES OF INCORPORATION - PROFIT*  
for

*DTE EDISON AMERICA, INC.*

*ID NUMBER: 515855*

*received by facsimile transmission on April 13, 1998 is hereby endorsed*  
*Filed on April 13, 1998 by the Administrator.*

*In testimony whereof, I have hereunto set my  
hand and affixed the Seal of the Department,  
in the City of Lansing, this 13th day  
of April, 1998.*



*Julie Croll*

, Director

Corporation, Securities and Land Development Bureau

MICHIGAN DEPARTMENT OF COMMERCE - CORPORATION AND SECURITIES BUREAU		
Date Received		(FOR BUREAU USE ONLY)
Name Elaine M. Godfrey		EFFECTIVE DATE:
Address 2000 2nd Avenue, Room 2412		
City Detroit	State Michigan	

DOCUMENT WILL BE RETURNED TO NAME AND ADDRESS INDICATED ABOVE

CORPORATION IDENTIFICATION NUMBER

**ARTICLES OF INCORPORATION**  
For use by Domestic Profit Corporations  
(Please read information and instructions on last page)

Pursuant to the provisions of Act 284, Public Acts of 1972, the undersigned corporation executes the following Articles:

**ARTICLE I**

The name of the corporation is: DTE Edison America, Inc.

**ARTICLE II**

The purpose or purposes for which the corporation is formed is to engage in any activity within the purposes for which corporations may be formed under the Business Corporation Act of Michigan.

**ARTICLE III**

The total authorized shares:

- Common shares \* 60,000
- Preferred shares \* \_\_\_\_\_
- A statement of all or any of the relative rights, preferences and limitations of the shares of each class is as follows: \*  

The corporation has only one class of stock.

ARTICLE IV

1. The address of the current registered office is:  
2000 2nd Avenue, Room 2412 Detroit MICHIGAN 48226-1279  
(Street Address) (City) (State) (Zip Code)

2. The mailing address of the registered office if different than above is:  
• MICHIGAN  
(Street Address) (City) (State) (Zip Code)

3. The name of the resident agent at the registered office is:  
  
Susan M. Beale

ARTICLE V

The name(s) and address(es) of the incorporator(s) is (are) as follows:

Name	Residence or Business Address
<u>Elaine M. Godfrey</u>	<u>2000 2nd Avenue, Room 2412, Detroit MI 48226-1279</u>
<u>•</u>	<u>•</u>
<u>•</u>	<u>•</u>
<u>•</u>	<u>•</u>

ARTICLE VI

The duration of the corporation is perpetual.

ARTICLE VII

A director of the corporation shall not be personally liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director. However, this provision does not eliminate or limit the liability of a director for any of the following:

- (a) any breach of the director's duty of loyalty to the corporation or its shareholders;
- (b) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- (c) a violation of Section 551(1) of the Act;
- (d) a transaction from which the director derived an improper personal benefit; or
- (e) an act or omission occurring prior to the date when this article becomes effective.

ARTICLE VII (continued)

Any repeal, amendment or other modification of this Article shall not increase the liability or alleged liability of any director of the corporation then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought or threatened based in whole or in part upon any such state of facts. If the Act is subsequently amended to authorize corporate action further eliminating or limited personal liability of directors, then the liability of directors shall be eliminated or limited to the fullest extent permitted by the Act as so amended.

ARTICLE VIII

Any action required or permitted by the Act, these Articles or the Bylaws of the corporation to be taken at an annual or special meeting of shareholders may be taken without a meeting, without prior notice, and without a vote, if consents in writing, setting forth the action so taken, are signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take the action at a meeting at which all shares entitled to vote on the action were present and voted. The written consents shall bear the date of signature of each shareholder who signs the consent. No written consents shall be effective to take the corporate action referred to unless, within 60 days after the record date for determining shareholders entitled to express consent to or to dissent from a proposal without a meeting, written consents dated not more than 10 days before the record date and signed by a sufficient number of shareholders to take the action are delivered to the corporation. Delivery shall be to the corporation's registered office, its principal place of business, or an officer or agent of the corporation having custody of the minutes of the proceedings of its shareholders. Delivery made to a corporation's registered office shall be by hand or by certified or registered mail, return receipt requested.

Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to shareholders who would have been entitled to notice of the shareholder meeting if the action had been taken at a meeting and who have not consented in writing..

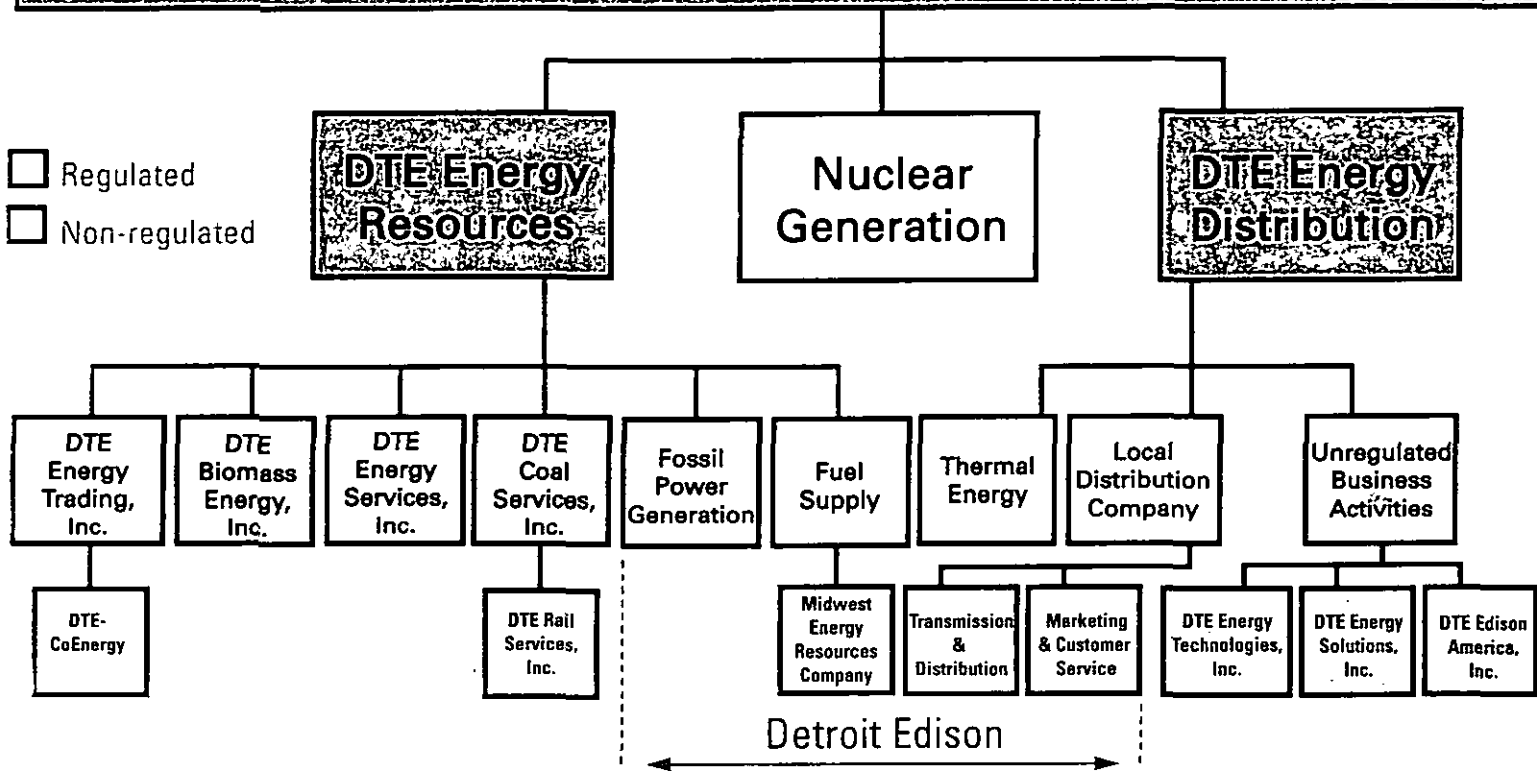
I, the incorporator sign my name this 13th day of April, 1998.

Clare M. Godfrey

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

# DTE Energy Company

- Regulated
- Non-regulated



**Mission:**

To transform DTE Energy by 2001 into fiercely competitive, growth-oriented businesses, pre-eminent in providing energy solutions for customers.

**Purpose:**

- We energize the progress of society
- We make dreams real
- We are always here

## DTE Energy Corporate Profile

*Trustworthiness. Leadership. Expertise. Caring.*

These four cornerstones describe the value we provide for nearly 5 million people living and working in Southeastern Michigan.

- A diversified energy provider, we sell electricity, natural gas, methane gas from landfills, coal and coke.
- Building on success and positioning for growth, we are developing fuel cells and other new energy technologies.

**DTE Energy**



**1997**  
*Annual Report*

*Building on*  
**Success...**  
*Positioning for* **Growth**

**DTE Energy**



# Corporate Profile



**Trustworthiness. Leadership. Expertise. Caring.**

**These four cornerstones describe the value we provide for nearly**

**5 million people living and working in Southeastern Michigan.**

**Since 1903, customers have counted on the convenience**

**offered by Detroit Edison, our major subsidiary and Michigan's**

**largest electric utility. In 1996, we formed the DTE Energy holding**

**company to build on the strength of our reputation for customer**

**service. Our non-regulated affiliates and ventures now provide**

**energy-related products and services throughout North America.**

**A diversified energy provider, we sell electricity, natural gas,**

**methane gas from landfills, coal and coke. Building on success**

**and positioning for growth, we are developing fuel cells and other**

**new energy technologies. Proven industry leaders, we are not only**

**fueling the engine of progress, but also clearing the air on the**

**bridge spanning to the 21st century.**

## **Table of Contents**

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## **At Your Service**

For investment professionals:  
Investor Relations  
313.235.8030

For shareholders:  
Shareholder Services  
800.551.5009

# To Our Shareholders



Above: DTE Energy and Detroit Edison Chairman and Chief Executive Officer John E. Lobbia

**“As we position ourselves for growth, we face challenges and opportunities. In the future we expect to see an even larger percentage of our earnings coming from our non-regulated businesses and joint ventures.”**

— John E. Lobbia

**A**lbert Einstein once noted that *“Not everything that can be counted counts, and not everything that counts can be counted.”* The words of one of the most famous energy trailblazers of the 20th century aptly describe financial results of your Company in 1997 and its future prospects for success as we enter a new energy era.

Earnings for common stock increased 35 percent in 1997 to \$417 million, or \$2.88 per share from \$309 million, or \$2.13 per share, in 1996. Still we're not satisfied. Why? Net income in 1996 included a one-time charge of \$97 million after tax to write off certain aspects of our steam heating operation. After adjusting 1996 earnings for the change, 1997 earnings only reflect a 2.7 percent improvement over the prior year.

Simply stated, earnings for the utility were roughly flat, but offset by 8 cents per share from our non-regulated energy-related businesses. Herein lies our growth. In the future, we expect to see even larger contributions to earnings coming from our non-regulated businesses and joint ventures.

At the end of 1997, DTE Coal Services purchased Cornhusker Railcar's facilities in Nebraska and Iowa from Mid-American Capital Co. This latest acquisition further positions our non-regulated subsidiary to be the country's premier coal marketer, transporter and trader. The following pages detail some of DTE Energy's other subsidiaries that we hope will earn up to \$100 million in net income within the next five years.

About half of you are also Detroit Edison customers and we're honored that so many DTE Energy shareholders have chosen to invest in their trusted local electric utility. At this pivotal time in our Company's history as competition

increases in the electric utility industry, we're working diligently to diversify our energy-related holdings and add value to your investments.

That doesn't mean we're not still dedicated to providing reliable electrical service to our customers. Recently, we signed a long-term power sales agreement with Consumers Energy and Ontario Hydro that will enhance Detroit Edison's and the other two neighboring utilities' ability to serve summer electricity demands. Customers will benefit from greater reliability and fuel savings as our generating power plants are better used during off-peak time periods.

We must maintain the reliable electrical system that customers and shareholders like yourselves have built with us over nearly a century. To that end, we continue to work closely with state and federal officials who are restructuring our industry.

The Michigan Public Service Commission (MPSC) took action in January continuing a two-year process designed to introduce competition into the state's electric utility market. The MPSC adopted a phase-in schedule that would start to allow customers of Detroit Edison and Consumers Energy to select their electricity suppliers as early as 1998, if federal regulatory approvals are obtained. By 2002, all customers would have the option of choosing an alternative power supplier. The MPSC order provided an initial estimate of Detroit Edison's stranded costs and related charges. Based on a market clearing price of 2.9 cents per kilowatthour, Detroit Edison could potentially recover \$2.5 billion of stranded costs through the use of a transition surcharge. Many of the details of the MPSC plan, however, still need to be worked out. Action by the Michigan legislature on restructuring also is anticipated.

Our goal is to protect and grow your investment and to help provide the economic security so vital to you — and all the people living and working in Southeastern Michigan. We'll do whatever is necessary to ensure that industry restructuring is fair to all parties, including all our shareholders and business and residential customers.

We believe that the fundamental reasons why you would want to invest in our Company remain solid.

- Our common stock closed the year at \$34.68, up 7 percent from its 1996 closing price.

## **"Our employees battled the aftermath of tornadoes and ice storms in Michigan and Canada."**

**— Anthony F. Earley, Jr.**



**Above: DTE Energy and Detroit Edison President and Chief Operating Officer Anthony F. Earley, Jr.**

**Right: Executive Vice President and Chief Financial Officer Larry G. Garberding**

- DTE Energy's common stock dividend yield of 5.94 percent compared favorably to the 45-utility average of 4.73 percent.
- DTE Energy's stock provided total return of 13.1 percent in 1997.
- What's more, DTE Energy is investing heavily in non-regulated businesses that show the promise of higher returns.

So what distinguishes a good business from a great company? People determine a company's success. Of course, we depend heavily on the people who invest in and run the business. But we also value each and every employee who provides the dedication and spirit that enliven the organization.

We've recently added about 140 managers and employees to DTE Energy non-regulated subsidiaries to broaden our expertise in energy-related businesses.

Meanwhile, our 8,500 active Detroit Edison employees — including about 500 new hires in 1997 — are both experienced in the electric utility business and offer fresh perspectives to help us develop new energy solutions for our customers.

Our employees' dedication and service count as much



as any asset in our balance sheet. We firmly believe that the worth of DTE Energy lies in our people.

Michael Moore is one particularly noteworthy employee. This lineman specialist suffered severe burns while restoring power to customers after an ice storm downed power lines last March. Nearly a year later after numerous surgeries, Mike is recovering well. Such electrical accidents are a rare and unfortunate part of our business.

Our thoughts and prayers go out to him and his family as well as to the families of two other employees, Mary Florian and Harvey Green, who were fatally burned after a July 31 accident while working on electrical distribution equipment.

Before we close, we hail these uncommon heroes. They remind us that each of us makes a difference to our families — and to our customers.

There's no doubt that 1997 was a rough year, with three major storms, a cool summer and industry restructuring challenging the utility side of our business. Our employees pulled through for us, often despite seemingly overwhelming obstacles. Moreover, we managed to grow earnings with our non-regulated projects. We take pride in our employees' many accomplishments and look forward to an even more successful year in 1998.

# SUCCESS

**"Our employees' dedication  
and service count as  
much as any asset in our  
balance sheet."**

**— Larry G. Garberding**

Sincerely,

*Larry G. Garberding*

Larry G. Garberding  
Executive Vice President and Chief Financial Officer

*Anthony F. Earley, Jr.*

Anthony F. Earley, Jr.  
President and Chief Operating Officer

*John E. Lobbia*

John E. Lobbia  
Chairman of the Board and Chief Executive Officer

Feb. 20, 1998

## Businesses, Markets and Strategies

- The 13th largest generating company in the country, Detroit Edison ranks second for total retail sales in the East Central Area Reliability (ECAR) region. Detroit Edison serves about 10 percent of the total retail sales market of investor-owned electric utilities within the eastern Midwest.

- Our fossil, nuclear and hydro-electric power plants generate more than 10,000 megawatts of electricity.
- We were the first utility to offer environmentally conscious customers a special "green" rate for solar energy.

- Cost-control efforts place Detroit Edison among the top tier of coal-fired electric generators in North America.
- We are leaders in the blending and use of low cost, low sulfur Western coal.

- We implemented an Operational Excellence Plan to ensure safety and reliability and help reduce our Fermi 2 nuclear power plant's operating and maintenance costs.

- In addition to serving more than 5 million people in Southeastern Michigan, the Company moves power into and out of the ECAR region.

- Detroit Edison has a \$3.9-billion transmission and distribution network covering 7,600 square miles in Southeastern Michigan.

- Steady earnings and sustained dividends are expected from operational excellence in:
  - Cost control.
  - Reliability.
  - Customer satisfaction.

- We will retain top quartile customer satisfaction and build the customer loyalty necessary to help foster growth through geographic and product expansion.

- More than 20 projects are being developed by DTE Energy Services in the United States and Canada. The Company targets the steel, auto, institutional, pulp and paper, food, health-care, commercial and other energy-intensive industries.

- DTE Energy Services targets energy-intensive industries and leverages affiliates' resources, capabilities and experience with projects such as pulverized-coal injection and coke-oven batteries. It is expected to contribute 10 percent of DTE Energy's earnings in 1998 and about 15 to 20 percent of earnings within the next five years.

We are leaders in the use of landfill gas, solar power and other renewable energy sources.

- DTE Biomass Energy has about 5 percent of total U.S. landfill-methane gas sales. Its coast-to-coast landfill gas-to-energy operations include new projects in California, North Carolina, Illinois, Pennsylvania, Florida, Massachusetts and Michigan.

- DTE Biomass Energy leverages opportunities to provide environmentally friendly green power. It will expand through acquisitions and joint ventures. It has targeted 20 to 25 sites nationwide and projects up to a 10-percent share of the U.S. landfill-gas market by 2002.

- Formed in 1974 to provide the lowest possible transportation cost for Western coal, Midwest Energy Resources Co. (MERC) captured much of the Great Lakes market for low sulfur Western coal.
- MERC anticipates further growth with Ontario Hydro, along with expansion of the industrial

market. While a small segment of the total business, exports to Europe also offer future growth as the demand for low-sulfur coal increases worldwide.

- Building on the Company's coal expertise, DTE Coal Services focuses on growing its coal sourcing, transportation, marketing, trading and services nationally.

- DTE Coal Services will move Western coal to third parties by rail and aid power plants in reducing fuel costs. In the Eastern U.S., DTE Coal Services moves coal to steel companies and utilities. It also supplies coal procurement and logistics services to its customers.

- A leader in coal trading, DTE Coal Services plans to expand through acquisition and leveraging DTE Energy's strengths. DTE Rail Services provides rail car repair, maintenance and leasing spare car storage services at its facilities in Nebraska and includes 32 miles of storage track.

- DTE Energy Trading provides energy sourcing and risk management solutions to wholesale customers and DTE retail marketing affiliates. It strengthens the commercial value of DTE Energy's generating assets by trading electricity and related fuels.

- DTE Energy Trading has recruited experienced trading and risk management personnel to complement its electricity sourcing capabilities and knowledge of the regional transmission grid. It also benefits from the Company's coal and generation assets.

- DTE-CoEnergy sells natural gas and electricity to retail industrial commercial and institutional customers in the Midwest, Mid-Atlantic states and Ontario, Canada.

- DTE-CoEnergy is a joint venture between DTE Energy and MCN Energy Group, each of which are leading regional marketers of electricity and natural gas, respectively.

- Opportunities include:
  - Energy-related products and services.
  - Innovative pricing structures and load management.
  - Fuel-cell technology.
  - Advanced metering technology.
  - Microgeneration technology.

- Energy management technologies.
- DTE Edison America™ offers energy-related products to residential and small-business customers. It is focusing on serving the energy management needs of supermarkets and retail establishments, and supports

direct access kilowatt-hour (kWh) marketing for residential and small business customers in Southeastern Michigan.

- DTE Edison America™ also is reaching out to customers beyond Southeastern Michigan through a catalog of products and anticipates participation in

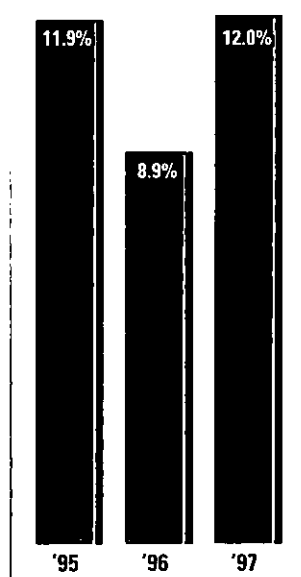
direct access kWh markets outside Michigan.

- Edison Development Corp. and Mechanical Technology, Inc. have a joint venture, Plug Power, L.L.C., to develop and manufacture fuel cells for the U.S. residential and automotive markets.

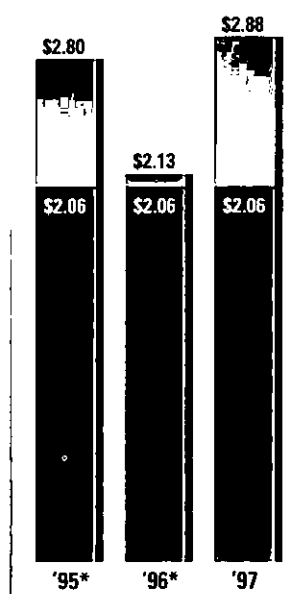
# Financial Highlights

	1997	1996	1995	Percent Change	
				'97 vs '96	'96 vs '95
<b>Operating Revenues (Millions)</b>	\$ 3,764	\$ 3,645	\$ 3,636	3.3%	0.2%
<b>Net Income (Millions)</b>	\$ 417	\$ 309	\$ 406	35.0%	(23.9%)
<b>Earnings Per Common Share</b>	\$ 2.88	\$ 2.13	\$ 2.80	35.2%	(23.9%)
<b>Dividends Declared Per Share</b>	\$ 2.06	\$ 2.06	\$ 2.06	-	-
<b>Return on Common Equity</b>	12.0%	8.9%	11.9%	34.8%	(25.2%)
<b>Average Common Shares Outstanding (Millions)</b>	145	145	145	-	-
<b>Book Value Per Share</b>	\$ 24.51	\$ 23.69	\$ 23.62	3.5%	0.3%
<b>Assets (Millions)</b>	\$11,223	\$11,015	\$11,131	1.9%	(1.0%)
<b>System Sales of Electricity (kWh-Millions)</b>	47,095	46,407	45,973	1.5%	0.9%

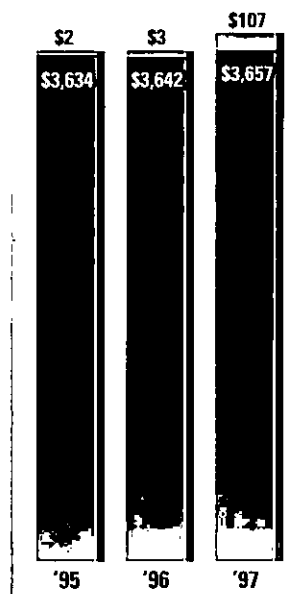
Return on Common Equity



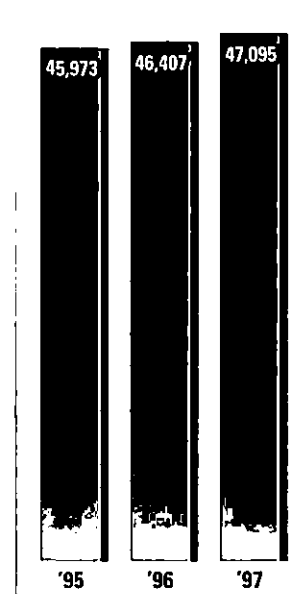
Earnings Per Share vs. Dividends Per Share (Dollars)



Operating Revenues (Dollars in Millions)



System Sales of Electricity (kWh Millions)



□ Earnings Per Share  
■ Dividends Per Share

□ Non-Regulated  
■ Regulated

\* 1995 and 1996 earnings per share include the steam heating special charge.

# E = DTE

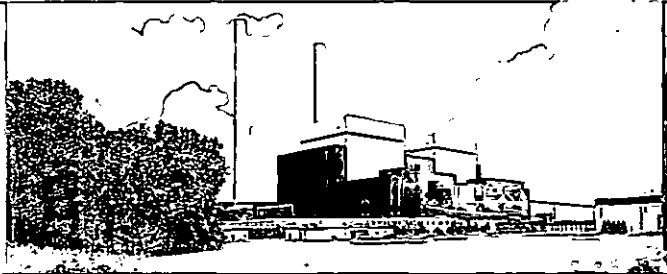
## The New Formula for Energy

### Capabilities

#### Michigan's Largest Electric Utility

Building on nearly a century of service, Detroit Edison's successful generation business and local distribution capabilities position DTE Energy for growth in a competitive energy marketplace.

#### Electric Generation



#### Transmission and Distribution



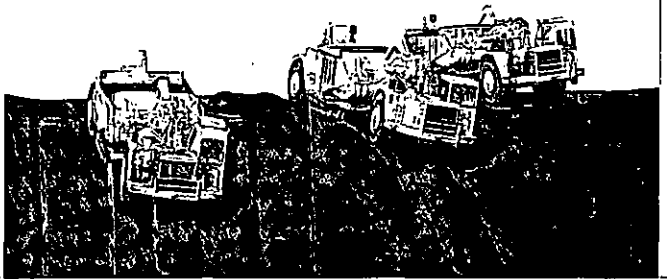
#### Non-Regulated Businesses

DTE Energy plans to achieve \$100 million in net income within the next five years from non-regulated, energy-related businesses. These new businesses build on employees' expertise and the Company's reputation for reliability.

#### Energy Projects and Services



#### Fossil Fuel Sourcing



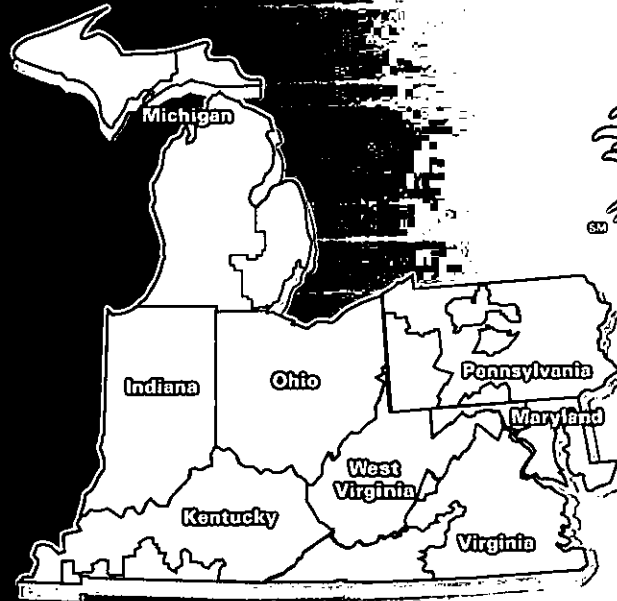
#### Energy Marketing and Trading



#### Unregulated Mass Markets





**Detroit Edison ranks second for total retail electric sales in the East Central Area Reliability (ECAR) region.**



**DTE Energy**

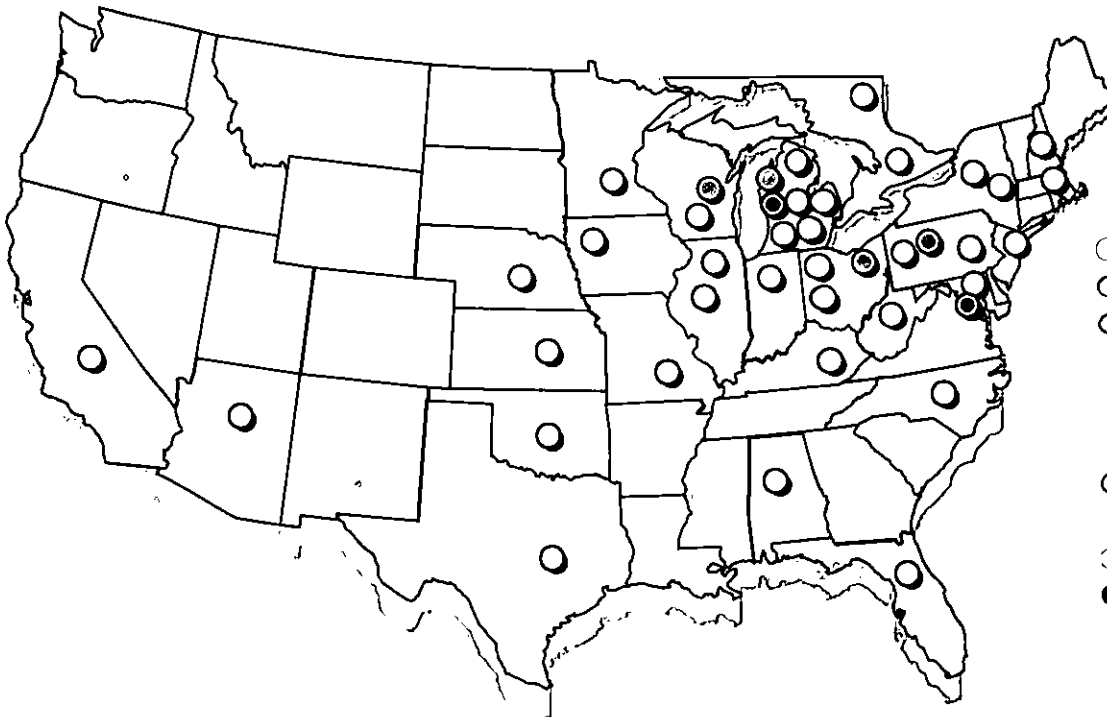










-  Detroit Edison's Southeastern Michigan Service Territory
-  East Central Area Reliability (ECAR) region

**Our family of growth-oriented businesses is pre-eminent in providing energy solutions for customers.**

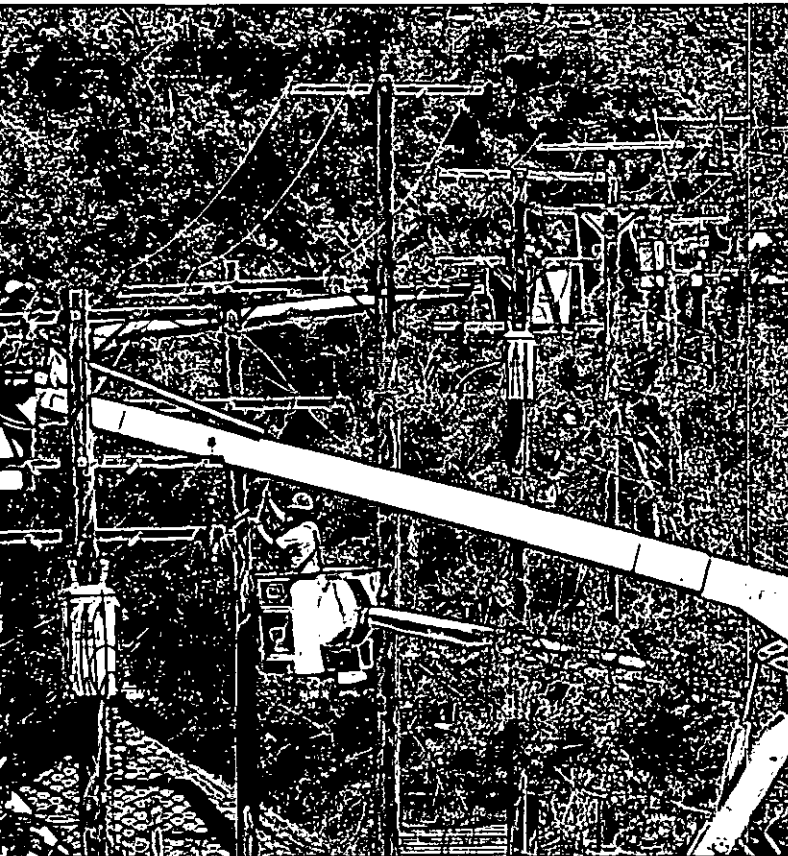
# Grow

**DTE Energy business activities in North America**



-  DTE Biomass Energy
-  DTE Coal Services
-  DTE-CoEnergy, L.L.C.
-  DTE Edison America<sup>SM</sup>  
(with catalog customers in 49 states, including Hawaii, and Canada)
-  DTE Energy Services
-  DTE Energy Trading  
Midwest Energy Resources Co.
-  Plug Power, L.L.C.
-  SolarSchools<sup>SM</sup>

# We're battling storms and winning customers' hearts



**Above: Detroit Edison provides reliable electric service. Our army of line workers quickly restores electricity to customers after summer storms and tornadoes. In addition, we helped Hydro-Quebec rebuild its electrical distribution system after a brutal ice storm hit the Montreal area in January 1998. About 300 of our linemen and support personnel helped the Canadian utility to restore power to some 3 million people.**

**Right: Melinda Jones, assistant manager of Emergency Preparedness, leads storm response and restoration. A new storm-response plan helped the Company achieve its fastest rate of restoration ever in March 1997 following the worst ice storm in Company history.**

**Far right: From left, DTE Shareholders United Chairman Jerry Sobczak talks about restructuring with Detroit Edison's Marva Goldsmith, regional manager, and Jim Beaubien, lineman.**

**N**ineteen-hundred-and-ninety-seven was a year to test one's mettle. Our employees proved their character and integrity during trying times.

They showed that our Company had the stamina to sustain not only the worst ice storm in Detroit Edison's 95-year history, but also a series of summer tornadoes and other twists of fate.

First, employees demonstrated their best performance ever in the aftermath of the March ice storm. Then just before the Independence Day holiday weekend, more than 5,000 employees and contractors again showed their true colors. Within 100 hours of the devastating twisters, we successfully restored 95 percent of our 370,000 customers who had lost power as a result of the storm. This heroic action demonstrates the gusto with which employees work



as we enter a new environment where customers are free to choose their energy providers.

The way our people rally to provide reliable service during storm emergencies demonstrates we care about our customers in Southeastern Michigan. Our Company has built a reputation for reliability based on our employees' expertise, leadership, caring and trustworthiness.

This winning combination destines that Detroit Edison and DTE Energy will achieve our goals and prosper in light of the many challenges and opportunities we face.

Our customers trust us to deliver more than their electricity. Our exceptional service continues to earn their loyalty and will sustain DTE Energy's growth in a competitive arena. Detroit Edison remains in the top 25 percent in customer satisfaction among all U.S. electric utilities and research shows we're gaining even greater customer allegiance.

And, that's why we're elated to see our employees pulling together with this sort of determination. And we're delighted by the continuing management and union partnership to strengthen our Company. It's in this spirit that we're anticipating customers' energy-related needs and exceeding their expectations.

By attacking any hint of complacency, we're earning our customers' confidence and winning people's hearts. We believe that's the best way to beat the power marketers and other companies who hope to steal our customers.

Likewise, we are proud of our employees' drive and determination to ensure a level playing field as competition escalates in the energy marketplace.

Our employees, retirees and thousands of other Company shareholders allied with this common interest. With 33,000 members, DTE Shareholders United has become one of the largest and fastest-growing consumer groups in Michigan. These advocates wrote letters, phoned their elected officials and traveled to the state capitol in Lansing to help us make our case with legislators.

Reliability. Fairness. Economic Security. These are the restructuring principles that we support. We believe that our customers, shareholders and employees deserve nothing less. And that's why we'll continue to play a key leadership role in ensuring that competition benefits all of Michigan's electricity customers and the state's prosperous economy as a whole.



**To be updated on industry restructuring, shareholders can call DTE Shareholders United at 1.800.863.9668.**

*stworthiness*

## We're building from a strong foundation



Above: We designed, engineered and installed a new process-water-recirculation system for the Chrysler Corporation's McGraw Glass Plant in Detroit. From left are Detroit Edison's Jeffrey Mongrain and Chrysler's William Burton. The project is expected to save the automaker about \$1.2 million a year.

Right: One of DTE Biomass Energy's newest projects in Florida collects landfill gas and converts it into a clean source of energy. The Company has used this renewable energy source in Michigan since 1986.

# W

e're leaders not only in restructuring our industry, but also in the basics that make the electric utility industry a stalwart of the American economy.

What's more, our team of economic development experts has traveled the world — and the World Wide Web <[www.detroitdison.com](http://www.detroitdison.com)> — encouraging Canadian, European and Japanese firms to do business in Michigan. We find international companies are eager to bring us their business as electricity here costs less than half of what it does in Germany and one-third less than in Japan.

Here in Southeastern Michigan, we serve some of our country's toughest global competitors. We're excited that the Big Three automakers and our other business customers have recognized our prowess and invited us to

Far right: During the past decade, the Company has added more than \$10 million in revenues as more than 2,500 Southeastern Michigan homeowners have installed geothermal heating and cooling systems. A geothermal system uses the earth's constant natural temperatures to heat and cool without depleting the earth's non-renewable energy resources. This geothermal home in Oxford's new Copper Hills subdivision is near one of the best golf courses in the country.

# Leader

serve them outside our service territory. We're leaders in the energy industry and delighted to follow our customers wherever they want to go around the globe. So we're as optimistic about our growth prospects in Ohio, Orlando, Fla., and Ontario, Canada, as we are of the successful sales we've landed in Illinois, Pennsylvania and Maryland.

We listen to our customers and know their needs. Many industries are as energy-intensive as the electric industry is capital-intensive. And we're known for providing total energy solutions for businesses such as steel, chemical, and paper and pulp companies.

DTE Energy companies build on these strong customer relationships and have earned a reputation for reliability and service. Detroit Edison provides commercial businesses with personal attention and ideas for cost-effective refrigeration as well as highly efficient heating and cooling systems.

We partner with geothermal manufacturers and distributors to educate Detroit Edison's business and residential customers about the benefits of these highly efficient and environmentally friendly systems. Our geothermal customers save up to 60 percent on their heating and cooling costs by tapping into the earth's energy. What could be a more natural choice than buying cheap, clean energy from a

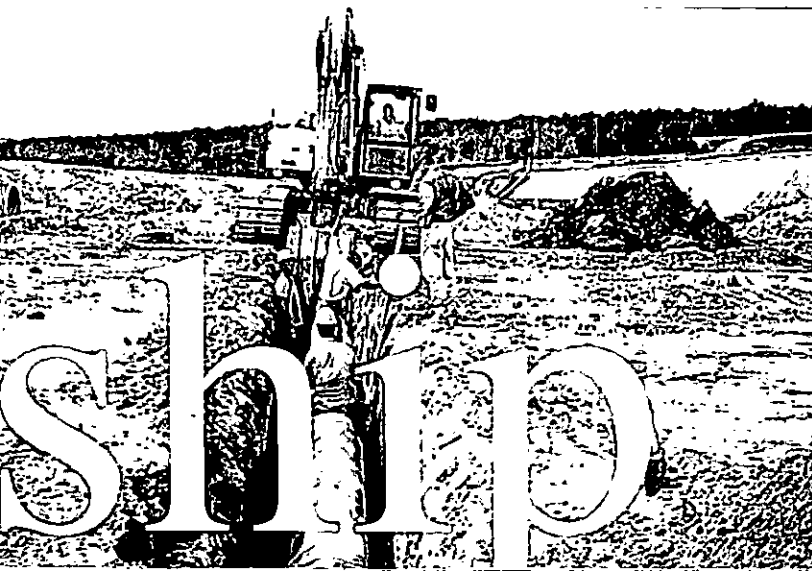
Company with nearly a century as an environmental leader?

We have more than a decade of experience with biomass projects that use landfill gas, another renewable energy source. One of our subsidiaries collects the waste gas or methane from landfills and turns an environmental liability into an energy resource for communities coast to coast.

DTE Biomass Energy's new Florida landfill gas-to-energy facility will displace about 10 percent of the fossil fuel previously used by Champion International Corp.'s pulp and paper mill in Cantonment, Fla. It provides a safe and reliable energy source; biomass technology actually reduces landfill odors and safety hazards.

One of our newest landfill gas-to-energy projects helps a North Carolina pharmaceutical company. We recently signed a 15-year contract to sell steam generated from the methane gas at the North Wake Landfill to a plant near Raleigh that manufactures the pain-reliever ingredient acetaminophen. Mallinckrodt Inc. saves money because the biomass energy costs less than the natural gas it previously used to make steam to fuel its boiler.

We've led the country in providing our customers with such innovative energy solutions. This strength will enable us to expand our line of products and services even as we grow regionally and nationally.



## We're becoming a regional powerhouse



**Above:** The first plant to use pulverized coal as a fuel in Detroit Edison's system, the Trenton Channel Power Plant generated a record amount of electricity in October. From left, Outage Manager Keith Walters and Plant Manager Melanie McCoy guide employees in their continuing quest to become an expanding, profit-driven fossil energy-conversion business. For instance, employees there plan to design and install a new fuel management coal conveyor that offers both economic and environmental benefits.

**Right:** Veteran traders such as Snick Meyers, president of DTE Energy Trading, will use the Company's experience buying and selling wholesale electricity to prepare it for competition from new power marketers.

**Far right:** Sun Company signs with DTE-CoEnergy marking one of our first electric sales in Pennsylvania. Our joint venture with MCN Energy competed with more than 30 companies in the initial stages of deregulation.

# G

iven the restructuring of the electric utility industry, one logical area for growth involves selling more of our basic product outside our Southeastern Michigan service territory.

We currently sell more power in the eastern Midwest than all but one other investor-owned utility. Like the model of quality and service in the car rental industry, we firmly believe that being *Number 2* denotes great power and greater responsibility. In fact, our employees reflect the kind of "We try harder" spirit that results in customers returning time and again.

Detroit Edison currently sells about 10 percent of the electricity purchased in the nine states of the East Central Area Reliability (ECAR) region. We plan to gain market share by selling power in Pennsylvania and other nearby states, making us a regional powerhouse.

With electric generation costs at record lows for our Company, we continue to take steps to reduce costs and improve reliability and efficiency. In 1997, we benefited from nearly \$20 million in cost-saving ideas through our "Innovations" employee-suggestion program. In addition, we've gained efficiencies in meter reading and billing

through a shared services agreement with Michigan Consolidated Gas (MichCon). We've also signed a five-year contract with MichCon to process its customer mail payments and we will jointly hire an engineering firm to mark areas where both utilities have underground facilities. Our new supply chain process initiatives promise greater cost savings by focusing on continuous improvement, efficiencies and purchasing economies throughout our Company.

Operational excellence continues to be a priority at our sole nuclear power plant. Fermi 2 recently set a new gross generation record of 1,202 megawatts (MW) and we expect to upgrade its maximum dependable capability rating from 1,098 MW to 1,200 MW.

We're particularly proud of the people working at our nuclear plant for having the best radiological-protection record for any boiling-water reactor in the country. We've recruited managers from some of the country's best-performing nuclear plants. Our Fermi 2 team continues to improve plant safety. In addition, it focuses on reducing operating and maintenance expenses as well as the costs of our uranium fuel.

Our diverse mix of fuels also includes solar energy, hydroelectric power from our jointly owned Ludington Pumped Storage Plant, as well as fossil generation.

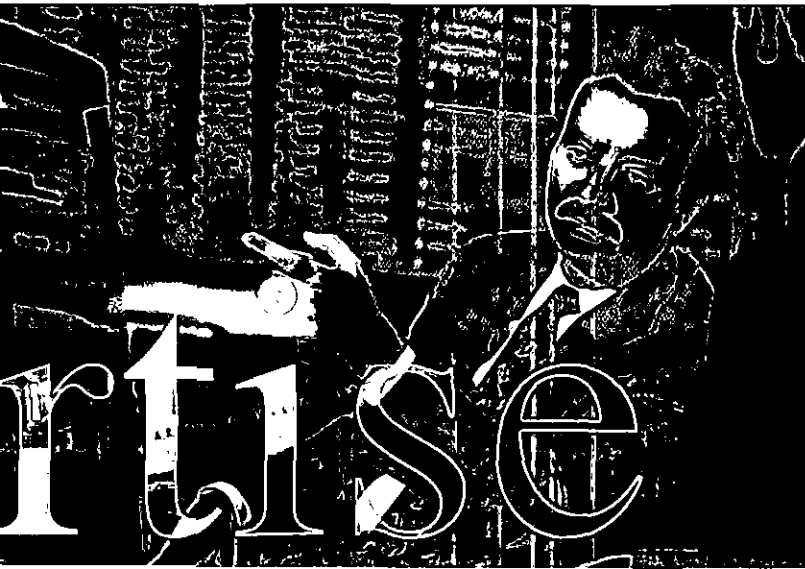
We're among the top coal-fired generators in North America with about three-quarters of our operating capacity coming from eight coal-fired power plants. We're leveraging our experience to establish ourselves as a national marketer and trader of both coal and energy.

DTE Energy formed a joint venture with MCN Energy to sell natural gas and electricity throughout the Great Lakes and Mid Atlantic states. Our DTE-CoEnergy venture was one of the first 30 companies to compete for business in the initial stages of deregulation in Pennsylvania. We signed contracts to serve more than 700 customer locations.

As part of the competitive power-marketing industry, we can use what Detroit Edison has learned over the years buying and selling electricity to and from other utilities on a wholesale basis. We can help our business customers schedule, dispatch and meter the electricity that they buy.

We formed DTE Energy Trading in 1997 to trade power and allow us to benefit from these new market opportunities. This new non-regulated wholesale power supplier supports our new retail energy-marketing efforts.

Our energy sales outside Southeastern Michigan are expected to increase significantly during the next five years as more and more retail customers are given the opportunity to select their energy supplier.



## We're helping our customers grow and prosper

**A**s the electric utility industry is deregulated, we understand that other companies also are looking for ways to better control their costs to make it more profitable for them to make power.

That's why our subsidiary, DTE Coal Services offers customers contracts to buy or sell coal. In this respect, increased competition in the electric utility industry actually means more opportunity for DTE Energy.

Utilities and other businesses need new services that we can best provide them because of our experience as an industry leader in coal sourcing and transportation.

Our Midwest Energy Resources Company (MERC) subsidiary handled more than 10-million tons of low-sulfur Western coal for Detroit Edison in 1997. In addition, we bought another 5-million tons of this coal from Montana and Wyoming and sold it to companies in North America



**Above:** DTE Energy helps the U.S. steel industry to increase its competitiveness in the global market. In 1997, National Steel sold us its coke-oven battery and signed a 12-year contract to buy coke from DTE Energy Services, which will own, operate and maintain the facility.

**Right:** DTE Energy Services built a 1,080-ton silo which houses pulverized coal before it is distributed into three blast furnaces at National Steel Corporation's Zug Island steel making facility.

**From left are:** Thomas Brunner, project manager, Barry Markowitz, DTE Energy Services president, and Gary Quantock, asset manager.

**Far right:** Ideal Steel & Builders' Supplies, Inc. President and Chief Executive Officer Frank Venegas, Jr. talks with Norman S. Littles, Detroit Edison minority business administrator. The Company has contracts with more than 100 minority-owned businesses. Mr. Littles has been instrumental in supporting growth opportunities to local businesses.



and Europe. We unload the coal from unit trains and store it at MERC's automated Midwest Energy Terminal in Superior, Wis., before loading it on lake vessels to ship to customers throughout the world.

DTE Coal Services develops additional sales by creating fuel and energy management partnerships. We offer customers such as Menominee Paper, Michigan Sugar, Morton Salt and Akzo Salt nearly a century of experience in coal purchasing, handling, transportation and logistics.

Also proficient in coal processing, we sold hundreds of thousands of tons of pulverized coal to National Steel in 1997. Its three Great Lakes Steel blast furnaces in Michigan receive coal from equipment at Detroit Edison's nearby River Rouge Power Plant. In addition, DTE Energy Services built, owns and operates the pulverized coal-injection (PCI) system.

DTE Energy Services also owns the coke-oven battery that we bought this year from National Steel's Great Lakes Division. We expect annual operating revenues of about \$140 million from the sale of coke that the steelmaker plans to use in its furnaces over the next 12 years. We are developing similar projects with other steel companies and other projects in

energy-intensive industries. DTE Energy Services expects to invest an additional \$400 million during 1998 in projects in the United States and Canada.

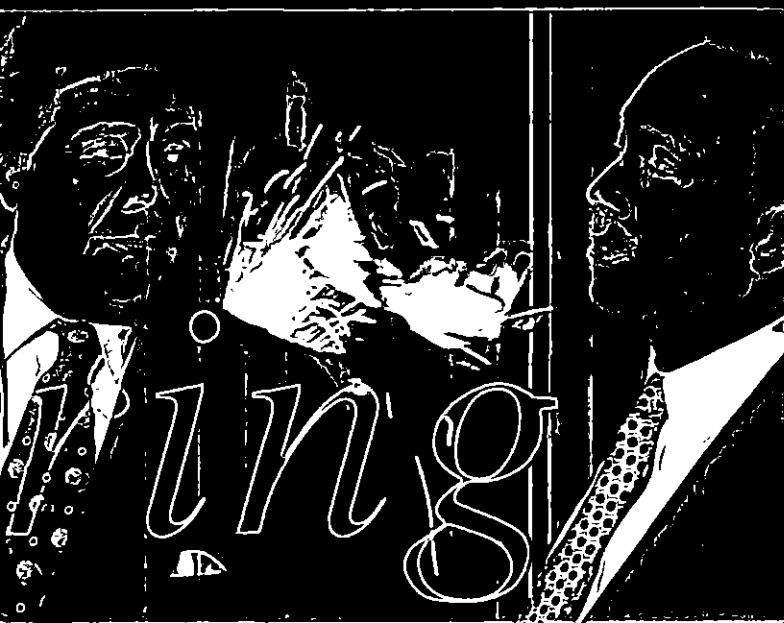
In the past three years, the Company has built diesel generators to provide backup power for Ford Motor Co., Delphi and Oghihara Corp. It also owns and operates existing powerhouses and cogeneration facilities for the Detroit Medical Center's Sinai Hospital as well as the Illinois Institute of Technology.

Within five years, all DTE Energy Services' investments are expected to contribute about 15 to 20 percent of our corporate earnings. In 1998 alone, this subsidiary is expected to contribute up to 10 percent of DTE Energy earnings.

We are gaining new customers by forming partnerships with competitors and suppliers. We're also encouraging the growth of minority-owned businesses and leading the way in promoting other kinds of diversity that benefits not only our Company, but also the economy as a whole. For example, our local economy is already benefiting from new jobs such as those created by our contract for tree trimming provided by the Energy Clearance Corporation.

We are actively involved in the Southeastern Michigan communities that Detroit Edison serves. In addition to the myriad of community programs the Company and its employees assist, more than 850 educational, health and human services, civic, community and cultural institutions in Southeastern Michigan received about \$3.3 million from the Company and our Detroit Edison Foundation.

We see opportunity coming from such initiatives to establish DTE Energy as a trusted energy leader that takes its responsibility to customers and society seriously.



# We're clearing the air on the bridge spanning to the 21st century



**Above:** Plug Power is developing safe, reliable and environmentally friendly fuel-cell systems which will be used to generate electricity in both homes and automobiles by the next millennium. Here, researchers run power output tests on a PEM fuel cell.

**Right:** The Company's SolarSchools<sup>SM</sup> program is so successful in Michigan that it has expanded to bring solar power and education to Maryland schools.

**Far right:** Sandra J. Miller, assistant vice president, Human Resources, trains tomorrow's work force today by observing trends for work and workers in the 21st century. Diversity adds value and Company training programs encourage all employees to look for new ways to help themselves and the Company to benefit from change and competition.

**E**lectric utility restructuring legislation is expected to include provisions to produce and use electricity more efficiently with less pollution. This provides a wealth of new opportunities for the growth of environmentally friendly technologies being developed by DTE Energy companies.

President Clinton called global climate change "*the premier environmental challenge and opportunity of the 21st century.*" He added he will support restructuring legislation if it includes incentives to promote energy efficiency and renewable energy. His climate change proposals set targets to reduce the amount of greenhouse gases emitted to the atmosphere.

Electric power generation currently accounts for about a third of U.S. energy-related carbon emissions. Detroit Edison takes care to partially counterbalance the carbon-dioxide emissions from its fossil-fuel power plants by landfill-gas recovery, tree planting and rain forest preservation. The Company is a member of the U.S. Department of Energy's voluntary Climate Challenge Program, a national initiative to reduce

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greenhouse-gas emissions. Building on Detroit Edison's diverse mix of fuel sources, we added our second solar-energy facility in October. The U.S. Department of Energy will provide partial funding for this Michigan facility as well as two future solar projects. Our pilot program enables eight commercial businesses to help Detroit Edison promote solar energy by forming partnerships with Southeastern Michigan school districts. Through SolarSchools<sup>SM</sup> each participating school will receive up to 2,000 kilowatthours annually of energy from the sun. In addition, the program includes a two-week curriculum the Company developed on solar and other alternative energy forms.

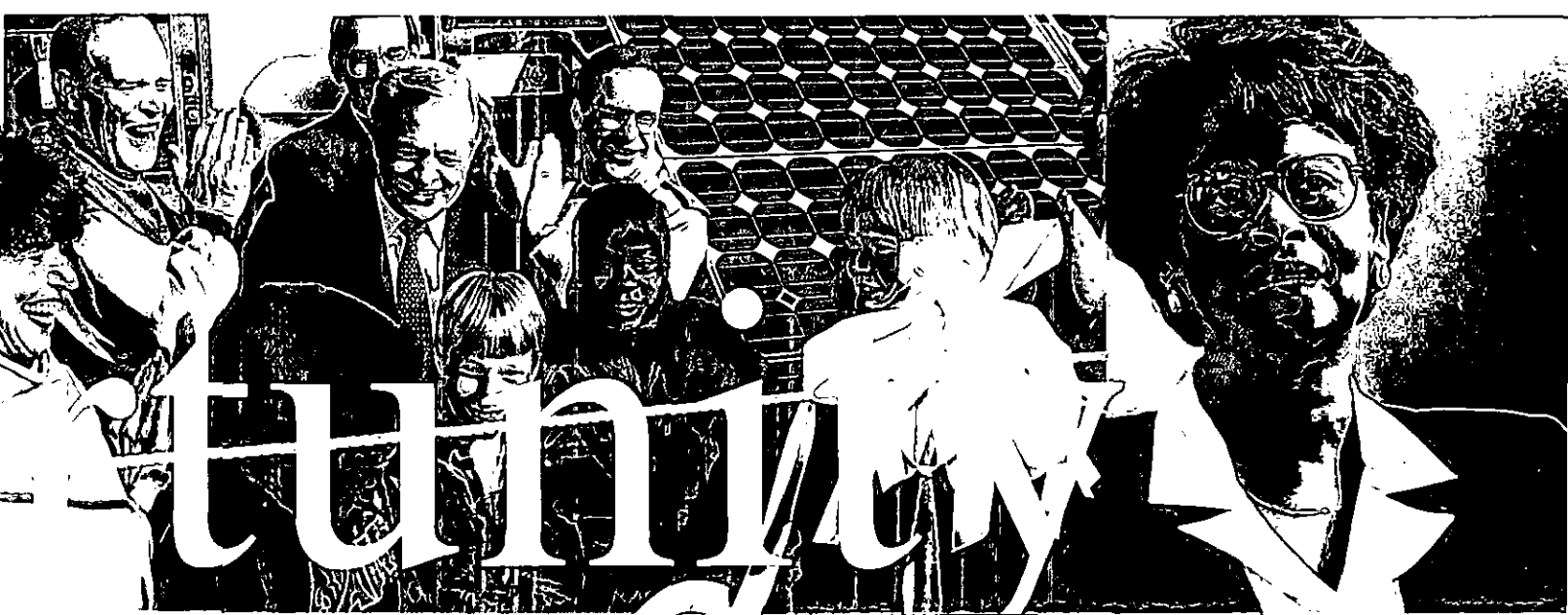
Our SolarSchools<sup>SM</sup> pilot has been so successful that plans are under way to make it a national program. We're bringing it to as many as 10 Maryland schools as part of President Clinton's Million Solar Roofs initiative. We've also had interest from 25 other states.

Fuel cells represent another exciting discovery in our country's plan to preserve a clean environment. Fuel cells generate electricity using an electrochemical rather than a combustion process, virtually eliminating pollution and significantly reducing the production of carbon dioxide, a greenhouse gas. By the year 2000, Plug Power, L.L.C.,

our joint venture with Mechanical Technology Inc., expects to introduce a system that uses Proton Exchange Membrane (PEM) fuel cell technology to generate electricity for homes, small buildings and remote locations. The system is expected to change the electric utility industry by reducing overall dependence on centrally located power plants. Six independently functioning prototypes will be put into operation during the summer of 1998.

While buildings account for about one-third of carbon dioxide emissions in the United States, the remaining two-thirds comes from the transportation sector. Plug Power, along with the U.S. Department of Energy, Los Alamos National Laboratory, the Big Three automakers and their suppliers, is helping develop fuel cells for automotive applications. In October 1997, Plug Power announced a major breakthrough in the advancement of zero-emission vehicles. Plug Power's fuel cell module was part of an experiment that successfully converted gasoline into electricity. Up to this time, fuel cells have been powered by hydrogen or methane, which are less convenient for use in automobiles.

Obviously, we're excited about such opportunities to grow new businesses for DTE Energy and our customers at the same time that we advance a better society.



# DTE Energy Company Management's Discussion & Analysis of Financial Condition and Results of Operations

This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and accompanying Notes thereto, contained herein.

The Detroit Edison Company (Detroit Edison) is the principal subsidiary of DTE Energy Company (Company) and, as such, unless otherwise identified, this discussion explains material changes in results of operations of both the Company and Detroit Edison and identifies recent trends and events affecting both the Company and Detroit Edison.

## CORPORATE STRUCTURE

On January 1, 1996, Detroit Edison's common stock was exchanged on a share-for-share basis for the common stock of the Company; and the Company became the parent holding company of Detroit Edison. The holding company structure was adopted to position the Company for changes in the electric utility industry by providing financial flexibility for the development of new non-regulated energy-related businesses. It is also a mechanism for separating the regulated utility business of Detroit Edison from non-regulated businesses thereby ensuring compliance with regulatory requirements.

## GROWTH

The Company and its principal subsidiary, Detroit Edison, are developing business strategies to remain competitive and stimulate growth. Detroit Edison will continue to focus on the success of its core generation business and local distribution company. Aggressive cost control efforts are expected to place Detroit Edison among

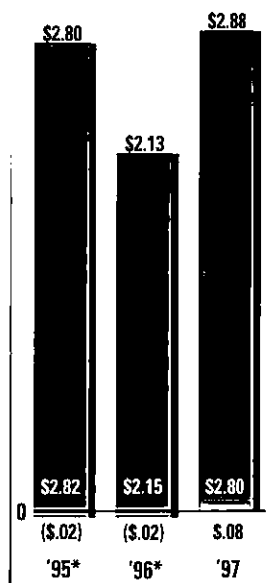
the top tier of coal-fired generators in North America. An Operational Excellence Plan at Fermi 2 is designed to ensure safety and reliability, while reducing operating and maintenance costs. The Systematic Assessment of Licensee Performance (SALP) Report, covering the period March 1996 through November 1997, recognized that successful implementation of this plan resulted in significant improvements in operations. Detroit Edison's transmission and distribution network will be strengthened by continued emphasis on customer service and reliability.

Detroit Edison's electric power sales and system demand have grown at compounded annual rates of about 3% per year for the past five years. While the introduction of competition is expected to reduce system growth, electric power sales for the service territory are projected to increase at a compound annual rate of about 2% over the next five years.

Non-regulated affiliates and joint ventures have been established as the Company pursues businesses apart from the regulated operations of Detroit Edison. The Company is pursuing a variety of energy related business opportunities. In 1997:

- The Company, through its non-regulated subsidiary, EES Coke Battery Company, Inc., acquired a coke oven battery (a facility to process coal used in the production of steel) and related assets in River Rouge, Michigan.
- The Company has formed a new power marketing subsidiary, DTE Energy Trading, Inc., in response to industry deregulation and related market opportunities. The new subsidiary will market and

Earnings Per Share  
(Dollars)



■ Non-Regulated  
■ Regulated

\*1995 and 1996 earnings per share include the steam heating special charge.

trade electricity and natural gas physical products and financial instruments and provide risk management services.

- The Company formed DTE-CoEnergy L.L.C., a joint venture with CoEnergy Trading Co., a MCN Energy Group, Inc. subsidiary, to sell natural gas and electricity to customers.
- The Company formed Plug Power L.L.C., a joint venture with Mechanical Technology, Inc. The primary focus of Plug Power will be to develop small fuel cells for use in homes.
- The Company, through its non-regulated subsidiary, DTE Rail Services, Inc., acquired railcar maintenance, repair, storage and interchange facilities.

**ELECTRIC INDUSTRY DEREGULATION**

Federal and state legislators and regulators are working to introduce competition and customer choice into the generation segment of the electric public utility industry, believing that competition will lead to reduced electric rates and stimulate economic growth. Detroit Edison has been voluntarily participating in these efforts. Traditional utility services are being unbundled, with many of such services becoming non-regulated; and a demand is being created for new energy-related services.

As discussed below, there are ongoing Michigan legislative, judicial and administrative proceedings considering the deregulation of the generation segment of the Michigan electric public utility industry, among other things. Neither the Company nor Detroit Edison are able to predict the outcome or timing of these proceedings.

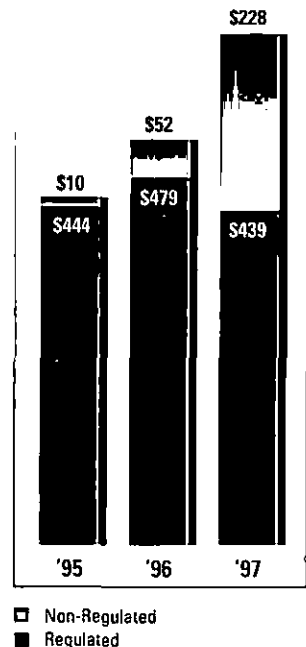
**Michigan Public Service Commission (MPSC)**

Detroit Edison is regulated at the state level by the MPSC, which agency has been considering various proposals to implement a competitive electric utility marketplace. The December 1996 MPSC Staff Report on Electric Utility Restructuring set forth principles Detroit Edison believes to be vital to a fair and orderly transition to competition.

In a February 1997 Order, the MPSC requested that Detroit Edison make an informational filing disclosing how the Staff Report would be implemented. In March 1997, Detroit Edison filed its response with the MPSC. Detroit Edison continues to support its position that direct access must be coupled with the opportunity to recover stranded costs. Detroit Edison also proposed a plan for the recovery of stranded costs, including securitization of approximately \$2.8 billion and transition charges to be assessed to customers leaving the system. Detroit Edison proposed to mitigate approximately \$800 million of stranded costs through reductions in operation and maintenance expenses. In addition, because deregulation of electric markets will result in financial uncertainty and risk to the shareholders of the Company, Detroit Edison will bear the risk of lost electricity sales due to customer choice.

In a June 1997 Order implementing restructuring, the Commission modified several of the recommendations contained in the Staff Report and Detroit Edison's March filing, and left several key items to be resolved through additional hearings. It supported a phased-in approach to open access, but indicated it was premature to support securitization because legislation is required and there are unresolved tax issues. It indicated that, due to uncertainty regarding the future price of electricity, a true-up mechanism should be established to adjust revenues intended to recover potential

**Capital Expenditures**  
(Dollars in Millions)



stranded costs. The MPSC also required additional hearings to consider how the true-up mechanism would work, and to consider the appropriate level to freeze the Power Supply Cost Recovery Clause (PSCR). Detroit Edison was required to file tariffs, subject to additional hearings. The June Order also indicated that December 31, 2007 would be the last day for collecting revenues to recover stranded costs.

Thereafter, in October 1997, the MPSC issued a series of Orders, with one of the three MPSC Commissioners dissenting, which provided for a competitive direct access program for Detroit Edison. These Orders did not provide a definitive basis for Detroit Edison to recover its potentially stranded costs, substantially all of which costs were fully litigated in previous rate proceedings before the MPSC. On January 14, 1998, in response to motions for rehearing, the MPSC, with one Commissioner dissenting, issued a Restructuring Order. In this Order, the MPSC expressed its long-standing view (disputed by Detroit Edison) that it has authority under Michigan state law to establish a mandatory direct access program. The Order established a phase-in schedule for open access, providing for Detroit Edison to implement the program in incremental blocks of 225 megawatts in March and June 1998 and January 1999, 2000 and 2001, with all remaining customers having the option of choosing open access service on January 1, 2002. Portions of the program are subject to the final approvals of the Federal Energy Regulatory Commission (FERC). Using an estimated market price for power of 2.9 cents per kilowatthour, the Commission found that Detroit Edison's stranded costs were \$2.48 billion and that a transition charge of 1.25 cents per kilowatthour was appropriate. Detroit Edison is uncertain whether the transition charge will be sufficient to recover its stranded costs. A securitization charge was not established, with the Commission

indicating that such a determination should await enabling state legislation. The Commission also determined that Detroit Edison's PSCR should be suspended one month after open access load reaches 225 megawatts and that open access customers should have rates providing for the collection of nuclear decommissioning and site security charges.

The provisions of the October 1997 Orders providing for an annual proceeding for stranded cost recovery true-up based upon the actual price paid by direct access customers and the limitation of reciprocity prior to completion of the phase-in period only to utilities and utility affiliates remained unchanged by the Restructuring Order.

The January 14, 1998 MPSC Order called for the filing of tariffs to implement the restructuring plan by June 28, 1998. On January 21, 1998, the Commission issued an Order indefinitely delaying the filing of tariffs and requiring, instead, the filing of any motions for clarification by January 28, 1998 addressing issues raised by the January 14th Order. As directed by the MPSC, Detroit Edison has made filings requesting, among other things, clarification of the manner in which the stranded cost true-up mechanism would work. Detroit Edison indicated in its filing that the mechanism as currently contemplated may be insufficient to allow recovery of all stranded costs.

The implementation of a competitive electric industry in Michigan will also require new state legislation. On October 7, 1997, Michigan House Bill 5245 was introduced. While this proposed legislation provides for the restructuring of the electric utility industry, it substantially differs from the competitive program contemplated by the MPSC. Legislation more consistent with 1997 and 1998 MPSC Orders is expected to be introduced in the Michigan Legislature in the first quarter of 1998.

On January 20, 1998, the Michigan Court of Appeals ruled that the MPSC had sufficient statutory authority under Michigan law to authorize an experimental retail wheeling program. On February 10, 1998, Detroit Edison requested the Michigan Supreme Court to grant leave to appeal the January 20, 1998 Michigan Court of Appeals decision.

### **Federal Energy Regulatory Commission**

Detroit Edison is regulated at the federal level by the FERC with respect to accounting, sales for resale in interstate commerce, certain transmission services, issuances of securities, licensing of hydro-electric and pumping stations and other matters.

In 1996, the FERC issued Order 888 which requires public utilities to file open access transmission tariffs for wholesale transmission services in accordance with non-discriminatory terms and conditions and Order 889 which requires public utilities and others to obtain transmission information for wholesale transactions through a system on the Internet. Order 889 also requires public utilities to separate transmission operations from wholesale marketing functions. During 1997, the FERC issued clarifications of these Orders.

In July 1996, Detroit Edison filed its Pro Forma Open Access Transmission Tariff in compliance with FERC Order 888. During 1997, Detroit Edison was able to negotiate a partial settlement regarding the price and terms and conditions of certain services provided as part of the tariff. *Several remaining issues could not be resolved through negotiation and are being litigated. A decision on the litigated issues is expected in 1998. Rates currently being utilized for transmission are consistent with the settlement achieved and are subject to refund upon the FERC's decision regarding the issues being litigated.*

Detroit Edison has a power pooling agreement with Consumers Energy Company (Consumers Energy). In March 1997, the joint transmission tariff, filed by Detroit Edison and Consumers Energy with the FERC in December 1996, became effective. In compliance with FERC Order 888, the tariff modified the pooling agreement to permit third-party access to transmission facilities utilized for pooled operations under non-discriminatory terms and conditions. As Detroit Edison and Consumers Energy were unable to agree on other modifications to the pooling agreement, Detroit Edison has requested that the FERC approve its termination. *Consumers Energy has requested that the pooling agreement be continued. The FERC has not ruled on either of these requests.*

In February 1997, Detroit Edison received permission to sell wholesale power at cost-based and market-based rates per tariffs approved by the FERC. In September 1997, Detroit Edison received permission from the FERC to sell power to affiliates under various terms and conditions. As a condition of the agreement, the FERC imposed posting requirements on an electronic bulletin board to prevent Detroit Edison from providing preferential market information to an affiliate, or engaging in preferential wholesale power sales discounting.

Detroit Edison is unable to estimate the revenue impact, if any, of these newly required tariffs and procedures.

### **ENVIRONMENTAL MATTERS**

*Protecting the environment from damage, as well as correcting past environmental damage, continues to be a focus of state and federal regulators. Legislation and/or rulemaking could further impact the electric utility industry including Detroit Edison. The Environmental Protection Agency (EPA) and the Michigan Department of Environmental Quality have*

aggressive programs regarding the clean-up of contaminated property. Detroit Edison anticipates that it will be periodically included in these types of environmental proceedings.

During 1997, the EPA issued proposed ozone transport regulations and final new air quality standards relating to ozone and particulate air pollution. A tentative international agreement was reached to address global climate change. The proposed new rules will lead to additional controls on fossil-fueled power plants to reduce nitrogen oxides, sulfur dioxide, carbon dioxide and fine particulate emissions. Unless the rulemaking process results in major revisions to the proposal, Detroit Edison estimates that controls could cost more than \$400 million to meet the ozone transport regulations. Until the timing and required level of emissions reduction is determined, Detroit Edison is unable to predict what impact the initiatives may have. Following the conclusion of all proceedings, it is expected that Detroit Edison's costs will increase, perhaps substantially. Additional environmental costs would be expected to be recovered under traditional ratemaking principles. However, Detroit Edison is unable to predict what effect, if any, deregulation of the electric utility industry would have on recoverability of such environmental costs.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Provided by Operating Activities

The Company generates substantial cash flows from operating activities as shown in the Consolidated Statement of Cash Flows. Net cash from operating activities, which is the Company's primary source of liquidity, was \$1,006 million in 1997, \$1,079 million in 1996 and \$913 million in 1995. Net cash from operating activities decreased in 1997 compared to 1996 due primarily to changes

in inventory levels. Net cash from operating activities increased in 1996 compared to 1995 due primarily to changes in accounts receivable, mainly as a result of the 1995 repurchase of customer accounts receivable and unbilled revenues.

Internal cash generation is expected to be sufficient to meet cash requirements for Detroit Edison's capital expenditures as well as the Company's scheduled long-term debt redemption requirements.

### Cash Used for Investing Activities

Net cash used for investing activities was higher for the Company in 1997 due to the acquisition of the coke oven battery, a non-regulated expenditure. For Detroit Edison, net cash used for investing was lower in 1997 due primarily to lower plant and equipment expenditures. In 1996, net cash used for investing activities increased due primarily to higher plant and equipment expenditures.

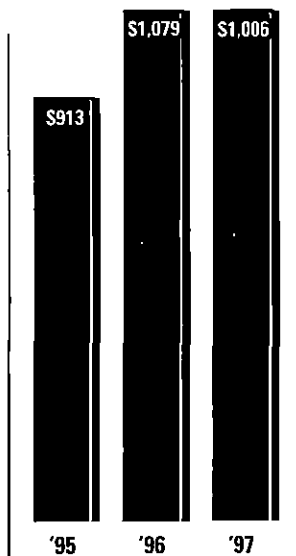
Cash requirements for 1997 non-regulated investments and capital expenditures were \$228 million and are estimated to be approximately \$400 million in 1998. Significant non-regulated investments are expected to be externally financed.

Detroit Edison's cash requirements for capital expenditures are expected to be approximately \$2.5 billion for the period 1998 through 2002. In 1998, cash requirements for capital expenditures are estimated at \$575 million. Detroit Edison has no plans to build any additional electric generating plants.

### Cash Used for Financing Activities

Net cash used for Company financing activities decreased in 1997 compared to 1996 due primarily to the issuance of non-recourse debt for the acquisition of a coke oven battery, an increase in short-term borrowings, and a reduction in redemption of preferred stock, partially offset by higher redemptions of long-term debt.

**Cash Flow From Operations**  
(Dollars in Millions)



Net cash used for financing activities increased in 1996 compared to 1995 due primarily to the redemption of preferred stock.

The following securities were redeemed by the Company in 1997:

<b>Detroit Edison General and Refunding Mortgage Bonds</b>	
Mandatory Redemptions	
1990 Series A, B, C	
7.9% - 8.4% redeemed in March	\$ 19
1993 Series G	
5.4% redeemed in May	<u>125</u>
	<u>144</u>
Open Market Purchases	
1993 Series E, J	
7.7% - 7.8% redeemed in	
January, March and April	<u>41</u>
<b>Total</b>	<b><u>185</u></b>
<b>Non-Recourse</b>	
7.2% redeemed in October and	
December	<u>11</u>
<b>Total Redemptions</b>	<b><u>\$196</u></b>

In February 1998, Detroit Edison will redeem \$150 million of 6.4% Series S General and Refunding Mortgage Bonds due October 1, 1998.

**MARKET RISK SENSITIVITY**

Detroit Edison has investments valued at market of \$239 million in three nuclear decommissioning trust funds. These investments consist of approximately 40% in fixed debt instruments and approximately 60% in publicly traded equity securities. A hypothetical 10% increase in interest rates and a 10% decrease in equity prices quoted by stock exchanges would result in an \$8 million and \$10 million reduction in the fair value of debt and equity securities, respectively, held by the trusts at December 31, 1997. Adjustments to market value would result in a corresponding adjustment to accumulated depreciation or other liabilities, as applicable, based on current regulatory treatment.

A hypothetical 10% decrease in interest rates would increase the fair value of long-term debt from \$4.2 billion to \$4.6 billion at December 31, 1997.

**YEAR 2000**

The Company has been involved in an enterprise-wide program to modify its computer applications and operating systems to be Year 2000 compliant. The total cost of the program is being determined as part of the planning process. Initial estimates of the costs are approximately \$50 million. Modification costs will be expensed as incurred, while the costs of new software will be capitalized and amortized over the software's useful life. The Company believes that with the above modifications, the Year 2000 will not have a material impact on the operations of the Company. The Company also believes that the cost of these modifications will not have a material effect on its financial position, liquidity and results of operations.

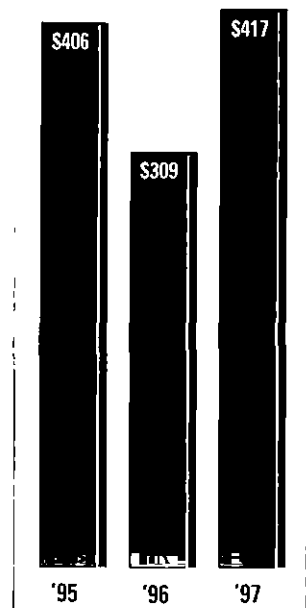
**RESULTS OF OPERATIONS**

Net income for 1997 was \$417 million, or \$2.88 per share, up \$108 million over 1996 earnings. After adjusting 1996 earnings for the steam heating special charge, 1997 earnings reflect a 2.7% increase over the prior year.

The decrease in net income for 1996 was due to a \$149 million (\$97 million after-tax), or \$0.67 per share, special charge following completion of Detroit Edison's review of its steam heating operations.

The increase in net income for 1995 was due to higher sales of electricity. The sales increase was partially offset by higher operating expenses, including a non-cash loss of \$42 million (\$32 million after-tax), or \$0.22 per common share, on Detroit Edison's steam heating business due to the Company's adoption in the fourth quarter of 1995 of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

**Consolidated Net Income**  
(Dollars in Millions)



## Operating Revenues

Total operating revenues increased (decreased) due to the following factors:

	1997	1996
	(Millions)	
<b>Detroit Edison</b>		
Rate Changes	\$ (62)	\$ (29)
System sales volume and mix	27	28
Sales between utilities	48	(6)
Fermi 2 performance disallowances	(3)	12
Other - net	5	1
Total Detroit Edison	15	6
Non-regulated	104	3
Total	\$119	\$ 9

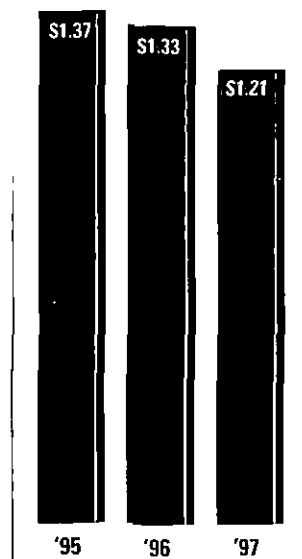
Detroit Edison kilowatthour sales increased (decreased) from the prior year as follows:

	1997	1996
Residential	(0.4)%	(0.4)%
Commercial	1.6	1.3
Industrial	2.0	1.7
Other (primarily sales for resale)	9.7	1.2
Total System	1.5	0.9
Sales between utilities	73.4	(31.1)
Total	4.5	(1.0)

In 1997 and 1996, residential sales decreased due to less heating and cooling demand which more than offset growth in the customer base. Commercial and industrial sales increased for both periods reflecting a continuation of good economic conditions. Sales to other customers increased in both periods due to a greater demand for energy. Sales between utilities also increased in 1997 due to greater demand for energy and increased availability of energy for sale. Sales between utilities decreased in 1996 due to lower demand for energy.

In 1997, other non-regulated operating revenues increased due primarily to revenues from EES Coke Battery Company, Inc. and PCI Enterprises Company (DTE Energy Services, Inc. subsidiaries).

**Detroit Edison Fuel Costs**  
(Dollars per Million Btu)



## Operating Expenses

### Fuel and Purchased Power

Net system output and average fuel and purchased power unit costs per Megawatthour (MWh) were as follows:

	1997	1996	1995
	(Thousands of MWh)		
Power plant generation			
Fossil	42,162	41,829	41,636
Nuclear	5,523	4,750	5,092
Purchased power	6,146	5,149	5,423
Net system output	53,831	51,728	52,151
Average unit cost (\$/MWh)	\$14.54	\$15.03	\$15.29

In 1997, fuel expense decreased due to the termination of high cost long-term coal contracts, reduction in coal contract buyout expense and a decrease in nuclear fuel costs. Higher purchased power expense was due primarily to increased purchases of power while Fermi 2 was shut down.

In 1996, fuel and purchased power expense decreased due to lower average unit costs related to declining fuel prices resulting from greater use of lower-cost western low-sulfur coal and a decrease in nuclear fuel costs, and lower net system output, partially offset by a reduction in the receipt of Fermi 2 business interruption insurance proceeds.

### Operation and Maintenance

In 1997, Company operation and maintenance expenses increased \$49 million due primarily to increased non-regulated subsidiary (mainly EES Coke Battery Company, Inc. and PCI Enterprises Company) expenses of \$95 million offset by lower net Detroit Edison operation and maintenance expenses.

As a result of stringent cost controls, Detroit Edison operation and maintenance expenses decreased in 1997 due primarily to lower postretirement benefit (\$18.8 million) and fossil generation (\$15.1 million) expenses, lower minor storm and trouble work (\$13.6 million), the Fermi 2

outage accrual in 1996 (\$13 million) and receipt of additional insurance proceeds related to the 1993 Fermi 2 turbine replacement (\$9.8 million), partially offset by higher compensation expenses related to a shareholder value improvement plan (\$25.7 million).

Operation and maintenance expense increased in 1996 due primarily to higher overhead and underground lines support (\$26.1 million), nuclear plant expenses (\$16.6 million), operating and development expense related to new computer systems (\$12 million), non-utility operations expense (\$8.2 million), administrative and general expenses (\$8.2 million) and employee benefits (\$7.9 million) expenses. These increases were partially offset by lower compensation expenses related to a shareholder value improvement plan (\$14.2 million), expenses recorded in the year earlier period for the write-off of obsolete and excess stock material (\$12 million) and lower major storm expenses (\$8.8 million).

#### ***Depreciation and Amortization***

Depreciation and amortization expense increased in 1997 due primarily to increases in property, plant and equipment.

Depreciation and amortization expense increased in 1996 due primarily to increases in property, plant and equipment, including internally developed software costs, and increased Fermi 2 decommissioning costs.

#### ***Other***

Other operating expense increased in 1997 due to increased legal expenses (\$19.5 million).

Other operating expense decreased in 1996 due to lower promotional expense (\$5.3 million) and expenses recorded in the prior year for the formation of a holding company (\$3.1 million).

### **Interest Expense and Other**

#### ***Interest Expense***

Interest expense increased in 1997 due primarily to the issuance of debt to finance asset acquisitions of non-regulated subsidiaries, partially offset by Detroit Edison's mandatory and optional redemption of debt.

Interest expense decreased in 1996 due primarily to Detroit Edison's mandatory and optional redemption of debt.

#### ***Other—net***

Other—net increased in 1997 due primarily to higher accretion expense (\$9.5 million), lower accretion income (\$3 million) and the write down of an equity investment (\$5 million).

Other—net decreased in 1996 due primarily to expenses recorded in the prior year for the sale of accounts receivable and unbilled revenues (\$3.1 million).

### **FORWARD-LOOKING STATEMENTS**

Certain information presented herein is based on the expectations of the Company and Detroit Edison, and, as such, is forward-looking. The Private Securities Litigation Reform Act of 1995 encourages reporting companies to provide analyses and estimates of future prospects and also permits reporting companies to point out that actual results may differ from those anticipated.

Actual results for the Company and Detroit Edison may differ from those expected due to a number of variables including, but not limited to, the impact of newly required FERC tariffs, actual sales, the effects of competition, the implementation of utility restructuring in Michigan (which involves pending regulatory proceedings, pending and proposed statutory changes and the recovery of stranded costs), environmental and nuclear requirements and the success of non-regulated lines of business. While the Company and Detroit Edison believe that estimates given accurately measure the expected outcome, actual results could vary materially due to the variables mentioned as well as others.

**DTE Energy Company**  
**Consolidated**  
**Statement of Income**  
(In Millions, Except per Share Amounts)

	Year Ended December 31		
	1997	1996	1995
<b>Operating Revenues</b>	<b>\$3,764</b>	<b>\$3,645</b>	<b>\$3,636</b>
<b>Operating Expenses</b>			
Fuel and purchased power	837	846	850
Operation and maintenance	979	930	875
Depreciation and amortization	660	625	588
Steam heating special charges	-	149	42
Taxes other than income	265	259	252
Other	22	4	14
Total Operating Expenses	<b>2,763</b>	<b>2,813</b>	<b>2,621</b>
<b>Operating Income</b>	<b>1,001</b>	<b>832</b>	<b>1,015</b>
<b>Interest Expense and Other</b>			
Interest expense	297	288	294
Preferred stock dividends of subsidiary	12	16	28
Other—net	18	(2)	4
Total Interest Expense and Other	<b>327</b>	<b>302</b>	<b>326</b>
<b>Interest Before Income Taxes</b>	<b>674</b>	<b>530</b>	<b>689</b>
<b>Income Taxes</b>	<b>257</b>	<b>221</b>	<b>283</b>
<b>Net Income</b>	<b>\$ 417</b>	<b>\$ 309</b>	<b>\$ 406</b>
<b>Average Common Shares Outstanding</b>	<b>145</b>	<b>145</b>	<b>145</b>
<b>Earnings Per Common Share – Basic and Diluted</b>	<b>\$ 2.88</b>	<b>\$ 2.13</b>	<b>\$ 2.80</b>

(See notes to consolidated financial statements.)

**DTE Energy Company**  
**Consolidated**  
**Statement of Cash Flows**  
(In Millions)

	Year Ended December 31		
	1997	1996	1995
<b>Operating Activities</b>			
Net Income	\$ 417	\$ 309	\$ 406
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	660	625	588
Steam heating special charges	-	149	42
Other	(29)	(30)	70
Changes in current assets and liabilities:			
Accounts receivable	(36)	(32)	(222)
Inventories	(36)	42	(19)
Payables	16	2	17
Other	14	14	31
<b>Net cash from operating activities</b>	<b>1,006</b>	<b>1,079</b>	<b>913</b>
<b>Investing Activities</b>			
Plant and equipment expenditures	(456)	(531)	(454)
Purchase of Coke Oven Battery	(211)	-	-
Nuclear decommissioning trust funds	(68)	(52)	(43)
Other	(6)	(34)	(25)
<b>Net cash used for investing activities</b>	<b>(741)</b>	<b>(617)</b>	<b>(522)</b>
<b>Financing Activities</b>			
Issuance of long-term debt	250	224	-
Funds received from Trustees: Installment sales contracts and loan agreements	-	-	202
Increase (Decrease) in short-term borrowings	32	(27)	(2)
Redemption of long-term debt	(196)	(176)	(221)
Redemption of preferred stock	-	(185)	(1)
Dividends on common stock	(299)	(299)	(299)
Other	(6)	(11)	(13)
<b>Net cash used for financing activities</b>	<b>(219)</b>	<b>(474)</b>	<b>(334)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>46</b>	<b>(12)</b>	<b>57</b>
<b>Cash and Cash Equivalents at Beginning of the Period</b>	<b>53</b>	<b>65</b>	<b>8</b>
<b>Cash and Cash Equivalents at End of the Period</b>	<b>\$ 99</b>	<b>\$ 53</b>	<b>\$ 65</b>
<b>Supplementary Cash Flow Information</b>			
Interest paid (excluding interest capitalized)	\$ 290	\$ 277	\$ 274
Income taxes paid	243	207	231
New capital lease obligations	34	35	27
Exchange of preferred stock of subsidiary for long-term debt	-	-	50

(See notes to consolidated financial statements.)

# Consolidated Balance Sheet

(In Millions, Except per Share Amounts and Shares)

	Year Ended December 31	
	1997	1996
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 99	\$ 53
Accounts receivable		
Customer (less allowance for doubtful accounts of \$20)	305	304
Accrued unbilled revenues	137	136
Other	78	44
Inventories (at average cost)		
Fuel	130	120
Materials and supplies	173	144
Other	13	9
	<b>935</b>	<b>810</b>
<b>Investments</b>		
Nuclear decommissioning trust funds	239	172
Other	57	48
	<b>296</b>	<b>220</b>
<b>Property</b>		
Property, plant and equipment	14,495	13,797
Property under capital leases	256	228
Nuclear fuel under capital lease	607	608
Construction work in progress	16	143
	<b>15,374</b>	<b>14,776</b>
Less accumulated depreciation and amortization	6,440	5,943
	<b>8,934</b>	<b>8,833</b>
<b>Other Assets</b>		
Regulatory assets	856	975
Other	202	177
	<b>1,058</b>	<b>1,152</b>
<b>Total Assets</b>	<b>\$11,223</b>	<b>\$11,015</b>

(See notes to consolidated financial statements.)

	Year Ended December 31	
	1997	1996
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Long-term debt	\$ 205	\$ 144
Capital leases	110	144
Accounts payable	161	161
Accrued interest	57	60
Dividends payable	78	78
Accrued payroll	81	81
Accumulated deferred income taxes	64	44
Other	261	190
	<b>1,017</b>	<b>902</b>
<b>Other Liabilities</b>		
Accumulated deferred income taxes	1,983	2,024
Accumulated deferred investment tax credits	301	315
Capital leases	137	115
Other	302	292
	<b>2,723</b>	<b>2,746</b>
<b>Long-Term Debt</b>	<b>3,777</b>	<b>3,779</b>
<b>Shareholders' Equity</b>		
Detroit Edison cumulative preferred stock, \$100 par value, 6,747,484 shares authorized, 5,207,657 issued, 1,501,223 shares outstanding	144	144
Common stock, without par value, 400,000,000 shares authorized, 145,097,829 and 145,119,875 issued and outstanding, respectively	1,951	1,951
Retained earnings	1,611	1,493
<b>Total Shareholders' Equity</b>	<b>3,706</b>	<b>3,588</b>
<b>Commitments and Contingencies</b> (Notes 1, 2, 3, 9, 11 and 12)		
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$11,223</b>	<b>\$11,015</b>

(See notes to consolidated financial statements.)

**DTE Energy Company**  
**Consolidated Statement**  
**of Changes in Shareholders'**  
**Equity**  
(In Millions, Except per Share Amounts)

	1997		1996		1995	
	Shares	Amount	Shares	Amount	Shares	Amount
<b>Detroit Edison Convertible Preferred Stock</b>						
Balance at beginning of year	-	\$ -	-	\$ -	56	\$ 6
Conversion of convertible preferred stock to common stock	-	-	-	-	(46)	(5)
Redemption of convertible preferred stock	-	-	-	-	(10)	(1)
Balance at end of year	-	\$ -	-	\$ -	-	\$ -
<b>Detroit Edison Cumulative Preferred Stock</b>						
Balance at beginning of year	1,501	\$ 144	3,351	\$ 327	3,850	\$ 375
Exchange of cumulative preferred stock for debt	-	-	-	-	(499)	(50)
Redemption of cumulative preferred stock	-	-	(1,850)	(185)	-	-
Preferred stock expense	-	-	-	2	-	2
Balance at end of year	1,501	\$ 144	1,501	\$ 144	3,351	\$ 327
<b>Common Stock</b>						
Balance at beginning of year	145,120	\$ 1,951	145,120	\$ 1,951	144,863	\$ 1,947
Repurchase and retirement of common stock	(22)	-	-	-	-	-
Conversion of cumulative preferred stock to common stock	-	-	-	-	257	4
Balance at end of year	145,098	\$ 1,951	145,120	\$ 1,951	145,120	\$ 1,951
<b>Retained Earnings</b>						
Balance at beginning of year		\$ 1,493		\$ 1,485		\$ 1,379
Net income		417		309		406
Dividends declared on common stock (\$2.06 per share in 1997, 1996 and 1995)		(299)		(299)		(299)
Preferred stock expense		-		(2)		(1)
Balance at end of year		\$ 1,611		\$ 1,493		\$ 1,485
<b>Total Shareholders' Equity</b>		<b>\$ 3,706</b>		<b>\$ 3,588</b>		<b>\$ 3,763</b>

(See notes to consolidated financial statements.)

**DTE Energy Company**  
**Notes to**  
**Consolidated**  
**Financial Statements**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

**Corporate Structure and Principles of Consolidation** — DTE Energy Company (Company), a Michigan corporation incorporated in 1995, is an exempt holding company under the Public Utility Holding Company Act. The Company has no significant operations of its own, holding instead the stock of The Detroit Edison Company (Detroit Edison), an electric utility, and other energy-related businesses. On January 1, 1996, the holders of Detroit Edison's common stock exchanged such stock on a share-for-share basis for the common stock of the Company; and certain Detroit Edison subsidiaries were transferred to the Company in the form of a dividend.

Detroit Edison, incorporated in Michigan since 1967, is a regulated public utility engaged in the generation, purchase, transmission, distribution and sale of electric energy in a 7,600 square mile area in Southeastern Michigan. This service area includes about 13% of Michigan's total land area, and about half of its population (approximately 5 million people), electric energy consumption and industrial capacity. At December 31, 1997, Detroit Edison represented approximately 96% of the Company's assets.

The consolidated financial statements presented herein include the financial results of operations of the Company and its wholly-owned subsidiaries as if the Company's current holding company structure had existed in all periods shown. All significant intercompany balances and transactions have been eliminated. Investments in limited liability companies, partnerships and joint ventures are accounted for using the equity method when significant control provisions are met.

**Use of Estimates in the Preparation of Financial Statements** — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Regulation and Regulatory Assets and Liabilities** — Detroit Edison is subject to regulation by the Michigan Public Service Commission (MPSC) and the Federal Energy Regulatory Commission (FERC). Detroit Edison meets the criteria of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." This accounting standard recognizes the cost based ratemaking process which results in differences in the application of generally accepted

accounting principles between regulated and non-regulated businesses. SFAS No. 71 permits the recording of regulatory assets and liabilities that would have been treated as revenue and expense in non-regulated businesses. The deferred amounts are being amortized to revenue and expense as they are included in rates. Continued applicability of SFAS No. 71 requires that rates be designed to recover specific costs of providing regulated services and products, including regulatory assets, and that it be reasonable to assume that rates are set at levels that will recover a utility's costs and can be charged to and collected from customers. Although various MPSC Orders and proposed Michigan legislation would alter the regulatory process in Michigan and provide a plan for transition to competition for the generation segment of the business, Detroit Edison believes it continues to qualify under the accounting model prescribed by SFAS No. 71. In guidance issued in 1997, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) concluded that the application of SFAS No. 71 to a separable portion of a business which is subject to a deregulation plan should cease when legislation is passed and/or a rate order is issued that contains sufficient detail on a transition plan. The EITF also concluded that regulatory assets and liabilities originating in the separable portion of the business which is no longer under SFAS No. 71 should not be written off if they are recoverable from a separable portion of business which still meets the criteria of SFAS No. 71.

Detroit Edison has recorded the following regulatory assets and liabilities at December 31:

		1997	1996
	Recovery Through*	(Millions)	
<b>Assets</b>			
Unamortized loss on reacquired debt	2033	\$101	\$111
Recoverable income taxes	2027	562	588
Fermi 2 phase-in plan	1998	84	196
Fermi 2 deferred amortization	2008	66	63
1997 storm damage costs	1999	30	-
Other	2022	13	17
Total Assets		<u>\$856</u>	<u>\$975</u>
<b>Liabilities</b>			
Unamortized deferred investment tax credits	2025	\$301	\$315
Fermi 2 capacity factor performance standard	1999	74	73
Other	2003	25	6
Total Liabilities		<u>\$400</u>	<u>\$394</u>

\* Year through which the assets and liabilities will be recovered. As discussed later herein, the potential deregulation of the Michigan electric industry may affect the recovery periods.

DTE Energy Company  
**Notes to Consolidated Financial Statements**

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- **Unamortized loss on reacquired debt** — In accordance with MPSC regulations applicable to Detroit Edison, the discount, premium and expense related to debt redeemed with refunding are amortized over the life of the replacement issue.
- **Recoverable income taxes** — See Note 5.
- **Fermi 2 phase-in plan** — SFAS No. 92, "Regulated Enterprises—Accounting for Phase-in Plans," permits the capitalization of costs deferred for future recovery under a phase-in plan. Based on a MPSC authorized phase-in plan, Detroit Edison recorded a receivable totaling \$506.5 million from 1988 through 1992. Beginning in 1993 and continuing through 1998, these amounts will be amortized to operating expense as they are included in rates. Amortization of these amounts totaled \$112 million, \$102 million and \$93 million in 1997, 1996 and 1995, respectively.
- **Fermi 2 deferred amortization** — A December 1988 MPSC rate order provided for Detroit Edison's February 1990 purchase of Wolverine Power Supply Cooperative, Inc.'s (Cooperative) ownership interest in Fermi 2. Since the straight-line amortization of the asset exceeds the revenues provided for such amortization during the first 10 years of the recovery period, Detroit Edison is capitalizing deferred amortization, totaling \$67.2 million through 1999. For 1997, 1996 and 1995, the amounts deferred were \$3 million, \$4.5 million and \$6 million, respectively. The deferred amounts will be amortized to operating expense as they are included in rates during the years 2000 through 2008.
- **1997 storm damage costs** — The costs of major storms in 1997, as authorized by the MPSC, were deferred and will be amortized into expense in 1998 and 1999 as they are recovered through rates.
- **Unamortized deferred investment tax credits** — Investment tax credits utilized which relate to utility property were deferred and are amortized over the estimated composite service life of the related property.
- **Fermi 2 capacity factor performance standard** — The MPSC has established a capacity factor performance standard which provides for the disallowance of net incremental replacement power cost if Fermi 2 does not perform to certain operating criteria. A disallowance will be imposed for the amount by which the Fermi 2 three-year rolling average capacity factor is less than the greater of either the average of the top 50% of U.S. boiling water reactors or 50%. An estimate of the incremental cost of replacement power is required in computing the reserve for amounts due customers under this performance standard.

**Cash Equivalents** — For purposes of the Consolidated Statement of Cash Flows, the Company considers investments purchased with a maturity of three months or less to be cash equivalents.

**Revenues** — Detroit Edison records unbilled revenues for electric and steam heating services provided after cycle billings through month-end.

**Property, Retirement and Maintenance, Depreciation and Amortization** — Utility properties are recorded at original cost less regulatory disallowances and an impairment loss for the steam plant in 1995. In general, the cost of properties retired in the normal course of business is charged to accumulated depreciation. Expenditures for maintenance and repairs are charged to expense, and the cost of new property installed, which replaces property retired, is charged to property accounts. The annual provision for utility property depreciation is calculated on the straight-line remaining life method by applying annual rates approved by the MPSC to the average of year-beginning and year-ending balances of depreciable property by primary plant accounts. Provision for depreciation of Fermi 2, excluding decommissioning expense, was 3.26% of average depreciable property for 1997, 1996 and 1995. See Note 3. Provision for depreciation of all other utility plant, as a percent of average depreciable property, was 3.29% for 1997, 1996 and 1995.

**Software Costs** — Detroit Edison capitalizes the cost of software developed for internal use. These costs are amortized on a straight-line basis over a five-year period beginning with a project's completion.

**Accretion Income** — SFAS No. 90, "Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs," permits losses recorded due to discounting indirect disallowances of plant costs to be restored to income. The net after-tax losses originally totaled \$198 million based on the discounting required by SFAS No. 90. These amounts are being restored to income from 1988-1998 as Detroit Edison records a non-cash return (accretion income). The net after-tax income was \$3.4 million, \$5.3 million and \$7.2 million in 1997, 1996 and 1995, respectively.

**Capitalization—Discount and Expense** — The discount and expense related to the issuance of long-term debt are amortized over the life of each issue. In accordance with MPSC regulations applicable to Detroit Edison, the discount and expense related to debt redeemed without refunding are written off to expense. Expense related to redeemed preferred stock of Detroit Edison is written off against retained earnings used in the business.

**Fermi 2 Refueling Outages** — Detroit Edison recognizes the cost of Fermi 2 refueling outages over periods in which related revenues are recognized. Under this procedure, it records a provision for incremental costs anticipated to be incurred during the next scheduled Fermi 2 refueling outage. See Note 2.

**Power Supply Cost Recovery (PSCR)** — The MPSC determines the amount that Detroit Edison can recover for changes in power supply costs for purchased power and generation based on usage.

**Stock-Based Compensation** — The Company accounts for stock-based compensation using the intrinsic value method. Compensation expense is not recorded for stock options granted with an exercise price equal to the fair market value at the date of grant. For grants of restricted stock, compensation equal to the market value of the shares at the date of grant is deferred and amortized to expense over the vesting period.

**Earnings Per Share** — In 1997, the Company adopted SFAS No. 128, "Earnings Per Share." Under the new statement, two earnings per share (EPS) amounts are calculated, basic and diluted. The adoption of this statement did not affect the Company's calculation of EPS due to the insignificant number of potential common shares.

**Reclassifications** — Certain prior year balances have been reclassified to conform to the 1997 presentation.

## NOTE 2 – FERMI 2

**General** — Fermi 2, a nuclear generating unit, began commercial operation in January 1988. Fermi 2 has a design electrical rating (net) of 1,139 megawatts (MW). This unit represents approximately 24% of total assets, 10% of total operation and maintenance expenses and 11% of summer net rated capability.

Ownership of an operating nuclear generating unit subjects Detroit Edison to significant additional risks. Fermi 2 is regulated by a number of different governmental agencies concerned with public health, safety and environmental protection. Consequently, Fermi 2 is subjected to greater scrutiny than a conventional fossil-fueled plant.

MPSC rate orders issued in April 1986, December 1988 and January 1994 contain provisions with respect to the recovery of Fermi 2 costs. See Note 3 for a discussion of Fermi 2 rate matters and the MPSC's treatment of Fermi 2's original project costs of \$4.858 billion.

**Licensing and Operation** — The Nuclear Regulatory Commission (NRC) maintains jurisdiction over the licensing and operation of Fermi 2.

Due to a December 1993 turbine-generator failure, Fermi 2 was out of service during 1994 through early 1995 and thereafter operated at a reduced power output through September 26, 1996. Detroit Edison's insurance reimbursement was \$93 million for property damage and \$89.6 million for replacement power costs related to the 1993 turbine-generator failure.

Detroit Edison removed Fermi 2 from service as of September 27, 1996 through January 3, 1997 to replace a portion of the plant's nuclear fuel and install three new low-pressure turbines. The \$49 million cost of replacing the turbines, not covered by insurance, was capitalized and is expected to be recovered in rates under a provision of a December 1988 MPSC Order.

A January 17, 1997 electrical components failure damaged Fermi 2's main generator and required the unit to be removed from service until May 2, 1997. Subject to a \$1 million deductible, repair costs related to the electrical failure are expected to be reimbursed by insurance. Fermi 2 was removed from service during the period October 3-19, 1997 for the replacement of defective fuel assemblies.

See Note 3 for a discussion of applicable MPSC Orders.

**Insurance** — Detroit Edison insures Fermi 2 with property damage insurance provided by Nuclear Mutual Limited (NML) and Nuclear Electric Insurance Limited (NEIL). The NML and NEIL insurance policies provide \$500 million of composite primary coverage (with a \$1 million deductible and, effective January 22, 1997, a \$10 million deductible for the turbine-generator unit) and \$2.25 billion of excess coverage, respectively, for stabilization, decontamination and debris removal costs, repair and/or replacement of property and decommissioning. Accordingly, the combined limits provide total property damage insurance of \$2.75 billion.

Detroit Edison maintains an insurance policy with NEIL providing for extra expenses, including certain replacement power costs necessitated by Fermi 2's unavailability due to an insured event. This policy, which has a 21-week waiting period, provides for three years of coverage.

Under the NML and NEIL policies, Detroit Edison could be liable for maximum retrospective assessments of up to approximately \$26 million per loss if any one loss should exceed the accumulated funds available to NML and NEIL.

As required by federal law, Detroit Edison maintains \$200 million of public liability insurance for a nuclear incident. Further, under the Price-Anderson Amendments Act of 1988, deferred premium charges of \$75.5 million could be levied against each licensed nuclear facility, but not more than \$10 million per year per facility. On December 31, 1997, there were 110 licensed nuclear facilities in the United States. Thus, deferred premium charges in the aggregate amount of approximately \$8.3 billion could be levied against all owners of licensed nuclear facilities in the event of a nuclear incident at any of these facilities.

**Decommissioning** — The NRC has jurisdiction over the decommissioning of nuclear power plants and requires decommissioning funding based upon a formula. The MPSC and FERC regulate the recovery of costs of decommissioning nuclear power plants and both require the use of external trust funds to finance the decommissioning of Fermi 2. The MPSC's January 1994 Order includes an

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increase in rates for the decommissioning of Fermi 2. Detroit Edison is continuing to fund for decommissioning even though explicit provisions are not included in FERC rates. Detroit Edison believes that the MPSC and FERC collections will be adequate to fund the estimated cost of decommissioning using the NRC formula. See Note 3.

Detroit Edison has established external trust funds to hold decommissioning and low-level radioactive waste disposal funds collected from customers. During 1997, 1996 and 1995, Detroit Edison collected \$35.4 million, \$37.7 million and \$36.2 million, respectively, from customers for decommissioning and low-level radioactive waste disposal. Such amounts were recorded as components of depreciation and amortization expense in the Consolidated Statement of Income and accumulated depreciation and amortization in the Consolidated Balance Sheet. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," net unrealized gains of \$31.5 million and \$8.7 million in 1997 and 1996, respectively, were recorded as increases to the nuclear decommissioning trust funds and accumulated depreciation and amortization in the Consolidated Balance Sheets.

At December 31, 1997, Detroit Edison had a reserve of \$202.6 million for the future decommissioning of Fermi 2 and \$9.7 million for low-level radioactive waste disposal costs. These reserves are included in accumulated depreciation and amortization in the Consolidated Balance Sheet with a like amount deposited in external trust funds. It is estimated that the cost of decommissioning Fermi 2 when its license expires in the year 2025 will be \$523 million in 1997 dollars and \$3 billion in 2025 dollars using a 6% growth rate.

Detroit Edison also had a reserve of \$26.7 million at December 31, 1997 for the future decommissioning of Fermi 1, an experimental nuclear unit on the Fermi 2 site that has been shut down since 1972. This reserve is included in other deferred credits in the Consolidated Balance Sheet with a like amount deposited in an external trust fund. Detroit Edison estimates that the cost of decommissioning Fermi 1 in the year 2025 is \$22 million in 1997 dollars and \$114 million in 2025 dollars using a 6% growth rate.

During 1995, shipment of low-level radioactive waste to a permanent disposal site resumed. Detroit Edison's disposal costs of \$5.5 million and \$3.5 million during 1997 and 1996, respectively, were reimbursed by the external trust funds.

The FASB is reviewing the accounting for obligations associated with the retirement of long lived assets, including decommissioning of nuclear power plants.

**Nuclear Fuel Disposal Costs** — In accordance with the Federal Nuclear Waste Policy Act of 1982, Detroit Edison has a contract with the U.S. Department of Energy (DOE) for the future storage and disposal of spent nuclear fuel

from Fermi 2. Detroit Edison is obligated to pay the DOE a fee of one mill per net kilowatthour of Fermi 2 electricity generated and sold. The fee is a component of nuclear fuel expense. Delays have occurred in the DOE's program for the acceptance and disposal of spent nuclear fuel at a permanent repository. Until the DOE is able to fulfill its obligation under the contract, Detroit Edison is responsible for the spent nuclear fuel storage and estimates that existing storage capacity will be sufficient until the year 2001, or until 2017 with expansion of such storage capacity.

### NOTE 3 – REGULATORY MATTERS

Detroit Edison is subject to the primary regulatory jurisdiction of the MPSC, which, from time to time, issues its Orders pertaining to Detroit Edison's conditions of service, rates and recovery of certain costs including the costs of generating facilities. MPSC Orders issued in December 1988 and January 1994 are currently in effect with respect to Detroit Edison's rates and certain other revenue and operating-related matters.

**Electric Industry Deregulation** — There are ongoing Michigan administrative, judicial and legislative proceedings considering electric industry deregulation. Detroit Edison has been participating in these proceedings on a voluntary basis. Issues concerning deregulation are the subject of several MPSC orders that are under appeal; and Michigan legislation is currently pending with respect to the issue, with additional legislation expected to be introduced in the first quarter of 1998. In an opinion released on January 20, 1998, the Michigan Court of Appeals indicated that the MPSC has sufficient statutory authority under Michigan law to authorize an experimental retail wheeling program. Detroit Edison has filed an application for leave to appeal in the Michigan Supreme Court. Neither the Company nor Detroit Edison are able to predict the outcome and timing of these proceedings.

**Commercial and Industrial Rates** — Detroit Edison addressed the competitive environment by entering into long-term service contracts with certain of its large commercial and industrial customers. These contracts accounted for revenues of approximately \$378 million and \$299 million for 1997 and 1996, respectively.

**Fermi 2** — The December 1988 MPSC Order established, for the period January 1989 through December 2003, (1) a cap on Fermi 2 capital additions of \$25 million per year, in 1988 dollars adjusted by the Consumers Price Index (CPI), cumulative, (2) a cap on Fermi 2 non-fuel operation and maintenance expenses adjusted by the CPI and (3) a capacity factor performance standard based on a three-year rolling average commencing in 1991. For a capital investment of \$200 million or more (in 1988 dollars adjusted by the CPI), Detroit Edison must obtain prior MPSC approval to include the investment in rate base.

Under the cap on Fermi 2 capital expenditures, the cumulative amount available totals \$65 million (in 1997 dollars) at December 31, 1997. Under the cap on non-fuel operation and maintenance expenses, the cumulative amount available totals \$99.3 million (in 1997 dollars) at December 31, 1997.

The capacity factor disallowance for 1996 has not yet been determined by the MPSC. At December 31, 1997 and 1996, Detroit Edison had accruals of \$74 million and \$72.9 million, respectively, for the Fermi 2 capacity factor performance standard disallowances that are expected to be imposed by the MPSC during the period 1996-1999.

Also, Detroit Edison has a liability of \$8.8 million at December 31, 1997 for reduced efficiency of the Fermi 2 turbine in 1996 when the unit operated at a reduced power output.

In accordance with the April 1986 and December 1988 MPSC rate orders, ratemaking treatment of Detroit Edison's Fermi 2 original project costs of \$4.858 billion is as follows: (1) \$3.018 billion in rate base with recovery and return, (2) \$300 million amortized over 10 years with no return, beginning in 1989, (3) \$513 million amortized over 19 years with associated interest of 8%, beginning in 1990 and (4) \$1.027 billion disallowed and written off in 1988. At December 31, 1997, Detroit Edison's net plant investment in Fermi 2 was \$2.7 billion (\$4 billion less accumulated depreciation and amortization of \$1.3 billion).

Under the December 1988 MPSC Order, if nuclear operations at Fermi 2 permanently cease, amortization in rates of the \$300 million and \$513 million investments in Fermi 2 would continue and the remaining net rate base investment amount would be removed from rate base and amortized in rates, without return, over 10 years with such amortization not to exceed \$290 million per year. In this event, unamortized amounts of deferred depreciation and deferred return, recorded in the Consolidated Balance Sheet under the phase-in plan prior to the removal of Fermi 2 from rate base, will continue to be amortized, with a full return on such unamortized balances, so that all amounts deferred are recovered during the period ending no later than December 31, 1998. The December 1988 and January 1994 rate orders do not address the costs of decommissioning if operations at Fermi 2 prematurely cease.

Detroit Edison will reduce rates by \$53 million in 1998 to reflect the scheduled reduction in the revenue requirement for Fermi 2, in accordance with the 1988 settlement agreement. In addition, in accordance with a November 1997 MPSC Order, Detroit Edison will recover approximately \$15 million in rates for the amortization of 1997 storm damage costs. The total costs of \$30 million were deferred and will be amortized to expense over a 24 month period beginning January 1998. In December 1997, the Association of Businesses Advocating Tariff Equity and the

Residential Ratepayer Consortium filed a lawsuit in Ingham County Michigan Circuit Court contending that Detroit Edison and the MPSC breached the December 1988 MPSC Order by offsetting the stipulated 1998 revenue reduction with the amortization of the storm costs. On February 18, 1998, the Ingham County Michigan Circuit Court denied Detroit Edison's motion for summary judgment and indicated it would request the Michigan Court of Appeals to determine its jurisdiction over the matter. The Company is uncertain of the outcome of this matter.

#### NOTE 4 – JOINTLY-OWNED UTILITY PLANT

Detroit Edison's portion of jointly-owned utility plant is as follows:

	Belle River	Ludington Pumped Storage
In-service date	1984-1985	1973
Ownership interest	*	49%
Investment (millions)	\$1,030	\$190
Accumulated depreciation (millions)	\$ 368	\$ 82

\* Detroit Edison's ownership interest is 62.78% in Unit No. 1, 81.39% of the portion of the facilities applicable to Belle River used jointly by the Belle River and St. Clair Power Plants, 49.59% in certain transmission lines and, at December 31, 1997, 75% in facilities used in common with Unit No. 2.

**Belle River** — The Michigan Public Power Agency (MPPA) has an ownership interest in Belle River Unit No. 1 and certain other related facilities. MPPA is entitled to 18.61% of the capacity and energy of the entire plant and is responsible for the same percentage of the plant's operation and maintenance expenses and capital improvements.

**Ludington Pumped Storage** — Operation, maintenance and other expenses of the Ludington Pumped Storage Plant (Ludington) are shared by Detroit Edison and Consumers Energy in proportion to their respective ownership interests in the plant.

#### NOTE 5 – INCOME TAXES

Total income tax expense as a percent of income before tax varies from the statutory federal income tax rate for the following reasons:

	Percent of Income Before Tax		
	1997	1996	1995
Statutory income tax rate	35.0%	35.0%	35.0%
Deferred Fermi 2 depreciation and return	4.6	5.3	3.7
Investment tax credit	(2.1)	(2.8)	(2.1)
Depreciation	4.6	6.0	3.3
Removal costs	(1.5)	(2.2)	(1.5)
Alternate fuels credit	(3.5)	(0.4)	(0.2)
Other – net	0.4	(0.4)	1.3
Effective income tax rate	37.5%	40.5%	39.5%

# DTE Energy Company Notes to Consolidated Financial Statements

Components of income tax expense are as follows:

	1997	1996	1995
	(Millions)		
Current federal tax expense	\$267	\$219	\$221
Deferred federal tax expense – net	5	17	79
Investment tax credits	(15)	(15)	(17)
<b>Total</b>	<b>\$257</b>	<b>\$221</b>	<b>\$283</b>

The Fermi 2 phase-in plan required Detroit Edison to record additional deferred income tax expense related to deferred depreciation totaling \$33.5 million, with this amount amortized to income over the six-year period ending December 31, 1998.

Recoverable income taxes, a regulatory asset, represents future revenue recovery from customers for deferred income taxes recorded upon the adoption of SFAS No. 109 in 1993. At that time, an increase in accumulated deferred income tax liabilities was recorded representing the tax effect of temporary differences not previously recognized and the recomputation of the tax liability at the current tax rate. The MPSC issued an order providing assurance that the effects of previously flowed-through tax benefits will continue to be allowed rate recovery.

Deferred income tax assets (liabilities) are comprised of the following at December 31:

	1997	1996
	(Millions)	
Property	\$(2,233)	\$(2,220)
Fermi 2 deferred depreciation and return	(37)	(85)
Property taxes	(62)	(58)
Investment tax credit	162	170
Reacquired debt losses	(35)	(39)
Contributions in aid of construction	55	47
Other	103	117
	<b>\$(2,047)</b>	<b>\$(2,068)</b>
Deferred income tax liabilities	\$(2,572)	\$(2,594)
Deferred income tax assets	525	526
	<b>\$(2,047)</b>	<b>\$(2,068)</b>

The federal income tax returns of the Company are settled through the year 1988. The Company believes that adequate provisions for federal income taxes have been made through December 31, 1997.

## NOTE 6 – SHAREHOLDERS' EQUITY

At December 31, 1997, the Company had Cumulative Preferred Stock, without par value, 5 million shares authorized with no shares issued. At December 31, 1997, 1.5 million shares of preferred stock are reserved for issuance in accordance with the Shareholders Rights Agreement.

At December 31, 1997, Detroit Edison had Cumulative Preference Stock of \$1 par value, 30 million shares authorized with no shares issued.

Detroit Edison had the following Cumulative Preferred Stock at December 31, 1997 and 1996:

	Shares Outstanding	Amount
	(Thousands)	(Millions)
7.75% Series	1,001	\$100
7.74% Series	500	50
Preferred stock expense	–	(6)
	<b>1,501</b>	<b>\$144</b>

The 7.75% Series and the 7.74% Series of Cumulative Preferred Stock are redeemable solely at the option of Detroit Edison at a per share redemption price of \$100, plus accrued dividends, on or after April 15, 1998 and July 15, 1998, respectively.

In September 1997, the Board of Directors of the Company declared a dividend distribution of one right (Right) for each share of Company common stock outstanding. Under certain circumstances, each Right entitles the shareholder to purchase one one-hundredth of a share of Company Series A Junior Participating Preferred Stock at a price of \$90. The Right is transferable apart from the Company common stock until 10 days following a public announcement that a person or group has acquired beneficial ownership of 10% or more of outstanding Company common shares, or the commencement or announcement of a reclassification, merger or consolidation which would result in a 10% plus shareholder increasing its ownership of the Company more than 1%. If the acquiring person or group acquires 10% or more of the Company Common Stock, and the Company survives, each Right (other than those held by the acquiror) will entitle its holder to buy Company common stock having a value of \$180 for \$90. If the acquiring person or group acquires 10% or more of the Company Common Stock, and the Company does not survive, each Right (other than those held by the surviving or acquiring company) will entitle its holder to buy shares of common stock of the surviving or acquiring company having a value of \$180 for \$90. The Rights will expire on October 6, 2007 unless redeemed by the Company at \$0.01 per Right at any time prior to an event which would permit the Rights to be exercised. The Company may amend the Rights agreement without the approval of the holders of the Rights Certificates, except that the redemption price may not be less than \$0.01 per Right.

Apart from MPSC or FERC approval and the requirement that common, preferred and preference stock be sold for at least par value, there are no legal restrictions on the issuance of additional authorized shares of stock by Detroit Edison.

There are no legal restrictions on the issuance of additional authorized shares of the Company's common and preferred stock.

**NOTE 7 – LONG-TERM DEBT**

Detroit Edison's 1924 Mortgage and Deed of Trust (Mortgage), the lien of which covers substantially all of Detroit Edison's properties, provides for the issuance of additional General and Refunding Mortgage Bonds (Mortgage Bonds). At December 31, 1997, approximately \$3.6 billion principal amount of Mortgage Bonds could have been issued on the basis of property additions, combined with an earnings test provision, assuming an interest rate of 7.12% on any such additional Mortgage Bonds. An additional \$1.4 billion principal amount of Mortgage Bonds could have been issued on the basis of bond retirements.

Unless an event of default has occurred, and is continuing, each series of Quarterly Income Debt Securities (QUIDS) provides that interest will be paid quarterly. However, Detroit Edison also has the right to extend the interest payment period on the QUIDS for up to 20 consecutive interest payment periods. Interest would continue to accrue during the deferral period. If this right is exercised, Detroit Edison may not declare or pay dividends on, or redeem, purchase or acquire, any of its capital stock during the deferral period. Detroit Edison may redeem any series of capital stock pursuant to the terms of any sinking fund provisions during the deferral period. Additionally, during any deferral period, Detroit Edison may not enter into any inter-company transactions with any affiliate of Detroit Edison, including the Company, to enable the payment of dividends on any equity securities of the Company.

At December 31, 1997, \$100 million of the Remarketed Notes and \$103 million of Tax Exempt Revenue Bonds are subject to periodic remarketings. At December 31, 1996 there were \$103 million in Tax Exempt Revenue Bonds subject to periodic remarketings. Remarketing agents remarket the notes at the lowest interest rate necessary to produce a par bid. In the event that a Remarketed Note or Tax Exempt Revenue Bond remarketing fails, Standby Note Purchase Agreements and Letters of Credit provide that banks will purchase the notes or bonds, respectively; and, after the conclusion of all necessary proceedings, remarket the notes or bonds. In the event the banks' obligations under the Standby Note Purchase Agreements and Letters of Credit are not honored, then, Detroit Edison would be required to purchase any notes or bonds subject to a failed remarketing.

Long-term debt outstanding at December 31 was:

	1997	1996
	(Millions)	
<b>Detroit Edison</b>		
<b>Mortgage Bonds</b>		
6.4% to 8.4% due 1998 to 2023	\$1,911	\$2,096
<b>Remarketed Notes</b>		
5.9% to 6.4% due 2028 to 2034 (a)	410	410
<b>Tax Exempt Revenue Bonds</b>		
<b>Secured by Mortgage Bonds</b>		
Installment Sales Contracts		
7.1% due 2004 to 2024 (b)	282	282
Loan Agreements		
6.7% due 2008 to 2025 (b)	607	607
<b>Unsecured</b>		
Installment Sales Contracts		
7.5% due 2004 to 2019 (b)	142	142
Loan Agreements		
5.0% due 2024 to 2030 (a)	113	113
<b>QUIDS</b>		
7.6% to 8.5% due 2025 to 2026	235	235
Less amount due within one year	(169)	(144)
Less unamortized debt discount	-	(1)
Total Detroit Edison Long-Term Debt	<u>3,531</u>	<u>3,740</u>
<b>Non-Recourse Debt</b>		
7.8% due 1998 to 2009 (b) (c)	282	39
Less amount due within one year	(36)	-
<b>Total Company Long-Term Debt</b>	<u><u>3,777</u></u>	<u><u>3,779</u></u>

(a) Variable rate at December 31, 1997.

(b) Weighted average interest rate at December 31, 1997.

(c) The Company held \$54 million in cash and cash equivalents restricted by debt requirements at December 31, 1997.

In the years 1998 - 2002, the Company's long-term debt maturities are \$205, \$260, \$234, \$158 and \$237 million, respectively.

**NOTE 8 – SHORT-TERM CREDIT ARRANGEMENTS AND BORROWINGS**

At December 31, 1997, Detroit Edison had total short-term credit arrangements of approximately \$688 million, under which there were no amounts outstanding. At December 31, 1996, \$10 million of short-term borrowings were outstanding. The weighted average interest rates for short-term borrowings during 1997, 1996 and 1995 were 5.7%, 5.6% and 6.1%, respectively.

Detroit Edison had bank lines of credit of \$200 million, all of which had commitment fees in lieu of compensating balances. Commitment fees of \$0.3 million were incurred for each of the years 1997 and 1996. Detroit Edison uses bank lines of credit to support the issuance of commercial paper and bank loans. All borrowings are at prevailing money market rates which are below the banks' prime lending rates.

Detroit Edison has a nuclear fuel financing arrangement (heat purchase contract) with Renaissance Energy Company (Renaissance), an unaffiliated company. Renaissance may issue commercial paper or borrow from partici-

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pating banks on the basis of promissory notes. To the extent the maximum amount of funds available to Renaissance (currently \$400 million) is not needed by Renaissance to purchase nuclear fuel, such funds may be loaned to Detroit Edison for general corporate purposes pursuant to a separate Loan Agreement. At December 31, 1997, approximately \$288 million was available to Detroit Edison under such Loan Agreement. See Note 9 for a discussion of Detroit Edison's heat purchase contract with Renaissance.

Detroit Edison has a \$200 million short-term financing agreement secured by its customer accounts receivable and unbilled revenues portfolio. Borrowings are at prevailing money market rates. Commitment fees of \$0.3 million were incurred for each of the years 1997 and 1996. There were no outstanding borrowings under this agreement at December 31, 1997 and 1996.

At December 31, 1997, DTE Capital Corporation (DTE Capital), a Company subsidiary, had a \$200 million Revolving Credit Agreement, backed by a Support Agreement from the Company, under which \$42 million was outstanding. Commitment fees incurred in 1997 for this credit agreement were approximately \$0.3 million. The amount available under the Revolving Credit Agreement was increased to \$400 million in January 1998. Also in January 1998, the Company entered into a \$60 million Support Agreement with DTE Capital for the purpose of DTE Capital's credit enhancing activities on behalf of DTE-CoEnergy L.L.C. and DTE Energy Trading, Inc.

### NOTE 9 – LEASES

Future minimum lease payments under long-term noncancellable leases, consisting of nuclear fuel (\$104 million computed on a projected units of production basis), lake vessels (\$30 million), locomotives and coal cars (\$190 million), office space (\$14 million), and computers, vehicles and other equipment (\$2 million) at December 31, 1997 are as follows:

(Millions)						Remaining	Total
1998	1999	2000	2001	2002	Years		
\$71	\$57	\$36	\$29	\$20	\$127	<u>\$340</u>	

Rental expenses for both capital and operating leases were \$72 million (including \$42 million for nuclear fuel), \$78 million (including \$53 million for nuclear fuel) and \$97 million (including \$67 million for nuclear fuel) for 1997, 1996 and 1995, respectively.

Detroit Edison has a heat purchase contract with Renaissance which provides for the purchase by Renaissance for Detroit Edison of up to \$400 million of nuclear fuel, subject to the continued availability of funds to Renaissance to purchase such fuel. Title to the nuclear fuel is held by Renaissance. Detroit Edison makes quarterly payments under the heat purchase contract based

on the consumption of nuclear fuel for the generation of electricity.

Under SFAS No. 71, amortization of Detroit Edison's leased assets is modified so that the total of interest on the obligation and amortization of the leased asset is equal to the rental expense allowed for ratemaking purposes. For ratemaking purposes, the MPSC has treated all leases as operating leases. Net income is not affected by capitalization of leases.

### NOTE 10 – FINANCIAL INSTRUMENTS

**Trading Activities** — DTE Energy Trading, Inc., a power marketing subsidiary, was formed in 1997 and is expected to begin trading in early 1998.

**Non-Trading Activities** — In October 1996, Detroit Edison entered into a three-year interest rate swap agreement based on a notional amount of \$25 million, which is nominally linked to the Detroit Edison 1993 Series B Remarketed Notes. Detroit Edison receives a rate equal to the London Interbank Offered Rate (LIBOR) and pays a rate equal to the quarterly weighted average Public Securities Association Municipal Swap Index divided by 67.3%. The intent of the swap is to shift floating rate exposure from taxable to tax-exempt markets. In 1997 the average rate received was 5.70% and the average rate paid was 5.36%. The net of interest received and interest paid on the swap is accrued as a component of interest expense in the current period. The swap is subject to market risk of changes in both interest rates and tax rates.

PCI Enterprises Company (PCI), a coal pulverizing subsidiary of DTE Energy Services, Inc., entered into a seven-year interest rate swap agreement beginning June 30, 1997, with the intent of reducing the impact of changes in interest rates on its variable rate non-recourse debt. The initial notional amount was \$30 million which was based on 60% of its term loan of \$50 million. The notional amount outstanding at December 31, 1997, was \$29.2 million and will decline throughout the term of the loan based on amortization of principal amounts. PCI pays a fixed interest rate of 6.96% on the notional amount and receives a variable interest rate based on LIBOR. In 1997, the average rate received was 5.69%. The net of interest received and interest paid on the swap is accrued as a component of interest expense in the current period. The swap is subject to market risk of changes in interest rates.

**Financial Instruments** — The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. The carrying amount of financial instruments, except for long-term debt, approximates fair value. The estimated fair value of total long-term debt at December 31, 1997 and 1996 was \$4.2 billion and \$4 billion, respectively, compared to the carrying amount of \$4 billion and \$3.9 billion, respectively. Investments in debt and equity securities are classified as "available for sale."

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

**Commitments** — Detroit Edison has entered into purchase commitments of approximately \$621 million at December 31, 1997, which includes, among other things, line construction and clearance costs. Detroit Edison also has entered into long-term fuel supply commitments of approximately \$500 million.

Detroit Edison has an Energy Purchase Agreement (Agreement) for the purchase of steam and electricity from the Detroit Resource Recovery Facility. Under the Agreement, Detroit Edison will purchase steam through the year 2008 and electricity through June 30, 2024. Purchases of steam and electricity were \$34.3 million, \$30.2 million and \$28.2 million for 1997, 1996 and 1995, respectively. Annual purchase commitments are approximately \$36 million, \$37 million, \$39 million, \$40 million and \$41 million for 1998, 1999, 2000, 2001 and 2002, respectively. See Note 13 relating to steam heating special charges.

In October 1995, the MPSC issued an Order approving Detroit Edison's six-year capacity and energy purchase agreement with Ontario Hydro. Ontario Hydro agreed to sell Detroit Edison 300 MW of capacity from mid-May through mid-September. This purchase will offset a concurrent agreement to lease approximately a third of Detroit Edison's Ludington 917 MW capacity to Toledo Edison for the same time period. The net economic effect of the Ludington lease and the Ontario Hydro purchase is an estimated reduction in PSCR expense of \$74 million which will be refunded to Detroit Edison customers over the life of the agreement.

In December 1997, Detroit Edison and Consumers Energy entered into a three-year contract to implement an energy exchange and also to sell additional off-peak energy to Ontario Hydro. The energy exchange requires Detroit Edison and Consumers Energy to jointly supply 1,500 GWh of off-peak energy during the first four months of each year to Ontario Hydro. Ontario Hydro is required to return the energy to Detroit Edison and Consumers Energy during the summer months. The energy exchange agreement modifies the existing six-year capacity and energy agreement with Detroit Edison, by allowing an energy exchange instead of an energy purchase. In addition, Ontario Hydro agreed to purchase an additional 1,500 to 2,000 GWh annually of off-peak energy from Detroit Edison and Consumers Energy.

**Contingencies—Legal Proceedings** — Plaintiffs in a class action pending in the Circuit Court for Wayne County, Michigan (*Gilford, et al v. Detroit Edison*), as well as plaintiffs in two other pending actions which make class claims (*Sanchez, et al v. Detroit Edison*, Circuit Court for Wayne County, Michigan; and *Frazier v. Detroit Edison*, United States District Court, Eastern District of Michigan,) allege that Detroit Edison has engaged in age, racial and national origin discrimination in employment. On February 6, 1998, Detroit Edison and the other parties to the three

actions agreed to settle the *Gilford, Sanchez and Frazier* individual and class claims through binding arbitration. The agreement provides that Detroit Edison's monetary liability is to be no less than \$17.5 million and no greater than \$65 million (subject to a potential \$3 million upward adjustment that may be possible if the class size increases by a specified number) after the conclusion of all related proceedings. An amount related to this agreement was accrued in 1997.

**Other** — In addition to the matters reported herein, the Company and its subsidiaries are involved in litigation and environmental matters dealing with the numerous aspects of their business operations. The Company believes that such litigation and the matters discussed above will not have a material effect on its financial position, results of operations and cash flows.

See Notes 2 and 3 for a discussion of contingencies related to Fermi 2 and Regulatory Matters.

**NOTE 12 – EMPLOYEE BENEFITS**

**Retirement Plan** — Detroit Edison has a trusteed and non-contributory defined benefit retirement plan (Plan) covering all eligible employees who have completed six months of service. The Plan provides retirement benefits based on the employees' years of benefit service, average final compensation and age at retirement. Detroit Edison's policy is to fund pension cost calculated under the projected unit credit actuarial cost method. The Company was operating under the IRS full funding limitation and, therefore, did not make a contribution to the Plan in 1997. Contributions were made to the Plan totaling \$16 million and \$29.6 million for 1996 and 1995, respectively.

Net pension cost included the following components:

	1997	1996	1995
	(Millions)		
Service cost – benefits earned during the period	\$ 27	\$ 25	\$ 22
Interest cost on projected benefit obligation	86	82	79
Actual return on Plan assets	(163)	(120)	(164)
Net amortization and deferral	60	19	65
Net pension cost	<u>\$ 10</u>	<u>\$ 6</u>	<u>\$ 2</u>

Assumptions used in determining net pension cost are as follows:

	1997	1996	1995
Discount rate	7.5%	7.5%	8.0%
Annual increase in future compensation levels	4.5	4.5	4.5
Expected long-term rate of return on Plan assets	9.0	9.0	9.5

# DTE Energy Company

## Notes to Consolidated Financial Statements

40

DTE Energy 1997 Annual Report

The following reconciles the funded status of the Plan to the amount recorded in the Consolidated Balance Sheet:

	December 31	
	1997	1996
	(Millions)	
Plan assets at fair value, primarily equity and debt securities	\$1,347	\$1,232
Less actuarial present value of benefit obligation:		
Accumulated benefit obligation, including vested benefits of \$1,047 and \$994, respectively	1,123	1,022
Increase in future compensation levels	171	154
Projected benefit obligation	1,294	1,176
Plan assets in excess of projected benefit obligation	53	56
Unrecognized net asset resulting from initial application	(20)	(24)
Unrecognized net (gain) loss	(4)	2
Unrecognized prior service cost	52	58
Asset recorded in the Consolidated Balance Sheet	<u>\$ 81</u>	<u>\$ 92</u>

Assumptions used in determining the projected benefit obligation are as follows:

	December 31	
	1997	1996
Discount rate	7.0%	7.5%
Annual increase in future compensation levels	4.5	4.5

The unrecognized net asset at date of initial application is being amortized over approximately 15.4 years, which was the average remaining service period of employees at January 1, 1987.

In addition to the Plan, there are several supplemental non-qualified, non-contributory, retirement benefit plans for certain management employees.

**Long-Term Incentive Plan** — The Company adopted a Long-Term Incentive Plan (LTIP) in 1995. Under the LTIP, certain key employees may be granted restricted common stock, stock options, stock appreciation rights, performance shares and performance units. Common stock granted under the LTIP may not exceed 7.2 million shares. Performance units (which have face amount of \$1) granted under the LTIP may not exceed 25 million in the aggregate. As of December 31, 1997, no stock appreciation rights, performance shares or performance units have been granted under the LTIP.

Under the LTIP, shares of restricted common stock were awarded to officers of Detroit Edison and are restricted for a period not exceeding four years. All shares are subject to forfeiture if specified performance measures are not met. There are no exercise prices related to these shares. During the applicable restriction period, the recipient has all the voting, dividend and other rights of a record holder except that the shares are nontransferable,

and non-cash distributions paid upon the shares would be subject to transfer restrictions and risk of forfeiture to the same extent as the shares themselves. The shares were recorded at the market value on the date of grant and amortized to expense based on the award that was expected to vest and the period to which the related employee services were to be rendered. Restricted common stock awarded and annual expense for the year ended December 31 was:

	1997	1996	1995
Restricted common shares awarded	68,500	56,000	66,500
Weighted average market price of shares awarded	\$28.38	\$34.28	\$28.90
Annual expense (in thousands)	\$222	\$1,165	\$571

Under the LTIP, stock options were issued in 1997 and will become exercisable at a rate of 25% each year over the next four years. The options will expire 10 years after the date of the grant. The option exercise price equals the fair market value of the stock on the date that the option was granted. In 1997, 310,500 options were granted at a weighted average exercise price of \$28.38. No amounts were forfeited or expired during 1997.

The Company continues to apply APB Opinion 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recorded for options granted. As required by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company has determined the pro forma information as if the Company has accounted for its employee stock options under the fair value method. The fair value for these options was estimated at the date of grant using a modified Black/Scholes option pricing model—American style, a risk-free interest rate of 6.83%, a dividend yield of 7.26%, an expected volatility of 18.31%, and an expected life of 10 years. The fair value of the options granted in 1997 was \$4.15 per option. The pro forma effect of these options was to reduce net income for the year ending December 31, 1997 by \$244,000. There was no pro forma effect on EPS.

**Savings & Investment Plans** — Detroit Edison has voluntarily defined contribution plans qualified under Section 401 (a) and (k) of the Internal Revenue Code for all eligible employees. Detroit Edison matches employee contributions up to 8% of base compensation. Matching contributions were \$19.8 million, \$17.2 million and \$13.7 million for 1997, 1996 and 1995, respectively.

**Other Postretirement Benefits** — Detroit Edison provides certain postretirement health care and life insurance benefits for retired employees. Substantially all of Detroit Edison's employees will become eligible for such benefits if they reach retirement age while working for Detroit Edison. These benefits are provided principally through insurance companies and other organizations.

Net other postretirement benefits cost included the following components:

	1997	1996	1995
	(Millions)		
Service cost – benefits earned during the period	\$ 19	\$ 20	\$ 17
Interest cost on accumulated postretirement benefit obligation	39	40	40
Actual return on assets	(39)	(19)	(17)
Net amortization and deferral	40	26	32
Net other postretirement benefits cost	<u>\$ 59</u>	<u>\$ 67</u>	<u>\$ 72</u>

Assumptions used in determining net other postretirement benefits cost are as follows:

	1997	1996	1995
Discount rate	7.5%	7.5%	8.0%
Annual increase in future compensation levels	4.5	4.5	4.5
Expected long-term rate of return on assets	8.5	8.5	8.5

The following reconciles the funded status to the amount recorded in the Consolidated Balance Sheet:

	December 31	
	1997	1996
	(Millions)	
Actuarial present value of benefit obligation:		
Retirees, spouses and surviving spouses	\$ 289	\$ 312
Fully eligible active participants	91	74
Other active participants	200	197
Accumulated postretirement benefit obligation	580	583
Less assets at fair value, primarily equity and debt securities	309	208
Benefit obligation in excess of assets	271	375
Unrecognized transition obligation	(308)	(328)
Unrecognized net gain (loss)	16	(41)
(Asset) Liability recorded as (Deferred Debits) Other Non-Current Liabilities in the Consolidated Balance Sheet	<u>\$ (21)</u>	<u>\$ 6</u>

Assumptions used in determining the projected benefit obligation are as follows:

	December 31	
	1997	1996
Discount rate	7.0%	7.5%
Annual increase in future compensation levels	4.5	4.5

Benefit costs were calculated assuming health care cost trend rates beginning at 9.1% for 1998 and decreasing to 5.0% in 2008 and thereafter for persons under age 65 and decreasing from 6.1% to 5.0% for persons age 65 and over. A one-percentage-point increase in health care cost trend rates would increase the aggregate of the service cost and interest cost components of benefit costs by \$9 million for 1997 and increase the accumulated benefit obligation by \$75 million at December 31, 1997.

### NOTE 13 – STEAM HEATING SPECIAL CHARGES

As part of a review of the operations of Detroit Edison's steam heating business, in 1995, the remaining book value of steam heating plant assets of \$42 million (\$32 million after-tax) or \$0.22 cents per share, was written off. In 1996, a special charge to net income of \$149 million (\$97 million after-tax) or \$0.67 cents per share was recorded. The special charge included a reserve for steam purchase commitments during the period from 1997 through 2008 under the agreement with the Detroit Resource Recovery Facility, expenditures for closure of a portion of the steam heating system and improvements in service to remaining customers. The reserve for steam purchase commitments was recorded at its present value, therefore Detroit Edison will record non-cash accretion expense during the period 1997 through 2008. In addition, beginning in 1997, amortization of the reserve for steam purchase commitments is netted against losses on steam purchases recorded in fuel and purchased power expense.

### NOTE 14 – SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	1997 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(Millions, except per share amounts)			
Operating Revenues	\$868	\$892	\$1,030	\$974
Operating Income	202	225	285	289
Net Income	71	85	132	129
Earnings Per Common Share	0.49	0.59	0.91	0.89

	1996 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(Millions, except per share amounts)			
Operating Revenues	\$910	\$871	\$977	\$887
Operating Income	263	211	154	204
Net Income	108	78	45	78
Earnings Per Common Share	0.75	0.54	0.31	0.54

The third quarter of 1996 includes the steam heating special charge to net income of \$149 million (\$97 million after-tax) or \$0.67 per share. See Note 13.

The fourth quarter of 1996 includes a provision for Fermi 2 capacity factor disallowances in the period 1996-1998 and for reduced efficiency of the Fermi 2 turbine in 1995 and 1996 of \$20 million (\$13 million after-tax) or \$0.09 per share. See Note 3.

EPS amounts for each quarter are required to be computed independently and, therefore, may not equal the amount computed for the total year.

**DTE Energy Company**  
**Report of Management's**  
**Responsibility**  
**for Financial Statements**

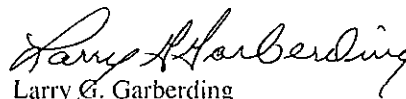
The consolidated financial statements of DTE Energy Company and subsidiaries have been prepared by management in conformity with generally accepted accounting principles, based upon currently available facts and circumstances and management's best estimates and judgments of known conditions. It is the responsibility of management to assure the integrity and objectivity of such financial statements and to assure that these statements *fairly report the Company's financial position and the results of its operations.*

To meet this responsibility, management maintains a high standard of record keeping and an effective system of internal controls, including an extensive program of internal audits, written administrative policies and procedures, and programs to assure the selection and training of qualified personnel.

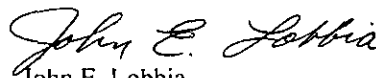
These financial statements have been audited by the Company's independent auditors, Deloitte & Touche LLP, whose report appears on this page. Its audit was conducted in accordance with generally accepted auditing standards. *Such standards include the evaluation of internal accounting controls to establish a basis for developing the scope of*

the audit, as well as such other procedures they deem necessary for expressing an opinion as to whether the financial statements are presented fairly.

The Board of Directors, through its Audit Committee consisting solely of outside directors, meets with Deloitte & Touche LLP, representatives of management and the Company's internal auditors to review the activities of each and to discuss accounting, auditing and financial matters and the carrying out of responsibilities and duties of each group. Deloitte & Touche LLP has full and free access to meet with the Audit Committee to discuss its audit results and opinions, without management representatives present, to allow for complete independence.



Larry G. Garberding  
 Executive Vice President and Chief Financial Officer



John E. Lobbia  
 Chairman of the Board and Chief Executive Officer

## Independent Auditors' Report



Suite 900  
 600 Renaissance Center  
 Detroit, Michigan 48243-1704

January 26, 1998

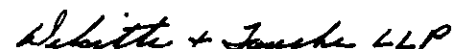
To the Board of Directors and Shareholders of  
 DTE Energy Company

We have audited the consolidated balance sheets of DTE Energy Company and subsidiaries (the "Company") as of December 31, 1997 and 1996, and the related consolidated statements of income, cash flows, and changes in common shareholders' equity for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable

assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

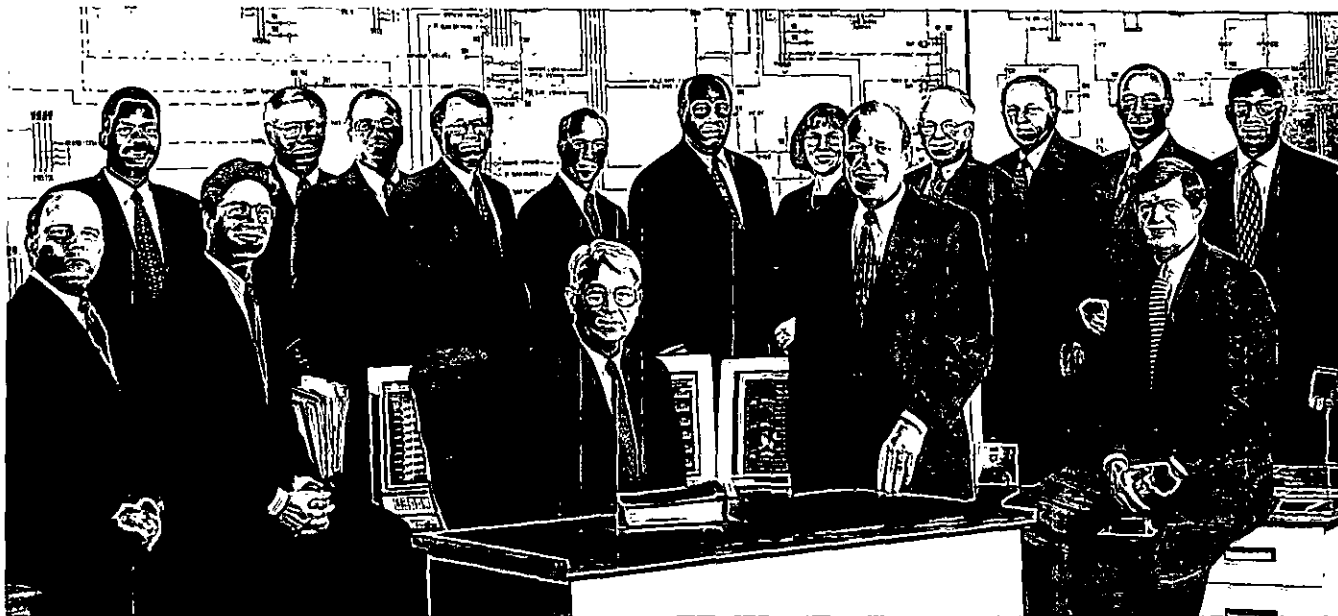
In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of DTE Energy Company and subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.



**DTE Energy Company**  
**Statistical**  
**Review**

	1997	1996	1995	1994	1993
<i>(Dollars in millions, except Common Share Data)</i>					
<b>Operating Revenues</b>					
Residential	\$ 1,179	\$ 1,198	\$ 1,211	\$ 1,136	\$ 1,126
Commercial	1,501	1,506	1,496	1,473	1,428
Industrial	726	731	728	736	720
Other	251	207	199	174	281
Non-regulated	107	3	2	-	-
<b>Total</b>	<b>\$ 3,764</b>	<b>\$ 3,645</b>	<b>\$ 3,636</b>	<b>\$ 3,519</b>	<b>\$ 3,555</b>
<b>Electric Sales (Millions of kWh)</b>					
Residential	12,898	12,949	13,006	12,170	12,033
Commercial	17,997	17,706	17,471	17,042	15,996
Industrial	14,345	14,062	13,825	13,356	12,618
Other	1,855	1,690	1,671	1,586	2,318
Total system	47,095	46,407	45,973	44,154	42,965
Interconnection	3,547	2,046	2,969	1,978	3,611
<b>Total</b>	<b>50,642</b>	<b>48,453</b>	<b>48,942</b>	<b>46,132</b>	<b>46,576</b>
<b>Electric Customers at Year End (Thousands)</b>					
Residential	1,870	1,847	1,825	1,805	1,790
Commercial	178	175	174	172	170
Industrial	1	1	1	1	1
Other	2	2	2	2	2
<b>Total</b>	<b>2,051</b>	<b>2,025</b>	<b>2,002</b>	<b>1,980</b>	<b>1,963</b>
<b>Net Income</b>	<b>\$ 417</b>	<b>\$ 309</b>	<b>\$ 406</b>	<b>\$ 390</b>	<b>\$ 491</b>
<b>Financial Position at Year End</b>					
Net property	\$ 8,934	\$ 8,833	\$ 8,823	\$ 8,925	\$ 9,000
Total assets	11,223	11,015	11,131	10,993	11,135
Long-term debt	3,777	3,779	3,756	3,825	3,831
Total shareholders' equity	3,706	3,588	3,763	3,706	3,677
<b>Miscellaneous Financial Data</b>					
Cash flow from operations	\$ 1,006	\$ 1,079	\$ 913	\$ 923	\$ 1,110
Capital expenditures	667	531	454	366	396
Average cost rate long-term debt (year-end)	7.3%	7.1%	7.1%	7.2%	7.4%
<b>Common Share Data</b>					
Earnings per common share	\$ 2.88	\$ 2.13	\$ 2.80	\$ 2.67	\$ 3.34
Dividend payout ratio	72%	97%	74%	77%	61%
Dividends declared	\$ 2.06	\$ 2.06	\$ 2.06	\$ 2.06	\$ 2.06
Dividends paid	\$ 2.06	\$ 2.06	\$ 2.06	\$ 2.06	\$ 2.04
Average shares outstanding at year end (millions)	145	145	145	146	147
Return on average common equity	12.03%	8.87%	11.85%	11.64%	15.23%
Book value per share	\$ 24.51	\$ 23.69	\$ 23.62	\$ 22.89	\$ 22.34
Market value per share (year-end)	\$ 34 <sup>1</sup> / <sub>16</sub>	\$ 32 <sup>3</sup> / <sub>4</sub>	\$ 34 <sup>1</sup> / <sub>2</sub>	\$ 26 <sup>1</sup> / <sub>4</sub>	\$ 30
Market price: High	\$ 34 <sup>1</sup> / <sub>16</sub>	\$ 37 <sup>1</sup> / <sub>4</sub>	\$ 34 <sup>3</sup> / <sub>4</sub>	\$ 30 <sup>1</sup> / <sub>4</sub>	\$ 37 <sup>1</sup> / <sub>4</sub>
Low	\$ 26 <sup>3</sup> / <sub>16</sub>	\$ 27 <sup>3</sup> / <sub>4</sub>	\$ 25 <sup>3</sup> / <sub>4</sub>	\$ 24 <sup>1</sup> / <sub>4</sub>	\$ 29 <sup>3</sup> / <sub>4</sub>
<b>Miscellaneous Operating Data</b>					
System peak demand (MW)	10,305	10,337	10,049	9,684	9,362
Employees at year end	8,732	8,526	8,340	8,494	8,919

## DTE Energy and Detroit Edison Officers



Front row, from left: Robert J. Buckler, Gerard M. Anderson, Larry G. Garberding, John E. Lobbia and Anthony F. Earley, Jr. Back row, from left: Michael C. Porter, Michael E. Champley, Douglas R. Gipson, Leslie L. Loomans, David E. Meador, S. Martin Taylor, Susan M. Beale, Christopher C. Nern, Albert J. Tack, William R. Roller and Haven E. Cockerham.

**John E. Lobbia**, 56, 1964.  
Chairman of the Board and Chief Executive Officer since 1990.

**Anthony F. Earley, Jr.**, 48, 1994.  
President and Chief Operating Officer since 1994.

**Larry G. Garberding**, 59, 1990.  
Executive Vice President and Chief Financial Officer since 1990.

**Gerard M. Anderson**, 39, 1993.  
Executive Vice President since 1997.

**Robert J. Buckler**, 48, 1974.  
Executive Vice President since 1997.

**Michael E. Champley**, 49, 1977.  
Senior Vice President since 1997.

\* **Douglas R. Gipson**, 50, 1987.  
Senior Vice President, Nuclear Generation, since 1993.

**Susan M. Beale**, 49, 1982.  
Vice President and Corporate Secretary since 1995.

\* **Haven E. Cockerham**, 50, 1994.  
Vice President, Human Resources, since 1994.

**Leslie L. Loomans**, 54, 1966.  
Vice President and Treasurer since 1989.

**David E. Meador**, 40, 1997.  
Vice President and Controller since 1997.

**Christopher C. Nern**, 53, 1973.  
Vice President and General Counsel since 1993.

\* **Michael C. Porter**, 44, 1997.  
Vice President, Corporate Communications since 1997.

\* **William R. Roller**, 52, 1965.  
Vice President, Power Generation since 1996.

\* **S. Martin Taylor**, 57, 1989.  
Vice President, Corporate and Public Affairs since 1994.

**Albert J. Tack**, 55, 1963.  
General Auditor since 1997.

### Officer Retirements

**Frank E. Agosti**, Senior Vice President, Power Supply, retired May 1, 1997, after 39 years of service.

**Ronald W. Gresens**, Vice President and Controller, retired March 31, 1997, after 29 years of service.

**Key:** Name, age, year joined the Company, title and year named to present position.

\* An officer of Detroit Edison only.

### DTE Energy Affiliate Presidents

**Gerard M. Anderson**, 39.  
DE Energy Services, Inc.  
since 1994.

**F. Michael Faubert**, 58.  
DTE Engineering Services, Inc.  
since 1997.

**Larry G. Garberding**, 59.  
DTE Capital Corporation  
since 1995.  
Edison Development Corporation  
since 1997.

**Barry G. Markowitz**, 56.  
DTE Energy Services  
since 1995.

**Samuel Snick Meyers**, 46.  
DTE Energy Trading, Inc.  
since 1996.

**Gary Mittleman**, 45.  
Plug Power, L.L.C.  
since 1997.

**Evan J. O'Neil**, 53.  
DTE Coal Services, Inc. and  
DTE Rail Services, Inc.  
since 1997.

**Paul W. Potter**, 54.  
Syndeco Realty Corporation  
since 1987.

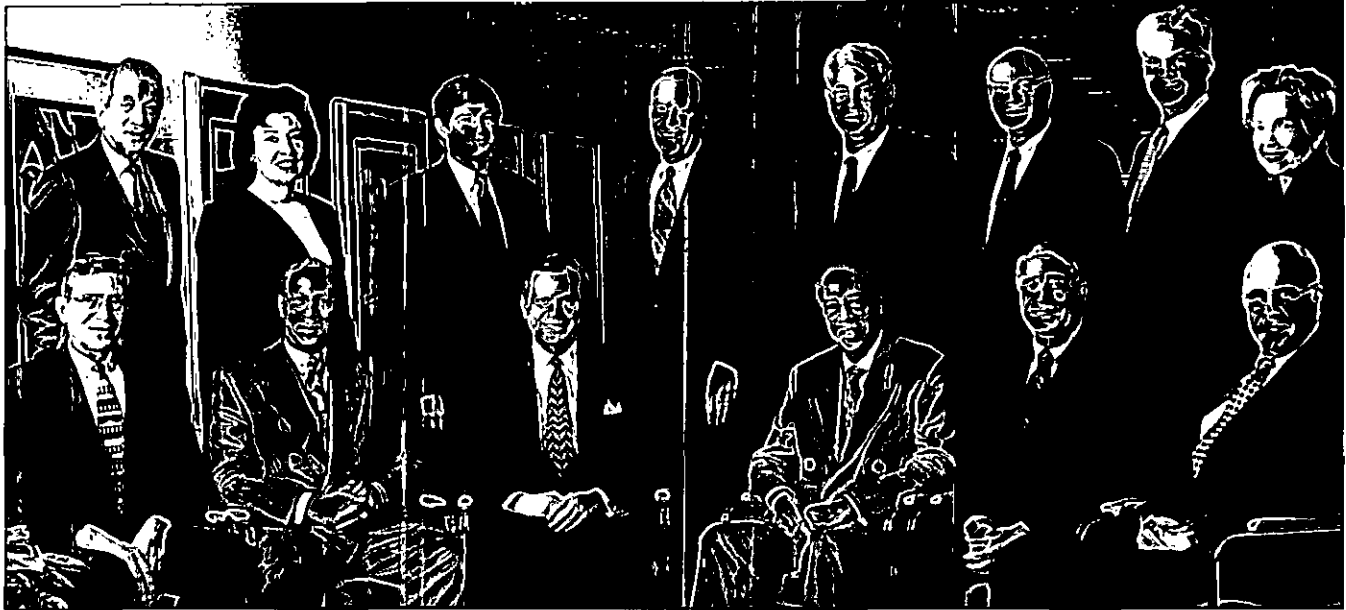
**Curtis T. Ranger**, 46.  
DTE Biomass Energy, Inc.  
since 1993.

**Jean M. Redfield**, 39.  
DTE Edison America, Inc.  
since 1997.

**Fred L. Shusterich**, 43.  
Midwest Energy Resources Company  
since 1997.

**Richard A. Zachariason**, 49.  
DTE-CoEnergy, L.L.C.  
since 1998.

# DTE Energy and Detroit Edison Board of Directors



Standing from left: Alan E. Schwartz, Lillian Bauder, Anthony F. Earley, Jr., John E. Lobbia, Larry G. Garberding, Terence E. Adderly, Allan D. Gilmour and Patricia S. Longe. Seated from left: Theodore S. Leipprandt, David Bing, Eugene A. Miller, William C. Brooks, Dean E. Richardson and William Wegner.

**Terence E. Adderly, 64, 1987.**  
President and Chief Executive Officer of Kelly Services, Inc. Mr. Adderly serves on the Executive, Finance, and Organization and Compensation committees.

**Lillian Bauder, 58, 1986.**  
Vice President for Corporate Affairs of Masco Corporation and President of the Masco Charitable Trust. Dr. Bauder serves on the Audit, Executive and Nuclear Review committees.

**David Bing, 54, 1985.**  
Chairman of the Board of Bing Steel, Inc. and Chief Executive Officer of Superb Manufacturing, a metal stamping company. Mr. Bing serves on the Audit and Organization and Compensation committees.

**William C. Brooks, 64, 1997.**  
Retired Vice President of Corporate Affairs for General Motors Corporation. Mr. Brooks serves on the Nominating committee.

**Anthony F. Earley, Jr., 48, 1994.**  
President and Chief Operating Officer of DTE Energy and Detroit Edison. Mr. Earley serves on the Executive committee.

**Key:** Name, age, year joined the Board, background and committee responsibilities.

**Larry G. Garberding, 59, 1990.**  
Executive Vice President and Chief Financial Officer of DTE Energy and Detroit Edison. Mr. Garberding serves on the Executive and Finance committees.

**Allan D. Gilmour, 63, 1995.**  
Retired Vice Chairman of Ford Motor Co. Mr. Gilmour serves on the Finance and Nominating committees.

**Theodore S. Leipprandt, 64, 1990.**  
Owner of Leipprandt Orchards and retired from Cooperative Elevator Co. Mr. Leipprandt serves on the Audit and Nuclear Review committees.

**John E. Lobbia, 56, 1988.**  
Chairman of the Board and Chief Executive Officer of DTE Energy and Detroit Edison. Mr. Lobbia serves on the Executive committee.

**Eugene A. Miller, 60, 1989.**  
Chairman and Chief Executive Officer of Comerica Incorporated and Comerica Bank. Mr. Miller serves on the Finance, Nominating, and Organization and Compensation committees.

**Dean E. Richardson, 70, 1977.**  
Retired Chairman of the Board of Manufacturers National Corporation. Mr. Richardson serves on the Audit, Executive, Finance, and Organization and Compensation committees.

**Alan E. Schwartz, 72, 1969.**  
A partner in the law firm of Honigman Miller Schwartz and Cohn in Detroit. Mr. Schwartz serves on the Executive, Finance, Nominating, and Organization and Compensation committees.

**William Wegner, 71, 1990.**  
Consultant and Owner of W-Squared, Inc., a consulting firm providing services to nuclear utility companies. Mr. Wegner serves on the Nuclear Review committee.

#### Director Retirement

**Patricia S. Longe,** Economist and senior partner of The Longe Company, an economic consulting firm in Naples, Fla. retired from the Board of Directors effective Jan. 26, 1998. DTE Energy expresses sincere appreciation to Dr. Longe for her many contributions to the Company since joining the Board of Directors in 1973.

## Corporate Data

### Market for the Company's Common Equity and Related Shareholder Matters

On Jan. 1, 1996, Detroit Edison common stock was automatically exchanged, one-for-one, for common stock of DTE Energy Company. DTE Energy's common stock is listed on the New York Stock Exchange and the Chicago Stock Exchange (symbol DTE). The following table indicates the reported high and low sales prices of DTE Energy common stock on the composite tape of the New York Stock Exchange and dividends paid per share for each quarterly period during the past two years:

Calendar Quarter		High	Low	Dividends Paid Per Share
1996	First	37 $\frac{1}{16}$	33 $\frac{3}{16}$	\$0.515
	Second	34 $\frac{1}{16}$	28	0.515
	Third	31	27 $\frac{9}{16}$	0.515
	Fourth	33 $\frac{3}{16}$	27 $\frac{1}{16}$	0.515
1997	First	32 $\frac{1}{16}$	26 $\frac{1}{16}$	0.515
	Second	28 $\frac{1}{16}$	26 $\frac{1}{16}$	0.515
	Third	32 $\frac{1}{16}$	27 $\frac{1}{16}$	0.515
	Fourth	34 $\frac{1}{16}$	28 $\frac{1}{16}$	0.515

As of Jan. 1, 1998, 145,097,829 shares of the Company's common stock were outstanding. These shares were held by a total of 121,864 shareholders.

The amount of future dividends will depend on the Company's earnings, financial condition and other factors.

### Distribution of Ownership of DTE Energy Common Stock

Type of Owner:	(Jan. 1, 1998)	
	Owners	Shares
Individuals	59,290	13,765,563
Joint Accounts	50,866	17,114,296
Trust Accounts	10,898	6,491,037
Nominees	28	92,996,301
Institutions & Foundations	190	58,973
Brokers & Security Dealers	12	28,248
Others	580	14,643,411
Total	121,864	145,097,829

### State and Country:

	Owners	Shares
Michigan	60,284	33,518,776
Florida	8,386	3,434,045
California	6,711	2,040,446
New York	5,305	94,389,528
Illinois	5,069	1,484,951
Ohio	3,997	1,097,079
44 Other States	31,635	8,982,669
Foreign Countries	477	150,335
Total	121,864	145,097,829

### Annual Meeting of Shareholders

The 1998 Annual Meeting of DTE Energy Shareholders will be held at 10 a.m. Detroit time, Monday, April 27, 1998 at Detroit Edison Plaza, 660 Plaza Drive, Detroit. Shareholders will be asked to elect members of the Board of Directors and ratify the appointment of independent auditors.

At the 1997 DTE Energy Annual Meeting of Shareholders, five directors were elected; the appointment of independent auditors was ratified and two shareholder proposals were rejected.

### Corporate Address

DTE Energy Company  
2000 2nd Ave., Detroit, MI 48226-1279  
Telephone: 313.235.4000  
<http://www.dteenergy.com>

### Independent Auditors

Deloitte & Touche LLP  
600 Renaissance Center, Suite 900, Detroit, MI 48243-1704

### Form 10-K

Copies of Form 10-K, Securities and Exchange Commission Annual Report, are available. Requests should be directed to: Susan M. Beale

Vice President and Corporate Secretary  
DTE Energy Company  
2000 2nd Ave., Detroit, MI 48226-1279

### Transfer Agent

The Detroit Edison Company  
2000 2nd Ave., Detroit, MI 48226-1279  
Shareholder Services: 800.551.5009

### Registrar of Stock

The Detroit Edison Company  
2000 2nd Ave., Detroit, MI 48226-1279  
(Detroit Edison preferred and DTE Energy common stock)

### Other Shareholder Information

Shareholders who hold stock in street form may request quarterly reports by writing to the address below. Shareholders of record automatically receive quarterly reports. As a service to shareholders of record, DTE Energy offers direct deposit of dividend payments. Payments can be electronically transferred directly to the bank or savings and loan account of choice on the payment date. Please write to the address below to receive an authorization form to request direct deposit of dividend payments.

DTE Energy Company  
c/o Detroit Edison, Shareholder Services, 434 W.C.B.  
2000 2nd Ave., Detroit, MI 48226-1279

*This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based upon the Company's best estimates. Actual results may differ materially.*

DTE Energy Company  
2000 2nd Ave., Detroit, MI 48226-1279  
313.235.8000

**DTE Energy**



#### **Detroit Edison Senior Secured Debt Ratings**

The four rating agencies rate Detroit Edison's senior secured debt as follows:

- Duff & Phelps Corp.: BBB+
- Fitch Investors Service: A-
- Moody's Investors Service: A3
- Standard & Poor's Corp.: A-

Certain other affiliates are individually rated.



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DTE Energy promotes waste reduction and is a charter member of the U.S. Environmental Protection Agency's Waste Wise Program.

Use of this logo does not imply EPA endorsement.

BudgetWise Billing, SolarCurrents, and LightWise are registered service marks of Detroit Edison.

DTE Energy, Turning Energy Into Solutions, DTE Edison America and the head/corona logo are service marks of the DTE Energy Company.

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K

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

For the fiscal year ended December 31, 1998

<u>Commission File Number</u>	<u>Registrants; State of Incorporation; Address; and Telephone Number</u>	<u>I.R.S. Employer Identification No.</u>
1-11607	DTE Energy Company (a Michigan corporation) 2000 2nd Avenue Detroit, Michigan 48226-1279 313-235-4000	38-3217752
1-2198	The Detroit Edison Company (a Michigan corporation) 2000 2nd Avenue Detroit, Michigan 48226-1279 313-235-8000	38-0478650

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
<u>DTE Energy Company</u> Common Stock, without par value, with contingent preferred stock purchase rights	New York and Chicago Stock Exchanges
<u>The Detroit Edison Company</u> Quarterly Income Debt Securities (QUIDS) (Junior Subordinated Deferrable Interest Debentures - 7.625%, 7.54% and 7.375% Series)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark whether the registrants (1) have 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 registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

At January 31, 1999, 145,060,367 shares of DTE Energy's Common Stock, substantially all held by non-affiliates, were outstanding, with an aggregate market value of approximately \$5,884,011,136 based upon the closing price on the New York Stock Exchange.

#### DOCUMENTS INCORPORATED BY REFERENCE

Certain information in DTE Energy Company's definitive Proxy Statement for its 1999 Annual Meeting of Common Shareholders to be held April 28, 1999, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the Registrants' fiscal year covered by this report on Form 10-K, is incorporated herein by reference to Part III (Items 10, 11, 12 and 13) of this Form 10-K.

**DTE Energy Company  
and  
The Detroit Edison Company  
FORM 10-K  
Year Ended December 31, 1998**

This document contains the Annual Reports on Form 10-K for the fiscal year ended December 31, 1998 for each of DTE Energy Company and The Detroit Edison Company. Information contained herein relating to an individual registrant is filed by such registrant on its own behalf. Accordingly, except for its subsidiaries, The Detroit Edison Company makes no representation as to information relating to DTE Energy Company or any other companies affiliated with DTE Energy Company.

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## DEFINITIONS

Company .....	DTE Energy Company and Subsidiary Companies
Consumers .....	Consumers Energy Company (a wholly owned subsidiary of CMS Energy Corporation)
Detroit Edison .....	The Detroit Edison Company (a wholly owned subsidiary of DTE Energy Company) and Subsidiary Companies
Direct Access .....	Gives all retail customers equal opportunity to utilize the transmission system which results in access to competitive generation resources
EPA.....	United States Environmental Protection Agency
FERC.....	Federal Energy Regulatory Commission
kWh.....	Kilowatthour
Ludington.....	Ludington Hydroelectric Pumped Storage Plant (owned jointly with Consumers)
MDEQ.....	Michigan Department of Environmental Quality
MPSC .....	Michigan Public Service Commission
MW .....	Megawatt
Note .....	Notes to Consolidated Financial Statements of the Company and Detroit Edison
NRC .....	Nuclear Regulatory Commission
PSCR.....	Power Supply Cost Recovery
Registrant .....	Company or Detroit Edison, as the case may be
SALP .....	Systematic Assessment of Licensee Performance
SEC .....	Securities and Exchange Commission
SFAS .....	Statement of Financial Accounting Standards

**Annual Report on Form 10-K for DTE Energy Company  
PART I**

**Item 1 - Business.**

**General**

The Company, a Michigan corporation incorporated in 1995, is an exempt holding company under the Public Utility Holding Company Act. As a result of the 1996 corporate restructuring, the Company became the parent holding company of Detroit Edison and certain previously wholly-owned Detroit Edison subsidiaries. The Company has no operations of its own, holding instead directly or indirectly, the stock of Detroit Edison and other subsidiaries engaged in energy-related businesses. Detroit Edison is the Company's principal operating subsidiary, representing approximately 91% and 94% of the Company's assets and revenues, respectively, at December 31, 1998. The Company has no employees. Detroit Edison has 8,482 employees and other Company affiliates have 299 employees.

**Non-Regulated Operations**

Affiliates of the Company are engaged in non-regulated businesses, including energy-related services and products. Such services and products include the operation of a pulverized coal facility and coke oven batteries, coal sourcing, blending and transportation, landfill gas-to-energy facilities, providing expertise in the application of new energy technologies, real estate development, power marketing, specialty engineering services and retail marketing of energy and other convenience products. Another affiliate, DTE Capital Corporation, provides financial services to the Company's non-regulated affiliates.

Non-regulated operating revenues of \$319 million for 1998 were earned primarily from projects related to the steel industry.

**Utility Operations**

Detroit Edison, incorporated in Michigan since 1967, is a public utility subject to regulation by the MPSC and FERC and is engaged in the generation, purchase, transmission, distribution and sale of electric energy in a 7,600 square mile area in Southeastern Michigan. Detroit Edison's service area includes about 13% of Michigan's total land area and about half of its population (approximately five million people). Detroit Edison's residential customers reside in urban and rural areas, including an extensive shoreline along the Great Lakes and connecting waters. 3,733 of Detroit Edison's 8,482 employees are represented by unions under two collective bargaining agreements. One agreement expires in June 1999 for 3,174 employees and the other agreement expires in August 2000 for 559 employees.

Operating revenues, sales and customer data by rate class are as follows:

	1998	1997	1996
<u>Operating Revenues</u> (Millions)			
Electric			
Residential	\$ 1,253	\$ 1,179	\$ 1,198
Commercial	1,553	1,501	1,506
Industrial	753	726	731
Other	343	251	207
Total	<u>\$ 3,902</u>	<u>\$ 3,657</u>	<u>\$ 3,642</u>

	<u>Sales</u> (Millions of kWh)		
Electric			
Residential	13,752	12,898	12,949
Commercial	18,897	17,997	17,706
Industrial	14,700	14,345	14,062
Other	2,357	1,855	1,690
Total System	49,706	47,095	46,407
Interconnection	5,207	3,547	2,046
Total	<u>54,913</u>	<u>50,642</u>	<u>48,453</u>

	<u>Electric Customers at Year-End</u> (Thousands)		
Electric			
Residential	1,884	1,870	1,847
Commercial	181	178	175
Industrial	1	1	1
Other	2	2	2
Total	<u>2,068</u>	<u>2,051</u>	<u>2,025</u>

Detroit Edison generally experiences its peak load and highest total system sales during the third quarter of the year as a result of air conditioning and cooling-related loads.

During 1998, sales to automotive and automotive-related customers accounted for approximately 9% of total Detroit Edison operating revenues. Detroit Edison's 30 largest industrial customers accounted for approximately 17% of total operating revenues in 1998, 1997 and 1996, but no one customer accounted for more than 3% of total operating revenues.

Detroit Edison's generating capability is primarily dependent upon coal. Detroit Edison expects to obtain the majority of its coal requirements through long-term contracts and the balance through short-term agreements and spot purchases. Detroit Edison has contracts with four coal suppliers for a total purchase of up to 54 million tons of low-sulfur western coal to be delivered during the period from 1999 through 2005. It also has several contracts for the purchase of approximately 1 million tons of Appalachian coal with varying contract expiration dates through 1999. These existing long-term coal

contracts include provisions for market price reopeners and price escalation as well as de-escalation.

### ***Certain Factors Affecting Public Utilities***

The electric utility industry is changing as the transition to competition occurs. MPSC orders issued in 1997 and 1998 form the beginning of the restructuring of the Michigan electric public utility industry. The implementation of restructuring creates uncertainty as direct access and the unbundling of utility products and services are introduced.

Restructuring legislation has not been adopted in Michigan although restructuring is proceeding based upon guidelines set forth in various MPSC orders. The MPSC, as a policy matter, has ruled that public utilities should recover stranded costs, arising as a result of the transition to competition, but many details concerning the orderly recovery of such costs, including the operation of a true-up mechanism, are yet to be decided.

Restructuring presents other serious issues, such as planning for peak sales and defining the scope of the public utility obligation. The introduction of direct access has created uncertainty regarding the timing and level of customer load that may move to other suppliers and the extent of back-up capacity that Detroit Edison could be obligated to provide.

Companion FERC rulings are necessary for orderly transition in the competitive bulk power supply markets, and procedures, as well as new equipment, are necessary for the development of open access to transmission lines.

Detroit Edison is subject to extensive environmental regulation. Additional costs may result as the effects of various chemicals on the environment (including nuclear waste) are studied and governmental regulations are developed and implemented. In addition, the impact of proposed EPA ozone transport regulations and final new air quality standards relating to particulate air pollution are unknown. The costs of future nuclear decommissioning activities are the subject of increased regulatory attention, and recovery of environmental costs through traditional ratemaking is the subject of considerable uncertainty.

### ***Regulation and Rates***

***Michigan Public Service Commission.*** Detroit Edison is subject to the general regulatory jurisdiction of the MPSC, which, from time to time, issues its orders pertaining to Detroit Edison's conditions of service, rates and recovery of certain costs, accounting and various other matters.

As discussed in Notes 1 and 2, MPSC orders issued in 1997 and 1998 have provided the beginning of the restructuring of the Michigan electric utility industry. Other restructuring and regulatory matters are discussed below.

In March 1998, Detroit Edison filed its 1997 PSCR Reconciliation Case with the MPSC. PSCR costs were underrecovered by \$2.7 million and when combined with Fermi 2 performance standards, would result in a refund to customers of approximately \$21 million. An order is expected in the first quarter of 1999.

In September 1998, Detroit Edison filed its 1999 PSCR case. Fuel and purchased power costs for 1999 are projected to increase by up to 25 percent, on average, over the corresponding forecast for 1998. An order is expected by the third quarter of 1999. Detroit Edison plans to file its 1998 PSCR Reconciliation Case with the MPSC in March 1999.

In an order issued December 28, 1998 related to the 1988 Settlement Agreement regarding Fermi 2, the MPSC requested parties to file briefs discussing whether the past MPSC orders surrounding Fermi 2 (including the June 1995 order regarding the retail wheeling experiment, the November 1997 order that reflected the net effect of the \$53 million reduction associated with the Fermi 2 phase in for 1998 and a two-year amortization of incremental storm damage costs, and the December 1998 order regarding the accelerated amortization of Fermi 2) have fully accounted for the reductions in the Fermi 2 cost of service and, if not, what additional actions should be taken, as well as what actions are needed to revert to non-phase-in ratemaking in 2000. Detroit Edison indicated that the MPSC does not need to take any further actions on this matter. Other parties argue, among other things, that the MPSC should order that a general rate case be filed by Detroit Edison.

In July 1998, Detroit Edison filed a required review of its current depreciation expense with the MPSC. The application requested an effective increase in annual depreciation expenses of \$66 million; an adjustment in rates was not requested. An order may be issued by the MPSC in the first quarter of 1999.

Detroit Edison filed an application with the MPSC in June 1998 requesting approval of its direct access plan and accounting authority to defer costs that would be incurred to implement direct access. In its filing, Detroit Edison estimated that the cost to implement direct access would be approximately \$168 million. Detroit Edison awaits further rulings by the MPSC.

Detroit Edison is under an obligation to solicit capacity from external suppliers, whenever it determines that additional capacity is required. Detroit Edison has issued two Requests for Proposal (RFP) in response to that requirement. The first RFP was issued in May 1998 for capacity during 1998 and 1999, and the second RFP was issued in January 1999 for capacity from June 1999 through May 2002. There was minimal response to the May 1998 request, and although there have been several responses to the January 1999 request, no offers to provide Michigan generation by June 1999 have been received.

In February 1999, Detroit Edison filed a capacity plan with the MPSC outlining its assessment and needs for capacity for the summer of 1999. Detroit Edison indicated it will need to purchase approximately 2,000 MW of capacity to supplement internal

generation to reliably meet projected peak loads in 1999, and plans to add approximately 550 MW of additional internal capacity.

Detroit Edison has contested the statutory authority of the MPSC to order a direct access experiment. In October 1998 the Michigan Supreme court granted Detroit Edison and other parties to the proceeding leave to appeal from a January 1998 order of the Michigan Court of Appeals finding that the MPSC did have statutory authority to authorize experimental direct access. Although Detroit Edison expects to drop its appeal when a satisfactory clarifying order is issued on the December 1998 order regarding the accelerated amortization of Fermi 2, other parties may continue their appeals, and neither the Company nor Detroit Edison is able to predict the final outcome or timing of these proceedings. Oral arguments are scheduled for March 1999.

***Nuclear Regulatory Commission.*** The NRC has regulatory jurisdiction over all phases of the operation, construction (including plant modifications), licensing and decommissioning of Fermi 2.

### ***Environmental Matters***

#### ***Detroit Edison***

Detroit Edison, in common with other electric utilities, is subject to applicable permit and associated record keeping requirements, and to increasingly stringent federal, state and local standards covering, among other things, particulate and gaseous stack emission limitations, the discharge of effluents (including heated cooling water) into lakes and streams and the handling and disposal of waste material.

***Air.*** During 1997 and 1998, the EPA issued proposed ozone transport regulations and final new air quality standards relating to ozone and particulate air pollution. The proposed new rules will lead to additional controls on fossil-fueled power plants to reduce nitrogen oxides, sulfur dioxide, carbon dioxide and particulate emissions. See "Item 7 - Environmental Matters" for further discussion.

***Water.*** Detroit Edison is required to demonstrate that the cooling water intake structures at all of its facilities reflect the "best technology available for minimizing adverse environmental impact." Detroit Edison filed such demonstrations and the MDEQ Staff accepted all of them except those relating to the St. Clair and Monroe Power Plants for which it requested further information. Detroit Edison subsequently submitted the information. In the event of a final adverse decision, Detroit Edison may be required to install additional control technologies to further minimize the impact.

***Wastes and Toxic Substances.*** The Michigan Solid Waste and Hazardous Waste Management Acts, the Michigan Environmental Response Act, the Federal Resource Conservation and Recovery Act, Toxic Substances Control Act, and the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 regulate Detroit Edison's handling, storage and disposal of its waste materials.

The EPA and the MDEQ have aggressive programs regarding the clean-up of contaminated property. Detroit Edison has extensive land holdings and, from time to time, must investigate claims of improperly disposed of contaminants. Detroit Edison anticipates that it will be periodically included in these types of environmental proceedings.

**Conners Creek.** The Conners Creek Power Plant was in reserve status from 1988 to 1998. In April, 1998 the MPSC issued an order granting Detroit Edison's request to waive competitive bidding for Conners Creek and restart the plant. Although Detroit Edison believed that the plant complied with all applicable environmental requirements, the Michigan Department of Natural Resources and the Wayne County Air Quality Management Division issued notices of violation contending that Detroit Edison was required to obtain a series of new permits prior to plant operation. Subsequently the EPA issued a similar notice of violation.

Detroit Edison conducted tests on the Conners Creek boilers and turbine during June and July 1998. Following testing of the igniters, the boilers and turbine were run for varying periods during the last week in June and the first week in July to conduct a series of tests, including tests on the upgraded controls systems and the turbine generator maximum load test. The only generation from the plant was to allow the plant to complete these tests. The plant was never dispatched by the Michigan Electric Coordinating System (MECS) in Ann Arbor to meet power demands. In addition, the gas igniters were fired during the first three days of September to dry out the boilers following draining of all water from the equipment.

On August 5, 1998, Detroit Edison filed suit seeking a review of determinations asserted by the state and local agencies that Detroit Edison's activities in reactivating the Conners Creek power plant were in violation of certain environmental regulations.

On January 11, 1999, the Department of Justice (DOJ) on behalf of the EPA sent Detroit Edison a Demand Letter requiring the payment of \$2.3 million in civil penalties and an unconditional commitment to abandon the use of the facility as a coal plant. Detroit Edison has rejected the DOJ/EPA demand and on January 15, 1999 the DOJ/EPA filed suit. Detroit Edison is presently trying to resolve the issue through settlement discussions. It is impossible to predict what impact, if any, the outcome of this will have upon Detroit Edison.

### ***Non-Regulated***

The Company's non-regulated affiliates are subject to a number of environmental laws and regulations dealing with the protection of the environment from various pollutants. These non-regulated affiliates are in substantial compliance with all environmental requirements.

## Executive Officers of the Registrant

Name	Age(a)	Present Position	Present Position Held Since (b)
Anthony F. Earley, Jr.	49	Chairman of the Board, Chief Executive Officer, President, Chief Operating Officer, and Member of the Office of the President	8-1-98
Larry G. Garberding	60	Executive Vice President, Chief Financial Officer, Member of the Office of the President since December 1998	1-26-95
Gerard M. Anderson	40	President and Chief Operating Officer – DTE Energy Resources, and Member of the Office of the President	8-1-98
Robert J. Buckler	49	President and Chief Operating Officer – DTE Energy Distribution, and Member of the Office of the President	8-1-98
Michael E. Champley	50	Senior Vice President	4-1-97
Susan M. Beale	50	Vice President and Corporate Secretary	12-11-95
Leslie L. Loomans	55	Vice President and Treasurer	1-26-95
David E. Meador	41	Vice President and Controller	3-29-97
Christopher C. Nern	54	Vice President and General Counsel	1-26-95

(a) As of December 31, 1998

(b) The Company was incorporated in January 1995, and, at that time, certain officers of Detroit Edison were appointed officers of the Company.

Under the Company's By-Laws, the officers of the Company are elected annually by the Board of Directors at a meeting held for such purpose, each to serve until the next annual meeting of directors or until their respective successors are chosen and qualified.

Pursuant to Article VI of the Company's Articles of Incorporation, directors of the Company will not be personally liable to the Company or its shareholders in the performance of their duties to the full extent permitted by law.

Article VII of the Company's Articles of Incorporation provides that each person who is or was or had agreed to become a director or officer of the Company, or each such person who is or was serving or who had agreed to serve at the request of the Board of Directors as an employee or agent of the Company or as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise (including the heirs, executors, administrators or estate of such person), shall be indemnified by the Company to the full extent permitted by the Michigan Business Corporation Act or any other applicable laws as presently or hereafter in effect. In addition, the Company has entered into indemnification agreements with all of its officers and directors, which agreements set forth procedures for claims for indemnification as well as contractually obligating the Company to provide indemnification to the maximum extent permissible by law.

The Company and its directors and officers in their capacities as such are insured against liability for alleged wrongful acts (to the extent defined) under three insurance policies providing aggregate coverage in the amount of \$100 million.

**Other Information.** Pursuant to the provisions of the Company's By-Laws, the Board of Directors has by resolution set the number of directors comprising the full Board at 13.

**Item 2 - Properties.**

***Detroit Edison***

The summer net rated capability of Detroit Edison's generating units is as follows:

Plant Name	Location By Michigan County	Summer Net Rated Capability (1) (2) (3)		Year in Service
		(MW)		
<b>Fossil-fueled Steam-Electric</b>				
Belle River (4)	St. Clair	1,026	10.0%	1984 and 1985
Greenwood	St. Clair	785	7.6	1979
Harbor Beach	Huron	103	1.0	1968
Marysville	St. Clair	167	1.6	1930, 1943 and 1947
Monroe (5)	Monroe	3,000	29.2	1971, 1973 and 1974
River Rouge	Wayne	510	5.0	1957 and 1958
St. Clair	St. Clair	1,406	13.7	1953, 1954, 1961 and 1969
Trenton Channel	Wayne	725	7.1	1949, 1950 and 1968
		<u>7,722</u>	<u>75.2%</u>	
<b>Oil or Gas-fueled Peaking Units (6)</b>				
	Various	525	5.1	1966-1971 and 1981
<b>Nuclear-fueled Steam-Electric</b>				
Fermi 2 (7)	Monroe	1,098	10.7	1988
<b>Hydroelectric Pumped Storage</b>				
Ludington (8)	Mason	917	9.0	1973
		<u>10,262</u>	<u>100.0%</u>	

- (1) Summer net rated capabilities of generating units in service are based on periodic load tests and are changed depending on operating experience, the physical condition of units, environmental control limitations and customer requirements for steam, which otherwise would be used for electric generation.
- (2) Excludes two oil-fueled units, River Rouge Unit No. 1 (206 MW) and St. Clair Unit No. 5 (250 MW), in economy reserve status.
- (3) Excludes Conners Creek (236 MW) which is the subject of litigation discussed herein in "Environmental Matters, Conners Creek."
- (4) The Belle River capability represents Detroit Edison's entitlement to 81.39% of the capacity and energy of the plant. See Note 4.
- (5) The Monroe Power Plant provided approximately 35% of Detroit Edison's total 1998 power plant generation.
- (6) Detroit Edison has made arrangements for the purchase of gas-fueled peakers which are expected to contribute 550 MW of generation by the summer of 1999.
- (7) Fermi 2 has a design electrical rating (net) of 1,150 MW.
- (8) Represents Detroit Edison's 49% interest in Ludington with a total capability of 1,872 MW. Detroit Edison is leasing 306 MW to First Energy for the six-year period June 1, 1996 through May 31, 2002.

Detroit Edison and Consumers are parties to an Electric Coordination Agreement providing for emergency assistance, coordination of operations and planning for bulk power supply, with energy interchanged at nine interconnections. Detroit Edison and Consumers also have interchange agreements to exchange electric energy through 12 interconnections with First Energy, Indiana Michigan Power Company, Northern Indiana Public Service Company and Ontario Hydro. In addition, Detroit Edison has interchange agreements for the exchange of electric energy with Michigan South Central Power Agency, Rouge Steel Company and the City of Wyandotte.

Detroit Edison also purchases energy from cogeneration facilities and other small power producers. Energy purchased from cogeneration facilities and small power producers amounted to \$31 million, \$31.3 million and \$28.3 million for 1998, 1997 and 1996, respectively, and is currently estimated at \$34.5 million for 1999.

Detroit Edison's electric generating plants are interconnected by a transmission system operating at up to 345 kilovolts through 35 transmission stations. As of December 31, 1998, electric energy was being distributed in Detroit Edison's service area through 610 substations over 3,658 distribution circuits.

### ***Non-Regulated***

Non-regulated property primarily consists of a coke oven battery facility and a coal processing facility located in River Rouge, Michigan, and a coke oven battery facility in Burns Harbor, Indiana, along with 22 landfill gas projects located throughout the United States.

### **Item 3 - Legal Proceedings.**

Detroit Edison, in the ordinary course of its business, is involved in a number of suits and controversies including claims for personal injuries and property damage and matters involving zoning ordinances and other regulatory matters. As of December 31, 1998, Detroit Edison was named as defendant in 148 lawsuits involving claims for personal injuries and property damage and had been advised of 34 other potential claims not evidenced by lawsuits.

From time to time, Detroit Edison has paid nominal penalties which were administratively assessed by the United States Coast Guard, United States Department of Transportation under the *Federal Water Pollution Control Act, as amended*, with respect to minor accidental oil spills at Detroit Edison's power plants into navigable waters of the United States. Payment of such penalties represents full disposition of these matters.

See "Note 11 - Commitments and Contingencies" and "Environmental Matters, Detroit Edison, Conners Creek" herein for additional information.

#### Item 4 - Submission of Matters to a Vote of Security Holders.

None during the fourth quarter of 1998.

### PART II

#### Item 5 - Market for Registrant's Common Equity and Related Stockholder Matters.

The Company's Common Stock is listed on the New York Stock Exchange, which is the principal market for such stock, and the Chicago Stock Exchange. The following table indicates the reported high and low sales prices of the Company's Common Stock on the Composite Tape of the New York Stock Exchange and dividends paid per share for each quarterly period during the past two years:

Calendar Quarter		Price Range		Dividends Paid Per Share
		High	Low	
1997	First	32-7/8	26-1/4	\$0.515
	Second	28-3/8	26-1/8	0.515
	Third	32-7/8	27-1/2	0.515
	Fourth	34-3/4	28-1/16	0.515
1998	First	39-5/8	33-1/2	\$0.515
	Second	42	37-11/16	0.515
	Third	45-5/16	39-3/16	0.515
	Fourth	49-1/4	41-7/16	0.515

At December 31, 1998, there were 145,071,317 shares of the Company's Common Stock outstanding. These shares were held by a total of 111,610 shareholders of record.

The Company's By-Laws provide that Chapter 7B of the Michigan Business Corporation Act ("Act") does not apply to the Company. The Act regulates shareholder rights when an individual's stock ownership reaches at least 20 percent of a Michigan corporation's outstanding shares. A shareholder seeking control of the Company cannot require the Company's Board of Directors to call a meeting to vote on issues related to corporate control within 10 days, as stipulated by the Act. See "Note 6 - Shareholders' Equity" for additional information, including information concerning the Rights Agreement, dated as of September 23, 1997.

The amount of future dividends will depend on the Company's earnings, financial condition and other factors, including the effects of utility restructuring and the transition to competition, each of which is periodically reviewed by the Company's Board of Directors.

Pursuant to Article I, Section 8. (c) and Article II, Section 3.(c) of the Company's By-laws, as amended through May 1, 1998, notice is given that the 2000 Annual Meeting of the Company's Common Shareholders will be held on Wednesday, April 26, 2000.

**Item 6 - Selected Financial Data.**

	Year Ended December 31				
	1998	1997	1996	1995	1994
	(Millions, except per share amounts)				
Operating Revenues	\$ 4,221	\$ 3,764	\$ 3,645	\$ 3,636	\$ 3,519
Net Income	\$ 443	\$ 417	\$ 309	\$ 406	\$ 390
Earnings Per Common Share - Basic and Diluted	\$ 3.05	\$ 2.88	\$ 2.13	\$ 2.80	\$ 2.67
Dividends Declared Per Share of Common Stock	\$ 2.06	\$ 2.06	\$ 2.06	\$ 2.06	\$ 2.06
At year end:					
Total Assets	\$ 12,088	\$ 11,223	\$ 11,015	\$ 11,131	\$ 10,993
Long-Term Debt Obligations (including capital leases) and Redeemable Preferred and Preference Stock Outstanding	\$ 4,323	\$ 4,058	\$ 4,038	\$ 4,004	\$ 3,980

## **Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.**

This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and accompanying Notes thereto, contained herein.

The Detroit Edison Company (Detroit Edison) is the principal subsidiary of DTE Energy Company (Company) and, as such, unless otherwise identified, this discussion explains material changes in results of operations of both the Company and Detroit Edison and identifies recent trends and events affecting both the Company and Detroit Edison.

### **GROWTH**

On January 1, 1996, Detroit Edison's common stock was exchanged on a share-for-share basis for the common stock of the Company; and the Company became the parent holding company of Detroit Edison. The Company has no operations of its own, holding instead, directly or indirectly, the stock of Detroit Edison, its principal operating subsidiary, and other subsidiaries engaged in energy-related businesses. The holding company structure was adopted to position the Company for changes in the energy markets, and the electric utility industry in particular, by providing financial flexibility and additional resources for the development of new energy-related businesses.

In order to sustain earnings growth, with an objective of 6% growth annually, the Company and Detroit Edison have developed a business strategy focused on core competencies, consisting of expertise in developing, managing and operating energy assets, including coal sourcing, blending and transportation skills. In addition, Detroit Edison has a program for developing work force training and planning for the future.

Detroit Edison is preparing for the transition to competition in the electric energy markets. Although Detroit Edison's electric power sales and system demand have grown at compounded annual rates of about 3% for the last five years, the transition to competition is expected to reduce Detroit Edison's system growth in the long-term. Detroit Edison projects that its electric power sales will increase at a compounded annual rate of approximately 2% over the next five years, but the impact of the transition to competition on earnings and operating conditions is uncertain.

The Company is building a portfolio of growth businesses that leverage its skills and build upon key customer relationships. These growth businesses include on-site energy projects and services, coal transportation and processing, and energy marketing and trading. During the five-year period ending 2002, these businesses could contribute up to \$150 million in earnings annually.

The Company's long-term growth strategy recognizes the fact that competition, new technologies and environmental concerns will have a significant impact on reshaping the electric utility industry. Therefore, the Company is investing in new energy-related technologies such as fuel cells, distributed generation and renewable sources of energy.

The Company believes that its financial and technological resources, experience in the energy field and strategic growth plan position it well to compete in the changing energy markets, as competition is introduced in Michigan and across the United States. While there can be no assurances that future performance will equal or exceed past performance, for 1998, the Company's common stock provided a total return of 29%, closing at \$43.06 on December 31, 1998.

## **ELECTRIC INDUSTRY RESTRUCTURING**

Detroit Edison is subject to regulation by the Michigan Public Service Commission (MPSC) and the Federal Energy Regulatory Commission (FERC). In 1998, Michigan legislators and regulators focused on competition and direct access in the Michigan electric public utility industry. Direct access would give all retail customers equal opportunity to utilize the transmission system which results in access to competitive generation resources. The MPSC is committed to opening the electric generation market in Michigan to competition and as a result issued several Orders relating to restructuring and competition in 1998. Although attempts to pass legislation in Michigan relating to restructuring were unsuccessful in 1998, the MPSC Orders will enable Detroit Edison to begin implementation of direct access in 1999. Issues remain to be resolved and additional Orders are anticipated as Detroit Edison phases in the option for customers to choose direct access service in 1999 and throughout the transition to full competition, which is scheduled in 2002.

### **Michigan Public Service Commission**

#### Background

Details on restructuring the electric generation market began to emerge in 1996 with the issuance of a MPSC Staff Report on Electric Industry Restructuring. MPSC Orders issued in 1997 and 1998 stated that Michigan utilities should recover stranded costs and established December 31, 2007 as the last day for recovery of such costs.

#### 1997 Restructuring Orders

MPSC Orders issued in 1997 facilitated restructuring, but left several issues unresolved. Due to the uncertainty regarding the future price of electricity, the MPSC indicated a true-up mechanism should be established to ensure that Detroit Edison did not over-recover its stranded costs. The MPSC also established that during the transition period, affiliates of out-of-state utilities could not be alternative suppliers without reciprocal arrangements, but unaffiliated marketers could be an alternative supplier without providing reciprocal service in another service territory.

#### 1998 Restructuring Orders

MPSC Orders issued in 1998 identified a phased-in approach to restructuring, whereby Detroit Edison would implement direct access in 225 megawatt (MW) blocks of power through the transition period, with 1125 MW, or approximately 12.5% of total load made

available at the end of the transition period, with all remaining load available for direct access on January 1, 2002. Detroit Edison requested approval of accelerated amortization of the Fermi 2 nuclear plant. As discussed in Note 2, the December 28, 1998 MPSC Order, while granting Detroit Edison's request, imposed several conditions for the recovery of Fermi 2 costs. Detroit Edison has requested a clarifying Order from the MPSC, and other parties have requested rehearing on aspects of the MPSC Order.

Neither the Company nor Detroit Edison is able to predict the final outcome or timing of these proceedings.

#### Direct Access Experiment

Detroit Edison has been involved in legal proceedings contesting the statutory authority of the MPSC to order a direct access experiment. In October 1998 the Michigan Supreme Court granted Detroit Edison and other parties to the proceeding leave to appeal from a Michigan Court of Appeals finding that the MPSC did have statutory authority to authorize experimental direct access. The December 1998 MPSC Order provided that a 90 MW direct access experiment should be immediately commenced, and was in addition to the 1125 MW previously scheduled.

#### Market Conditions

Wholesale power prices rose significantly in 1998. Dramatic price increases during the summer led to an investigation and report by the FERC Staff. The report concluded that a combination of factors caused the price increase, and although the increase was dramatic, it was narrow and short-lived. The report concluded that the particular combination of events that led to the magnitude of the price increases is not likely to recur, but indicated that wholesale power prices can be expected to rise and fall as a result of the dynamics of supply and demand.

Detroit Edison's planning and preparation limited its exposure during the summer in the wholesale power markets. Detroit Edison made substantial use of options and contracts with liquidated damages provisions, while spreading its purchases over many buyers in different regions. Detroit Edison also continues to recover approximately 80% of the charges for purchased power and generation through the use of the Power Supply Cost Recovery (PSCR) clause.

Because Detroit Edison must currently import power to meet peak loads in the summer, transmission capacity is a necessary requirement to serve customers reliably during peak load periods. As a result of certain new transmission procedures, there is uncertainty surrounding the ability of Detroit Edison to import power reliably into Michigan. To relieve this uncertainty, additional efforts to secure firm transmission rights will be necessary, as well as additional in-state generating capability.

Detroit Edison has acquired significant additional commitments from other utilities, and modified operating practices to provide flexibility to respond to increasing uncertainties of load and market conditions. Detroit Edison has also purchased new gas-fired

combustion turbine peakers, which are expected to generate approximately 550 MW of capacity for the summer of 1999.

### Direct Access Implementation Issues

Several technical issues remain to be resolved before direct access can be implemented. Detroit Edison formed a team, which is responsible for coordinating activities surrounding direct access. Direct access will require new processes and equipment. Some of these processes may be subject to modification by the MPSC during the transition period. Detroit Edison estimates that expenditures of up to \$168 million may be required through 2001.

Detroit Edison believes that it may have an obligation to render service when a direct access supplier cannot. The terms and conditions surrounding standby service, whereby Detroit Edison may be required to supply generation services for direct access customers when their suppliers cannot supply the necessary generation, awaits further rulings by the MPSC.

The operation and parameters of the true-up mechanism needs further clarification. It still is unknown how the MPSC will determine the actual price of power to use in trueing-up Detroit Edison's stranded cost recovery. The actual methodology was deferred to future proceedings. Uncertainties exist regarding the ultimate amount of stranded assets to be recovered including potential disallowances for the recovery of recorded regulatory assets, recovery of costs to be incurred to implement direct access, and other stranded costs. Recoverability of these costs will be evaluated annually through the true-up mechanism.

The FERC requires functional separation between the transmission reliability/operation function of the utility and the wholesale merchant function. The MPSC requires arm's-length transactions between Detroit Edison and non-regulated affiliates. Efforts are ongoing to ensure that proper procedures are developed and adhered to.

As a result of the December 28, 1998 MPSC Order, Detroit Edison discontinued the application of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" for its generation business. See Notes 1 and 2. While Detroit Edison is reviewing applicable accounting guidance, uncertainty exists as to whether additional changes in accounting policies will be required as a result of the discontinuation of SFAS No. 71 for its generation business.

### **Federal Energy Regulatory Commission**

Detroit Edison is regulated at the federal level by the FERC with respect to accounting, sales for resale in interstate commerce, certain transmission services, issuances of securities, licensing of hydro and pumping stations and other matters. The FERC as a policy matter, believes that transmission should be made available on a non-discriminatory basis. A number of proceedings, as discussed below, are in furtherance of this policy.

In 1996, the FERC issued Order 888, which requires public utilities to file open access transmission tariffs for wholesale transmission services in accordance with non-discriminatory terms and conditions, and Order 889, which requires public utilities and others to obtain transmission information for wholesale transactions through a system on the Internet. In addition, Order 889 requires public utilities to separate transmission operations from wholesale marketing functions.

In July 1996, Detroit Edison filed its Pro Forma Open Access Transmission Tariff in compliance with FERC Order 888. During 1997, Detroit Edison negotiated a partial settlement regarding the price and terms and conditions of certain services provided as part of the tariff. Several issues were litigated and Detroit Edison awaits a decision. Rates currently being utilized for transmission are consistent with the settlement and are subject to refund upon the FERC's final decision.

Detroit Edison has a power pooling agreement with Consumers Energy Company (Consumers Energy). In March 1997, a joint transmission tariff, filed by Detroit Edison and Consumers Energy, became effective. In compliance with FERC Order 888, the tariff modified the pooling agreement to permit third-party access to transmission facilities utilized for pooled operations under non-discriminatory terms and conditions. As Detroit Edison and Consumers Energy were unable to agree on other modifications to the pooling agreement, Detroit Edison has requested that the FERC approve its termination. Consumers Energy has requested that the pooling agreement be continued. The FERC has not ruled on either of these requests.

As part of a broad look into its policies on Independent System Operators and other Regional Transmission Organizations (RTO's), the FERC on November 24, 1998 announced plans to solicit the views of state commissions on the establishment of regional electric transmission districts. At conferences to be held beginning in the first quarter of 1999, the FERC will hear the state commissions' views on the criteria that should be used to establish boundaries for RTO's and the role of states in the formation and governance of RTO's. Additional consultations with the states, industry representatives and others will follow to discuss specific district boundaries. The FERC also plans to initiate a rulemaking or other generic proceeding on RTO's to solicit further comment.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Cash From Operating Activities**

Net cash from operating activities, which is the Company's primary source of liquidity, was \$868 million in 1998, \$952 million in 1997 and \$1,079 million in 1996. Net cash from operating activities decreased in 1998 due primarily to increased accounts receivable and other non-cash items. Net cash from operating activities decreased in 1997 compared to 1996 due primarily to changes in inventory levels.

Cash flow from operations is expected to be sufficient to meet cash requirements for Detroit Edison's capital expenditures as well as the Company's scheduled long-term debt redemption requirements and dividends.

### **Cash Used for Investing Activities**

Net cash used for investing activities was higher in 1998 due to increased plant and equipment expenditures and non-regulated investments in coke oven batteries.

Net cash used for investing activities was higher for the Company in 1997 due to the acquisition of a coke oven battery, a non-regulated expenditure. For Detroit Edison, net cash used for investing activities was lower in 1997 due primarily to lower plant and equipment expenditures.

Cash requirements for 1998 Detroit Edison capital expenditures were \$514 million. Detroit Edison's cash requirements for capital expenditures are expected to be approximately \$2.1 billion for the period 1999 through 2003.

Cash requirements for 1998 non-regulated investments and capital expenditures were \$442 million. Cash requirements for non-regulated investments and capital expenditures are expected to be approximately \$1.4 billion for the period 1999 through 2003. Significant non-regulated investments are expected to be externally financed.

### **Cash From (Used for) Financing Activities**

Net cash from Company financing activities was higher in 1998 due to increases in long- and short-term borrowings, partially offset by redemptions of preferred stock and long-term debt.

Net cash used for Company financing activities decreased in 1997 compared to 1996 due primarily to the redemption of preferred stock in 1996, partially offset by higher redemptions of long-term debt.

The following securities were issued and redeemed in 1998:

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<b>Securities Issued</b>	(Millions)
Quarterly Income Debt Securities 7.5%-7.4% issued in May and November	\$ 200
Remarketed Notes 6.2%-7.1% issued in June and November	400
Non-Recourse Debt 6.6% issued in July	<u>163</u>
<b>Total Issued</b>	<b><u>\$ 763</u></b>
 <b>Securities Redeemed</b>	
Mandatory Redemptions 1990 Series A, B, C Mortgage Bonds 7.9%-8.4% redeemed in March	\$ 19
Non-Recourse Debt 6.9%-7.8% redeemed in April, June, October and December	36
Early Redemptions Series S Mortgage Bonds 6.4% redeemed in February	150
Cumulative Preferred Stock 7.75%-7.74% redeemed in May and December	150
Quarterly Income Debt Securities 8.5% redeemed in December	50
<b>Total Redeemed</b>	<b><u>\$ 405</u></b>

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The preceding totals do not include Detroit Edison's Series 1999 A, \$118.36 Million, 5.55%, which was sold on a forward basis in 1998 and will be issued in September 1999. The proceeds will be used to refund two tax-exempt securities of the same principal amount.

## YEAR 2000

The Company and Detroit Edison have been involved in an enterprise-wide program to address Year 2000 issues. A program office was established in mid-1997 to implement a rigorous plan to address the impact of Year 2000 on hardware and software systems, embedded systems (which include microprocessors used in the production and control of electric power), and critical service providers. The emphasis has been on mission critical systems that support core business activities or processes. Core business activities/processes include safety, environmental and regulatory compliance, product production and delivery, revenue collection, employee and supplier payment and financial asset management.

The plan for addressing Year 2000 is divided into several phases including raising general awareness of Year 2000 throughout the Company and Detroit Edison; maintaining an inventory of systems and devices; performing an assessment of inventoried systems and devices; performing compliance testing of suspect systems and devices; remediation of non-compliant systems and devices through replacement, repair, retirement, or identifying an acceptable work around; testing and remediation of systems and devices in an integrated environment and preparing business continuity plans.

*Inventory, assessment and compliance testing phases have been completed for known systems and devices. The remediation phase is approximately 80% complete and is expected to be fully complete by August 1999 for mission critical assets and supporting assets. Integration planning, including the mapping of critical business processes, is near completion for Detroit Edison. Integration testing and remediation is expected to be complete by October 1999.*

To support the program phases, the program office has been working with major utility industry associations and organizations, customers and vendors to gather and share information on Year 2000 issues. The program office has contacted vendors critical to Company operations to determine their progress on Year 2000.

To further assist in identifying potential problems, tests of generating facilities have been conducted by advancing control systems dates to the Year 2000. Results of these tests have shown that the generating facilities operated successfully in this induced "millennium mode." Exercises were conducted on December 31, 1998 and January 1, 1999 to assess the ability to reach employees and the regional security centers of the East Central Area Reliability Group through various communication channels. The exercised communication channels operated properly. The business continuity program will provide opportunities to conduct similar exercises on other systems in advance of the Year 2000. Similar analysis has not been completed for other affiliates.

In the event that an unknown Year 2000 condition adversely affects service to customers or an internal business process, contingency and business continuity plans and procedures are being developed to provide rapid restoration to normal conditions.

The Company and Detroit Edison have always maintained a comprehensive operational emergency response plan. The business continuity function of the Year 2000 program will supplement the existing emergency plan to include Year 2000 specific events. A Year 2000 emergency response office will be fully operational by November 1999 to manage and coordinate operations, including mobilization of all employees as necessary, during the transition to the new millennium.

The Company and Detroit Edison believe that with all Year 2000 modifications, business continuity and emergency management plans in place, the Year 2000 will not have a material effect on their financial position, liquidity and results of operations. Despite all efforts, there can be no assurances that Year 2000 issues can be totally eliminated. Results of modifications and testing done during the fourth quarter of 1998 have demonstrated that Detroit Edison should be able to maintain normal operating conditions into the Year 2000, although there may be isolated electric service interruptions. Detroit Edison's internal business systems may be affected by a Year 2000 related failure that could temporarily interrupt the ability to communicate with customers, collect revenue, or complete cash transactions. In addition, no assurances can be given that the systems of vendors, interconnected utilities and customers will not result in Year 2000 problems.

The Company estimates that Year 2000 costs will approximate \$80 million with \$39 million expended between January 1, 1998 and December 31, 1998. Operating cash flow is expected to be sufficient to pay Year 2000 modification costs with no material impact on operating results or cash flows.

## **ENVIRONMENTAL MATTERS**

Protecting the environment from damage, as well as correcting past environmental damage, continues to be a focus of state and federal regulators. Legislation and/or rulemaking could further impact the electric utility industry including Detroit Edison. The U.S. Environmental Protection Agency (EPA) and the Michigan Department of Environmental Quality have aggressive programs regarding the clean-up of contaminated property. Detroit Edison anticipates that it will be periodically included in these types of environmental proceedings.

During 1997 and 1998 the EPA issued ozone transport regulations and final new air quality standards relating to ozone and particulate air pollution. In September 1998, the EPA issued a State Implementation Plan (SIP) call, giving states a year to develop new regulations to limit nitrogen oxide emissions because of their contribution to ozone formation. The EPA draft proposal suggests most emission reductions should come from utilities. If Michigan follows the EPA's recommendations, it is estimated that it will cost Detroit Edison more than \$400 million to comply. Until the state issues its regulations, it is impossible to predict the full impact of the SIP call. Detroit Edison is unable to predict what effect, if any, restructuring of the electric utility industry would have on recoverability of such environmental costs.

## MARKET RISK

Detroit Edison had investments valued at market of \$309 million and \$239 million in three nuclear decommissioning trust funds at December 31, 1998 and 1997, respectively. At December 31, 1998, these investments consisted of approximately 33% in fixed debt instruments, 63% in publicly traded equity securities and 4% in cash equivalents. At December 31, 1997, these investments consisted of approximately 40% in fixed debt instruments and 60% in publicly traded equity securities. A hypothetical 10% increase in interest rates and a 10% decrease in equity prices quoted by stock exchanges would result in a \$9 million and \$8 million reduction in the fair value of debt and a \$20 million and \$ 10 million reduction in the fair value of equity securities held by the trusts at December 31, 1998 and 1997, respectively. Adjustments to market value would result in a corresponding adjustment to other liabilities based on current regulatory treatment.

A hypothetical 10% decrease in interest rates would increase the fair value of long-term debt from \$4.8 billion to \$5.3 billion at December 31, 1998 and from \$4.2 billion to \$4.6 billion at December 31, 1997.

DTE Energy Trading, Inc. (DTE ET), an indirect wholly owned subsidiary of the Company, which provides price risk management services utilizing energy commodity derivative instruments began operations in 1998. The Company measures the risk inherent in DTE ET's portfolio utilizing Value at Risk (VaR) analysis and other methodologies, which simulate forward price curves in electric power markets to quantify estimates of the magnitude and probability of potential future losses related to open contract positions. DTE ET's VaR expresses the potential loss in fair value of its forward contract and option position over a particular period of time, with a specified likelihood of occurrence, due to an adverse market movement. The Company reports VaR as a percentage of its earnings, based on a 95% confidence interval, utilizing 10 day holding periods. At December 31, 1998, DTE ET's VaR from its power marketing and trading activities was less than 1% of the Company's consolidated "Income Before Income Taxes" for the year ending December 31, 1998. The VaR model uses the variance-covariance statistical modeling technique, and implied and historical volatilities and correlations over the past 20 day period. The estimated market prices used to value these transactions for VaR purposes reflect the use of established pricing models and various factors including quotations from exchanges and over-the-counter markets, price volatility factors, the time value of money, and location differentials. For further information, see Notes 1 and 10.

## RESULTS OF OPERATIONS

Net income for 1998 was \$443 million, or \$3.05 per share, up \$26 million over 1997 earnings. The increase in earnings was due to tax credits generated by non-regulated businesses.

Net income for 1997 was \$417 million, or \$2.88 per share, up \$108 million over 1996 earnings. After adjusting 1996 earnings for the steam heating special charges, 1997 earnings reflect a 2.7% increase over the prior year.

Net income for 1996 included a \$149 million (\$97 million after-tax), or \$0.67 per share, special charge following completion of Detroit Edison's review of its steam heating operations.

### Operating Revenues

Operating revenue was \$4.2 billion, up 12.1% from 1997 operating revenue of \$3.8 billion. Operating revenues increased (decreased) due to the following:-

	1998	1997
	(Millions)	
Detroit Edison		
Rate change	\$ (8)	\$ (62)
System sales volume and mix	220	27
Sales between utilities	51	48
Fermi 2 performance disallowances	(11)	(3)
Other - net	(7)	5
Total Detroit Edison	<u>245</u>	<u>15</u>
Non-regulated		
DTE Energy Services	124	89
DTE Coal Services	39	14
DTE Energy Trading	43	-
Other - net	6	1
Total Non-regulated	<u>212</u>	<u>104</u>
Total	<u>\$ 457</u>	<u>\$ 119</u>

Detroit Edison kilowatthour (kWh) sales for 1998 and the percentage change by year were as follows:

	1998	1998	1997
	(Billions of kWh)		
	<b>Sales</b>		
Residential	13.7	6.6%	(0.4)%
Commercial	18.9	5.0	1.6
Industrial	14.7	2.5	2.0
Other (primarily sales for resale)	2.4	27.1	9.7
Total System	49.7	5.5	1.5
Sales between utilities	5.2	46.8	73.4
Total	54.9	8.4	4.5

In 1998, residential sales increased due to more cooling demand and growth in the customer base. Commercial sales increased due to more cooling demand and favorable economic conditions. Industrial sales increased due to higher usage. Sales between utilities increased due to greater demand for energy and increased availability of energy for sale.

In 1997, residential sales decreased due to less heating and cooling demand which more than offset growth in the customer base. Commercial and industrial sales increased for both periods reflecting a continuation of good economic conditions. Sales to other customers increased in both periods due to a greater demand for energy. Sales between utilities also increased in 1997 due to greater demand for energy and increased availability of energy for sale.

## Operating Expenses

### Fuel and Purchased Power

Net system output and average fuel and purchased power unit costs per megawatthour (MWh) for Detroit Edison were as follows:

	1998	1997	1996
	(Thousands of MWh)		
Power plant generation			
Fossil	44,091	42,162	41,829
Nuclear	7,130	5,523	4,750
Purchased power	7,216	6,146	5,149
Net system output	58,437	53,831	51,728
Average unit cost (\$/MWh)	\$ 16.40	\$ 14.54	\$ 15.03

In 1998, fuel and purchased power expense increased for Detroit Edison due to higher purchased power unit costs as a result of price volatility during periods of unseasonably warm summer weather and an 8.6% increase in system output. These increases were partially offset by lower unit costs as a result of increased usage of low-cost nuclear fuel and higher third party revenues credited to inventory.

In 1998, non-regulated purchased power expense increased due to the operations of DTE ET.

In 1997, fuel expense decreased due to the termination of high cost long-term coal contracts, reduction in coal contract buyout expense and a decrease in nuclear fuel costs. Higher purchased power expense was due primarily to increased purchases of power while Fermi 2 was shut down.

### Operation and Maintenance

In 1998, Company operation and maintenance expenses increased \$287 million. Higher non-regulated subsidiary expenses of \$184 million were due to the increased level of non-regulated operations and the addition of new businesses. Higher Detroit Edison expenses of \$103 million were due to higher Year 2000 expenses (\$32.4 million), the 1997 storm expense deferral (\$29.8 million), 1998 emergency restoration and storm expense (\$20.7 million), a 1997 insurance receivable recovery (\$15.3 million), 1997 storm amortization (\$14.2 million), the Conners Creek restart (\$13.3 million), partially offset by cost reductions of (\$22.7 million).

In 1997, Company operation and maintenance expenses increased \$67 million due primarily to increased non-regulated subsidiary (mainly EES Coke Battery Company, Inc. and PCI Enterprises Company) expenses of \$95 million offset by lower net Detroit Edison operation and maintenance expenses.

As a result of stringent cost controls, Detroit Edison operation and maintenance expenses decreased in 1997 due primarily to lower post-retirement benefit (\$18.8 million) and fossil generation (\$15.1 million) expenses, lower minor storm and trouble work (\$13.6 million), the Fermi 2 outage accrual in 1996 (\$13 million) and the receipt of additional insurance proceeds related to the 1993 Fermi 2 turbine replacement (\$9.8 million), partially offset by higher compensation expense related to a shareholder value improvement plan (\$25.7 million).

### Depreciation and Amortization

In 1998, Company depreciation and amortization expense increased due primarily to increases in property, plant and equipment. These increases were almost entirely offset by lower Detroit Edison amortization of regulatory assets.

Depreciation and amortization expense increased in 1997 due primarily to increases in property, plant and equipment.

## **Interest Expense and Other**

### Interest Expense

Interest expense increased in 1998 due primarily to the issuance of debt to finance asset acquisitions of non-regulated subsidiaries and the issuance of debt to redeem Detroit Edison's preferred stock.

Interest expense increased in 1997 due primarily to the issuance of debt to finance asset acquisitions of non-regulated subsidiaries, partially offset by Detroit Edison's mandatory and optional redemption of debt.

### Other - Net

Other-net expense decreased for the Company in 1998 due primarily to lower net write downs of equity investments (\$3 million).

Other-net increased in 1997 due primarily to higher accretion expense (\$9.5 million), lower accretion income (\$3 million) and the write down of an equity investment (\$5 million).

## **Income Taxes**

The effective income tax rate for the Company was lower in 1998 and 1997 due primarily to increased utilization of alternate fuels credits generated from non-regulated businesses. Alternate fuels credits phase out beginning in 2003 through 2007.

## **New Accounting Standard**

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement requires companies to record derivatives on the balance sheet as assets and liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company has not yet determined the impact of this Statement on the consolidated financial statements. This Statement is effective for fiscal years beginning after June 15, 1999, with earlier adoption encouraged. The Company will adopt this accounting standard as required by January 1, 2000.

## **FORWARD-LOOKING STATEMENTS**

Certain information presented herein is based on the expectations of the Company and Detroit Edison, and, as such, is forward-looking. The Private Securities Litigation Reform Act of 1995 encourages reporting companies to provide analyses and estimates of future prospects and also permits reporting companies to point out that actual results may differ from those anticipated.

Actual results for the Company and Detroit Edison may differ from those expected due to a number of variables including, but not limited to, weather, actual sales, the effects of competition and the phased-in implementation of direct access, the implementation of utility restructuring in Michigan (which involves pending regulatory proceedings, possible legislative activity, and the recovery of stranded costs), environmental (including proposed regulations to limit nitrogen oxide emissions) and nuclear requirements, the impact of FERC proceedings and regulations, the success of non-regulated lines of business and the timely completion of Year 2000 modifications. While the Company and Detroit Edison believe that estimates given accurately measure the expected outcome, actual results could vary materially due to the variables mentioned as well as others. This discussion contains a Year 2000 readiness disclosure.

## Item 8 - Financial Statements and Supplementary Data.

The following consolidated financial statements and schedules are included herein.

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Note: Detroit Edison's financial statements are presented here for ease of reference and are not considered to be part of Part II - Item 8 of the Company's report.

## **INDEPENDENT AUDITORS' REPORT**

To the Boards of Directors and Shareholders of  
DTE Energy Company and  
The Detroit Edison Company

We have audited the consolidated balance sheets of DTE Energy Company and subsidiaries and of The Detroit Edison Company and subsidiaries (together, the "Companies") as of December 31, 1998 and 1997, and the related consolidated statements of income, cash flows, and changes in shareholders' equity for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedule listed in the Index at Item 8. These financial statements and financial statement schedule are the responsibility of the Companies' management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of DTE Energy Company and subsidiaries and of The Detroit Edison Company and subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements of the Companies taken as a whole, presents fairly in all material respects the information set forth therein.

**DELOITTE & TOUCHE LLP**

Detroit, Michigan  
January 27, 1999

**DTE Energy Company**  
**Consolidated Statement of Income**  
(Millions, Except Per Share Amounts)

	Year Ended December 31		
	1998	1997	1996
<b>Operating Revenues</b>	<b>\$ 4,221</b>	<b>\$ 3,764</b>	<b>\$ 3,645</b>
<b>Operating Expenses</b>			
Fuel and purchased power	1,063	837	846
Operation and maintenance	1,288	1,001	934
Depreciation and amortization	661	660	625
Steam heating special charge	-	-	149
Taxes other than income	272	265	259
Total Operating Expenses	3,284	2,763	2,813
<b>Operating Income</b>	<b>937</b>	<b>1,001</b>	<b>832</b>
<b>Interest Expense and Other</b>			
Interest expense	319	297	288
Preferred stock dividends of subsidiary	6	12	16
Other - net	15	18	(2)
Total Interest Expense and Other	340	327	302
<b>Income Before Income Taxes</b>	<b>597</b>	<b>674</b>	<b>530</b>
<b>Income Taxes</b>	<b>154</b>	<b>257</b>	<b>221</b>
<b>Net Income</b>	<b>\$ 443</b>	<b>\$ 417</b>	<b>\$ 309</b>
<b>Average Common Shares Outstanding</b>	<b>145</b>	<b>145</b>	<b>145</b>
<b>Earnings per Common Share - Basic and Diluted</b>	<b>\$ 3.05</b>	<b>\$ 2.88</b>	<b>\$ 2.13</b>

(See Notes to Consolidated Financial Statements.)

**DTE Energy Company**  
**Consolidated Statement of Cash Flows**  
(Millions)

Year Ended December 31

	1998	1997	1996
<b>Operating Activities</b>			
Net Income	\$ 443	\$ 417	\$ 309
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	661	660	625
Steam heating special charge	-	-	149
Other	(125)	(29)	(30)
Changes in current assets and liabilities:			
Restricted cash	(67)	(54)	-
Accounts receivable	(84)	(36)	(32)
Inventories	(40)	(36)	42
Payables	15	16	2
Other	65	14	14
Net cash from operating activities	868	952	1,079
<b>Investing Activities</b>			
Plant and equipment expenditures	(555)	(456)	(531)
Investment in coke oven battery businesses	(401)	(211)	-
Nuclear decommissioning trust funds	(70)	(68)	(52)
Other	(11)	(6)	(34)
Net cash used for investing activities	(1,037)	(741)	(617)
<b>Financing Activities</b>			
Issuance of long-term debt	763	250	224
Increase (Decrease) in short-term borrowings	189	32	(27)
Redemption of long-term debt	(255)	(196)	(176)
Redemption of preferred stock	(150)	-	(185)
Dividends on common stock	(299)	(299)	(299)
Other	6	(6)	(11)
Net cash from (used for) financing activities	254	(219)	(474)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>85</b>	<b>(8)</b>	<b>(12)</b>
<b>Cash and Cash Equivalents at Beginning of the Year</b>	<b>45</b>	<b>53</b>	<b>65</b>
<b>Cash and Cash Equivalents at End of the Year</b>	<b>\$ 130</b>	<b>\$ 45</b>	<b>\$ 53</b>
<b>Supplementary Cash Flow Information</b>			
Interest paid (excluding interest capitalized)	\$ 309	\$ 290	\$ 277
Income taxes paid	160	243	207
New capital lease obligations	52	34	35

(See Notes to Consolidated Financial Statements.)

**DTE Energy Company**  
**Consolidated Balance Sheet**  
(Millions, Except Per Share Amounts and Shares)

	December 31	
	1998	1997
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 130	\$ 45
Restricted cash	121	54
Accounts receivable		
Customer (less allowance for doubtful accounts of \$20 for 1998 and 1997)	316	305
Accrued unbilled revenues	153	137
Other	135	78
Inventories (at average cost)		
Fuel	171	130
Materials and supplies	167	173
Other	39	13
	1,232	935
<b>Investments</b>		
Nuclear decommissioning trust funds	309	239
Other	261	57
	570	296
<b>Property</b>		
Property, plant and equipment	11,121	14,495
Property under capital leases	242	256
Nuclear fuel under capital lease	659	607
Construction work in progress	156	16
	12,178	15,374
Less accumulated depreciation and amortization	5,235	6,440
	6,943	8,934
<b>Regulatory Assets</b>	3,091	856
<b>Other Assets</b>	252	202
<b>Total Assets</b>	\$ 12,088	\$ 11,223

(See Notes to Consolidated Financial Statements.)

	December 31	
	1998	1997
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 239	\$ 161
Accrued interest	57	57
Dividends payable	75	78
Accrued payroll	101	81
Short-term borrowings	231	42
Deferred income taxes	60	64
Current portion long-term debt	294	205
Current portion capital leases	118	110
Other	217	219
	<b>1,392</b>	<b>1,017</b>
<b>Other Liabilities</b>		
Deferred income taxes	1,888	1,983
Capital leases	126	137
Regulatory liabilities	294	400
Other	493	203
	<b>2,801</b>	<b>2,723</b>
<b>Long-Term Debt</b>	<b>4,197</b>	<b>3,777</b>
<b>Shareholders' Equity</b>		
Detroit Edison Cumulative Preferred Stock, \$100 par value, 6,747,484 shares authorized, 5,207,657 issued, 1,501,223 shares outstanding in 1997	-	144
Common stock, without par value, 400,000,000 shares authorized, 145,071,317 and 145,097,829 issued and outstanding, respectively	1,951	1,951
Retained earnings	1,747	1,611
	<b>3,698</b>	<b>3,706</b>
<b>Commitments and Contingencies (Notes 1, 2, 3, 9, 10, 11 and 12)</b>		
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 12,088</b>	<b>\$ 11,223</b>

(See Notes to Consolidated Financial Statements.)

**DTE Energy Company**  
**Consolidated Statement of Changes in Shareholders' Equity**  
(Millions, Except Per Share Amounts; Shares in Thousands)

	1998		1997		1996	
	Shares	Amount	Shares	Amount	Shares	Amount
<b>Detroit Edison Cumulative Preferred Stock</b>						
Balance at beginning of year	1,501	\$ 144	1,501	\$ 144	3,351	\$ 327
Redemption of Cumulative Preferred Stock	(1,501)	(150)	-	-	(1,850)	(185)
Preferred stock expense	-	6	-	-	-	2
Balance at end of year	-	\$ -	1,501	\$ 144	1,501	\$ 144
<b>Common Stock</b>						
Balance at beginning of year	145,098	\$ 1,951	145,120	\$ 1,951	145,120	\$ 1,951
Repurchase and retirement of common stock	(27)	-	(22)	-	-	-
Balance at end of year	145,071	\$ 1,951	145,098	\$ 1,951	145,120	\$ 1,951
<b>Retained Earnings</b>						
Balance at beginning of year		\$ 1,611		\$ 1,493		\$ 1,485
Net income		443		417		309
Dividends declared on common stock (\$2.06 per share)		(299)		(299)		(299)
Preferred stock expense		(6)		-		(2)
Other		(2)		-		-
Balance at end of year		\$ 1,747		\$ 1,611		\$ 1,493
<b>Total Shareholders' Equity</b>		<b>\$ 3,698</b>		<b>\$ 3,706</b>		<b>\$ 3,588</b>

(See Notes to Consolidated Financial Statements.)

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**The Detroit Edison Company**  
**Consolidated Statement of Income**  
(Millions)

	Year Ended December 31		
	1998	1997	1996
<b>Operating Revenues</b>	<b>\$ 3,902</b>	<b>\$ 3,657</b>	<b>\$ 3,642</b>
<b>Operating Expenses</b>			
Fuel and purchased power	1,021	837	846
Operation and maintenance	998	895	923
Depreciation and amortization	643	658	624
Steam heating special charge	-	-	149
Taxes other than income	270	264	259
<b>Total Operating Expenses</b>	<b>2,932</b>	<b>2,654</b>	<b>2,801</b>
<b>Operating Income</b>	<b>970</b>	<b>1,003</b>	<b>841</b>
<b>Interest Expense and Other</b>			
Interest expense	277	282	288
Other - net	15	16	-
<b>Total Interest Expense and Other</b>	<b>292</b>	<b>298</b>	<b>288</b>
<b>Income Before Income Taxes</b>	<b>678</b>	<b>705</b>	<b>553</b>
<b>Income Taxes</b>	<b>260</b>	<b>288</b>	<b>225</b>
<b>Net Income</b>	<b>418</b>	<b>417</b>	<b>328</b>
<b>Preferred Stock Dividends</b>	<b>6</b>	<b>12</b>	<b>16</b>
<b>Net Income Available for Common Stock</b>	<b>\$ 412</b>	<b>\$ 405</b>	<b>\$ 312</b>

(See Notes to Consolidated Financial Statements.)

**The Detroit Edison Company**  
**Consolidated Statement of Cash Flows**  
(Millions)

	Year Ended December 31		
	1998	1997	1996
<b>Operating Activities</b>			
Net Income	\$ 418	\$ 417	\$ 328
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	643	658	624
Steam heating special charge	-	-	149
Other	(154)	(3)	(30)
Changes in current assets and liabilities:			
Accounts receivable	(51)	(18)	(30)
Inventories	(31)	(14)	42
Payables	(12)	12	1
Other	60	(1)	2
Net cash from operating activities	873	1,051	1,086
<b>Investing Activities</b>			
Plant and equipment expenditures	(514)	(439)	(479)
Nuclear decommissioning trust funds	(70)	(68)	(52)
Other	(29)	(5)	(18)
Net cash used for investing activities	(613)	(512)	(549)
<b>Financing Activities</b>			
Issuance of long-term debt	200	-	185
Increase (decrease) in short-term borrowings	231	(10)	(27)
Redemption of long-term debt	(219)	(185)	(176)
Redemption of preferred stock	(150)	-	(185)
Dividends on common stock and preferred stock	(326)	(331)	(332)
Cash portion of restructuring dividend to parent	-	-	(56)
Other	(6)	-	(9)
Net cash used for financing activities	(270)	(526)	(600)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(10)</b>	<b>13</b>	<b>(63)</b>
<b>Cash and Cash Equivalents at Beginning of the Period</b>	<b>15</b>	<b>2</b>	<b>65</b>
<b>Cash and Cash Equivalents at End of the Period</b>	<b>\$ 5</b>	<b>\$ 15</b>	<b>\$ 2</b>
<b>Supplementary Cash Flow Information</b>			
Interest paid (excluding interest capitalized)	\$ 269	\$ 277	\$ 277
Income taxes paid	292	277	209
New capital lease obligations	52	34	35
Non-cash portion of restructuring dividend to parent	-	-	27

(See Notes to Consolidated Financial Statements.)

**The Detroit Edison Company**  
**Consolidated Balance Sheet**  
(Millions, Except Per Share Amounts and Shares)

	December 31	
	1998	1997
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 5	\$ 15
Accounts receivable		
Customer (less allowance for doubtful accounts of \$20 for 1998 and 1997)	307	300
Accrued unbilled revenues	153	137
Other	90	63
Inventories (at average cost)		
Fuel	171	130
Materials and supplies	138	150
Other	21	11
	<b>885</b>	<b>806</b>
<b>Investments</b>		
Nuclear decommissioning trust funds	309	239
Other	74	38
	<b>383</b>	<b>277</b>
<b>Property</b>		
Property, plant and equipment	10,610	14,204
Property under capital leases	242	256
Nuclear fuel under capital lease	659	607
Construction work in progress	118	12
	<b>11,629</b>	<b>15,079</b>
Less accumulated depreciation and amortization	5,201	6,431
	<b>6,428</b>	<b>8,648</b>
<b>Regulatory Assets</b>	<b>3,091</b>	<b>856</b>
<b>Other Assets</b>	<b>200</b>	<b>158</b>
<b>Total Assets</b>	<b>\$ 10,987</b>	<b>\$ 10,745</b>

(See Notes to Consolidated Financial Statements.)

	December 31	
	1998	1997
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 211	\$ 150
Accrued interest	54	56
Dividends payable	80	83
Accrued payroll	86	80
Short-term borrowings	231	-
Deferred income taxes	60	64
Current portion long-term debt	219	169
Current portion capital leases	118	110
Other	203	218
	<b>1,262</b>	<b>930</b>
<b>Other Liabilities</b>		
Deferred income taxes	1,846	1,973
Capital leases	126	137
Regulatory liabilities	294	400
Other	484	201
	<b>2,750</b>	<b>2,711</b>
<b>Long-Term Debt</b>	<b>3,462</b>	<b>3,531</b>
<b>Shareholders' Equity</b>		
Cumulative Preferred Stock, \$100 par value, 6,747,484 shares authorized, 5,207,657 issued, 1,501,223 shares outstanding in 1997	-	144
Common stock, \$10 par value, 400,000,000 shares authorized, 145,119,875 issued and outstanding	1,451	1,451
Premium on common stock	548	548
Common stock expense	(48)	(48)
Retained earnings	1,562	1,478
<b>Total Shareholders' Equity</b>	<b>3,513</b>	<b>3,573</b>
<b>Commitments and Contingencies (Notes 1, 2, 3, 9, 10, 11 and 12)</b>		
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 10,987</b>	<b>\$ 10,745</b>

(See Notes to Consolidated Financial Statements.)

**The Detroit Edison Company**  
**Consolidated Statement of Changes in Shareholders' Equity**  
(Millions, Except Per Share Amounts; Shares in Thousands)

	1998		1997		1996	
	Shares	Amount	Shares	Amount	Shares	Amount
<b>Cumulative Preferred Stock</b>						
Balance at beginning of year	1,501	\$ 144	1,501	\$ 144	3,351	\$ 327
Redemption of Cumulative Preferred Stock	(1,501)	(150)	-	-	(1,850)	(185)
Preferred stock expense	-	6	-	-	-	2
Balance at end of year	-	\$ -	1,501	\$ 144	1,501	\$ 144
<b>Common Stock</b>						
	145,120	\$ 1,451	145,120	\$ 1,451	145,120	\$ 1,451
<b>Premium on Common Stock</b>						
		\$ 548		\$ 548		\$ 548
<b>Common Stock Expense</b>						
		\$ (48)		\$ (48)		\$ (48)
<b>Retained Earnings</b>						
Balance at beginning of year		\$ 1,478		\$ 1,392		\$ 1,485
Net income		418		417		328
Dividends declared						
Common stock (\$2.20 per share)		(319)		(319)		(319)
Cumulative Preferred Stock*		(6)		(12)		(16)
Preferred stock expense		(6)		-		(2)
Restructuring dividend to parent		-		-		(84)
Other		(3)		-		-
Balance at end of year		\$ 1,562		\$ 1,478		\$ 1,392
<b>Total Shareholders' Equity</b>		<b>\$ 3,513</b>		<b>\$ 3,573</b>		<b>\$ 3,487</b>

\* At established rate for each series.

(See Notes to Consolidated Financial Statements.)

# **DTE Energy Company and The Detroit Edison Company**

## **Notes to Consolidated Financial Statements**

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### **NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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#### **Corporate Structure and Principles of Consolidation**

DTE Energy Company (Company), a Michigan corporation incorporated in 1995, is an exempt holding company under the Public Utility Holding Company Act. The Company has no significant operations of its own, holding instead the stock of The Detroit Edison Company (Detroit Edison), an electric public utility regulated by the Michigan Public Service Commission (MPSC) and the Federal Energy Regulatory Commission (FERC), and other energy-related businesses. On January 1, 1996, the holders of Detroit Edison's common stock exchanged such stock on a share-for-share basis for the common stock of the Company; and certain Detroit Edison subsidiaries were transferred to the Company in the form of a dividend.

The Company and Detroit Edison consolidate all majority owned subsidiaries. Investments in limited liability companies, partnerships and joint ventures are accounted for using the equity method. All significant inter-company balances and transactions have been eliminated.

#### **Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Regulation and Regulatory Assets and Liabilities**

Detroit Edison's transmission and distribution business meets the criteria of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." This accounting standard recognizes the cost based ratemaking process which results in differences in the application of generally accepted accounting principles between regulated and non-regulated businesses. SFAS No. 71 requires the recording of regulatory assets and liabilities for transactions that would have been treated as revenue and expense in non-regulated businesses. Detroit Edison's regulatory assets and liabilities are being amortized to revenue and expense as they are included in rates. Continued applicability of SFAS No. 71 requires that rates be designed to recover specific costs of providing regulated services and products and that it be reasonable to assume that rates are set at levels that will recover a utility's costs and can be charged to and collected from customers.

MPSC Orders issued in 1997 and 1998 have altered the regulatory process in Michigan and provide a plan for transition to competition for the generation business of Detroit Edison. In guidance issued in 1997, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) concluded that the application of SFAS No. 71 to a separable portion of a business which is subject to a deregulation plan should cease when legislation is passed and/or a rate order is issued that contains sufficient detail on a transition plan. Since MPSC Orders issued through December 31, 1998 contain sufficient detail on a transition plan, effective December 31, 1998 Detroit Edison's generation business no longer met the criteria of SFAS No. 71. Detroit Edison did not write off any regulatory assets as a result of the discontinuation of SFAS No. 71 for its generation business, because EITF No. 97-4, "Deregulation of the Pricing of Electricity – Issues Related to the Application of FASB Statement No. 71, Accounting for the Effects of Certain Types of Regulation, and No. 101, Regulated Enterprises – Accounting for the Discontinuation of Application of FASB Statement No. 71," permits the recording of regulatory assets which are expected to be recovered through regulated rates. A December 1998 MPSC Order authorized the recovery of an additional regulatory asset equal to the net book value of Fermi 2 at December 31, 1998. See the following table of regulatory assets and liabilities and Note 2 for further details.

Detroit Edison has recorded the following regulatory assets and liabilities at December 31:

	1998	1997
	(Millions)	
<b>Assets</b>		
Unamortized nuclear costs	\$ 2,808	\$ -
Unamortized loss on reacquired debt	94	101
Recoverable income taxes	107	562
Power supply cost recovery	49	-
Fermi 2 phase-in plan	-	84
Fermi 2 deferred amortization	-	66
1997 storm damage costs	15	30
Other	18	13
Total Assets	<u>\$ 3,091</u>	<u>\$ 856</u>
<b>Liabilities</b>		
Unamortized deferred investment tax credits	\$ 188	\$ 301
Fermi 2 capacity factor performance standard	86	74
Other	20	25
Total Liabilities	<u>\$ 294</u>	<u>\$ 400</u>

**Unamortized nuclear costs** - See Note 2.

### **Unamortized loss on reacquired debt**

In accordance with MPSC regulations applicable to Detroit Edison, the discount, premium and expense related to debt redeemed with refunding are amortized over the life of the replacement issue or if related to the generation business amortized through 2007. Discount, premium and expense on future early redemptions of debt will be charged to earnings if they relate to the generation business of Detroit Edison or the non-regulated businesses of the Company.

### **Recoverable income taxes**

Recoverable income taxes, a regulatory asset, represent future revenue recovery from customers for deferred income taxes recorded upon the adoption of SFAS No. 109, "Accounting for Income Taxes," in 1993. At that time, an increase in accumulated deferred income tax liabilities was recorded representing the tax effect of temporary differences not previously recognized and the recomputation of the tax liability at the current tax rate. The MPSC issued an Order providing assurance that the effects of previously flowed-through tax benefits will continue to be allowed rate recovery.

### **Power supply cost recovery (PSCR)**

State legislation provides Detroit Edison a mechanism, subject to MPSC approval, for recovery of changes in power supply costs for purchased power and generation based on a reconciliation of actual costs and usage.

### **Fermi 2 phase-in plan**

SFAS No. 92, "Regulated Enterprises - Accounting for Phase-in Plans," permits the capitalization of costs deferred for future recovery under a phase-in plan. Based on a MPSC authorized phase-in plan, Detroit Edison recorded a receivable totaling \$506.5 million from 1988 through 1992. Beginning in 1993 and ending in 1998, these amounts were amortized to operating expense as they were included in rates. Amortization of these amounts totaled \$84 million, \$112 million, and \$102 million in, 1998, 1997 and 1996, respectively.

### **Fermi 2 deferred amortization**

Effective December 31, 1998 deferred amounts are included in unamortized nuclear costs.

### **1997 storm damage costs**

The costs of major storms in 1997, as authorized by the MPSC, were deferred and are amortized into expense in 1998 and 1999 as they are recovered through rates.

### **Unamortized deferred investment tax credits**

Investment tax credits utilized, which relate to utility property, were deferred and are amortized over the estimated composite service life of the related property.

### **Fermi 2 capacity factor performance standard**

The MPSC has established a capacity factor performance standard which provides for the disallowance of net incremental replacement power cost if Fermi 2 does not perform to certain operating criteria. A disallowance is imposed for the amount by which the Fermi 2 three-year rolling average capacity factor is less than the greater of either the average of the top 50% of U.S. boiling water reactors or 50%. An estimate of the incremental cost of replacement power is required in computing the reserve for amounts due customers under this performance standard.

### **Cash Equivalents**

For purposes of the Consolidated Statement of Cash Flows, the Company considers investments purchased with a maturity of three months or less to be cash equivalents.

### **Restricted Cash**

Cash maintained for debt service requirements and other contractual obligations is classified as restricted cash.

### **Revenues**

Detroit Edison records unbilled revenues for electric and steam heating services provided after cycle billings through month-end.

## Property, Retirement and Maintenance, Depreciation and Amortization

A summary of property by classification at December 31 is as follows:

	1998	1997
	(Millions)	
Transmission and distribution		
Property	\$ 5,354	\$ 5,074
Construction work in progress	3	1
Property under capital leases	5	6
Less accumulated depreciation	<u>(2,063)</u>	<u>(1,912)</u>
	<u>3,299</u>	<u>3,169</u>
Generation		
Property	5,256	9,130
Construction work in progress	115	11
Property under capital leases	237	250
Less accumulated depreciation	<u>(2,587)</u>	<u>(4,011)</u>
	<u>3,021</u>	<u>5,380</u>
Nuclear fuel under capital lease	659	607
Less accumulated amortization	<u>(551)</u>	<u>(508)</u>
	<u>108</u>	<u>99</u>
Non-utility		
Property	511	291
Construction work in progress	38	4
Less accumulated depreciation	<u>(34)</u>	<u>(9)</u>
	<u>515</u>	<u>286</u>
 Total property	 <u>\$ 6,943</u>	 <u>\$ 8,934</u>

Utility properties are stated at original cost less regulatory disallowances and impairment losses. In general, the cost of properties retired in the normal course of business is charged to accumulated depreciation. Expenditures for maintenance and repairs are charged to expense, and the cost of new property installed, which replaces property retired, is charged to property accounts. The annual provision for utility property depreciation is calculated on the straight-line remaining life method by applying annual rates approved by the MPSC to the average of year-beginning and year-ending balances of depreciable property by primary plant accounts. Provision for depreciation of Fermi 2, excluding decommissioning expense, was 3.25% of average depreciable property for 1998, 1997 and 1996. Provision for depreciation of all other utility plant, as a percent of average depreciable property, was 3.29% for 1998, 1997 and 1996.

Non-utility property is stated at original cost. Depreciation is computed over the estimated useful lives using straight-line and declining-balance methods.

### **Long-Lived Assets**

Long-lived assets held and used by the Company are reviewed based on market factors and operational considerations for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

### **Software Costs**

The Company capitalizes the cost of software developed for internal use. These costs are amortized on a straight-line basis over a five-year period beginning with the project's completion.

### **Capitalization - Discount and Cost**

The discount and cost related to the issuance of long-term debt are amortized over the life of each issue.

### **Fermi 2 Refueling Outages**

Detroit Edison recognizes the cost of Fermi 2 refueling outages over periods in which related revenues are recognized. Under this procedure, a provision is recorded for incremental costs anticipated to be incurred during the next scheduled Fermi 2 refueling outage.

### **Stock-Based Compensation**

The Company accounts for stock-based compensation using the intrinsic value method. Compensation expense is not recorded for stock options granted with an exercise price equal to the fair market value at the date of grant. For grants of restricted stock, compensation equal to the market value of the shares at the date of grant is deferred and amortized to expense over the vesting period.

### **Accounting for Risk Management Activities**

Trading activities of DTE Energy Trading, Inc. (DTE ET), an indirect wholly owned subsidiary of the Company, are accounted for using the mark-to-market method of accounting. Under such method, DTE ET's energy trading contracts, including both transactions for physical delivery and financial instruments, are recorded at market value. The resulting unrealized gains and losses from changes in market value of open positions are recorded as assets or liabilities on the Consolidated Balance Sheet. Current period changes in the assets or liabilities are recognized as net gains or losses in "Operating Revenues" on the Consolidated Statement of Income. Realized gains and losses are also recognized in "Operating Revenues." The market prices used to value these transactions reflect management's best estimate considering various

factors, including closing exchange and over-the-counter quotations, time value and volatility factors underlying the commitments.

Detroit Edison continues to account for its forward purchase and sale commitments and over-the-counter options on a settlement basis.

### **Reclassifications**

Certain prior year balances have been reclassified to conform to the 1998 presentation.

## **NOTE 2 - REGULATORY MATTERS**

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Detroit Edison is subject to the primary regulatory jurisdiction of the MPSC, which, from time to time, issues its Orders pertaining to Detroit Edison's conditions of service, rates and recovery of certain costs including the costs of generating facilities. MPSC Orders issued December 1988, January 1994, November 1997 and December 1998 are currently in effect with respect to Detroit Edison's rates and certain other revenue, accounting, and operating-related matters.

### **Electric Industry Restructuring**

There are ongoing proceedings for the restructuring of the Michigan electric public utility industry and the implementation of a direct access program. In 1997 and 1998, the MPSC issued several Orders relating to direct access and competition.

In July 1998, Detroit Edison filed an application with the MPSC, indicating that accelerated amortization of Detroit Edison's Fermi 2 assets was necessary to provide a reasonable opportunity for Detroit Edison to recover its investment in those assets. In a December 28, 1998 Order, the MPSC authorized the accelerated amortization of the remaining net book balances (as of December 31, 1998) of Fermi 2 and its associated regulatory assets in a manner that will provide an opportunity for full recovery under current base rates, taking into account the related tax consequences, of those assets by December 31, 2007.

The December 28, 1998 Order imposed six conditions for the recovery by Detroit Edison of accelerated amortization of Fermi 2 and required a signed acceptance. In a January 15, 1999 response, Detroit Edison requested a clarifying Order from the MPSC. Subject to receipt of the requested clarifying Order, Detroit Edison has;

- reduced its rates by application of a credit equal to 2.787% (\$93.8 million annually) of base rates, effective January 1, 1999;
- indicated it will reduce its jurisdictional retail rates by removing the Fermi 2 regulatory asset, referred to in Note 1 as unamortized nuclear costs, from rate base on a pro rata jurisdictional rate basis when such asset reaches zero, which is currently anticipated to occur January 1, 2008;
- indicated that while it has no plans to sell Fermi 2, should such a sale occur, it will return to customers the difference between Fermi 2's net book value at the time of

sale and the actual sale price; and the MPSC will be advised of a purchase of Detroit Edison during the accelerated amortization period so that the MPSC may determine whether the proposed transaction is in the public interest and properly balances the interests of investors and customers;

- agreed that should Detroit Edison seek to abandon Fermi 2 (which Detroit Edison has no plans to do) during the accelerated amortization period, and only if electric generation has not been deregulated by either Michigan state or federal action, Detroit Edison will initiate a contested case proceeding before the MPSC seeking approval of the abandonment;
- agreed to fully abide by the direct access program (and schedule) established by the MPSC in previous restructuring orders; and
- indicated that if its earned rate of return exceeds its authorized rate of return during the period of time that amortization of Fermi 2 is being accelerated, it will apply 50% of the excess earnings to reduce its stranded investment.

*Petitions for rehearing on the December 28, 1998 MPSC Order have been filed by several parties.*

### **Accounting Implications**

Detroit Edison accounts for its transmission and distribution business in accordance with SFAS No. 71 which requires recognition of the effects of rate regulation in the financial statements. Continued application of SFAS No. 71 by Detroit Edison requires: 1) third party regulation of rates, 2) cost-based rates, and 3) a reasonable assumption that all costs will be recoverable from customers through rates.

In 1997, the FASB issued EITF No. 97-4. The EITF indicated that: 1) an entity should cease to apply SFAS No. 71 no later than the date the specific deregulation plan is ordered by legislation or by a regulatory authority and the details of the plan are known, and 2) both stranded costs and regulated assets and liabilities should continue to be recognized to the extent that the transition plan provides for their recovery through a separate regulated business.

Detroit Edison believes that the restructuring orders provide sufficient details regarding the transition to competition for its electric generation business and therefore SFAS No. 71 should no longer be applied to that business. Accordingly, effective December 31, 1998, Detroit Edison adopted the provisions of SFAS No. 101, "Regulated Enterprises-Accounting for the Discontinuation of Application of FASB Statement No. 71," for its electric generation business. SFAS No. 101 requires an evaluation to be performed to determine whether or not indications of impairment exist for plant assets under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the elimination of certain effects of rate regulation that have been recognized as assets or liabilities pursuant to SFAS No. 71.

At December 31, 1998 Detroit Edison performed an impairment test of its Fermi 2 nuclear generation plant and related regulatory assets pursuant to SFAS No. 121. The impairment test for Fermi 2 indicated that it was fully impaired. Therefore, the Fermi 2

plant asset and its related regulatory assets were written off. At December 31, 1998, the accumulation of future regulatory recovery for Fermi 2 assets from bundled customers and transition surcharges from unbundled customers was calculated. Since the December 28, 1998 MPSC Order provides for full recovery of Fermi 2, a regulatory asset was established which will be amortized through December 31, 2007. There was no impact on income from the write off of the Fermi 2 plant assets and subsequent recording of the regulatory asset for unamortized nuclear costs.

A summary of the regulatory asset established at December 31, 1998 is shown in the following table:

	(Millions)
Net book value of Fermi 2 before write down	\$ 2,508
Fermi 2 future income tax regulatory asset	331
Fermi 2 deferred amortization	66
Deferred investment tax credit	(97)
Unamortized nuclear costs	<u>\$ 2,808</u>

### 1988 Settlement Agreement

The December 1988 MPSC Order established for the period January 1989 through December 2003: 1) a cap on Fermi 2 capital additions of \$25 million per year, in 1988 dollars adjusted by the Consumers Price Index (CPI), cumulative, 2) a cap on Fermi 2 non-fuel operation and maintenance expenses adjusted by the CPI and 3) a capacity factor performance standard based on a three-year rolling average commencing in 1991. For a capital investment of \$200 million or more (in 1988 dollars adjusted by the CPI), Detroit Edison must obtain prior MPSC approval to include the investment in rate base. Under the cap on Fermi 2 capital expenditures, the cumulative amount available totals \$72 million (in 1998 dollars) at December 31, 1998. Under the cap on Fermi 2 non-fuel operation and maintenance expenses, the cumulative amount available totals \$105 million (in 1998 dollars) at December 31, 1998.

Under the December 1988 Order, if nuclear operations at Fermi 2 permanently cease, amortization in rates of a \$513 million investment in Fermi 2 would continue and the remaining net rate base investment amount would be removed from rate base and amortized in rates, without return, over 10 years with such amortization not to exceed \$290 million per year. The December 1988 and January 1994 Orders do not address the costs of decommissioning if the operations at Fermi 2 prematurely cease.

In accordance with a November 1997 MPSC Order, Detroit Edison reduced revenues by \$53 million to reflect the scheduled reduction in the revenue requirement for Fermi 2, in accordance with the 1988 settlement agreement. The \$53 million decrease is included in the \$93.8 million decrease effective January 1, 1999. In addition, the November 1997 MPSC Order authorized the deferral of \$30 million of 1997 storm

damage costs and amortization and recovery of the costs over a 24-month period commencing January 1998. In December 1997, the Association of Businesses Advocating Tariff Equity in Michigan and the Residential Ratepayer Consortium filed a lawsuit in Ingham County Circuit Court contending that Detroit Edison and the MPSC breached the December 1988 MPSC Order by offsetting the stipulated revenue reduction with the amortization of the storm costs. The Michigan Attorney General has filed an appeal of the November 1997 Order in the Michigan Court of Appeals.

### **NOTE 3 - FERMI 2**

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#### **General**

Fermi 2, a nuclear generating unit, began commercial operation in January 1988. The Nuclear Regulatory Commission (NRC) maintains jurisdiction over the licensing and operation of Fermi 2. Fermi 2 has a design electrical rating (net) of 1,150 megawatts (MW). This unit represents approximately 12% of total operation and maintenance expenses and 11% of summer net rated capability. The net book balance of the Fermi 2 plant was written off at December 31, 1998 and an equivalent regulatory asset was established.

Ownership of an operating nuclear generating unit subjects Detroit Edison to significant additional risks. Fermi 2 is regulated by a number of different governmental agencies concerned with public health, safety and environmental protection. Consequently, Fermi 2 is subjected to greater scrutiny than a conventional fossil-fueled plant. See Note 2.

#### **Insurance**

Detroit Edison insures Fermi 2 with property damage insurance provided by Nuclear Electric Insurance Limited (NEIL). The NEIL insurance policies provide \$500 million of composite primary coverage (with a \$1 million deductible) and \$2.25 billion of excess coverage, respectively, for stabilization, decontamination and debris removal costs, repair and/or replacement of property and decommissioning. Accordingly, the combined limits provide total property damage insurance of \$2.75 billion.

Detroit Edison maintains insurance policies with NEIL providing for extra expenses, including certain replacement power costs necessitated by Fermi 2's unavailability due to an insured event. These policies have a 17-week waiting period and provide for three years of coverage.

Under the NEIL policies, Detroit Edison could be liable for maximum retrospective assessments of up to approximately \$20 million per loss if any one loss should exceed the accumulated funds available to NEIL.

As required by federal law, Detroit Edison maintains \$200 million of public liability insurance for a nuclear incident. Further, under the Price-Anderson Amendments Act of 1988, deferred premium charges of \$83.9 million could be levied against each licensed nuclear facility, but not more than \$10 million per year per facility. On December 31,

1998, there were 109 licensed nuclear facilities in the United States. Thus, deferred premium charges in the aggregate amount of approximately \$9.1 billion could be levied against all owners of licensed nuclear facilities in the event of a nuclear incident at any of these facilities.

### **Decommissioning**

The NRC has jurisdiction over the decommissioning of nuclear power plants and requires decommissioning funding based upon a formula. The MPSC and FERC regulate the recovery of costs of decommissioning nuclear power plants and both require the use of external trust funds to finance the decommissioning of Fermi 2. Base rates approved by the MPSC provide for the decommissioning costs of Fermi 2. Detroit Edison is continuing to fund FERC jurisdictional amounts for decommissioning even though explicit provisions are not included in FERC rates. Detroit Edison believes that the MPSC and FERC collections will be adequate to fund the estimated cost of decommissioning using the NRC formula.

Detroit Edison has established external trust funds to hold decommissioning and low-level radioactive waste disposal funds collected from customers. During 1998, 1997 and 1996 Detroit Edison collected \$36.2 million, \$35.5 million and \$37.7 million, respectively, from customers for decommissioning and low-level radioactive waste disposal. Such amounts were recorded as components of depreciation and amortization expense in the Consolidated Statement of Income and in other liabilities in the Consolidated Balance Sheet at December 31, 1998 and in accumulated depreciation and amortization at December 31, 1997. Net unrealized gains of \$36.8 million and \$31.5 million in 1998 and 1997, respectively, were recorded as increases to the nuclear decommissioning trust funds and other liabilities in the Consolidated Balance Sheet at December 31, 1998 and in accumulated depreciation and amortization at December 31, 1997.

At December 31, 1998, Detroit Edison had a reserve of \$265.6 million for the future decommissioning of Fermi 2 and \$11.1 million for low-level radioactive waste disposal costs. These reserves are included in other liabilities in the Consolidated Balance Sheet at December 31, 1998 and in accumulated depreciation and amortization at December 31, 1997, with a like amount deposited in external trust funds. It is estimated that the cost of decommissioning Fermi 2 when its license expires in the year 2025 will be \$649 million in 1998 dollars and \$3 billion in 2025 dollars using a 6% inflation rate.

Detroit Edison also had a reserve of \$32.1 million at December 31, 1998 for the future decommissioning of Fermi 1, an experimental nuclear unit on the Fermi 2 site that has been shut down since 1972. This reserve is included in other liabilities in the Consolidated Balance Sheet with a like amount deposited in an external trust fund. Detroit Edison estimates that the cost of decommissioning Fermi 1 in the year 2025 is between \$29 million and \$32 million in 1998 dollars and between \$146 million and \$161 million in 2025 dollars using a 6% inflation rate.

The FASB is reviewing the accounting for obligations associated with the retirement of long-lived assets, including decommissioning of nuclear power plants.

## Capacity Factor Performance Standard

The capacity factor disallowance for 1997 has not yet been determined by the MPSC. At December 31, 1998 and 1997, Detroit Edison had accruals of \$85.6 million and \$74 million, respectively, for the Fermi 2 capacity factor performance standard disallowances that are expected to be imposed by the MPSC during the period 1997-2003.

## Nuclear Fuel Disposal Costs

In accordance with the Federal Nuclear Waste Policy Act of 1982, Detroit Edison has a contract with the United States Department of Energy (DOE) for the future storage and disposal of spent nuclear fuel from Fermi 2. Detroit Edison is obligated to pay DOE a fee of one mill per net kilowatthour of Fermi 2 electricity generated and sold. The fee is a component of nuclear fuel expense. Delays have occurred in the DOE's program for the acceptance and disposal of spent nuclear fuel at a permanent repository. Until the DOE is able to fulfill its obligation under the contract, Detroit Edison is responsible for the spent nuclear fuel storage and estimates that existing storage capacity will be sufficient until the year 2001, or until 2015 with expansion of such storage capacity.

## NOTE 4 - JOINTLY-OWNED UTILITY PLANT

Detroit Edison's portion of jointly-owned utility plant is as follows:

	Belle River	Ludington Pumped Storage
In-service date	1984-1985	1973
Ownership interest	*	49%
Investment (millions)	\$ 1,031	\$ 192
Accumulated depreciation (millions)	\$ 393	\$ 88

\* Detroit Edison's ownership interest is 62.78% in Unit No. 1, 81.39% of the portion of the facilities applicable to Belle River used jointly by the Belle River and St. Clair Power Plants, 49.59% in certain transmission lines and, at December 31, 1998, 75% in facilities used in common with Unit No. 2.

## Belle River

The Michigan Public Power Agency (MPPA) has an ownership interest in Belle River Unit No. 1 and certain other related facilities. MPPA is entitled to 18.61% of the capacity and energy of the entire plant and is responsible for the same percentage of the plant's operation and maintenance expenses and capital improvements.

## Ludington Pumped Storage

Operation, maintenance and other expenses of the Ludington Pumped Storage Plant are shared by Detroit Edison and Consumers Energy in proportion to their respective ownership interests in the plant.

### NOTE 5 - INCOME TAXES

Total income tax expense as a percent of income before tax varied from the statutory federal income tax rate for the following reasons:

	1998	1997	1996
Statutory income tax rate	35.0 %	35.0 %	35.0 %
Deferred Fermi 2 depreciation and return	3.9	4.6	5.3
Investment tax credit	(2.5)	(2.1)	(2.8)
Depreciation	5.1	4.6	6.0
Removal costs	(1.9)	(1.5)	(2.2)
Alternate fuels credit	(13.1)	(3.5)	(0.4)
Other-net	(1.0)	0.4	(0.4)
Effective income tax rate	25.5 %	37.5 %	40.5 %

Components of income tax expense were as follows:

	1998	1997	1996
	(Millions)		
Current federal income tax expense	\$ 143	\$ 267	\$ 219
Deferred federal income tax expense - net	26	5	17
Investment tax credit	(15)	(15)	(15)
Total	\$ 154	\$ 257	\$ 221

Internal Revenue Code Section 29 provides a tax credit (alternate fuels credit) for qualified fuels produced and sold by a taxpayer to an unrelated person during the taxable year. The alternate fuels credit reduced current federal income tax expense \$79 million, \$24.2 million and \$1.9 million for 1998, 1997 and 1996 respectively.

Deferred income tax assets (liabilities) were comprised of the following at December 31:

	1998	1997
	(Millions)	
Property	\$ (1,139)	\$ (2,233)
Unamortized nuclear costs	(983)	-
Property taxes	(66)	(62)
Investment tax credit	154	162
Reacquired debt losses	(32)	(35)
Contributions in aid of construction	63	55
Other	55	66
	<u>\$ (1,948)</u>	<u>\$ (2,047)</u>
Deferred income tax liabilities	\$ (2,447)	\$ (2,572)
Deferred income tax assets	499	525
	<u>\$ (1,948)</u>	<u>\$ (2,047)</u>

The federal income tax returns of the Company are settled through the year 1991. The Company believes that adequate provisions for federal income taxes have been made through December 31, 1998.

#### **NOTE 6 - SHAREHOLDERS' EQUITY**

At December 31, 1998, the Company had Cumulative Preferred Stock, without par value, 5 million shares authorized with no shares issued. At December 31, 1998, 1.5 million shares of preferred stock are reserved for issuance in accordance with the Shareholders Rights Agreement.

At December 31, 1998, Detroit Edison had Cumulative Preference Stock of \$1 par value, 30 million shares authorized with no shares issued.

Detroit Edison's 7.75% Series of Cumulative Preferred Stock was redeemed in May 1998, while its 7.74% Series was redeemed in December 1998. There was no Cumulative Preferred Stock outstanding at December 31, 1998. Detroit Edison had the following Cumulative Preferred Stock outstanding at December 31, 1997:

	Shares Outstanding (Thousands)	Amount (millions)
7.75% Series	1,001	\$ 100
7.74% Series	500	50
Preferred stock expense	-	(6)
	<u>1,501</u>	<u>\$ 144</u>

In September 1997, the Board of Directors of the Company declared a dividend distribution of one right (Right) for each share of Company common stock outstanding. Under certain circumstances, each Right entitles the shareholder to purchase one one-hundredth of a share of Company Series A Junior Participating Preferred Stock at a price of \$90. The Right is transferable apart from the Company common stock until 10 days following a public announcement that a person or group has acquired beneficial ownership of 10% or more of outstanding Company common shares, or the commencement or announcement of a reclassification, merger or consolidation which would result in a 10% plus shareholder increasing its ownership of the Company more than 1%. If the acquiring person or group acquires 10% or more of the Company common stock, and the Company survives, each Right (other than those held by the acquirer) will entitle its holder to buy Company common stock having a value of \$180 for \$90. If the acquiring person or group acquires 10% or more of the Company common stock, and the Company does not survive, each Right (other than those held by the surviving or acquiring company) will entitle its holder to buy shares of common stock of the surviving or acquiring company having a value of \$180 for \$90. The Rights will expire on October 6, 2007 unless redeemed by the Company at \$0.01 per Right at any time prior to an event which would permit the Rights to be exercised. The Company may amend the Rights agreement without the approval of the holders of the Rights Certificates, except that the redemption price may not be less than \$0.01 per Right.

Apart from MPSC or FERC approval and the requirement that common, preferred and preference stock be sold for at least par value, there are no legal restrictions on the issuance of additional authorized shares of stock by Detroit Edison.

There are no legal restrictions on the issuance of additional authorized shares of the Company's common and preferred stock.

#### **NOTE 7 - LONG-TERM DEBT**

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Detroit Edison's 1924 Mortgage and Deed of Trust (Mortgage), the lien of which covers substantially all of Detroit Edison's properties, provides for the issuance of additional General and Refunding Mortgage Bonds (Mortgage Bonds). At December 31, 1998, approximately \$3.8 billion principal amount of Mortgage Bonds could have been issued on the basis of property additions, combined with an earnings test provision, assuming an interest rate of 6.25% on any such additional Mortgage Bonds. An additional \$1.6 billion principal amount of Mortgage Bonds could have been issued on the basis of bond retirements.

Unless an event of default has occurred, and is continuing, each series of Quarterly Income Debt Securities (QUIDS) provides that interest will be paid quarterly. However, Detroit Edison also has the right to extend the interest payment period on the QUIDS for up to 20 consecutive interest payment periods. Interest would continue to accrue during the deferral period. If this right is exercised, Detroit Edison may not declare or pay dividends on, or redeem, purchase or acquire, any of its capital stock during the deferral

period. Detroit Edison may redeem any series of capital stock pursuant to the terms of any sinking fund provisions during the deferral period. Additionally, during any deferral period, Detroit Edison may not enter into any inter-company transactions with any affiliate of Detroit Edison, including the Company, to enable the payment of dividends on any equity securities of the Company.

At December 31, 1998, \$113 million of tax exempt revenue bonds were subject to periodic remarketings within one year. Remarketing agents remarket the bonds at the lowest interest rate necessary to produce a par bid. In the event that a tax exempt revenue bond remarketing fails, Standby Note Purchase Agreements and/or Letters of Credit provide that banks will purchase the bonds and, after the conclusion of all necessary proceedings, remarket the bonds. In the event the banks' obligations under the Standby Note Purchase Agreements and/or Letters of Credit are not honored, then, Detroit Edison would be required to purchase any bonds subject to a failed remarketing.

The Company's long-term debt outstanding at December 31 was:

	1998	1997
	(Millions)	
<b>Mortgage Bonds</b>		
6.5% to 8.4% due 1999 to 2023	\$ 1,742	\$ 1,911
<b>Remarketed Notes</b>		
5.4% to 6.4% due 2028 to 2034 (a)	410	410
6.2% and 7.1% due 2038	400	-
<b>Tax Exempt Revenue Bonds</b>		
<b>Secured by Mortgage Bonds</b>		
Installment Sales Contracts		
7.1% due 2004 to 2024 (b)	282	282
Loan Agreements		
6.7% due 2008 to 2025 (b)	607	607
<b>Unsecured</b>		
Installment Sales Contracts		
7.5% due 2004 to 2019 (b)	142	142
Loan Agreements		
3.2% due 2024 to 2030 (a)	113	113
<b>QUIDS</b>		
7.4% to 7.6% due 2026 to 2028	385	235
<b>Non-Recourse Debt</b>		
7.3% due 1999 to 2009 (b)	410	282
Less amount due within one year	<u>(294)</u>	<u>(205)</u>
<b>Total Long-Term Debt</b>	<u>\$ 4,197</u>	<u>\$ 3,777</u>

(a) Variable rate at December 31, 1998.

(b) Weighted average interest rate at December 31, 1998.

In the years 1999 - 2003, the Company's long-term debt maturities are \$294, \$270, \$194, \$275 and \$238 million, respectively.

#### **NOTE 8 - SHORT-TERM CREDIT ARRANGEMENTS AND BORROWINGS**

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At December 31, 1998, Detroit Edison had total short-term credit arrangements of approximately \$685 million, under which \$231 million was outstanding. At December 31, 1997 there were no amounts outstanding. The weighted average interest rates for short-term borrowings during 1998, 1997 and 1996 were 5.7%, 5.7% and 5.6%, respectively.

Detroit Edison had bank lines of credit of \$201 million, all of which had commitment fees in lieu of compensating balances. Detroit Edison uses bank lines of credit and other credit facilities to support the issuance of commercial paper and bank loans. Detroit Edison had \$231 million of commercial paper outstanding at December 31, 1998. Detroit Edison had no commercial paper outstanding at December 31, 1997.

Detroit Edison had a nuclear fuel financing arrangement (heat purchase contract) with Renaissance Energy Company (Renaissance), an unaffiliated company. Renaissance may issue commercial paper or borrow from participating banks on the basis of promissory notes. To the extent the maximum amount of funds available to Renaissance (currently \$400 million) is not needed by Renaissance to purchase nuclear fuel, such funds may be loaned to Detroit Edison for general corporate purposes pursuant to a separate Loan Agreement. At December 31, 1998, approximately \$284 million was available to Detroit Edison under such Loan Agreement. See Note 9 for a discussion of Detroit Edison's heat purchase contract with Renaissance.

Detroit Edison had a \$200 million short-term financing agreement secured by its customer accounts receivable and unbilled revenues portfolio. Borrowings are at prevailing money market rates. At December 31, 1998 and December 31, 1997 there were no amounts outstanding.

At December 31, 1998, DTE Capital Corporation (DTE Capital), a Company subsidiary, had short-term credit arrangements of \$400 million backed by a Support Agreement from the Company. The credit agreement provides support for DTE Capital's commercial paper. At December 31, 1998 there was no commercial paper outstanding. At December 31, 1997 DTE Capital had short-term credit arrangements of \$200 million, backed by a Support Agreement from the Company under which \$42 million was outstanding. Also in January 1998, the Company entered into a \$60 million Support Agreement with DTE Capital for the purpose of DTE Capital's credit enhancing activities on behalf of DTE Energy affiliates.

#### **NOTE 9 - LEASES**

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Future minimum lease payments under long-term non-cancelable leases, consisting of nuclear fuel (\$120 million computed on a projected units of production basis), lake

vessels (\$25 million), locomotives and coal cars (\$172 million), office space (\$12 million), and computers, vehicles and other equipment (\$1 million) at December 31, 1998 are as follows:

(Millions)						
1999	2000	2001	2002	2003	Remaining Years	Total
\$ 69	\$ 52	\$ 44	\$ 35	\$ 20	\$ 110	<u>\$ 330</u>

Rental expenses for both capital and operating leases were \$96 million (including \$49 million for nuclear fuel), \$72 million (including \$42 million for nuclear fuel) and \$78 million (including \$53 million for nuclear fuel) for 1998, 1997 and 1996, respectively.

Detroit Edison has a heat purchase contract with Renaissance which provides for the purchase by Renaissance for Detroit Edison of up to \$400 million of nuclear fuel, subject to the continued availability of funds to Renaissance to purchase such fuel. Title to the nuclear fuel is held by Renaissance. Detroit Edison makes quarterly payments under the heat purchase contract based on the consumption of nuclear fuel for the generation of electricity.

Under SFAS No. 71, amortization of Detroit Edison's leased assets is modified so that the total of interest on the obligation and amortization of the leased asset is equal to the rental expense allowed for ratemaking purposes. For ratemaking purposes, the MPSC has treated all leases as operating leases. Net income was not affected by capitalization of leases. Due to the discontinuation of the application of SFAS No. 71 for the generation business effective December 31, 1998, prospectively, the costs of these assets will be amortized based on their economic useful lives.

## **NOTE 10 - FINANCIAL INSTRUMENTS**

### **Trading Activities**

DTE ET markets and trades electricity and natural gas physical products and financial instruments, and provides risk management services utilizing energy commodity derivative instruments which include futures, exchange traded and over-the-counter options, and forward purchase and sale commitments. The notional amounts and terms of DTE ET's outstanding energy trading financial instruments and the fair values of DTE ET's energy commodity derivative instruments were not material at December 31, 1998.

### **Market Risk**

DTE ET manages, on a portfolio basis, the market risks inherent in its activities subject to parameters established by the Company's Risk Management Committee (RMC), which is authorized by its Board of Directors. Market risks are monitored by the RMC to

ensure compliance with the Company's stated risk management policies. DTE ET marks its portfolio to market and measures its risk on a daily basis in accordance with Value at Risk (VaR) and other risk methodologies. The quantification of market risk using VaR provides a consistent measure of risk across diverse energy markets and products.

### ***Credit Risk***

DTE ET is exposed to credit risk in the event of nonperformance by customers or counterparties of its contractual obligations. The concentration of customers and/or counterparties may impact overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions. However, DTE ET maintains credit policies with regard to its customers and counterparties that management believes significantly minimize overall credit risk. These policies include an evaluation of potential customers' and counterparties' financial condition and credit rating, collateral requirements or other credit enhancements such as letters of credit or guarantees, and the use of standardized agreements which allow for the netting or offsetting of positive and negative exposures associated with a single counterparty. Based on these policies, the Company does not anticipate a materially adverse effect on financial position or results of operations as a result of customer or counterparty nonperformance. Those futures and option contracts which are traded on the New York Mercantile Exchange are financially guaranteed by the Exchange and have nominal credit risk.

### **Non-Trading Activities**

#### ***Interest Rate Swaps***

In October 1996, Detroit Edison entered into a three-year interest rate swap agreement based on a notional amount of \$25 million, which is nominally linked to the Detroit Edison 1993 Series B Remarketed Notes. Detroit Edison receives a rate equal to the London Interbank Offered Rate (LIBOR) and pays a rate equal to the quarterly weighted average Public Securities Association Municipal Swap Index divided by 67.3%. The intent of the swap is to shift floating rate exposure from taxable to tax-exempt markets. In 1998 and 1997 the average rate received was 5.68% and 5.7% and the average rate paid was 5.02% and 5.36%, respectively. The net of interest received and interest paid on the swap is accrued as a component of interest expense in the current period. The swap is subject to market risk of changes in both interest rates and tax rates.

PCI Enterprises Company (PCI), a coal pulverizing subsidiary, entered into a seven-year interest rate swap agreement beginning June 30, 1997, with the intent of reducing the impact of changes in interest rates on its variable rate non-recourse debt. The initial notional amount was \$30 million which was based on 60% of its term loan of \$50 million. The notional amount outstanding at December 31, 1998 and 1997, was \$27 million and \$29.2 million, respectively and will decline throughout the term of the loan based on amortization of principal amounts. PCI pays a fixed interest rate of 6.96% on the notional amount and receives a variable interest rate based on LIBOR. In 1998, and 1997, the

average rate received was 5.65% and 5.69%, respectively. The net of interest received and interest paid on the swap is accrued as a component of interest expense in the current period. The swap is subject to market risk of changes in interest rates.

### **Fair Value of Financial Instruments**

The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. The carrying amount of financial instruments, except for long-term debt, approximates fair value. The estimated fair value of total long-term debt at December 31, 1998 and 1997 was \$4.8 billion and \$4.2 billion, respectively, compared to the carrying amount of \$4.5 billion and \$4 billion, respectively. Investments in debt and equity securities are classified as "available for sale."

## **NOTE 11 - COMMITMENTS AND CONTINGENCIES**

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### **Commitments**

Detroit Edison has entered into purchase commitments of approximately \$1.1 billion at December 31, 1998, which includes, among other things, line construction and clearance costs and other equipment purchases. The Company and Detroit Edison have also entered into long-term fuel supply commitments of approximately \$1.1 billion.

Detroit Edison has an Energy Purchase Agreement (Agreement) for the purchase of steam and electricity from the Detroit Resource Recovery Facility. Under the Agreement, Detroit Edison will purchase steam through the year 2008 and electricity through June 30, 2024. Purchases of steam and electricity were \$31.1 million, \$34.3 million and \$30.2 million for 1998, 1997 and 1996, respectively. Annual purchase commitments are approximately \$37 million, \$39 million, \$40 million, \$41 million and \$43 million for 1999, 2000, 2001, 2002 and 2003, respectively. See Note 14 relating to steam heating special charge.

In October 1995, the MPSC issued an Order approving Detroit Edison's six-year capacity and energy purchase agreement with Ontario Hydro. Ontario Hydro agreed to sell Detroit Edison 300 MW of capacity from mid-May through mid-September. This purchase will offset a concurrent agreement to lease approximately a third of Detroit Edison's Ludington 917 MW capacity to First Energy for the same time period. The net economic effect of Ludington lease and the Ontario Hydro purchase is an estimated reduction in PSCR expense of \$74 million which will be refunded to Detroit Edison customers.

### **Contingencies**

#### ***Legal Proceedings***

Detroit Edison and plaintiffs in a class action pending in the Circuit Court for Wayne County, Michigan (Gilford, et al v. Detroit Edison), as well as plaintiffs in two other pending actions which make class claims (Sanchez, et al v. Detroit Edison, Circuit

Court for Wayne County, Michigan; and Frazier v. Detroit Edison, United States District Court, Eastern District of Michigan), are preparing for binding arbitration to settle these matters. A July 1998 Consent Judgement has received preliminary Court approval. A Fairness Hearing with respect to the terms of the settlement was held in August 1998, and no objections to the settlement were raised. A second Fairness Hearing is contemplated following the results of the arbitration. The settlement agreement provides that Detroit Edison's monetary liability is to be no less than \$17.5 million and no greater than \$65 million after the conclusion of all related proceedings. Detroit Edison has accrued an amount considered to be probable.

### **Other**

In addition to the matters reported herein, the Company and its subsidiaries are involved in litigation and environmental matters dealing with the numerous aspects of their business operations. The Company believes that such litigation and the matters discussed above will not have a material effect on its financial position, results of operations and cash flows.

See Notes 2 and 3 for a discussion of contingencies related to Regulatory Matters and Fermi 2.

## **NOTE 12 - EMPLOYEE BENEFITS**

### **Retirement Plan**

Detroit Edison has a trustee and non-contributory defined benefit retirement plan (Plan) covering all eligible employees who have completed six months of service. The Plan provides retirement benefits based on the employees' years of benefit service, average final compensation and age at retirement. Detroit Edison's policy is to fund pension cost calculated under the projected unit credit actuarial cost method. Net pension cost included the following components:

	1998	1997	1996
	(Millions)		
Service cost - benefits earned during period	\$ 31	\$ 27	\$ 25
Interest cost on projected benefit obligation	88	86	82
Expected return on Plan assets	(118)	(104)	(101)
Amortization of unrecognized prior service cost	5	5	4
Amortization of unrecognized net asset resulting from initial application	(4)	(4)	(4)
Net pension cost	<u>\$ 2</u>	<u>\$ 10</u>	<u>\$ 6</u>

The following reconciles the funded status of the Plan to the amount recorded in the Consolidated Balance Sheet at December 31:

	1998	1997
	(Millions)	
Projected benefit obligation at beginning of year	\$ 1,294	\$ 1,176
Service cost – benefits earned during period	31	27
Interest cost on projected benefit obligation	88	86
Net loss	61	77
Benefits paid to participants	(74)	(72)
Projected benefit obligation at end of year	<u>1,400</u>	<u>1,294</u>
Fair value of Plan assets (primarily equity and debt securities) at beginning of year	1,347	1,232
Actual return on Plan assets	143	187
Benefits paid to participants	(74)	(72)
Fair value of Plan assets at end of year	<u>1,416</u>	<u>1,347</u>
Plan assets in excess of projected benefit obligation	16	53
Unrecognized net (asset) resulting from initial application	(15)	(20)
Unrecognized net loss (gain)	31	(4)
Unrecognized prior service cost	47	52
Asset recorded in the Consolidated Balance Sheet	<u>\$ 79</u>	<u>\$ 81</u>

Assumptions used in determining the projected benefit obligation at December 31 were as follows:

	1998	1997
Discount rate	6.5 %	7.0 %
Annual increase in future compensation levels	4.0	4.5
Expected long-term rate of return on Plan assets	9.0	9.0

The unrecognized net asset at date of initial application is being amortized over approximately 15.4 years, which was the average remaining service period of employees at January 1, 1987.

In addition to the Plan, there are several supplemental non-qualified, non-contributory, retirement benefit plans for certain management employees.

## Savings and Investment Plans

Detroit Edison has voluntary defined contribution plans qualified under Section 401 (a) and (k) of the Internal Revenue Code for all eligible employees. Detroit Edison contributes up to 6% of base compensation for non-represented employees and up to 4% for represented employees. Matching contributions were \$21 million, \$20 million and \$17 million for 1998, 1997 and 1996, respectively.

## Other Postretirement Benefits

Detroit Edison provides certain postretirement health care and life insurance benefits for retired employees. Substantially all of Detroit Edison's employees will become eligible for such benefits if they reach retirement age while working for Detroit Edison. These benefits are provided principally through insurance companies and other organizations.

Net other postretirement benefits cost included the following components:

	1998	1997	1996
	(Millions)		
Service cost - benefits earned during period	\$ 19	\$ 19	\$ 20
Interest cost on accumulated benefit obligation	38	39	40
Expected return on assets	(30)	(20)	(14)
Amortization of unrecognized transition obligation	21	21	21
<b>Net other postretirement benefits cost</b>	<b>\$ 48</b>	<b>\$ 59</b>	<b>\$ 67</b>

The following reconciles the funded status to the amount recorded in the Consolidated Balance Sheet at December 31:

	1998	1997
	(Millions)	
Postretirement benefit obligation at beginning of year	\$ 580	\$ 583
Service cost – benefits earned during period	19	19
Interest cost on accumulated benefit obligation	38	39
Benefit payments	(27)	(27)
Net loss (gain)	15	(34)
<b>Postretirement benefit obligation at end of year</b>	<b>625</b>	<b>580</b>

Fair value of assets (primarily equity and debt securities) at beginning of year	309	213
Detroit Edison contributions	57	57
Actual return on assets	56	39
Fair value of assets at end of year	<u>422</u>	<u>309</u>
Postretirement benefit obligation in (excess) of assets	(203)	(271)
Unrecognized transition obligation	287	308
Unrecognized net (gain)	<u>(28)</u>	<u>(16)</u>
Asset recorded in the Consolidated Balance Sheet	<u>\$ 56</u>	<u>\$ 21</u>

Assumptions used in determining the postretirement benefit obligation at December 31 were as follows:

	1998	1997
Discount rate	6.5 %	7.0 %
Annual increase in future compensation levels	4.0	4.5
Expected long-term rate of return on assets	8.5	8.5

Benefit costs were calculated assuming health care cost trend rates beginning at 8.5% for 1999 and decreasing to 5% in 2008 and thereafter for persons under age 65 and decreasing from 5.9% to 5% for persons age 65 and over. A one-percentage-point increase in health care cost trend rates would increase the aggregate of the service cost and interest cost components of benefit costs by \$10 million for 1998 and increase the accumulated benefit obligation by \$85 million at December 31, 1998. A one-percentage point decrease in the health care cost trend rates would decrease the aggregate of the service cost and interest cost components of benefit costs by \$8 million for 1998 and decrease the accumulated benefit obligation by \$70 million at December 31, 1998.

### **NOTE 13 – STOCK-BASED COMPENSATION**

The Company adopted a Long-Term Incentive Plan (LTIP) in 1995. Under the LTIP, certain key employees may be granted restricted common stock, stock options, stock appreciation rights, performance shares and performance units. Common stock granted under the LTIP may not exceed 7.2 million shares. Performance units (which have a face amount of \$1) granted under the LTIP may not exceed 25 million in the aggregate. As of December 31, 1998, no stock appreciation rights, performance shares or performance units have been granted under the LTIP.

Under the LTIP, shares of restricted common stock were awarded and are restricted for a period not exceeding four years. All shares are subject to forfeiture if specified performance measures are not met. There are no exercise prices related to these shares. During the applicable restriction period, the recipient has all the voting, dividend

and other rights of a record holder except that the shares are nontransferable, and non-cash distributions paid upon the shares would be subject to transfer restrictions and risk of forfeiture to the same extent as the shares themselves. The shares were recorded at the market value on the date of grant and amortized to expense based on the award that was expected to vest and the period to which the related employee services were to be rendered. Restricted common stock activity for the year ended December 31 was:

	1998	1997	1996
Restricted common shares awarded	74,000	68,500	56,000
Weighted average market price of shares awarded	\$ 38.77	\$ 28.38	\$ 34.28
Compensation cost charged against income (thousands)	\$ 976	\$ 222	\$ 1,165

Stock options were also issued under the LTIP. Options are exercisable at a rate of 25% per year during the four years following the date of grant. The options will expire 10 years after the date of the grant. The option exercise price equals the fair market value of the stock on the date that the option was granted. Stock option activity was as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 1997	-	-
Granted	<u>310,500</u>	\$ 28.38
Outstanding at December 31, 1997 (none exercisable)	310,500	28.38
Granted	319,500	38.38
Exercised	<u>(22,625)</u>	28.50
Outstanding at December 31, 1998 (58,750 exercisable)	<u>607,375</u>	33.70

The Company continues to apply APB Opinion 25 "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recorded for options granted. As required by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company has determined the pro forma information as if the Company had accounted for

its employee stock options under the fair value method. The fair value for these options was estimated at the date of grant using a modified Black/Scholes option pricing model - American style and the following weighted average assumptions:

	1998	1997
Risk-free interest rate	5.84%	6.83%
Dividend yield	5.39%	7.26%
Expected volatility	17.48%	18.31%
Expected life	10 years	10 years
Fair value per option	\$6.43	\$4.15

The pro forma effect of these options would be to reduce net income by \$695,000 and \$244,000, for the years ending December 31, 1998 and 1997, respectively. There was no pro forma effect on earnings per share (EPS).

#### **NOTE 14 - STEAM HEATING SPECIAL CHARGE**

In 1996, a special charge to net income of \$149 million (\$97 million after-tax) or \$0.67 cents per share was recorded. The special charge included a reserve for steam purchase commitments during the period from 1997 through 2008 under the agreement with the Detroit Resource Recovery Facility, expenditures for closure of a portion of the steam heating system and improvements in service to remaining customers. The reserve for steam purchase commitments was recorded at its present value, therefore Detroit Edison will record non-cash accretion expense during the period 1997 through 2008. In addition, beginning in 1997, amortization of the reserve for steam purchase commitments is netted against losses on steam heating purchases recorded in fuel and purchased power expense.

#### **NOTE 15 - SEGMENT AND RELATED INFORMATION**

Effective December 31, 1998, the Company adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." The Company's reportable business segment is its regulated electric utility, Detroit Edison, which is engaged in the generation, purchase, transmission, distribution and sale of electric energy in a 7,600 square mile area in Southeastern Michigan. All other includes non-regulated energy-related businesses and services, which develop and manage electricity and other

energy-related projects, and engage in domestic energy trading and marketing. Inter-segment revenues are not material. Financial data for business segments are as follows:

	Regulated Electric Utility	All Other	Reconciliations and Eliminations	Consolidated
1998	(Millions)			
Operating revenues	\$ 3,902	\$ 319	\$ -	\$ 4,221
Depreciation and amortization	643	18	-	661
Interest expense net	277	34	8	319
Income tax expense (benefit)	260	(100)	(6)	154
Net income	412	42	(11)	443
Total assets	10,987	937	164	12,088
Capital expenditures	514	251	-	765
1997	(Millions)			
Operating revenues	\$ 3,657	\$ 107	\$ -	\$ 3,764
Depreciation and amortization	658	2	-	660
Interest expense net	282	16	(1)	297
Income tax expense (benefit)	288	(30)	(1)	257
Net income	405	14	(2)	417
Total assets	10,745	448	30	11,223
Capital expenditures	439	228	-	667
1996	(Millions)			
Operating revenues	\$ 3,642	\$ 3	\$ -	\$ 3,645
Depreciation and amortization	624	1	-	625
Interest expense net	288	-	-	288
Income tax expense (benefit)	225	(4)	-	221
Net income	312	(2)	(1)	309
Total assets	10,874	106	35	11,015
Capital expenditures	479	52	-	531

**NOTE 16 - SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION  
(UNAUDITED)**

	1998 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(Millions, except per share amounts)			
Operating Revenues	\$ 945	\$ 1,064	\$ 1,199	\$ 1,013
Operating Income	233	248	266	190
Net Income	104	101	132	106
Earnings Per Common Share	0.72	0.69	0.91	0.73

	1997 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(Millions, except per share amounts)			
Operating Revenues	\$ 868	\$ 892	\$ 1,030	\$ 974
Operating Income	202	225	285	289
Net Income	71	85	132	129
Earnings Per Common Share	0.49	0.59	0.91	0.89

**Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**PART III**

**Items 10, 11, 12 and 13**

Information required by Part III (Items 10, 11, 12 and 13) of this Form 10-K is incorporated by reference from DTE Energy Company's definitive Proxy Statement for its 1999 Annual Meeting of Common Shareholders to be held April 28, 1999, which will be filed with the Securities and Exchange Commission, pursuant to Regulation 14A, not later than 120 days after the end of the Company's fiscal year covered by this report on Form 10-K, all of which information is hereby incorporated by reference in, and made part of, this Form 10-K, except that the information required by Item 10 with respect to executive officers of the Registrant is included in Part I of this report.

**Annual Report on Form 10-K for The Detroit Edison Company  
PART I**

**Item 1 - Business.**

See the Company's "Item 1 - Business" which is incorporated herein by this reference.

**Executive Officers of the Registrant**

Name	Age(a)	Present Position	Present Position Held Since
Anthony F. Earley, Jr.	49	Chairman of the Board, Chief Executive Officer, President, Chief Operating Officer, and Member of the Office of the President	8-1-98
Larry G. Garberding	60	Executive Vice President, Chief Financial Officer, Member of the Office of the President since December 1998	8-1-90
Gerard M. Anderson	40	President and Chief Operating Officer – DTE Energy Resources, and Member of the Office of the President	8-1-98
Robert J. Buckler	49	President and Chief Operating Officer – DTE Energy Distribution, and Member of the Office of the President	8-1-98
Michael E. Champley	50	Senior Vice President	4-1-97
Douglas R. Gipson	51	Senior Vice President	4-1-93
Susan M. Beale	50	Vice President and Corporate Secretary	3-27-95
Lynne E. Halpin	47	Vice President and Chief Information Officer	5-25-98
Leslie L. Loomans	55	Vice President and Treasurer	10-1-89
Ron A. May	47	Vice President	8-1-98
David E. Meador	41	Vice President and Controller	3-29-97
Sandra J. Miller	55	Vice President	3-30-98
Christopher C. Nern	54	Vice President and General Counsel	6-1-93
Michael C. Porter	45	Vice President	9-22-97
William R. Roller	53	Vice President	4-22-96
S. Martin Taylor	58	Vice President	11-28-94

(a) As of December 31, 1998

Under Detroit Edison By-Laws, the officers of Detroit Edison are elected annually by the Board of Directors at a meeting held for such purpose, each to serve until the next annual meeting of directors or until their respective successors are chosen and qualified. With the exception of Messrs. Earley, Meador and Porter, and Ms. Halpin, all of the above officers have been employed by Detroit Edison in one or more management capacities during the past five years.

Anthony F. Earley, Jr., was President and Chief Operating Officer of Long Island Lighting Company, formerly an electric and gas utility company serving Long Island, New York, from 1989 to 1994. Effective March 1, 1994, he was elected President and Chief

Operating Officer and a member of the Board of Directors of Detroit Edison, and effective August 1, 1998, he was elected to the additional position of Chairman and Chief Executive Officer and Member of the Office of the President.

David E. Meador was Controller, Mopar Parts Division, at Chrysler Corporation, an international automotive manufacturer, from November 1996 until February 1997. From 1986 to 1996, he held a variety of executive financial positions at Chrysler. Effective February 28, 1997, he was elected Vice President and effective March 29, 1997, he assumed the duties of Controller.

Michael C. Porter was Senior Vice President and Managing Director at McCann-Erickson in Detroit from 1994 to September 1997 and Vice President of Marketing for The Stroh Brewery Company in Detroit from 1990 to 1994. Effective September 22, 1997, he was elected Vice President - Corporate Communications.

Lynne E. Halpin was Vice President of Business Applications for Netscape Communications Corp. from July 1996 to May 1998 and Acting Vice President of Global Systems Development and Director of Business Systems Development for Xerox Corporation from November 1993 to June 1996. Effective May 25, 1998, she was elected Vice President and Chief Information Officer of Detroit Edison.

#### **Item 2 - Properties.**

See the Company's "Item 2 - Properties - Detroit Edison," which is incorporated herein by this reference.

#### **Item 3 - Legal Proceedings.**

See the Company's "Item 3 - Legal Proceedings," which is incorporated herein by this reference.

#### **Item 4 - Submission of Matters to a Vote of Security Holders.**

Not applicable.

## **PART II**

#### **Item 5 - Market for Registrant's Common Equity and Related Stockholder Matters.**

See the Company's "Item 5 - Market for Registrant's Common Equity and Related Stockholder Matters," the third paragraph of which is incorporated herein by this reference. Detroit Edison's By-Laws contain this same provision with respect to the Michigan Business Corporation Act. All of Detroit Edison's Common Stock is held by the Company.

The amount of future dividends paid by Detroit Edison to the Company will depend on Detroit Edison's earnings, financial condition and other factors, including the effects of utility restructuring and a transition to competition, each of which is periodically reviewed by Detroit Edison's Board of Directors.

#### Item 6 - Selected Financial Data.

	Year Ended December 31				
	1998	1997	1996	1995	1994
	(Millions)				
Operating Revenues	\$ 3,902	\$ 3,657	\$ 3,642	\$ 3,636	\$ 3,519
Net Income	\$ 418	\$ 417	\$ 328	\$ 434	\$ 420
Net Income Available for Common Stock	\$ 412	\$ 405	\$ 312	\$ 406	\$ 390
At year end:					
Total Assets	\$ 10,987	\$ 10,745	\$ 10,874	\$ 11,131	\$ 10,993
Long-Term Debt Obligations (including capital leases) and Redeemable Preferred and Preference Stock Outstanding	\$ 3,588	\$ 3,812	\$ 4,000	\$ 4,004	\$ 3,980

#### Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

See the Company's and Detroit Edison's "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations," which is incorporated herein by this reference.

#### Item 8 - Financial Statements and Supplementary Data.

See pages 32 through 72 (except for Notes 5, 7 and 16 below).

#### NOTE 5 - INCOME TAXES

Total income tax expense as a percent of income before tax varies from the statutory federal income tax rate for the following reasons:

	1998	1997	1996
Statutory income tax rate	35.0 %	35.0 %	35.0 %
Deferred Fermi 2 depreciation and return	3.5	4.5	5.2
Investment tax credit	(2.1)	(2.0)	(2.7)
Depreciation	4.5	4.5	5.9
Removal costs	(1.7)	(1.5)	(2.2)
Other-net	(0.9)	0.4	(0.5)
Effective income tax rate	38.3 %	40.9 %	40.7 %

Components of income tax expense are as follows:

	1998	1997	1996
	(Millions)		
Current federal tax expense	\$ 280	\$ 308	\$ 224
Deferred federal tax expense - net	(5)	(6)	16
Investment tax credits	(15)	(14)	(15)
Total	<u>\$ 260</u>	<u>\$ 288</u>	<u>\$ 225</u>

Deferred income tax assets (liabilities) are comprised of the following at December 31:

	1998	1997
	(Millions)	
Property	\$ (1,139)	\$ (2,233)
Unamortized nuclear costs	(983)	-
Property taxes	(65)	(62)
Investment tax credit	154	162
Reacquired debt losses	(32)	(35)
Contributions in aid of construction	63	55
Other	96	77
	<u>\$ (1,906)</u>	<u>\$ (2,036)</u>
Deferred income tax liabilities	\$ (2,403)	\$ (2,560)
Deferred income tax assets	497	524
	<u>\$ (1,906)</u>	<u>\$ (2,036)</u>

## NOTE 7 - LONG-TERM DEBT

Detroit Edison's 1924 Mortgage and Deed of Trust (Mortgage), the lien of which covers substantially all of Detroit Edison's properties, provides for the issuance of additional General and Refunding Mortgage Bonds (Mortgage Bonds). At December 31, 1998, approximately \$3.8 billion principal amount of Mortgage Bonds could have been issued on the basis of property additions, combined with an earnings test provision, assuming an interest rate of 6.25% on any such additional Mortgage Bonds. An additional \$1.6 billion principal amount of Mortgage Bonds could have been issued on the basis of bond retirements.

Unless an event of default has occurred, and is continuing, each series of Quarterly Income Debt Securities (QUIDS) provides that interest will be paid quarterly. However, Detroit Edison also has the right to extend the interest payment period on the QUIDS for

up to 20 consecutive interest payment periods. Interest would continue to accrue during the deferral period. If this right is exercised, Detroit Edison may not declare or pay dividends on, or redeem, purchase or acquire, any of its capital stock during the deferral period. Detroit Edison may redeem any series of capital stock pursuant to the terms of any sinking fund provisions during the deferral period. Additionally, during any deferral period, Detroit Edison may not enter into any inter-company transactions with any affiliate of Detroit Edison, including the Company, to enable the payment of dividends on any equity securities of the Company.

At December 31, 1998, \$113 million of tax exempt revenue bonds were subject to periodic remarketings within one year. Remarketing agents remarket the bonds at the lowest interest rate necessary to produce a par bid. In the event that a tax exempt revenue bond remarketing fails, Standby Note Purchase Agreements and/or Letters of Credit provide that banks will purchase the bonds and, after the conclusion of all necessary proceedings, remarket the bonds. In the event the banks' obligations under the Standby Note Purchase Agreements and/or Letters of Credit are not honored, then, Detroit Edison would be required to purchase any bonds subject to a failed remarketing.

Long-term debt outstanding at December 31 was:

	1998	1997
	(Millions)	
<b>Mortgage Bonds</b>		
6.5% to 8.4% due 1999 to 2023	\$ 1,742	\$ 1,911
<b>Remarketed Notes</b>		
5.4% to 6.4% due 2028 to 2034 (a)	410	410
<b>Tax Exempt Revenue Bonds</b>		
<b>Secured by Mortgage Bonds</b>		
Installment Sales Contracts		
7.1% due 2004 to 2024 (b)	282	282
Loan Agreements		
6.7% due 2008 to 2025 (b)	607	607
<b>Unsecured</b>		
Installment Sales Contracts		
7.5% due 2004 to 2019 (b)	142	142
Loan Agreements		
3.2% due 2024 to 2030 (a)	113	113
<b>QUIDS</b>		
7.4% to 7.6% due 2026 to 2028	385	235
Less amount due within one year	(219)	(169)
<b>Total Long-Term Debt</b>	<u>\$ 3,462</u>	<u>\$ 3,531</u>

(a) Variable rate at December 31, 1998.

(c) Weighted average interest rate at December 31, 1998.

In the years 1999 – 2003, Detroit Edison's long-term debt maturities are \$219, \$194, \$119, \$198 and \$199 million, respectively.

**NOTE 16 - SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION  
(UNAUDITED)**

	Mar. 31	1998 Quarter Ended		
		June 30	Sept. 30	Dec. 31
(Millions, except per share amounts)				
Operating Revenues	\$ 901	\$ 992	\$ 1,105	\$ 904
Operating Income	237	248	284	201
Net Income	98	95	125	100

	Mar. 31	1997 Quarter Ended		
		June 30	Sept. 30	Dec. 31
(Millions, except per share amounts)				
Operating Revenues	\$ 864	\$ 878	\$ 985	\$ 930
Operating Income	203	225	285	290
Net Income	74	86	128	129

**Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**PART III**

**Items 10, 11, 12 and 13**

See the Company's "Items 10, 11, 12 and 13" which is incorporated herein by this reference, except for the information required by Item 10 with respect to executive officers of the Registrant which is included in Part 1 of this report. All of Detroit Edison's directors are the same as the Company's directors.

**Annual Reports on Form 10-K for DTE Energy Company  
and The Detroit Edison Company**

**PART IV**

**Item 14 – Exhibits, Financial Statement Schedules and Reports on Form 8-K.**

(a) The following documents are filed as a part of this Annual Report on Form 10-K.

- (1) Consolidated financial statements. See "Item 8 - Financial Statements and Supplementary Data" on page 32.
- (2) Financial statement schedules. See "Item 8 - Financial Statements and Supplementary Data" on page 32.
- (3) Exhibits (\*Denotes management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 14 (c) of this report).

(i) Exhibits filed herewith.

Exhibit  
Number

- 4-198 - Seventh Supplemental Note Indenture, dated as of October 15, 1998, between Detroit Edison and Bankers Trust Company, as Trustee, creating the 7.375% QUIDS, including form of QUIDS.
- 4-199 - \$300,000,000 Support Agreement, dated as of November 18, 1998, between DTE Energy and DTE Capital Corporation.
- 4-200 - Second Supplemental Indenture, dated as of November 1, 1998, between DTE Capital Corporation and The Bank of New York, as Trustee, creating the \$300,000,000 Remarketed Notes, 1998 Series B, including form of Note.
- 4-201 - \$400,000,000 Support Agreement, dated as of January 19, 1999, between DTE Energy Company and DTE Capital Corporation.
- 10-27\*- Sixth Restatement of The Detroit Edison Company Management Supplemental Benefit Plan (1998).
- 10-28\*- Amendment No. 1 to The Detroit Edison Company Long-Term Incentive Plan, effective December 31, 1998.
- 10-29\*- DTE Energy Company Plan for Deferring the Payment of Directors' Fees (As Amended and Restated Effective As Of January 1, 1999).

- 10-30\*- DTE Energy Company Deferred stock Compensation Plan for Non-Employee Directors, effective as of January 1, 1999.
- 10-31\*- DTE Energy Company Retirement Plan for Non-Employee Directors (As Amended and Restated Effective As Of December 31, 1998).
- 11-14 - DTE Energy Company Basic and Diluted Earnings Per Share of Common Stock.
- 12-14 - DTE Energy Company Computation of Ratio of Earnings to Fixed Charges.
- 12-15 - The Detroit Edison Company Computation of Ratio of Earnings to Fixed Charges.
- 12-16 - The Detroit Edison Company Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
- 21-3 - Subsidiaries of the Company and Detroit Edison.
- 23-12 - Consent of Deloitte & Touche LLP.
- 27-25 - Financial Data Schedule for the period ended December 31, 1998 for DTE Energy Company.
- 27-26 - Financial Data Schedule for the period ended December 31, 1998 for The Detroit Edison Company.
- 99-28 - Second Amended and Restated Credit Agreement, Dated as of January 19, 1999 among DTE Capital Corporation, the Initial Lenders, Citibank, N.A., as Agent, and ABN AMRO Bank N.V., Barclays Bank PLC, Bayerische Landesbank Giruzertrale, Cayman Islands Branch, Comerica Bank, Den Danske Bank Aktieselskab and The First National Bank of Chicago, as Co-Agents, and Salomon Smith Barney Inc., as Arranger.

(ii) Exhibits incorporated herein by reference.

- 3(a)- Amended and Restated Articles of Incorporation of DTE Energy Company, dated December 13, 1995. (Exhibit 3-5 to Form 10-Q for quarter ended September 30, 1997)
- 3(b)- Certificate of Designation of Series A Junior Participating Preferred Stock of DTE Energy Company. Exhibit 3-6 to Form 10-Q for quarter ended September 30, 1997.)

- 3(c)- Restated Articles of Incorporation of Detroit Edison, as filed December 10, 1991 with the State of Michigan, Department of Commerce - Corporation and Securities Bureau (Exhibit 4-117 to Form 10-Q for quarter ended March 31, 1993).
- 3(d)- Certificate containing resolution of the Detroit Edison Board of as filed February 22, 1993 with the State of Michigan, Department of Commerce - Corporation and Securities Bureau (Exhibit 4-134 to Form 10-Q for quarter ended March 31, 1993).
- 3(e)- Certificate containing resolution of the Detroit Edison Board of Directors establishing the Cumulative Preferred Stock, 7.74% Series, as filed April 21, 1993 with the State of Michigan, Department of Commerce - Corporation and Securities Bureau (Exhibit 4-140 to Form 10-Q for quarter ended March 31, 1993).
- 3(f)- Rights Agreement, dated as of September 23, 1997, by and between DTE Energy Company and The Detroit Edison Company, as Rights Agent (Exhibit 4-1 to DTE Energy Company Current Report on Form 8-K, dated September 23, 1997).
- 3(g)- Agreement and Plan of Exchange (Exhibit 1(2) to DTE Energy Form 8-B filed January 2, 1996, File No. 1-11607).
- 3(h)- Bylaws of DTE Energy Company, as amended through May 1, 1998. (Exhibit 3-10 to Registration No. 333-65765).
- 3(i)- Bylaws of The Detroit Edison Company, as amended through May 1, 1998. (Exhibit 3-9 to Registration No. 333-65765.)
- 4(a)- Mortgage and Deed of Trust, dated as of October 1, 1924, between Detroit Edison (File No. 1-2198) and Bankers Trust Company as Trustee (Exhibit B-1 to Registration No. 2-1630) and indentures supplemental thereto, dated as of dates indicated below, and filed as exhibits to the filings as set forth below:
  - September 1, 1947 Exhibit B-20 to Registration No. 2-7136
  - October 1, 1968 Exhibit 2-B-33 to Registration No. 2-0096
  - November 15, 1971 Exhibit 2-B-38 to Registration No. 2-2160
  - January 15, 1973 Exhibit 2-B-39 to Registration No. 2-6595
  - June 1, 1978 Exhibit 2-B-51 to Registration No. 2-1643
  - June 30, 1982 Exhibit 4-30 to Registration No. 2-78941
  - August 15, 1982 Exhibit 4-32 to Registration No. 2-79674
  - October 15, 1985 Exhibit 4-170 to Form 10-K for year ended December 31, 1994
  - November 30, 1987 Exhibit 4-139 to Form 10-K for year ended December 31, 1992

July 15, 1989	Exhibit 4-171 to Form 10-K for year ended December 31, 1994
December 1, 1989	Exhibit 4-172 to Form 10-K for year ended December 31, 1994
February 15, 1990	Exhibit 4-173 to Form 10-K for year ended December 31, 1994
April 1, 1991	Exhibit 4-15 to Form 10-K for year ended ended December 31, 1996
November 1, 1991	Exhibit 4-181 to Form 10-K for year ended December 31, 1996
January 15, 1992	Exhibit 4-182 to Form 10-K for year ended December 31, 1996
February 29, 1992	Exhibit 4-187 to Form 10-Q for quarter ended March 31, 1998
April 15, 1992	Exhibit 4-188 to Form 10-Q for quarter ended March 31, 1998
July 15, 1992	Exhibit 4-189 to Form 10-Q for quarter ended March 31, 1998
July 31, 1992	Exhibit 4-190 to Form 10-Q for quarter ended March 31, 1998
November 30, 1992	Exhibit 4-130 to Registration No. 33-56496
January 1, 1993	Exhibit 4-131 to Registration No. 33-56496
March 1, 1993	Exhibit 4-191 to Form 10-Q for quarter ended March 31, 1998
March 15, 1993	Exhibit 4-192 to Form 10-Q for quarter ended March 31, 1998
April 1, 1993	Exhibit 4-143 to Form 10-Q for quarter ended March 31, 1993
April 26, 1993	Exhibit 4-144 to Form 10-Q for quarter ended March 31, 1993
May 31, 1993	Exhibit 4-148 to Registration No. 33-64296
June 30, 1993	Exhibit 4-149 to Form 10-Q for quarter ended June 30, 1993 (1993 Series AP)
June 30, 1993	Exhibit 4-150 to Form 10-Q for quarter ended June 30, 1993 (1993 Series H)
September 15, 1993	Exhibit 4-158 to Form 10-Q for quarter ended September 30, 1993
March 1, 1994	Exhibit 4-163 to Registration No. 33-53207
June 15, 1994	Exhibit 4-166 to Form 10-Q for quarter ended June 30, 1994
August 15, 1994	Exhibit 4-168 to Form 10-Q for quarter ended September 30, 1994
December 1, 1994	Exhibit 4-169 to Form 10-K for year ended December 31, 1994
August 1, 1995	Exhibit 4-174 to Form 10-Q for quarter ended September 30, 1995

- 4(b)- Collateral Trust Indenture (notes), dated as of June 30, 1993 (Exhibit 4-152 to Registration No. 33-50325).
- 4(c)- First Supplemental Note Indenture, dated as of June 30, 1993 (Exhibit 4-153 to Registration No. 33-50325).
- 4(d)- Second Supplemental Note Indenture, dated as of September 15, 1993 (Exhibit 4-159 to Form 10-Q for quarter ended September 30, 1993).
- 4(e)- First Amendment, dated as of August 15, 1996, to Second Supplemental Note Indenture (Exhibit 4-17 to Form 10-Q for quarter ended September 30, 1996).
- 4(f)- Third Supplemental Note Indenture, dated as of August 15, 1994 (Exhibit 4-169 to Form 10-Q for quarter ended September 30, 1994).
- 4(g)- First Amendment, dated as of December 12, 1995, to Third Supplemental Note Indenture, dated as of August 15, 1994 (Exhibit 4-12 to Registration No. 333-00023).
- 4(h)- Fourth Supplemental Note Indenture, dated as of August 15, 1995 (Exhibit 4-175 to Detroit Edison Form 10-Q for quarter ended September 30, 1995).
- 4(i)- Fifth Supplemental Note Indenture, dated as of February 1, 1996 (Exhibit 4-14 to Form 10-K for year ended December 31, 1996).
- 4(j)- Sixth Supplemental Note Indenture, dated as of May 1, 1998, between Detroit Edison and Bankers Trust Company, as Trustee, creating the 7.54% Quarterly Income Debt Securities ("QUIDS"), including form of QUIES. (Exhibit 4-193 to form 10-Q for quarter ended June 30, 1998.)
- 4(k)- Standby Note Purchase Credit Facility, dated as of August 17, 1994, among The Detroit Edison Company, Barclays Bank PLC, as Bank and Administrative Agent, Bank of America, The Bank of New York, The Fuji Bank Limited, The Long-Term Credit Bank of Japan, LTD, Union Bank and Citicorp Securities, Inc. and First Chicago Capital Markets, Inc. as Remarketing Agents (Exhibit 99-18 to Form 10-Q for quarter ended September 30, 1994).
- 4(l)- \$60,000,000 Support Agreement dated as of January 21, 1998 between DTE Energy Company and DTE Capital Corporation. (Exhibit 4-183 to Form 10-K for year ended December 31, 1997.)
- 4(m)- \$100,000,000 Support Agreement, dated as of June 16, 1998, between DTE Energy Company and DTE Capital Corporation. (Exhibit 4-194 to Form 10-Q for quarter ended June 30, 1998.)

- 4-(n)- Indenture, dated as of June 15, 1998, between DTE Capital Corporation and The Bank of New York, as Trustee. (Exhibit 4-196 to Form 10-Q for quarter ended June 30, 1998.)
- 4-(o)- First Supplemental Indenture, dated as of June 15, 1998, between DTE Capital Corporation and The Bank of New York, as Trustee, creating the \$100,000,000 Remarketed Notes, Series A due 2038, including form of Note. (Exhibit 4-197 to Form 10-Q for quarter ended June 30, 1998.)
- \*10(a)- Certain arrangements pertaining to the employment of Michael C. Porter. (Exhibit 10-8\* to Form 10-Q for Quarter ended September 30, 1997.)
- \*10(b)- Form of Change-in-Control Severance Agreement, dated as of October 1, 1997, between DTE Energy Company and Gerard M. Anderson, Susan M. Beale, Robert J. Buckler, Michael C. Champley, Haven C. Cockerham, Anthony F. Earley, Jr., Larry G. Garberding, Douglas R. Gipson, John E. Lobbia, Leslie L. Loomans, David E. Meador, Christopher C. Nern, Michael C. Porter, William R. Roller and S. Martin Taylor. (Exhibit 10-9\* to Form 10-Q for quarter ended September 30, 1997.)
- \*10(c)- Form of 1995 Indemnification Agreement between the Company and its directors and officers (Exhibit 3L (10-1) to DTE Energy Company Form 8-B dated January 2, 1996).
- \*10(d)- Form of Indemnification Agreement between Detroit Edison and its officers other than those identified in \*10(l) (Exhibit 10-41 to Detroit Edison's Form 10-Q for quarter ended June 30, 1993).
- \*10(e)- Certain arrangements pertaining to the employment of S. Martin Taylor (Exhibit 10-22\*) to Form 10-K for quarter ended March 31, 1998).
- \*10(f)- Amended and Restated Post-Employment Income Agreement, dated March 23, 1998, between Detroit Edison and Anthony F. Earley, Jr. (Exhibit 10-20\* to Form 10-Q for quarter ended March 31, 1998).
- \*10(g)- Restricted Stock Agreement, dated March 23, 1998, between Detroit Edison and Anthony F. Earley, Jr. (Exhibit 10-20\* to Form 10-Q for quarter ended March 31, 1998)
- \*10(h)- Amended and Restated Detroit Edison Savings Reparation Plan (February 23, 1998) (Exhibit 10-19\* to Form 10-Q for quarter ended March 31, 1998).

- \*10(i)- Certain arrangements pertaining to the employment of Larry G. Garberding (Exhibit 10-23\* to Form 10-Q for quarter ended March 31, 1998).
- \*10(j)- Form of Indemnification Agreement, between Detroit Edison and (1) John E. Lobbia, (2) Larry G. Garberding and (3) Anthony F. Earley, Jr. (Exhibit 10-24\* to Form 10-Q for quarter ended March 31, 1998).
- \*10(k)- Employment Agreement, dated April 16, 1998, between Detroit Edison and Lynn Halpin. (Exhibit 10-26\* to Form 10-Q, for quarter ended June 30, 1998.)
- \*10(l)- Form of Indemnification Agreement between Detroit Edison and its directors (Exhibit 10-25\* to Form 10-Q for quarter ended March 31, 1998).
- \*10(m)-Executive Vehicle Program, dated October 1, 1993 (Exhibit 10-47 to Detroit Edison's Form 10-Q for quarter ended September 30, 1993).
- \*10(n)- Amendment No. 1 to Executive Vehicle Plan, November 1993 (Exhibit 10-58 to Detroit Edison's Form 10-K for year ended December 31, 1993).
- \*10(o)- Certain arrangements pertaining to the employment of Gerard M. Anderson (Exhibit 10-40 to Detroit Edison's Form 10-K for year ended December 31, 1993).
- \*10(p)- Long-Term Incentive Plan (Exhibit 10-3 to Form 10-K for year ended December 31, 1996).
- \*10(q)- 1997 Executive Incentive Plan Measures (Exhibit \*10-7 to Form 10 Q for quarter ended March 31, 1997).
- \*10(r)- 1998 Executive Incentive Plan Measures (Exhibit 10-18\* to Form 10-Q for quarter ended March 31, 1998.)
- \*10(s)- 1998 Shareholder Value Improvement Plan Measures (Exhibit 11-17\* to Form 10-Q for quarter ended March 31, 1998.)
- \*10(t)- Fourth Restatement of The Benefit Equalization Plan for Certain Employees of The Detroit Edison Company (October 1997). (Exhibit 10-11\* to Form 10-K for year ended December 31, 1997.)
- \*10(u)- The Detroit Edison Company Key Employee Deferred Compensation Plan (October 1997). (Exhibit 10-12\* to Form 10-K for year ended December 31, 1997.)

- \*10(v)- The Detroit Edison Company Executive Incentive Plan (October 1997). (Exhibit 10-13\* to Form 10-K for the year ended December 31, 1997.)
- \*10(w)- Detroit Edison Company Shareholder Value Improvement Plan (October 1997). (Exhibit 10 15\* to Form 10-K for year ended December 31, 1997.)
- \*10(x)- Trust Agreement for DTE Energy Company Change-In-Control Severance Agreements between DTE Energy Company and Wachovia Bank, N.A. (Exhibit 10-16\* to Form 10-K for year ended December 31, 1997.)
- \*10(y)- Certain arrangements pertaining to the employment of David E. Meador (Exhibit 10-5 to Form 10-K for year ended December 31, 1997.)
- \*10(z)- Amended and Restated Supplemental Long-Term Disability Plan, dated January 27, 1997. (Exhibit \*10-4 to Form 10-K for year ended December 31, 1996.)
- \*10(aa)-Fourth Restatement of The Retirement Reparation Plan for Certain Employees of The Detroit Edison Company (October 1997). (Exhibit \*10-10 to Form 10-K for year ended December 31, 1997.)
- 99(a)- Belle River Participation Agreement between Detroit Edison and Michigan Public Power Agency, dated as of December 1, 1982 (Exhibit 28-5 to Registration No. 2-81501).
- 99(b) - Belle River Transmission Ownership and Operating Agreement between Detroit Edison and Michigan Public Power Agency, dated as of December 1, 1982 (Exhibit 28-6 to Registration No. 2-81501).
- 99(c) - 1988 Amended and Restated Loan Agreement, dated as of October 4, 1988, between Renaissance Energy Company (an unaffiliated company) ("Renaissance") and Detroit Edison (Exhibit 99-6 to Registration No. 33-50325).
- 99(d) - First Amendment to 1988 Amended and Restated Loan Agreement, dated as of February 1, 1990, between Detroit Edison and Renaissance (Exhibit 99-7 to Registration No. 33-50325).
- 99(e) - Second Amendment to 1988 Amended and Restated Loan Agreement, dated as of September 1, 1993, between Detroit Edison and Renaissance (Exhibit 99-8 to Registration No. 33-50325).

- 99(f) - Third Amendment, dated as of August 28, 1997, to 1988 Amended and Restated Loan Agreement between Detroit Edison and Renaissance. (Exhibit 99-22 to Form 10-Q for quarter ended September 30, 1997.)
- 99(g) - \$200,000,000 364-Day Credit Agreement, dated as of September 1, 1993, among Detroit Edison, Renaissance and Barclays Bank PLC, New York Branch, as Agent (Exhibit 99-12 to Registration No. 33-50325).
- 99(h) - First Amendment, dated as of August 31, 1994, to \$200,000,000 364-Day Credit Agreement, dated September 1, 1993, among The Detroit Edison Company, Renaissance Energy Company, the Banks party thereto and Barclays Bank, PLC, New York Branch, as Agent (Exhibit 99-19 to Form 10-Q for quarter ended September 30, 1994).
- 99(i) - Third Amendment, dated as of March 8, 1996, to \$200,000,000 364-Day Credit Agreement, dated September 1, 1993, as amended, among Detroit Edison, Renaissance, the Banks party thereto and Barclays Bank, PLC, New York Branch, as Agent (Exhibit 99-11 to Form 10-Q for quarter ended March 31, 1996).
- 99(j) - Fourth Amendment, dated as of August 29, 1996, to \$200,000,000 364-Day Credit Agreement as of September 1, 1990, as amended, among Detroit Edison, Renaissance, the Banks party thereto and Barclays Bank, PLC, New York Branch, as Agent (Exhibit 99-13 to Form 10-Q for quarter ended September 30, 1996).
- 99(k) - Fifth Amendment, dated as of September 1, 1997, to \$200,000,000 Multi-Year Credit Agreement, dated as of September 1, 1993, as amended, among Detroit Edison, Renaissance, the Banks Party thereto and Barclays Bank PLC, New York Branch, as Agent. (Exhibit 99-24 to Form 10-Q for quarter ended September 30, 1997.)
- 99(l) - \$200,000,000 Three-Year Credit Agreement, dated September 1, 1993, among Detroit Edison, Renaissance and Barclays Bank, PLC, New York Branch, as Agent (Exhibit 99-13 to Registration No. 33-50325).
- 99(m) - First Amendment, dated as of September 1, 1994, to \$200,000,000 Three-Year Credit Agreement, dated as of September 1, 1993, among The Detroit Edison Company, Renaissance Energy Company, the Banks party thereto and Barclays Bank, PLC, New York Branch, as Agent (Exhibit 99-20 to Form 10-Q for quarter ended September 30, 1994).
- 99(n) - Third Amendment, dated as of March 8, 1996, to \$200,000,000 Three-Year Credit Agreement, dated September 1, 1993, as amended among Detroit Edison, Renaissance, the Banks party thereto and Barclays

Bank, PLC, New York Branch, as Agent (Exhibit 99-12 to Form 10-Q for quarter ended March 31, 1996).

- 99(o)- Fourth Amendment, dated as of September 1, 1996, to \$200,000,000 Multi-Year (formerly Three-Year) Credit Agreement, dated as of September 1, 1993, as amended among Detroit Edison, Renaissance, the Banks party thereto and Barclays Bank, PLC, New York Branch, as Agent (Exhibit 99-14 to Form 10-Q for quarter ended September 30, 1996).
- 99(p)- Fifth Amendment, dated as of August 28, 1997, to \$200,000,000 364-Day Credit Agreement, dated as of September 1, 1990, as amended, among Detroit Edison, Renaissance, the Banks Party thereto and Barclays Bank PLC, New York Branch, as Agent. (Exhibit 99-25 to Form 10-Q for quarter ended September 30, 1997.)
- 99(q) - Sixth Amendment, dated as of August 27, 1998, to \$200,000,000 364-Day Credit Agreement dated as of September 1, 1990, as amended, among Detroit Edison, Renaissance, the Banks party thereto and Barclays Bank PLC, New York Branch, as agent. (Exhibit 99-32 to Registration No. 333-65765.)
- 99(r) - 1988 Amended and Restated Nuclear Fuel Heat Purchase Contract, dated October 4, 1988, between Detroit Edison and Renaissance (Exhibit 99-9 to Registration No. 33-50325).
- 99(s) - First Amendment to 1988 Amended and Restated Nuclear Fuel Heat Purchase Contract, dated as of February 1, 1990, between Detroit Edison and Renaissance (Exhibit 99-10 to Registration No. 33-50325).
- 99(t)- Second Amendment, dated as of September 1, 1993, to 1988 Amended and Restated Nuclear Fuel Heat Purchase Contract between Detroit Edison and Renaissance (Exhibit 99-11 to Registration No. 33-50325).
- 99(u) - Third Amendment, dated as of August 31, 1994, to 1988 Amended and Restated Nuclear Fuel Heat Purchase Contract, dated October 4, 1988, between The Detroit Edison Company and Renaissance Energy Company (Exhibit 99-21 to Form 10-Q for quarter ended September 30, 1994).
- 99(v) - Fourth Amendment, dated as of March 8, 1996, to 1988 Amended and Restated Nuclear Fuel Heat Purchase Contract Agreement, dated as of October 4, 1988, between Detroit Edison and Renaissance (Exhibit 99-10 to Form 10-Q for quarter ended March 31, 1996).

- 99(w)- Sixth Amendment, dated as of August 28, 1997, to 1988 Amended and Restated Nuclear Fuel Heat Purchase Contract between Detroit Edison and Renaissance. (Exhibit 99-23 to Form 10-Q for quarter ended September 30, 1997.)
- 99(x)- Standby Note Purchase Credit Facility, dated as of September 12, 1997, among The Detroit Edison Company and the Bank's Signatory thereto and The Chase Manhattan Bank, as Administrative Agent, and Citicorp Securities, Inc., Lehman Brokers, Inc., as Remarketing Agents and Chase Securities, Inc. as Arranger. (Exhibit 99-26 to Form 10-Q for quarter ended September 30, 1997.)
- 99(y) - Master Trust Agreement ("Master Trust"), dated as of June 30, 1994, between Detroit Edison and Fidelity Management Trust Company relating to the Savings & Investment Plans (Exhibit 4-167 to Form 10-Q for quarter ended June 30, 1994).
- 99(z) - First Amendment, effective as of February 1, 1995, to Master Trust (Exhibit 4-10 to Registration No. 333-00023).
- 99(aa)- Second Amendment, effective as of February 1, 1995 to Master Trust (Exhibit 4-11 to Registration No. 333-00023).
- 99(bb)- Third Amendment, effective January 1, 1996, to Master Trust (Exhibit 4-12 to Registration No. 333-00023).
- 99(cc)- Fourth Amendment to Trust Agreement Between Fidelity Management Trust Company and The Detroit Edison Company (July 1996). (Exhibit 4-185 to Form 10-K for year ended December 31, 1997.)
- 99(dd)- Fifth Amendment to Trust Agreement Between Fidelity Management Trust Company and The Detroit Edison Company (December 1997). (Exhibit 4-186 to Form 10-K for the year ended December 31, 1997.)
- 99(ee)- The Detroit Edison Company Irrevocable Grantor Trust for The Detroit Edison Company Savings Reparation Plan (Exhibit 99-1 to Form 10-K for year ended December 31, 1996).
- 99(ff)- The Detroit Edison Company Irrevocable Grantor Trust for The Detroit Edison Company Retirement Reparation Plan (Exhibit 99-2 to Form 10-K for year ended December 31, 1996).
- 99(gg)- The Detroit Edison Company Irrevocable Grantor Trust for The Detroit Edison Company Management Supplemental Benefit Plan (Exhibit 99-3 to Form 10-K for year ended December 31, 1996).

- 99(hh)- The Detroit Edison Company Irrevocable Grantor Trust for The Detroit Edison Company Benefit Equalization Plan (Exhibit 99-4 to Form 10-K for year ended December 31, 1996).
- 99(ii) - The Detroit Edison Company Irrevocable Grantor Trust for The Detroit Edison Company Plan for Deferring the Payment of Directors' Fees (Exhibit 99-5 to Form 10-K for year ended December 31, 1996).
- 99(jj) - The Detroit Edison Company Irrevocable Grantor Trust for The DTE Energy Company Retirement Plan for Non-Employee Directors (Exhibit 99-6 to Form 10-K for year ended December 31, 1996).
- 99(kk) -DTE Energy Company Irrevocable Grantor Trust for The DTE Energy Company Plan for Deferring the Payment of Directors' Fees (Exhibit 99-7 to Form 10-K for year ended December 31, 1996).
- 99(ll) - DTE Energy Company Irrevocable Grantor Trust for The DTE Energy Company Retirement Plan for Non-Employee Directors (Exhibit 99-8 to Form 10-K for year ended December 31, 1996).

(b) Registrants filed a report on Form 8-K, dated January 22, 1999, discussing a series of MPSC Orders issued December 28, 1998.

(c) \*Denotes management contract or compensatory plan or arrangement required to be entered as an exhibit to this report.

DTE ENERGY COMPANY AND  
THE DETROIT EDISON COMPANY

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions</u>		<u>Deductions(b)</u>	<u>Balance at End of Period</u>
		<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts(a)</u>		
(Thousands)					
YEAR 1998					
Allowance for uncollectible accounts (shown as deduction from accounts receivable in balance sheet) .....	\$ 20,000	\$ 23,216	\$ 2,789	\$(26,005)	\$ 20,000
YEAR 1997					
Allowance for uncollectible accounts (shown as deduction from accounts receivable in balance sheet) .....	\$ 20,000	\$ 18,738	\$ 2,657	\$(21,395)	\$ 20,000
YEAR 1996					
Allowance for uncollectible accounts (shown as deduction from accounts receivable in balance sheet) .....	\$ 22,000	\$ 12,756	\$ 2,763	\$(17,519)	\$ 20,000

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(a) Collection of accounts previously written off.

(b) Uncollectible accounts written off.

## SIGNATURES

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)

By /s/ ANTHONY F. EARLEY, JR.  
Anthony F. Earley, Jr.  
Chairman of the Board,  
Chief Executive Officer, President  
and Chief Operating Officer

By /s/ LARRY G. GARBERDING  
Larry G. Garberding  
Executive Vice President,  
Chief Financial Officer and Director

By /s/ DAVID E. MEADOR  
David E. Meador  
Vice President and Controller

By /s/ TERENCE E. ADDERLEY  
Terence E. Adderley, Director

By /s/ LILLIAN BAUDER  
Lillian Bauder, Director

By /s/ DAVID BING  
David Bing, Director

By /s/ WILLIAM C. BROOKS  
William C. Brooks, Director

By /s/ ALLAN D. GILMOUR  
Allan D. Gilmour, Director

By /s/ THEODORE S. LEIPPRANDT  
Theodore S. Leipprandt, Director

By \_\_\_\_\_  
John E. Lobbia, Director

By /s/ EUGENE A. MILLER  
Eugene A. Miller, Director

By /s/ DEAN E. RICHARDSON  
Dean E. Richardson, Director

By /s/ ALAN E. SCHWARTZ  
Alan E. Schwartz, Director

By /s/ WILLIAM WEGNER  
William Wegner, Director

Date: February 24, 1999

## SIGNATURES

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.

THE DETROIT EDISON COMPANY  
(Registrant)

By /s/ ANTHONY F. EARLEY, JR.  
Anthony F. Earley, Jr.  
Chairman of the Board,  
Chief Executive Officer, President  
and Chief Operating Officer

By /s/ LARRY G. GARBERDING  
Larry G. Garberding  
Executive Vice President,  
Chief Financial Officer and Director

By /s/ DAVID E. MEADOR  
David E. Meador  
Vice President and Controller

By /s/ TERENCE E. ADDERLEY  
Terence E. Adderley, Director

By /s/ LILLIAN BAUDER  
Lillian Bauder, Director

By /s/ DAVID BING  
David Bing, Director

By /s/ WILLIAM C. BROOKS  
William C. Brooks, Director

By /s/ ALLAN D. GILMOUR  
Allan D. Gilmour, Director

By /s/ THEODORE S. LEIPPRANDT  
Theodore S. Leipprandt, Director

By \_\_\_\_\_  
John E. Lobbia, Director

By /s/ EUGENE A. MILLER  
Eugene A. Miller, Director

By /s/ DEAN E. RICHARDSON  
Dean E. Richardson, Director

By /s/ ALAN E. SCHWARTZ  
Alan E. Schwartz, Director

By /s/ WILLIAM WEGNER  
William Wegner, Director

Date: February 24, 1999

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-Q

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

For the Quarter Ended September 30, 1999

<u>Commission File Number</u>	<u>Registrants; State of Incorporation; Address; and Telephone Number</u>	<u>I.R.S. Employer Identification No.</u>
1-11607	DTE Energy Company (a Michigan corporation) 2000 2nd Avenue Detroit, Michigan 48226-1279 313-235-4000	38-3217752
1-2198	The Detroit Edison Company (a Michigan corporation) 2000 2nd Avenue Detroit, Michigan 48226-1279 313-235-8000	38-0478650

Indicate by check mark whether the registrants (1) have 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 registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes  No

At October 29, 1999, 145,045,159 shares of DTE Energy's Common Stock, substantially all held by non-affiliates, were outstanding.

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**DTE ENERGY COMPANY**  
**and**  
**THE DETROIT EDISON COMPANY**  
**FORM 10-Q**  
**For The Quarter Ended September 30, 1999**

This document contains the Quarterly Reports on Form 10-Q for the quarter ended September 30, 1999 for each of DTE Energy Company and The Detroit Edison Company. Information contained herein relating to an individual registrant is filed by such registrant on its own behalf. Accordingly, except for its subsidiaries, The Detroit Edison Company makes no representation as to information relating to any other companies affiliated with DTE Energy Company.

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## DEFINITIONS

Annual Report.....	1998 Annual Report to the Securities and Exchange Commission on Form 10-K for DTE Energy Company or The Detroit Edison Company, as the case may be
Annual Report Notes .....	Notes to Consolidated Financial Statements appearing on pages 45 through 72 and 76 through 79 of the 1998 Annual Report to the Securities and Exchange Commission on Form 10-K for DTE Energy Company and The Detroit Edison Company, as the case may be
Company .....	DTE Energy Company and Subsidiary Companies
Detroit Edison .....	The Detroit Edison Company (a wholly owned subsidiary of DTE Energy Company) and Subsidiary Companies
DTE Capital .....	DTE Capital Corporation (a wholly owned subsidiary of DTE Energy Company)
Electric Choice.....	Gives all retail customers equal opportunity to utilize the transmission system which results in access to competitive generation resources
EPA .....	United States Environmental Protection Agency
FERC.....	Federal Energy Regulatory Commission
kWh .....	Kilowatthour
MCN.....	MCN Energy Group Inc.
MPSC .....	Michigan Public Service Commission
MW .....	Megawatt
MWh .....	Megawatthour
Note(s).....	Note(s) to Condensed Consolidated Financial Statements (Unaudited) appearing herein
PSCR.....	Power Supply Cost Recovery
Quarterly Report .....	Quarterly Report to the Securities and Exchange Commission on Form 10-Q for DTE Energy Company or The Detroit Edison Company, as the case may be, for the quarters ended March 31, 1999 and June 30, 1999
Quarterly Report Notes...	Notes to Condensed Consolidated Financial Statements (Unaudited) appearing on pages 16 through 18 of the Quarterly Report to the Securities and Exchange Commission on Form 10-Q for the quarters ended March 31, 1999 and June 30, 1999 for DTE Energy Company and The Detroit Edison Company, as the case may be
Registrant .....	Company or Detroit Edison, as the case may be

**QUARTERLY REPORT ON FORM 10-Q FOR DTE ENERGY COMPANY  
PART I - FINANCIAL INFORMATION**

**Item 1 – Condensed Consolidated Financial Statements (Unaudited).**

The following condensed consolidated financial statements (unaudited) are included herein.

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Note: Detroit Edison's Condensed Consolidated Financial Statements are presented here for ease of reference and are not considered to be part of Item I of the Company's report.

**DTE Energy Company**  
**Condensed Consolidated Statement of Income (Unaudited)**  
(Millions, Except Per Share Amounts)

	<u>Three Months Ended</u> <u>September 30</u>		<u>Nine Months Ended</u> <u>September 30</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
<b>Operating Revenues</b>	<u>\$ 1,440</u>	<u>\$ 1,199</u>	<u>\$ 3,614</u>	<u>\$ 3,208</u>
<b>Operating Expenses</b>				
Fuel and purchased power	510	359	1,063	852
Operation and maintenance	397	338	1,086	906
Depreciation and amortization	183	169	547	496
Taxes other than income	<u>69</u>	<u>67</u>	<u>211</u>	<u>207</u>
Total Operating Expenses	<u>1,159</u>	<u>933</u>	<u>2,907</u>	<u>2,461</u>
<b>Operating Income</b>	<u>281</u>	<u>266</u>	<u>707</u>	<u>747</u>
<b>Interest Expense and Other</b>				
Interest expense	95	83	260	236
Preferred stock dividends of subsidiary	-	1	-	6
Other - net	<u>4</u>	<u>4</u>	<u>13</u>	<u>9</u>
Total Interest Expense and Other	<u>99</u>	<u>88</u>	<u>273</u>	<u>251</u>
<b>Income Before Income Taxes</b>	182	178	434	496
<b>Income Taxes</b>	<u>21</u>	<u>46</u>	<u>48</u>	<u>159</u>
<b>Net Income</b>	<u>\$ 161</u>	<u>\$ 132</u>	<u>\$ 386</u>	<u>\$ 337</u>
<b>Average Common Shares Outstanding</b>	<u>145</u>	<u>145</u>	<u>145</u>	<u>145</u>
<b>Earnings per Common Share -</b>				
<b>Basic and Diluted</b>	<u>\$ 1.11</u>	<u>\$ 0.91</u>	<u>\$ 2.66</u>	<u>\$ 2.32</u>

See Notes to Condensed Consolidated Financial Statements (Unaudited).

**DTE Energy Company**  
**Condensed Consolidated Balance Sheet (Unaudited)**  
(Millions, Except Per Share Amounts and Shares)

	<u>September 30</u> 1999	<u>December 31</u> 1998
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 54	\$ 130
Restricted cash	317	121
Accounts receivable		
Customer (less allowance for doubtful accounts of \$21 and \$20, respectively)	437	316
Accrued unbilled revenues	154	153
Other	97	135
Inventories (at average cost)		
Fuel	148	171
Materials and supplies	160	167
Other	87	39
	<u>1,454</u>	<u>1,232</u>
<b>Investments</b>		
Nuclear decommissioning trust funds	337	309
Other	229	261
	<u>566</u>	<u>570</u>
<b>Property</b>		
Property, plant and equipment	11,580	11,121
Property under capital leases	222	242
Nuclear fuel under capital lease	662	659
Construction work in progress	108	156
	<u>12,572</u>	<u>12,178</u>
Less accumulated depreciation and amortization	<u>5,507</u>	<u>5,235</u>
	<u>7,065</u>	<u>6,943</u>
<b>Regulatory Assets</b>	<u>2,972</u>	<u>3,091</u>
<b>Other Assets</b>	<u>259</u>	<u>252</u>
<b>Total Assets</b>	<u>\$ 12,316</u>	<u>\$ 12,088</u>

See Notes to Condensed Consolidated Financial Statements (Unaudited).

	September 30 <u>1999</u>	December 31 <u>1998</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 215	\$ 239
Accrued interest	53	57
Dividends payable	75	75
Accrued payroll	86	101
Short-term borrowings	296	231
Income taxes	73	69
Current portion long-term debt	566	294
Current portion capital leases	87	118
Other	240	208
	<u>1,691</u>	<u>1,392</u>
<b>Other Liabilities</b>		
Deferred income taxes	1,902	1,888
Capital leases	118	126
Regulatory liabilities	230	294
Other	532	493
	<u>2,782</u>	<u>2,801</u>
<b>Long-Term Debt</b>	<u>3,985</u>	<u>4,197</u>
<b>Shareholders' Equity</b>		
Common stock, without par value, 400,000,000 shares authorized, 145,045,159 and 145,071,317 issued and outstanding, respectively	1,950	1,951
Retained earnings	1,908	1,747
	<u>3,858</u>	<u>3,698</u>
<b>Contingencies (Note 5)</b>		
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$ 12,316</u>	<u>\$ 12,088</u>

See Notes to Condensed Consolidated Financial Statements (Unaudited).

**DTE Energy Company**  
**Condensed Consolidated Statement of Cash Flows (Unaudited)**  
(Millions)

	Nine Months Ended September 30	
	1999	1998
<b>Operating Activities</b>		
Net Income	\$ 386	\$ 337
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	518	474
Other	(43)	(57)
Changes in current assets and liabilities:		
Restricted cash	(11)	(70)
Accounts receivable	(84)	(89)
Inventories	30	(36)
Payables	(43)	51
Other	(16)	44
Net cash from operating activities	737	654
<b>Investing Activities</b>		
Plant and equipment expenditures	(530)	(655)
Investment in coke oven battery businesses	-	(195)
Net cash used for investing activities	(530)	(850)
<b>Financing Activities</b>		
Issuance of long-term debt	265	363
Increase in short-term borrowings	65	356
Increase in restricted cash for debt redemptions	(185)	-
Redemption of long-term debt	(204)	(187)
Redemption of preferred stock	-	(100)
Dividends on common stock	(224)	(224)
Other	-	3
Net cash (used for) from financing activities	(283)	211
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(76)</b>	<b>15</b>
<b>Cash and Cash Equivalents at Beginning of the Period</b>	<b>130</b>	<b>45</b>
<b>Cash and Cash Equivalents at End of the Period</b>	<b>\$ 54</b>	<b>\$ 60</b>
<b>Supplementary Cash Flow Information</b>		
Interest paid (excluding interest capitalized)	\$ 263	\$ 244
Income taxes paid	102	115
New capital lease obligations	3	52

See Notes to Condensed Consolidated Financial Statements (Unaudited).

**DTE Energy Company**  
**Condensed Consolidated Statement of Changes in Shareholders' Equity**  
**(Unaudited)**

(Millions, Except Per Share Amounts; Shares in Thousands)

	1999	
	Shares	Amount
<b>Common Stock</b>		
Balance at beginning of year	145,071	\$ 1,951
Repurchase and retirement of common stock	(26)	(1)
Balance at September 30, 1999	145,045	\$ 1,950
<b>Retained Earnings</b>		
Balance at beginning of year		\$ 1,747
Net income		386
Dividends declared on common stock (\$1.545 per share)		(224)
Repurchase and retirement of common stock		(1)
Balance at September 30, 1999		\$ 1,908
<b>Total Shareholders' Equity</b>		<b>\$ 3,858</b>

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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**The Detroit Edison Company**  
**Condensed Consolidated Statement of Income (Unaudited)**  
(Millions)

	Three Months Ended September 30		Nine Months Ended September 30	
	1999	1998	1999	1998
<b>Operating Revenues</b>	<u>\$ 1,211</u>	<u>\$ 1,105</u>	<u>\$ 3,128</u>	<u>\$ 2,998</u>
<b>Operating Expenses</b>				
Fuel and purchased power	405	344	888	818
Operation and maintenance	275	249	773	719
Depreciation and amortization	176	162	522	486
Taxes other than income	69	66	210	206
Total Operating Expenses	<u>925</u>	<u>821</u>	<u>2,393</u>	<u>2,229</u>
<b>Operating Income</b>	<u>286</u>	<u>284</u>	<u>735</u>	<u>769</u>
<b>Interest Expense and Other</b>				
Interest expense	82	72	219	208
Other - net	1	3	3	13
Total Interest Expense and Other	<u>83</u>	<u>75</u>	<u>222</u>	<u>221</u>
<b>Income Before Income Taxes</b>	203	209	513	548
<b>Income Taxes</b>	<u>65</u>	<u>84</u>	<u>164</u>	<u>230</u>
<b>Net Income</b>	138	125	349	318
<b>Preferred Stock Dividends</b>	<u>-</u>	<u>1</u>	<u>-</u>	<u>6</u>
<b>Net Income Available for Common Stock</b>	<u>\$ 138</u>	<u>\$ 124</u>	<u>\$ 349</u>	<u>\$ 312</u>

See Notes to Condensed Consolidated Financial Statements (Unaudited).

**The Detroit Edison Company**  
**Condensed Consolidated Balance Sheet (Unaudited)**  
(Millions, Except Per Share Amounts and Shares)

	<u>September 30</u> 1999	<u>December 31</u> 1998
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 26	\$ 5
Restricted cash	185	-
Accounts receivable		
Customer (less allowance for doubtful accounts of \$20)	378	307
Accrued unbilled revenues	154	153
Other	64	90
Inventories (at average cost)		
Fuel	148	171
Materials and supplies	135	138
Other	<u>64</u>	<u>21</u>
	<u>1,154</u>	<u>885</u>
<b>Investments</b>		
Nuclear decommissioning trust funds	337	309
Other	<u>39</u>	<u>74</u>
	<u>376</u>	<u>383</u>
<b>Property</b>		
Property, plant and equipment	11,029	10,610
Property under capital leases	222	242
Nuclear fuel under capital lease	662	659
Construction work in progress	<u>9</u>	<u>118</u>
	<u>11,922</u>	<u>11,629</u>
Less accumulated depreciation and amortization	<u>5,446</u>	<u>5,201</u>
	<u>6,476</u>	<u>6,428</u>
<b>Regulatory Assets</b>	<u>2,972</u>	<u>3,091</u>
<b>Other Assets</b>	<u>213</u>	<u>200</u>
<b>Total Assets</b>	<u>\$ 11,191</u>	<u>\$ 10,987</u>

See Notes to Condensed Consolidated Financial Statements (Unaudited).

	September 30 1999	December 31 1998
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 167	\$ 211
Accrued interest	43	54
Dividends payable	80	80
Accrued payroll	80	86
Short-term borrowings	296	231
Income taxes	104	60
Current portion long-term debt	479	219
Current portion capital leases	87	118
Other	192	203
	<u>1,528</u>	<u>1,262</u>
<b>Other Liabilities</b>		
Deferred income taxes	1,867	1,846
Capital leases	118	126
Regulatory liabilities	230	294
Other	517	484
	<u>2,732</u>	<u>2,750</u>
<b>Long-Term Debt</b>	<u>3,308</u>	<u>3,462</u>
<b>Shareholder's Equity</b>		
Common stock, \$10 par value, 400,000,000 shares authorized, 145,119,875 issued and outstanding	1,451	1,451
Premium on common stock	548	548
Common stock expense	(48)	(48)
Retained earnings	1,672	1,562
	<u>3,623</u>	<u>3,513</u>
<b>Contingencies (Note 5)</b>		
<b>Total Liabilities and Shareholder's Equity</b>	<u>\$ 11,191</u>	<u>\$ 10,987</u>

See Notes to Condensed Consolidated Financial Statements (Unaudited).

**The Detroit Edison Company**  
**Condensed Consolidated Statement of Cash Flows (Unaudited)**  
(Millions)

	Nine Months Ended September 30	
	1999	1998
<b>Operating Activities</b>		
Net Income	\$ 349	\$ 318
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	493	463
Other	(5)	(168)
Changes in current assets and liabilities:		
Accounts receivable	(46)	(64)
Inventories	26	(32)
Payables	(61)	103
Other	(53)	(48)
<b>Net cash from operating activities</b>	<b>703</b>	<b>572</b>
<b>Investing Activities</b>		
Plant and equipment expenditures	(429)	(365)
<b>Net cash used for investing activities</b>	<b>(429)</b>	<b>(365)</b>
<b>Financing Activities</b>		
Issuance of long-term debt	265	100
Increase in short-term borrowings	65	205
Increase in restricted cash for debt redemptions	(185)	-
Redemption of long-term debt	(159)	(169)
Redemption of preferred stock	-	(100)
Dividends on common and preferred stock	(239)	(245)
Other	-	3
<b>Net cash used for financing activities</b>	<b>(253)</b>	<b>(206)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>21</b>	<b>1</b>
<b>Cash and Cash Equivalents at Beginning of the Period</b>	<b>5</b>	<b>15</b>
<b>Cash and Cash Equivalents at End of the Period</b>	<b>\$ 26</b>	<b>\$ 16</b>
<b>Supplementary Cash Flow Information</b>		
Interest paid (excluding interest capitalized)	\$ 229	\$ 219
Income taxes paid	186	195
New capital lease obligations	3	52

See Notes to Condensed Consolidated Financial Statements (Unaudited).

**The Detroit Edison Company**  
**Condensed Consolidated Statement of Changes in Shareholder's Equity (Unaudited)**  
(Millions, Except Per Share Amounts; Shares in Thousands)

	1999	
	Shares	Amount
<b>Common Stock</b>		
Balance at beginning of year	145,120	\$ 1,451
Balance at September 30, 1999	145,120	\$ 1,451
<hr/>		
<b>Premium on Common Stock</b>		
Balance at beginning of year		\$ 548
Balance at September 30, 1999		\$ 548
<hr/>		
<b>Common Stock Expense</b>		
Balance at beginning of year		\$ (48)
Balance at September 30, 1999		\$ (48)
<hr/>		
<b>Retained Earnings</b>		
Balance at beginning of year		\$ 1,562
Net income		349
Dividends declared on common stock (\$1.65 per share)		(239)
Balance at September 30, 1999		\$ 1,672
<hr/>		
<b>Total Shareholder's Equity</b>		<b>\$ 3,623</b>

See Notes to Condensed Consolidated Financial Statements (Unaudited).

**DTE Energy Company and The Detroit Edison Company**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

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**NOTE 1 – ANNUAL REPORT NOTES**

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These condensed consolidated financial statements (unaudited) should be read in conjunction with the Annual Report Notes and the Quarterly Report Notes. The Notes contained herein update and supplement matters discussed in the Annual Report Notes and the Quarterly Report Notes.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The condensed consolidated financial statements are unaudited, but in the opinion of the Company and Detroit Edison, with respect to its own financial statements, include all adjustments necessary for a fair statement of the results for the interim periods. 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.

Certain prior year balances have been reclassified to conform to the current year's presentation.

**NOTE 2 – MERGER AGREEMENT**

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On October 4, 1999 the Company entered into a definitive merger agreement with MCN. MCN, a Michigan corporation, is primarily involved in natural gas production, gathering, processing, transmission, storage and distribution, electric power generation and energy marketing. MCN's largest subsidiary is Michigan Consolidated Gas Company, a natural gas utility serving 1.2 million customers in more than 500 communities throughout Michigan. The merger, which is subject to a number of regulatory approvals, is expected to be completed in six to nine months. The merger agreement provides that the Company will acquire all outstanding shares of MCN for \$28.50 per share in cash or 0.775 shares of Company common stock for each share of MCN common stock, subject to certain allocation procedures requiring that the aggregate number of shares of MCN common stock that will be converted into cash and the Company's common stock will be equal to 55% and 45%, respectively, of the total number of shares of MCN common stock outstanding immediately prior to the merger. The transaction was preliminarily valued at \$4.6 billion, which includes the assumption of approximately \$2 billion of MCN's debt.

The merger agreement provides for termination under certain circumstances; in such event, (1) the Company may be required to pay MCN a termination fee of \$85 million plus expense reimbursement of up to \$15 million or (2) MCN may be required to pay the Company a termination fee of \$55 million plus expense reimbursement of up to \$15 million.

### **NOTE 3 – REGULATORY MATTERS**

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As discussed in Note 2 of the Annual Report, proceedings were pending regarding Detroit Edison's recovery of certain extraordinary storm costs over a 24-month period commencing January 1998. On June 11, 1999, in an unpublished opinion, the Michigan Court of Appeals remanded back to the MPSC for hearing a November 1997 order that permitted Detroit Edison to amortize extraordinary storm damage expenses incurred in 1997 over the following two years. The MPSC had approved Detroit Edison's request to offset the storm damage expense against a \$53 million revenue requirement reduction from the 1988 Fermi settlement on an ex-parte basis. The Attorney General appealed the MPSC ruling. Detroit Edison filed a motion for rehearing with the Michigan Court of Appeals on July 1, 1999. Detroit Edison is unable to determine the timing or the outcome of these proceedings.

### **NOTE 4 – SHORT-TERM CREDIT ARRANGEMENTS AND BORROWINGS**

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At September 30, 1999, Detroit Edison had total short-term credit arrangements of approximately \$505 million under which \$96 million of commercial paper was outstanding. Additionally, Detroit Edison had a \$200 million trade receivables sales agreement under which \$200 million was outstanding at September 30, 1999.

At September 30, 1999, DTE Capital had short-term credit arrangements of \$400 million, backed by a Support Agreement from the Company, under which no amounts were outstanding.

In addition, the Company has entered into a total of \$550 million of Support Agreements with DTE Capital for the purpose of DTE Capital's credit enhancing activities on behalf of DTE Energy affiliates.

### **NOTE 5 – CONTINGENCIES**

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#### **Legal Proceedings**

Detroit Edison and plaintiffs in a class action pending in the Circuit Court for Wayne County, Michigan (Gilford, et al v. Detroit Edison), as well as plaintiffs in two other pending actions which make class claims (Sanchez, et al v. Detroit Edison, Circuit Court for Wayne County, Michigan; and Frazier v. Detroit Edison, United States District Court, Eastern District of Michigan), agreed to binding arbitration to settle these matters. The settlement agreement provides that Detroit Edison's monetary liability would be no less than \$17.5 million and no greater than \$65 million after the conclusion of all related proceedings. In July 1998, the Consent Judgement received preliminary Court approval. The Fairness Hearing with respect to the terms of the settlement was held in August 1998, and no objections to the settlement were raised. On October 28, 1999, a panel of arbitrators awarded the plaintiffs \$45.15 million. As a result of the arbitration award, Detroit Edison must deposit \$40.15 million in an escrow fund for the plaintiffs by November 27, 1999. Due to sufficient prior accruals and insurance coverage, Detroit Edison does not anticipate a material 1999 earnings impact due to this award.

## NOTE 6 – SEGMENT AND RELATED INFORMATION

Effective December 31, 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information." The Company's reportable business segment is its electric utility, Detroit Edison, which is engaged in the generation, purchase, transmission, distribution and sale of electric energy in a 7,600 square mile area in Southeastern Michigan. All other includes non-regulated energy-related businesses and services, which develop and manage electricity and other energy-related projects, and engage in domestic energy trading and marketing. Inter-segment revenues are not material. Financial data for business segments are as follows:

	Electric Utility	All Other	Reconciliations and Eliminations	Consolidated
Three Months Ended September 30, 1999			(Millions)	
Operating revenues	\$ 1,211	\$ 229	\$ -	\$ 1,440
Net income	138	23	-	161
Nine Months Ended September 30, 1999				
Operating revenues	\$ 3,128	\$ 486	\$ -	\$ 3,614
Net income	349	47	(10)	386
Three Months Ended September 30, 1998			(Millions)	
Operating revenues	\$ 1,105	\$ 94	\$ -	\$ 1,199
Net income	124	10	(2)	132
Nine Months Ended September 30, 1998				
Operating revenues	\$ 2,998	\$ 210	\$ -	\$ 3,208
Net income	312	29	(4)	337

This Quarterly Report on Form 10-Q, including the report of Deloitte & Touche LLP (on page 19) will automatically be incorporated by reference in the Prospectuses constituting part of the Registration Statements on Form S-3 (Registration Nos. 33-53207, 33-64296 and 333-65765) of The Detroit Edison Company and Form S-8 (Registration No. 333-00023), Form S-4 (Registration No. 333-89175) and Form S-3 (Registration No. 33-57545) of DTE Energy Company, filed under the Securities Act of 1933. Such report of Deloitte & Touche LLP, however, is not a "report" or "part of the Registration Statement" within the meaning of Sections 7 and 11 of the Securities Act of 1933 and the liability provisions of Section 11(a) of such Act do not apply.

## **Independent Accountants' Report**

To the Board of Directors and Shareholders of DTE Energy Company and  
The Detroit Edison Company

We have reviewed the accompanying condensed consolidated balance sheets of DTE Energy Company and subsidiaries and of The Detroit Edison Company and subsidiaries as of September 30, 1999, and the related condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 1999 and 1998, the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 1999 and 1998, and the condensed consolidated statement of changes in shareholders' equity for the nine-month period ended September 30, 1999. These financial statements are the responsibility of DTE Energy Company's management and of The Detroit Edison Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheets of DTE Energy Company and subsidiaries and of The Detroit Edison Company and subsidiaries as of December 31, 1998, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated January 27, 1999, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of December 31, 1998 is fairly stated, in all material respects, in relation to the consolidated balance sheets from which it has been derived.

DELOITTE & TOUCHE LLP

Detroit, Michigan  
November 8, 1999

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

This analysis for the three and nine months ended September 30, 1999, as compared to the same periods in 1998, should be read in conjunction with the condensed consolidated financial statements (unaudited), the accompanying Notes, the Quarterly Report Notes and the Annual Report Notes.

Detroit Edison is the principal operating subsidiary of the Company and, as such, unless otherwise identified, this discussion explains material changes in results of operations of both the Company and Detroit Edison and identifies recent trends and events affecting both the Company and Detroit Edison.

### **GROWTH**

As discussed in the Annual Report, in order to sustain earnings growth with an objective of 6% growth annually, the Company and Detroit Edison have developed a business strategy focused on core competencies, consisting of expertise in developing, managing and operating energy assets, including coal sourcing, blending and transportation skills. As part of this strategy it was expected that one new line of business would be developed in 1999 through acquisition or start-up.

As discussed in Note 2, the Company and MCN have entered into a merger agreement. Subject to the receipt of all regulatory approvals, as well as the approval of the shareholders of each company, scheduled for December 20, 1999, the merger is expected to be completed in six to nine months. The Company expects that completion of the merger will result in the issuance of approximately 30 million additional shares of its common stock and approximately \$1.4 billion in additional external financing.

The merger of the Company and MCN is expected to create a fully integrated electric and natural gas company that would be able to achieve an average of \$60 million in (after-tax) cost savings per year over the first ten years of the merger. This business combination is also expected to be accretive to the Company's earnings per share by 2001 and is expected to strongly support the Company's commitment to a long-term earnings growth rate of 6%.

The merger agreement also provides for a Company affiliate to purchase all of MCN's membership interest in several limited liability companies that own and operate synthetic fuel manufacturing facilities (coal fines plants).

The successful completion and implementation of the merger is subject to a number of risks, including the satisfactory receipt of all necessary regulatory approvals, as well as the approval of the shareholders of each company. While the Company expects that the combined entity will provide for operating cost reductions, there can be no assurances that such reductions will occur. The merger is expected to create fully integrated electric and gas operations which will permit the Company to continue to successfully compete in the energy markets as competition is fully introduced and implemented; however, there can be no assurances that the new company will be successfully responsive to competitive pressures. The external financing needs of the

merger may create a sensitivity to interest rate changes; and the Company will need to successfully integrate the two operations in order to be able to service the expected debt requirements and achieve aggregate operating cost reductions. The merger is anticipated to strategically place the Company in the energy markets, but there can be no assurances that the combination will be successful.

## **ELECTRIC INDUSTRY RESTRUCTURING**

Various bills have been introduced and proposed for introduction at the Federal level and in the Michigan Legislature addressing competition in the electric markets. The Company and Detroit Edison are reviewing these bills; and the impact, which may include generation divestiture, of the adoption and implementation of one or more of these legislative proposals is unknown. Detroit Edison is voluntarily proceeding with the implementation of Electric Choice as provided for in MPSC Orders.

### **Michigan Public Service Commission**

In March 1999, the MPSC approved an interim code of conduct filed by Detroit Edison. The interim code allows DTE Energy affiliated companies to participate in the Electric Choice program. The MPSC also opened a proceeding to develop a permanent code of conduct. A final order from the MPSC is not expected until the third quarter of 2000.

In March 1999, Detroit Edison filed an application with the MPSC for true-up of its stranded costs, including Electric Choice implementation costs, and on September 17, 1999, filed its direct testimony. The testimony recommended Detroit Edison continue to provide exclusive metering and billing service, as set forth in its approved Electric Choice Implementation Plan, at least through the transition period ending in 2007; supported its proposed true-up methodology including estimated initial transition charge levels for the year 2002 by customer class; and supported Detroit Edison's proposed calculation of stranded costs during the bidding period. The testimony also supported revised stranded cost balances; presented Detroit Edison's position concerning the true-up of stranded costs for actual market clearing price, and proposed a method for identifying resale mitigation resources. In addition, the testimony supported adjustment to calculations in the PSCR proceeding to account for the resale of load lost due to the Electric Choice program; and presented its proposed method for recovery of Electric Choice implementation costs. MPSC Staff and intervenors have filed testimony in opposition to Detroit Edison's position. A final order is not expected until the first quarter of 2000.

On July 22, 1999, the Association of Businesses Advocating Tariff Equity (ABATE) made a filing with the MPSC indicating that Detroit Edison's retail rates produce approximately \$333 million of excess revenues. Of this amount, approximately \$202 million is related to ABATE's proposed reversal of the December 28, 1998 MPSC order authorizing the accelerated amortization of Fermi 2. On September 22, 1999, Detroit Edison, the MPSC Staff (Staff), the Michigan Environmental Council and Public Research Group in Michigan, and the Attorney General (AG) filed their direct cases in the ABATE Complaint Case. Of particular significance is the proposal by the Staff that the MPSC establish three profitability bands for return on equity which would produce predefined benefits or penalties. Detroit Edison's testimony supports a revenue

deficiency of \$33 million. The Staff concluded that no revenue sufficiency exists when Detroit Edison's pending required review of its depreciation rates is taken into account. The Staff also assumed that the Fermi 2 Amortization Order will not be reversed. The AG proposes the reversal of the Fermi 2 Amortization Order. Detroit Edison will file rebuttal testimony in mid-November 1999. A final MPSC order is not expected until spring 2000. Detroit Edison is unable to predict the outcome of this proceeding.

On September 30, 1999, Detroit Edison filed its 2000 PSCR plan case. Fuel and purchased power costs for 2000 are projected to increase by up to 6 percent, on average, over the corresponding forecast for 1999. Detroit Edison is seeking a corresponding increase in its PSCR Factor for 2000. An order is expected in the third quarter of 2000.

### **Electric Choice**

On June 29, 1999, the Michigan Supreme Court, on a 4-3 vote, issued an opinion determining that the MPSC lacked authority to order retail wheeling in the context of an Electric Choice program. The Court reversed an earlier Michigan Court of Appeals opinion finding such authority and vacated two MPSC orders directing implementation of the experimental program. The Court held that the MPSC possesses no common law powers and may only exercise authority clearly conferred upon it by the Legislature. It stated that retail wheeling issues involve many policy concerns and stated that the Legislature, not the Court, is the body that must consider and weigh the economic and social costs and benefits of electric restructuring.

On August 17, 1999, the MPSC issued an order setting a deadline of September 1, 1999 for Detroit Edison and Consumers Energy to notify the MPSC if they choose to voluntarily implement the Electric Choice program previously ordered by the MPSC. On September 1, 1999, Detroit Edison filed a letter with the MPSC reaffirming the decision to expeditiously move ahead with the voluntary implementation of Electric Choice. Consumers Energy has likewise agreed to proceed with the Electric Choice program. On September 20, 1999, the bidding on the 225 MW allotted for Detroit Edison and 150 MW allotted for Consumers Energy for the first phase of Electric Choice was fully subscribed. Four additional bidding phases are contemplated, 225 MW closing on November 19, 1999 and 225 MW each closing in January, March and November 2000.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Cash From Operating Activities**

Net cash from operating activities for the Company and Detroit Edison was higher due to increased net income and changes in current assets and liabilities.

### **Cash Used For Investing Activities**

Net cash used for investing activities for the Company was lower due to an investment in coke oven battery businesses in the prior period and lower plant and equipment expenditures.

Net cash used for investing activities was higher for Detroit Edison due to higher plant and equipment expenditures.

### **Cash (Used for) From Financing Activities**

Net cash used for financing activities for the Company for the nine month period ended September 30, 1999 was \$283 million compared to net cash from financing activities of \$211 million for the same period in 1998. This fluctuation was mainly due to a decreased usage of short-term borrowings.

Net cash used for financing activities for Detroit Edison increased due primarily to an increase in restricted cash for debt redemptions and a decreased usage of short-term borrowings.

Detroit Edison has an effective shelf registration statement on file with the Securities and Exchange Commission pursuant to which it may issue up to \$225 million in debt securities.

In August 1999, Detroit Edison issued \$40 million of General and Refunding Mortgage Bonds.

In August and September 1999, Detroit Edison issued three series of 30-year collateralized tax-exempt bonds totaling \$225 million. The proceeds were used to redeem \$40 million of debt in September 1999 and the remainder will be used for December 1999 redemptions.

In November 1999, Detroit Edison purchased \$24 million of Mortgage Bonds in the open market. These bonds have been canceled.

### **YEAR 2000**

The Company and Detroit Edison have been involved in an enterprise-wide program to address Year 2000 issues. A program office was established in mid-1997 to implement a rigorous plan to address the impact of Year 2000 on hardware and software systems, embedded systems (which include microprocessors used in the production and control of electric power), and critical service providers. The emphasis has been on mission critical systems that support core business activities or processes. Core business activities/processes include safety, environmental and regulatory compliance, product production and delivery, revenue collection, employee and supplier payment and financial asset management.

The plan for addressing Year 2000 is divided into several phases including raising general awareness of Year 2000 throughout the Company and Detroit Edison; maintaining an inventory of systems and devices; performing an assessment of inventoried systems and devices; performing compliance testing of suspect systems and devices; remediation of non-compliant systems and devices through replacement, repair, retirement, or identifying an acceptable work around; testing and remediation of systems and devices in an integrated environment and preparing business continuity plans.

Inventory, assessment and compliance testing phases have been completed for known systems and devices. Remediation of mission critical assets is complete. Integration planning, including the mapping of critical business processes, is complete for Detroit Edison. Integration testing for Detroit Edison is also complete.

To support the program, the Year 2000 office has been working with major utility industry associations and organizations, customers and vendors to gather and share information on Year 2000 issues. Letters were sent to the North American Electric Reliability Council (NERC) and the U.S. Nuclear Regulatory Commission (NRC) concerning Year 2000 readiness on June 29, 1999 and June 30, 1999, respectively. These letters confirmed that Detroit Edison systems critical to the generation, transmission and distribution of power are ready for operation into the new millennium. The NRC responded on October 1, 1999, confirming that all requested information has been provided. The program office has contacted vendors critical to Company operations to determine their progress on Year 2000.

To further assist in identifying potential problems, tests of generating facilities have been conducted by advancing control systems dates to the Year 2000. Results of these tests have shown that the generating facilities operated successfully in this induced "millennium mode." Exercises were conducted on December 31, 1998 and January 1, 1999 to assess the ability to reach employees and the regional security centers of the East Central Area Reliability Group through various communication channels. The exercised communication channels operated properly. Detroit Edison back-up telecommunication systems worked as designed in a North America-wide drill conducted on April 9, 1999. Detroit Edison participated in the NERC nationwide Year 2000 drill for all utility systems on September 8 and 9, 1999. As a result of the drill, Detroit Edison was able to demonstrate its ability to deploy resources, perform operation and administrative procedures, use backup telecommunication systems and implement some contingency plans.

In the event that an unknown Year 2000 condition adversely affects service to customers or an internal business process, contingency and business continuity plans and procedures have been developed to provide rapid restoration to normal conditions. The Company and Detroit Edison have always maintained a comprehensive operational emergency response plan. The business continuity function of the Year 2000 program supplements the existing emergency plan to include Year 2000 specific events. To manage and coordinate operations, including mobilization of all employees as necessary during the transition to the new millennium, a Year 2000 emergency coordination center was fully operational as of September 30, 1999. During the rollover event, the emergency management staffing plan calls for 1,300 working and on-call employees to manage Year 2000 issues. This is in addition to the normal holiday-weekend staff. Most of the employees work in the Fossil Generation, Nuclear Generation, Energy Delivery and Information Systems organizations. Key facilities, including substations, will be staffed during the rollover. The emergency coordination center will continuously monitor the impact of Year 2000 as it is experienced in other parts of the world and moves to the Eastern Standard Time zone.

The Company and Detroit Edison believe that with all Year 2000 modifications, business continuity and emergency management plans in place, the Year 2000 will not have a material effect on their financial position, liquidity and results of operations.

Despite all efforts, there can be no assurances that Year 2000 issues can be totally eliminated. Results of modifications and testing done through September 30, 1999 have demonstrated that Detroit Edison should be able to maintain normal operating conditions into the Year 2000, although there may be isolated electric service interruptions. Detroit Edison's internal business systems may be affected by a Year 2000 related failure that could temporarily interrupt the ability to communicate with customers, collect revenue, or complete cash transactions. In addition, no assurances can be given that the systems of vendors, interconnected utilities and customers will not result in Year 2000 problems.

The Company estimates that Year 2000 costs will approximate \$87 million with \$81 million expended through September 30, 1999. Operating cash flow is expected to be sufficient to pay Year 2000 modification costs with no material impact on operating results or cash flows.

## RESULTS OF OPERATIONS

For the three months ended September 30, 1999, the Company's net income was \$161 million or \$1.11 per common share as compared to \$132 million or \$0.91 per common share during the same period in 1998. For the nine months ended September 30, 1999, net income was \$386 million or \$2.66 per common share compared to \$337 million or \$2.32 per common share during the same period in 1998.

The 1999 three and nine month earnings were higher than 1998 due to higher electric system sales and increased utilization of tax credits generated by non-regulated businesses, partially offset by higher operating expenses, primarily Year 2000, fuel and purchased power, and depreciation and amortization expenses.

### Operating Revenues

Increases in operating revenues were due primarily to higher non-regulated subsidiary revenues, principally energy trading and coke oven battery operations, higher system sales due to increased customer base and electric usage and increased heating load for the nine month period, partially offset by decreased sales between utilities and regulated rate decreases.

Detroit Edison kWh sales increased (decreased) as compared to the prior year as follows:

	<u>Three Months</u>	<u>Nine Months</u>
Residential	2.0 %	3.2 %
Commercial	(0.6)	2.8
Industrial	11.1	4.7
Other (includes primarily sales for resale)	12.6	10.3
Total System	3.9	3.8
Sales between utilities	(26.0)	(29.6)
Total	2.2	0.9

The increase in residential sales resulted from growth in the customer base and electric usage, and more heating related demand for the nine month period. Industrial sales increased, reflecting more heating related demand along with replacement energy sales for the Ford Rouge Power Plant for the nine month period and a continuation of favorable economic conditions. Commercial sales decreased for the three month period due to cooler weather. Sales to other customers increased reflecting increased demand from sales for resale customers. Sales between utilities decreased due to less power available for sale.

## Operating Expenses

### Fuel and Purchased Power

For the three and nine month periods ended, fuel and purchased power expense increased for the Company due primarily to new non-regulated subsidiary expenses, principally energy trading operations. Detroit Edison fuel and purchased power expense increased due to increased purchases of higher cost power and higher system output, partially offset by increased usage of lower cost system generation as a result of increased system availability and lower fuel unit costs due to decreased nuclear fuel cost and increased usage of low cost Fermi 2 generation.

Net system output and average fuel and purchased power unit costs for Detroit Edison were as follows:

	<u>Three Months</u>		<u>Nine Months</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
	(Thousands of MWh)			
Power plant generation				
Fossil	11,847	11,387	32,021	32,784
Nuclear	2,377	1,445	7,028	5,734
Purchased power	<u>1,988</u>	<u>2,924</u>	<u>5,761</u>	<u>5,706</u>
Net system output	<u>16,212</u>	<u>15,756</u>	<u>44,510</u>	<u>44,224</u>
Average unit cost (\$/MWh)				
Generation	\$12.80	\$13.18	\$12.54	\$12.88
Purchased power	101.62	53.81	60.38	48.33

### Operation and Maintenance

Operation and maintenance expense increased for the three and nine month periods due to new non-regulated subsidiary operation expense (\$33 million) and (\$126 million), respectively, higher transmission and distribution related expenses for the three month period (\$26 million) and higher expenses for Year 2000 testing and remediation for the nine month period (\$27 million). The increase in non-regulated subsidiary operation expense was due to the increased level of operation and the addition of new businesses.

## Income Taxes

Income tax expense for the Company decreased in 1999 due primarily to increased utilization of alternate fuels credits generated from non-regulated businesses and the end of the Fermi 2 phase-in plan.

## **FORWARD-LOOKING STATEMENTS**

Certain information presented herein is based on the expectations of the Company and Detroit Edison, and, as such, is forward-looking. The Private Securities Litigation Reform Act of 1995 encourages reporting companies to provide analyses and estimates of future prospects and also permits reporting companies to point out that actual results may differ from those anticipated.

Actual results for the Company and Detroit Edison may differ from those expected due to a number of variables including, but not limited to, weather, actual sales, the effects of competition and the phased-in implementation of Electric Choice, the implementation of utility restructuring in Michigan (which involves pending and proposed regulatory and legislative proceedings, and the recovery of stranded costs), environmental (including proposed regulations to limit nitrogen oxide emissions) and nuclear requirements, the impact of FERC proceedings and regulations, the success of non-regulated lines of business and the timely completion and functioning of Year 2000 modifications. In addition, expected results will be dependent upon the successful completion and implementation of the Company's pending merger with MCN. While the Company and Detroit Edison believe that estimates given accurately measure the expected outcome, actual results could vary materially due to the variables mentioned as well as others. This discussion contains a Year 2000 readiness disclosure.

**QUARTERLY REPORT ON FORM 10-Q FOR DTE ENERGY COMPANY  
PART II – OTHER INFORMATION**

**Item 5 – Other Information.**

A special meeting of the Company's common shareholders will be held on December 20, 1999. At this meeting, Shareholders will be asked to approve the issuance of common stock in connection with the MCN merger. The affirmative vote of a majority of shares voting is required for passage.

**QUARTERLY REPORT ON FORM 10-Q FOR THE DETROIT EDISON COMPANY  
PART I – FINANCIAL INFORMATION**

**Item 1 – Condensed Consolidated Financial Statements (Unaudited).**

See pages 11 through 15.

**Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

See the Company’s and Detroit Edison’s “Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which is incorporated herein by this reference.

**PART II – OTHER INFORMATION**

**Item 1 – Legal Proceedings.**

In a lawsuit filed in January 1999 in the Circuit Court for Wayne County Michigan (Cook, et al v. Detroit Edison), a number of individual plaintiffs have claimed employment-related sex, gender and race discrimination, as well as harassment. A hearing on plaintiffs’ request for class action certification is scheduled to be held in December 1999. Detroit Edison believes the claims are without merit and class action certification is not appropriate.

**QUARTERLY REPORTS ON FORM 10-Q FOR  
DTE ENERGY COMPANY AND THE DETROIT EDISON COMPANY**

**Item 6 – Exhibits and Reports on Form 8-K.**

(a) Exhibits

- (i) Exhibits filed herewith.

Exhibit  
Number

- 3-14- Bylaws of Detroit Edison, as amended through September 22, 1999.
- 4-204- Supplemental Indenture, dated as of August 1, 1999, creating the General and Refunding Mortgage Bonds, 1999 Series AP, Due September 1, 2029; 1999 Series BP, Due September 1, 2029; and 1999 Series LP, Due September 1, 2029.
- 4-205- Supplemental Indenture, dated as of August 15, 1999, creating the General and Refunding Mortgage Bonds, Floating Rate 1999 Series D, Due September 17, 2001.
- 11-17- DTE Energy Company Basic and Diluted Earnings Per Share of Common Stock.
- 12-20- DTE Energy Company Computation of Ratio of Earnings to Fixed Charges.
- 12-21- The Detroit Edison Company Computation of Ratio of Earnings to Fixed Charges.
- 15-12- Awareness Letter of Deloitte & Touche LLP regarding their report dated November 8, 1999.
- 27-29- Financial Data Schedule for the period ended September 30, 1999 for DTE Energy Company.
- 27-30- Financial Data Schedule for the period ended September 30, 1999 for The Detroit Edison Company.
- 99-29- U.S. \$160,000,000 Standby Note Purchase Credit Facility, dated as of October 26, 1999, among Detroit Edison, the Bank's signatory thereto, Barclays Bank PLC, as Administrative Agent and Barclays Capital Inc., Lehman Brothers Inc. and Banc One Capital Markets, Inc., as Remarketing Agents.

- 99-30 - Seventh Amendment, dated as of August 26, 1999, to \$200,000,000 364-Day Credit Agreement, dated as of September 1, 1993, as amended among The Detroit Edison Company, Renaissance Energy Company, the Banks parties thereto and Barclays Bank PLC, New York branch as Agent.
- 99-31 - Eighth Amendment, dated as of August 26, 1999 to 1988 Amended and Restated Nuclear Fuel Heat Purchase Contract between Detroit Edison and Renaissance Energy Company.

(ii) Exhibits incorporated herein by reference.

- 2(a) - Agreement and Plan of Merger, among DTE Energy Company, MCN Energy Group Inc. and DTE Enterprises, Inc., dated as of October 4, 1999 (Exhibit 2(a) to Form 8-K dated October 5, 1999).
- 3(a) - Amended and Restated Articles of Incorporation of DTE Energy Company, dated December 13, 1995. (Exhibit 3-5 to Form 10-Q for quarter ended September 30, 1997)
- 3(b) - Certificate of Designation of Series A Junior Participating Preferred Stock of DTE Energy Company. Exhibit 3-6 to Form 10-Q for quarter ended September 30, 1997.)
- 3(c) - Bylaws of DTE Energy Company, as amended through September 22, 1999 (Exhibit 3-3 to Registration No. 333-89175).
- 3(d) - Articles of Incorporation of DTE Enterprises, Inc. (Exhibit 3.5 to Registration No. 333-89175).
- 3(e) - Bylaws of DTE Enterprises, Inc. (Exhibit 3.6 to Registration No. 333-89175).
- 3(f) - Rights Agreement, dated as of September 23, 1997, by and between DTE Energy Company and The Detroit Edison Company, as Rights Agent (Exhibit 4-1 to DTE Energy Company Current Report on Form 8-K, dated September 23, 1997).
- 3(g) - Agreement and Plan of Exchange (Exhibit 1(2) to DTE Energy Form 8-B filed January 2, 1996, File No. 1-11607).
- 4(a) - Mortgage and Deed of Trust, dated as of October 1, 1924, between Detroit Edison (File No. 1-2198) and Bankers Trust Company as Trustee (Exhibit B-1 to Registration No. 2-1630) and indentures supplemental thereto, dated as of dates indicated below, and filed as exhibits to the filings as set forth below:

September 1, 1947	Exhibit B-20 to Registration No. 2-7136
October 1, 1968	Exhibit 2-B-33 to Registration No. 2-30096
November 15, 1971	Exhibit 2-B-38 to Registration No. 2-42160

January 15, 1973	Exhibit 2-B-39 to Registration No. 2-46595
June 1, 1978	Exhibit 2-B-51 to Registration No. 2-61643
June 30, 1982	Exhibit 4-30 to Registration No. 2-78941
August 15, 1982	Exhibit 4-32 to Registration No. 2-79674
October 15, 1985	Exhibit 4-170 to Form 10-K for year ended December 31, 1994
November 30, 1987	Exhibit 4-139 to Form 10-K for year ended December 31, 1992
July 15, 1989	Exhibit 4-171 to Form 10-K for year ended December 31, 1994
December 1, 1989	Exhibit 4-172 to Form 10-K for year ended December 31, 1994
February 15, 1990	Exhibit 4-173 to Form 10-K for year ended December 31, 1994
April 1, 1991	Exhibit 4-15 to Form 10-K for year ended December 31, 1996
May 1, 1991	Exhibit 4-178 to Form 10-K for year ended December 31, 1996
May 15, 1991	Exhibit 4-179 to Form 10-K for year ended December 31, 1996
September 1, 1991	Exhibit 4-180 to Form 10-K for year ended December 31, 1996
November 1, 1991	Exhibit 4-181 to Form 10-K for year ended December 31, 1996
January 15, 1992	Exhibit 4-182 to Form 10-K for year ended December 31, 1996
February 29, 1992	Exhibit 4-187 to Form 10-Q for quarter ended March 31, 1998
April 15, 1992	Exhibit 4-188 to Form 10-Q for quarter ended March 31, 1998
July 15, 1992	Exhibit 4-189 to Form 10-Q for quarter ended March 31, 1998
July 31, 1992	Exhibit 4-190 to Form 10-Q for quarter ended March 31, 1998
November 30, 1992	Exhibit 4-130 to Registration No. 33-56496
January 1, 1993	Exhibit 4-131 to Registration No. 33-56496
March 1, 1993	Exhibit 4-191 to Form 10-Q for quarter ended March 31, 1998
March 15, 1993	Exhibit 4-192 to Form 10-Q for quarter ended March 31, 1998
April 1, 1993	Exhibit 4-143 to Form 10-Q for quarter ended March 31, 1993
April 26, 1993	Exhibit 4-144 to Form 10-Q for quarter ended March 31, 1993
May 31, 1993	Exhibit 4-148 to Registration No. 33-64296
June 30, 1993	Exhibit 4-149 to Form 10-Q for quarter ended June 30, 1993 (1993 Series AP)
June 30, 1993	Exhibit 4-150 to Form 10-Q for quarter ended June 30, 1993 (1993 Series H)

September 15, 1993	Exhibit 4-158 to Form 10-Q for quarter ended September 30, 1993
March 1, 1994	Exhibit 4-163 to Registration No. 33-53207
June 15, 1994	Exhibit 4-166 to Form 10-Q for quarter ended June 30, 1994
August 15, 1994	Exhibit 4-168 to Form 10-Q for quarter ended September 30, 1994
December 1, 1994	Exhibit 4-169 to Form 10-K for year ended December 31, 1994
August 1, 1995	Exhibit 4-174 to Form 10-Q for quarter ended September 30, 1995

- 4(b) - Collateral Trust Indenture (notes), dated as of June 30, 1993 (Exhibit 4-152 to Registration No. 33-50325).
- 4(c) - First Supplemental Note Indenture, dated as of June 30, 1993 (Exhibit 4-153 to Registration No. 33-50325).
- 4(d) - Second Supplemental Note Indenture, dated as of September 15, 1993 (Exhibit 4-159 to Form 10-Q for quarter ended September 30, 1993).
- 4(e) - First Amendment, dated as of August 15, 1996, to Second Supplemental Note Indenture (Exhibit 4-17 to Form 10-Q for quarter ended September 30, 1996).
- 4(f) - Third Supplemental Note Indenture, dated as of August 15, 1994 (Exhibit 4-169 to Form 10-Q for quarter ended September 30, 1994).
- 4(g) - First Amendment, dated as of December 12, 1995, to Third Supplemental Note Indenture, dated as of August 15, 1994 (Exhibit 4-12 to Registration No. 333-00023).
- 4(h) - Fourth Supplemental Note Indenture, dated as of August 15, 1995 (Exhibit 4-175 to Detroit Edison Form 10-Q for quarter ended September 30, 1995).
- 4(i) - Fifth Supplemental Note Indenture, dated as of February 1, 1996 (Exhibit 4-14 to Form 10-K for year ended December 31, 1996).
- 4(j) - Sixth Supplemental Note Indenture, dated as of May 1, 1998, between Detroit Edison and Bankers Trust Company, as Trustee, creating the 7.54% Quarterly Income Debt Securities ("QUIDS"), including form of QUIDS. (Exhibit 4-193 to form 10-Q for quarter ended June 30, 1998.)
- 4(k) - Seventh Supplemental Note Indenture, dated as of October 15, 1998, between Detroit Edison and Bankers Trust Company, as Trustee, creating the 7.375% QUIDS, including form of QUIDS. (Exhibit 4-198 to Form 10-K for year ended December 31, 1998.)

- 4(l) - Standby Note Purchase Credit Facility, dated as of August 17, 1994, among The Detroit Edison Company, Barclays Bank PLC, as Bank and Administrative Agent, Bank of America, The Bank of New York, The Fuji Bank Limited, The Long-Term Credit Bank of Japan, LTD, Union Bank and Citicorp Securities, Inc. and First Chicago Capital Markets, Inc. as Remarketing Agents (Exhibit 99-18 to Form 10-Q for quarter ended September 30, 1994).
- 4(m) - \$60,000,000 Support Agreement dated as of January 21, 1998 between DTE Energy Company and DTE Capital Corporation. (Exhibit 4-183 to Form 10-K for year ended December 31, 1997.)
- 4(n) - \$100,000,000 Support Agreement, dated as of June 16, 1998, between DTE Energy Company and DTE Capital Corporation. (Exhibit 4-194 to Form 10-Q for quarter ended June 30, 1998.)
- 4(o) - \$300,000,000 Support Agreement, dated as of November 18, 1998, between DTE Energy and DTE Capital Corporation. (Exhibit 4-199 to Form 10-K for year ended December 31, 1998.)
- 4(p) - \$400,000,000 Support Agreement, dated as of January 19, 1999, between DTE Energy Company and DTE Capital Corporation. (Exhibit 4-201 to form 10-K for year ended December 31, 1998.)
- 4(q) - \$50,000,000 Support Agreement dated as of June 10, 1999 between DTE Energy Company and DTE Capital Corporation (Exhibit 4-203 to Form 10-Q for quarter ended June 30, 1999).
- 4(r) - Indenture, dated as of June 15, 1998, between DTE Capital Corporation and The Bank of New York, as Trustee. (Exhibit 4-196 to Form 10-Q for quarter ended June 30, 1998.)
- 4(s) - First Supplemental Indenture, dated as of June 15, 1998, between DTE Capital Corporation and The Bank of New York, as Trustee, creating the \$100,000,000 Remarketed Notes, Series A due 2038, including form of Note. (Exhibit 4-197 to Form 10-Q for quarter ended June 30, 1998.)
- 4(t) - Second Supplemental Indenture, dated as of November 1, 1998, between DTE Capital Corporation and The Bank of New York, as Trustee, creating the \$300,000,000 Remarketed Notes, 1998 Series B, including form of Note. (Exhibit 4-200 to Form 10-K for year ended December 31, 1998.)
- 4(u) - Second Amended and Restated Credit Agreement, Dated as of J January 19, 1999 among DTE Capital Corporation, the Initial Lenders, Citibank, N.A., as Agent, and ABN AMRO Bank N.V., Barclays Bank PLC, Bayerische Landesbank Giruzertrale, Cayman Islands Branch, Comerica Bank, Den Daske Bank Aktieselskab and The First National Bank of Chicago, as Co-Agents, and Salomon Smith Barney Inc., as

- Arranger. (Exhibit 99-28 to Form 10-K for year ended December 31, 1998).
- 4(v) - \$40,000,000 Support Agreement dated as of February 24, 1999 between DTE Energy Company and DTE Capital Corporation (Exhibit 4-202 to Form 10-Q for quarter ended March 31, 1999).
- 99(a)- Belle River Participation Agreement between Detroit Edison and Michigan Public Power Agency, dated as of December 1, 1982 (Exhibit 28-5 to Registration No. 2-81501).
- 99(b) - Belle River Transmission Ownership and Operating Agreement between Detroit Edison and Michigan Public Power Agency, dated as of December 1, 1982 (Exhibit 28-6 to Registration No. 2-81501).
- 99(c) - 1988 Amended and Restated Loan Agreement, dated as of October 4, 1988, between Renaissance Energy Company (an unaffiliated company) ("Renaissance") and Detroit Edison (Exhibit 99-6 to Registration No. 33-50325).
- 99(d) - First Amendment to 1988 Amended and Restated Loan Agreement, dated as of February 1, 1990, between Detroit Edison and Renaissance (Exhibit 99-7 to Registration No. 33-50325).
- 99(e) - Second Amendment to 1988 Amended and Restated Loan Agreement, dated as of September 1, 1993, between Detroit Edison and Renaissance (Exhibit 99-8 to Registration No. 33-50325).
- 99(f) - Third Amendment, dated as of August 28, 1997, to 1988 Amended and Restated Loan Agreement between Detroit Edison and Renaissance. (Exhibit 99-22 to Form 10-Q for quarter ended September 30, 1997.)
- 99(g) - \$200,000,000 364-Day Credit Agreement, dated as of September 1, 1993, among Detroit Edison, Renaissance and Barclays Bank PLC, New York Branch, as Agent (Exhibit 99-12 to Registration No. 33-50325).
- 99(h) - First Amendment, dated as of August 31, 1994, to \$200,000,000 364-Day Credit Agreement, dated September 1, 1993, among The Detroit Edison Company, Renaissance Energy Company, the Banks party thereto and Barclays Bank, PLC, New York Branch, as Agent (Exhibit 99-19 to Form 10-Q for quarter ended September 30, 1994).
- 99(i) - Third Amendment, dated as of March 8, 1996, to \$200,000,000 364-Day Credit Agreement, dated September 1, 1993, as amended, among Detroit Edison, Renaissance, the Banks party thereto and Barclays Bank, PLC, New York Branch, as Agent (Exhibit 99-11 to Form 10-Q for quarter ended March 31, 1996).

- 99(j) - Fourth Amendment, dated as of August 29, 1996, to \$200,000,000 364-Day Credit Agreement as of September 1, 1990, as amended, among Detroit Edison, Renaissance, the Banks party thereto and Barclays Bank, PLC, New York Branch, as Agent (Exhibit 99-13 to Form 10-Q for quarter ended September 30, 1996).
- 99(k)- Fifth Amendment, dated as of September 1, 1997, to \$200,000,000 Multi-Year Credit Agreement, dated as of September 1, 1993, as amended, among Detroit Edison, Renaissance, the Banks Party thereto and Barclays Bank PLC, New York Branch, as Agent. (Exhibit 99-24 to Form 10-Q for quarter ended September 30, 1997.)
- 99(l) - \$200,000,000 Three-Year Credit Agreement, dated September 1, 1993, among Detroit Edison, Renaissance and Barclays Bank, PLC, New York Branch, as Agent (Exhibit 99-13 to Registration No. 33-50325).
- 99(m) - First Amendment, dated as of September 1, 1994, to \$200,000,000 Three-Year Credit Agreement, dated as of September 1, 1993, among The Detroit Edison Company, Renaissance Energy Company, the Banks party thereto and Barclays Bank, PLC, New York Branch, as Agent (Exhibit 99-20 to Form 10-Q for quarter ended September 30, 1994).
- 99(n) - Third Amendment, dated as of March 8, 1996, to \$200,000,000 Three-Year Credit Agreement, dated September 1, 1993, as amended among Detroit Edison, Renaissance, the Banks party thereto and Barclays Bank, PLC, New York Branch, as Agent (Exhibit 99-12 to Form 10-Q for quarter ended March 31, 1996).
- 99(o)- Fourth Amendment, dated as of September 1, 1996, to \$200,000,000 Multi-Year (formerly Three-Year) Credit Agreement, dated as of September 1, 1993, as amended among Detroit Edison, Renaissance, the Banks party thereto and Barclays Bank, PLC, New York Branch, as Agent (Exhibit 99-14 to Form 10-Q for quarter ended September 30, 1996).
- 99(p)- Fifth Amendment, dated as of August 28, 1997, to \$200,000,000 364-Day Credit Agreement, dated as of September 1, 1990, as amended, among Detroit Edison, Renaissance, the Banks Party thereto and Barclays Bank PLC, New York Branch, as Agent. (Exhibit 99-25 to Form 10-Q for quarter ended September 30, 1997.)
- 99(q) - Sixth Amendment, dated as of August 27, 1998, to \$200,000,000 364-Day Credit Agreement dated as of September 1, 1990, as amended, among Detroit Edison, Renaissance, the Banks party thereto and Barclays Bank PLC, New York Branch, as agent. (Exhibit 99-32 to Registration No. 333-65765.)

- 99(r) - 1988 Amended and Restated Nuclear Fuel Heat Purchase Contract, dated October 4, 1988, between Detroit Edison and Renaissance (Exhibit 99-9 to Registration No. 33-50325).
- 99(s) - First Amendment to 1988 Amended and Restated Nuclear Fuel Heat Purchase Contract, dated as of February 1, 1990, between Detroit Edison and Renaissance (Exhibit 99-10 to Registration No. 33-50325).
- 99(t) - Second Amendment, dated as of September 1, 1993, to 1988 Amended and Restated Nuclear Fuel Heat Purchase Contract between Detroit Edison and Renaissance (Exhibit 99-11 to Registration No. 33-50325).
- 99(u) - Third Amendment, dated as of August 31, 1994, to 1988 Amended and Restated Nuclear Fuel Heat Purchase Contract, dated October 4, 1988, between The Detroit Edison Company and Renaissance Energy Company (Exhibit 99-21 to Form 10-Q for quarter ended September 30, 1994).
- 99(v) - Fourth Amendment, dated as of March 8, 1996, to 1988 Amended and Restated Nuclear Fuel Heat Purchase Contract Agreement, dated as of October 4, 1988, between Detroit Edison and Renaissance (Exhibit 99-10 to Form 10-Q for quarter ended March 31, 1996).
- 99(w) - Sixth Amendment, dated as of August 28, 1997, to 1988 Amended and Restated Nuclear Fuel Heat Purchase Contract between Detroit Edison and Renaissance. (Exhibit 99-23 to Form 10-Q for quarter ended September 30, 1997.)
- 99(x) - Standby Note Purchase Credit Facility, dated as of September 12, 1997, among The Detroit Edison Company and the Bank's Signatory thereto and The Chase Manhattan Bank, as Administrative Agent, and Citicorp Securities, Inc., Lehman Brokers, Inc., as Remarketing Agents and Chase Securities, Inc. as Arranger. (Exhibit 99-26 to Form 10-Q for quarter ended September 30, 1997.)
- (b) On October 5, 1999 the Company filed a Current Report on Form 8-K discussing the proposed merger with MCN.

## SIGNATURES

Pursuant to the requirements 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 November 8, 1999

/s/ SUSAN M. BEALE  
Susan M. Beale  
Vice President and Corporate Secretary

Date November 8, 1999

/s/ DAVID E. MEADOR  
David E. Meador  
Vice President

## SIGNATURES

Pursuant to the requirements 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.

THE DETROIT EDISON COMPANY  
(Registrant)

Date November 8, 1999

/s/ SUSAN M. BEALE  
Susan M. Beale  
Vice President and Corporate Secretary

Date November 8, 1999

/s/ DANIEL G. BRUDZYNSKI  
Daniel G. Brudzynski  
Controller

**DTE Edison America, Inc.**  
**Balance Sheet**

In Thousands

	September 31, 1999
<b>Assets</b>	
<b>Current Assets</b>	
Accounts and Notes Receivable (Less Allowance for uncollectible Accounts of \$0)	431
Other Current Assets	1,129
<b>Total Current Assets</b>	<b>1,561</b>
<b>Property and Equipment, net</b>	<b>3,718</b>
<b>Total Assets</b>	<b>5,278</b>
<b>Liabilities and Shareholder's Equity</b>	
<b>Current Liabilities</b>	
Accounts payable	274
Accrued liabilities	22
Intercompany payables	2,692
Taxes payable	(109)
Other current liabilities	315
<b>Total Current Liabilities</b>	<b>3,193</b>
<b>Non-Current Liabilities and Deferred Credits</b>	
Long-Term Debt	-
Other Non-Current Liabilities	-
<b>Total Noncurrent Liabilities and Deferred Credits</b>	<b>-</b>
<b>Shareholder's Equity</b>	
Common Stock	12,490
Retained Earnings (Deficit)	(10,406)
<b>Total Shareholders' Equity</b>	<b>2,084</b>
<b>Total Liabilities and Shareholder's Equity</b>	<b>5,278</b>

**DTE Edison America, Inc.**  
**Statement of Income**

	YTD September 1999
	Actual
<b>Revenue</b>	2,290
<b>Operating Expenses</b>	
Operation	12,177
Depreciation and Amortization	657
Taxes Other Than Income	107
Total Expenses	12,941
Operating Income (Loss)	(10,651)
<b>Other Income and (Expense)</b>	(4)
Income (Loss) before Income Taxes	(10,655)
Income Tax Provision Benefit	(3,729)
<b>Net Income (Loss)</b>	(6,926)

DUNS: 01-714-1503  
DTE EDISON AMERICA, INC  
(SUBSIDIARY OF DTE ENERGY  
COMPANY (INC), DETROIT, MI)

DATE PRINTED  
JUL 22 1999  
ELECTRIC & GAS  
SERVICES  
SIC NO.  
49 11

RATING --  
STARTED 1998  
EMPLOYS 15  
HISTORY CLEAR

101 N MAIN, STE 300  
MOVED FROM: 2000 2ND AVE, STE  
104 WCB, DETROIT, MI  
ANN ARBOR MI 48104  
TEL: 734 887-2118

CHIEF EXECUTIVE: JEAN M REDFIELD, PRESIDENT

SPECIAL EVENTS

07/20/99 Business address has changed from 2000 2nd Ave, Ste 104 Wcb,  
Detroit, MI, 48226 to 101 N Main, Ste 300, Ann Arbor, MI, 48104.

\* \* \* CUSTOMER SERVICE \* \* \*

If you have questions about this report, please call our Customer Service  
Center at 1-800-234-3867 from anywhere within the U.S. If you are outside the  
U.S., contact your local D&B office.

\*\*\* Additional Decision Support Available \*\*\*

Additional D&B products, credit recommendations and specialized investigations  
are available to help you evaluate this company or its industry. Call Dun &  
Bradstreet's Solution Center at 1-800-362-3425 from anywhere within the U.S.

\* \* \* SUMMARY ANALYSIS \* \* \*

The Summary Analysis section reflects information in D&B's file as of  
July 20, 1999.

RATING SUMMARY . . . .

The absence of a Rating (--) indicates that the information available to  
D&B does not permit us to assign a Rating to this business. In this  
case, no Rating was assigned because of D&B's overall assessment of the  
company's financial, payment, and its historical information.

Below is an overview of the company's D&B Rating(s) since 06/23/98:

RATING	DATE APPLIED
--	06/23/98

\* \* \* PAYMENT SUMMARY \* \* \*

This report, furnished pursuant to contract for the exclusive use of the subscriber as one factor to consider in connection with credit insurance, marketing or other  
business decisions, contains information compiled from sources which Dun & Bradstreet, Inc. does not control and whose information, unless otherwise indicated  
in the report, has not been verified. In furnishing this report, Dun & Bradstreet in no way assumes any part of the users business risk, does not guarantee the  
accuracy, completeness, or timeliness of the information provided and shall not be liable for any loss or injury whatever resulting from contingencies beyond  
its control or from negligence.

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=====  
 The Payment Summary section reflects payment information in D&B's file as of the date of this report.

D&B has not received a sufficient sample of payment experiences to establish a PAYDEX score.

Below is an overview of the company's dollar-weighted payments, segmented by its suppliers' primary industries:

	TOTAL RCV'D #	TOTAL DOLLAR AMOUNTS \$	LARGEST HIGH CREDIT \$	% W/IN TERMS %	DAYS SLOW			
					<31 %	31-60 %	61-90 %	91+ %
Total in D&B's file	3	62,600	60,000					
Payment By Industry:								
1 Public relations	1	60,000	60,000	100	-	-	-	-
2 Nonclassified	1	2,500	2,500	100	-	-	-	-
3 Telephone communictns	1	100	100	100	-	-	-	-

Other Payment Categories:

Cash experiences	0	0	0
Payment record unknown	0	0	0
Unfavorable comments	0	0	0
Placed for collection			
with D&B	0	0	
other	0	N/A	

The highest "Now Owes" on file is \$2,500  
 The highest "Past Due" on file is \$ 0

D&B receives over 315 million payment experiences each year. We enter these new and updated experiences into D&B Reports as this information is received.

=====  
 PAYMENTS (Amounts may be rounded to nearest figure in prescribed ranges)

- Antic - Anticipated (Payments received prior to date of invoice)
- Disc - Discounted (Payments received within trade discount period)
- Ppt - Prompt (Payments received within terms granted)

REPORTED	PAYING RECORD	HIGH CREDIT	NOW OWES	PAST DUE	SELLING TERMS	LAST SALE WITHIN
06/99	Ppt	2500	-0-	-0-		6-12 Mos
01/99	Ppt	60000	2500	-0-	N30	1 Mo
12/98	Ppt	100	-0-	-0-		2-3 Mos

\* Each experience shown represents a separate account reported by a

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supplier. Updated trade experiences replace those previously reported.

FINANCE

06/29/99

On June 28 1999, attempts to contact the management of this business have been unsuccessful. Outside sources confirmed operation and location.

PUBLIC FILINGS

The following data is for information purposes only and is not the official record. Certified copies can only be obtained from the official source.

\* \* \* UCC FILING(S) \* \* \*

COLLATERAL: All Inventory including proceeds and products - All Account(s) including proceeds and products - All Fixtures including proceeds and products - All Computer equipment including proceeds and products - and OTHERS

FILING NO:	99904B	DATE FILED:	12/28/1998
TYPE:	Original	LATEST INFO RECEIVED:	02/08/1999
SEC. PARTY:	ENERGY CAPITAL PARTNERS LIMITED PARTNERSHIP, BOSTON, MA	FILED WITH:	SECRETARY OF STATE/UCC DIVISION, MI
DEBTOR:	THE DETROIT EDISON COMPANY (TRANSMITTING UTILITY)		

The public record items contained in this report may have been paid, terminated, vacated or released prior to the date this report was printed.

HISTORY

07/20/99

JEAN M REDFIELD, PRESIDENT	STEVE SHEPPARD, VICE PRESIDENT-ENERGY PRODUCTS
VICKI CAMPBELL, VICE PRESIDENT-HOME PRODUCTS	LESLIE CHRISTIANSEN, VICE PRESIDENT-OPERATIONS
DIRECTOR(S): THE OFFICER(S)	

CORPORATE AND BUSINESS REGISTRATIONS REPORTED BY THE SECRETARY OF STATE OR OTHER OFFICIAL SOURCE AS OF 07/09/1999:

BUSINESS TYPE: Corporation - Profit	DATE INCORPORATED: 04/13/1998
	STATE OF INCORP: Michigan

This report, furnished pursuant to contract for the exclusive use of the subscriber as one factor to consider in connection with credit insurance, marketing or other business decisions, contains information compiled from sources which Dun & Bradstreet, Inc. does not control and whose information, unless otherwise indicated in the report, has not been verified. In furnishing this report, Dun & Bradstreet in no way assumes any part of the users business risk, does not guarantee the accuracy, completeness, or timeliness of the information provided and shall not be liable for any loss or injury whatever resulting from contingencies beyond its control or from negligence.

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Business started 1998 by parent. 100% of capital stock is owned by parent.

JEAN M REDFIELD. Antecedents unavailable.

STEVE SHEPPARD. Antecedents unavailable.

VICKI CAMPBELL. Antecedents unavailable.

LESLIE CHRISTIANSEN. Antecedents unavailable.

Business address has changed from 2000 2nd Ave, Ste 104 Wcb, Detroit, MI, 48226 to 101 N Main, Ste 300, Ann Arbor, MI, 48104.

=====

**OPERATION**

07/20/99

Subsidiary of Dte Energy Company (inc), Detroit, MI started 1995 which operates as a holding company. Parent company owns 100% of capital stock. Parent company has 12 other subsidiary(ies).

As noted, this company is a subsidiary of Dte Energy Company (inc), DUNS number 839329158, and reference is made to that report for background information on the parent company and its management.

Retail marketer of energy in states where energy has been deregulated, both electric and gas. Operations are expected to begin in Jan 1999.

EMPLOYEES: 15 which includes officer(s).

FACILITIES: Rents premises on first floor of 24 story brick building.

LOCATION: Central business section on main street.

07-22(725 /725) 99999 839329158 013083083

FULL DISPLAY COMPLETE

This report, furnished pursuant to contract for the exclusive use of the subscriber as one factor to consider in connection with credit insurance, marketing or other business decisions, contains information compiled from sources which Dun & Bradstreet, Inc. does not control and whose information, unless otherwise indicated in the report, has not been verified. In furnishing this report, Dun & Bradstreet in no way assumes any part of the users business risk, does not guarantee the accuracy, completeness, or timeliness of the information provided and shall not be liable for any loss or injury whatever resulting from contingencies beyond its control or from negligence.

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010284

**Dun & Bradstreet  
Information Services**

**DB** a company of  
The Dun & Bradstreet Corporation

July 22, 1999  
Order: 4300805

TO: STEVE SHEPPARD  
Dte Edison America, Inc  
2000 2ND AVE, STE 104 WCB  
DETROIT, MI 48226

**RE: Monitoring Scope Change Notification**

Enclosed is information about changes that D&B has recorded in its files. These changes reflect new or updated information received and processed by Dun & Bradstreet.

If you have any questions contact our Customer Service Center at 1-800-333-0505.



## Information for Counterparties Regarding DTE Capital Corporation

Corporate Office  
2000 2<sup>nd</sup> Avenue Room 833 WCB  
Detroit, Michigan 48226-1279

DTE Capital is a Michigan corporation and wholly owned subsidiary of DTE Energy Company. DTE Capital provides funding, cash management, credit evaluation and collateral services, and other financial services to DTE Energy Company and its non-regulated affiliates. Funding for affiliates comes from consolidation of affiliate cash balances, issuance of long term public debt and a \$400 million commercial paper program.

DTE Energy Company is a Michigan corporation. It is a diversified energy company, which develops and manages energy-related businesses and services nationwide. The company, through The Detroit Edison Company, generates, purchases, transmits, distributes, and sells electric energy in southeastern Michigan. Its common stock is traded on the New York and Chicago Exchanges. DTE Energy's ticker symbol is DTE and its common stock is a member of 22 indices.

### DTE Energy Company Financial Highlights (12/31/1998)

Annual Revenues:	\$ 4.2 billion
Total Assets:	\$12.1 billion
Total Equity:	\$ 3.7 billion

DTE Energy Company and its subsidiaries are engaged in the following businesses:

Affiliate	Major Lines of Business
Detroit Edison	Regulated electricity generation, transmission and distribution
Midwest Energy Resources DTE Coal Services DTE Rail Services DTE Transportation Services	Fossil fuel sourcing and transportation
DTE Energy Services	Cogeneration, power generation, pulverized coal injection, coke oven batteries and backup generation
DTE Biomass Services	Steam, electricity and methane gas sales
DTE Energy Technologies	Liquid delivery systems for HVAC and refrigeration, data monitoring systems.
DTE Energy Solutions DTE/Probyn Energy Solutions	Energy distribution products, services and systems in the construction and maintenance, recycling and reclamation, customer services and engineering areas.
DTE Energy Trading	Marketing of electricity and related fuels and provision of risk management solutions.
DTE Edison America DTE Energy Marketing	Retail sale of electricity.
Edison Development Corp.	Fuel cell development.
Syndeco Realty Corporation	Real Estate – land sales, residential and commercial construction

## Credit Ratings

Company	Senior Secured (S&P/Moody's)	Corporate Credit (S&P/Moody's)	Commercial Paper (S&P/Moody's)
DTE Energy Company	NA/NA	BBB/NA	A-2/P-2
The Detroit Edison Company	A- / A3	BBB+/Baa1	A-2/P-2
DTE Capital Corporation	NA/NA	BBB/Baa2	A-2/P-2

DTE Capital's ratings are based primarily on the strong support given to it by DTE Energy Company through various Support Agreements.

## Financial Statements

Both DTE Energy Company and The Detroit Edison Company are registered companies with the Security and Exchange Commission and submit 10Qs and 10Ks among other filings. DTE Capital Corporation is not a registered company, but does provide reviewed quarterly and audited annual financial statements.

## Collateral

DTE Capital Corporation provides guarantees, supported by DTE Energy Company, to counterparties of certain affiliates engaged in power marketing and energy trading lines of business.

## Bank References for DTE Capital

BankOne Capital Markets One First National Plaza Mail Suite 0363	Mr. Richard Waldman Managing Director Phone:312-732-3520 Fax:312-732-3055
------------------------------------------------------------------------	------------------------------------------------------------------------------------

Citibank, N.A., as agent bank for \$400 million revolving credit facility:

Citibank, N.A. 399 Park Avenue New York, New York 10043	Mr. Nick McKee Vice President – Global Power Department Phone: 212-559-1503 Fax: 212-793-6130
---------------------------------------------------------------	--------------------------------------------------------------------------------------------------------

## Further Information or Questions

For further information, please contact Phil Crutchfield (313-235-6893, [crutchfieldg@dteenergy.com](mailto:crutchfieldg@dteenergy.com)) or Dave Patria (313-235-8344, [patriad@dteenergy.com](mailto:patriad@dteenergy.com)). The common fax number is 313-235-9470

<HELP> for explanation, <MENU> for similar functions. DG29 Equity C R P R  
Enter # <GO> for historical ratings. 99 <GO> for rating scales/definitions

C R E D I T P R O F I L E

Page 1/1

DTE Capital Corp.

For more information see Parent Company: DTE Energy Company

MOODYS

- 1) Outlook NEG
- 2) Senior Unsecured Debt Baa2

STANDARD & POORS

- 3) LT Foreign Issuer Credit BBB
- 4) LT Local Issuer Credit BBB
- 5) ST Foreign Issuer Credit A-2
- 6) ST Local Issuer Credit A-2

**Deloitte &  
Touche**



# *DTE Capital Corporation*

*Condensed Financial Statements for  
the Three- and Six-Month Periods  
Ended June 30, 1999 and 1998, and  
Independent Accountants' Report*



## INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors of  
DTE Capital Corporation

We have reviewed the accompanying condensed balance sheet of DTE Capital Corporation as of June 30, 1999, the related condensed statements of income and cash flows for the three-month and six-month periods ended June 30, 1999 and 1998, and the condensed statement of changes in shareholder's equity for the six-month period ended June 30, 1999. These financial statements are the responsibility of DTE Capital Corporation's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of DTE Capital Corporation as of December 31, 1998 and the related statements of income, changes in shareholder's equity and cash flows for the year then ended (not presented herein); and in our report dated March 10, 1999 we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 1998 is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

*Deloitte & Touche LLP*

July 28, 1999

# DTE CAPITAL CORPORATION

## CONDENSED BALANCE SHEET (UNAUDITED)

JUNE 30, 1999 AND DECEMBER 31, 1998

(In Thousands, Except Shares)

	June 30, 1999	December 31, 1998
<b>ASSETS</b>		
ASSETS:		
Cash and cash equivalents	\$ 3,062	\$ 118,773
Interest receivable	6,913	6,474
Working capital loans receivable from related parties	143,422	51,540
Term loans receivable from related parties	332,553	317,739
Debt issue costs (net of accumulated amortization of \$1,050 and \$381, respectively)	3,772	3,905
Other assets	<u>404</u>	<u>413</u>
<b>TOTAL ASSETS</b>	<u>\$ 490,126</u>	<u>\$ 498,844</u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
LIABILITIES:		
Deposits from related parties	\$ 18,610	\$ 33,394
Accounts payable	61	226
Accounts payable to related parties	120	42
Debt and borrowings	403,300	400,000
Accrued interest	3,084	2,686
Other	<u>55</u>	<u>148</u>
Total liabilities	425,230	436,496
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDER'S EQUITY:		
Common stock, without par value; 60,000 shares authorized, 5,000 issued and outstanding	50,000	50,000
Retained earnings	<u>14,896</u>	<u>12,348</u>
Total shareholder's equity	<u>64,896</u>	<u>62,348</u>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<u>\$ 490,126</u>	<u>\$ 498,844</u>

See notes to condensed financial statements (unaudited).

# DTE CAPITAL CORPORATION

CONDENSED STATEMENT OF INCOME (UNAUDITED)  
 FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 1999 AND 1998  
 (In Thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	1999	1998	1999	1998
<b>INTEREST INCOME (EXPENSE):</b>				
Interest income	\$ 9,853	\$ 7,133	\$ 18,645	\$ 11,679
Investment income	161	57	1,024	143
Interest expense	<u>(7,627)</u>	<u>(3,698)</u>	<u>(15,271)</u>	<u>(5,957)</u>
Net interest income	2,387	3,492	4,398	5,865
<b>OPERATING EXPENSES:</b>				
General and administrative	194	211	446	377
Taxes other than income	<u>(21)</u>	<u>95</u>	<u>32</u>	<u>140</u>
Total operating expenses	<u>173</u>	<u>306</u>	<u>478</u>	<u>517</u>
OPERATING INCOME	2,214	3,186	3,920	5,348
PROVISION FOR INCOME TAXES	<u>775</u>	<u>1,115</u>	<u>1,372</u>	<u>1,872</u>
NET INCOME	<u>\$ 1,439</u>	<u>\$ 2,071</u>	<u>\$ 2,548</u>	<u>\$ 3,476</u>

See notes to condensed financial statements (unaudited).

# DTE CAPITAL CORPORATION

## CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 1999 AND 1998 (In Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
<b>OPERATING ACTIVITIES:</b>				
Net income	\$ 1,439	\$ 2,071	\$ 2,548	\$ 3,476
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Amortization	327	16	669	28
Changes in assets and liabilities:				
Interest receivable	(232)	(3,004)	(439)	(6,040)
Accounts payable	(518)	(515)	78	26
Accrued interest	(6,416)	(570)	398	(96)
Other	(146)	52	(93)	67
Net cash (used in) provided by operating activities	(5,546)	(1,950)	3,161	(2,539)
<b>INVESTING ACTIVITIES:</b>				
Net change in working capital loans receivable	(18,637)	24,145	(91,882)	20,035
Term loans made	(25,682)	(18,457)	(42,532)	(230,835)
Payments received from term loans	13,540	6,058	27,717	10,807
Other - net	136	(311)	(155)	(470)
Net cash (used in) provided by investing activities	(30,643)	11,435	(106,852)	(200,463)
<b>FINANCING ACTIVITIES:</b>				
Payments for debt issue costs	(30)	(1,537)	(536)	(1,537)
Net change in deposits from related parties	5,666	19,168	(14,784)	23,757
Issuance of debt		100,000		100,000
Increase (decrease) in borrowings	3,300	(133,219)	3,300	75,768
Net cash provided by (used in) financing activities	8,936	(15,588)	(12,020)	197,988
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(27,253)</b>	<b>(6,103)</b>	<b>(115,711)</b>	<b>(5,014)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>30,315</b>	<b>7,430</b>	<b>118,773</b>	<b>6,341</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>\$ 3,062</b>	<b>\$ 1,327</b>	<b>\$ 3,062</b>	<b>\$ 1,327</b>
<b>SUPPLEMENTARY CASH FLOW INFORMATION:</b>				
Interest paid	\$ 13,374	\$ 4,268	\$ 14,204	\$ 6,053
Income taxes paid to DTE Energy	\$ 1,242	\$ 1,646	\$ 1,199	\$ 1,801

See notes to condensed financial statements (unaudited).

# DTE CAPITAL CORPORATION

## CONDENSED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED) FOR THE SIX MONTHS ENDED JUNE 30, 1999 (In Thousands, Except Shares)

---

	1999	
	Shares	Amount
COMMON STOCK:		
Balance at January 1, 1999	<u>5,000</u>	<u>\$ 50,000</u>
Balance at June 30, 1999	5,000	50,000
RETAINED EARNINGS:		
Balance at January 1, 1999		12,348
Net income		<u>2,548</u>
Balance at June 30, 1999		<u>14,896</u>
TOTAL SHAREHOLDER'S EQUITY AT JUNE 30, 1999		<u>\$ 64,896</u>

See notes to condensed financial statements (unaudited).

# DTE CAPITAL CORPORATION

## NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 1999 AND 1998

---

### 1. CONDENSED FINANCIAL STATEMENT NOTES

These condensed financial statements (unaudited) should be read in conjunction with the notes to financial statements for the years ended December 31, 1998, 1997 and 1996. The notes contained herein update and supplement matters discussed in the Annual Financial Statement Notes.

These condensed financial statements are unaudited, but in the opinion of the management of DTE Capital Corporation (the "Company"), include all adjustments necessary for a fair statement of the results for the periods ended June 30, 1999 and 1998. Financial results for these interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year.

### 2. RELATED PARTY TRANSACTIONS

In June 1999, the Company entered into a \$50 million Support Agreement with DTE Energy Company in support of the Company's credit enhancing activities on behalf of DTE Energy Affiliates.

\* \* \* \* \*



**INDEPENDENT ACCOUNTANTS' REPORT**

To the Board of Directors of  
DTE Capital Corporation

We have reviewed the accompanying condensed balance sheet of DTE Capital Corporation as of March 31, 1999, the related condensed statements of income and cash flows for the three-month periods ended March 31, 1999 and 1998, and the condensed statement of changes in shareholder's equity for the three months ended March 31, 1999. These financial statements are the responsibility of DTE Capital Corporation's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of DTE Capital Corporation as of December 31, 1998, and the related statements of income, cash flows and changes in shareholder's equity for the year then ended (not presented herein) and in our report dated March 10, 1999 we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 1998 is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

*Deloitte & Touche LLP*

April 28, 1999

# DTE CAPITAL CORPORATION

## CONDENSED BALANCE SHEET (UNAUDITED) MARCH 31, 1999 AND DECEMBER 31, 1998 (In Thousands, Except Shares)

	March 31, 1999	December 31, 1998
<b>ASSETS</b>		
ASSETS:		
Cash and cash equivalents	\$ 30,315	\$ 118,773
Interest receivable	6,681	6,474
Working capital loans receivable from related parties	124,785	51,540
Term loans receivable from related parties	320,412	317,739
Debt issue costs (net of accumulated amortization of \$588 and \$381, respectively)	4,106	3,905
Other assets	<u>478</u>	<u>413</u>
TOTAL ASSETS	<u>\$486,777</u>	<u>\$498,844</u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
LIABILITIES:		
Deposits from related parties	\$ 12,944	\$ 33,394
Accounts payable	37	226
Accounts payable to related parties	638	42
Borrowings	400,000	400,000
Accrued interest	9,500	2,686
Other	<u>201</u>	<u>148</u>
Total liabilities	<u>423,320</u>	<u>436,496</u>
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDER'S EQUITY:		
Common stock, without par value: 60,000 shares authorized, 5,000 issued and outstanding	50,000	50,000
Retained earnings	<u>13,457</u>	<u>12,348</u>
Total shareholder's equity	<u>63,457</u>	<u>62,348</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u>\$486,777</u>	<u>\$498,844</u>

See notes to condensed financial statements (unaudited).

# DTE CAPITAL CORPORATION

## CONDENSED STATEMENTS OF INCOME (UNAUDITED) FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 1999 AND 1998 (In Thousands)

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	1999	1998
INTEREST INCOME (EXPENSE):		
Interest income	\$ 8,792	\$ 4,546
Investment income	863	86
Interest expense	<u>(7,644)</u>	<u>(2,259)</u>
Net interest income	<u>2,011</u>	<u>2,373</u>
OPERATING EXPENSES:		
General and administrative	252	166
Taxes other than income	<u>53</u>	<u>45</u>
Total operating expenses	<u>305</u>	<u>211</u>
OPERATING INCOME	1,706	2,162
PROVISION FOR INCOME TAXES	<u>597</u>	<u>757</u>
NET INCOME	<u>\$ 1,109</u>	<u>\$ 1,405</u>

See notes to condensed financial statements (unaudited).

# DTE CAPITAL CORPORATION

## CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED) FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 1999 AND 1998 (In Thousands)

	1999	1998
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 1,109	\$ 1,405
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Amortization	342	12
Changes in assets and liabilities:		
Interest receivable	(207)	(3,036)
Accounts payable	596	541
Accrued interest	6,814	474
Other	<u>53</u>	<u>15</u>
Net cash provided by (used in) operating activities	<u>\$ 8,707</u>	<u>\$ (589)</u>
<b>INVESTING ACTIVITIES:</b>		
Net change in working capital loans receivable	(73,245)	(4,110)
Term loans made	(16,850)	(212,378)
Payments received from term loans	14,177	4,749
Other, net	<u>(291)</u>	<u>(159)</u>
Net cash used in investing activities	<u>(76,209)</u>	<u>(211,898)</u>
<b>FINANCING ACTIVITIES:</b>		
Payments for debt issue costs	(506)	
Net change in deposits from related parties	(20,450)	4,589
Increase in borrowings	<u>208,987</u>	<u>208,987</u>
Net cash (used in) provided by financing activities	<u>(20,956)</u>	<u>213,576</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(88,458)</b>	<b>1,089</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b><u>118,773</u></b>	<b><u>6,341</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b><u>\$ 30,315</u></b>	<b><u>\$ 7,430</u></b>
<b>SUPPLEMENTARY CASH FLOW INFORMATION:</b>		
Interest paid	<u>\$ 830</u>	<u>\$ 1,785</u>
Income taxes (credit) paid to (received from) DTE Energy	<u>\$ (43)</u>	<u>\$ 155</u>

See notes to condensed financial statements (unaudited).

# DTE CAPITAL CORPORATION

## CONDENSED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED) FOR THE THREE-MONTHS ENDED MARCH 31, 1999 (In Thousands, Except Shares)

	1999	
	Shares	Amount
COMMON STOCK:		
Balance at January 1, 1999	<u>5.000</u>	<u>\$50,000</u>
Balance at March 31, 1999	5.000	<u>50,000</u>
RETAINED EARNINGS:		
Balance at January 1, 1999		12,348
Net income		<u>1,109</u>
Balance at March 31, 1999		<u>13,457</u>
TOTAL SHAREHOLDER'S EQUITY		<u>\$63,457</u>

See notes to condensed financial statements (unaudited).

# DTE CAPITAL CORPORATION

## NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) FOR THE THREE-MONTHS ENDED MARCH 31, 1999 AND 1998

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### 1. CONDENSED FINANCIAL STATEMENT NOTES

These condensed financial statements (unaudited) should be read in conjunction with the notes to financial statements for the years ended December 31, 1998, 1997 and 1996. The notes contained herein update and supplement matters discussed in the Annual Financial Statements Notes.

These condensed financial statements are unaudited, but in the opinion of the management of DTE Capital Corporation include all adjustments necessary for a fair statement of the results for the periods ended March 31, 1999 and March 31, 1998. Financial results for these interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year.

\* \* \* \* \*

**Deloitte &  
Touche**



**Deloitte & Touche LLP**  
Suite 900  
600 Renaissance Center  
Detroit, Michigan 48243-1704

Telephone: (313) 396-3000

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
DTE Capital Corporation

We have audited the balance sheets of DTE Capital Corporation ("DTE Capital") as of December 31, 1998 and 1997, and the related statements of income, cash flows, and changes in common shareholder's equity for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of DTE Capital management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements referred to above present fairly, in all material respects, the financial position of DTE Capital at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

*Deloitte & Touche LLP*

March 10, 1999

**Deloitte Touche  
Tohmatsu**

# DTE CAPITAL CORPORATION

## BALANCE SHEET

DECEMBER 31, 1998 AND 1997

(In Thousands, Except Shares)

	1998	1997
ASSETS:		
Cash and cash equivalents	\$ 118,773	\$ 6,341
Interest receivable	6,474	581
Working capital loans receivable from related parties	51,540	41,652
Term loans receivable from related parties	317,739	49,820
Debt issue costs (net of accumulated amortization of \$381 and \$90, respectively)	3,905	59
Other assets	413	488
<b>TOTAL ASSETS</b>	<b><u>\$ 498,844</u></b>	<b><u>\$ 98,941</u></b>
LIABILITIES AND SHAREHOLDER'S EQUITY:		
Deposits from related parties	\$ 33,394	\$ 1,676
Accounts payable	226	159
Accounts payable to related parties	42	277
Notes payable	400,000	42,000
Accrued interest	2,686	325
Other	148	30
Total liabilities	436,496	44,467
Shareholder's equity:		
Common stock, without par value, 60,000 shares authorized, 5,000 issued and outstanding	50,000	50,000
Retained earnings	12,348	4,474
Total shareholder's equity	<u>62,348</u>	<u>54,474</u>
COMMITMENTS AND CONTINGENCIES (Note 9)		
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b><u>\$ 498,844</u></b>	<b><u>\$ 98,941</u></b>

See notes to financial statements.

# DTE CAPITAL CORPORATION

## STATEMENT OF INCOME

YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

(In Thousands)

	1998	1997	1996
INTEREST INCOME (EXPENSE):			
Interest income	\$ 29,491	\$ 5,721	\$ 1,074
Investment income	784	1,003	1,799
Interest expense	<u>(17,073)</u>	<u>(1,737)</u>	<u>(318)</u>
Net interest income	<u>13,202</u>	<u>4,987</u>	<u>2,555</u>
OPERATING EXPENSES:			
General and administrative	760	430	267
Taxes other than income	<u>348</u>	<u>87</u>	<u>15</u>
Total operating expenses	<u>1,108</u>	<u>517</u>	<u>282</u>
OPERATING INCOME	12,094	4,470	2,273
PROVISION FOR INCOME TAXES	<u>4,220</u>	<u>1,560</u>	<u>775</u>
NET INCOME	<u>\$ 7,874</u>	<u>\$ 2,910</u>	<u>\$ 1,498</u>

See notes to financial statements.

# DTE CAPITAL CORPORATION

## STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

(In Thousands)

	1998	1997	1996
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 7,874	\$ 2,910	\$ 1,498
Adjustments to reconcile net income to net cash from operating activities:			
Amortization	291	51	39
Changes in assets and liabilities:			
Interest receivable	(5,893)	(338)	(93)
Accounts payable	(235)	133	60
Accrued interest	2,361	323	2
Other	118	(12)	42
Net cash from operating activities	4,516	3,067	1,548
<b>INVESTING ACTIVITIES:</b>			
Net change in working capital loans receivable	(9,888)	(29,099)	(12,553)
Term loans made	(313,896)	(60,320)	
Payments received from term loans	45,977	10,500	
Other - net	(84)	(329)	
Net cash used in investing activities	(277,891)	(79,248)	(12,553)
<b>FINANCING ACTIVITIES:</b>			
Payments for debt issue costs	(3,911)		(149)
Net change in deposits from related parties	31,718	1,614	62
Proceeds from borrowings	400,000	42,000	
Repayment of borrowings	(42,000)		
Net cash provided by (used in) financing activities	385,807	43,614	(87)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	112,432	(32,567)	(11,092)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	6,341	38,908	50,000
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	\$ 118,773	\$ 6,341	\$ 38,908
<b>SUPPLEMENTARY CASH FLOW INFORMATION:</b>			
Interest paid	\$ 14,712	\$ 1,414	\$ 316
Income taxes paid to DTE Energy	\$ 4,419	\$ 1,425	\$ 799

See notes to financial statements.

# DTE CAPITAL CORPORATION

## STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

(In Thousands, Except Shares)

	1998		1997		1996	
	Shares	Amount	Shares	Amount	Shares	Amount
<b>COMMON STOCK:</b>						
Balance at beginning of year	<u>5,000</u>	<u>\$ 50,000</u>	<u>5,000</u>	<u>\$ 50,000</u>	<u>5,000</u>	<u>\$ 50,000</u>
Balance at end of year	5,000	50,000	5,000	50,000	5,000	50,000
<b>RETAINED EARNINGS:</b>						
Balance at beginning of year		4,474		1,564		66
Net income		<u>7,874</u>		<u>2,910</u>		<u>1,498</u>
Balance at end of year		<u>12,348</u>		<u>4,474</u>		<u>1,564</u>
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<u>\$ 62,348</u>		<u>\$ 54,474</u>		<u>\$ 51,564</u>

See notes to financial statements.

# DTE CAPITAL CORPORATION

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

---

### 1. SIGNIFICANT ACCOUNTING POLICIES

*Nature of Operations* – DTE Capital Corporation (the “Company”) is a wholly owned subsidiary of DTE Energy Company (“DTE Energy”). The Company was established on September 6, 1995 to provide loans, guarantees and other financial services to DTE Energy and its non-regulated affiliates. All interest income was earned from transactions with DTE Energy and its non-regulated affiliates.

DTE Energy, a Michigan corporation incorporated in 1995, is an exempt holding company under the Public Utility Holding Company Act. DTE Energy has no significant operations of its own, holding instead the stock of The Detroit Edison Company, an electric utility, and other non-regulated energy-related businesses.

*Cash and Cash Equivalents* – The Company considers investments purchased with a maturity of three months or less to be cash equivalents.

*Debt Issue Costs* are amortized over the term of the related debt instrument and recorded as interest expense.

*Income Taxes* – DTE Energy files a consolidated federal income tax return. Income taxes are generally computed as if the Company was filing on a separate return basis.

*Income Tax Sharing Agreement* – In 1995, the Company entered into an income tax sharing agreement with DTE Energy whereby the Company pays DTE Energy for any income tax amounts owing and DTE Energy reimburses the Company for any income tax benefits generated by the Company.

*Uses of Estimates in the Preparation of Financial Statements* – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Reclassifications* – Certain prior year balances have been reclassified to conform to the 1998 presentation.

### 2. WORKING CAPITAL LOANS RECEIVABLE FROM RELATED PARTIES

Beginning in 1996 unsecured working capital loans were made to DTE Energy and certain of its non-regulated affiliates. The working capital loans are an intrinsic part of the cash management agreements with DTE Energy and its non-regulated affiliates (see Note 7). These variable rate loans bear interest at LIBOR plus a premium. At December 31, 1998 and 1997 approximately \$52 million and \$42 million, respectively, of working capital loans were outstanding.

### 3. TERM LOANS RECEIVABLE FROM RELATED PARTIES

During 1998 and 1997, term loans were made to DTE Energy and certain of its non-regulated affiliates. The term loans range in maturity from two to ten years and bear interest at market rates plus a premium based on the type of loan. Payment terms may vary by loan but generally require quarterly interest and principal payments. Yearly maturities are as follows (amounts in thousands):

	1998	1997
1998		\$ 10,688
1999	\$ 54,455	10,688
2000	122,744	10,595
2001	44,391	10,502
2002	23,892	
2003	15,941	
Remaining	<u>56,316</u>	<u>7,347</u>
Total	<u>\$ 317,739</u>	<u>\$ 49,820</u>

### 4. OTHER ASSETS

Included in other assets are costs incurred to fund the construction of assets to be leased to certain DTE Energy affiliates or customers of these affiliates. The company may sell and assign such leases at its option to another financial institution or leasing company.

### 5. INCOME TAXES

A reconciliation of income taxes determined using the statutory federal rate (35%) to actual income taxes is as follows (in thousands):

	Years Ended December 31,		
	1998	1997	1996
Taxes at statutory federal rate	\$ 4,233	\$ 1,565	\$ 795
Adjustments to federal tax expense - Non-taxable interest income	<u>(13)</u>	<u>(5)</u>	<u>(20)</u>
Provision for income taxes	<u>\$ 4,220</u>	<u>\$ 1,560</u>	<u>\$ 775</u>

There were no deferred tax amounts at December 31, 1998, 1997 or 1996.

### 6. CREDIT ARRANGEMENTS AND BORROWINGS

During 1998, the Company issued Remarketed Notes ("Remarketed Notes") to repay short-term debt and to provide financing for DTE Energy and its non-regulated affiliates. In June 1998, the Company issued \$100 million of Remarketed Notes, Series A, due 2038, backed by a support agreement from DTE Energy (see Note 7). The Series A Remarketed Notes pay interest at 6.17% through 2003, at which point the interest rate will be reset and the notes will be remarketed. In November 1998, the Company issued \$300 million of Remarketed Notes, Series B, due 2038, backed by a support agreement from DTE Energy (see Note 7). The Series B Remarketed Notes pay interest at 7.11% through 2003, at which point the interest rate will be reset and the notes will be remarketed.

At December 31, 1997 the Company had a \$200 million, three year Revolving Credit Agreement with a variable interest rate, backed by a support agreement from DTE Energy Company (see Note 7), under which \$42 million was outstanding. The weighted average interest rate at December 31, 1997 was 6.06%.

In January 1998, the Revolving Credit Agreement was amended and restated to increase the amount available to \$400 million and to set the term to 364 days renewable. The related support agreement from DTE Energy was also increased to \$400 million. At December 31, 1998 the Revolving Credit Agreement had no amounts outstanding. Commitment fees incurred during 1998, 1997 and 1996 for the Revolving Credit Agreement were approximately \$500,000, \$300,000, and \$250,000, respectively. In January 1999, the Revolving Credit Agreement was renewed at \$400 million and the term set to 364 days renewable.

During 1998, the Company also established a \$400 million commercial paper program to fund its operations, which is backed by the \$400 million amended and restated Revolving Credit Agreement. At December 31, 1998 no commercial paper was outstanding.

## 7. RELATED PARTY TRANSACTIONS

*Support Agreement* – At December 31, 1998, the Company had a \$400 million Support Agreement with DTE Energy to back its obligations under its Revolving Credit Agreement. The Company also had \$100 million and \$300 million Support Agreements with DTE Energy to back its obligations with respect to the 1998 Series A and Series B Remarketed Notes, respectively (see Note 6).

At December 31, 1998 the Company had a \$60 million (increased to \$100 million in February 1999) Support Agreement with DTE Energy to back its credit-enhancing activities on behalf of the energy trading and marketing activities of certain non-regulated affiliates (see Note 9).

Under the terms of the Support Agreements, DTE Energy has agreed to provide the Company with sufficient funds in the event the Company is unable to make timely payment of its obligations relating to the individual Support Agreements.

*Cash Management Agreements* – Beginning in 1996, the Company entered into cash management agreements for the purpose of consolidating all cash for DTE Energy and its non-regulated affiliates. These agreements provide DTE Energy and its non-regulated affiliates access to working capital loans and a return on excess funds. Affiliate excess funds are listed as "Deposits from related parties" on the balance sheet.

## 8. FINANCIAL INSTRUMENTS

The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. The carrying amounts reported in the balance sheet for cash and cash equivalents, receivables and liabilities approximate fair value due to the short maturity of these assets and liabilities. The carrying value of borrowings approximate fair value based on rates currently available in the market for similar type instruments with similar maturities.

Financial instruments included in "Term loans receivable from related parties" and "Working capital loans receivable from related parties" have no quoted market prices. However, the Company believes the fair value of these assets approximates the carrying value because they are priced at market rates.

**SUPPORT AGREEMENT BETWEEN  
DTE ENERGY COMPANY  
AND  
DTE CAPITAL CORPORATION**

**THIS SUPPORT AGREEMENT**, dated as of February 24, 1999 ("1999 Agreement"), is between **DTE ENERGY COMPANY**, a Michigan corporation ("Parent"), and **DTE CAPITAL CORPORATION**, a Michigan corporation ("Subsidiary").

**WHEREAS**, Parent is the owner of 100% of the outstanding common stock of Subsidiary; and further

**WHEREAS**, Subsidiary, from time to time, intends to guarantee up to \$100 million in the aggregate of the obligations of DTE Energy Trading, Inc., a Michigan corporation and affiliate of Parent ("Trading"), and DTE-CoEnergy, L. L.C., formed in Michigan and an affiliate of Parent and Subsidiary ("DTE-CoEnergy") and \$60 million aggregate principal amount of such guarantees have the benefit of a Support Agreement, dated as of January 21, 1998, between Parent and Subsidiary ("1998 Agreement"); and further

**WHEREAS**, Parent and Subsidiary have agreed that the 1999 Agreement shall initially be in the amount of \$40 million and shall increase to \$100 million at such times and in such amounts as obligations having the benefit of the 1998 Agreement are extinguished; and further

**WHEREAS**, Subsidiary may from time to time make borrowings from the lenders party to the \$400,000,000 Second Amended and Restated Credit Agreement (such agreement as it may be amended and in effect from time to time, the "Credit Agreement"), dated as of January 19, 1999 among the Subsidiary, the lenders party thereto, Citibank, N.A., as Agent and ABN AMRO Bank, N.V., Barclays Bank PLC., Bayerische Landesbank Girozentrale, Cayman Islands Branch, Comerica Bank, Den Danske Bank Aktieselskab and The First National Bank of Chicago, as Co-Agents; and further

**WHEREAS**, Parent and Subsidiary desire to take certain actions to continue to enhance and maintain the financial condition of Subsidiary as hereinafter set forth in order to enable Subsidiary and Trading and DTE-CoEnergy to guarantee and incur indebtedness, respectively, on more advantageous and reasonable terms; and further

**WHEREAS**, the parties receiving guarantees from Subsidiary of the obligations of Trading and/or DTE-CoEnergy may rely upon this 1999 Agreement in extending credit to Trading and/or DTE-CoEnergy and in accepting Subsidiary's guarantee(s);

**NOW, THEREFORE**, in consideration of the premises, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parent and Subsidiary agree as follows:

1. **Stock Ownership.** During the term of this 1999 Agreement, Parent will own all of the voting common stock of Subsidiary and The Detroit Edison Company ("DECo") now or hereafter issued and outstanding.
2. **Negative Pledge.** During the term of this 1999 Agreement, Parent will not create or suffer to exist any lien, security interest or other charge or encumbrance, upon or with respect to any voting common stock of DECo from time to time owned by Parent or any capital stock of Subsidiary from time to time owned by Parent, provided, however, that any restriction on the payment of dividends by DECo or Subsidiary contained in any subordinated debt instrument, preferred stock or preference stock of DECo or Subsidiary shall not constitute a lien, security interest or other charge or encumbrance.
3. **Liquidity Provision.** If, during the term of this 1999 Agreement, Subsidiary is unable to make timely payment of such amounts as shall be due and payable pursuant to a guarantee issued by Subsidiary and running to the benefit of any obligee ("Obligee") of Trading and/or DTE-CoEnergy, then, Parent promptly shall provide to Subsidiary, at its request, such funds (in the form of cash or liquid assets) in an amount sufficient to permit Subsidiary to make timely payment in respect of such guarantee. If such funds are advanced to Subsidiary as a loan, such loan shall be on such terms and conditions, including maturity and rate of interest, as Parent and Subsidiary shall agree. Notwithstanding the foregoing, any such loan shall be subordinated to any and all obligations of Subsidiary owing to any Lender pursuant to the terms of the Credit Agreement and such amounts as shall be owing pursuant to guarantees issued by Subsidiary for the benefit of Obligees of Trading and/or DTE-CoEnergy. Each of the parties hereto acknowledges that Parent's obligations hereunder do not constitute a guarantee by Parent of the obligations of Subsidiary.

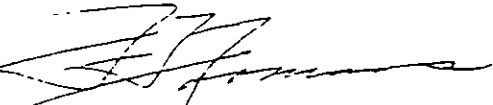
4. **Waivers.** Parent hereby waives any failure or delay on the part of Subsidiary in asserting or enforcing any of its rights or in making any claims or demands hereunder.
  
5. **Amendment, - Suspension.** This 1999 Agreement may be amended or terminated at any time by written amendment or agreement signed by both parties; provided, however, that except as set forth in the next succeeding sentence, no amendment to the 1999 Agreement which adversely affects the rights of Subsidiary or any Obligee and no termination of this 1999 Agreement shall be effective as to Subsidiary or any Obligee until such time as all amounts contingently owing to all Obligees by Subsidiary on the date of such amendment or termination shall have been paid in full or adequate provision has been made for the payment of same unless such Obligees shall consent in writing to the contrary.
  
6. **Rights of Obligee.** Subsidiary hereby grants to the Obligees, Subsidiary's rights under Sections 1, 2, 3 and 4 of this 1999 Agreement, and, if Subsidiary fails or refuses to take timely action to enforce its rights under Sections 1, 2, 3 or 4 of this 1999 Agreement, any Obligee may enforce such rights on behalf of Subsidiary directly against Parent. Parent hereby consents to such grant.
  
7. **Parity.** Parent's obligations hereunder shall be pari passu with Parent's obligations (a) under that certain Support Agreement ("Credit Agreement Support Agreement") dated as of January 19, 1999, between Parent and Subsidiary and relating to the Credit Agreement and (b) under such additional support agreements as are contemplated by the Credit Agreement Support Agreement.
  
8. **Notices.** Any notice, instruction, request, consent, demand or other communication required or contemplated by this 1999 Agreement shall be in writing, shall be given or made by United States first class mail, telex, facsimile transmission or hand delivery, addressed as follows:

If to parent:                    2000 2nd Avenue  
                                          Detroit, Michigan 48226-1279  
                                          Attention: Assistant Treasurer-Banking  
                                          Telephone: (313) 235-6898  
                                          Facsimile: (313) 235-9490


If to Subsidiary: 2000 2nd Avenue, 833 WCB  
Detroit, Michigan 48226-1279  
Attention: Assistant Treasurer  
Telephone: (313) 235-6898  
Facsimile: (313) 235-9490

9. **Successors.** This 1999 Agreement shall be binding upon the parties hereto and their respective successors and assigns and is also intended for the benefit of Obligees, and, notwithstanding that such Obligees are not parties hereto, Obligees shall be entitled to the full benefits of this Agreement and to enforce the covenants and agreements contained herein as set forth in Section 6. This Agreement is not intended for the benefit of any person other than Obligees and shall not confer or be deemed to confer upon any such person any benefits, rights or remedies hereunder.
10. **Governing Law.** This Agreement shall be governed by the laws of the State of Michigan.

**DTE ENERGY COMPANY**

By   
Name: L. L. Loomans  
Title: Vice-President and Treasurer

**DTE CAPITAL CORPORATION**

By   
Name: C. C. Arvani  
Title: Assistant Treasurer

DTE Capital Corporation

UNANIMOUS CONSENT OF THE DIRECTORS  
WITHOUT AN ANNUAL MEETING

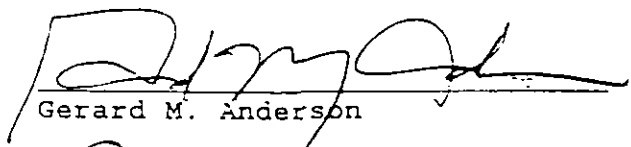
September 25, 1998

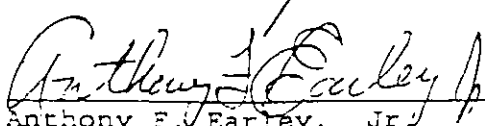
Pursuant to Section 525 of the Michigan Business Corporation Act, the undersigned, constituting all of the Directors of DTE Capital Corporation, a Michigan corporation (the "Corporation"), hereby consent in writing to the adoption of the following resolution:

RESOLVED, that the following persons are elected, effective September 25, 1998, to the offices set forth next to their name, each to serve until the next annual meeting of Directors or until their respective successors shall have been duly elected and qualified or until their resignation or removal:

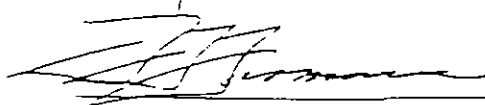
Larry G. Garberding	Chair and Chief Executive Officer
Larry G. Garberding	President and Chief Operating Officer
Gerard M. Anderson	Vice President
Susan M. Beale	Corporate Secretary
Christopher C. Nern	General Counsel
Leslie L. Loomans	Treasurer
Elaine M. Godfrey	Assistant Corporate Secretary
Jack L. Somers	Assistant Corporate Secretary
Christopher C. Arvani	Assistant Treasurer
George P. Crutchfield	Assistant Treasurer
William P. Murphy	Assistant Treasurer

Dated and effective as of September 25, 1998.

  
Gerard M. Anderson

  
Anthony F. Earley, Jr.

  
Larry G. Garberding

  
Leslie L. Loomans

DTE CAPITAL CORPORATION  
**UNANIMOUS WRITTEN CONSENT  
OF THE BOARD OF DIRECTORS  
IN LIEU OF A SPECIAL MEETING**

Pursuant to Section 525 of the Michigan Business Corporation Act, we, the undersigned, constituting all of the Directors of DTE Capital Corporation (the "Company" or "DTE Capital"), a Michigan corporation and wholly-owned subsidiary of DTE Energy Company ("DTE Energy"), hereby consent in writing to the adoption of the following preambles and resolutions:

WHEREAS, DTE Capital provides financial services for DTE Energy affiliates, including DTE Energy Trading, Inc. and DTE-CoEnergy, LLC (together, the "Trading Affiliates"); and further

WHEREAS, a \$60 Million Support Agreement, dated as of January 21, 1998, running from DTE Energy to DTE Capital, provides credit support for guarantees and other financial obligations issued by DTE Capital for the benefit of the Trading Affiliates; and further

WHEREAS, the officers of this Company have advised this Board that the Trading Affiliates' activities are estimated to require in excess of \$60 Million of Company guarantees and other financial obligations in the near future; and further

WHEREAS, DTE Energy has approved an additional \$40 Million in Support-Agreement obligations running to the benefit of the Company for activities on behalf of the Trading Affiliates;

NOW, THEREFORE, BE IT

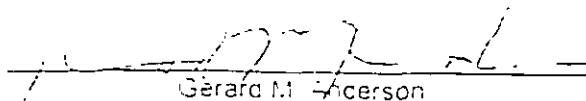
RESOLVED, that the officers of this Company be, and they hereby are, authorized to issue guarantees and other credit support obligations on behalf of DTE Energy Trading, Inc. and DTE-CoEnergy, LLC (the "Trading Affiliates") in an aggregate principal amount of up to \$100 Million; this authorization to supersede prior authorizations for the approved maximum amount of such guarantees and other credit support obligations; and further

RESOLVED, that the officers of this Company be, and they hereby are, authorized to enter into one or more Support Agreements, including amendments thereto, with DTE Energy Company providing for credit support of this Company's activities on behalf of the Trading Affiliates in an aggregate principal amount of up to \$100 Million; this authorization to supersede prior authorizations for the approved amount of such Trading-Affiliates-related Support Agreements with DTE Energy; and further

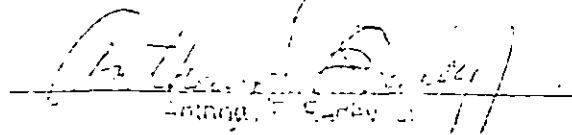
RESOLVED, that these resolutions are to be construed as a liberal grant of authority to the officers of this Company providing such officers with the authority to execute and deliver all such documents and do all such acts and deeds as may be necessary to provide for credit support of up to \$100 Million for the benefit of the Trading Affiliates.

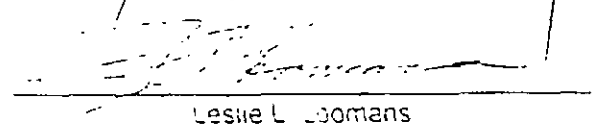
This Unanimous Written Consent and the preambles and resolutions adopted hereby are effective as of the date hereof.

Executed this 15th day of October, 1998

  
Gerard M. Anderson

  
Larry G. Garberding

  
Anthony J. Sweeney

  
Leslie L. Loomans

Story 8 / 20: 99 <GO> for list of story options.

Equity C N  
Page 1 of 3

CRL	DTE Capital Corp. Bank Loan Rated 'BBB' by S&P Feb 4 1998 9:11
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(The Following was released by Standard & Poor's Corp's  
Bank Loan Rating Group)

NY -- Standard & Poor's CreditWire 1/27/98 -- Standard & Poor's today assigned its triple-'B' corporate credit rating to DTE Capital Corp. At the same time, Standard & Poor's assigned its triple-'B' bank loan rating to DTE Capital's \$400 million unsecured revolving credit facility, and its 'A-2' rating to DTE Capital's related \$400 million 4(2) commercial paper program. DTE Capital, a wholly owned subsidiary of DTE Energy Co. (rated triple-'B', negative outlook), provides funding for the nonregulated utility activities of DTE Energy, the parent holding company of Detroit Edison Co. (triple-'B'-plus corporate credit rating).

The corporate credit rating on DTE Capital is a rating based on the firm's overall creditworthiness. DTE Capital's rating largely reflects a strong support agreement between DTE Capital and DTE Energy, which requires the parent's ownership of both DTE Capital and Detroit Edison.

Bloomberg-all rights reserved. Frankfurt:69-920410 Hong Kong:2-977-6000 London:171-330-7500 New York:212-318-2000  
Princeton:609-279-3000 Singapore:226-3000 Sydney:2-9777-8666 Tokyo:3-3201-8900 Sao Paulo:11-3048-4500  
0277-249-0 27-Feb-98 14:24:26

**DTE Capital**



**DTE CAPITAL CORPORATION**

**Bank References:**

First ChicagoNBD  
One First National Plaza  
Mail Suite 0363  
Chicago, IL 60670

Bank Officer: Richard Waldman, Vice President- Electric and Gas Division  
Phone: 312-732-3520  
Fax: 312-732-3055  
Account Number: 1609723

Agent Bank for 24 bank \$400 million Credit Facility:

Citibank, N.A.  
399 Park Avenue  
New York, NY 10043

Bank Officer: Nick McKee, Vice President- Global Power Department  
Phone: 212-559-1503  
Fax: 212-793-6130

## GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT (the "Agreement") is made and is effective this [\*] day of [\*], 1999 by DTE CAPITAL CORPORATION, a corporation organized under the laws of the State of Michigan (the "Guarantor"), in favor of [\*] (the "Creditor").

WHEREAS, Creditor has entered into certain agreements with DTE Energy Trading, Inc. ("Debtor"), whereby Creditor has extended credit or other financial accommodations to Debtor, and

WHEREAS, Creditor has required, as a prerequisite to extending credit or other financial accommodations to Debtor, that Guarantor execute and deliver this Agreement, and Guarantor is willing to execute and deliver the Agreement to secure Debtor's current and future obligations to Creditor.

### AGREEMENT

NOW, THEREFORE, in consideration of and as inducement for Creditor to enter into agreements with Debtor and to extend credit or other financial accommodations to Debtor, Guarantor hereby covenants and agrees with and represents to Creditor as follows:

**Section 1.** Guaranty. Guarantor hereby unconditionally guarantees to Creditor the full and prompt payment of all indebtedness heretofore or hereafter incurred by Debtor as the same shall become due and payable to Creditor, whether at the stated maturity thereof, by acceleration, amortization or otherwise (collectively, the "Obligations"); provided, however, that Guarantor's obligations hereunder shall be expressly limited to an amount not greater than [\*] Dollars (\$\*). This is a guaranty of payment and not of collection. All payments by Guarantor hereunder shall be made in lawful money of the United States of America.

**Section 2.** Unconditional Obligations. Guarantor's obligations under this Agreement are absolute and unconditional and shall remain in full force and effect until all Obligations of Debtor shall have been paid and discharged in full.

**Section 3.** Independent Obligation. In the event of any default by Debtor, Creditor shall have the right to proceed first and directly against Guarantor under this Agreement without proceeding against any other person or entity or exhausting any other remedies which it may have and without resorting to any other security held by it.

**Section 4.** Effect of Bankruptcy. In the event that, pursuant to any insolvency, bankruptcy, reorganization, receivership or other debtor relief law, or any judgment, order or decision thereunder, Creditor must rescind or restore any payment, or any part thereof, received by Creditor, any prior release or discharge from the terms of this Agreement shall be without effect, and this Agreement shall remain in full force and effect.

**Section 5.** Continuing Obligation. This Agreement shall continue in full force and effect until ten (10) days after receipt by Creditor of Guarantor's notice to revoke; provided, that this Agreement shall continue in full force and effect after any such revocation with respect to any Obligations existing at the date of revocation or to accrue thereafter with respect to Obligations existing at such date.

**Section 6.** Waiver. Guarantor hereby expressly waives notice from Creditor of its acceptance of and reliance upon this Agreement and any notice of credit extended hereunder. Guarantor consents to any extensions of time granted to Debtor, provided that no such change shall be effective to increase the aggregate amount of Guarantor's obligation hereunder as set forth in paragraph 1 above without Guarantor's written consent to such change, for the payment of said account, and to any changes in the terms of any agreement between Creditor and Debtor. No waiver, amendment, release or modification of this Agreement shall be established by conduct, custom or course of dealing, but solely by an instrument in writing duly executed by the parties hereto.

**Section 7. Assignment.** This Agreement shall be binding upon Guarantor and upon its successors and assigns and shall be for the benefit of Creditor and its successors and assigns provided that Guarantor shall have been given notice of any such assignment.

**Section 8. Applicable Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Michigan, without giving effect to laws of such State that would require the application of the laws of any other State.

**Section 9. Support Agreement.** Guarantor represents to Creditor that Creditor shall have the benefit of the rights set forth in that certain Support Agreement, dated February 24, 1999, in effect between Guarantor and DTE Energy Company, a copy of which is appended to this Guaranty.

**Section 10. Severability.** In case any clause, provision or sections of this Agreement, or any application thereof, is for any reason held to be illegal, invalid or inoperable, such illegality, invalidity or inoperability shall not affect the remainder thereof or any other clause, provision or section, and each such clause, provision or section shall be deemed to be effective and operative in the manner and to the full extent permitted by law.

**Section 11. Notices.** Any notices given or required to be given hereunder shall be given to the parties at their respective address below:

If to Guarantor: DTE Capital Corporation  
Attn: Assistant Treasurer  
2000 2<sup>nd</sup> Avenue, 833 WCB  
Detroit, Michigan 48226-1279  
Phone: 313-235-8346  
Fax: 313-235-9470

If to Creditor: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Phone: \_\_\_\_\_  
Fax: \_\_\_\_\_

IN WITNESS WHEREOF, this Agreement was executed and effective as of the date first above written.

DTE CAPITAL CORPORATION

By: \_\_\_\_\_  
G. Phillip Crutchfield, Assistant Treasurer

Accepted: \_\_\_\_\_  
Creditor

*Concentration of Credit Risk* – The Company provides unsecured working capital loans and term loans to DTE Energy and its non-regulated affiliates. The majority of outstanding loans are for non-regulated affiliate investments related to the steel industry. Although the Company does not currently foresee a significant credit risk associated with these loan receivables, repayment is dependent upon the financial stability of the specific customers of the DTE Energy non-regulated affiliates.

*Derivative Financial Instruments* – The Company's Board of Directors has authorized up to \$500 million in notional amount of interest rate swaps, caps and collars. As part of its risk management program these derivative financial instruments must be matched against outstanding debt. No derivative financial instruments were entered into during 1998, 1997 or 1996.

## 9. COMMITMENTS AND CONTIGENCIES

At December 31, 1998 and 1997, guarantees of affiliate obligations in the amount of \$50 million and \$0.5 million, respectively, were outstanding. All guarantees have the benefit of a support agreement from DTE Energy (see Note 7).

\* \* \* \* \*

**Murray J. Hartzberg**  
Director, Financial Planning  
and Analysis

650 Washington Road  
Pittsburgh, PA 15228-2703

tel: 572-7154  
fax: (+1) 572-7162

September 22, 1998

Mr. Steve Sheppard  
Vice President  
DTE Edison America, Inc.  
2000 Second Avenue, Suite 104 WCB  
Detroit, MI 48226

Dear Mr. Sheppard:

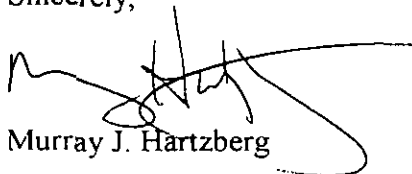
We are pleased that DTE Edison America, Inc. ("DTE") will be participating in the Columbia Gas of Pennsylvania, Inc. ("Columbia Gas") Customer Choice Program beginning November 1, 1998.

As you are aware, under Article III of the Customer Choice Program Marketer Agreement between Columbia Gas and DTE, Columbia Gas is obligated to conduct a credit investigation as to DTE's creditworthiness. We have recently conducted such an investigation (of DTE and DTE's parent, DTE Capital Corp.) and have determined that DTE is approved to participate in the Customer Choice Program up to **1,500** Columbia Gas customers.

It is very important that DTE understand the following. Prior to the time you believe DTE will exceed the **1,500** Customer Choice Program customer limit, it will be necessary for Columbia Gas to conduct an additional investigation of DTE creditworthiness before Commonwealth will be permitted to add any additional customers beyond **1,500**. And, it is possible that DTE will be required to provide additional financial security in the form of a cash deposit, an irrevocable letter of credit or a parental guarantee.

In the meantime, please feel free to contact either me or Shirley Bardes-Hasson at 412-572-7117 if you have any questions now or in the future when DTE seeks to add additional customers.

Sincerely,



Murray J. Hartzberg

DTE Capital Corporation  
2000 2<sup>nd</sup> Avenue, 833W  
Detroit, Michigan 48226-1279  
Telephone: 313-235-6893 Fax: 313-235-9470

**DTE Energy**



*DTE Capital*

October 20, 1998

Mr. Ellmore Patterson  
Equitable Gas Company  
200 Allegheny Center Mall  
Pittsburgh, PA 15212

Dear Mr. Patterson:

Enclosed are two originals of our guarantee in favor of Equitable Gas Company in the amount of \$343,200. The guarantee is in support of DTE Edison America's transactions with your company. Please acknowledge your acceptance of the guarantee by signing one copy and returning it to the above address for our files.

If you have any questions please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script, appearing to read "G. Phillip Crutchfield".

G. Phillip Crutchfield  
Assistant Treasurer

Enclosures

## GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT (the "Agreement") is made and is effective this 20 day of October, 1998 by DTE CAPITAL CORPORATION, a corporation organized under the laws of the State of Michigan (the "Guarantor"), in favor of Equitable Gas Company (the "Creditor").

WHEREAS, Creditor has entered into certain agreements with DTE Edison America, Inc.. ("Debtor"), whereby Creditor has extended credit or other financial accommodations to Debtor, and

WHEREAS, Creditor has required, as a prerequisite to extending credit or other financial accommodations to Debtor, that Guarantor execute and deliver this Agreement, and Guarantor is willing to execute and deliver the Agreement to secure Debtor's current and future obligations to Creditor.

### AGREEMENT

NOW, THEREFORE, in consideration of and as inducement for Creditor to enter into agreements with Debtor and to extend credit or other financial accommodations to Debtor, Guarantor hereby covenants and agrees with and represents to Creditor as follows:

**Section 1.** Guaranty. Guarantor hereby unconditionally guarantees to Creditor the full and prompt performance and payments of all indebtedness, liabilities or undertakings heretofore or hereafter incurred by Debtor as the same shall become due and payable to Creditor, whether at the stated maturity thereof, by acceleration, amortization or otherwise (collectively, the "Obligations"); provided, however, that Guarantor's obligations hereunder shall be expressly limited to the amount of Three Hundred Forty Three Thousand Two Hundred Dollars (\$343,200.00). This is a guaranty of payment and not of collection. All payments by Guarantor hereunder shall be made in lawful money of the United States of America.

**Section 2.** Unconditional Obligations. Guarantor's obligations under this Agreement are absolute and unconditional and shall remain in full force and effect until all Obligations of Debtor shall have been paid and discharged in full.

**Section 3.** Independent Obligation. In the event of any default by Debtor, Creditor shall have the right to proceed first and directly against Guarantor under this Agreement without proceeding against any other person or entity or exhausting any other remedies which it may have and without resorting to any other security held by it.

**Section 4.** Effect of Bankruptcy. In the event that, pursuant to any insolvency, bankruptcy, reorganization, receivership or other debtor relief law, or any judgment, order or decision thereunder, Creditor must rescind or restore any payment, or any part thereof, received by Creditor, any prior release or discharge from the terms of this Agreement shall be without effect, and this Agreement shall remain in full force and effect. It is the intention of Creditor and Guarantor that Guarantor's obligations hereunder shall not be discharged except by Guarantor's performance of such obligations and then only to the extent of such performance.

**Section 5.** Continuing Obligation. This Agreement shall continue in full force and effect until ten (10) days after receipt by Creditor of Guarantor's notice to revoke; provided, that this Agreement shall continue in full force and effect after any such revocation with respect to any Obligations existing at the date of revocation or to accrue thereafter with respect to Obligations existing at such date.

**Section 6.** Waiver. Guarantor hereby expressly waives notice from Creditor of its acceptance of and reliance upon this Agreement and any notice of credit extended hereunder. Guarantor consents to any extensions of time, provided that no such change shall be effective to increase the aggregate amount of Guarantor's obligation hereunder as set forth in paragraph 1 above without Guarantor's written consent to such change, for the payment of said account, and to any changes in the terms of any agreement between Creditor and Debtor. No

waiver, amendment, release or modification of this Agreement shall be established by conduct, custom or course of dealing, but solely by an instrument in writing duly executed by the parties hereto.

**Section 7. Assignment.** This Agreement shall be binding upon Guarantor and upon its successors and assigns and shall be for the benefit of Creditor and its successors and assigns.

**Section 8. Applicable Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Michigan, without giving effect to laws of such State that would require the application of the laws of any other State.

**Section 9. Severability.** In case any clause, provision or sections of this Agreement, or any application thereof, is for any reason held to be illegal, invalid or inoperable, such illegality, invalidity or inoperability shall not affect the remainder thereof or any other clause, provision or section, and each such clause, provision or section shall be deemed to be effective and operative in the manner and to the full extent permitted by law.

**Section 10. Notices.** Any notices given or required to be given hereunder shall be given to the parties at their respective address below:


If to Guarantor: DTE Capital Corporation  
Attn: Assistant Treasurer  
2000 2<sup>nd</sup> Avenue, 833 WCB  
Detroit, Michigan 48226-1279  
Phone: 313-235-8346  
Fax: 313-235-9470

If to Creditor: Equitable Gas Company  
Attn: Ellmore Patterson  
200 Allegheny Center Mall  
Pittsburgh, PA 15212  
Phone:  
Fax:

IN WITNESS WHEREOF, this Agreement was executed and effective as of the date first above written.

DTE CAPITAL CORPORATION

By: \_\_\_\_\_

  
C. C. Arvani  
Assistant Treasurer

Accepted: \_\_\_\_\_

Creditor

## GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT (the "Agreement") is made and is effective this 20 day of October, 1998 by DTE CAPITAL CORPORATION, a corporation organized under the laws of the State of Michigan (the "Guarantor"), in favor of Equitable Gas Company (the "Creditor").

WHEREAS, Creditor has entered into certain agreements with DTE Edison America, Inc., ("Debtor"), whereby Creditor has extended credit or other financial accommodations to Debtor, and

WHEREAS, Creditor has required, as a prerequisite to extending credit or other financial accommodations to Debtor, that Guarantor execute and deliver this Agreement, and Guarantor is willing to execute and deliver the Agreement to secure Debtor's current and future obligations to Creditor.

### AGREEMENT

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**Section 4.** Effect of Bankruptcy. In the event that, pursuant to any insolvency, bankruptcy, reorganization, receivership or other debtor relief law, or any judgment, order or decision thereunder, Creditor must rescind or restore any payment, or any part thereof, received by Creditor, any prior release or discharge from the terms of this Agreement shall be without effect, and this Agreement shall remain in full force and effect. It is the intention of Creditor and Guarantor that Guarantor's obligations hereunder shall not be discharged except by Guarantor's performance of such obligations and then only to the extent of such performance.

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waiver, amendment, release or modification of this Agreement shall be established by conduct, custom or course of dealing, but solely by an instrument in writing duly executed by the parties hereto.

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**Section 9.** Severability. In case any clause, provision or sections of this Agreement, or any application thereof, is for any reason held to be illegal, invalid or inoperable, such illegality, invalidity or inoperability shall not affect the remainder thereof or any other clause, provision or section, and each such clause, provision or section shall be deemed to be effective and operative in the manner and to the full extent permitted by law.

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If to Guarantor: DTE Capital Corporation  
Attn: Assistant Treasurer  
2000 2<sup>nd</sup> Avenue, 833WCB  
Detroit, Michigan 48226-1279  
Phone: 313-235-8346  
Fax: 313-235-9470

If to Creditor: Equitable Gas Company  
Attn: Ellmore Patterson  
200 Allegheny Center Mall  
Pittsburgh, PA 15212  
Phone:  
Fax:

IN WITNESS WHEREOF, this Agreement was executed and effective as of the date first above written.

DTE CAPITAL CORPORATION

By: 

C. C. Arvani  
Assistant Treasurer

Accepted: \_\_\_\_\_  
Creditor

**DTE Edison America, Inc.**  
**Chief Officer Professional Resumes**

**Robert J. Buckler**  
**President & COO**  
**DTE Energy Distribution**  
**Chairman of the Board & CEO**  
**DTE Edison America, Inc.**

Robert J. Buckler is President & COO of DTE Energy Distribution and The Detroit Edison Company. He is responsible for the organizations that serve as the primary contact for Detroit Edison's two million customers in Southeastern Michigan, plus mass market customers throughout the U.S. In Southeastern Michigan, his responsibilities include the organizations within Detroit Edison that develop sales and marketing programs; design, construct, operate and maintain the electrical transmission and distribution systems; operate the downtown Detroit steam business; and perform all customer service functions. In the broader U.S. marketplace, Mr. Buckler is CEO of DTE Edison America, a retail marketing subsidiary of DTE Energy, which sells energy and energy-related products to mass market customers.

Since joining the company in 1974, Mr. Buckler has held numerous management positions throughout the corporation. These include Vice President of Divisions, responsible for management of organizations serving as the primary contact for customers; Manager of the Executive Council Staff, responsible for development of corporate strategy; Assistant Director, Customer and Marketing Services, responsible for assisting in the management of all customer and marketing functions; Assistant Superintendent at Detroit Edison's 3000MW coal-fired Monroe Power Plant; Director of Project Controls, charged with planning, scheduling, estimating and cost control functions for the Fermi 2 construction project; and Senior Fuel Resource Engineer, responsible for planning and procurement of all long-term fuel supplies and transportation.

A graduate of the University of Michigan, Mr. Buckler has a BSME from the Engineering College and an MSME from the Horace Rackham School of Graduate Studies. He received the University of Michigan Mechanical Engineering and Applied Mechanics Alumni Society Merit Award in 1993.

**Jean M. Redfield**  
**President & COO**  
**DTE Edison America, Inc.**

As President of DTE Edison America, Ms. Redfield provides startup leadership for an unregulated affiliate marketing electricity and related products and service to mass markets customers. She also headed up the marketing and sales activities for residential and small business utility customers at Detroit Edison. In addition, Ms. Redfield worked directly with the senior management team to lead company-wide strategy and change initiatives at DTE Energy. Prior to joining DTE Energy, Ms. Redfield held positions with McKinsey & Co., Inc. where she worked with senior-level management of major, multinational corporations to provide leadership, judgment, and problem-solving expertise for major strategic and organizational decision making; and with E.I. DuPont de Nemours, where she managed design, construction, installation and test of multiple capital investment projects for a nuclear processing facility, and provided operations assistance to a power generation facility of a textile fibers production plant.

**Leslie J. Christensen**  
**Vice President – Operations**  
**DTE Edison America, Inc.**

Leslie Christensen brings to DTE Edison America a broad background in sales, marketing and customer service. For ten years, Ms. Christensen was an executive involved in the computer industry. Her responsibilities included designing marketing strategies, opening up new sales territories and managing

**DTE Edison America, Inc.**  
**Chief Officer Professional Resumes**

customer service programs for the business, higher education and K-12 markets. Before beginning work at DTE Edison America, Ms. Christensen worked at DTE Energy in marketing and sales positions. In that capacity, she negotiated sole supplier energy agreements, and led a product management team responsible for rate analysis and account executive training.

**Steven L. Sheppard**  
**Vice President – Regulatory and Supply Operations**  
**DTE Edison America, Inc.**

*Mr. Sheppard has been in the energy industry since 1979. His early experience includes meter engineering and industrial/commercial lighting system design. He has extensive experience in energy-related marketing and providing customer service to business customers. Prior to joining DTE Edison America, Mr. Sheppard managed the creation and ongoing activities of an organization responsible for sales and customer service of Detroit Edison's medium-sized business customers. Mr. Sheppard has a Bachelor of Science – Electrical Engineering degree from Western Michigan University, a Masters of Business Administration – Finance from Wayne State University, and is a Registered Professional Engineer in the State of Michigan.*

# Brent D. Stiles

420 Shelbourne Drive Pittsburgh, PA 15239 - (412) 798-9888

---

**Objective** To be a principal player in creating an industry leader in retail energy aggregation management services.

**Profile** Fourteen years of diversified natural gas industry experience from the wellhead to the burnertip. Highly developed skills in information organization, analysis and forward-thinking strategy development. Noted for ability to initiate and implement strategies while demanding achievement of economic objectives. Team player focused on problem solving and effective individual and group communications. Proven propositional value recognition, negotiation, deal-making, and decision-making skills.

**Key Achievements** Created and successfully marketed and implemented business-to-business service to retail energy aggregators, DTE Edison America and GreenMountain Energy Resources.

Created, designed and implemented processes and systems for managing the physical and financial risks of retail natural gas aggregated portfolios for DTE-CoEnergy, L.L.C. and CNG Energy Services Corporation.

Advanced CNG Energy Services Corporation to a successful natural gas provider to over 150,000 CNG Retail Corporation customers with annual revenues less gas costs in excess of \$8 million.

Managed the natural gas supplies and risk of The Peoples Natural Gas Company's Competitive Customer Transportation Program. This program generated annual revenues less gas costs in excess of \$3 million.

Developed, implemented and monitored The Peoples Natural Gas Company's gas supply plans and transmission, distribution, storage and gathering facilities plans in order to optimize the usage of Peoples' assets.

**Professional Experience**

**Director, Natural Gas Supply, GreenMountain.com Company  
Wexford, PA**

November 1999 to Present

Directed a team of three in providing retail energy aggregation management services on the Columbia of Pennsylvania, Equitable Gas, and The Peoples Natural Gas systems. Evaluated and proposed retail energy aggregation growth opportunities. Negotiated natural gas supply and service agreements. Marketed retail energy aggregation management services. Educated company on the risks and management of risks in serving full requirements service energy retail customers. Maintained close alignment with supply, operations, and information technology staff in developing and implementing retail energy management technology.

**Consultant, Retail Energy Aggregation Management Services  
Wexford, PA**

July 1999 to November 1999

Directed a consulting team of three in providing retail energy aggregation management services to retail energy aggregation companies on the Columbia of Pennsylvania, Equitable Gas, and The Peoples Natural Gas systems. Negotiated with retail energy aggregation companies and energy supply companies on behalf of team.

**Director, Energy Aggregation Management, DTE-CoEnergy, L.L.C.**  
**Wexford, PA**  
March 1998 to July 1999

Created and directed the development and implementation of innovative business to business service between retail energy aggregation companies and energy supply companies. Educated companies on the risks and management of risks in serving full requirements service energy retail customers. Marketed retail energy aggregation management services. Drafted and negotiated natural gas supply and service agreements. Directed the optimization of complex natural gas asset portfolios to achieve competitive pricing for penetration of behind-the-citygate markets. Directed the development of pricing models for Columbia of Ohio, Columbia of Pennsylvania, Cincinnati Gas and Electric, Equitable Gas, and Peoples Natural Gas retail energy aggregation programs. Developed and directed the development of technology which incorporates LDC Information (Tariff Analysis), Customer, Marketer, and Supplier Information (Competitive Marketer Analysis), Deal Pricing, Deal Aggregation Risk Management, Deal Aggregation Operations Management, and Reports into an integrated package. Supervised and developed a team of five.

**Manager, Gas Aggregation Management, CNG Energy Services Corporation**  
**Pittsburgh, PA**  
July 1996 to March 1998

Managed the daily price and liquidity risks of aggregated natural gas supplies and requirements. Managed the optimization of supply portfolios for the benefit of penetration of behind-the-citygate markets. Developed close alignment with operations staff, cash traders, capacity traders, basis traders and fixed price traders to exploit arbitrage opportunities and managed the expected cash flows and volume exposures resulting from serving full-requirement-service customers. Optimized natural gas supply mix through direction of gas control nominations. Directed the Appalachian supply pricing and volume purchases for the benefit of penetration of behind-the-citygate markets. Supervised and developed a professional staff of two.

**Manager, Gas Supply and Facility Planning, The Peoples Natural Gas Company**  
**Pittsburgh, PA**  
January 1993 to July 1996

Developed and recommended comprehensive plans and product offerings that involved the purchase, production, transportation, storage, distribution and transmission of natural gas. Developed, implemented and maintained computer modeling systems that aided in the development of new product offerings and natural gas supply plans to meet future requirements. Developed supply plans that identify scenarios regarding normal, warmer-than-normal and colder-than-normal conditions, as well as scenarios related to peak-day, minimum-day conditions. Analyzed pipeline and storage systems and projected business plans and forecasts. Recommended short and long range facility needs to support plans and forecasts. Analyzed and identified advantages/disadvantages of acquiring, expanding or abandoning pipeline facilities. Prepared documentation and provided input on strategy for regulatory proceedings such as natural gas cost, base rate cases and FERC proceedings. Reviewed testimony for accuracy for all natural gas procurement related activities. Developed and assisted in the implementation of strategies and approaches for purchasing natural gas, factoring in changing market conditions, price and reliability. Effectively communicated and implemented supply and operation plans within the department. Supervised and developed a professional staff of four.

**Gas Supply Facilities Engineer, The Peoples Natural Gas Company**  
Pittsburgh, PA  
June 1990 to January 1993

Developed accurate and flexible facility planning scenarios for transmission, distribution, storage and gathering systems for use in conducting analysis of future supply and facility requirements. Reviewed load/supply and facility requests from Marketing, Divisions and Gas Supply. Provided timely facility and load/supply recommendations in order to arrive at actions to economically serve new markets and provide least cost supplies to existing customers. Provided technical advice and assistance in the engineering phases of transmission, distribution, storage and gathering systems to other section personnel and staff members of Engineering and Operating Services, Gas Supply, Divisions and Marketing. Demonstrated a proficient knowledge of network analysis, facility design and system operations. Secured relevant information and identified key issues and relationships from a base of information. Influenced events to achieve goals and developed reputation as a respected dealmaker. Originated action and achieved goals beyond what was required.

**Gas Planning Engineer, Washington Gas Light Company**  
Washington, DC  
June 1988 to June 1990

Responsible for accurate modeling of low pressure, high pressure and transmission systems using new software technology. Responsible for large load customer piping designs and major main replacements. Performed extensive gas deliverability study involving take or pay issues up before F.E.R.C. Managed subsidiary natural gas reserve assets involving gas contracts, gas balancing, investment analysis and negotiation of production/reserve purchases and sales. Contributing member of pricing committee comprised of marketing, jurisdictional rates and gas supply employees. Made frequent business, technical and strategic presentations to upper management.

**Exploration, Production and Storage Engineer, Crab Run Gas Company and Hampshire Gas Company, subsidiaries of Washington Gas Light Company**  
Washington, DC  
June 1985 to June 1988

Provided engineering analysis for production and storage well workovers, recompletions, plugging and abandonments, etc., including financial/economic recommendations. Analyzed and made recommendations involving exploration prospects and reserve purchases and sales. Acted as field representative on company owned production and storage well activity. Responsible for engineering supervision and monitoring of company owned storage facility. Reviewed, recommended and negotiated settlements on producer/pipeline contracts with take-or-pay clauses.

**Education**

**Pennsylvania State University**  
Bachelor of Science, Petroleum Engineering. GPA 3.63/4.0 - graduated with distinction.

# JEFFREY SCOTT NEHR

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## OBJECTIVE

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Asset management position utilizing leadership, innovation, and technical skills to enhance the profitability and success.

## EXPERIENCE

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**GREENMOUNTAIN.COM**  
*Senior Energy Specialist*

*Wexford, Pennsylvania*  
*October 1999 – Present*

Responsible for competitive marketer analysis, gas supply planning, risk management, deal structuring, and pool optimization for all residential gas programs. Implemented supply procurement strategy for Columbia of Pennsylvania and Peoples Natural Gas programs. Developed cost of service model depicting company cash flow associated with supply procurement, storage and delivery for associated programs.

**DTE-COENERGY**  
*Senior Energy Aggregation Specialist*  
*Energy Aggregation Consultant*

*Wexford, Pennsylvania*  
*July 1998 – September 1999*

Responsible for competitive marketer analysis, gas supply planning, risk management, deal structuring, and pool optimization for DTE Edison America and GreenMountain.com. Also responsible for gas supply planning and deal structuring for United Gas Management. Developed pricing models for Columbia of Ohio, Columbia of Pennsylvania, Cincinnati Gas and Electric, Equitable Gas, and Peoples Natural Gas residential choice programs. Innovated cross LDC asset optimization and sculpted capacity utilization to achieve aggressive pricing. Identified and managed elements of risk associated with residential choice including staggered customer signup risk, weather risk, and demand recovery risk.

- ♦ Developed Deal Structure Pricing Model for traditional pool pricing on Peoples Gas, Equitable Gas, Columbia of Pennsylvania, National Fuel, East Ohio Gas, and Columbia of Ohio.
- ♦ Developed Competitive Marketer Analysis comparing existing residential aggregators offers to clients on a commodity basis and on a net billing rate basis.
- ♦ Developed Residential Price Models for staggered customer counts balancing storage, local supplies, and interstate supplies to meet customer demand. Based on asset utilization, it derives a bundled price for various terms and program launch dates.
- ♦ Developed LDC Operations model managing interstate supply, local supply, parks/swaps, bank/advance position, and storage position for pooling programs behind various gas utilities.
- ♦ Developing Energy Aggregation Management System using database technology to incorporate Tariff Analysis, Customer Care, Deal Pricing, Risk Management, Operations, and Billing into an integrated

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software package.

**CNG ENERGY SERVICES**  
**LDC Pool Manager**

*Pittsburgh, Pennsylvania*  
*November 1997 – June 1998*

Responsible for gas supply planning, risk management, and pool optimization for CNG Energy Services operations behind East Ohio Gas, West Ohio Gas, Peoples Gas, Equitable Gas, and Columbia of Pennsylvania. Developed and maintained optimization models for pools providing Mark-to-Market accounting and position reporting. Leveraged residential transportation assets to gain competitive pricing in the commercial and industrial markets.

- ♦ Provided energy aggregation management of East Ohio Pools including City Gate, Daily, General, Full Requirements, and Residential (CMAS) Pools. Managed 3 BCF of monthly interstate supplies, local supplies, NYMEX and Basis financial hedge positions. Responsible for asset optimization across pools.
- ♦ Developed requirement forecasting models for pools behind Peoples Gas, East Ohio Gas, and Equitable Gas. Incorporated actual measurement on a daily basis to enhance forecasting accuracy.
- ♦ Developed and maintained weather statistic models for Pittsburgh PA, Cleveland OH, and Lima OH.
- ♦ Developed LDC Pool Management System incorporated within Monty proprietary risk management system.

**CONSOLIDATED NATURAL GAS COMPANY**  
**Senior Gas Supply Planning Analyst**

*Pittsburgh, Pennsylvania*  
*July 1997 – October 1997*

Responsible for gas supply planning and optimization for gas utilities located in Ohio, Pennsylvania, Virginia, and West Virginia serving 1,860,000 customers, with an annual gas supply portfolio of 333 BCF. Developed innovative interstate and local supply, capacity, and asset strategies across CNG Local Distribution Companies. Responsible for integrating CNG Local Distribution Companies through supply planning to create new product offerings.

- ♦ Developed gas supply asset allocation strategy for West Virginia residential unbundling. Created requirement forecasting model and peak day asset utilization study to develop asset assignment to retail transportation customers ensure system integrity and avoid stranded costs.
- ♦ Managed and forecasted supply/requirements during residential unbundling. Developed gas supply plan optimizing remaining assets to provide revenue generating products and services for Peoples Gas.
- ♦ Developed capacity turn back strategy for Peoples Gas factoring residential unbundling. Determined future peak day requirements and the gas supply portfolio to provide service.
- ♦ Developed EDS Sendout gas supply planning models balancing storage, local supplies and interstate supplies to meet daily, monthly, and seasonal requirements in a cost effective manner while maintaining system integrity.
- ♦ Managed supply exchange program with Columbia Gas of Pennsylvania, Apollo Gas, Carnegie Natural Gas, T. W. Phillips Gas, and Equitable Gas. Developed relationships with exchange companies gas control to ensure supplies were balanced providing firm reliable service.

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**THE PEOPLES NATURAL GAS COMPANY**  
**Gas Supply Planning & Facility Specialist**

*Pittsburgh, Pennsylvania*  
*November 1995 - June 1997*

Performed supply and facility planning for a gas utility located in Southwestern Pennsylvania serving 337,000 customers. Responsible for the development of innovative interstate and local supply, capacity, and asset strategies. Developed, implemented, and maintained computer modeling systems that aid in creating new product offerings in gas supply and facility planning to meet future requirements. Created Gas Supply strategy for residential unbundling including asset assignments, requirement forecasting, transportation EBB design, and supply integrity modeling.

- ♦ Developed gas supply asset allocation strategy for Pennsylvania residential unbundling. Created short and long range studies that ensured reliable service to remaining retail customers and sufficient allocated capacity to the transportation customer to avoid stranded costs.
- ♦ Developed Peoples Gas EBB for communicating with residential unbundling marketers. Provided interstate and local supply, storage injection and withdrawals, and reconciliation of supply/requirement balance.
- ♦ Developed a Gas Supply Planning Model by creating requirement regression models, optimizing supply portfolio, and leveraging storage to compensate for weather fluctuations. Created asset strategies that generated incremental revenue by selling storage services.
- ♦ Responsible for generating 5 year Consolidated Transmission Gas Supply Plan, 2 year 1307(f) Gas Supply Plan, and the seasonal Gas Supply Plan for Peoples Gas.
- ♦ Provide input on strategy for regulatory proceedings such as 1307(f), base rate cases and FERC proceedings; review testimony for accuracy for all gas procurement related activities.
- ♦ Developed innovative requirement forecasting tools used for Peoples Gas Supply Planning and Pooling Programs.

**THE PEOPLES NATURAL GAS COMPANY**  
**Gas Supply Facilities Engineer**

*Pittsburgh, Pennsylvania*  
*March 1993 - October 1995*

Performed facility engineering for a gas utility located in Southwestern Pennsylvania serving 337,000 customers. Responsible for continued development of a safe and reliable transmission, gathering, and storage system to serve Peoples Gas distribution pipeline system and eventually its customers. Worked in conjunction with Marketing, Supply Planning, Gas Control, and Engineering to provide strategic and creative service options for acquiring new industrial customers and expanding service to new communities.

- ♦ Developed transmission, storage, and gathering facility models depicting peak, base, new loads, and emergency responsiveness. Responsible for pipeline design that ensured safe and reliable operation of Peoples Gas transmission system.
- ♦ Responsible for coordinating new interconnects to enhance existing supply portfolio.
- ♦ Recommends short and long range facility needs to support company's transmission, gathering, and storage systems.
- ♦ Provides supporting analysis for acquiring, expanding, reducing, or abandoning gathering, transmission, and storage facilities.

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**THE PEOPLES NATURAL GAS COMPANY**  
*FIMS Senior System Analyst*

*Pittsburgh, Pennsylvania*  
*December 1988 - February 1993*

Performed software analysis for a gas utility located in Southwestern Pennsylvania serving 337,000 customers. Responsible for all phases of AM/FM software development from design, to implementation, to documentation, to support. Promoted from System Analyst to Senior System Analyst after demonstrating excellence in software development and taking a leadership role within the department. As a Senior System Analyst was responsible for leading projects, coordinating meetings, and assigning work to optimize utilization of staff.

- ♦ Lead the design and development of a corrosion monitoring system utilizing a relational database and remote recording devices. Responsible for selecting and implementing Corexco CDL data collectors containing a built-in voltmeter used to record voltage drop across steel pipelines.
- ♦ Lead the migration of the Digital Equipment VAX based AM/FM system to UNIX. Designed an AM/FM Relational Database then translated the existing Hierarchical Database to a Relational Database. Rewrote and redesigned most major programs to take advantage of the new operating system and database.
- ♦ Lead the design and development of drawing as-constructing approval procedure. Utilized software to optimize manpower needed to approve drawings. Built-in checks test materials used to avoid compromising MAOP.
- ♦ Lead the design and development of automated plotting system used to generate all company maps. Utilized software to eliminate 1.5 man years necessary to generate maps.
- ♦ Responsible for filing Peoples Gas annual Department of Transportation Report that identified company pipeline facilities by class, size, material, cathodic protection and leak history.

**MICHAEL BAKER CORPORATION**  
*System Analyst*

*Brighton, Pennsylvania*  
*June 1988 - November 1988*

Performed software analysis for an engineering consulting company specializing in AM/FM conversion and implementation. Provided technical leadership on FRAMME conversion projects. Responsible for coordinating communications with Intergraph FRAMME designers to ensure Michael Baker would have the latest enhancements.

**INTERGRAPH CORPORATION**  
*System Engineer*

*Huntsville, Alabama*  
*June 1985 - May 1988*

Performed software engineering for a Fortune 500 graphics software and hardware company. Assigned as lead software designer and developer on products sold to major companies both in the USA and International. Worked in all phases of software development from design, to implementation, to documentation, to support. Promoted to the position of Intergraph Software Consultant at Marshall Space Flight Center supporting shuttle main engine development.

- ♦ NASA Advanced Research Group
  - ♦ Design Software to assist NC tool development for fabrication of shuttle main engine parts
- ♦ Design Engineering and Modeling Department
  - ♦ Developed enhancements to modeling of manufacturing automation equipment
- ♦ Petroleum Applications Department
  - ♦ Designed and enhanced well log analysis system

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- ♦ Designed enhancements to three dimensional seismic survey system

## EDUCATION

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THE PENNSYLVANIA STATE UNIVERSITY  
*B.S., Petroleum and Natural Gas Engineering, May 1985*  
 GPA: 3.39/4.0

- ♦ Certified E.I.T.
- ♦ Member Engineering Honor Society (Tau Beta Pi)
- ♦ Member Society of Petroleum Engineers

## SKILLS

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### PETROLEUM AND NATURAL GAS SOFTWARE Experience

- |                                     |                                                                         |
|-------------------------------------|-------------------------------------------------------------------------|
| ♦ <i>Sendout</i>                    | <i>Supply Planning and Optimization Model</i>                           |
| ♦ <i>Nostradamus</i>                | <i>Requirements Forecasting Model</i>                                   |
| ♦ <i>Stoner Workstation Service</i> | <i>Steady State Pipeline Simulation Software</i>                        |
| ♦ <i>Metretek</i>                   | <i>Remote Dial-in Gas Measurement System</i>                            |
| ♦ <i>PMES</i>                       | <i>Petrophysical Measurement System</i>                                 |
| ♦ <i>CLASSIC</i>                    | <i>Comprehensive Log Analysis System</i>                                |
| ♦ <i>THESIS</i>                     | <i>Three Dimensional Extension of the Seismic Interpretation System</i> |

### OTHER SOFTWARE Experience

- |                            |                                                                   |
|----------------------------|-------------------------------------------------------------------|
| ♦ <i>Rbase</i>             | <i>DOS Based Relational Database System</i>                       |
| ♦ <i>Informix</i>          | <i>Unix Based Relational Database System</i>                      |
| ♦ <i>SQL</i>               | <i>Structure Query Language</i>                                   |
| ♦ <i>4GL</i>               | <i>Fourth Generation Language</i>                                 |
| ♦ <i>Microstation/IGDS</i> | <i>Intergraph Graphics Design System</i>                          |
| ♦ <i>DMRS</i>              | <i>Proprietary Hierarchical Database System</i>                   |
| ♦ <i>Lotus Smartsuite</i>  | <i>Spreadsheet, Word Processor, Organizer, Charting, Database</i> |
| ♦ <i>Microsoft Office</i>  | <i>Spreadsheet, Word Processor, Presentations, Database</i>       |
| ♦ <i>Word Perfect</i>      | <i>Word Processor</i>                                             |

### PROGRAMMING Experience

- |                     |                                      |
|---------------------|--------------------------------------|
| ♦ <i>FORTRAN</i>    | <i>Software Programming Language</i> |
| ♦ <i>"C"</i>        | <i>Software Programming Language</i> |
| ♦ <i>UNIX</i>       | <i>Operating System</i>              |
| ♦ <i>VAX/VMS</i>    | <i>Operating System</i>              |
| ♦ <i>UNIX Shell</i> | <i>Programming Command Language</i>  |
| ♦ <i>VAX DCL</i>    | <i>Programming Command Language</i>  |

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Docket No. ER98-3026-000

-2-

Before Commissioners: James J. Hoecker, Chairman;  
Vicky A. Bailey, William L. Massey,  
Linda Breathitt, and Curt Hébert, Jr.

mitigation of market power, the public utility must have on file with the Commission an open access transmission tariff for the provision of comparable services. The Commission also considers whether there is evidence of affiliate abuse or reciprocal dealing. 1/

DTE Edison America, Inc. ) Docket No. ER98-3026-000

ORDER ACCEPTING FOR FILING  
PROPOSED MARKET-BASED RATES

(Issued July 16, 1998)

As we explain below, we find that DTE Edison America's market-based rate application meets these standards. Accordingly, we will accept the proposed market-based rates for filing, without suspension or hearing, to become effective as requested on October 1, 1998.

1. Generation Market Power

In this order, we accept for filing, without suspension or hearing, the proposed market-based power sales rates filed by DTE Edison America, Inc. (DTE Edison America), an affiliate of Detroit Edison Company (Detroit Edison).

In support of its market-based rate application, DTE Edison America explains that it does not own, operate or control any electric generation, transmission or distribution facilities. DTE Edison America states that Detroit Edison is its only affiliate with generation capacity, and supports its market-based rate application by reference to the generation market analysis previously submitted by Detroit Edison, and reviewed by the Commission. 2/ In that proceeding, the Commission found that Detroit Edison's market share of installed and uncommitted capacity did not exceed levels the Commission previously has found to be acceptable. The Commission concluded that Detroit Edison satisfied the Commission's generation market power standard for approval of market-based rates. 3/ We have no reason to depart from any of our earlier conclusions in this regard.

Background

DTE Edison America is a Michigan corporation formed to pursue electric power marketing activities and does not own, operate or control any electric power generation, transmission or distribution facilities. Detroit Edison is a public utility engaged in the generation, transmission, distribution, and sale of electricity at both wholesale and retail.

Accordingly, we find that DTE Edison America meets the Commission's generation market power standard for approval of market based-rates.

On May 15, 1998, as clarified on June 15, 1998, DTE Edison filed an application requesting that the Commission authorize it to engage in wholesale power sales at market-based rates. Among other things, DTE Edison America seeks the same waivers and authorizations as those granted by the Commission to other power marketers with market-based rate authorization. DTE Edison America requests that the rate schedule become effective on October 1, 1998.

Notice of DTE Edison America's application was published in the Federal Register, 63 Fed. Reg. 29,393 (1998), with comments, protests and interventions due on or before June 4, 1998. None was filed.

Discussion

Market-Based Rates

The Commission allows power sales at market-based rates if the seller and its affiliates do not have, or have adequately mitigated, market power in generation and transmission and cannot erect other barriers to entry. In order for an affiliate of a transmission-owning public utility to demonstrate the absence or

- 1/ E.g., Progress Power Marketing, Inc., 76 FERC ¶ 61,155 at 61,919 (1996), letter order approving settlement, 79 FERC ¶ 61,149 (1997); Northwest Power Marketing Company, L.L.C., 75 FERC ¶ 61,281 at 61,889 (1996); accord Heartland Energy Services, Inc., et al., 68 FERC ¶ 61,223 at 62,062-63 (1994) (Heartland).
- 2/ See Detroit Edison Co., 77 FERC ¶ 61,279 (1996) (Detroit Edison).
- 3/ Id. at 62,220 (citing Southwestern Public Service Company, 72 FERC ¶ 61,208 at 61,966-67 (1995), reh'g pending; Louisville Gas & Electric Company, 62 FERC ¶ 61,016 at 61,146 (1993) (LG&E)).

## 2. Transmission Market Power

When an affiliate of a transmission-owning public utility seeks authorization to charge market-based rates, the Commission has required the public utility to have an open access transmission tariff on file before granting such authorization. 4/ Detroit Edison filed an open access pro forma compliance transmission tariff in Docket No. OA96-78-000.

Accordingly, we find that DTE Edison America meets the Commission's transmission market power standard for approval of market-based rates.

## 3. Other Barriers to Entry/Reciprocal Dealing

DTE Edison America is affiliated with entities that own and operate natural gas distribution facilities. Accordingly, should DTE Edison America or any of its affiliates deny, delay or require unreasonable terms, conditions or rates for natural gas service to a potential electric competitor of DTE Edison America in bulk power markets, then that electric competitor may file a complaint with the Commission that could result in the suspension of DTE Edison America's authority to sell power at market-based rates. 5/

With this safeguard, we are satisfied with DTE Edison America's explanation that there are no other barriers to entry or reciprocal dealing considerations of concern here.

## 4. Affiliate Abuse

DTE Edison America commits in its power sales tariff that it will not sell power to, or purchase power from, any affiliated entity, unless the Commission first approves such a transaction in a separate rate filing under section 205 of the Federal Power Act (FPA), 16 U.S.C. § 824d (1994). In addition, DTE Edison America attaches to its filing a code of conduct governing

4/ See Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, Order No. 888, 61 Fed. Reg. 21,540 (1996), FERC Stats. & Regs. ¶ 31,036 at 31,656-57 (1996), order on reh'g, Order No. 888-A, 62 Fed. Reg. 12,274 (1997), FERC Stats. & Regs. ¶ 31,048 (1997), order on reh'g, Order No. 888-B, 81 FERC ¶ 61,248 (1997), order on reh'g, Order No. 888-C, 82 FERC ¶ 61,046 (1998); accord Southern Company Services, Inc., et al., 71 FERC ¶ 61,392 at 62,536 (1995); Heartland, 68 FERC at 62,059-60.

5/ See, e.g., IG&E, 62 FERC at 61,148.

affiliate transactions. The code of conduct satisfies the Commission's affiliate abuse requirements for market-based rate authorization, including those concerning information sharing, independent functioning, and the pricing of affiliate sales or purchases of non-power goods and services.

With these safeguards, we are satisfied that there are no affiliate abuse considerations of concern here.

## Waivers, Authorizations and Reporting Requirements

DTE Edison America requests the following waivers and authorizations consistent with those granted to other power marketers with market-based rate authorization: (1) waiver of the filing requirements of Subparts B and C of Part 35, except sections 35.12(a), 35.13(b), 35.15 and 35.16; (2) waiver of Parts 41, 101, and 141; (3) abbreviated filings with respect to interlocking directorates under Part 45; and (4) blanket authorization for issuances of securities or assumptions of liabilities pursuant to Part 34 of the Commission's regulations. We will grant the requested waivers and authorizations to the extent granted to other power marketers.

Consistent with previous Commission decisions, we will require DTE Edison America to file quarterly reports detailing the purchase and sale transactions undertaken in the prior quarter. This requirement is necessary to ensure that contracts relating to rates and services are on file as required by section 205(c) of the FPA, 16 U.S.C. § 824d(c) (1994), and to allow the Commission to evaluate the reasonableness of the charges and to provide for ongoing monitoring of the marketer's ability to exercise market power. 6/

In addition, we will direct DTE Edison America to inform the Commission promptly of any change in status that would reflect a departure from the characteristics the Commission has relied upon in approving market-based pricing. These include, but are not limited to: (1) ownership of generating or transmission facilities or inputs to electric power production other than fuel supplies; or (2) affiliation with any entity not disclosed in the filing that owns generation or transmission facilities or inputs to electric power production, or affiliation with any entity that has a franchised service area. 7/ Alternatively, DTE Edison

6/ See, e.g., Heartland, 68 FERC at 62,065-66.

7/ See, e.g., Morgan Stanley Capital Group, Inc., 69 FERC ¶ 61,175 at 61,695 (1994), order on reh'g, 72 FERC ¶ 61,082 (1995) (Morgan Stanley); Intercoast Power Marketing Company, 68 FERC ¶ 61,248 at 62,134, clarified, 68 FERC ¶ 61,324 (1994).

America may elect to report such changes in conjunction with the updated market analysis it will be required to file every three years. 8/

#### Reporting Risk Management Transactions

DTE Edison America states that it may engage in risk management transactions. It requests that it be required to reflect such transactions in its quarterly reports only if they result in the actual delivery of electricity. Consistent with Morgan Stanley, 69 FERC at 61,696, the Commission grants this request.

#### Waiver of Notice

Finally, we will grant waiver of the 120-day advance notice requirement to the extent necessary to allow for an effective date of October 1, 1998. 2/

#### The Commission orders:

(A) DTE Edison America's market-based power sales tariff is hereby accepted for filing, without suspension or hearing, to become effective as requested on October 1, 1998.

(B) DTE Edison America's request for waiver of Parts 41, 101, and 141 of the Commission's regulations is hereby granted.

(C) Within 30 days of the date of this order, any person desiring to be heard or to protest the Commission's blanket approval of issuances of securities or assumptions of liabilities by DTE Edison America should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.211 and 385.214.

(D) Absent a request to be heard within the period set forth in Ordering Paragraph (C) above, DTE Edison America is hereby authorized to issue securities and assume obligations or liabilities as guarantor, indorser, surety, or otherwise in respect of any security of another person; provided that such issue or assumption is for some lawful object within the corporate purposes of DTE Edison America, compatible with the

8/ We reserve the right to require such an analysis at any time.

2/ See Central Hudson Gas and Electric Corporation, 60 FERC ¶ 61,106 (1992), reh'g denied, 61 FERC ¶ 61,089 (1992).

public interest, and reasonably necessary or appropriate for such purposes.

(E) Until further order of this Commission, the full requirements of Part 45 of the Commission's regulations, except as noted below, are hereby waived with respect to any person now holding or who may hold an otherwise proscribed interlocking directorate involving DTE Edison America. Any such person instead shall file a sworn application providing the following information:

- (1) full name and business address; and
- (2) all jurisdictional interlocks, identifying the affected companies and the positions held by that person.

(F) The Commission reserves the right to modify this order to require a further showing that neither public nor private interests will be adversely affected by continued Commission approval of DTE Edison America's issuances of securities or assumptions of liabilities, or by the continued holding of any affected interlocks.

(G) DTE Edison America's request for waiver of the provisions of Subparts B and C of Part 35 of the Commission's regulations, with the exception of sections 35.12(a), 35.13(b), 35.15, and 35.16, is hereby granted.

(H) DTE Edison America is hereby directed to conform to the filing and reporting requirements specified in this order. The first quarterly report of transactions undertaken by DTE Edison America under its market-based power sales tariff will be due within 30 days of the calendar quarter ending December 31, 1998.

(I) DTE Edison America is hereby directed to file an updated market analysis within three years of the date of this order, and every three years thereafter.

(J) DTE Edison America is hereby directed to inform the Commission promptly of any change in status that would reflect a departure from the characteristics that the Commission has relied upon in approving market-based pricing. Alternatively, as discussed in the body of this order, DTE Edison America may elect to report any such changes every three years with the updated market analysis filed pursuant to Ordering Paragraph (I) above. DTE Edison America shall notify the Commission of which option it elects in its first quarterly report filed pursuant to Ordering Paragraph (H) above.

(K) DTE Edison America is hereby informed of the following rate schedule designations: DTE Edison America, Inc., Rate

Docket No. ER98-3026-000

-7-

Schedule FERC No. 1 (Market-Based Rate Schedule) and Supplement  
No. 1 to Rate Schedule FERC No. 1 (Code of Conduct).

By the Commission.

( S E A L )

*David P. Boergers*  
David P. Boergers,  
Acting Secretary.

UNITED STATES OF AMERICA 84 ferc 61, 197  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: James J. Hoecker, Chairman;  
Vicky A. Bailey, William L. Massey,  
Linda Breathitt, and Curt H. bert, Jr.

DTE Edison America, Inc. ) Docket No. ER98-3026-001

## ORDER GRANTING CLARIFICATION

(Issued August 28, 1998)

DTE Edison America, Inc. (DTE Edison America) seeks clarification of an order accepting for filing its market-based power sales tariff. DTE Edison America, Inc., 84 FERC 61,028 (July 16 order). As explained below, we will grant the requested clarification.

## Background

In the July 16 order, the Commission accepted for filing, without suspension or hearing, DTE Edison America's proposed tariff for market-based sales of energy and capacity. DTE Edison America is affiliated with the Detroit Edison Company (Detroit Edison), a public utility engaged in the generation, transmission, distribution, and sales of electricity at both wholesale and retail. As part of its analysis of the market-based rate application, the Commission stated that:

DTE Edison America commits in its power sales tariff that it will not sell power to, or purchase power from, any affiliated entity, unless the Commission first approves such a transaction in a separate rate filing under section 205 of the Federal Power Act (FPA), 16 U.S.C. 824d (1994). [1/]

## Discussion

On clarification, DTE Edison America points out that its tariff does not in fact use the phrase "any affiliated entity." DTE Edison America explains that its tariff requires separate authorization only for power sales to its affiliated public utility with captive customers (Detroit Edison), not for power sales to or from any of its other affiliates that do not have captive customers:

1/ July 16 order, slip op. at 4.

Any sales of electric capacity and/or energy by DTE Edison to Detroit Edison Company shall be made pursuant to a separate rate schedule filed with the Federal Energy Regulatory Commission or its successor federal regulatory agency having jurisdiction over transactions hereunder ("Commission") unless otherwise permitted by the Commission. [2/]

DTE Edison America seeks clarification that it may sell power to, or purchase power from, its affiliates other than Detroit Edison without filing a separate application for authorization for such sales under section 205 of the FPA.

DTE Edison America is correct that we do not require separate authorization for a power marketer's power sales to or from those of its affiliates that lack captive customers. 3/ Accordingly, we will clarify that, in accordance with its Rate Schedule FERC No. 1, DTE Edison America must obtain separate authorization for power sales to its affiliated public utility with captive customers, but not for power sales to or from any of its other affiliates that do not have captive customers.

The Commission orders:

DTE Edison America's request for clarification is hereby granted, as discussed in the body of this order.

By the Commission.

( S E A L )

Linwood A. Watson, Jr.,  
Acting Secretary.

- 2/ DTE Edison America Rate Schedule FERC No. 1, Paragraph C.
- 3/ See, e.g., Southern Company Services, Inc., 72 FERC 61,324 at 62,407-08 (1995), order on reh'g, 74 FERC 61,141 (1996) (power marketer may sell power to affiliated EWGs, QFs, and other affiliates that do not have captive customers without filing for separate authorization for such sales).