DTE ENERGY CO
Form 10-Q
July 25, 2014

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

FORM 10-Q

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

For the Quarterly Period ended June 30, 2014
Commission file number 1-11607
DTE ENERGY COMPANY
(Exact name of registrant as specified in its charter)

Michigan (State or other jurisdiction of incorporation or organization)	38-3217752 (I.R.S. Employer Identification No.)
One Energy Plaza, Detroit, Michigan (Address of principal executive offices)	48226-1279 (Zip Code)

313-235-4000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

At June 30, 2014, 176,993,343 shares of DTE Energy's common stock were outstanding, substantially all of which were held by non-affiliates.

DTE Energy Company

Quarterly Report on Form 10-Q
Quarter Ended June 30, 2014

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DEFINITIONS

CFTC	U.S. Commodity Futures Trading Commission
Citizens	Citizens Fuel Gas Company, which distributes natural gas in Adrian, Michigan
Company	DTE Energy Company and any subsidiary companies
Customer Choice	Michigan legislation giving customers the option to choose alternative suppliers for electricity and natural gas.
DTE Electric	DTE Electric Company (a direct wholly owned subsidiary of DTE Energy Company) and subsidiary companies.
DTE Energy	DTE Energy Company, directly or indirectly the parent of DTE Electric, DTE Gas and numerous non-utility subsidiaries.
DTE Gas	DTE Gas Company (an indirect wholly owned subsidiary of DTE Energy) and subsidiary companies.
EPA	U.S. Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FOV	Finding of Violation
FTRs	Financial transmission rights are financial instruments that entitle the holder to receive payments related to costs incurred for congestion on the transmission grid.
GCR	A Gas Cost Recovery mechanism authorized by the MPSC that allows DTE Gas to recover through rates its natural gas costs.
MDEQ	Michigan Department of Environmental Quality
MISO	Midcontinent Independent System Operator, Inc.
MPSC	Michigan Public Service Commission
MTM	Mark-to-market
Non-utility	An entity that is not a public utility. Its conditions of service, prices of goods and services and other operating related matters are not directly regulated by the MPSC.
NOV	Notice of Violation
NRC	U.S. Nuclear Regulatory Commission

Production tax credits	Tax credits as authorized under Sections 45K and 45 of the Internal Revenue Code that are designed to stimulate investment in and development of alternate fuel sources. The amount of a production tax credit can vary each year as determined by the Internal Revenue Service.
PSCR	A Power Supply Cost Recovery mechanism authorized by the MPSC that allows DTE Electric to recover through rates its fuel, fuel-related and purchased power costs.
RDM	A Revenue Decoupling Mechanism authorized by the MPSC that is designed to minimize the impact on revenues of changes in average customer usage.
Securitization	DTE Electric financed specific stranded costs at lower interest rates through the sale of rate reduction bonds by a wholly-owned special purpose entity, The Detroit Edison Securitization Funding LLC.
Subsidiaries	The direct and indirect subsidiaries of DTE Energy Company
VIE	Variable Interest Entity

Units of Measurement

Bcf	Billion cubic feet of natural gas
BTU	Heat value (energy content) of fuel
kWh	Kilowatthour of electricity
MMBtu	One million BTU
MWh	Megawatthour of electricity

FORWARD-LOOKING STATEMENTS

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

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

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

Part I — Financial Information

Item 1. Financial Statements

DTE Energy Company

Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In millions, except per share amounts)			
Operating Revenues	$2,698	$2,225	$6,628	$4,741
Operating Expenses				
Fuel, purchased power and gas	1,276	940	3,431	1,964
Operation and maintenance	811	705	1,652	1,440
Depreciation, depletion and amortization	282	268	562	527
Taxes other than income	87	84	182	178
Asset (gains) and losses, reserves and impairments, net	(7)	5	(8)	(1)
	2,449	2,002	5,819	4,108
Operating Income	249	223	809	633
Other (Income) and Deductions				
Interest expense	106	112	216	221
Interest income	(3)	(3)	(5)	(5)
Other income	(40)	(46)	(81)	(90)
Other expenses	10	9	18	16
	73	72	148	142
Income Before Income Taxes	176	151	661	491
Income Tax Expense	50	44	208	149
Net Income	126	107	453	342
Less: Net Income Attributable to Noncontrolling Interest	2	2	3	3
Net Income Attributable to DTE Energy Company	$124	$105	$450	$339
Basic Earnings per Common Share				
Net Income Attributable to DTE Energy Company	$0.70	$0.60	$2.54	$1.94
Diluted Earnings per Common Share				
Net Income Attributable to DTE Energy Company	$0.70	$0.60	$2.54	$1.94
Weighted Average Common Shares Outstanding				

Basic	177	174	177	174
Diluted	177	175	177	174
Dividends Declared per Common Share	$0.66	$0.66	$1.31	$1.28

See Notes to Consolidated Financial Statements (Unaudited)

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DTE Energy Company

Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In millions)			
Net income	$126	$107	$453	$342
Other comprehensive income (loss), net of tax:				
Benefit obligations, net of taxes of $1, $1, $1 and $2, respectively	1	2	1	5
Net unrealized gains on investments during the period, net of taxes of $—, $—, $— and $—, respectively	1	—	1	—
Foreign currency translation, net of taxes of $1, $(1), $— and $(1), respectively	1	(1)	—	(2)
Other comprehensive income	3	1	2	3
Comprehensive income	129	108	455	345
Less comprehensive income attributable to noncontrolling interests	2	2	3	3
Comprehensive income attributable to DTE Energy Company	$127	$106	$452	$342

See Notes to Consolidated Financial Statements (Unaudited)

DTE Energy Company

Consolidated Statements of Financial Position (Unaudited)

	June 30, 2014	December 31, 2013
	(In millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	$75	$52
Restricted cash, principally Securitization	110	123
Accounts receivable (less allowance for doubtful accounts of $60 and $55, respectively)		
Customer	1,400	1,542
Other	126	127
Inventories		
Fuel and gas	342	363
Materials and supplies	277	265
Derivative assets	98	99
Regulatory assets	127	26
Other	166	209
	2,721	2,806
Investments		
Nuclear decommissioning trust funds	1,237	1,191
Other	604	603
	1,841	1,794
Property		
Property, plant and equipment	25,836	25,123
Less accumulated depreciation, depletion and amortization	(9,529)	(9,323)
	16,307	15,800
Other Assets		
Goodwill	2,018	2,018
Regulatory assets	2,719	2,837
Securitized regulatory assets	135	231
Intangible assets	112	122
Notes receivable	90	102
Derivative assets	26	27
Other	220	198
	5,320	5,535
Total Assets	$26,189	$25,935

See Notes to Consolidated Financial Statements (Unaudited)

DTE Energy Company

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

	June 30, 2014	December 31, 2013
	(In millions, except shares)	
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$946	$962
Accrued interest	86	90
Dividends payable	238	116
Short-term borrowings	511	131
Current portion long-term debt, including capital leases	229	898
Derivative liabilities	148	195
Gas inventory equalization	38	—
Regulatory liabilities	150	302
Other	473	495
	2,819	3,189
Long-Term Debt (net of current portion)		
Mortgage bonds, notes and other	7,329	6,618
Securitization bonds	—	105
Junior subordinated debentures	480	480
Capital lease obligations	4	11
	7,813	7,214
Other Liabilities		
Deferred income taxes	3,500	3,321
Regulatory liabilities	757	862
Asset retirement obligations	1,883	1,827
Unamortized investment tax credit	42	47
Derivative liabilities	29	43
Accrued pension liability	564	653
Accrued postretirement liability	307	350
Nuclear decommissioning	180	178
Other	269	297
	7,531	7,578
Commitments and Contingencies (Notes 7 and 11)		
Equity		
Common stock, without par value, 400,000,000 shares authorized, 176,993,343 and 177,087,230 shares issued and outstanding, respectively	3,896	3,907
Retained earnings	4,246	4,150
Accumulated other comprehensive loss	(134)	(136)
Total DTE Energy Company Equity	8,008	7,921
Noncontrolling interests	18	33
Total Equity	8,026	7,954
Total Liabilities and Equity	$26,189	$25,935

See Notes to Consolidated Financial Statements (Unaudited)

DTE Energy Company

Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
	2014	2013
	(In millions)	
Operating Activities		
Net income	$453	$342
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, depletion and amortization	562	527
Nuclear fuel amortization	19	17
Allowance for equity funds used during construction	(11)	(6)
Deferred income taxes	196	123
Asset (gains) and losses, reserves and impairments, net	(7)	—
Changes in assets and liabilities:		
Accounts receivable, net	145	70
Inventories	9	133
Accounts payable	104	(29)
Gas inventory equalization	38	73
Accrued pension obligation	(89)	(42)
Accrued postretirement obligation	(43)	(174)
Derivative assets and liabilities	(59)	(15)
Regulatory assets and liabilities	(224)	226
Other assets	35	71
Other liabilities	(52)	(49)
Net cash from operating activities	1,076	1,267
Investing Activities		
Plant and equipment expenditures — utility	(924)	(708)
Plant and equipment expenditures — non-utility	(156)	(197)
Proceeds from sale of assets	31	15
Restricted cash for debt redemption, principally Securitization	13	10
Proceeds from sale of nuclear decommissioning trust fund assets	475	309
Investment in nuclear decommissioning trust funds	(483)	(317)
Other	(23)	(23)
Net cash used for investing activities	(1,067)	(911)
Financing Activities		
Issuance of long-term debt, net of issuance costs	595	371
Redemption of long-term debt	(664)	(515)
Short-term borrowings, net	380	(24)
Issuance of common stock	—	19
Repurchase of common stock	(52)	—
Dividends on common stock	(232)	(215)
Other	(13)	(11)
Net cash from (used for) financing activities	14	(375)
Net Increase (Decrease) in Cash and Cash Equivalents	23	(19)
Cash and Cash Equivalents at Beginning of Period	52	65
Cash and Cash Equivalents at End of Period	$75	$46

Supplemental disclosure of non-cash investing and financing activities		
Plant and equipment expenditures in accounts payable	$209	$218

See Notes to Consolidated Financial Statements (Unaudited)

DTE Energy Company

Consolidated Statements of Changes in Equity (Unaudited)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Non-Controlling Interests	Total
	Shares	Amount				
	(Dollars in millions, shares in thousands)					
Balance, December 31, 2013	177,087	$3,907	$4,150	$ (136)	$ 33	$7,954
Net income	—	—	450	—	3	453
Dividends declared on common stock	—	—	(354)	—	—	(354)
Repurchase of common stock	(713)	(52)	—	—	—	(52)
Benefit obligations, net of tax	—	—	—	1	—	1
Net change in unrealized losses on investments, net of tax	—	—	—	1	—	1
Stock-based compensation, distributions to noncontrolling interests and other	619	41	—	—	(18)	23
Balance, June 30, 2014	176,993	$3,896	$4,246	$ (134)	$ 18	$8,026

See Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION

Corporate Structure

DTE Energy owns the following businesses:

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

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

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

Basis of Presentation

These Consolidated Financial Statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the 2013 Annual Report on Form 10-K.

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

The Consolidated Financial Statements are unaudited, but in the Company's opinion include all adjustments necessary to present a fair statement of the results for the interim periods. All adjustments are of a normal recurring nature, except as otherwise disclosed in these Consolidated Financial Statements and Notes to Consolidated Financial Statements. Financial results for this interim period are not necessarily indicative of results that may be expected for any other interim period or for the fiscal year ending December 31, 2014.

Certain prior year balances were reclassified to match the current year’s financial statement presentation. Such revisions included an increase in the Consolidated Statements of Cash Flows line items for (i) Proceeds from sale of nuclear decommissioning trust funds, and (ii) Investment in nuclear decommissioning trust funds by $282 million for the six months ended June 30, 2013. These revisions were needed to properly state the gross purchases and sales activity in the nuclear decommissioning trust fund for the six months ended June 30, 2013. The total of Net cash used in investing activities for the six months ended June 30, 2013 was unchanged by these revisions. The revisions noted above are not deemed material, individually or in the aggregate, to the prior period consolidated financial statements.

Principles of Consolidation

The Company consolidates all majority-owned subsidiaries and investments in entities in which it has controlling influence. Non-majority owned investments are accounted for using the equity method when the Company is able to influence the operating policies of the investee. When the Company does not influence the operating policies of an investee, the cost method is used. These consolidated financial statements also reflect the Company's proportionate interests in certain jointly owned utility plants. The Company eliminates all intercompany balances and transactions.

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

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

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

The Company has variable interests in VIEs through certain of its long-term purchase and sale contracts. As of June 30, 2014, the carrying amount of assets and liabilities in the Consolidated Statements of Financial Position that relate to its variable interests under long-term purchase and sale contracts are predominately related to working capital accounts and generally represent the amounts owed by or to the Company for the deliveries associated with the current billing cycle under the contracts. The Company has not provided any significant form of financial support associated with these long-term contracts. There is no significant potential exposure to loss as a result of its variable interests through these long-term purchase and sale contracts.

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

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

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

The following table summarizes the major balance sheet items for consolidated VIEs as of June 30, 2014 and December 31, 2013. All assets and liabilities of a consolidated VIE are presented where it has been determined that a consolidated VIE has either (1) assets that can be used only to settle obligations of the VIE or (2) liabilities for which creditors do not have recourse to the general credit of the primary beneficiary. VIEs, in which the Company holds a majority voting interest and is the primary beneficiary, that meet the definition of a business and whose assets can be used for purposes other than the settlement of the VIE's obligations have been excluded from the table below.

	June 30, 2014			December 31, 2013		
	Securitization	Other	Total	Securitization	Other	Total
	(In millions)					
ASSETS						
Cash and cash equivalents	$—	$14	$14	$—	$12	$12
Restricted cash	88	6	94	100	8	108
Accounts receivable	39	12	51	34	16	50
Inventories	—	27	27	—	118	118
Property, plant and equipment, net	—	86	86	—	99	99
Securitized regulatory assets	135	—	135	231	—	231
Other current and long-term assets	2	7	9	4	9	13
	$264	$152	$416	$369	$262	$631
LIABILITIES						
Accounts payable and accrued current liabilities	$5	$8	$13	$7	$23	$30
Current portion long-term debt, including capital leases	201	9	210	196	9	205
Current regulatory liabilities	41	—	41	43	—	43
Mortgage bonds, notes and other	—	18	18	—	21	21
Securitization bonds	—	—	—	105	—	105
Capital lease obligations	—	4	4	—	7	7
Other current and long-term liabilities	8	5	13	8	6	14
	$255	$44	$299	$359	$66	$425

Amounts for non-consolidated VIEs as of June 30, 2014 and December 31, 2013 are as follows:

	June 30, 2014	December 31, 2013
	(In millions)	
Other investments	$130	$141
Notes receivable	$13	$8

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

Other Income

Other income is recognized for non-operating income such as equity earnings, interest and dividends, allowance for funds used during construction and contract services. Power & Industrial Projects also recognizes Other income in connection with the sale of membership interests in reduced emissions fuel facilities to investors. In exchange for the cash received, the investors will receive a portion of the economic attributes of the facilities, including income tax attributes. The transactions are not treated as a sale of membership interests for financial reporting purposes. Other income is considered earned when refined coal is produced and tax credits are generated. Power & Industrial Projects recognized approximately $15 million and $20 million of Other income for the three months ended June 30, 2014 and 2013, respectively, and approximately $32 million and $35 million of Other income for the six months ended June 30, 2014 and 2013, respectively.

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

Comprehensive Income (Loss)

Comprehensive income (loss) is the change in common shareholders' equity during a period from transactions and events from non-owner sources, including net income. As shown in the following tables, amounts recorded to accumulated other comprehensive loss for the three and six months ended June 30, 2014 include unrealized gains and losses from derivatives accounted for as cash flow hedges, unrealized gains and losses on available-for-sale securities and the Company's interest in other comprehensive income of equity investees, which comprise the net unrealized gains and losses on investments, changes in benefit obligations, consisting of deferred actuarial losses, prior service costs and transition amounts related to pension and other postretirement benefit plans, and foreign currency translation adjustments.

	Changes in Accumulated Other Comprehensive Loss by Component (a)				
	For The Three Months Ended June 30, 2014				
	Net Unrealized Gain/(Loss) on Derivatives	Net Unrealized Gain/(Loss) on Investments	Benefit Obligations (b)	Foreign Currency Translation	Total
	(In millions)				
Beginning balance, March 31, 2014	$(4)	$(6)	$(126)	$(1)	$(137)
Other comprehensive income before reclassifications	—	1	—	1	2
Amounts reclassified from accumulated other comprehensive income	—	—	1	—	1
Net current-period other comprehensive income	—	1	1	1	3
Ending balance, June 30, 2014	$(4)	$(5)	$(125)	$—	$(134)

	Changes in Accumulated Other Comprehensive Loss by Component (a)				
	For The Six Months Ended June 30, 2014				
	Net Unrealized Gain/(Loss) on Derivatives	Net Unrealized Gain/(Loss) on Investments	Benefit Obligations (b)	Foreign Currency Translation	Total
	(In millions)				
Beginning balance, December 31, 2013	$(4)	$(6)	$(126)	$—	$(136)
Other comprehensive income before reclassifications	—	1	(2)	—	(1)
Amounts reclassified from accumulated other comprehensive income	—	—	3	—	3
Net current-period other comprehensive income	—	1	1	—	2
Ending balance, June 30, 2014	$(4)	$(5)	$(125)	$—	$(134)

(a) All amounts are net of tax.
(b) The amounts reclassified from accumulated other comprehensive income are included in the computation of the net periodic pension and other postretirement benefits cost (see Note 12).

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

Intangible Assets

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

	June 30, 2014	December 31, 2013
	(In millions)	
Emission allowances	$2	$2
Renewable energy credits	51	51
Contract intangible assets	123	126
	176	179
Less accumulated amortization	51	45
Intangible assets, net	125	134
Less current intangible assets	13	12
	$112	$122

Emission allowances and renewable energy credits are charged to expense, using average cost, as the allowances and credits are consumed in the operation of the business. The Company amortizes contract intangible assets on a straight-line basis over the expected period of benefit, ranging from 1 to 28 years.

Income Taxes

The Company's effective tax rate for the three months ended June 30, 2014 was 28% as compared to 29% for the three months ended June 30, 2013. The Company's effective tax rate for the six months ended June 30, 2014 was 31% as compared to 30% for the six months ended June 30, 2013. The 1% decrease in the effective tax rate for the three months ended June 30, 2014 is due to higher production tax credits. The 1% increase in effective tax rate for the six months ended June 30, 2014 is due to $8 million of deferred tax expense resulting from New York state income tax reform enacted on March 31, 2014, partially offset by higher production tax credits.

The Company had $2 million of unrecognized tax benefits at June 30, 2014, that, if recognized, would favorably impact its effective tax rate. The Company believes that it is possible that there will be a decrease in the unrecognized tax benefits of up to $1 million in the next twelve months.

NOTE 3 — NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. The objectives of this ASU are to improve upon revenue recognition requirements by providing a single comprehensive model to determine the measurement of revenue and timing of recognition. The core principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This ASU also requires expanded qualitative and quantitative disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. The revenue standard is effective for the first interim period within annual reporting periods beginning after December 15, 2016 and is to be applied retrospectively. Early adoption is not permitted. The Company is currently assessing the impact of this ASU on its consolidated financial statements.

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

NOTE 4 — FAIR VALUE

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Company makes certain assumptions it believes that market participants would use in pricing assets or liabilities, including assumptions about risk, and the risks inherent in the inputs to valuation techniques. Credit risk of the Company and its counterparties is incorporated in the valuation of assets and liabilities through the use of credit reserves, the impact of which was immaterial at June 30, 2014 and December 31, 2013. The Company believes it uses valuation techniques that maximize the use of observable market-based inputs and minimize the use of unobservable inputs.

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

- Level 1 — Consists of unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date.
- Level 2 — Consists of inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.
- Level 3 — Consists of unobservable inputs for assets or liabilities whose fair value is estimated based on internally developed models or methodologies using inputs that are generally less readily observable and supported by little, if any, market activity at the measurement date. Unobservable inputs are developed based on the best available information and subject to cost-benefit constraints.

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

The following table presents assets and liabilities measured and recorded at fair value on a recurring basis as of June 30, 2014 and December 31, 2013:

	June 30, 2014					December 31, 2013				
	Level 1	Level 2	Level 3	Netting (a)	Net Balance	Level 1	Level 2	Level 3	Netting (a)	Net Balance
	(In millions)									
Assets:										
Cash equivalents (b)	$12	$96	$—	$—	$108	$10	$115	$—	$—	$125
Nuclear decommissioning trusts	798	439	—	—	1,237	779	412	—	—	1,191
Other investments (c) (d)	94	50	—	—	144	92	44	—	—	136
Derivative assets:										
Commodity Contracts:										
Natural Gas	118	101	52	(259)	12	273	89	34	(382)	14
Electricity	—	498	95	(487)	106	—	261	139	(291)	109
Other	35	3	7	(39)	6	33	1	3	(34)	3
Total derivative assets	153	602	154	(785)	124	306	351	176	(707)	126
Total	$1,057	$1,187	$154	$(785)	$1,613	$1,187	$922	$176	$(707)	$1,578
Liabilities:										
Derivative liabilities:										
Commodity Contracts:										
Natural Gas	$(123)	$(123)	$(72)	$264	$(54)	$(277)	$(140)	$(86)	$395	$(108)
Electricity	—	(484)	(122)	484	(122)	—	(272)	(126)	269	(129)
Other	(32)	(7)	—	39	—	(32)	(2)	—	34	—
Other derivative contracts (f)	—	(1)	—	—	(1)	—	(1)	—	—	(1)
Total derivative liabilities	(155)	(615)	(194)	787	(177)	(309)	(415)	(212)	698	(238)
Total	$(155)	$(615)	$(194)	$787	$(177)	$(309)	$(415)	$(212)	$698	$(238)
Net Assets (Liabilities) at the end of the period	$902	$572	$(40)	$2	$1,436	$878	$507	$(36)	$(9)	$1,340
Assets:										
Current	$145	$618	$123	$(680)	$206	$277	$400	$139	$(592)	$224
Noncurrent (e)	912	569	31	(105)	1,407	910	522	37	(115)	1,354
Total Assets	$1,057	$1,187	$154	$(785)	$1,613	$1,187	$922	$176	$(707)	$1,578
Liabilities:										
Current	$(133)	$(528)	$(169)	$682	$(148)	$(268)	$(328)	$(177)	$578	$(195)
Noncurrent	(22)	(87)	(25)	105	(29)	(41)	(87)	(35)	120	(43)
Total Liabilities	$(155)	$(615)	$(194)	$787	$(177)	$(309)	$(415)	$(212)	$698	$(238)
Net Assets (Liabilities) at the end of the period	$902	$572	$(40)	$2	$1,436	$878	$507	$(36)	$(9)	$1,340

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(a)

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

(b) At June 30, 2014, available-for-sale securities of $108 million included $95 million and $13 million of cash equivalents included in Restricted cash and Other investments on the Consolidated Statements of Financial Position, respectively. At December 31, 2013, available-for-sale securities of $125 million, included $109 million and $16 million of cash equivalents included in Restricted cash and Other investments on the Consolidated Statements of Financial Position, respectively.

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

(d) Available-for-sale equity securities of $7 million at both June 30, 2014 and December 31, 2013, are included in Other investments on the Consolidated Statements of Financial Position.

(e) Includes $144 million and $136 million at June 30, 2014 and December 31, 2013, respectively, of other investments that are included in the Consolidated Statements of Financial Position in Other investments.

(f) Includes Interest rate contracts and Foreign currency exchange contracts.

Cash Equivalents

Cash equivalents include investments with maturities of three months or less when purchased. The cash equivalents shown in the fair value table are comprised of short-term investments and money market funds.

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

Nuclear Decommissioning Trusts and Other Investments

The nuclear decommissioning trusts and other investments hold debt and equity securities directly and indirectly through institutional mutual funds. Exchange-traded debt and equity securities held directly are valued using quoted market prices in actively traded markets. The institutional mutual funds hold exchange-traded equity or debt securities and are valued based on stated net asset values (NAV). Non-exchange-traded fixed income securities are valued based upon quotations available from brokers or pricing services. A primary price source is identified by asset type, class or issue for each security. The trustee monitors prices supplied by pricing services and may use a supplemental price source or change the primary price source of a given security if the trustee determines that another price source is considered to be preferable. DTE Energy has obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. Additionally, DTE Energy selectively corroborates the fair value of securities by comparison of market-based price sources. Investment policies and procedures are determined by the Company's Trust Investments Department which reports to the Company's Vice President and Treasurer.

Derivative Assets and Liabilities

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

The following tables present the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30, 2014				Three Months Ended June 30, 2013			
	Natural Gas	Electricity	Other	Total	Natural Gas	Electricity	Other	Total
	(In millions)							
Net Assets (Liabilities) as of April 1	$(10)	$(34)	$1	$(43)	$(34)	$(9)	$2	$(41)
Transfers into Level 3	—	—	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—	—	—
Total gains (losses):								
Included in earnings	(16)	(22)	(1)	(39)	(2)	18	(1)	15

Recorded in regulatory assets/liabilities	—	—	7	7	—	—	3	3
Purchases, issuances and settlements:								
Issuances	—	(1)	—	(1)	—	—	—	—
Settlements	6	30	—	36	6	3	(2)	7
Net Assets (Liabilities) as of June 30	$(20)	$(27)	$7	$(40)	$(30)	$12	$2	$(16)
The amount of total gains (losses) included in net income attributed to the change in unrealized gains (losses) related to assets and liabilities held at June 30, 2014 and 2013 and reflected in Operating revenues and Fuel, purchased power and gas in the Consolidated Statements of Operations	$(11)	$1	$—	$(10)	$(1)	$33	$(1)	$31

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

	Six Months Ended June 30, 2014				Six Months Ended June 30, 2013			
	Natural Gas	Electricity	Other	Total	Natural Gas	Electricity	Other	Total
	(In millions)							
Net Assets (Liabilities) as of January 1	$(52)	$ 13	$3	$(36)	$(38)	$ 23	$2	$(13)
Transfers into Level 3	—	—	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	(2)	—	—	(2)
Total gains (losses):								
Included in earnings	(38)	20	(1)	(19)	(10)	26	(1)	15
Recorded in regulatory assets/liabilities	—	—	11	11	—	—	4	4
Purchases, issuances and settlements:								
Purchases	—	—	—	—	—	1	—	1
Issuances	—	(2)	—	(2)	—	—	—	—
Settlements	70	(58)	(6)	6	20	(38)	(3)	(21)
Net Assets (Liabilities) as of June 30	$(20)	$ (27)	$7	$(40)	$(30)	$ 12	$2	$(16)
The amount of total gains (losses) included in net income attributed to the change in unrealized gains (losses) related to assets and liabilities held at June 30, 2014 and 2013 and reflected in Operating revenues and Fuel, purchased power and gas in the Consolidated Statements of Operations	$(11)	$ (19)	$—	$(30)	$(6)	$ 27	$(1)	$20

Derivatives are transferred between levels primarily due to changes in the source data used to construct price curves as a result of changes in market liquidity. Transfers in and transfers out are reflected as if they had occurred at the beginning of the period. The following table shows transfers between the levels of the fair value hierarchy for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(In millions)					
Transfers into Level 1 from	$ N/A	$—	$—	$ N/A	$—	$—
Transfers into Level 2 from	—	N/A	—	—	N/A	—
Transfers into Level 3 from	—	—	N/A	—	—	N/A
	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(In millions)					
Transfers into Level 1 from	$ N/A	$—	$—	$ N/A	$—	$—
Transfers into Level 2 from	—	N/A	—	—	N/A	2
Transfers into Level 3 from	—	—	N/A	—	—	N/A

The following table presents the unobservable inputs related to Level 3 assets and liabilities as of June 30, 2014:

June 30, 2014

Commodity Contracts	Derivative Assets	Derivative Liabilities	Valuation Techniques	Unobservable Input	Range				Weighted Average	
	(In millions)									
Natural Gas	$52	$(72)	Discounted Cash Flow	Forward basis price (per MMBtu)	$(0.80)	—$6.98	/MMBtu		$(0.11)	/MMBtu
Electricity	$95	$(122)	Discounted Cash Flow	Forward basis price (per MWh)	$(3)	—$16	/MWh		$4	/MWh

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

The following table presents the unobservable inputs related to Level 3 assets and liabilities as of December 31, 2013:

Commodity Contracts	December 31, 2013 Derivative Assets (In millions)	Derivative Liabilities	Valuation Techniques	Unobservable Input	Range		Weighted Average	
Natural Gas	$34	$(86)	Discounted Cash Flow	Forward basis price (per MMBtu)	$(0.88) — $5.07	/MMBtu	$(0.16)	/MMBtu
Electricity	$139	$(126)	Discounted Cash Flow	Forward basis price (per MWh)	$(7) — $15	/MWh	$3	/MWh

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

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

Fair Value of Financial Instruments

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

The following table presents the carrying amount and fair value of financial instruments as of June 30, 2014 and December 31, 2013:

	June 30, 2014				December 31, 2013			
	Carrying	Fair Value			Carrying	Fair Value		
	Amount	Level 1	Level 2	Level 3	Amount	Level 1	Level 2	Level 3
	(In millions)							
Notes receivable, excluding capital leases	$46	$—	$—	$46	$41	$—	$—	$41
Dividends payable	$238	$238	$—	$—	$116	$116	$—	$—
Short-term borrowings	$511	$—	$511	$—	$131	$—	$131	$—
Long-term debt, excluding capital leases	$8,030	$483	$7,511	$801	$8,094	$425	$7,551	$499

See Note 5 for further fair value information on financial and derivative instruments.

Nuclear Decommissioning Trust Funds

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

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

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

	June 30, 2014	December 31, 2013
	(In millions)	
Fermi 2	$1,214	$1,172
Fermi 1	3	3
Low level radioactive waste	20	16
Total	$1,237	$1,191

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In millions)			
Realized gains	$7	$11	$16	$19
Realized losses	$(4)	$(7)	$(11)	$(14)
Proceeds from sales of securities				