Power Generated and Purchased	**2008**		2007		2006	
			(In thousands of MWh)			
Power Plant Generation						
Fossil	**41,254**	**71%**	42,359	72%	39,686	70%
Nuclear	**9,613**	**17**	8,314	14	7,477	13
	50,867	**88**	50,673	86	47,163	83
Purchased Power	**6,877**	**12**	8,422	14	9,861	17
System Output	**57,744**	**100%**	59,095	100%	57,024	100%
Less Line Loss and Internal Use	**(3,445)**		(3,391)		(3,603)	
Net System Output	**54,299**		55,704		53,421	
Average Unit Cost ($/MWh)						
Generation(1)	**$ 17.93**		$ 15.83		$ 15.61	
Purchased Power	**$ 69.50**		$ 62.40		$ 53.71	
Overall Average Unit Cost	**$ 24.07**		$ 22.47		$ 22.20	

(1) Represents fuel costs associated with power plants.

	2008	2007	2006
	(In thousands of MWh)		
Electric Sales			
Residential	**15,492**	16,147	15,769
Commercial	**18,920**	19,332	17,948
Industrial	**13,086**	13,338	13,235
Wholesale	**2,825**	2,902	2,826
Other	**393**	398	402
	50,716	52,117	50,180
Interconnection sales(1)	**3,583**	3,587	3,241
Total Electric Sales	**54,299**	55,704	53,421
Electric Deliveries			
Retail and Wholesale	**50,716**	52,117	50,180
Electric Customer Choice	**1,382**	1,690	2,694
Electric Customer Choice — Self Generators(2)	**75**	549	909
Total Electric Sales and Deliveries	**52,173**	54,356	53,783

(1) Represents power that is not distributed by Detroit Edison.

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

Operation and maintenance expense decreased $100 million in 2008 and increased $86 million in 2007. The decrease in 2008 was due primarily to lower information systems implementation costs of $60 million, lower benefit expense of $45 million and lower corporate support expenses of $29 million, partially offset by higher uncollectible expenses of $22 million. The increase in 2007 is primarily due to higher information systems implementation costs of $30 million, higher storm expenses of $22 million, increased uncollectible expense of $22 million and higher corporate support expenses of $20 million.

Depreciation and amortization expense decreased $21 million in 2008 and $45 million in 2007. The 2008 decrease was due primarily to decreased amortization of regulatory assets. The 2007 decrease was due primarily to a 2006 net stranded cost write-off of $112 million related to the September 2006 MPSC order regarding stranded costs and a $13 million decrease in our asset retirement obligation at our Fermi 1 nuclear facility, partially offset by $58 million of increased amortization of regulatory assets and $13 million of higher depreciation expense due to increased levels of depreciable plant assets.

Taxes other than income decreased $45 million in 2008 due to the Michigan Single Business Tax (SBT) expense in 2007, which was replaced with the Michigan Business Tax (MBT) in 2008. The MBT is accounted for in the Income Tax provision.

Asset (gains) losses and reserves, net decreased $9 million in 2008 and increased $14 million in 2007 due to a 2007 $13 million reserve for a loan guaranty related to Detroit Edison's former ownership of a steam heating business now owned by Thermal Ventures II, LP (Thermal).

Other (income) and deductions expense increased $6 million in 2008 and decreased $17 million in 2007. The 2008 increase is attributable to $15 million of investment losses in a trust utilized for retirement benefits and $3 million of miscellaneous expenses offset by higher capitalized interest of $12 million. The 2007 decrease is attributable to a $10 million contribution to the DTE Energy Foundation in 2006 that did not recur in 2007, $3 million of higher interest income and $17 million of increased miscellaneous utility related services, partially offset by $16 million of higher interest expense.

Outlook — We will move forward in our efforts to continue to improve the operating performance and cash flow of Detroit Edison. We continue to resolve outstanding regulatory issues by pursuing regulatory and/or legislative solutions. Many of these issues and problems have been addressed by the legislation signed by the Governor of Michigan in October 2008, discussed more fully in the Overview section. Looking forward, additional issues, such as volatility in prices for coal and other commodities, investment returns and changes in discount rate assumptions in benefit plans, health care costs and higher levels of capital spending, will result in us taking meaningful action to address our costs while continuing to provide quality customer service. We will continue to seek opportunities to improve productivity, remove waste and decrease our costs while improving customer satisfaction.

Unfavorable national and regional economic trends have resulted in reduced demand for electricity in our service territory and increases in our uncollectible accounts receivable. The magnitude of these trends will be driven by the impacts of the challenges in the domestic automotive industry and the timing and level of recovery in the national and regional economies.

Due to the economy and credit market conditions, in the near term, we are reviewing our capital expenditure commitments for potential reductions and deferrals and plan to adjust the timing of projects as appropriate. Long term, we will be required to invest an estimated $2.8 billion on emission controls through 2018. We intend to seek recovery of these investments in future rate cases.

Additionally, our service territory may require additional generation capacity. A new base-load generating plant has not been built within the State of Michigan in over 20 years. Should our economic and regulatory environment be conducive to such a significant capital expenditure, we may build, upgrade or co-invest in a base-load coal facility or a new nuclear plant.

On September 18, 2008, Detroit Edison submitted a Combined Operating License Application with the NRC for construction and operation of a possible 1,500 MW nuclear power plant at the site of the company's existing Fermi 2 nuclear plant. We have not decided on construction of a new base-load nuclear plant; however, by completing the license application before the end of 2008, we may qualify for financial incentives under the Federal Energy Policy Act of 2005. In addition, Detroit Edison is also moving ahead with plans for renewable energy resources and an aggressive energy efficiency program.

The following variables, either individually or in combination, could impact our future results:

- Access to capital markets and capital market conditions 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 or the potential for loss on cash equivalents and investments;
- Economic conditions within Michigan and corresponding impacts on demand for electricity;
- Collectibility of accounts receivable;
- Increases in future expense and contributions to pension and other postretirement plans due to declines in value resulting from market conditions;
- The amount and timing of cost recovery allowed as a result of regulatory proceedings, related appeals or new legislation;
- Our ability to reduce costs and maximize plant and distribution system performance;
- Variations in market prices of power, coal and gas;
- Weather, including the severity and frequency of storms;
- The level of customer participation in the electric Customer Choice program; and
- Any potential new federal and state environmental, renewable energy and energy efficiency requirements.

GAS UTILITY

Our Gas Utility segment consists of MichCon and Citizens.

Factors impacting income: Gas Utility's net income increased $15 million in 2008 and $20 million in 2007. The 2008 and 2007 increases were due primarily to higher gross margins.

	2008	2007	2006
		(In millions)	
Operating Revenues	**$2,152**	$1,875	$1,849
Cost of Gas	**1,378**	1,164	1,157
Gross Margin	**774**	711	692
Operation and Maintenance	**464**	429	431
Depreciation and Amortization	**102**	93	94
Taxes Other Than Income	**48**	56	53
Asset (Gains) and Losses, Net	**(26)**	(3)	—
Operating Income	**186**	136	114
Other (Income) and Deductions	**60**	43	53
Income Tax Provision (Benefit)	**41**	23	11
Net Income	**$ 85**	$ 70	$ 50
Operating Income as a Percent of Operating Revenues	**9%**	7%	6%

Gross margin increased $63 million and $19 million in 2008 and 2007, respectively. The increase in 2008 reflects $49 million from the uncollectible tracking mechanism, $15 million related to the impacts of colder weather, $10 million favorable result of lower lost gas recognized and higher valued gas received as compensation for transportation of third party customer gas, $7 million of 2007 GCR disallowances, and $6 million of appliance repair revenue. The 2008 improvement was partially offset by $19 million of lower storage services revenue and $12 million from customer conservation and lower volumes. The increase in 2007 is primarily due to $21 million from the favorable effects of weather in 2007 and $28 million related to an increase in midstream services including storage and transportation, partially offset by a $26 million unfavorable impact in lost gas recognized and $7 million in GCR disallowances. Revenues include a component for the cost of gas sold that is recoverable through the GCR mechanism.

	2008	2007	2006
Gas Markets (in Millions)			
Gas sales	**$1,824**	$1,536	$1,541
End user transportation	**143**	140	135
	1,967	1,676	1,676
Intermediate transportation	**73**	70	69
Storage and other	**112**	129	104
	$2,152	$1,875	$1,849
Gas Markets (in Bcf)			
Gas sales	**148**	148	138
End user transportation	**123**	132	136
	271	280	274
Intermediate transportation	**438**	399	373
	709	679	647

Operation and maintenance expense increased $35 million in 2008 and decreased $2 million in 2007. The 2008 increase is primarily attributable to $56 million of higher uncollectible expenses, partially offset by $14 million of lower corporate support expenses and $14 million of reduced pension and retiree health benefit costs. The increase in uncollectible expense is partially offset by increased revenues from the uncollectible tracking mechanism included in the gross margin discussion. The 2007 decrease was attributed to $4 million of lower uncollectible expense and $4 million of reduced corporate support expenses, partially offset by $5 million in increased information systems implementation costs.

Other Asset (gains) losses, net increased $23 million in 2008 and $3 million in 2007. Both increases are primarily attributable to the sale of base gas.

Outlook — Higher gas prices and deteriorating economic conditions have resulted in continued pressure on receivables and working capital requirements that are partially mitigated by the MPSC's GCR and uncollectible true-up mechanisms. We will continue to seek opportunities to improve productivity, minimize lost gas, remove waste and decrease our costs while improving customer satisfaction.

Unfavorable national and regional economic trends have resulted in negative customer growth in our service territory and increases in our uncollectible accounts receivable. The magnitude of these trends will be driven by the impacts of the challenges in the domestic automotive industry and the timing and level of recovery in the national and regional economies.

The following variables, either individually or in combination, could impact our future results:

- Access to capital markets and capital market conditions 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 or the potential for loss on cash equivalents and investments;
- Economic conditions within Michigan and corresponding impacts on demand for gas and levels of lost or stolen gas;
- Collectibility of accounts receivable;
- Increases in future expense and contributions to pension and other postretirement plans due to declines in value resulting from market conditions;
- The amount and timing of cost recovery allowed as a result of regulatory proceedings, related appeals or new legislation;

- Our ability to reduce costs and maximize distribution system performance;
- Variations in market prices of gas;
- Weather;
- Customer conservation;
- Volatility in the short-term storage markets which impact third-party storage revenues;
- Extent and timing of any base gas sales;
- Any potential new federal and state environmental, renewable energy and energy efficiency requirements.

NON-UTILITY OPERATIONS

Gas Midstream

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

Factors impacting income: Net income increased $4 million and $6 million in 2008 and 2007, respectively. The 2008 increase is due to higher storage revenues related to expansion of capacity and higher other income primarily driven by higher equity earnings from our investments in the Vector and Millennium Pipelines, partially offset by a higher tax provision due to the MBT in 2008. Net income was higher in 2007 due to higher storage revenues and lower expenses due to the Washington 10 restructuring during 2006.

	2008	2007	2006
	(In millions)		
Operating Revenues	$ 71	$66	$63
Operation and Maintenance	12	13	22
Depreciation and Amortization	5	6	3
Taxes Other Than Income	3	3	4
Asset (Gains) and Losses, Net	1	(1)	(1)
Operating Income	50	45	35
Other (Income) and Deductions	(12)	(7)	(8)
Income Tax Provision	24	18	15
Net Income	$ 38	$34	$28

Outlook — Our Gas Midstream business expects to continue its steady growth plan. In April 2008, an additional 7 Bcf of storage capacity was placed in service. Future additions to storage capacity of approximately 3 Bcf will occur over the next few months. Vector Pipeline placed into service its Phase 1 expansion for approximately 200 MMcf/d in November 2007. In addition, Vector Pipeline received FERC approval in June 2008 to build one additional compressor station, which will expand the Vector Pipeline by approximately 100 MMcf/d, with a proposed in-service date of November 2009. Adding another compressor station will bring the system from its current capacity of about 1.2 Bcf/d up to 1.3 Bcf/d in 2009. Both the 2007 and 2009 expansion projects are supported by customers under long-term contracts. Millennium Pipeline was placed in service in December 2008 and currently has nearly 85% of its capacity sold to customers under long-term contracts.

Unconventional Gas Production

Our Unconventional Gas Production business is engaged in natural gas exploration, development and production within the Barnett shale in northern Texas. In June 2007, we sold our Antrim shale gas exploration and production business in northern Michigan for gross proceeds of $1.262 billion.

In January 2008, we sold a portion of our Barnett shale properties for gross proceeds of approximately $260 million. The properties sold included 75 Bcf of proved reserves on approximately 11,000 net acres in the core area of the Barnett shale. We recognized a gain of $128 million ($81 million after-tax) on the sale in 2008.

Factors impacting income: The 2008 results include the gain recognized on the sale of our Barnett shale property described above. In addition, lower gas sales volumes were offset by higher commodity prices and higher gas and oil production from retained wells in 2008 compared to 2007. The 2007 results reflect the recording of $323 million of losses on financial contracts related to expected Antrim gas production and sales through 2013.

	2008	2007	2006
		(In millions)	
Operating Revenues	**$ 48**	$(228)	$99
Operation and Maintenance	**22**	36	37
Depreciation, Depletion and Amortization	**12**	22	27
Taxes Other Than Income	**1**	8	11
Asset (Gains) and Losses, Net	**(120)**	27	(3)
Operating Income (Loss)	**133**	(321)	27
Other (Income) and Deductions	**2**	13	13
Income Tax Provision (Benefit)	**47**	(117)	5
Net Income (Loss)	**$ 84**	$(217)	$ 9

Operating revenues increased $276 million in 2008 and decreased $327 million in 2007. The 2007 decrease reflects the recording of $323 million of losses during 2007 on financial contracts that hedged our price risk exposure related to expected Antrim gas production and sales through 2013. These financial contracts were accounted for as cash flow hedges, with changes in estimated fair value of the contracts reflected in other comprehensive income. Upon the sale of Antrim, the financial contracts no longer qualified as cash flow hedges. In conjunction with the Antrim sale, Antrim reclassified amounts held in accumulated other comprehensive income, reducing operating revenues in the 2007 period by $323 million. Excluding the impact of the losses on the Antrim hedges, operating revenues decreased $47 million in 2008 as compared to 2007. The decreases were principally due to lower natural gas sales volumes as a result of our monetization initiatives, partially offset by higher commodity prices and higher gas and oil production on retained wells.

Other assets (gains) losses, net increased $147 million in 2008 due to the gain on sale of Barnett shale core properties offset by $8 million of impairment losses primarily related to leases on unproved acreage that expire in 2009 that we do not anticipate developing due to current economic conditions. The $30 million decrease in 2007 was primarily due to the recording of impairment losses of $27 million in 2007 related to the write-off of unproved properties and the expiration of leases in the southern expansion area of the Barnett shale.

Outlook — We plan to continue to develop our holdings in the western portion of the Barnett shale and to seek opportunities for additional monetization of select properties within our Barnett shale holdings, when conditions are appropriate. We invested approximately $96 million in the Barnett shale in 2008. During 2009, we expect to invest approximately $25 million to drill 15 to 25 new wells and achieve Barnett shale production of approximately 5 to 6 Bcfe of natural gas from our remaining properties, compared with approximately 5 Bcfe in 2008.

Power and Industrial Projects

Power and Industrial Projects is comprised primarily of projects that deliver energy and utility-type products and services to industrial, commercial and institutional customers; provide coal transportation services and marketing; and sell electricity from biomass-fired energy projects.

During the third quarter of 2007, we announced plans to sell a 50% interest in a portfolio of select Power and Industrial Projects. As a result, the assets and liabilities of the Projects were classified as held for sale at that time and the Company ceased recording depreciation and amortization expense related to these assets. During the second quarter of 2008, the United States asset sale market weakened and challenges in the debt market persisted. As a result of these developments, our work on this planned monetization was discontinued. As of June 30, 2008, the assets and liabilities of the Projects were no longer classified as held for sale. Depreciation and amortization resumed in June 2008 when the assets were reclassified as held and used.

Factors impacting income: Net income decreased $9 million in 2008 and increased $107 million in 2007.

	2008	2007	2006
		(In millions)	
Operating Revenues	**$987**	$1,244	$1,053
Operation and Maintenance	**899**	1,143	972
Depreciation and Amortization	**34**	41	49
Taxes other than Income	**12**	13	13
Other Asset (Gains) and Losses, Reserves and Impairments, Net	**6**	—	76
Operating Income (Loss)	**36**	47	(57)
Other (Income) and Deductions	**(20)**	(11)	43
Minority Interest	**5**	2	1
Income Taxes			
Provision (Benefit)	**18**	18	(31)
Production Tax Credits	**(7)**	(11)	(12)
	11	7	(43)
Net Income (Loss)	**$ 40**	$ 49	$ (58)

Operating revenues decreased $257 million in 2008. This was primarily attributable to $177 million of reductions in coal transportation and trading volumes and $28 million for the impact of a customer electing to purchase coal directly from the supplier. Revenues in 2007 increased $191 million reflecting a new long-term utility services contract with a large automotive company, higher coke prices and sales volumes in addition to higher volumes at several other projects. Additionally, revenue was earned for a one-time fee from the sale of an asset we operated for a third party. In 2007, revenues were impacted by higher synfuel related volumes and increases in trading volumes related to both coal and emissions.

Operation and maintenance expense decreased $244 million in 2008 and increased $171 million in 2007. The 2008 decrease mostly reflects $174 million of lower coal transportation costs driven by reduced sales combined with a reduction in coal trading results. The 2007 increase was due to higher synfuel related production and higher trading volumes related to coal and emissions.

Depreciation and amortization expense decreased $7 million in 2008 and $8 million in 2007 due primarily to the suspension of $6 million of depreciation expense in the fourth quarter of 2007 related to the assets held for sale, the sale of a generation facility during the year and reduced depreciation expense as a result of asset impairments at several biomass landfill sites in 2006.

Other assets (gains) losses, reserves and impairments, net expense decreased $6 million in 2008 and decreased $76 million in 2007. The 2008 decrease is primarily attributable to a loss of approximately $19 million related to the valuation adjustment for the cumulative depreciation and amortization upon reclassification of certain project assets as held and used. Partially offsetting the 2008 loss were gains attributable to the sale of one of our coke battery projects where the proceeds were dependent on future production. The 2007 decrease is due to impairments recognized in 2006 at natural gas- fired generating plants, long-lived assets at several landfill gas recovery sites and fixed assets and patents at our waste coal recovery business.

Other (income) and deductions were higher by $9 million in 2008 due primarily to higher inter-company interest. The 2007 decrease was due primarily to a realized gain of $8 million on the sale of a 50 percent equity interest in a natural gas-fired generating plant and a $4 million gain recognized in 2007 on an installment sale of a coke battery facility.

Outlook — The deterioration in the U.S. economy is expected to continue to negatively impact our customers in the steel industry and we expect a corresponding reduction in demand for metallurgical coke and pulverized coal supplied to these customers in 2009. We supply onsite energy services to the domestic automotive manufacturers who have also been negatively affected by the economic downturn and constriction in the capital and credit markets. Our onsite energy services are delivered in accordance with the terms of long-term contracts which include termination payments in the event of plant closures or other events of default and have not been significantly impacted by the financial distress experienced by the automotive manufacturers. Further plant closures, bankruptcies or a federal government mandated restructuring program could have a significant impact on the results of our onsite energy projects. We continue to monitor developments in this sector. In 2009, we expect our coal transportation and marketing business to positively contribute to the results of this segment as our coal transportation, storage and blending services continue to grow. In 2011, our existing long-term rail transportation contract which gives us a competitive advantage will expire. We will continue to work with suppliers and the railroads to promote secure and competitive access to coal to meet the energy requirements of our customers.

Power and Industrial Projects will continue to leverage its extensive energy-related operating experience and project management capability to develop additional on-site energy projects to serve energy intensive industrial customers that are experiencing capital constraints due to the economic downturn. We will also continue to look for opportunities to acquire on-site energy projects and biomass fired generating projects for advantageous prices.

Energy Trading

Our Energy Trading segment focuses on physical power and gas marketing, structured transactions, enhancement of returns from DTE Energy's asset portfolio, optimization of contracted natural gas pipeline transportation and storage, and power transmission and generating capacity positions.

Factors impacting income: Net income increased $10 million in 2008 and decreased $64 million in 2007.

	2008	2007	2006
	(In millions)		
Operating Revenues	**$1,388**	$924	$828
Fuel, Purchased Power and Gas	**1,235**	806	607
Gross Margin	**153**	118	221
Operation and Maintenance	**68**	58	65
Depreciation and Amortization	**5**	5	6
Taxes Other Than Income	**2**	1	1
Operating Income (Loss)	**78**	54	149
Other (Income) and Deductions	**5**	5	4
Income Tax Provision (Benefit)	**31**	17	49
Net Income (Loss)	**$ 42**	$ 32	$ 96

Gross margin increased $35 million in 2008 and decreased $103 million in 2007. The 2008 increase is due to higher unrealized margin of $66 million offset by a decrease in realized margin of $31 million. The increase in unrealized margins includes $18 million in improved gains in the gas trading strategy, $26 million gains on economic hedges of storage positions due to falling gas prices, and the absence of $30 million in mark-to-market losses in June 2007 reflecting revisions of valuation estimates for natural gas contracts, offset by $10 million in losses on economic hedges in our gas transportation strategy. The decrease in realized margin is due to unfavorability of $28 million primarily from our power marketing and transmission optimization strategies, $34 million of unfavorability in our gas storage and full requirements strategies due to falling prices in 2008, offset by $31 million of improvement in our gas trading strategy. The 2007 decrease is attributable to approximately $30 million of unrealized losses for gas contracts related to revisions of valuation estimates for the long-dated portion of our energy contracts and $32 million due to absence of unrealized gains on economic storage hedges and positions in our full requirements strategy. Timing differences from 2005 that largely reversed and favorably impacted 2006 margin resulted in $11 million of realized unfavorability in 2007. Additionally, margins were unfavorably impacted by $13 million of lower realized gains from reduced merchant storage capacity in 2007 and $12 million of unfavorability in realized power positions.

Operation and maintenance expense increased $10 million in 2008 and decreased $7 million in 2007. The 2008 increase is due to higher payroll and incentive costs and allocated corporate costs. The 2007 decrease was due primarily to lower incentive expenses.

Outlook — Significant portions of the Energy Trading portfolio are economically hedged. The portfolio includes financial instruments and gas inventory, as well as contracted natural gas pipeline transportation and storage, and power generation capacity positions. Most financial instruments are deemed derivatives, whereas proprietary gas inventory, power transmission, pipeline transportation and certain storage assets are not derivatives. As a result, we will experience earnings volatility as derivatives are marked-to-market without revaluing the underlying non-derivative contracts and assets. A source of such earnings volatility is associated with the natural gas storage cycle, which does not coincide with the calendar year, but runs annually from April of one year to March of the next year. Our strategy is to economically manage the price risk of storage with futures, forwards and swaps. This results in gains and losses that are recognized in different interim and annual accounting periods.

See Capital Resources and Liquidity and Fair Value sections that follow for additional discussion of our trading activities.

CORPORATE & OTHER

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

Factors impacting income: Corporate & Other results decreased by $597 million in 2008 and increased by $563 million in 2007. This is mostly attributable to the 2007 gain on the sale of the Antrim shale gas exploration and production business for approximately $900 million ($580 million after-tax) and variations in inter-company interest.

DISCONTINUED OPERATIONS

Synthetic Fuel

The Company discontinued the operations of our synthetic fuel production facilities as of December 31, 2007. Synfuel plants chemically changed coal and waste coal into a synthetic fuel as determined under the Internal Revenue Code. Production tax credits were provided for the production and sale of solid synthetic fuel produced from coal and were available through December 31, 2007. The synthetic fuel business generated operating losses that were offset by production tax credits.

Factors impacting income: Synthetic Fuel net income decreased $185 million in 2008 and increased $157 million in 2007. The decrease in 2008 was due to the cessation of operations of our synfuel facilities at December 31, 2007 and the final determination of the 2007 IRS reference price and inflation factor in 2008. The increase in 2007 was due to synfuel production occurring throughout the year in comparison to 2006 when production was idled at all nine of our synfuel facilities from May to October 2006 and higher income from oil price hedges, partially offset by a higher phase-out of production tax credits due to high oil prices.

	2008	2007	2006
		(In millions)	
Operating Revenues	$ 7	$1,069	$ 863
Operation and Maintenance	9	1,265	1,019
Depreciation and Amortization	(2)	(6)	24
Taxes other than Income	(1)	5	12
Asset (Gains) and Losses, Reserves and Impairments, Net(1)	(31)	(280)	40
Operating Income (Loss)	32	85	(232)
Other (Income) and Deductions	(2)	(9)	(20)
Minority Interest	2	(188)	(251)
Income Taxes			
Provision (Benefit)	13	98	14
Production Tax Credits	(1)	(21)	(23)
	12	77	(9)
Net Income(1)	$ 20	$ 205	$ 48

(1) Includes intercompany pre-tax gain of $32 million ($21 million after-tax) for 2007.

Operating revenues decreased $1,062 million in 2008 and increased $206 million in 2007. The 2008 drop is due to the cessation of operations of our synfuel facilities at December 31, 2007. The 2008 activity reflects the increased value of 2007 synfuel production as a result of final determination of the IRS Reference Price and inflation factor. Synfuel production was higher in 2007 in comparison to 2006 when production was idled at all nine of our synfuel facilities from May to October 2006.

Operation and maintenance expense decreased $1,256 million in 2008 and increased $246 million in 2007. The 2008 reduction is due to the cessation of operations of our synfuel facilities at December 31, 2007. Activity for 2008 reflects adjustments to 2007 contractually defined cost sharing mechanisms with suppliers, as determined by applying the actual phase-out percentage. The 2007 increase reflects synfuel production occurring throughout 2007 in comparison to 2006 when production was idled at all nine of our synfuel facilities from May to October 2006.

Depreciation and amortization expense was lower by $30 million in 2007 as a result of reductions in asset retirement obligations in 2007 and the impairment of fixed assets at all nine synfuel projects in 2006.

Asset (gains) and losses, reserves and impairments, net decreased $249 million in 2008 and increased $320 million in 2007. The 2008 decrease was due to the cessation of operations of our synfuel facilities at December 31, 2007 and reflects the impact of reserve adjustments for the final phase-out percentage and true-ups of final payments and distributions to partners.

The increase in gains in 2007 reflects the annual partner payment adjustment, recognition of certain fixed gains that were reserved during the comparable 2006 period, higher hedge gains and the impact of one-time impairment charges and fixed note reserves recorded in 2006. In 2007 and 2006, we deferred gains from the sale of the synfuel facilities, including a portion of gains related to fixed payments. Due to the increase in oil prices, we recorded accruals for contractual partners' obligations of $130 million in 2007 and $79 million in 2006 reflecting the probable refund of amounts equal to our partners' capital contributions or for operating losses that would normally be paid by our partners. In 2007, we reversed $3 million of other synfuel-related reserves and impairments and in 2006 recorded $78 million of other synfuel-related reserves and impairments. To economically hedge our exposure to the risk of an increase in oil prices and the resulting reduction in synfuel sales proceeds, we entered into derivative and other contracts. The derivative contracts are marked-to-market with changes in their fair value recorded as an adjustment to synfuel gains. We recorded net 2007 synfuel hedge mark-to-market gains of $196 million compared with net 2006 synfuel hedge mark-to-market gains of $60 million.

The following table displays the various pre-tax components that comprise the determination of synfuel gains and losses in 2008, 2007 and 2006.

Components of Asset (Gains) Losses, Reserves and Impairments, Net	2008	2007	2006
		(In millions)	
Gains recognized associated with fixed payments	**$ —**	$(172)	$(43)
Gains recognized associated with variable payments	**(32)**	(39)	(14)
Reserves recorded for contractual partners' obligations	**—**	130	79
Other reserves and impairments, including partners' share(1)	**(1)**	(3)	78
Hedge (gains) losses:			
Hedges for 2006 exposure	**—**	—	(66)
Hedges for 2007 exposure		(196)	6
	$(33)	$(280)	$ 40

(1) Includes $70 million in 2006, representing our partners' share of the asset impairment, included in Minority Interest.

Minority interest decreased by $190 million and $63 million in 2008 and 2007, respectively. The 2008 reduction is due to the cessation of operations of our synfuel facilities at December 31, 2007. The 2007 decrease reflects the lower net operating losses in 2007 due to the asset impairment charge we incurred in 2006, partially offset by an increased discount on higher sales levels for 2007.

See Note 3 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

CUMULATIVE EFFECT OF ACCOUNTING CHANGES

Effective January 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements.* The cumulative effect adjustment upon adoption of SFAS No. 157 represented a $4 million increase to the January 1, 2008 balance of retained earnings. As permitted by FASB Staff Position FAS 157-2, we have deferred the effective date of SFAS No. 157 as it pertains to non-financial assets and liabilities to January 1, 2009. See also the "Fair Value" section.

Effective January 1, 2007, we adopted FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109.* The cumulative effect of the adoption of FIN 48 represented a $5 million reduction to the January 1, 2007 balance of retained earnings.

Effective January 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payment,* using the modified prospective transition method. The cumulative effect of the adoption of SFAS 123(R) was an increase in net income of $1 million as a result of estimating forfeitures for previously granted stock awards and performance shares.

CAPITAL RESOURCES AND LIQUIDITY

Cash Requirements

We use cash to maintain and expand our electric and gas utilities and to grow our non-utility businesses, retire and pay interest on long-term debt and pay dividends. During 2008, our cash requirements were met primarily through operations and from our non-utility monetization program.

Our strategic direction anticipates base level capital investments and expenditures for existing businesses in 2009 of up to $1.1 billion. The capital needs of our utilities will increase due primarily to environmental related expenditures. We incurred environmental expenditures of approximately $270 million in 2008 and we expect over $2.9 billion of future capital expenditures through 2018 to satisfy both existing and proposed new requirements. We plan to seek regulatory approval to include these capital expenditures within our regulatory rate base consistent with prior treatment.

We expect non-utility capital spending will approximate $175 million to $300 million annually for the next several years. Capital spending for growth of existing or new businesses will depend on the existence of opportunities that meet our strict risk-return and value creation criteria.

Due to the economy and credit market conditions, we are continually reviewing our capital expenditure commitments for potential reductions and deferrals and plan to adjust spending as appropriate.

Long-term debt maturing or remarketing in 2009 totals approximately $350 million.

	2008	2007 (In millions)	2006
Cash and Cash Equivalents			
Cash Flow From (Used For)			
Operating activities:			
Net income	**$ 546**	$ 971	$ 433
Depreciation, depletion and amortization	**899**	926	1,014
Deferred income taxes	**348**	144	28
Gain on sale of non-utility business	**(128)**	(900)	—
Gain on sale of synfuel and other assets, net and synfuel impairment	**(35)**	(253)	28
Working capital and other	**(71)**	237	(47)
	1,559	1,125	1,456
Investing activities:			
Plant and equipment expenditures — utility	**(1,183)**	(1,035)	(1,126)
Plant and equipment expenditures — non-utility	**(190)**	(264)	(277)
Acquisitions, net of cash acquired	**—**	—	(42)
Proceeds from sale of non-utility business	**253**	1,262	—
Proceeds (refunds) from sale of synfuels and other assets	**(278)**	417	313
Restricted cash and other investments	**(125)**	(50)	(62)
	(1,523)	330	(1,194)
Financing activities:			
Issuance of long-term debt and common stock	**1,310**	50	629
Redemption of long-term debt	**(446)**	(393)	(687)
Repurchase of long-term debt	**(238)**	—	—
Short-term borrowings, net	**(340)**	(47)	291
Repurchase of common stock	**(16)**	(708)	(61)
Dividends on common stock and other	**(354)**	(370)	(375)
	(84)	(1,468)	(203)
Net Increase (Decrease) in Cash and Cash Equivalents	**$ (48)**	$ (13)	$ 59

Cash from Operating Activities

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

Cash from operations totaling $1.6 billion in 2008, increased $434 million from the comparable 2007 period. The operating cash flow comparison primarily reflects higher net income, after adjusting for non-cash and non-operating items (depreciation, depletion and amortization, deferred taxes and gains on sales of assets), and cash payments received related to our synfuel program hedges.

Cash from operations totaling $1.1 billion in 2007 decreased $331 million from the comparable 2006 period. The operating cash flow comparison primarily reflects a decrease in net income after adjusting for non-cash items (depreciation, depletion and amortization and deferred taxes) and gains on sales of businesses. The decrease was mostly driven by taxes attributable to our non-utility monetization program.

Cash from Investing Activities

Cash inflows associated with investing activities are primarily generated from the sale of assets, while cash outflows are primarily generated from plant and equipment expenditures. In any given year, we will look to realize cash from under-performing or non-strategic assets or matured fully valued assets. Capital spending within the utility business is primarily to maintain our generation and distribution infrastructure, comply with environmental regulations and gas pipeline replacements. Capital spending within our non-utility businesses is for ongoing maintenance and expansion. The balance of non-utility spending is for growth, which we manage very carefully. We look to make investments that meet strict criteria in terms of strategy, management skills, risks and returns. All new investments are analyzed for their rates of return and cash payback on a risk adjusted basis. We have been disciplined in how we deploy capital and will not make investments unless they meet our criteria. For new business lines, we initially invest based on research and analysis. We start with a limited investment, we evaluate results and either expand or exit the business based on those results. In any given year, the amount of growth capital will be determined by the underlying cash flows of the Company with a clear understanding of any potential impact on our credit ratings.

Net cash used for investing activities was approximately $1.5 billion in 2008, compared with cash from investing activities of $330 million in 2007. The change was primarily driven by our non-utility monetization program and final refund payments to our synfuel partners in 2008.

Net cash from investing activities increased $1.5 billion in 2007, due primarily to the sale of our Antrim shale gas exploration and production business and lower capital expenditures.

Cash from Financing Activities

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

Our strategy is to have a targeted debt portfolio blend of fixed and variable interest rates and maturity. We continually evaluate our leverage target, which is currently 50% to 52%, to ensure it is consistent with our objective to have a strong investment grade debt rating. We have completed a number of refinancings with the effect of extending the average maturity of our long-term debt and strengthening our balance sheet.

Net cash used for financing activities was $84 million in 2008, compared to net cash used of approximately $1.5 billion for the same period in 2007. The change was primarily attributable to increased proceeds from the issuance of long-term debt, net of debt redemptions and repurchases, and lower repurchases of common stock.

Net cash used for financing activities increased $1.3 billion in 2007 primarily related to the repurchase of common stock, a decrease in short-term borrowings and a lower level of long-term debt issuances, partially offset by lower debt redemptions.

Outlook

We expect cash flow from operations to increase over the long-term primarily due to improvements from higher earnings at our utilities. We may be impacted by the delayed collection of underrecoveries of our PSCR and GCR costs and electric and gas accounts receivable as a result of MPSC orders. Energy prices are likely to be a source of volatility with regard to working capital requirements for the foreseeable future. We are continuing our efforts to identify opportunities to improve cash flow through working capital initiatives and maintaining flexibility in the timing and extent of our long-term capital projects.

Recent distress in the financial markets has had an adverse impact on financial market activities, including extreme volatility in security prices and severely diminished liquidity and credit availability. Pursuant to the failures of large financial institutions, the credit situation rapidly evolved into a global crisis resulting in a number of international bank failures and declines in various stock indexes, and large reductions in the market value of equities and commodities worldwide. The crisis has led to increased volatility in the markets for both financial and physical assets, as the failures of large financial institutions resulted in sharply reduced trading volumes and activity. The effects of the credit situation will continue to be monitored.

We have experienced difficulties in accessing the commercial paper markets for short-term financing needs and an extended period of distress in the capital markets could have a negative impact on our liquidity in the future. Short-term borrowings, principally in the form of commercial paper, provide us with the liquidity needed on a daily basis. Our commercial paper program is supported by our unsecured credit facilities. Beginning late in the third quarter of 2008, access to the commercial paper markets was sharply reduced and, as a result, we drew against our unsecured credit lines to supplement other sources of funds to meet our short-term liquidity needs. We continue to access the long-term bond markets as evidenced by certain financings completed in the fourth quarter of 2008. Since December 31, 2008, we have benefited from substantially improved liquidity and pricing in the commercial paper market. As a result, we anticipate repayment of our credit facility draws during the first quarter of 2009.

Approximately $1.2 billion of our total short-term credit arrangements of $2.1 billion expire between June and December 2009, with the remainder expiring in October 2010. In anticipation of a significantly more challenging credit market, we expect to pursue the renewal of $975 million of our syndicated revolving credit facilities before their expiration in October. Given current conditions in the credit markets, we anticipate that the new facilities will vary significantly from our current facilities with respect to such items as bank participation, allocation levels, pricing and covenants. We are currently in discussions with our existing bank group and actively pursuing potential new candidates for inclusion, as we anticipate that a number of banks in our current bank group will elect not to participate in the renewal or will alter their commitment level. Initial indications are that pricing is likely to be significantly higher due to market-wide re-pricing of risk. Multi-year agreements are still possible, however, the recent trend in the marketplace is toward 364 day facilities. Several bi-lateral credit facilities totaling approximately $200 million will also expire in 2009 and we are evaluating the need for replacement.

Our benefit plans have not experienced any direct significant impact on liquidity or counterparty risk due to the turmoil in the financial markets. As a result of losses experienced in the financial markets, our benefit plan assets experienced negative returns for 2008, which will result in increased benefit costs and higher contributions in 2009 and future years than in the recent past or than originally planned.

We have assessed the implications of these factors on our current business and determined that there has not been a significant impact to our financial position and results of operations in 2008. While the impact of continued market volatility and turmoil in the credit markets cannot be predicted, we believe we have sufficient operating flexibility, cash resources and funding sources to maintain adequate amounts of liquidity and to meet our future operating cash and capital expenditure needs. However, virtually all of our businesses are capital intensive, or require access to capital, and the inability to access adequate capital could adversely impact earnings and cash flows.

See Notes 11 and 13 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

Contractual Obligations

The following table details our contractual obligations for debt redemptions, leases, purchase obligations and other long-term obligations as of December 31, 2008:

Contractual Obligations	Total	2009	2010-2011	2012-2013	2014 and Beyond
			(In millions)		
Long-term debt:					
Mortgage bonds, notes and other	$ 6,687	$ 220	$1,294	$ 671	$4,502
Securitization bonds	1,064	132	290	341	301
Trust preferred-linked securities	289	—	—	—	289
Capital lease obligations	91	15	26	18	32
Interest	6,104	484	884	722	4,014
Operating leases	238	36	57	46	99
Electric, gas, fuel, transportation and storage purchase obligations(1)	5,665	2,972	1,813	160	720
Other long-term obligations(2)(3)(4)	201	41	94	25	41
Total obligations	$20,339	$3,900	$4,458	$1,983	$9,998

(1) Excludes amounts associated with full requirements contracts where no stated minimum purchase volume is required.

(2) Includes liabilities for unrecognized tax benefits of $72 million.

(3) Excludes other long-term liabilities of $182 million not directly derived from contracts or other agreements.

(4) At December 31, 2008, we met the minimum pension funding levels required under the Employee Retirement Income Security Act of 1974 (ERISA) and the Pension Protection Act of 2006 for our defined benefit pension plans. We may contribute more than the minimum funding requirements for our pension plans and may also make contributions to our benefit plans and our postretirement benefit plans; however, these amounts are not included in the table above as such amounts are discretionary. Planned funding levels are disclosed in the Critical Accounting Estimates section of MD&A and in Note 18 of the Notes to Consolidated Financial Statements.

Credit Ratings

Credit ratings are intended to provide banks and capital market participants with a framework for comparing the credit quality of securities and are not a recommendation to buy, sell or hold securities. Management believes that our current credit ratings provide sufficient access to the capital markets. However, disruptions in the banking and capital markets not specifically related to us may affect our ability to access these funding sources or cause an increase in the return required by investors.

As part of the normal course of business, Detroit Edison, MichCon and various non-utility subsidiaries of the Company routinely enter into physical or financially settled contracts for the purchase and sale of electricity, natural gas, coal, capacity, storage and other energy-related products and services. Certain of these contracts contain provisions which allow the counterparties to request that the Company post cash or letters of credit in the event that the credit rating of DTE Energy is downgraded below investment grade. Certain of these contracts for Detroit Edison and MichCon contain similar provisions in the event that the credit rating of the particular utility is downgraded below investment grade. The amount of such collateral which could be requested fluctuates based upon commodity prices and the provisions and maturities of the underlying transactions and could be substantial. Also, upon a downgrade below investment grade, we could have restricted access to the commercial paper market and if the parent is downgraded below investment grade our non-utility businesses, especially the Energy Trading and Power and Industrial Projects segments, could be required to restrict operations due to a lack of available liquidity. While we currently do not anticipate such a downgrade, we cannot predict the outcome of current or future credit rating aviews. The followi table shows our credit rating as determined by three nationally recognized cre agencies. All rat are considered investment grade and affect the value of the related securities.

Entity	Description	dit Rating Agency Standar Poor'	Moody's Investors Service	itch atings
DTE Energy	Senior Unsecured Debt	BBB-	Baa2	BBB
	Commercial Paper	A-2	P-2	F2
Detroit Edison	Senior Secured Debt	A-	A3	A-
	Commercial Paper	A-1	P-2	F2
MichCon	Senior Secured Debt	BB]	A3	BBB+
	Commercial Paper	A-	P-2	F2

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepccounting principles require that management apply accounting policies and make estimates and assuions that affect rsults of operations and the amounts of assets and liabilities reported in the financial statents. Managementbelieves that the areas described below require significant judgment in the application of ounting policy a in making estimates and assumptions in matters that are inherently uncertain and thanay change in sbsequent periods. Additional discussion of these accounting policies can be found in theNos to Consolidate Financial Statements in Item 8 of this Report.

Regulation

A significant portion of our business is subject to regulation. Detroit Edison and MichCon currently meet the criteria of SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation.* Application of this standard 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 certain transactions that would have been treated as revenue or expense in non-regulated businesses. Future regulatory changes or changes in the competitive environment could result in discontinuing the application of SFAS No. 71 for some or all of our businesses. Management believes that currently available facts support the continued application of SFAS No. 71 and that all regulatory assets and liabilities are recoverable or refundable in the current rate environment. See Note 5 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

Derivatives and Hedging Activities

Risk management and trading activities are accounted for in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended and interpreted. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives are recorded at fair value and shown as Derivative Assets or Liabilities in the Consolidated Statements of Financial Position. Derivatives are measured at fair value, and changes in the fair value of the derivative instruments are recognized in earnings in the period of change, unless the derivative meets certain defined conditions and qualifies as an effective hedge. SFAS No. 133 also provides a scope exception for contracts that meet the normal purchases and normal sales criteria specified in the standard. The normal purchases and normal sales exception requires, among other things, physical delivery in quantities expected to be used or sold over a reasonable period in the normal course of business. Contracts that are designated as normal purchases and normal sales are not recorded at fair value. Essentially all of the commodity contracts entered into by Detroit Edison and MichCon meet the criteria specified for this exception.

Fair value is 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. The fair value of derivative contracts is determined from a combination of active quotes, published indexes and mathematical valuation models. We generally derive the pricing for our contracts from active quotes or external resources. Actively quoted indexes include exchange-traded positions such as the New York Mercantile Exchange and the Intercontinental Exchange, and over-the-counter positions for which broker quotes are available. For periods in which external market data is not readily observable, we estimate value using mathematical valuation models. Valuation models require various inputs and assumptions, including forward prices, volatility, interest rates, and exercise periods. For those inputs which are not observable, we use model-based extrapolation, proxy techniques or historical analysis to derive the required valuation inputs. We periodically update our policy and valuation methodologies for changes in market liquidity and other assumptions which may impact the estimated fair value of our derivative contracts. Liquidity and transparency in energy markets where fair value is evidenced by market quotes, current market transactions or other observable market information may require us to record gains or losses at inception of new derivative contracts.

The fair values we calculate for our derivatives may change significantly as inputs and assumptions are updated for new information. Actual cash returns realized on our derivatives may be different from the results we estimate using models. As fair value calculations are estimates based largely on commodity prices, we perform sensitivity analysis on the fair values of our forward contracts. See sensitivity analysis in the Fair Value section. See Notes 15 and 16 of the Notes to Consolidated Financial Statements in Item 8 of this report.

Allowance for Doubtful Accounts

We establish an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, economic conditions, age of receivables and other information. Higher customer bills due to increased electricity and gas prices, the lack of adequate levels of assistance for low-income customers and economic conditions have also contributed to the increase in past due receivables. As a result of these factors, our allowance for doubtful accounts increased in 2008 and 2007. We believe the allowance for doubtful accounts is based on reasonable estimates. As part of the 2005 gas rate order for MichCon, the MPSC provided for the establishment of an uncollectible accounts tracking mechanism that partially mitigates the impact associated with MichCon uncollectible expenses. Detroit Edison has requested a similar tracking mechanism in its rate request filed January 26, 2009. However, failure to make continued progress in collecting our past due receivables in light of volatile energy prices and deteriorating economic conditions would unfavorably affect operating results and cash flow.

Asset Impairments

Goodwill

Certain of our business units have goodwill resulting from purchase business combinations. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets,* each of our reporting units with goodwill is required to perform impairment tests annually or whenever events or circumstances indicate that the value of goodwill may be impaired. In performing these impairment tests, we estimate the reporting unit's fair value using standard valuation techniques, including techniques which use estimates of projected future results and cash flows to be generated by the reporting unit. Such techniques generally include a terminal value that utilizes an earnings multiple approach, which incorporates the current market values of comparable entities. These cash flow valuations involve a number of estimates that require broad assumptions and significant judgment by management regarding future performance. To the extent projected results or cash flows are revised downward, the reporting unit may be required to write down all or a portion of its goodwill, which would adversely impact our earnings.

As of December 31, 2008, our goodwill totaled $2 billion with 97 percent of this amount allocated to our utility reporting units. The value of the utility reporting units may be significantly impacted by rate orders and the regulatory environment.

We performed our annual impairment test on October 1, 2008 and determined that the estimated fair value of our reporting units exceeded their carrying value and no impairment existed. During the fourth quarter of 2008, the closing price of DTE Energy's stock declined by approximately 11% and at December 31, 2008 was approximately 3 percent below its book value per share. The market price of an individual equity security (and therefore the market capitalization of an entity with publicly traded equity securities) may not be representative of the fair value of the entity as a whole. Substantial value may arise from the ability to take advantage of synergies and other benefits that flow from control over an entity. An acquirer is often willing to pay more for equity securities that give it a controlling interest (i.e. a control premium) than an investor would pay for a number of equity securities representing less than a controlling interest. That control premium may cause the fair value of the entity to exceed its market capitalization. In assessing whether the recent modest decline in the trading price of DTE Energy's common stock below its book value was an indication of impairment, we considered the following factors: (1) the relatively short duration and modest decline in the trading price of DTE Energy's common stock; (2) the impact of the national and regional recession on DTE Energy's future operating results and anticipated cash flows; (3) the favorable results of the recently performed annual impairment test and (4) a comparison of book value to the traded market price, including the impact of a control premium. The implied control premium of approximately 3 percent needed to equate DTE Energy's market price to its book value was below the low end of the range of control premiums observed in recent transactions. As a result of this assessment, we determined that the decline in market price did not represent a trigger event at December 31, 2008 and an updated impairment test was not performed.

We will continue to monitor our estimates and assumptions regarding future cash flows. While we believe our assumptions are reasonable, actual results may differ from our projections.

Long-Lived Assets

We evaluate the carrying value of our long-lived assets, excluding goodwill, when circumstances indicate that the carrying value of those assets may not be recoverable. Conditions that could have an adverse impact on the cash flows and fair value of the long-lived assets are deteriorating business climate, condition of the asset, or plans to dispose of the asset before the end of its useful life. The review of long-lived assets for impairment requires significant assumptions about operating strategies and estimates of future cash flows, which require assessments of current and projected market conditions. An impairment evaluation is based on an undiscounted cash flow analysis at the lowest level for which independent cash flows of long-lived assets can be identified from other groups of assets and liabilities. Impairment may occur when the carrying value of the asset exceeds the future undiscounted cash flows. When the undiscounted cash flow analysis indicates a long-lived asset is not recoverable, the amount of the impairment loss is determined by measuring the excess of the long-lived asset over its fair value. An impairment would require us to reduce both the long-lived asset and current period earnings by the amount of the impairment, which would adversely impact our earnings. See Note 4 of Notes to Consolidated Financial Statements in Item 8 of this Report.

Our Power and Industrial Projects segment has long-term contracts with General Motors Corporation (GM) and Ford Motor Company (Ford) to provide onsite energy services at certain of their facilities. At December 31, 2008, the book value of long-lived assets used in the servicing of these facilities was approximately $85 million. In addition, we have an equity investment of approximately $40 million in an entity which provides similar services to Chrysler LLC (Chrysler). These companies are in financial distress, with GM and Chrysler recently receiving loans from the U.S. Government to provide them with the working capital necessary to continue to operate in the short term. We consider the recent announcements by these companies as an indication of possible impairment due to a significant adverse change in the business climate that could affect the value of our long-lived assets as described in SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" and have performed an impairment test on these assets. Based on our current undiscounted cash flow projections we have determined that we do not have an impairment as of December 31, 2008. We have also determined that we do not have an other than temporary decline in our Chrysler-related equity investment as described in APB 18, "The Equity Method of Accounting for Investments in Common Stock." As the circumstances surrounding the long-term viability of these entities are dynamic and uncertain, we continue to monitor developments as they occur and will update our impairment analyses accordingly.

Pension and Postretirement Costs

We sponsor defined benefit pension plans and postretirement benefit plans for substantially all of the employees of the Company. The measurement of the plan obligations and cost of providing benefits under these plans involve various factors, including numerous assumptions and accounting elections. When determining the various assumptions that are required, we consider historical information as well as future expectations. The benefit costs are affected by, among other things, the actual rate of return on plan assets, the long-term expected return on plan assets, the discount rate applied to benefit obligations, the incidence of mortality, the expected remaining service period of plan participants, level of compensation and rate of compensation increases, employee age, length of service, the anticipated rate of increase of health care costs and the level of benefits provided to employees and retirees. Pension and postretirement benefit costs attributed to the segments are included with labor costs and ultimately allocated to projects within the segments, some of which are capitalized.

We had pension costs for pension plans of $24 million in 2008, $76 million in 2007, and $134 million in 2006. Postretirement benefits costs for all plans were $142 million in 2008, $188 million in 2007 and $197 million in 2006. Pension and postretirement benefits costs for 2008 are calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on our plan assets of 8.75%. In developing our expected long-term rate of return assumption, we evaluated asset class risk and return expectations, as well as inflation assumptions. Projected returns are based on broad equity, bond and other markets. Our 2009 expected long-term rate of return on plan assets is based on an asset allocation assumption utilizing active investment management of 55% in equity markets, 20% in fixed income markets, and 25% invested in other assets. Because of market volatility, we periodically review our asset allocation and rebalance our portfolio when considered appropriate. Given market conditions, we believe that 8.75% is a reasonable long-term rate of return on our plan assets for 2009. We will continue to evaluate our actuarial assumptions, including our expected rate of return, at least annually.

We calculate the expected return on pension and other postretirement benefit plan assets by multiplying the expected return on plan assets by the market-related value (MRV) of plan assets at the beginning of the year, taking into consideration anticipated contributions and benefit payments that are to be made during the year. SFAS No. 87, "Employers' Accounting for Pensions" (SFAS 87) and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" allow the MRV of plan assets to be either fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years. For our pension plans, we use a calculated value when determining the MRV of the pension plan assets and recognize changes in fair value over a three-year period. Accordingly, the future value of assets will be impacted as previously deferred gains or losses are recorded. Volatile financial markets contributed to our investment performance resulting in unrecognized net losses. As of December 31, 2008, we had $1.1 billion of cumulative losses that remain to be recognized in the calculation of the MRV of pension assets. For our postretirement benefit plans, we use fair value when determining the MRV of postretirement benefit plan assets, therefore all investment losses and gains have been recognized in the calculation of MRV for these plans.

The discount rate that we utilize for determining future pension and postretirement benefit obligations is based on a yield curve approach and a review of bonds that receive one of the two highest ratings given by a recognized rating agency. The yield curve approach matches projected plan pension and postretirement benefit payment streams with bond portfolios reflecting actual liability duration unique to our plans. The discount rate determined on this basis increased from 6.5% at December 31, 2007 to 6.9% at December 31, 2008. Due to the combination of recent company contributions, losses on plan assets due to negative financial market performance and higher discount rates, we estimate that our 2009 total pension costs will approximate $57 million compared to $24 million in 2008 and our 2009 postretirement benefit costs will approximate $208 million compared to $142 million in 2008. Future actual pension and postretirement benefit costs will depend on future investment performance, changes in future discount rates and various other factors related to plan design. The pension cost tracking mechanism, implemented in November 2004, that provided for recovery or refunding of pension costs above or below amounts reflected in Detroit Edison's base rates, at the request of Detroit Edison was not reauthorized by the MPSC in its rate order effective January 1, 2009. In April 2005, the MPSC approved the deferral of the non-capitalized portion of MichCon's negative pension expense. MichCon will record a regulatory liability for any negative pension costs, as determined under generally accepted accounting principles.

Lowering the expected long-term rate of return on our plan assets by one-percentage-point would have increased our 2008 pension costs by approximately $39 million. Lowering the discount rate and the salary increase assumptions by one-percentage-point would have increased our 2008 pension costs by approximately $37 million. Lowering the health care cost trend assumptions by one-percentage-point would have decreased our postretirement benefit service and interest costs for 2008 by approximately $26 million.

At December 31, 2006, we adopted SFAS No. 158 and recognized the underfunded status of our pension and other postretirement plans. The impact of the adoption of SFAS No. 158 was an increase in pension and postretirement benefit liabilities of approximately $1.3 billion in 2006. We requested and received agreement from the MPSC to record the additional liability amounts for the Detroit Edison and MichCon benefit plans on the Statement of Financial Position as a regulatory asset. As a result, regulatory assets were increased by approximately $1.2 billion. The remainder of the increase in pension and postretirement benefit liabilities is included in accumulated other comprehensive loss, net of tax. In 2008, as required by SFAS 158, we changed the measurement date of our pension and postretirement benefit plans from November 30 to December 31. As a result we recognized adjustments of $17 million ($9 million after-tax) and $4 million to retained earnings and regulatory liabilities, respectively, which represents approximately one month of pension and other postretirement benefit cost for the period from December 1, 2007 to December 31, 2008.

The market value of our pension and postretirement benefit plan assets has been affected in a negative manner by the financial markets. The value of our plan assets was $3.8 billion at November 30, 2007 and $2.8 billion at December 31, 2008. At December 31, 2008 our pension plans were underfunded by $877 million and our other postretirement benefit plans were underfunded by $1.4 billion, reflected in noncurrent assets, current liabilities, and noncurrent liabilities, respectively. The decline relative to 2007 funding levels results from negative investment performance returns in 2008.

Pension and postretirement costs and pension cash funding requirements may increase in future years without substantial returns in the financial markets. We made contributions to our pension plans of $100 million and $150 million in 2008 and 2007, respectively. Also, we contributed $50 million to our pension plans in January 2009. At the discretion of management, consistent with the Pension Protection Act of 2006, and depending upon financial market conditions, we anticipate making up to a $250 million contribution to our pension plans in 2009 and up to $1.1 billion over the next five years. We made postretirement benefit plan contributions of $116 million and $76 million in 2008 and 2007, respectively. In January 2009, we contributed $40 million to our postretirement benefit plans. We are required by orders issued by the MPSC to make postretirement benefit contributions at least equal to the amounts included in Detroit Edison's and MichCon's base rates. As a result, we expect to make up to a $130 million contribution to our postretirement plans in 2009 and, subject to MPSC funding requirements, up to $750 million over the next five years.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act was signed into law. This Act provides for a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the benefit established by law. The effects of the subsidy on the measurement of net periodic postretirement benefit costs reduced costs by $14 million in 2008, $16 million in 2007, and $17 million in 2006.

See Note 18 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

Legal Reserves

We are involved in various legal proceedings, claims and litigation arising in the ordinary course of business. We regularly assess our liabilities and contingencies in connection with asserted or potential matters, and establish reserves when appropriate. Legal reserves are based upon management's assessment of pending and threatened legal proceedings and claims against us.

Insured and Uninsured Risks

Our comprehensive insurance program provides coverage for various types of risks. Our insurance policies cover risk of loss including property damage, general liability, workers' compensation, auto liability, and directors' and officers' liability. Under our risk management policy, we self-insure portions of certain risks up to specified limits, depending on the type of exposure. The maximum self-insured retention for various risks is as follows: property damage — $10 million, general liability — $7 million, workers' compensation — $9 million, and auto liability — $7 million. We have an actuarially determined estimate of our incurred but not reported (IBNR) liability prepared annually and we adjust our reserves for self-insured risks as appropriate. As of December 31, 2008, this IBNR liability was approximately $39 million.

Accounting for Tax Obligations

We are required to make judgments regarding the potential tax effects of various financial transactions and results of operations in order to estimate our obligations to taxing authorities. We account for uncertain income tax positions using a benefit recognition model with a two-step approach, a more-likely-than-not recognition criterion and a measurement attribute that measures the position as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement in accordance with FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*. If the benefit does not meet the more likely than not criteria for being sustained on its technical merits, no benefit will be recorded. Uncertain tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold. We also have non-income tax obligations related to property, sales and use and employment-related taxes and ongoing appeals related to these tax matters that are outside the scope of FIN 48 and accounted for under SFAS No. 5 and FASB Statement of Financial Accounting Concepts No. 6.

Accounting for tax obligations requires judgments, including assessing whether tax benefits are more likely than not to be sustained, and estimating reserves for potential adverse outcomes regarding tax positions that have been taken. We also assess our ability to utilize tax attributes, including those in the form of carryforwards, for which the benefits have already been reflected in the financial statements. We do not record valuation allowances for deferred tax assets related to capital losses that we believe will be realized in future periods. While we believe the resulting tax reserve balances as of December 31, 2008 and December 31, 2007 are appropriately accounted for in accordance with FIN 48, SFAS No. 5, SFAS No. 109 and FASB Statement of Financial Accounting Concepts No. 6, as applicable, the ultimate outcome of such matters could result in favorable or unfavorable adjustments to our consolidated financial statements and such adjustments could be material. See Note 8 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

ENVIRONMENTAL MATTERS

Environmental investigation and remediation liabilities are based upon estimates with respect to the number of sites for which DTE or its subsidiaries, including Detroit Edison and MichCon are responsible, the scope and cost of work to be performed at each site, the portion of costs that will be shared with other parties, the time of the remediation work, changes in technology, regulations and the requirements of local governmental authorities. These matters, if resolved in a manner different from the estimates, could have a material effect on our results of operation and financial position, to the extent the costs are not recovered through the base rates set for our utilities. See Note 17 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 2 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

FAIR VALUE

SFAS No. 157 — Fair Value Measurements

Effective January 1, 2008, we adopted SFAS No. 157. The cumulative effect adjustment upon adoption of SFAS No. 157 represented a $4 million increase to the January 1, 2008 balance of retained earnings. As permitted by FASB Staff Position FAS 157-2, we have deferred the effective date of SFAS No. 157 as it pertains to non-financial assets and liabilities to January 1, 2009. See Note 15 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

Derivative Accounting

The accounting standards for determining whether a contract meets the criteria for derivative accounting are numerous and complex. Moreover, significant judgment is required to determine whether a contract requires derivative accounting, and similar contracts can sometimes be accounted for differently. If a contract is accounted for as a derivative instrument, it is recorded in the financial statements as Derivative assets or liabilities, at the fair value of the contract. The recorded fair value of the contract is then adjusted at each reporting date, in the Consolidated Statements of Operations, to reflect any change in the fair value of the contract, a practice known as mark-to-market (MTM) accounting. Changes in the fair value of a designated derivative that is highly effective as a cash flow hedge are recorded as a component of Accumulated other comprehensive income, net of taxes, until the hedged item affects income. These amounts are subsequently reclassified into earnings as a component of the value of the forecasted transaction, in the same period as the forecasted transaction affects earnings. The ineffective portion of the fair value changes is recognized in the Consolidated Statements of Operations immediately.

Fair value is 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. The fair value of derivative contracts are determined from a combination of quoted market prices, published indexes and mathematical valuation models. Where possible, we derive the pricing for our contracts from active quotes or external resources. Actively quoted indexes include exchange-traded positions such as the New York Mercantile Exchange and the Intercontinental Exchange, and over-the-counter positions for which broker quotes are available. For periods or locations in which external market data is not readily observable, we estimate value using mathematical valuation models. Valuation models require various inputs, including forward prices, volatility, interest rates and exercise periods. For those inputs which are not observable, we use model-based extrapolation, proxy techniques or historical analysis to derive the required valuation inputs. We periodically update our policy and valuation methodologies for changes in market liquidity and other assumptions which may impact the estimated fair value of our derivative contracts. Liquidity and transparency in energy markets where fair value is evidenced by market quotes, current market transactions or other observable market information may require us to record gains or losses at inception of new derivative contracts. Our credit risk and the credit risk of our counterparties is incorporated in the valuation of assets and liabilities through the use of credit reserves, the impact of which is immaterial for the year ended December 31, 2008.

Contracts we typically classify as derivative instruments include power, gas, certain coal and oil forwards, futures, options and swaps, and foreign currency contracts. Items we do not generally account for as derivatives include proprietary gas inventory, certain gas storage and transportation arrangements, and gas and oil reserves.

We manage our MTM risk on a portfolio basis based upon the delivery period of our contracts and the individual components of the risks within each contract. Accordingly, we record and manage the energy purchase and sale obligations under our contracts in separate components based on the commodity (e.g. electricity or gas), the product (e.g. electricity for delivery during peak or off-peak hours), the delivery location (e.g. by region), the risk profile (e.g. forward or option), and the delivery period (e.g. by month and year).

The subsequent tables contain the following four categories represented by their operating characteristics and key risks:

- Economic Hedges — Represents derivative activity associated with assets owned and contracted by DTE Energy, including forward sales of gas production and trades associated with owned transportation and storage capacity. Changes in the value of derivatives in this category economically offset changes in the value of underlying non-derivative positions, which do not qualify for fair value accounting. The difference in accounting treatment of derivatives in this category and the underlying non-derivative positions can result in significant earnings volatility.
- Structured Contracts — Represents derivative activity transacted by originating substantially hedged positions with wholesale energy marketers, producers, end users, utilities, retail aggregators and alternative energy suppliers.
- Proprietary Trading — Represents derivative activity transacted with the intent of taking a view, capturing market price changes, or putting capital at risk. This activity is speculative in nature as opposed to hedging an existing exposure.
- Other — Primarily represents derivative activity associated with our Unconventional Gas reserves. A portion of the price risk associated with anticipated production from the Barnett natural gas reserves has been mitigated through 2010. Changes in the value of the hedges are recorded as Derivative assets or liabilities, with an offset in Other comprehensive income to the extent that the hedges are deemed effective. The amounts shown in the following tables exclude the value of the underlying gas reserves including changes therein.

As a result of adherence to generally accepted accounting principles, the tables below do not include the expected earnings impacts of certain non-derivative gas storage, transportation and power contracts. Consequently, gains and losses from these positions may not match with the related physical and financial hedging instruments in some reporting periods, resulting in volatility in DTE Energy's reported period-by-period earnings; however, the financial impact of this timing difference will reverse at the time of physical delivery and/or settlement.

The following tables provide details on changes in our MTM net asset (or liability) position during 2008:

	Economic Hedges	Structured Contracts	Proprietary Trading	Other	Total
			(In millions)		
MTM at December 31, 2007	$ 4	$(365)	$ 8	$ 2	$(351)
Reclassify to realized upon settlement	(17)	47	11	(2)	39
Changes in fair value recorded to income	34	89	20	1	144
Changes in fair value recorded in regulatory liabilities	—	—	—	2	2
Amortization of option premiums	—	(1)	(1)	—	(2)
Amounts recorded to income	17	135	30	1	183
Cumulative effect adjustment to initially apply SFAS No. 157, pre-tax	—	7	—	—	7
Amounts recorded in other comprehensive income	—	—	—	6	6
Change in collateral held by (for) others	(3)	(7)	(6)	—	(16)
Option premiums paid and other	—	8	(10)	—	(2)
MTM at December 31, 2008	$ 18	$(222)	$ 22	$ 9	$(173)

A substantial portion of the Company's price risk related to its Antrim shale gas exploration and production business was mitigated by financial contracts that hedged our price risk exposure through 2013. The contracts were retained when the Antrim business was sold and offsetting financial contracts were put into place to effectively settle these positions. The contracts will require payments through 2013. These contracts represent a significant portion of the above net mark-to-market liability.

The following table provides a current and noncurrent analysis of Derivative assets and liabilities, as reflected on the Consolidated Statements of Financial Position as of December 31, 2008. Amounts that relate to contracts that become due within twelve months are classified as current and all remaining amounts are classified as noncurrent.

	Economic Hedges	Structured Contracts	Proprietary Trading	Eliminations	Other	Assets (Liabilities)
			(In millions)			
Current assets	$ 36	$ 165	$116	$ (9)	$ 8	$ 316
Noncurrent assets	8	129	3	(1)	1	140
Total MTM assets	44	294	119	(10)	9	456
Current liabilities	(15)	(209)	(70)	9	—	(285)
Noncurrent liabilities	(11)	(307)	(27)	1	—	(344)
Total MTM liabilities	(26)	(516)	(97)	10	—	(629)
Total MTM net assets (liabilities)	$ 18	$(222)	$ 22	$ —	$ 9	$(173)

The table below shows the maturity of our MTM positions:

Source of Fair Value	2009	2010	2011	2012 and Beyond	Total Fair Value
			(In millions)		
Economic Hedges	$ 21	$ (7)	$ (2)	$ 6	$ 18
Structured Contracts	(45)	(64)	(44)	(69)	(222)
Proprietary Trading	46	(24)	—	—	22
Other	9	—	—	—	9
Total	$ 31	$(95)	$(46)	$(63)	$(173)

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Price Risk

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

The Electric and Gas utility businesses have risks in conjunction with the anticipated purchases of coal, natural gas, uranium, electricity, and base metals to meet their service obligations. Further, changes in the price of electricity can impact the level of exposure of Customer Choice programs and uncollectible expenses at the Electric Utility. In addition, changes in the price of natural gas can impact the valuation of lost gas, storage sales revenue and uncollectible expenses at the Gas Utility. However, the Company does not bear significant exposure to earnings risk as such changes are included in regulatory rate-recovery mechanisms. Regulatory rate-recovery occurs in the form of PSCR and GCR mechanisms (see Note 1 of the Notes to Consolidated Financial Statements in Item 8 of this Report) and tracking mechanisms to mitigate some losses from customer migration due to electric Customer Choice programs and uncollectible accounts receivable at MichCon. The Company is exposed to short-term cash flow or liquidity risk as a result of the time differential between actual cash settlements and regulatory rate recovery.

Our Power and Industrial Projects business segment is subject to crude oil, electricity, natural gas, coal and coal-based product price risk and other risks associated with the weakened U.S. economy including constricted capital and credit markets. To the extent that commodity price risk has not been mitigated through the use of long-term contracts, we manage this exposure using forward energy, capacity and futures contracts.

Our Unconventional Gas Production business segment has exposure to natural gas and, to a lesser extent, crude oil price fluctuations. These commodity price fluctuations can impact both current year earnings and reserve valuations. To manage this exposure we may use forward energy and futures contracts.

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

Our Gas Midstream business segment has limited exposure to natural gas price fluctuations. The Gas Midstream business unit manages its exposure through the sale of long-term storage and transportation contracts.

Credit Risk

Bankruptcies

We purchase and sell electricity, gas, coal, coke and other energy products from and to numerous companies operating in the steel, automotive, energy, retail and other industries. Certain of our customers have filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. We regularly review contingent matters relating to these customers and our purchase and sale contracts and we record provisions for amounts considered at risk of probable loss. We believe our previously accrued amounts are adequate for probable loss. The final resolution of these matters may have a material effect on our financial statements.

Our utilities and certain non-utility businesses provide services to the domestic automotive industry, including GM, Ford and Chrysler and many of their vendors and suppliers. GM and Chrysler have recently received loans from the U.S. Government to provide them with the working capital necessary to continue to operate in the short term. In February 2009, GM and Chrysler submitted viability plans to the U.S. Government indicating that additional loans were necessary to continue operations in the short term. Further plant closures, bankruptcies or a federal government mandated restructuring program could have a significant impact on our results, particularly in our Electric Utility and Power and Industrial Projects segments. As the circumstances surrounding the viability of these entities are dynamic and uncertain, we continue to monitor developments as they occur.

Other

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

Trading Activities

We are exposed to credit risk through trading activities. Credit risk is the potential loss that may result if our trading counterparties fail to meet their contractual obligations. We utilize both external and internally generated credit assessments when determining the credit quality of our trading counterparties. The following table displays the credit quality of our trading counterparties as of December 31, 2008:

	Credit Exposure before Cash Collateral	Cash Collateral	Net Credit Exposure
		(In millions)	
Investment Grade(1)			
A- and Greater	$314	$(14)	$300
BBB+ and BBB	253	—	253
BBB-	47	—	47
Total Investment Grade	614	(14)	600
Non-investment grade(2)	25	(1)	24
Internally Rated — investment grade(3)	206	(2)	204
Internally Rated — non-investment grade(4)	28	(4)	24
Total	$873	$(21)	$852

(1) This category includes counterparties with minimum credit ratings of Baa3 assigned by Moody's Investor Service (Moody's) and BBB- assigned by Standard & Poor's Rating Group (Standard & Poor's). The five largest counterparty exposures combined for this category represented approximately 22 percent of the total gross credit exposure.

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

(3) This category includes counterparties that have not been rated by Moody's or Standard & Poor's, but are considered investment grade based on DTE Energy's evaluation of the counterparty's creditworthiness. The five largest counterparty exposures combined for this category represented approximately 17 percent of the total gross credit exposure.

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

Interest Rate Risk

DTE Energy is subject to interest rate risk in connection with the issuance of debt and preferred securities. In order to manage interest costs, we may use treasury locks and interest rate swap agreements. Our exposure to interest rate risk arises primarily from changes in U.S. Treasury rates, commercial paper rates and London Inter-Bank Offered Rates (LIBOR). As of December 31, 2008, we had a floating rate debt-to-total debt ratio of approximately 12% (excluding securitized debt).

Foreign Currency Risk

We have foreign currency exchange risk arising from market price fluctuations associated with fixed priced contracts. These contracts are denominated in Canadian dollars and are primarily for the purchase and sale of power as well as for long-term transportation capacity. To limit our exposure to foreign currency fluctuations, we have entered into a series of currency forward contracts through January 2013. Additionally, we may enter into fair value currency hedges to mitigate changes in the value of contracts or loans.

Summary of Sensitivity Analysis

We performed a sensitivity analysis on the fair values of our commodity contracts, long-term debt instruments and foreign currency forward contracts. The sensitivity analysis involved increasing and decreasing forward rates at December 31, 2008 by a hypothetical 10% and calculating the resulting change in the fair values.

The results of the sensitivity analysis calculations follow:

Activity	Assuming a 10% increase in rates	Assuming a 10% decrease in rates	Change in the fair value of
		(In millions)	
Coal Contracts	$ 1	$ (1)	Commodity contracts
Gas Contracts	$ (13)	$ 13	Commodity contracts
Oil Contracts	$ 1	$ (1)	Commodity contracts
Power Contracts	$ 3	$ (2)	Commodity contracts
Interest Rate Risk	$(317)	$346	Long-term debt
Foreign Currency Risk	$ 5	$ (5)	Forward contracts
Discount Rates	$ 1	$ (1)	Commodity contracts

Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements and schedules are included herein.

Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Management of the Company carried out an evaluation, under the supervision and with the participation of DTE Energy's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2008, which is the end of the period covered by this report. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that such controls and procedures are effective in providing reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Due to the inherent limitations in the effectiveness of any disclosure controls and procedures, management cannot provide absolute assurance that the objectives of its disclosure controls and procedures will be attained.

(b) Management's report on internal control over financial reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of the effectiveness to future periods are subject to the risks that a control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*. Based on our assessment, management believes that, as of December 31, 2008, the Company's internal control over financial reporting was effective based on those criteria.

The Company's independent registered public accounting firm that audited the financial statements included in this annual report has issued an attestation report on the Company's internal control over financial reporting.

(c) Changes in internal control over financial reporting

There have been no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of DTE Energy Company:

We have audited the consolidated statements of financial position of DTE Energy Company and subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, cash flows, and changes in shareholders' equity and comprehensive income for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 present fairly, in all material respects, the financial position of DTE Energy Company and subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements of the Company taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 8 to the consolidated financial statements, in connection with the required adoption of a new accounting standard, the Company changed its method of accounting for uncertainty in income taxes on January 1, 2007. As discussed in Notes 18 and 19 to the consolidated financial statements, in connection with the required adoption of new accounting standards, in 2006 the Company changed its method of accounting for defined benefit pension and other postretirement plans and share based payments, respectively.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Detroit, Michigan
February 27, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of DTE Energy Company:

We have audited the internal control over financial reporting of DTE Energy Company and subsidiaries (the "Company") as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2008 of the Company and our report dated February 27, 2009 expressed an unqualified opinion on those consolidated financial statements and financial statement schedules.

/s/ DELOITTE & TOUCHE LLP

Detroit, Michigan
February 27, 2009

DTE ENERGY COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31		
	2008	**2007**	**2006**
	(In millions, Except per share amounts)		
Operating Revenues	**$9,329**	$8,475	$8,157
Operating Expenses			
Fuel, purchased power and gas	**4,306**	3,552	3,047
Operation and maintenance	**2,694**	2,892	2,677
Depreciation, depletion and amortization	**901**	932	990
Taxes other than income	**304**	357	309
Gain on sale of non-utility business	**(128)**	(900)	—
Other asset (gains) and losses, reserves and impairments, net	**(11)**	37	67
	8,066	6,870	7,090
Operating Income	**1,263**	1,605	1,067
Other (Income) and Deductions			
Interest expense	**503**	533	525
Interest income	**(19)**	(25)	(26)
Other income	**(104)**	(93)	(61)
Other expenses	**64**	35	93
	444	450	531
Income Before Income Taxes and Minority Interest	**819**	1,155	536
Income Tax Provision	**288**	364	146
Minority Interest	**5**	4	1
Income from Continuing Operations	**526**	787	389
Discontinued Operations			
Income (Loss) from discontinued operations, net of tax	**22**	(4)	(208)
Minority interest in discontinued operations	**2**	(188)	(251)
	20	184	43
Cumulative Effect of Accounting Changes, net of tax	**—**	—	1
Net Income	**$ 546**	$ 971	$ 433
Basic Earnings per Common Share			
Income from continuing operations	**$ 3.24**	$ 4.64	$ 2.19
Discontinued operations	**.13**	1.09	.24
Cumulative effect of accounting changes	**—**	—	.01
Total	**$ 3.37**	$ 5.73	$ 2.44
Diluted Earnings per Common Share			
Income from continuing operations	**$ 3.23**	$ 4.62	$ 2.18
Discontinued operations	**.13**	1.08	.24
Cumulative effect of accounting changes	**—**	—	.01
Total	**$ 3.36**	$ 5.70	$ 2.43
Weighted Average Common Shares Outstanding			
Basic	**162**	169	177
Diluted	**163**	170	178
Dividends Declared per Common Share	**$ 2.12**	$ 2.12	$2.075

See Notes to Consolidated Financial Statements

DTE ENERGY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31		
	2008	2007	2006
		(In millions)	
Operating Activities			
Net income	**$ 546**	$ 971	$ 433
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation, depletion and amortization	**899**	926	1,014
Deferred income taxes	**348**	144	28
Gain on sale of non-utility business	**(128)**	(900)	—
Other asset (gains), losses and reserves, net	**(4)**	(9)	(11)
Gain on sale of interests in synfuel projects	**(31)**	(248)	(38)
Impairment of synfuel projects	**—**	4	77
Partners' share of synfuel project gains (losses)	**2**	(188)	(251)
Contributions from synfuel partners	**14**	229	197
Cumulative effect of accounting changes	**—**	—	(1)
Changes in assets and liabilities, exclusive of changes shown separately (Note 1)	**(87)**	196	8
Net cash from operating activities	**1,559**	1,125	1,456
Investing Activities			
Plant and equipment expenditures — utility	**(1,183)**	(1,035)	(1,126)
Plant and equipment expenditures — non-utility	**(190)**	(264)	(277)
Acquisitions, net of cash acquired	**—**	—	(42)
Proceeds from sale of interests in synfuel projects	**84**	447	246
Refunds to synfuel partners	**(387)**	(115)	—
Proceeds from sale of non-utility business	**253**	1,262	—
Proceeds from sale of other assets, net	**25**	85	67
Restricted cash	**54**	6	(21)
Proceeds from sale of nuclear decommissioning trust fund assets	**232**	286	253
Investment in nuclear decommissioning trust funds	**(255)**	(323)	(284)
Other investments	**(156)**	(19)	(10)
Net cash from (used) for investing activities	**(1,523)**	330	(1,194)
Financing Activities			
Issuance of long-term debt	**1,310**	50	612
Redemption of long-term debt	**(446)**	(393)	(687)
Repurchase of long-term debt	**(238)**	—	—
Short-term borrowings, net	**(340)**	(47)	291
Issuance of common stock	**—**	—	17
Repurchase of common stock	**(16)**	(708)	(61)
Dividends on common stock	**(344)**	(364)	(365)
Other	**(10)**	(6)	(10)
Net cash used for financing activities	**(84)**	(1,468)	(203)
Net Increase (Decrease) in Cash and Cash Equivalents	**(48)**	(13)	59
Cash and Cash Equivalents Reclassified (to) from Assets Held for Sale	**11**	(11)	—
Cash and Cash Equivalents at Beginning of Period	**123**	147	88
Cash and Cash Equivalents at End of Period	**$ 86**	$ 123	$ 147

See Notes to Consolidated Financial Statements

DTE ENERGY COMPANY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31 2008	December 31 2007
	(In millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 86**	$ 123
Restricted cash	**86**	140
Accounts receivable (less allowance for doubtful accounts of $265 and $182, respectively)		
Customer	**1,666**	1,658
Other	**166**	514
Accrued power and gas supply cost recovery revenue	**22**	76
Inventories		
Fuel and gas	**333**	429
Materials and supplies	**206**	204
Deferred income taxes	**227**	387
Derivative assets	**316**	181
Other	**220**	196
Current assets held for sale	**—**	83
	3,328	3,991
Investments		
Nuclear decommissioning trust funds	**685**	824
Other	**595**	446
	1,280	1,270
Property		
Property, plant and equipment	**20,065**	18,809
Less accumulated depreciation and depletion	**(7,834)**	(7,401)
	12,231	11,408
Other Assets		
Goodwill	**2,037**	2,037
Regulatory assets	**4,231**	2,786
Securitized regulatory assets	**1,001**	1,124
Intangible assets	**70**	25
Notes receivable	**115**	87
Derivative assets	**140**	199
Prepaid pension assets	**—**	152
Other	**157**	116
Noncurrent assets held for sale	**—**	547
	7,751	7,073
Total Assets	**$24,590**	$23,742

See Notes to Consolidated Financial Statements

DTE ENERGY COMPANY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31 2008	December 31 2007
	(In millions, except shares)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 899**	$ 1,189
Accrued interest	**119**	112
Dividends payable	**86**	87
Short-term borrowings	**744**	1,084
Current portion long-term debt, including capital leases	**362**	454
Derivative liabilities	**285**	281
Deferred gains and reserves	**3**	400
Other	**515**	566
Current liabilities associated with assets held for sale	**—**	48
	3,013	4,221
Long-Term Debt (net of current portion)		
Mortgage bonds, notes and other	**6,458**	5,576
Securitization bonds	**932**	1,065
Trust preferred-linked securities	**289**	289
Capital lease obligations	**62**	41
	7,741	6,971
Other Liabilities		
Deferred income taxes	**1,958**	1,824
Regulatory liabilities	**1,202**	1,168
Asset retirement obligations	**1,340**	1,277
Unamortized investment tax credit	**96**	108
Derivative liabilities	**344**	450
Liabilities from transportation and storage contracts	**111**	126
Accrued pension liability	**871**	68
Accrued postretirement liability	**1,434**	1,094
Nuclear decommissioning	**114**	134
Other	**328**	318
Noncurrent liabilities associated with assets held for sale	**—**	82
	7,798	6,649
Commitments and Contingencies (Notes 5, 6, and 17)		
Minority Interest	**43**	48
Shareholders' Equity		
Common stock, without par value, 400,000,000 shares authorized, 163,019,596 and 163,232,095 shares issued and outstanding, respectively	**3,175**	3,176
Retained earnings	**2,985**	2,790
Accumulated other comprehensive loss	**(165)**	(113)
	5,995	5,853
Total Liabilities and Shareholders' Equity	**$24,590**	$23,742

See Notes to Consolidated Financial Statements

DTE ENERGY COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Stock				
	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Dollars in millions, shares in thousands)				
Balance, December 31, 2005	177,814	$3,483	$2,557	$(271)	$5,769
Net income	—	—	433	—	433
Issuance of new shares	411	17	—	—	17
Dividends declared on common stock	—	—	(368)	—	(368)
Repurchase and retirement of common stock	(1,283)	(32)	(29)	—	(61)
Adjustment to initially apply SFAS No. 158, net of tax	—	—	—	(38)	(38)
Benefit obligations, net of tax	—	—	—	3	3
Net change in unrealized losses on derivatives, net of tax	—	—	—	102	102
Net change in unrealized losses on investments, net of tax	—	—	—	(7)	(7)
Stock-based compensation and other	196	(1)	—	—	(1)
Balance, December 31, 2006	177,138	3,467	2,593	(211)	5,849
Net income	—	—	971	—	971
Implementation of FIN 48	—	—	(5)	—	(5)
Dividends declared on common stock	—	—	(358)	—	(358)
Repurchase and retirement of common stock	(14,440)	(297)	(411)	—	(708)
Benefit obligations, net of tax	—	—	—	6	6
Net change in unrealized losses on derivatives, net of tax	—	—	—	91	91
Net change in unrealized losses on investments, net of tax	—	—	—	1	1
Stock-based compensation and other	534	6	—	—	6
Balance, December 31, 2007	163,232	3,176	2,790	(113)	5,853
Net income	—	—	546	—	546
Implementation of SFAS No. 157, net of tax	—	—	4	—	4
Implementation of SFAS No. 158 measurement date provision, net of tax	—	—	(9)	—	(9)
Dividends declared on common stock	—	—	(346)	—	(346)
Repurchase and retirement of common stock	(479)	(16)	—	—	(16)
Benefit obligations, net of tax	—	—	—	(22)	(22)
Foreign exchange translation, net of tax	—	—	—	(2)	(2)
Net change in unrealized losses on derivatives, net of tax	—	—	—	6	6
Net change in unrealized losses on investments, net of tax	—	—	—	(34)	(34)
Stock-based compensation and other	267	15	—	—	15
Balance, December 31, 2008	**163,020**	**$3,175**	**$2,985**	**$(165)**	**$5,995**

See Notes to Consolidated Financial Statements

DTE Energy Company

Consolidated Statements of Comprehensive Income

The following table displays comprehensive income:

	2008	2007	2006
		(In millions)	
Net income	**$546**	$ 971	$433
Other comprehensive income (loss), net of tax:			
Foreign currency translation, net of taxes of $(1), $- and $-	**(2)**	—	—
Benefit obligations, net of taxes of $(12), $3 and $2	**(22)**	6	3
Net unrealized gains (losses) on derivatives:			
Gains (losses) arising during the period, net of taxes of $2, $(76) and $3	**4**	(141)	6
Amounts reclassified to income, net of taxes of $1, $125 and $52	**2**	232	96
	6	91	102
Net unrealized gains (losses) on investments:			
Gains (losses) arising during the period, net of taxes of $(19), $2 and $(4)	**(34)**	4	(7)
Amounts reclassified to income, net of taxes of $-, $(2)and $-	**—**	(3)	—
	(34)	1	(7)
Comprehensive income	**$494**	$1,069	$531

See Notes to Consolidated Financial Statements

NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES

Corporate Structure

DTE Energy owns the following businesses:

- Detroit Edison, an electric utility engaged in the generation, purchase, distribution and sale of electric energy to approximately 2.2 million customers in southeast Michigan;
- MichCon, a natural gas utility engaged in the purchase, storage, transmission, distribution and sale of natural gas to approximately 1.2 million customers throughout Michigan; and
- Our four non-utility segments are involved in 1) gas pipelines and storage; 2) unconventional gas exploration, development and production; 3) power and industrial projects and coal transportation and marketing; and 4) energy marketing and trading operations.

Detroit Edison and MichCon are regulated by the MPSC. The FERC regulates certain activities of Detroit Edison's business as well as various other aspects of businesses under DTE Energy. In addition, the Company is regulated by other federal and state regulatory agencies including the NRC, the EPA and MDEQ.

References in this report to "Company" or "DTE" are to DTE Energy and its subsidiaries, collectively.

Basis of Presentation

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.

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

Principles of Consolidation

The Company consolidates all majority owned subsidiaries and investments in entities in which it has controlling influence. Non-majority owned investments are accounted for using the equity method when the Company is able to influence the operating policies of the investee. Non-majority owned investments include investments in limited liability companies, partnerships or joint ventures. 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 plant. The Company eliminates all intercompany balances and transactions.

For entities that are considered variable interest entities, the Company applies the provisions of FIN 46(R), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51.* We consolidate variable interest entities(VIEs) for which we are the primary beneficiary in accordance with FIN 46(R). In general, we determine whether we are the primary beneficiary of a VIE through a qualitative analysis of risk which indentifies which variable interest holder absorbs the majority of the financial risk or rewards and variability of the VIE. In performing this analysis, we consider all relevant facts and circumstances, including: the design and activities of the VIE, the terms of the contracts the VIE has entered into, the identification of variable interest holders including equity owners, customers, suppliers and debt holders and which parties participated significantly in the design of the entity. If the qualitative analysis is inconclusive, a specific quantitative analysis is performed in accordance with FIN 46(R).

Legal entities within the Company's Power and Industrial Projects segments enter into long-term contractual arrangements with customers to supply energy-related products or services. The entities are designed to pass-through the commodity risk associated with these contracts to the customers, with the

Company retaining operational and customer default risk and generally are VIEs. These arrangements are assessed on a qualitative and, if necessary, quantitative basis, in accordance with the requirements of FIN 46(R) to determine who is the primary beneficiary. If the Company is the primary beneficiary, the VIE is consolidated. If the Company is not the primary beneficiary, the VIE is accounted for under the equity method of accounting. The VIEs are reviewed for reconsideration events each quarter, and the assessment of the primary beneficiary updated, if necessary.

DTE Energy has interests in various unconsolidated trusts that were formed for the sole purpose of issuing preferred securities and lending the gross proceeds to the Company. The sole assets of the trusts are debt securities of DTE Energy with terms similar to those of the related preferred securities. Payments the Company makes are used by the trusts to make cash distributions on the preferred securities it has issued. We have reviewed these interests in accordance with FIN 46(R) and have determined they are VIEs, but the Company is not the primary beneficiary.

The maximum risk exposure for consolidated VIEs is reflected on our Consolidated Statements of Financial Position. For non-consolidated VIEs, the maximum risk exposure is generally the extent of our investment.

The following table summarizes the amounts for the Company's variable interest entities as of December 31, 2008 and 2007:

	2008	2007
	(In millions)	
Variable Interest Entities — Consolidated		
Total Assets	**$ 47**	$113
Total Liabilities	**39**	81
Shareholders' Equity	**(4)**	51
Variable Interest Entities — Non-consolidated		
Other Investments	**$191**	$ 54
Trust preferred — linked securities	**289**	289

Revenues

Revenues from the sale and delivery of electricity, and the sale, delivery and storage of natural gas are recognized as services are provided. Detroit Edison and MichCon record revenues for electric and gas provided but unbilled at the end of each month.

Detroit Edison's accrued revenues include a component for the cost of power sold that is recoverable through the PSCR mechanism. MichCon's accrued revenues include a component for the cost of gas sold that is recoverable through the GCR mechanism. Annual PSCR and GCR proceedings before the MPSC permit Detroit Edison and MichCon to recover prudent and reasonable supply costs. Any overcollection or undercollection of costs, including interest, will be reflected in future rates. See Note 5.

Non-utility businesses recognize revenues as services are provided and products are delivered. Trading activities are accounted for under the provisions of EITF Issue No. 02-3, "Accounting for Contracts Involved in Energy Trading and Risk Management Activites", which requires revenues and energy costs related to energy trading contracts to be presented on a net basis in the Consolidated Statement of Operations. Commodity derivatives used for trading purposes are accounted for using the mark-to-market method with unrealized gains and losses in operating revenues.

Comprehensive Income

Comprehensive income is the change in common shareholders' equity during a period from transactions and events from non-owner sources, including net income. As shown in the following table, amounts recorded to other comprehensive income for the year ended December 31, 2008 include unrealized gains and losses from derivatives accounted for as cash flow hedges, unrealized gains and losses on available for sale securities, and changes in benefit obligations, consisting of deferred actuarial losses, prior service costs and transition amounts related to pension and other postretirement benefit plans, pursuant to SFAS No. 158, and foreign currency translation adjustments.

	Net Unrealized Gains on Derivatives	Net Unrealized Losses on Investments	Benefit Obligations	Foreign Currency Translation	Accumulated Other Comprehensive Loss
			(In millions)		
Beginning balances	$(13)	$ 16	$(116)	$—	$(113)
Current period change	6	(34)	(22)	(2)	(52)
Ending balance	$ (7)	$(18)	$(138)	$(2)	$(165)

Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash on hand, cash in banks and temporary investments purchased with remaining maturities of three months or less. Restricted cash consists of funds held to satisfy requirements of certain debt and partnership operating agreements. Restricted cash designated for interest and principal payments within one year is classified as a current asset.

Receivables

Accounts receivable are primarily composed of trade receivables and unbilled revenue. Our accounts receivable are stated at net realizable value. Customer accounts are written off based upon approved regulatory and legislative requirements.

The allowance for doubtful accounts for our two utilities is calculated using the aging approach that utilizes rates developed in reserve studies. We establish an allowance for uncollectible accounts based on historical losses and management's assessment of existing economic conditions, customer trends, and other factors. Customer accounts are generally considered delinquent if the amount billed is not received by the time the next bill is issued, typically monthly, however, factors such as assistance programs may delay aggressive action. We assess late payment fees on trade receivables based on contractual past-due terms established with customers.

For our Energy Trading, non-regulated segment, the customer allowance for doubtful accounts is calculated based on specific review of probable future collectibles based on receivable balances in excess of 90 days.

Unbilled revenues of $812 million and $843 million are included in customer accounts receivable at December 31, 2008 and 2007, respectively.

Inventories

The Company values fuel inventory, including gas inventory in the Energy Trading segment, and materials and supplies at average cost.

Gas inventory at MichCon is determined using the last-in, first-out (LIFO) method. At December 31, 2008, the replacement cost of gas remaining in storage exceeded the $14 million LIFO cost by $232 million. During 2008, MichCon liquidated 4.2 billion cubic feet of prior years' LIFO layers. The liquidation reduced