2008 cost of gas by approximately $21 million, but had no impact on earnings as a result of the GCR mechanism. At December 31, 2007, the replacement cost of gas remaining in storage exceeded the $32 million LIFO cost by $288 million. During 2007, MichCon liquidated 9.5 billion cubic feet of prior years' LIFO layers. The liquidation reduced 2007 cost of gas by approximately $30 million, but had no impact on earnings as a result of the GCR mechanism.

***Property, Retirement and Maintenance, and Depreciation and Depletion***

Summary of property by classification as of December 31:

| | 2008 | 2007 |
|---|---|---|
| | (In millions) | |
| **Property, Plant and Equipment** | | |
| Electric Utility | | |
| Generation | **$ 8,544** | $ 8,100 |
| Distribution | **6,433** | 6,272 |
| Total Electric Utility | **14,977** | 14,372 |
| Gas Utility | | |
| Distribution | **2,327** | 2,392 |
| Storage | **378** | 273 |
| Other | **1,090** | 953 |
| Total Gas Utility | **3,795** | 3,618 |
| Non-utility and other | **1,293** | 1,423 |
| Assets held for sale | **—** | (604) |
| Total Property, Plant and Equipment | **20,065** | 18,809 |
| **Less Accumulated Depreciation and Depletion** | | |
| Electric Utility | | |
| Generation | **(3,690)** | (3,539) |
| Distribution | **(2,138)** | (2,101) |
| Total Electric Utility | **(5,828)** | (5,640) |
| Gas Utility | | |
| Distribution | **(955)** | (970) |
| Storage | **(107)** | (100) |
| Other | **(603)** | (538) |
| Total Gas Utility | **(1,665)** | (1,608) |
| Non-utility and other | **(341)** | (350) |
| Assets held for sale | **—** | 197 |
| Total Accumulated Depreciation and Depletion | **(7,834)** | (7,401) |
| **Net Property, Plant and Equipment** | **$12,231** | $11,408 |

Property is stated at cost and includes construction-related labor, materials, overheads and an allowance for funds used during construction (AFUDC). AFUDC capitalized during 2008 and 2007 was approximately $50 million and $32 million, respectively. The cost of properties retired, less salvage value, at Detroit Edison and MichCon is charged to accumulated depreciation.

Expenditures for maintenance and repairs are charged to expense when incurred, except for Fermi 2. Approximately $25 million and $4 million of expenses related to the anticipated Fermi 2 refueling outage scheduled for 2009 were accrued at December 31, 2008 and December 31, 2007, respectively. Amounts are being accrued on a pro-rata basis over an 18-month period that began in November 2007. This accrual of outage costs matches the regulatory recovery of these costs in rates set by the MPSC.

The Company bases depreciation provisions for utility property at Detroit Edison and MichCon on straight-line and units-of-production rates approved by the MPSC. The composite depreciation rate for Detroit Edison was 3.3% in 2008, 2007 and 2006. The composite depreciation rate for MichCon was 3.2% in 2008, 3.1% in 2007 and 2.8% in 2006.

The average estimated useful life for each major class of utility property, plant and equipment as of December 31, 2008 follows:

| | Estimated Useful Lives in Years | | |
|---|---|---|---|
| **Utility** | **Generation** | **Distribution** | **Transmission** |
| Electric | 40 | 37 | N/A |
| Gas | N/A | 40 | 38 |

Non-utility property is depreciated over its estimated useful life using straight-line, declining-balance or units-of-production methods. The estimated useful lives for major classes of non-utility assets and facilities ranges from 5 to 50 years.

The Company credits depreciation, depletion and amortization expense when it establishes regulatory assets for plant-related costs such as depreciation or plant-related financing costs. The Company charges depreciation, depletion and amortization expense when it amortizes these regulatory assets. The Company credits interest expense to reflect the accretion income on certain regulatory assets.

Intangible assets relating to capitalized software are classified as Property, plant and equipment and the related amortization is included in Accumulated depreciation and depletion on the Consolidated Statements of Financial Position. The Company capitalizes the costs associated with computer software it develops or obtains for use in its business. The Company amortizes intangible assets on a straight-line basis over the expected period of benefit, ranging from 3 to 15 years. Intangible assets amortization expense was $54 million in 2008, $42 million in 2007 and $37 million in 2006. The gross carrying amount and accumulated amortization of intangible assets at December 31, 2008 were $576 million and $192 million, respectively. The gross carrying amount and accumulated amortization of intangible assets at December 31, 2007 were $493 million and $141 million, respectively. Amortization expense of intangible assets is estimated to be $54 million annually for 2009 through 2013.

***Asset Retirement Obligations***

The Company records asset retirement obligations in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations* and FIN 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143*. The Company has a legal retirement obligation for the decommissioning costs for its Fermi 1 and Fermi 2 nuclear plants. To a lesser extent, the Company has legal retirement obligations for gas production facilities, gas gathering facilities and various other operations. The Company has conditional retirement obligations for gas pipeline retirement costs and disposal of asbestos at certain of its power plants. To a lesser extent, the Company has conditional retirement obligations at certain service centers, compressor and gate stations, and disposal costs for PCB contained within transformers and circuit breakers. The Company recognizes such obligations as liabilities at fair market value at the time the associated assets are placed in service. Fair value is measured using expected future cash outflows discounted at our credit-adjusted risk-free rate.

For the Company's regulated operations, timing differences arise in the expense recognition of legal asset retirement costs that the Company is currently recovering in rates. The Company defers such differences under SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation.*

No liability has been recorded with respect to lead-based paint, as the quantities of lead-based paint in the Company's facilities are unknown. In addition, there is no incremental cost to demolitions of lead-based paint facilities vs. non-lead-based paint facilities and no regulations currently exist requiring any type of special disposal of items containing lead-based paint.

The Ludington Hydroelectric Power Plant (a jointly owned plant) has an indeterminate life and no legal obligation currently exists to decommission the plant at some future date. Substations, manholes and certain other distribution assets within Detroit Edison have an indeterminate life. Therefore, no liability has been recorded for these assets.

A reconciliation of the asset retirement obligations for 2008 follows:

| | (In millions) |
|---|---|
| Asset retirement obligations at January 1, 2008 | $1,293 |
| Accretion | 84 |
| Liabilities incurred | 2 |
| Liabilities settled | (18) |
| Transfers from Assets held for sale | 14 |
| Revision in estimated cash flows | (14) |
| Asset retirement obligations at December 31, 2008 | 1,361 |
| Less amount included in current liabilities | (21) |
| | $1,340 |

Approximately $1.2 billion of the asset retirement obligations represent nuclear decommissioning liabilities that are funded through a surcharge to electric customers over the life of the Fermi 2 nuclear plant.

### *Unconventional Gas Production*

The Company follows the successful efforts method of accounting for investments in gas properties. Under this method of accounting, all property acquisition costs and costs of exploratory and development wells are capitalized when incurred, pending determination of whether the well has found proved reserves. If an exploratory well has not found proved reserves, the costs of drilling the well are expensed. The costs of development wells are capitalized, whether productive or nonproductive. Geological and geophysical costs on exploratory prospects and the costs of carrying and retaining unproved properties are expensed as incurred. An impairment loss is recorded if the net capitalized costs of proved gas properties exceed the aggregate related undiscounted future net revenues. An impairment loss is recorded to the extent that capitalized costs of unproved properties, on a property-by-property basis, are considered not to be realizable. Depreciation, depletion and amortization of proved gas properties are determined using the units-of-production method.

### *Long-Lived Assets*

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If the carrying amount of the asset exceeds the expected future cash flows generated by the asset, an impairment loss is recognized resulting in the asset being written down to its estimated fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

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." We will continue to assess these matters in future periods for possible asset impairments.

### *Goodwill*

The Company has goodwill resulting from purchase business combinations.

The change in the carrying amount of goodwill for the fiscal years ended December 31, 2008 and December 31, 2007 is as follows:

| | Total<br>(In millions) |
|---|---|
| Balance at December 31, 2006 | $2,057 |
| Synthetic fuels impairment | (4) |
| Sale of non-utility businesses and other | (16) |
| Balance at December 31, 2007 | $2,037 |
| Balance at December 31, 2008 | $2,037 |

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. 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 anticipated impact of the national and regional recession on DTE Energy's future operating results and 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. As a result of this assessment, we determined that the decline in market price did not represent a triggering event at December 31, 2008 requiring an update to the October 1, 2008 impairment test. We will continue to assess these matters in future periods for possible impairments.

### *Intangible Assets*

The Company has certain intangible assets relating to non-utility contracts and emission allowances. The Company amortizes intangible assets on a straight-line basis over the expected period of benefit, ranging from 4 to 30 years. Intangible assets amortization expense was $7 million in 2008, $2 million in 2007 and $5 million in 2006. The gross carrying amount and accumulated amortization of intangible assets at December 31, 2008 were $85 million and $15 million, respectively. The gross carrying amount and accumulated amortization of intangible assets at December 31, 2007 were $31 million and $6 million, respectively. Our intangible assets related to emission allowances increased to $19 million at December 31, 2008 from $9 million at December 31, 2007. Net intangible assets reclassified to Assets held for sale totaled $38 million at December 31, 2007. Amortization expense of intangible assets is estimated to be $7 million annually for 2009 through 2013.

### *Excise and Sales Taxes*

The Company records the billing of excise and sales taxes as a receivable with an offsetting payable to the applicable taxing authority, with no impact on the Consolidated Statements of Operations.

### *Deferred Debt Costs*

The costs related to the issuance of long-term debt are deferred and amortized over the life of each debt issue. In accordance with MPSC regulations applicable to the Company's electric and gas utilities, the unamortized discount, premium and expense related to debt redeemed with a refinancing are amortized over the life of the replacement issue. Discount, premium and expense on early redemptions of debt associated with non-utility operations are charged to earnings.

### *Investments in Debt and Equity Securities*

The Company generally classifies investments in debt and equity securities as either trading or available-for-sale and has recorded such investments at market value with unrealized gains or losses included in earnings or in other comprehensive income or loss, respectively. Changes in the fair value of Fermi 2 nuclear decommissioning investments are recorded as adjustments to regulatory assets or liabilities, due to a recovery mechanism from customers. The Company's investments are reviewed for impairment each reporting period. If the assessment indicates that the impairment is other than temporary, a loss is recognized resulting in the investment being written down to its estimated fair value. See Note 15.

***Consolidated Statement of Cash Flows***

A detailed analysis of the changes in assets and liabilities that are reported in the Consolidated Statement of Cash Flows follows:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| | | (In millions) | |
| **Changes in Assets and Liabilities, Exclusive of Changes Shown Separately** | | | |
| Accounts receivable, net | **$ 328** | $(163) | $ 385 |
| Accrued GCR revenue | **(71)** | (10) | 120 |
| Inventories | **96** | 80 | (49) |
| Recoverable pension and postretirement costs | **(1,324)** | 738 | (1,184) |
| Accrued/prepaid pensions | **944** | (401) | 218 |
| Accounts payable | **(286)** | 5 | (10) |
| Accrued PSCR refund | **82** | 41 | (101) |
| Income taxes payable | **(22)** | (19) | 46 |
| Derivative assets and liabilities | **(178)** | 222 | (520) |
| Postretirement obligation | **340** | (320) | 1,008 |
| Other assets | **(51)** | (430) | (134) |
| Other liabilities | **55** | 453 | 229 |
| | **$ (87)** | $ 196 | $ 8 |

Supplementary cash and non-cash information for the years ended December 31, were as follows:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| | | (In millions) | |
| Cash paid (received) for: | | | |
| Interest (net of interest capitalized) | **$496** | $537 | $526 |
| Income taxes | **$ (59)** | $326 | $ 89 |

In connection with maintaining certain traded risk management positions, the Company may be required to post cash collateral with its clearing agent. As a result, the Company entered into a demand financing agreement for up to $50 million with its clearing agent in lieu of posting additional cash collateral (a non-cash transaction). The amounts outstanding under this facility were $26 million and $13 million at December 31, 2008 and 2007, respectively.

See the following notes for other accounting policies impacting the Company's consolidated financial statements:

| Note | Title |
|---|---|
| 2 | New Accounting Pronouncements |
| 5 | Regulatory Matters |
| 8 | Income Taxes |
| 15 | Fair Value |
| 16 | Financial and Other Derivative Instruments |
| 18 | Retirement Benefits and Trusteed Assets |
| 19 | Stock-based Compensation |

## NOTE 2 — NEW ACCOUNTING PRONOUNCEMENTS

### *Fair Value Accounting*

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. It emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. Effective January 1, 2008, the Company adopted SFAS No. 157. As permitted by FASB Staff Position FAS No. 157-2, the Company has elected to defer the effective date of SFAS No. 157 as it pertains to non-financial assets and liabilities to January 1, 2009. The cumulative effect adjustment upon adoption of SFAS No. 157 represented a $4 million increase to the January 1, 2008 balance of retained earnings. See also Note 15.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115*. This Statement permits an entity to choose to measure many financial instruments and certain other items at fair value. The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. An entity will report in earnings unrealized gains and losses on items, for which the fair value option has been elected, at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. At January 1, 2008, the Company elected not to use the fair value option for financial assets and liabilities held at that date.

In October 2008, the FASB issued FASB Staff Position (FSP) 157-3, *Determining the Fair Value of a Financial Asset in a Market That is Not Active*. The FSP clarifies the application of SFAS No. 157, *Fair Value Measurements,* in an inactive market, and provides an illustrative example to demonstrate how the fair value of a financial asset is determined when the market for that financial asset is inactive. The FSP was effective upon issuance, including prior periods for which financial statements have not been issued. The adoption of the FSP did not have a material impact on the Company's consolidated financial statements.

### *Business Combinations*

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations,* to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. To accomplish this, SFAS No. 141(R) requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141(R) is applied prospectively to business combinations entered into by the Company after January 1, 2009, with earlier adoption prohibited. The Company will apply the requirements of SFAS No. 141(R) to business combinations consummated after January 1, 2009.

### *GAAP Hierarchy*

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles.* This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements under GAAP. SFAS No. 162 is effective 60 days following the approval of the Public Company Accounting Oversight Board amendments to AU section 411, *The Meaning of Present Fairly* *in Conformity with Generally Accepted Accounting Principles.* The Company will adopt SFAS No. 162 once effective. The adoption is not expected to have a material impact on its consolidated financial statements.

***Useful Life of Intangible Assets***

In May 2008, the FASB issued FSP 142-3, *Determination of the Useful Life of Intangible Assets.* This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets.* For a recognized intangible asset, an entity shall disclose information that enables users to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangement. This FSP is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The FSP will not have a material impact on the Company's consolidated financial statements.

***Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities***

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities.* This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in paragraphs 60 and 61 of SFAS No. 128, *Earnings Per Share.* Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. Stock awards granted by the Company under its stock-based compensation plan qualify as a participating security. This FSP is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008 and will be applied retrospectively. Adoption of this FSP is expected to result in a reduction of Basic and Diluted EPS of $0.02 and $0.01 or less, respectively. See Note 10 for further disclosure.

***Disclosures about Derivative Instruments and Guarantees***

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133.* This Statement requires enhanced disclosures about an entity's derivative and hedging activities. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Comparative disclosures for earlier periods at initial adoption are encouraged but not required. The Company will adopt SFAS No. 161 on January 1, 2009.

In September 2008, the FASB issued FSP No. 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161.* This FSP is intended to improve disclosures about credit derivatives by requiring more information about the potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of the sellers of credit derivatives. This FSP also requires additional disclosures about the current status of the payment/performance risk of a guarantee. The provisions of the FSP that amend SFAS No. 133 and FIN 45 are effective for reporting periods ending after November 15, 2008. The FSP also clarifies that the disclosures required by SFAS No. 161 should be provided for any reporting period (annual or interim) beginning after November 15, 2008. The Company has adopted these pronouncements as of December 31, 2008. See Note 16 for further disclosures.

***Noncontrolling Interests in Consolidated Financial Statements***

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an Amendment of ARB No. 51.* This Statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2008. Earlier adoption is prohibited. This Statement shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied, except for the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. The Company will adopt SFAS No. 160 as of January 1, 2009. Adoption of SFAS No. 160 will not have a material effect on the Company's consolidated financial statements.

***Offsetting Amounts Related to Certain Contracts***

In April 2007, the FASB issued FSP FIN 39-1, *Amendment of FASB Interpretation No. 39.* This FSP permits the Company to offset the fair value of derivative instruments with cash collateral received or paid for those derivative instruments executed with the same counterparty under a master netting arrangement. As a result, the Company is permitted to record one net asset or liability that represents the total net exposure of all derivative positions under a master netting arrangement. The decision to offset derivative positions under master netting arrangements remains an accounting policy choice. The guidance in this FSP is effective for fiscal years beginning after November 15, 2007. It is applied retrospectively by adjusting the financial statements for all periods presented. The Company adopted FSP FIN 39-1 as of January 1, 2008. At adoption, the Company chose to offset the collateral amounts against the fair value of derivative assets and liabilities, reducing both the Company's total assets and total liabilities. The Company retrospectively reclassified certain assets and liabilities on the Consolidated Statement of Financial Position at December 31, 2007 as follows:

| | As Previously Reported | FSP FIN 39-1 Adjustments | As Adjusted |
|---|---|---|---|
| | | (In millions) | |
| **Current Assets** | | | |
| Accounts receivable-other | $ 504 | $ 10 | $ 514 |
| Derivative assets | 195 | (14) | 181 |
| **Other Assets** | | | |
| Derivative assets | 207 | (8) | 199 |
| **Current Liabilities** | | | |
| Accounts payable | 1,198 | (9) | 1,189 |
| Derivative liabilities | 282 | (1) | 281 |
| **Other Liabilities** | | | |
| Derivative liabilities | 452 | (2) | 450 |

The total cash collateral received, net of cash collateral posted was $30 million at December 31, 2008. In accordance with FSP FIN 39-1, derivative assets and derivative liabilities are shown net of collateral of $31 million and $17 million, respectively. At December 31, 2008, amounts not related to unrealized derivative positions totaling $7 million and $23 million were included in accounts receivable and accounts payable, respectively.

***Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities***

In December 2008, the FASB issued FASB Staff Position (FSP) FAS 140-4 and FIN 46(R)-8, *Disclosures about Transfers of Financial Assets and Interest in Variable Interest Entities.* The purpose of the FSP is to promptly improve disclosures by public entities and enterprises until the pending amendments to FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* and FASB

Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, are finalized and approved by the Board. Effective for reporting periods ending after December 15, 2008, the FSP amends Statement 140 to require public entities to provide additional disclosures about transfers of financial assets and variable interests in qualifying special-purpose entities. It also amends FIN 46(R) to require public enterprises to provide additional disclosures about their involvement with variable interest entities. The adoption of this FSP did not have a material impact on the Company's consolidated financial statements. See Note 1.

***Employers' Disclosures about Postretirement Benefit Plan Assets***

On December 30, 2008, the FASB issued FASB Staff Position (FSP) FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets.* This FSP amends SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosure requirements required by this FSP are effective for fiscal years ending after December 15, 2009. The Company will adopt this FSP on December 31, 2009.

## NOTE 3 — DISPOSALS AND DISCONTINUED OPERATIONS

***Sale of Antrim Shale Gas Exploration and Production Business***

In 2007, the Company sold its Antrim shale gas exploration and production business (Antrim) for gross proceeds of $1.3 billion. The pre-tax gain recognized on this sale amounted to $900 million ($580 million after-tax) and is reported on the Consolidated Statements of Operations under the line item, "Gain on sale of non-utility business," and included in the Corporate & Other segment. Prior to the sale, the operating results of Antrim were reflected in the Unconventional Gas Production segment.

The Antrim business is not presented as a discontinued operation due to continuation of cash flows related to the sale of a portion of Antrim's natural gas production to Energy Trading under the terms of natural gas sales contracts that expire in 2010 and 2012. These continuing cash flows, while not significant to DTE Energy, are significant to Antrim and therefore meet the definition of continuing cash flows as described in EITF 03-13, *Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations.*

Prior to the sale, a substantial portion of the Company's price risk related to expected gas production from its Antrim shale business had been hedged 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, the Company reclassified amounts held in accumulated other comprehensive income and recorded the effective settlements, reducing operating revenues in 2007 by $323 million.

***Plan to Sell Interest in Certain Power and Industrial Projects***

During the third quarter of 2007, the Company announced its 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 2008, the United States asset sale market weakened and challenges in the debt market persisted. As a result of these developments, the Company's 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. During the second quarter of 2008, the Company recorded a loss of $19 million related to the valuation adjustment for the cumulative depreciation and amortization not recorded during the held for sale period. The

Consolidated Statements of Financial Position included $28 million of minority interests in the Projects classified as held for sale as of December 31, 2007.

The following table presents the major classes of assets and liabilities of the Projects classified as held for sale at December 31, 2007:

| | (In millions) |
|---|---|
| Cash and cash equivalents | $ 11 |
| Accounts receivable (less allowance for doubtful accounts of $4) | 65 |
| Inventories | 4 |
| Other current assets | 3 |
| Total current assets held for sale | 83 |
| Investments | 55 |
| Property, plant and equipment, net of accumulated depreciation of $183 | 285 |
| Intangible assets | 38 |
| Long-term notes receivable | 46 |
| Other noncurrent assets | 1 |
| Total noncurrent assets held for sale | 425 |
| Total assets held for sale | $508 |
| Accounts payable | $ 38 |
| Other current liabilities | 10 |
| Total current liabilities associated with assets held for sale | 48 |
| Long-term debt (including capital lease obligations of $31) | 53 |
| Asset retirement obligations | 16 |
| Other liabilities | 13 |
| Total noncurrent liabilities associated with assets held for sale | 82 |
| Total liabilities related to assets held for sale | $130 |

### *Sale of Interest in Barnett Shale Properties*

In 2008, the Company sold a portion of its Barnett shale properties for gross proceeds of approximately $260 million. As of December 31, 2007, property, plant and equipment of approximately $122 million, net of approximately $14 million of accumulated depreciation and depletion, was classified as held for sale. The Company recognized a gain of $128 million ($81 million after-tax) on the sale during 2008.

### *Synthetic Fuel Business*

The Company discontinued the operations of its synthetic fuel production facilities throughout the United States 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 substantially offset by production tax credits.

The Company has provided certain guarantees and indemnities in conjunction with the sales of interests in its synfuel facilities. The guarantees cover potential commercial, environmental, oil price and tax-related obligations and will survive until 90 days after expiration of all applicable statutes of limitations. The

Company estimates that its maximum potential liability under these guarantees at December 31, 2008 is $2.9 billion.

As shown in the following table, the Company has reported the business activity of the synthetic fuel business as a discontinued operation. The amounts exclude general corporate overhead costs:

| | 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 | **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.

## NOTE 4 — OTHER IMPAIRMENTS AND RESTRUCTURING

### *Other Impairments*

*Barnett shale*

Our Unconventional Gas Production segment recorded pre-tax impairment losses of $8 million and $27 million in 2008 and 2007, respectively. The 2008 impairment related primarily to the write-off of leases that expired or will expire within the next twelve months and are not expected to be developed under current economic conditions. The 2007 impairment consisted of expired leases in Bosque County, which is located in the southern expansion area of the Barnett shale in North Texas. The properties were impaired due to the lack of economic and operating viability of the properties. Impairment losses were recorded within the Other asset (gains) and losses, reserves, and impairments, net line in the Consolidated Statements of Operations.

*Landfill Gas Recovery*

In 2006, the Company's Power and Industrial Projects segment recorded a pre-tax impairment loss of $14 million at its landfill gas recovery unit relating to the write down of assets at several landfill sites. The fixed assets were impaired due to continued operating losses and the oil price-related phase-out of production tax credits. The impairment was recorded within the Other asset (gains) and losses, reserves and impairments, net line in the Consolidated Statements of Operations. The Company calculated the expected undiscounted cash flows from the use and eventual disposition of the assets, which indicated that the carrying amount of certain assets was not recoverable. The Company determined the fair value of the assets utilizing a discounted cash flow technique.

*Non-Utility Power Generation*

In 2006, the Power and Industrial Projects segment recorded a pre-tax impairment loss totaling $74 million for its investments in two natural gas-fired electric generating plants.

A loss of $42 million related to a 100% owned plant is recorded within the Other asset (gains) and losses, reserves and impairments, net line in the Consolidated Statements of Operations. The generating plant was impaired due to continued operating losses and the September 2006 delisting by MISO, resulting in the plant no longer providing capacity for the power grid. The Company calculated the expected undiscounted cash flows from the use and eventual disposition of the plant, which indicated that the carrying amount of the plant was not recoverable. The Company determined the fair value of the plant utilizing a discounted cash flow technique.

A loss of $32 million related to a 50% equity interest in a gas-fired peaking electric generating plant is recorded within the Other (income) and deductions, Other expenses line in the Consolidated Statements of Operations. The investment was impaired due to continued operating losses and the expected sale of the investment. The Company determined the fair value of the plant utilizing a discounted cash flow technique, which indicated that the carrying amount of the investment exceeded its fair value.

*Waste Coal Recovery*

In 2006, our Power and Industrial Projects segment recorded a pre-tax impairment loss of $19 million related to its investment in proprietary technology used to refine waste coal. The fixed assets at our development operation were impaired due to continued operating losses and negative cash flow. In addition, the Company impaired all of its patents related to waste coal technology. The Company calculated the expected undiscounted cash flows from the use and eventual disposition of the assets, which indicated that the carrying amount of the assets was not recoverable. The Company determined the fair value of the assets utilizing a discounted cash flow technique. The impairment loss was recorded within the Other asset (gains) and losses, reserves and impairments, net line in the Consolidated Statements of Operations.

***Restructuring Costs***

In 2005, the Company initiated a company-wide review of its operations called the Performance Excellence Process. Specifically, the Company began a series of focused improvement initiatives within Detroit Edison and MichCon, and associated corporate support functions. The Company incurred costs to achieve (CTA) restructuring expense for employee severance and other costs. Other costs include project management and consultant support. In September 2006, the MPSC issued an order approving a settlement agreement that allows Detroit Edison and MichCon, commencing in 2006, to defer the incremental CTA. Further, the order provides for Detroit Edison and MichCon to amortize the CTA deferrals over a ten-year period beginning with the year subsequent to the year the CTA was deferred. Detroit Edison deferred approximately $24 million, $54 million and $102 million of CTA in 2008, 2007 and 2006 as a regulatory asset. The recovery of these costs was provided for by the MPSC in the order approving the settlement in the show cause proceeding and in the December 23, 2008 MPSC rate order. Amortization of prior year deferred CTA costs amounted to $16 million in 2008 and $10 million in 2007. MichCon cannot defer CTA costs at this time because a regulatory recovery mechanism has not been established by the MPSC. MichCon expects to seek a recovery mechanism in its next rate case expected to be filed in 2009.

Amounts expensed are recorded in the Operation and maintenance line on the Consolidated Statements of Operations. Deferred amounts are recorded in the Regulatory asset line on the Consolidated Statements of Financial Position. Costs incurred in 2008, 2007 and 2006 are as follows:

| | Employee Severance Costs | | | Other Costs | | | Total Cost | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 | 2007 | 2006 | 2008 | 2007 | 2006 |
| | | | | (In millions) | | | | | |
| Costs incurred: | | | | | | | | | |
| Electric Utility | $— | $15 | $51 | **$26** | $50 | $56 | **$26** | $65 | $107 |
| Gas Utility | — | 3 | 17 | **7** | 6 | 7 | **7** | 9 | 24 |
| Other | — | 1 | 2 | **3** | 1 | 1 | **3** | 2 | 3 |
| Total costs | — | 19 | 70 | **36** | 57 | 64 | **36** | 76 | 134 |
| Less amounts deferred or capitalized: | | | | | | | | | |
| Electric Utility | — | 15 | 51 | **26** | 50 | 56 | **26** | 65 | 107 |
| Amount expensed | $— | $ 4 | $19 | **$10** | 7 | $ 8 | **$10** | $11 | $ 27 |

## NOTE 5 — REGULATORY MATTERS

### *Regulation*

Detroit Edison and MichCon are subject to the regulatory jurisdiction of the MPSC, which issues orders pertaining to rates, recovery of certain costs, including the costs of generating facilities and regulatory assets, conditions of service, accounting and operating-related matters. Detroit Edison is also regulated by the FERC with respect to financing authorization and wholesale electric activities.

### *Regulatory Assets and Liabilities*

Detroit Edison and MichCon apply the provisions of SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation,* to their regulated operations. SFAS No. 71 requires the recording of regulatory assets and liabilities for certain transactions that would have been treated as revenue and expense in non-regulated businesses. Continued applicability of SFAS No. 71 requires that rates be designed to recover specific costs of providing regulated services and be charged to and collected from customers. Future regulatory changes or changes in the competitive environment could result in the Company discontinuing the application of SFAS No. 71 for some or all of its utility businesses and may require the write-off of the portion of any regulatory asset or liability that was no longer probable of recovery through regulated rates. Management believes that currently available facts support the continued application of SFAS No. 71 to Detroit Edison and MichCon.

The following are balances and a brief description of the regulatory assets and liabilities at December 31:

| | 2008 | 2007 |
|---|---|---|
| | (In millions) | |
| **Assets** | | |
| Securitized regulatory assets | **$1,001** | $1,124 |
| Recoverable income taxes related to securitized regulatory assets | **$ 549** | $ 616 |
| Recoverable pension and postretirement costs | | |
| Pension | **1,505** | 495 |
| Postretirement costs | **787** | 496 |
| Asset retirement obligation | **452** | 266 |
| Other recoverable income taxes | **89** | 94 |
| Recoverable costs under PA 141 | | |
| Excess capital expenditures | **4** | 11 |
| Deferred Clean Air Act expenditures | **10** | 28 |
| Midwest Independent System Operator charges | **8** | 23 |
| Electric Customer Choice implementation costs | **37** | 58 |
| Enhanced security costs | **6** | 10 |
| Unamortized loss on reacquired debt | **73** | 67 |
| Deferred environmental costs | **43** | 41 |
| Accrued PSCR/GCR revenue | **22** | 76 |
| Recoverable uncollectibles expense | **122** | 42 |
| Cost to achieve Performance Excellence Process | **154** | 146 |
| Enterprise Business Systems costs | **26** | 26 |
| Deferred income taxes — Michigan Business Tax | **394** | 364 |
| Other | **2** | 3 |
| | **4,283** | 2,862 |
| Less amount included in current assets | **(52)** | (76) |
| | **$4,231** | $2,786 |

| | 2008 | 2007 |
|---|---|---|
| | (In millions) | |
| **Liabilities** | | |
| Asset removal costs | **$ 534** | $ 581 |
| Accrued pension | | |
| Pension equalization mechanism | **72** | 44 |
| Negative pension offset | **110** | 71 |
| Accrued PSCR/GCR refund | **11** | 70 |
| Refundable costs under PA 141 | **16** | — |
| Refundable income taxes | **93** | 104 |
| Fermi 2 refueling outage | **25** | 4 |
| Deferred income taxes — Michigan Business Tax | **388** | 364 |
| Other | **5** | 5 |
| | **1,254** | 1,243 |
| Less amount included in current liabilities | **(52)** | (75) |
| | **$1,202** | $1,168 |

As noted below, regulatory assets for which costs have been incurred have been included (or are expected to be included, for costs incurred subsequent to the most recently approved rate case) in Detroit Edison or MichCon's rate base, thereby providing a return on invested costs. Certain regulatory assets do not result from cash expenditures and therefore do not represent investments included in rate base or have offsetting liabilities that reduce rate base.

*ASSETS*

- *Securitized regulatory assets* — The net book balance of the Fermi 2 nuclear plant was written off in 1998 and an equivalent regulatory asset was established. In 2001, the Fermi 2 regulatory asset and certain other regulatory assets were securitized pursuant to PA 142 and an MPSC order. A non-bypassable securitization bond surcharge recovers the securitized regulatory asset over a fourteen-year period ending in 2015.

- *Recoverable income taxes related to securitized regulatory assets* — Receivable for the recovery of income taxes to be paid on the non-bypassable securitization bond surcharge. A non-bypassable securitization tax surcharge recovers the income tax over a fourteen-year period ending 2015.

- *Recoverable pension and postretirement costs* — In 2007, the Company adopted SFAS No. 158 which required, among other things, the recognition in other comprehensive income of the actuarial gains or losses and the prior service costs that arise during the period but that are not immediately recognized as components of net periodic benefit costs. The Company received approval from the MPSC to record the charge related to the additional liability as a regulatory asset since the traditional rate setting process allows for the recovery of pension and postretirement costs. The asset will reverse as the deferred items are recognized as benefit expenses in net income. (1)

- *Asset retirement obligation* — Asset retirement obligations were recorded pursuant to adoption of SFAS No. 143 and FIN 47. These obligations are primarily for Fermi 2 decommissioning costs. The asset captures the timing differences between expense recognition and current recovery in rates and will reverse over the remaining life of the related plant. (1)

- *Other recoverable income taxes* — Income taxes receivable from Detroit Edison's customers representing the difference in property-related deferred income taxes receivable and amounts previously reflected in Detroit Edison's rates. This asset will reverse over the remaining life of the related plant. (1)
- *Excess capital expenditures* — PA 141 permits, after MPSC authorization, the recovery of and a return on capital expenditures that exceed a base level of depreciation expense.
- *Deferred Clean Air Act expenditures* — PA 141 permits, after MPSC authorization, the recovery of and a return on Clean Air Act expenditures.
- *Midwest Independent System Operator charges* — PA 141 permits, after MPSC authorization, the recovery of and a return on charges from a regional transmission operator such as the Midwest Independent System Operator.
- *Electric Customer Choice implementation costs* — PA 141 permits, after MPSC authorization, the recovery of and a return on costs incurred associated with the implementation of the electric Customer Choice program.
- *Enhanced security costs* — PA 609 of 2002 permits, after MPSC authorization, the recovery of enhanced security costs for an electric generating facility.
- *Unamortized loss on reacquired debt* — The unamortized discount, premium and expense related to debt redeemed with a refinancing are deferred, amortized and recovered over the life of the replacement issue.
- *Deferred environmental costs* — The MPSC approved the deferral and recovery of investigation and remediation costs associated with Gas Utility's former MGP sites. This asset is offset in working capital by an environmental liability reserve. The amortization of the regulatory asset is not included in MichCon's current rates because it is offset by the recognition of insurance proceeds. MichCon will request recovery of the remaining asset balance in future rate filings after the recognition of insurance proceeds is complete. (1)
- *Accrued PSCR revenue* — Receivable for the temporary under-recovery of and a return on fuel and purchased power costs incurred by Detroit Edison which are recoverable through the PSCR mechanism.
- *Accrued GCR revenue* — Receivable for the temporary under-recovery of and a return on gas costs incurred by MichCon which are recoverable through the GCR mechanism.
- *Recoverable uncollectibles expense* — MichCon receivable for the MPSC approved uncollectible expense true-up mechanism that tracks the difference in the fluctuation in uncollectible accounts and amounts recognized pursuant to the MPSC authorization.
- *Cost to achieve Performance Excellence Process (PEP)* — The MPSC authorized the deferral of costs to implement the PEP. These costs consist of employee severance, project management and consultant support. These costs will be amortized over a ten-year period beginning with the year subsequent to the year the costs were deferred.
- *Enterprise Business Systems (EBS) costs* — The MPSC approved the deferral and amortization over 10 years beginning in January 2009 of EBS costs that would otherwise be expensed. (1)
- *Deferred income taxes — Michigan Business Tax (MBT)* - In July 2007, the MBT was enacted by the State of Michigan. State deferred tax liabilities were established for the Company's utilities, and offsetting regulatory assets were recorded as the impacts of the deferred tax liabilities will be reflected in rates as the related taxable temporary differences reverse and flow through current income tax expense. (1)

(1) Regulatory assets not earning a return.

***LIABILITIES***

- *Asset removal costs* — The amount collected from customers for the funding of future asset removal activities.
- *Pension equalization mechanism* — Pension expense refundable to customers representing the difference created from volatility in the pension obligation and amounts recognized pursuant to MPSC authorization.
- *Negative pension offset* — MichCon's negative pension costs are not included as a reduction to its authorized rates; therefore, the Company is accruing a regulatory liability to eliminate the impact on earnings of the negative pension expense accrued. This regulatory liability will reverse to the extent MichCon's pension expense is positive in future years.
- *Accrued PSCR refund* — Payable for the temporary over-recovery of and a return on power supply costs and transmission costs incurred by Detroit Edison which are recoverable through the PSCR mechanism.
- *Accrued GCR refund* — Liability for the temporary over-recovery of and a return on gas costs incurred by MichCon which are recoverable through the GCR mechanism.
- *Refundable costs under PA 141* — Detroit Edison's 2007 Choice Incentive Mechanism (CIM) reconciliation and allocation resulted in the elimination of Regulatory Asset Recovery Surcharge (RARS) balances for commercial and industrial customers. RARS revenues received in 2008 that exceed the regulatory asset balances are required to be refunded to the affected classes.
- *Refundable income taxes* — Income taxes refundable to MichCon's customers representing the difference in property-related deferred income taxes payable and amounts recognized pursuant to MPSC authorization.
- *Fermi 2 refueling outage* — Accrued liability for refueling outage at Fermi 2 pursuant to MPSC authorization.
- *Deferred income taxes — Michigan Business Tax* — In July 2007, the MBT was enacted by the State of Michigan. State deferred tax assets were established for the Company's utilities, and offsetting regulatory liabilities were recorded as the impacts of the deferred tax assets will be reflected in rates.

***MPSC Show Cause Order***

In March 2006, the MPSC issued an order directing Detroit Edison to show cause by June 1, 2006 why its rates should not be reduced in 2007. Subsequently, Detroit Edison filed its response to this order and the MPSC issued an order approving a settlement agreement in this proceeding on August 31, 2006. The order provided for an annualized rate reduction of $53 million for 2006, effective September 5, 2006. Beginning January 1, 2007, and continuing until April 13, 2008, one year from the filing of the general rate case on April 13, 2007, rates were reduced by an additional $26 million, for a total reduction of $79 million annually. The revenue reduction is net of the recovery of the amortization of the costs associated with the implementation of the Performance Excellence Process. The settlement agreement provided for some level of realignment of the existing rate structure by allocating a larger percentage share of the rate reduction to the commercial and industrial customer classes than to the residential customer classes.

As part of the settlement agreement, a CIM was established with a base level of electric choice sales set at 3,400 GWh. The CIM prescribes regulatory treatment of changes in non-fuel revenue attributed to increases or decreases in electric Customer Choice sales. If electric Customer Choice sales exceed 3,600 GWh, Detroit Edison will be able to recover 90% of its reduction in non-fuel revenue from full service customers, up to $71 million. If electric Customer Choice sales fall below 3,200 GWh, Detroit Edison will credit 100% of the increase in non-fuel revenue to the unrecovered regulatory asset balance. In March 2008, Detroit Edison filed a reconciliation of its CIM for the year 2007. Detroit Edison's annual Electric Choice sales for 2007 were 2,239 GWh which was below the base level of sales of 3,200 GWh. Accordingly, the Company used the resulting additional non-fuel revenue to reduce unrecovered regulatory asset balances related to the RARS mechanism. This reconciliation did not result in any rate increase.

In November 2008, a settlement was filed in the 2007 CIM reconciliation. In the settlement, the parties agreed that the Detroit Edison 2007 CIM reconciliation and allocation filing was correct. All RARS revenues received in 2008 that exceed the regulatory asset balances will be refunded to the affected customer classes, and the only remaining classes to be reconciled in the RARS reconciliation case are the Residential and Special Manufacturing Contract classes. On January 13, 2009, the MPSC issued an order approving the settlement agreement.

### *2007 Electric Rate Case Filing*

Pursuant to the February 2006 MPSC order in Detroit Edison's rate restructuring case and the August 2006 MPSC order in the settlement of the show cause case, Detroit Edison filed a general rate case on April 13, 2007 based on a 2006 historical test year. Supplements and updates were filed on August 31, 2007 and February 20, 2008.

On December 23, 2008, the MPSC issued an order in Detroit Edison's February 20, 2008 updated rate case filing. The MPSC approved an annual revenue increase of $84 million effective January 14, 2009 or 2.0% average increase in Detroit Edison's annual revenue requirement for 2009. Included in the approved $84 million increase in revenues is a return on equity of 11% on an expected 49% equity and 51% debt capital structure.

Other key aspects of the MPSC order include the following:

- In order to more accurately reflect the actual cost of providing service to business customers, the MPSC adopted an immediate 39% phase out of the residential rate subsidy, with the remaining amount to be eliminated in equal installments over the next five years, every October 1.

- Accepted Detroit Edison's proposal to reinstate and modify the tracking mechanism on Electric Choice sales (CIM) with a base level of 1,561 GWh. The modified mechanism will not have a cap on the amount recoverable.

- Accepted Detroit Edison's proposal to terminate the Pension Equalization Mechanism.

- Approved an annual reconciliation mechanism to track expenses associated with restoration costs (storm and non-storm related expenses) and line clearance expenses. Annual reconciliations will be required using a base expense level of $110 million and $51 million, respectively.

- Approved Detroit Edison's proposal to recover a return on $15 million of costs in working capital associated with expenses associated with preparation of an application for a new nuclear generation facility at its current Fermi 2 site.

***2009 Electric Rate Case Filing***

Detroit Edison filed a general rate case on January 26, 2009 based on a twelve months ended June 2008 historical test year. The filing with the MPSC requested a $378 million, or 8.1% average increase in Detroit Edison's annual revenue requirement for the twelve months ended June 30, 2010 projected test year.

The requested $378 million increase in revenues is required to recover the increased costs associated with environmental compliance, operation and maintenance of the Company's electric distribution system and generation plants, customer uncollectible accounts, inflation, the capital costs of plant additions and the reduction in territory sales.

In addition, Detroit Edison's filing made, among other requests, the following proposals:

- Continued progress toward correcting the existing rate structure to more accurately reflect the actual cost of providing service to business customers;
- Continued application of an adjustment mechanism to enable the Company to address the costs associated with retail electric customers migrating to and from Detroit Edison's full service retail electric tariff service;
- Application of an uncollectible expense true-up mechanism based on the $87 million expense level of uncollectible expenses that occurred during the 12 month period ended June 2008;
- Continued application of the storm restoration expense recovery mechanism and modification to the line clearance expense recovery mechanism; and
- Implementation of a revenue decoupling mechanism.

***Cost-Based Tariffs for Schools***

In January 2009, Detroit Edison filed a required application that included two new cost-based tariffs for schools, universities and community colleges. The filing is in compliance with Public Act 286 which required utilities to file tariffs that ensure that eligible educational institutions are charged retail electric rates that reflect the actual cost of providing service to those customers. In February 2009, an MPSC order consolidated this proceeding with the January 26, 2009 electric rate case filing.

***Accounting for Costs Related to Enterprise Business Systems***

In July 2004, Detroit Edison filed an accounting application with the MPSC requesting authority to capitalize and amortize costs related to EBS, consisting of computer equipment, software and development costs, as well as related training, maintenance and overhead costs. In April 2005, the MPSC approved a settlement agreement providing for the deferral of certain EBS costs, which would otherwise be expensed, as a regulatory asset for future rate recovery starting January 1, 2006. At December 31, 2008, approximately $26 million of EBS costs have been deferred as a regulatory asset. In the MPSC's December 2008 order in the 2007 Detroit Edison rate case, the Commission approved the recovery of deferred EBS costs over a 10-year period beginning in January 2009.

***Fermi 2 Enhanced Security Costs Settlement***

The Customer Choice and Electricity Reliability Act, as amended in 2003, allows for the recovery of reasonable and prudent costs of new and enhanced security measures required by state or federal law, including providing for reasonable security from an act of terrorism. In April 2007, the MPSC approved a settlement agreement that authorizes Detroit Edison to recover Fermi 2 Enhanced Security Costs (ESC) incurred during the period of September 11, 2001 through December 31, 2005. The settlement defined Detroit Edison's ESC, discounted back to September 11, 2001, as $9.1 million plus carrying charges. A total of

$13 million, including carrying charges, has been deferred as a regulatory asset. Detroit Edison is authorized to incorporate into its rates an enhanced security factor over a period not to exceed five years. Amortization expense related to this regulatory asset was approximately $4 million and $3 million for the years ended December 31, 2008, and 2007, respectively.

***Reconciliation of Regulatory Asset Recovery Surcharge***

In December 2006, Detroit Edison filed a reconciliation of costs underlying its existing RARS. This true-up filing was made to maximize the remaining time for recovery of significant cost increases prior to expiration of the RARS 5-year recovery limit under PA 141. Detroit Edison requested a reconciliation of the regulatory asset surcharge to ensure proper recovery by the end of the 5-year period of: (1) Clean Air Act Expenditures, (2) Capital in Excess of Base Depreciation, (3) MISO Costs and (4) the regulatory liability for the 1997 Storm Charge. In July 2007, the MPSC approved a negotiated RARS deficiency settlement that resulted in a $10 million write-down of RARS-related costs in 2007. As discussed above, the CIM in the MPSC Show-Cause Order will reduce the regulatory asset. Approximately $11 million and $28 million was credited to the unrecovered regulatory asset balance during the years ended December 31, 2008 and 2007, respectively. The CIM expired in April 2008.

***Power Supply Cost Recovery Proceedings***

*2005 Plan Year* — In March 2006, Detroit Edison filed its 2005 PSCR reconciliation that sought approval for recovery of an under-collection of approximately $144 million at December 31, 2005 from its commercial and industrial customers. In addition to the 2005 PSCR plan year reconciliation, the filing included reconciliation for the Pension Equalization Mechanism (PEM) for the periods from November 24, 2004 through December 31, 2004 and from January 1, 2005 through December 31, 2005. The PEM reconciliation seeks to allocate and refund approximately $12 million to customers based on their contributions to pension expense during the subject periods. An order was issued on May 22, 2007 approving a 2005 PSCR under-collection amount of $94 million and the recovery of this amount through a surcharge for 12 months beginning in June 2007. In addition, the order approved Detroit Edison's proposed PEM reconciliation that was refunded to customers on a bills-rendered basis during June 2007. The surcharge will be reconciled in the Company's 2008 PSCR reconciliation.

*2006 Plan Year* — In March 2007, Detroit Edison filed its 2006 PSCR reconciliation that sought approval for recovery of an under-collection of approximately $51 million. Included in the 2006 PSCR reconciliation filing was the Company's PEM reconciliation that reflects a $21 million over-collection which is subject to refund to customers. An MPSC order was issued on April 22, 2008 approving the 2006 PSCR under-collection amount of $51 million and the recovery of this amount as part of the 2007 PSCR factor. In addition, the order approved Detroit Edison's PEM reconciliation and authorized the Company to refund the $22 million over-recovery, including interest, to customers in May 2008. The refund will be reconciled in the Company's 2008 PEM reconciliation.

*2007 Plan Year* — In September 2006, Detroit Edison filed its 2007 PSCR plan case seeking approval of a levelized PSCR factor of 6.98 mills per kWh above the amount included in base rates for all PSCR customers. The Company's PSCR plan filing included $130 million for the recovery of its projected 2006 PSCR under-collection, bringing the total requested PSCR factor to 9.73 mills/kWh. The Company filed supplemental testimony and briefs in December 2006 supporting its updated request to include approximately $81 million for the recovery of its projected 2006 PSCR under-collection. The MPSC issued a temporary order in December 2006 approving the Company's request. In addition, Detroit Edison was granted the authority to include all PSCR over/(under) collections in future PSCR plans, thereby reducing the time between refund or recovery of PSCR reconciliation amounts. The Company began to collect its 2007 power supply costs, including the 2006 rollover amount, through a PSCR factor of 8.69 mills/kWh on January 1, 2007. In

August 2007, the MPSC approved Detroit Edison's 2007 PSCR plan case and authorized the Company to charge a maximum power supply cost recovery factor of 8.69 mills/kWh in 2007. The Company filed its 2007 PSCR reconciliation case in March 2008 and updated the filing in December 2008. The updated filing requests recovery of a $41 million PSCR under-collection through its 2008 PSCR plan. Included in the 2007 PSCR reconciliation filing was the Company's 2007 PEM reconciliation that reflects a $21 million over-collection, including interest and prior year refunds. The Company expects an order in this proceeding in the second quarter of 2009.

*2008 Plan Year* — In September 2007, Detroit Edison filed its 2008 PSCR plan case seeking approval of a levelized PSCR factor of 9.23 mills/kWh above the amount included in base rates for all PSCR customers. Also included in the filing was a request for approval of the Company's emission compliance strategy which included pre-purchases of emission allowances as well as a request for pre-approval of a contract for capacity and energy associated with a renewable (wind) energy project. On January 31, 2008, Detroit Edison filed a revised PSCR plan case seeking approval of a levelized PSCR factor of 11.22 mills/kWh above the amount included in base rates for all PSCR customers. The revised filing supports a 2008 power supply expense forecast of $1.4 billion and includes $43 million for the recovery of a projected 2007 PSCR under-collection. On July 29, 2008, the MPSC issued a temporary order approving Detroit Edison's request to increase the PSCR factor to 11.22 mills/kWh. In January 2009, the MPSC approved the Company's 2008 PSCR plan and authorized the Company to charge a maximum PSCR factor of 11.22 mills/kWh for 2008.

*2009 Plan Year* — In September 2008, Detroit Edison filed its 2009 PSCR plan case seeking approval of a levelized PSCR factor of 17.67 mills/kWh above the amount included in base rates for residential customers and a levelized PSCR factor of 17.29 mills/kWh above the amount included in base rates for commercial and industrial customers. The Company is supporting a total power supply expense forecast of $1.73 billion. The plan also includes approximately $69 million for the recovery of its projected 2008 PSCR under-collection from all customers and approximately $12 million for the refund of its 2005 PSCR reconciliation surcharge over-collection to commercial and industrial customers only. Also included in the filing is a request for approval of the Company's expense associated with the use of urea in the selective catalytic reduction units at Monroe power plant as well as a request for approval of a contract for capacity and energy associated with a renewable (wind) energy project. The Company's PSCR Plan will allow the Company to recover its reasonably and prudently incurred power supply expense including, fuel costs, purchased and net interchange power costs, nitrogen oxide and sulfur dioxide emission allowance costs, transmission costs and MISO costs. The Company self-implemented a PSCR factor of 11.64 mills/kWh above the amount included in base rates for residential customers and a PSCR factor of 11.22 mills/kWh above the amount included in base rates for commercial and industrial customers on bills rendered in January 2009. Subsequently, as a result of the December 23, 2008 MPSC order in the 2007 Detroit Edison Rate case, the Company implemented a PSCR factor of 3.18 mills/kWh below the amount included in base rates for residential customers and a PSCR factor of 3.60 mills/kWh below the amount included in base rates for commercial and industrial customers for bills rendered effective January 14, 2009.

***2009 MichCon Depreciation Filing***

*Depreciation Filing* — On June 26, 2007, the MPSC issued its final order in the generic hearings on depreciation for Michigan electric and gas utilities. The MPSC ordered Michigan utilities to file depreciation studies using the current method, a FAS 143 approach that considers the time value of money and an inflation adjusted method proposed by the Company that removes excess escalation. In compliance with the MPSC order MichCon filed its ordered depreciation studies on November 3, 2008. The various required depreciation studies indicate composite depreciation rates from 2.07% to 2.55%. The Company has proposed no change to its current composite depreciation rate of 2.97%. The Company expects an order in this proceeding in the fourth quarter of 2009.

### *Uncollectible Expense True-Up Mechanism (UETM) and Report of Safety and Training-Related Expenditures*

*2005 UETM* — In March 2006, MichCon filed an application with the MPSC for approval of its UETM for 2005. MichCon's 2005 base rates included $37 million for anticipated uncollectible expenses. Actual 2005 uncollectible expenses totaled $60 million. The true-up mechanism allowed MichCon to recover 90% of uncollectibles that exceeded the $37 million base. Under the formula prescribed by the MPSC, MichCon recorded an under-recovery of approximately $11 million for uncollectible expenses from May 2005 (when the mechanism took effect) through the end of 2005. In December 2006, the MPSC issued an order authorizing MichCon to implement the UETM monthly surcharge for service rendered on and after January 1, 2007.

As part of the March 2006 application with the MPSC, MichCon filed a review of its 2005 annual safety and training-related expenditures. MichCon reported that actual safety and training-related expenditures for the initial period exceeded the pro-rata amounts included in base rates and, based on the under-recovered position, recommended no refund at that time. In the December 2006 order, the MPSC also approved MichCon's 2005 safety and training report. On October 14, 2008, the State of Michigan Court of Appeals rejected the appeal of the Attorney General of the State of Michigan upholding the right of the MPSC to authorize MichCon to charge the 2005 UETM.

*2006 UETM* — In March 2007, MichCon filed an application with the MPSC for approval of its UETM for 2006 requesting $33 million of under-recovery plus applicable carrying costs of $3 million. The March 2007 application included a report of MichCon's 2006 annual safety and training-related expenditures, which showed a $2 million over-recovery. In August 2007, MichCon filed revised exhibits reflecting an agreement with the MPSC Staff to net the $2 million over-recovery and associated interest related to the 2006 safety and training-related expenditures against the 2006 UETM under-recovery. An MPSC order was issued in December 2007 approving the collection of $33 million requested in the August 2007 revised filing. MichCon was authorized to implement the new UETM monthly surcharge for service rendered on and after January 1, 2008.

*2007 UETM* — In March 2008, MichCon filed an application with the MPSC for approval of its UETM for 2007 requesting approximately $34 million consisting of $33 million of costs related to 2007 uncollectible expense and associated carrying charges and $1 million of under-collections for the 2005 UETM. The March 2008 application included a report of MichCon's 2007 annual safety and training-related expenses, which showed no refund was necessary because actual expenditures exceeded the amount included in base rates. An MPSC order was issued in December 2008 approving the collection of $34 million requested in the March 2008 filing. MichCon was authorized to implement the new UETM monthly surcharge for service rendered on and after January 1, 2009.

### *Gas Cost Recovery Proceedings*

*2005-2006 Plan Year* — In June 2006, MichCon filed its GCR reconciliation for the 2005-2006 GCR year. The filing supported a total over-recovery, including interest through March 2006, of $13 million. MPSC Staff and other intervenors filed testimony regarding the reconciliation in which they recommended disallowances related to MichCon's implementation of its dollar cost averaging fixed price program. In January 2007, MichCon filed testimony rebutting these recommendations. In December 2007, the MPSC issued an order adopting the adjustments proposed by the MPSC Staff, resulting in an $8 million disallowance. Expense related to the disallowance was recorded in 2007. The MPSC authorized MichCon to roll a net over-recovery, inclusive of interest, of $20 million into its 2006-2007 GCR reconciliation. In December 2007, MichCon filed an appeal of the case with the Michigan Court of Appeals. MichCon is currently unable to predict the outcome of the appeal.

*2006-2007 Plan Year* — In June 2007, MichCon filed its GCR reconciliation for the 2006-2007 GCR year. The filing supported a total under-recovery, including interest through March 2007, of $18 million. In

March 2008, the parties reached a settlement agreement that allowed for full recovery of MichCon's GCR costs during the 2006-2007 GCR year. The under-recovery, including interest through March 2007, agreed to under the settlement is $9 million and was included in the 2007-2008 GCR reconciliation. An MPSC order was issued on April 22, 2008 approving the settlement.

*2007-2008 Plan Year / Base Gas Sale Consolidated* — In August 2006, MichCon filed an application with the MPSC requesting permission to sell base gas that would become accessible with storage facilities upgrades. In December 2006, MichCon filed its 2007-2008 GCR plan case proposing a maximum GCR factor of $8.49 per Mcf. In August 2007, a settlement agreement in this proceeding was reached by all intervening parties that provided for a sharing with customers of the proceeds from the sale of base gas. In addition, the agreement provided for a rate case filing moratorium until January 1, 2009, unless certain unanticipated changes occur that impact income by more than $5 million. The settlement agreement was approved by the MPSC in August 2007. Under the settlement terms, MichCon delivered 13.4 Bcf of this gas to its customers through 2007 at a savings to market-priced supplies of approximately $41 million. This settlement also provided for MichCon to retain the proceeds from the sale of 3.6 Bcf of base gas, of which MichCon sold 0.75 Bcf of base gas in 2007 at a pre-tax gain of $5 million and 2.84 Bcf in December 2008 at a pre-tax gain of $22 million. In June 2008, MichCon filed its GCR reconciliation for the 2007-2008 GCR year. The filing supported a total under-recovery, including interest through March 2008, of $10 million.

*2008-2009 Plan Year* — In December 2007, MichCon filed its GCR plan case for the 2008-2009 GCR Plan year. MichCon filed for a maximum GCR factor of $8.36 per Mcf, adjustable by a contingent mechanism. In June 2008, MichCon made an informational filing documenting the increase in market prices for gas since its December 2007 filing and calculating its new maximum factor of $10.76 per Mcf based on its contingent mechanism. On August 26, 2008, the MPSC approved a partial settlement agreement which includes the establishment of a new maximum base GCR factor of $11.36 per Mcf that will not be subject to adjustment by contingent GCR factors for the remainder of the 2008-2009 GCR plan year. An MPSC order addressing the remaining issues in this case is expected in 2009.

*2009-2010 Plan Year* — In December 2008, MichCon filed its GCR plan case for the 2009-2010 GCR Plan year. MichCon filed for a maximum GCR factor of $8.46 per Mcf, adjustable by a contingent mechanism. An MPSC order in this case is expected in 2009.

*2009 Proposed Base Gas Sale* — In July 2008, MichCon filed an application with the MPSC requesting permission to sell an additional 4 Bcf of base gas that will become available for sale as a result of better than expected operations at its storage fields. MichCon proposed to sell 1.3 Bcf of the base gas to GCR customers during the 2009-2010 GCR period at cost and to sell the remaining 2.7 Bcf to non-system supply customers in 2009 at market prices. MichCon requested that the MPSC treat the proceeds from the sale of the 2.7 Bcf of base gas to non-system supply customers as a one-time increase in MichCon's net income and not include the proceeds in the calculation of MichCon's revenue requirements in future rate cases.

***Other***

In July 2007, the State of Michigan Court of Appeals published its decision with respect to an appeal by Detroit Edison and others of certain provisions of a November 2004 MPSC order, including reversing the MPSC's denial of recovery of merger control premium costs. In its published decision, the Court of Appeals held that Detroit Edison is entitled to recover its allocated share of the merger control premium and remanded this matter to the MPSC for further proceedings to establish the precise amount and timing of this recovery. Detroit Edison has filed a supplement to its April 2007 rate case to address the recovery of the merger control premium costs. In September 2007, the Court of Appeals remanded to the MPSC, for reconsideration, the MichCon recovery of merger control premium costs. Other parties filed requests for leave to appeal to the Michigan Supreme Court from the Court of Appeals decision and in September 2008, the Michigan Supreme Court granted the requests to address the merger control premium as well as the recovery of transmission costs through the PSCR. The Company is unable to predict the financial or other outcome of any legal or regulatory proceeding at this time.

The Company is unable to predict the outcome of the regulatory matters discussed herein. Resolution of these matters is dependent upon future MPSC orders and appeals, which may materially impact the financial position, results of operations and cash flows of the Company.

## NOTE 6 — NUCLEAR OPERATIONS

### *General*

Fermi 2, the Company's nuclear generating plant, began commercial operation in 1988. Fermi 2 has a design electrical rating (net) of 1,150 MW. This plant represents approximately 10% of Detroit Edison's summer net rated capability. The net book balance of the Fermi 2 plant was written off at December 31, 1998, and an equivalent regulatory asset was established. In 2001, the Fermi 2 regulatory asset was securitized. Detroit Edison also owns Fermi 1, a nuclear plant that was shut down in 1972 and is currently being decommissioned. The NRC has jurisdiction over the licensing and operation of Fermi 2 and the decommissioning of Fermi 1.

### *Property Insurance*

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

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

Detroit Edison has $500 million in primary coverage and $2.25 billion of excess coverage for stabilization, decontamination, debris removal, repair and/or replacement of property and decommissioning. The combined coverage limit for total property damage is $2.75 billion.

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

Under the NEIL policies, Detroit Edison could be liable for maximum assessments of up to approximately $30 million per event if the loss associated with any one event at any nuclear plant in the United States should exceed the accumulated funds available to NEIL.

### *Public Liability Insurance*

As required by federal law, Detroit Edison maintains $300 million of public liability insurance for a nuclear incident. For liabilities arising from a terrorist act outside the scope of TRIA, the policy is subject to one industry aggregate limit of $300 million. Further, under the Price-Anderson Amendments Act of 2005, deferred premium charges up to $117.5 million could be levied against each licensed nuclear facility, but not more than $17.5 million per year per facility. Thus, deferred premium charges could be levied against all owners of licensed nuclear facilities in the event of a nuclear incident at any of these facilities.

***Decommissioning***

Detroit Edison has a legal obligation to decommission its nuclear power plants following the expiration of their operating licenses. This obligation is reflected as an asset retirement obligation on the Consolidated Statements of Financial Position. Based on the actual or anticipated extended life of the nuclear plant, decommissioning expenditures for Fermi 2 are expected to be incurred primarily during the period of 2025 through 2050. It is estimated that the cost of decommissioning Fermi 2, when its license expires in 2025, will be $1.3 billion in 2008 dollars and $3.4 billion in 2025 dollars, using a 6% inflation rate. In 2001, Detroit Edison began the decommissioning of Fermi 1, with the goal of removing the radioactive material and terminating the Fermi 1 license. The decommissioning of Fermi 1 is expected to be completed by 2012.

The NRC has jurisdiction over the decommissioning of nuclear power plants and requires decommissioning funding based upon a formula. The MPSC and FERC regulate the recovery of costs of decommissioning nuclear power plants and both require the use of external trust funds to finance the decommissioning of Fermi 2. Rates approved by the MPSC provide for the recovery of decommissioning costs of Fermi 2 and the disposal of low-level radioactive waste. Detroit Edison is continuing to fund FERC jurisdictional amounts for decommissioning even though explicit provisions are not included in FERC rates. The Company believes the MPSC and FERC collections will be adequate to fund the estimated cost of decommissioning using the NRC formula. The decommissioning assets, anticipated earnings thereon and future revenues from decommissioning collections will be used to decommission Fermi 2. The Company expects the liabilities to be reduced to zero at the conclusion of the decommissioning activities. If amounts remain in the trust funds for Fermi 2 following the completion of the decommissioning activities, those amounts will be disbursed based on rulings by the MPSC and FERC.

A portion of the funds recovered through the Fermi 2 decommissioning surcharge and deposited in external trust accounts is designated for the removal of non-radioactive assets and the clean-up of the Fermi site. This removal and clean-up is not considered a legal liability. Therefore, it is not included in the asset retirement obligation, but is reflected as the nuclear decommissioning regulatory liability.

The decommissioning of Fermi 1 is funded by Detroit Edison. Contributions to the Fermi 1 trust are discretionary.

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

| | As of December 31 | |
|---|---|---|
| | **2008** | **2007** |
| | **(In millions)** | |
| Fermi 2 | **$649** | $778 |
| Fermi 1 | **3** | 13 |
| Low level radioactive waste | **33** | 33 |
| Total | **$685** | $824 |

At December 31, 2008, investments in the external nuclear decommissioning trust funds consisted of approximately 42% in publicly traded equity securities, 57% in fixed debt instruments and 1% in cash equivalents. The debt securities had an average maturity of approximately 5 years. At December 31, 2007, investments in the external nuclear decommissioning trust funds consisted of approximately 54% in publicly traded equity securities, 45% in fixed income and 1% in cash equivalents. The debt securities had an average maturity of approximately 5.3 years.

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

| | Year Ended December 31 | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| | | **(In millions)** | |
| Realized gains | **$ 34** | $ 25 | $ 21 |
| Realized losses | **$(49)** | $(17) | $ (9) |
| Proceeds from sales of securities | **$232** | $286 | $253 |

Realized gains and losses and proceeds from sales of securities for the Fermi 2 and the low level Radioactive Waste funds are recorded to the asset retirement obligation regulatory asset and nuclear decommissioning regulatory liability, respectively. The following table sets forth the fair value and unrealized gains for the nuclear decommissioning trust funds:

| | Fair Value | Unrealized Gains |
|---|---|---|
| | (In millions) | |
| As of December 31, 2008 | | |
| Equity Securities | **$288** | **$ 65** |
| Debt Securities | **388** | **17** |
| Cash and Cash Equivalents | **9** | **—** |
| | **$685** | **$ 82** |
| As of December 31, 2007 | | |
| Equity Securities | $443 | $170 |
| Debt Securities | 373 | 9 |
| Cash and Cash Equivalents | 8 | — |
| | $824 | $179 |

Securities held in the nuclear decommissioning trust funds are classified as available-for-sale. As Detroit Edison does not have the ability to hold impaired investments for a period of time sufficient to allow for the anticipated recovery of market value, all unrealized losses are considered to be other than temporary impairments.

Impairment charges for unrealized losses incurred by the Fermi 2 trust are recognized as a regulatory asset. Detroit Edison recognized $92 million and $22 million of unrealized losses as regulatory assets for the years ended December 31, 2008 and 2007, respectively. Since the decommissioning of Fermi 1 is funded by Detroit Edison rather than through a regulatory recovery mechanism, there is no corresponding regulatory asset treatment. Therefore, impairment charges for unrealized losses incurred by the Fermi 1 trust are recognized in earnings immediately. For the year ended December 31, 2008 no impairment charges were recognized by Detroit Edison for unrealized losses incurred by the Fermi 1 trust. For the year ended December 31, 2007, Detroit Edison recognized impairment charges of $0.2 million, for unrealized losses incurred by the Fermi 1 trust.

***Nuclear Fuel Disposal Costs***

In accordance with the Federal Nuclear Waste Policy Act of 1982, Detroit Edison has a contract with the U.S. Department of Energy (DOE) for the future storage and disposal of spent nuclear fuel from Fermi 2. Detroit Edison is obligated to pay the DOE a fee of 1 mill per kWh of Fermi 2 electricity generated and sold. The fee is a component of nuclear fuel expense. Delays have occurred in the DOE's program for the acceptance and disposal of spent nuclear fuel at a permanent repository. Detroit Edison is a party in the litigation against the DOE for both past and future costs associated with the DOE's failure to accept spent nuclear fuel under the timetable set forth in the Federal Nuclear Waste Policy Act of 1982. Detroit Edison currently employs a used nuclear fuel storage strategy utilizing a spent fuel pool. We have begun work on an on-site dry cask storage facility which is expected to provide sufficient storage capability for the life of the plant as defined by the original operating license.

## NOTE 7 — JOINTLY OWNED UTILITY PLANT

Detroit Edison has joint ownership interest in two power plants, Belle River and Ludington Hydroelectric Pumped Storage. Ownership information of the two utility plants as of December 31, 2008 was as follows:

| | Belle River | Ludington Hydroelectric Pumped Storage |
|---|---|---|
| In-service date | 1984-1985 | 1973 |
| Total plant capacity | 1,260MW | 1,872MW |
| Ownership interest | * | 49% |
| Investment (in Millions) | $ 1,588 | $ 165 |
| Accumulated depreciation (in Millions) | $ 853 | $ 106 |

* Detroit Edison's ownership interest is 63% in Unit No. 1, 81% of the facilities applicable to Belle River used jointly by the Belle River and St. Clair Power Plants and 75% in common facilities used at Unit No. 2.

### *Belle River*

The Michigan Public Power Agency (MPPA) has an ownership interest in Belle River Unit No. 1 and other related facilities. The MPPA is entitled to 19% of the total capacity and energy of the plant and is responsible for the same percentage of the plant's operation, maintenance and capital improvement costs.

### *Ludington Hydroelectric Pumped Storage*

Consumers Energy Company has an ownership interest in the Ludington Hydroelectric Pumped Storage Plant. Consumers Energy is entitled to 51% of the total capacity and energy of the plant and is responsible for the same percentage of the plant's operation, maintenance and capital improvement costs.

## NOTE 8 — INCOME TAXES

### *Income Tax Summary*

The Company files a consolidated federal income tax return. Total income tax expense varied from the statutory federal income tax rate for the following reasons:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| | | (In millions) | |
| Income before income taxes and minority interest | **$ 819** | $1,155 | $ 536 |
| Less minority interest | **5** | 4 | 1 |
| Income from continuing operations before tax | **$ 814** | $1,151 | $ 535 |
| Income tax expense at 35% statutory rate | **$ 285** | $ 403 | $ 187 |
| Production tax credits | **(7)** | (11) | (12) |
| Investment tax credits | **(7)** | (8) | (8) |
| Depreciation | **(4)** | (4) | (4) |
| Employee Stock Ownership Plan dividends | **(4)** | (5) | (5) |
| Medicare part D subsidy | **(5)** | (6) | (6) |
| State and local income taxes, net of federal benefit | **23** | 2 | 5 |
| Other, net | **7** | (7) | (11) |
| Income tax expense from continuing operations | **$ 288** | $ 364 | $ 146 |
| Effective income tax rate | **35.4%** | 31.6% | 27.3% |

The minority interest allocation reflects the adjustment to earnings to allocate partnership losses to third party owners. The tax impact of partnership earnings and losses are attributable to the partners instead of the partnerships. The minority interest allocation is therefore removed in computing income taxes associated with continuing operations.

Components of income tax expense were as follows:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| | | (In millions) | |
| Continuing operations | | | |
| Current income taxes | | | |
| Federal | **$130** | $276 | $ 90 |
| State and other income tax expense | **17** | 1 | (2) |
| Total current income taxes | **147** | 277 | 88 |
| Deferred income taxes | | | |
| Federal | **121** | 85 | 48 |
| State and other income tax expense | **20** | 2 | 10 |
| Total deferred income taxes | **141** | 87 | 58 |
| Total income taxes from continuing operations | **288** | 364 | 146 |
| Discontinued operations | **12** | 66 | (11) |
| Cumulative effect of accounting changes | **—** | — | 1 |
| Total | **$300** | $430 | $136 |

Production tax credits earned in prior years but not utilized totaled $224 million and are carried forward indefinitely as alternative minimum tax credits. The majority of the production tax credits earned, including all of those from our synfuel projects, were generated from projects that had received a private letter ruling (PLR) from the Internal Revenue Service (IRS). These PLRs provide assurance as to the appropriateness of using these credits to offset taxable income, however, these tax credits are subject to IRS audit and adjustment.

Investment tax credits are deferred and amortized to income over the average life of the related property.

Deferred tax assets and liabilities are recognized for the estimated future tax effect of temporary differences between the tax basis of assets or liabilities and the reported amounts in the financial statements. Deferred tax assets and liabilities are classified as current or noncurrent according to the classification of the related assets or liabilities. Deferred tax assets and liabilities not related to assets or liabilities are classified according to the expected reversal date of the temporary differences. Consistent with rate making treatment, deferred taxes are offset in the table below for temporary differences which have related regulatory assets and liabilities.

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

| | 2008 | 2007 |
|---|---|---|
| | (In millions) | |
| Property, plant and equipment | **$(1,734)** | $(1,384) |
| Securitized regulatory assets | **(545)** | (621) |
| Alternative minimum tax credit carry-forwards | **224** | 186 |
| Merger basis differences | **51** | 57 |
| Pension and benefits | **33** | 28 |
| Other comprehensive income | **81** | 62 |
| Derivative assets and liabilities | **109** | 142 |
| State net operating loss and credit carry-forwards | **42** | 28 |
| Other | **50** | 93 |
| | **(1,689)** | (1,409) |
| Less valuation allowance | **(42)** | (28) |
| | **$(1,731)** | $(1,437) |
| Current deferred income tax assets | **$ 227** | $ 387 |
| Long-term deferred income tax liabilities | **(1,958)** | (1,824) |
| | **$(1,731)** | $(1,437) |
| Deferred income tax assets | **$ 1,406** | $ 1,771 |
| Deferred income tax liabilities | **(3,137)** | (3,208) |
| | **$(1,731)** | $(1,437) |

The above table excludes deferred tax liabilities associated with unamortized investment tax credits that are shown separately on the Consolidated Statements of Financial Position.

The Company has state deferred tax assets related to net operating loss and credit carry-forwards of $42 million and $28 million at December 31, 2008 and 2007, respectively. The state net operating loss and credit carry-forwards expire from 2009 through 2029. The Company has recorded valuation allowances at December 31, 2008 and 2007 of approximately $42 million and $28 million, respectively, a change of $14 million, with respect to these deferred tax assets. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, the Company believes it is more likely than not that it will realize the benefits of those deductible differences, net of the existing valuation allowance as of December 31, 2008.

***Uncertain Tax Positions***

The Company adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109 (FIN 48)* on January 1, 2007. This interpretation prescribes a more-likely-than-not recognition threshold and a measurement attribute for the financial statement reporting of tax positions taken or expected to be taken on a tax return. As a result of the implementation of FIN 48, the Company recognized a $5 million increase in liabilities that was accounted for as a reduction to the January 1, 2007 balance of retained earnings.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | 2008 | 2007 |
|---|---|---|
| | (In millions) | |
| Balance at January 1 | **$22** | $ 45 |
| Additions for tax positions of prior years | **12** | 4 |
| Reductions for tax positions of prior years | **(5)** | (8) |
| Additions for tax positions related to the current year | **47** | — |
| Settlements | **(1)** | (15) |
| Lapse of statute of limitations | **(3)** | (4) |
| Balance at December 31 | **$72** | $ 22 |

The Company has $18 million of unrecognized tax benefits at December 31, 2008, that, if recognized, would favorably impact our effective tax rate. During the next 12 months it is reasonably possible that the Company will settle certain federal and state tax examinations and audits. Furthermore, during the next 12 months, statutes of limitations will expire for the Company's tax returns in various states. Therefore, as of December 31, 2008, the Company believes that it is reasonably possible that there will be a decrease in unrecognized tax benefits of $5 million to $9 million within the next twelve months.

The Company recognizes interest and penalties pertaining to income taxes in Interest expense and Other expenses, respectively, on its Consolidated Statements of Operations. Accrued interest pertaining to income taxes totaled $8 million and $7 million at December 31, 2008 and December 31, 2007, respectively. The Company had no accrued penalties pertaining to income taxes. The Company recognized interest expense related to income taxes of $2 million during 2008 and $1 million during 2007.

The Company's U.S. federal income tax returns for years 2004 and subsequent years remain subject to examination by the IRS. The Company's Michigan Business Tax for the year 2008 is subject to examination by the State of Michigan. The Company also files tax returns in numerous state and local jurisdictions with varying statutes of limitation.

***Michigan Business Tax***

In July 2007, the Michigan Business Tax (MBT) was enacted by the State of Michigan to replace the Michigan Single Business Tax (MSBT) effective January 1, 2008. The MBT is comprised of an apportioned modified gross receipts tax of 0.8 percent; and an apportioned business income tax of 4.95 percent. The MBT provides credits for Michigan business investment, compensation, and research and development. The MBT is accounted for as an income tax.

In 2007, a state deferred tax liability of $224 million was recognized by the Company for cumulative differences between book and tax assets and liabilities for the consolidated group. Effective September 30, 2007, legislation was adopted by the State of Michigan creating a deduction for businesses that realize an increase in their deferred tax liability due to the enactment of the MBT. Therefore, a deferred tax asset of $224 million was established related to the future deduction. The deduction will be claimed during the period of 2015 through 2029. The recognition of the enactment of the MBT did not have an impact on our income tax provision for 2007.

The 2007 state consolidated deferred tax liability was increased in 2008 by $19 million to $243 million to reflect changes in federal income tax temporary differences primarily due to an approved IRS change in accounting method for our utilities for tax year 2007. The related one-time deferred tax asset for the tax deduction created for businesses that realize an increase in their deferred tax liability due to enactment of the MBT was also increased by $19 million to $243 million. The deferred tax liabilities of our regulatory utilities were increased by $24 million to $388 million and the corresponding regulatory assets and liabilities were also increased by $24 million to $388 million in accordance with SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation,* as the impacts of the deferred tax liabilities and assets recognized upon enactment and amendment of the MBT will be reflected in our rates.

In 2008, the state consolidated deferred tax liability increased by $25 million to $268 million as of December 31, 2008 with $20 million of the increase charged to state deferred tax expense and $5 million charged to the related regulatory assets at the utilities. The regulatory asset at the utilities increased to $394 million as of December 31, 2008.

## NOTE 9 — COMMON STOCK

### *Common Stock*

The DTE Energy Board of Directors has authorized the repurchase of up to $1.55 billion of common stock through 2009. Through December 31, 2008, repurchases of approximately $725 million of common stock were made.

Under the DTE Energy Company Long-Term Incentive Plan, the Company grants non-vested stock awards to key employees, primarily management. As a result of a stock award, a settlement of an award of performance shares, or by exercise of a participant's stock option, the Company may deliver common stock from the Company's authorized but unissued common stock and/or from outstanding common stock acquired by or on behalf of the Company in the name of the participant. The number of non-vested restricted stock awards is included in the number of common shares outstanding; however, for purposes of computing basic earnings per share, non-vested restricted stock awards are excluded.

### *Dividends*

Certain of the Company's credit facilities contain a provision requiring the Company to maintain a ratio of consolidated debt to capitalization equal to or less than 0.65:1, which has the effect of limiting the amount of dividends the Company can pay in order to maintain compliance with this provision. The effect of this provision as of December 31, 2008 was to restrict approximately $555 million as payments for dividends of total retained earnings of approximately $3 billion. There are no other effective limitations with respect to the Company's ability to pay dividends.

## NOTE 10 — EARNINGS PER SHARE

The Company reports both basic and diluted earnings per share. Basic earnings per share is computed by dividing income from continuing operations by the weighted average number of common shares outstanding during the period. The calculation of diluted earnings per share assumes the issuance of potentially dilutive common shares outstanding during the period and the repurchase of common shares that would have occurred with proceeds from the assumed issuance. Diluted earnings per share assume the exercise of stock options. Non-vested restricted stock awards are included in the number of common shares outstanding; however, for purposes of computing basic earnings per share, non-vested restricted stock awards are excluded. A reconciliation of both calculations is presented in the following table:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| | (In millions, except per share amounts) | | |
| **Basic Earnings per Share** | | | |
| Income from continuing operations | **$ 526** | $ 787 | $ 389 |
| Average number of common shares outstanding | **162** | 169 | 177 |
| Income per share of common stock based on weighted average number of shares outstanding | **$3.24** | $4.64 | $2.19 |
| **Diluted Earnings per Share** | | | |
| Income from continuing operations | **$ 526** | $ 787 | $ 389 |
| Average number of common shares outstanding | **162** | 169 | 177 |
| Incremental shares from stock-based awards | **1** | 1 | 1 |
| Average number of dilutive shares outstanding | **163** | 170 | 178 |
| Income per share of common stock assuming issuance of incremental shares | **$3.23** | $4.62 | $2.18 |

Options to purchase approximately 5 million shares, 2,100 shares, and 100,000 shares of common stock in 2008, 2007 and 2006, respectively, were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares, thus making these options anti-dilutive.

## NOTE 11 — LONG-TERM DEBT

### *Long-Term Debt*

The Company's long-term debt outstanding and weighted average interest rates(1) of debt outstanding at December 31 were:

| | 2008 | 2007 |
|---|---|---|
| | (In millions) | |
| ***Mortgage bonds, notes, and other*** | | |
| **DTE Energy Debt, Unsecured** | | |
| 6.7% due 2009 to 2033 | **$1,497** | $1,496 |
| **Detroit Edison Taxable Debt, Principally Secured** | | |
| 5.9% due 2010 to 2038 | **2,841** | 2,305 |
| **Detroit Edison Tax-Exempt Revenue Bonds(2)** | | |
| 5.2% due 2011 to 2036 | **1,263** | 1,213 |
| **MichCon Taxable Debt, Principally Secured** | | |
| 6.1% due 2012 to 2033 | **889** | 715 |
| **Other Long-Term Debt, Including Non-Recourse Debt** | **188** | 196 |
| | **6,678** | 5,925 |
| Less debt associated with assets held for sale | **—** | (22) |
| Less amount due within one year | **(220)** | (327) |
| | **$6,458** | $5,576 |
| ***Securitization bonds*** | | |
| 6.4% due 2009 to 2015 | **$1,064** | $1,185 |
| Less amount due within one year | **(132)** | (120) |
| | **$ 932** | $1,065 |
| ***Trust preferred — linked securities*** | | |
| 7.8% due 2032 | **$ 186** | $ 186 |
| 7.5% due 2044 | **103** | 103 |
| | **$ 289** | $ 289 |

(1) Weighted average interest rates as of December 31, 2008 are shown below the description of each category of debt.

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

### *Debt Issuances*

In 2008, the Company has issued or remarketed the following long-term debt:

| Company | Month Issued | Type | Interest Rate | Maturity | Amount |
|---|---|---|---|---|---|
| | | (In millions) | | | |
| MichCon | April | Senior Notes(1) | 5.26% | 2013 | $ 60 |
| MichCon | April | Senior Notes(1) | 6.04% | 2018 | 100 |
| MichCon | April | Senior Notes(1) | 6.44% | 2023 | 25 |
| Detroit Edison | April | Tax-Exempt Revenue Bonds(2) | Variable | 2036 | 69 |
| Detroit Edison | May | Tax-Exempt Revenue Bonds(2) | Variable | 2029 | 118 |
| Detroit Edison | May | Tax-Exempt Revenue Bonds(3) | 5.30% | 2030 | 51 |
| MichCon | June | Senior Notes(4) | 6.78% | 2028 | 75 |
| Detroit Edison | June | Senior Notes(1) | 5.60% | 2018 | 300 |
| Detroit Edison | July | Tax-Exempt Revenue Bonds(5) | Variable | 2020 | 32 |
| MichCon | August | Senior Notes(6) | 5.94% | 2015 | 140 |
| MichCon | August | Senior Notes(6) | 6.36% | 2020 | 50 |
| Detroit Edison | October | Senior Notes(1) | 6.40% | 2013 | 250 |
| Detroit Edison | December | Tax-Exempt Revenue Bonds(7) | 6.75% | 2038 | 50 |
| | | | | | $1,320 |

(1) Proceeds were used to pay down short-term debt and for general corporate purposes.

(2) Proceeds were used to refinance auction rate Tax-Exempt Revenue Bonds.

(3) These Tax-Exempt Revenue Bonds were converted from an auction rate mode and remarketed in a fixed rate mode to maturity.

(4) Proceeds were used to repay the 6.45% Remarketable Securities due 2038 subject to mandatory or optional tender on June 30, 2008.

(5) Proceeds were used to refinance Tax-Exempt Revenue Bonds that matured July 2008.

(6) Proceeds were used to repay a portion of the $200 million MichCon 6.125% Senior Notes due September 2008.

(7) Proceeds to be used to finance the construction, acquisition, improvement and installation of certain solid waste disposal facilities at Detroit Edison's Monroe Power Plant.

### *Debt Retirements and Redemptions*

In 2008, the following debt has been retired, through optional redemption or payment at maturity:

| Company | Month Retired | Type | Interest Rate | Maturity | Amount |
|---|---|---|---|---|---|
| | | (In millions) | | | |
| Detroit Edison | April | Tax-Exempt Revenue Bonds(1) | Variable | 2036 | $ 69 |
| Detroit Edison | May | Tax-Exempt Revenue Bonds(1) | Variable | 2029 | 118 |
| MichCon | June | Remarketable Securities(2) | 6.45% | 2038 | 75 |
| Detroit Edison | July | Tax-Exempt Revenue Bonds(3) | 7.00% | 2008 | 32 |
| MichCon | September | Senior Notes(4) | 6.125% | 2008 | 200 |
| | | | | | $494 |

(1) These Tax-Exempt Revenue Bonds were converted from auction rate mode and subsequently redeemed with proceeds from the issuance of new Detroit Edison Tax-Exempt Revenue Bonds.

(2) These Remarketable Securities were optionally redeemed by MichCon with proceeds from the issuance of new MichCon Senior Notes.

(3) These Tax-Exempt Revenue Bonds were redeemed with the proceeds from the issuance of new Detroit Edison Tax-Exempt Revenue Bonds.

(4) These Senior Notes were redeemed with the proceeds from the issuance of new MichCon Senior Notes and short-term debt.

The following table shows the scheduled debt maturities, excluding any unamortized discount or premium on debt:

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 and Thereafter | Total |
|---|---|---|---|---|---|---|---|
| | | | | (In millions) | | | |
| Amount to mature | $352 | $670 | $914 | $452 | $560 | $5,092 | $8,040 |

### *Trust Preferred-Linked Securities*

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.

The Company has the right to extend interest payment periods on the debt securities. Should the Company exercise this right, it cannot declare or pay dividends on, or redeem, purchase or acquire, any of its capital stock during the deferral period.

DTE Energy has issued certain guarantees with respect to payments on the preferred securities. These guarantees, when taken together with the Company's obligations under the debt securities and related indenture, provide full and unconditional guarantees of the trusts' obligations under the preferred securities.

Financing costs for these issuances were paid for and deferred by DTE Energy. These costs are being amortized using the straight-line method over the estimated lives of the related securities.

### *Cross Default Provisions*

Substantially all of the net utility properties of Detroit Edison and MichCon are subject to the lien of mortgages. Should Detroit Edison or MichCon fail to timely pay their indebtedness under these mortgages, such failure may create cross defaults in the indebtedness of DTE Energy.

## NOTE 12 — PREFERRED SECURITIES

### *Preferred and Preference Securities — Authorized and Unissued*

As of December 31, 2008, the amount of authorized and unissued stock is as follows:

| Company | Type of Stock | Par Value | Shares Authorized |
|---|---|---|---|
| DTE Energy | Preferred | None | 5,000,000 |
| Detroit Edison | Preferred | $100 | 6,747,484 |
| Detroit Edison | Preference | $1 | 30,000,000 |
| MichCon | Preferred | $1 | 7,000,000 |
| MichCon | Preference | $1 | 4,000,000 |

## NOTE 13 — SHORT-TERM CREDIT ARRANGEMENTS AND BORROWINGS

DTE Energy and its wholly-owned subsidiaries, Detroit Edison and MichCon, have entered into revolving credit facilities with similar terms. The five-year credit facilities are with a syndicate of banks and may be used for general corporate borrowings, but are intended to provide liquidity support for each of the companies' commercial paper programs. Borrowings under the facilities are available at prevailing short-term interest rates. Additionally, at December 31, 2008, Detroit Edison and MichCon had short-term unsecured bank loans of $75 million and $50 million, respectively. Also in 2008, DTE Energy entered into two supplemental $30 million facilities to support the issuance of letters of credit. The above agreements require the Company to maintain a debt to total capitalization ratio of no more than 0.65 to 1. DTE Energy, Detroit Edison and MichCon are in compliance with this financial covenant. In December 2008, MichCon issued a $20 million secured short-term note, due in September 2009. The availability under these combined facilities is shown in the following table:

| | DTE Energy | Detroit Edison | MichCon | Total |
|---|---|---|---|---|
| | | (In millions) | | |
| Five-year unsecured revolving facility, expiring October 2010 | $ 675 | $ 69 | $ 181 | $ 925 |
| Five-year unsecured revolving facility, expiring October 2009 | 525 | 206 | 244 | 975 |
| Unsecured bank loan facility, expiring July 2009 | — | 75 | — | 75 |
| Unsecured bank loan facility, expiring June 2009 | — | — | 50 | 50 |
| Secured floating rate note, maturing September 2009 | — | — | 20 | 20 |
| One-year unsecured letter of credit facility, expiring November 2009 | 30 | — | — | 30 |
| One-year unsecured letter of credit facility, expiring December 2009 | 30 | — | — | 30 |
| Total credit facilities at December 31, 2008 | 1,260 | 350 | 495 | 2,105 |
| Amounts outstanding at December 31, 2008: | | | | |
| Commercial paper issuances | (77) | — | (272) | (349) |
| Borrowings | (100) | (75) | (220) | (395) |
| Letters of credit | (275) | — | — | (275) |
| | (452) | (75) | (492) | (1,019) |
| Net availability at December 31, 2008 | $ 808 | $275 | $ 3 | $ 1,086 |

We have other outstanding letters of credit which are not included in the above described facilities totaling approximately $16 million which are used for various corporate purposes.

The weighted average interest rate for short-term borrowings was 3.9% and 5.4% at December 31, 2008 and 2007, respectively.

In conjunction with maintaining certain exchange traded risk management positions, the Company may be required to post cash collateral with its clearing agent. The Company has a demand financing agreement for up to $50 million with its clearing agent. The amount outstanding under this agreement was $26 million and $13 million at December 31, 2008 and 2007, respectively.

Detroit Edison terminated a $200 million short-term financing agreement secured by customer accounts receivable in 2008.

## NOTE 14 — CAPITAL AND OPERATING LEASES

*Lessee* — The Company leases various assets under capital and operating leases, including coal cars, office buildings, a warehouse, computers, vehicles and other equipment. The lease arrangements expire at various dates through 2031. Future minimum lease payments under non-cancelable leases at December 31, 2008 were:

| | Capital Leases | Operating Leases |
|---|---|---|
| | (In millions) | |
| 2009 | $15 | $ 36 |
| 2010 | 14 | 30 |
| 2011 | 12 | 27 |
| 2012 | 9 | 25 |
| 2013 | 9 | 21 |
| Thereafter | 32 | 99 |
| Total minimum lease payments | 91 | $238 |
| Less imputed interest | 19 | |
| Present value of net minimum lease payments | 72 | |
| Less current portion | 10 | |
| Non-current portion | $62 | |

Rental expense for operating leases was $49 million in 2008, $60 million in 2007, and $72 million in 2006.

*Lessor* — MichCon leases a portion of its pipeline system to the Vector Pipeline Partnership through a capital lease contract that expires in 2020, with renewal options extending for five years. The components of the net investment in the capital lease at December 31, 2008, were as follows:

| | (In millions) |
|---|---|
| 2009 | $ 9 |
| 2010 | 9 |
| 2011 | 9 |
| 2012 | 9 |
| 2013 | 9 |
| Thereafter | 62 |
| Total minimum future lease receipts | 107 |
| Residual value of leased pipeline | 40 |
| Less unearned income | (70) |
| Net investment in capital lease | 77 |
| Less current portion | 2 |
| | $ 75 |

## NOTE 15 — FAIR VALUE

Effective January 1, 2008, the Company adopted SFAS No. 157. This Statement defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. The Company has elected the option to defer the effective date of SFAS No. 157 as it pertains to non-financial assets and liabilities to January 1, 2009.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Company makes certain assumptions it believes that market participants would use in pricing assets or liabilities, including assumptions about risk, and the risks inherent in the inputs to valuation techniques. Credit risk of the Company and its counterparties is incorporated in the valuation of assets and liabilities through the use of credit reserves, the impact of which is immaterial for the year ended December 31, 2008. The Company believes it uses valuation techniques that maximize the use of observable market-based inputs and minimize the use of unobservable inputs.

SFAS No. 157 establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. SFAS No. 157 requires that assets and liabilities be classified in their entirety based on the lowest level of input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input may require judgment considering factors specific to the asset or liability, and may affect the valuation of the asset or liability and its placement within the fair value hierarchy. The Company classifies fair value balances based on the fair value hierarchy defined by SFAS No. 157 as follows:

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

The following table presents assets and liabilities measured and recorded at fair value on a recurring basis as of December 31, 2008:

| | Level 1 | Level 2 | Level 3 | Netting Adjustments(2) | Net Balance at December 31, 2008 |
|---|---|---|---|---|---|
| | | | (In millions) | | |
| **Assets:** | | | | | |
| Cash equivalents | $ 36 | $ — | $ — | $ — | $ 36 |
| Nuclear decommissioning trusts and Other investments(1) | 492 | $ 310 | $ 1 | $ — | $ 803 |
| Derivative assets | 2,051 | 1,118 | 677 | (3,390) | 456 |
| Total | $ 2,579 | $ 1,428 | $ 678 | $(3,390) | $1,295 |
| **Liabilities:** | | | | | |
| Derivative liabilities | (2,026) | (1,118) | (861) | 3,376 | (629) |
| Total | $(2,026) | $(1,118) | $(861) | $ 3,376 | $ (629) |
| Net assets (liabilities) at December 31, 2008 | $ 553 | $ 310 | $(183) | $ (14) | $ 666 |

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

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

The following table presents the fair value reconciliation of Level 3 derivative assets and liabilities and purchase of Other investments of $1 million measured at fair value on a recurring basis for the year ended December 31, 2008:

| | (In millions) |
|---|---|
| Liability balance as of January 1, 2008(1) | $(366) |
| Changes in fair value recorded in income | (10) |
| Changes in fair value recorded in regulatory liabilities | 2 |
| Changes in fair value recorded in other comprehensive income | 6 |
| Purchases, issuances and settlements | 195 |
| Transfers in/out of Level 3 | (10) |
| Liability balance as of December 31, 2008 | $(183) |
| The amount of total gains included in net income attributed to the change in unrealized gains (losses) related to assets and liabilities held at December 31, 2008 | $ 129 |

(1) Balance as of January 1, 2008 includes a cumulative effect adjustment which represents an increase to beginning retained earnings related to Level 3 derivatives upon adoption of SFAS No. 157.

Net losses of $10 million related to Level 3 derivative assets and liabilities are reported in Operating Revenues for the year ended December 31, 2008 consistent with the Company's accounting policy. Net gains of $154 million related to Level 1 and Level 2 derivative assets and liabilities, and the impact of netting, are also reported in Operating Revenues for the year ended December 31, 2008. Transfers in/out of Level 3 represent existing assets or liabilities that were either previously categorized as a higher level for which the inputs to the model became unobservable or assets and liabilities that were previously classified as Level 3 for