

DTE ENERGY CO  
 Form 10-Q  
 October 24, 2018

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

FORM 10-Q

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

For the Quarterly Period ended September 30, 2018

| Commission File Number | Registrants, State of Incorporation, Address, and Telephone Number   | I.R.S. Employer Identification No. |
|------------------------|--|------------------------------------|
| 1-11607                | DTE Energy Company<br>(a Michigan corporation)<br>One Energy Plaza<br>Detroit, Michigan 48226-1279<br>313-235-4000   | 38-3217752                         |
| 1-2198                 | DTE Electric Company<br>(a Michigan corporation)<br>One Energy Plaza<br>Detroit, Michigan 48226-1279<br>313-235-4000 | 38-0478650                         |

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

DTE Energy Company (DTE Energy) Yes  No  DTE Electric Company (DTE Electric) Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

DTE Energy Yes  No  DTE Electric Yes  No

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

DTE Energy Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

DTE Electric Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

DTE Energy Yes  No  DTE Electric Yes  No

Number of shares of Common Stock outstanding at September 30, 2018:

Edgar Filing: DTE ENERGY CO - Form 10-Q

| Registrant | Description                     | Shares      |
|------------|---------------------------------|-------------|
| DTE Energy | Common Stock, without par value | 181,925,024 |

DTE Electric Common Stock, \$10 par value, directly owned by DTE Energy 138,632,324

This combined Form 10-Q is filed separately by two registrants: DTE Energy and DTE Electric. Information contained herein relating to any individual registrant is filed by such registrant solely on its own behalf. DTE Electric makes no representation as to information relating exclusively to DTE Energy.

DTE Electric, a wholly-owned subsidiary of DTE Energy, meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format specified in General Instructions H(2) of Form 10-Q.

---

THIS PAGE INTENTIONALLY LEFT BLANK

---

## TABLE OF CONTENTS

|   | Page             |
|---|------------------|
| <u>Definitions</u>  | <u>1</u>         |
| <u>Filing Format</u>  | <u>3</u>         |
| <u>Forward-Looking Statements</u>   | <u>3</u>         |
| <b><u>PART I - FINANCIAL INFORMATION</u></b>  |                  |
| <b><u>Item 1. Financial Statements</u></b>  |                  |
| <u>DTE Energy Consolidated Financial Statements (Unaudited)</u>   | <u>5</u>         |
| <u>DTE Electric Consolidated Financial Statements (Unaudited)</u>   | <u>11</u>        |
| <u>Combined Notes to Consolidated Financial Statements (Unaudited)</u>                                      | <u>17</u>        |
| <u>Note 1 — Organization and Basis of Presentation</u>  | <u>17</u>        |
| <u>Note 2 — Significant Accounting Policies</u>   | <u>20</u>        |
| <u>Note 3 — New Accounting Pronouncements</u>   | <u>22</u>        |
| <u>Note 4 — Revenue</u>   | <u>24</u>        |
| <u>Note 5 — Regulatory Matters</u>  | <u>28</u>        |
| <u>Note 6 — Earnings Per Share</u>  | <u>30</u>        |
| <u>Note 7 — Fair Value</u>  | <u>31</u>        |
| <u>Note 8 — Financial and Other Derivative Instruments</u>  | <u>38</u>        |
| <u>Note 9 — Long-Term Debt</u>  | <u>43</u>        |
| <u>Note 10 — Short-Term Credit Arrangements and Borrowings</u>  | <u>43</u>        |
| <u>Note 11 — Commitments and Contingencies</u>  | <u>44</u>        |
| <u>Note 12 — Retirement Benefits and Trusteed Assets</u>  | <u>49</u>        |
| <u>Note 13 — Segment and Related Information</u>  | <u>50</u>        |
| <b><u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b> | <b><u>52</u></b> |
| <b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>                            | <b><u>69</u></b> |
| <b><u>Item 4. Controls and Procedures</u></b>   | <b><u>72</u></b> |
| <b><u>PART II - OTHER INFORMATION</u></b>   |                  |
| <b><u>Item 1. Legal Proceedings</u></b>   | <b><u>73</u></b> |
| <b><u>Item 1A. Risk Factors</u></b>   | <b><u>73</u></b> |
| <b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>                           | <b><u>73</u></b> |
| <b><u>Item 6. Exhibits</u></b>  | <b><u>74</u></b> |
| <u>Signatures</u>   | <u>75</u>        |

---

DEFINITIONS

|              |   |
|--------------|---|
| AFUDC        | Allowance for Funds Used During Construction  |
| AGS          | Appalachia Gathering System is a midstream natural gas asset located in Pennsylvania and West Virginia. DTE Energy purchased 100% of AGS in October 2016, and this asset is part of DTE Energy's Gas Storage and Pipelines segment. |
| AMT          | Alternative Minimum Tax   |
| ANPR         | Advanced Notice of Proposed Rulemaking  |
| ASU          | Accounting Standards Update issued by the FASB  |
| CCR          | Coal Combustion Residuals   |
| CFTC         | U.S. Commodity Futures Trading Commission   |
| CON          | Certificate of Necessity  |
| DTE Electric | DTE Electric Company (a direct wholly-owned subsidiary of DTE Energy) and subsidiary companies  |
| DTE Energy   | DTE Energy Company, directly or indirectly the parent of DTE Electric, DTE Gas, and numerous non-utility subsidiaries   |
| DTE Gas      | DTE Gas Company (an indirect wholly-owned subsidiary of DTE Energy) and subsidiary companies  |
| EGU          | Electric Generating Unit  |
| ELG          | Effluent Limitations Guidelines   |
| EPA          | U.S. Environmental Protection Agency  |
| Equity units | DTE Energy's 2016 Equity Units issued in October 2016, which were used to finance the October 1, 2016 Gas Storage and Pipelines acquisition   |
| FASB         | Financial Accounting Standards Board  |
| FERC         | Federal Energy Regulatory Commission  |
| FOV          | Finding of Violation  |
| FTRs         | Financial Transmission Rights are financial instruments that entitle the holder to receive payments related to costs incurred for congestion on the transmission grid.  |
| GCR          | A Gas Cost Recovery mechanism authorized by the MPSC that allows DTE Gas to recover through rates its natural gas costs.  |

|             |   |
|-------------|---|
| GHGs        | Greenhouse gases  |
| Green Bonds | A financing option to fund projects that have a positive environmental impact based upon a specified set of criteria. The proceeds are required to be used for eligible green expenditures. |
| MDEQ        | Michigan Department of Environmental Quality  |
| MGP         | Manufactured Gas Plant  |
| MPSC        | Michigan Public Service Commission  |
| MTM         | Mark-to-market  |
| NAV         | Net Asset Value   |
| NEXUS       | NEXUS Gas Transmission, LLC, a joint venture in which DTE Energy own a 50% partnership interest.  |
| Non-utility | An entity that is not a public utility. Its conditions of service, prices of goods and services, and other operating related matters are not directly regulated by the MPSC.                |
| NOV         | Notice of Violation   |

DEFINITIONS

|                             |   |
|-----------------------------|---|
| NO <sub>x</sub>             | Nitrogen Oxides   |
| NRC                         | U.S. Nuclear Regulatory Commission  |
| Production tax credits      | Tax credits as authorized under Sections 45K and 45 of the Internal Revenue Code that are designed to stimulate investment in and development of alternate fuel sources. The amount of a production tax credit can vary each year as determined by the Internal Revenue Service.                  |
| PSCR                        | A Power Supply Cost Recovery mechanism authorized by the MPSC that allows DTE Electric to recover through rates its fuel, fuel-related, and purchased power costs.  |
| REC                         | Renewable Energy Credit   |
| REF                         | Reduced Emissions Fuel  |
| Registrants                 | DTE Energy and DTE Electric   |
| Retail access               | Michigan legislation provided customers the option of access to alternative suppliers for electricity and natural gas.  |
| SEC                         | Securities and Exchange Commission  |
| SGG                         | Stonewall Gas Gathering is a midstream natural gas asset located in West Virginia. DTE Energy purchased 55% of SGG in October 2016, and this asset is part of DTE Energy's Gas Storage and Pipelines segment.   |
| SO <sub>2</sub>             | Sulfur Dioxide  |
| TCJA                        | Tax Cuts and Jobs Act of 2017   |
| TCJA rate reduction reserve | Beginning January 1, 2018, as a result of the change in the corporate tax rate, DTE Electric and DTE Gas have reduced revenue and recorded an offsetting regulatory liability   |
| Topic 606                   | FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, as amended  |
| TRM                         | A Transitional Reconciliation Mechanism authorized by the MPSC that allows DTE Electric to recover through rates the deferred net incremental revenue requirement associated with the transition of City of Detroit's Public Lighting Department customers to DTE Electric's distribution system. |
| VIE                         | Variable Interest Entity  |
| Units of Measurement        |   |
| BTU                         | Heat value (energy content) of fuel   |
| MMBtu                       | One million BTU   |

MWh

Megawatthour of electricity

2

---



## FILING FORMAT

This combined Form 10-Q is separately filed by DTE Energy and DTE Electric. Information in this combined Form 10-Q relating to each individual Registrant is filed by such Registrant on its own behalf. DTE Electric makes no representation regarding information relating to any other companies affiliated with DTE Energy other than its own subsidiaries. Neither DTE Energy, nor any of DTE Energy's other subsidiaries (other than DTE Electric), has any obligation in respect of DTE Electric's debt securities, and holders of such debt securities should not consider the financial resources or results of operations of DTE Energy nor any of DTE Energy's other subsidiaries (other than DTE Electric and its own subsidiaries (in relevant circumstances)) in making a decision with respect to DTE Electric's debt securities. Similarly, none of DTE Electric nor any other subsidiary of DTE Energy has any obligation in respect to debt securities of DTE Energy. This combined Form 10-Q should be read in its entirety. No one section of this combined Form 10-Q deals with all aspects of the subject matter of this combined Form 10-Q. This combined Form 10-Q should be read in conjunction with the Consolidated Financial Statements and Combined Notes to Consolidated Financial Statements and with Management's Discussion and Analysis included in the combined DTE Energy and DTE Electric 2017 Annual Report on Form 10-K.

## FORWARD-LOOKING STATEMENTS

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

- impact of regulation by the EPA, the FERC, the MPSC, the NRC, and for DTE Energy, the CFTC, as well as other applicable governmental proceedings and regulations, including any associated impact on rate structures;
- the amount and timing of cost recovery allowed as a result of regulatory proceedings, related appeals, or new legislation, including legislative amendments and retail access programs;
- economic conditions and population changes in the Registrants' geographic area resulting in changes in demand, customer conservation, and thefts of electricity and, for DTE Energy, natural gas;
- environmental issues, laws, regulations, and the increasing costs of remediation and compliance, including actual and potential new federal and state requirements;
- the cost of protecting assets against, or damage due to, cyber crime and terrorism;
- health, safety, financial, environmental, and regulatory risks associated with ownership and operation of nuclear facilities;
- volatility in the short-term natural gas storage markets impacting third-party storage revenues related to DTE Energy;
- impact of volatility of prices in the oil and gas markets on DTE Energy's gas storage and pipelines operations;
- impact of volatility in prices in the international steel markets on DTE Energy's power and industrial projects operations;
- volatility in commodity markets, deviations in weather, and related risks impacting the results of DTE Energy's energy trading operations;
- changes in the cost and availability of coal and other raw materials, purchased power, and natural gas;
- advances in technology that produce power or reduce power consumption;
- changes in the financial condition of significant customers and strategic partners;
- the potential for losses on investments, including nuclear decommissioning and benefit plan assets and the related increases in future expense and contributions;



• access to capital markets and the results of other financing efforts which can be affected by credit agency ratings;

• instability in capital markets which could impact availability of short and long-term financing;

• the timing and extent of changes in interest rates;

• the level of borrowings;

• the potential for increased costs or delays in completion of significant capital projects;

- changes in, and application of, federal, state, and local tax laws and their interpretations, including the Internal Revenue Code, regulations, rulings, court proceedings, and audits;

• the effects of weather and other natural phenomena on operations and sales to customers, and purchases from suppliers;

• unplanned outages;

• employee relations and the impact of collective bargaining agreements;

• the risk of a major safety incident;

• the availability, cost, coverage, and terms of insurance and stability of insurance providers;

• cost reduction efforts and the maximization of plant and distribution system performance;

• the effects of competition;

• changes in and application of accounting standards and financial reporting regulations;

• changes in federal or state laws and their interpretation with respect to regulation, energy policy, and other business issues;

• contract disputes, binding arbitration, litigation, and related appeals; and

• the risks discussed in the Registrants' public filings with the Securities and Exchange Commission.

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

## Part I — Financial Information

## Item 1. Financial Statements

## DTE Energy Company

## Consolidated Statements of Operations (Unaudited)

|  | Three Months<br>Ended<br>September 30,<br>2018 |         | Nine Months<br>Ended<br>September 30,<br>2017 |         |
|--|--|---------|---|---------|
|  | 2018   | 2017    | 2018  | 2017    |
|  | (In millions, except per share amounts)        |         |   |         |
| Operating Revenues   |  |         |   |         |
| Utility operations   | \$1,669  | \$1,573 | \$4,923                                       | \$4,714 |
| Non-utility operations   | 1,881  | 1,672   | 5,539   | 4,622   |
|  | 3,550  | 3,245   | 10,462  | 9,336   |
| Operating Expenses   |  |         |   |         |
| Fuel, purchased power, and gas — utility                         | 453  | 437     | 1,440   | 1,362   |
| Fuel, purchased power, and gas — non-utility                     | 1,682  | 1,469   | 4,898   | 3,897   |
| Operation and maintenance  | 604  | 550     | 1,721   | 1,676   |
| Depreciation and amortization                                    | 273  | 258     | 826   | 756     |
| Taxes other than income  | 99   | 91      | 307   | 297     |
| Asset (gains) losses and impairments, net                        | 10   | 6       | 8   | 9       |
|  | 3,121  | 2,811   | 9,200   | 7,997   |
| Operating Income   | 429  | 434     | 1,262   | 1,339   |
| Other (Income) and Deductions                                    |  |         |   |         |
| Interest expense   | 142  | 146     | 412   | 404     |
| Interest income  | (3)  | (4)     | (9)   | (9)     |
| Non-operating retirement benefits, net                           | 9  | 16      | 27  | 49      |
| Other income   | (99)   | (74)    | (262)   | (204)   |
| Other expenses   | 11   | 13      | 51  | 26      |
|  | 60   | 97      | 219   | 266     |
| Income Before Income Taxes                                       | 369  | 337     | 1,043   | 1,073   |
| Income Tax Expense   | 34   | 74      | 121   | 241     |
| Net Income   | 335  | 263     | 922   | 832     |
| Less: Net Income (Loss) Attributable to Noncontrolling Interests | 1  | (7)     | (7)   | (15)    |
| Net Income Attributable to DTE Energy Company                    | \$334  | \$270   | \$929   | \$847   |
| Basic Earnings per Common Share                                  |  |         |   |         |
| Net Income Attributable to DTE Energy Company                    | \$1.84   | \$1.51  | \$5.13  | \$4.72  |
| Diluted Earnings per Common Share                                |  |         |   |         |
| Net Income Attributable to DTE Energy Company                    | \$1.84   | \$1.51  | \$5.13  | \$4.72  |

|   |     |     |        |        |
|---|-----|-----|--------|--------|
| Weighted Average Common Shares Outstanding                          |     |     |        |        |
| Basic   | 182 | 179 | 181    | 179    |
| Diluted   | 182 | 179 | 181    | 179    |
| Dividends Declared per Common Share                                 | \$— | \$— | \$2.65 | \$2.48 |
| See Combined Notes to Consolidated Financial Statements (Unaudited) |     |     |        |        |

5

---

## DTE Energy Company

## Consolidated Statements of Comprehensive Income (Unaudited)

|   | Three<br>Months<br>Ended<br>September<br>30,<br>2018 2017 |       | Nine Months<br>Ended<br>September<br>30,<br>2018 2017 |       |   |
|---|---|-------|---|-------|---|
|   | (In millions)   |       |   |       |   |
| Net Income  | \$335   | \$263 | \$922   | \$832 |   |
| Other comprehensive income (loss), net of tax:  |   |       |   |       |   |
| Benefit obligations, net of taxes of \$—, \$2, \$2, and \$6, respectively   | 2   | 3     | 7   | 10    |   |
| Net unrealized gains on investments during the period, net of taxes of \$1 for the nine months ended September 30, 2017 | —   | —     | —   | 1     |   |
| Net unrealized gains on derivatives during the period, net of taxes of \$—, respectively                                | 1   | —     | 1   | —     |   |
| Foreign currency translation  | —   | 2     | (1  | ) 2   |   |
| Other comprehensive income  | 3   | 5     | 7   | 13    |   |
| Comprehensive income  | 338   | 268   | 929   | 845   |   |
| Less: Comprehensive income (loss) attributable to noncontrolling interests  | 1   | (7    | ) (7  | ) (15 | ) |
| Comprehensive Income Attributable to DTE Energy Company   | \$337   | \$275 | \$936   | \$860 |   |

See Combined Notes to Consolidated Financial Statements (Unaudited)

## DTE Energy Company

## Consolidated Statements of Financial Position (Unaudited)

|   | September 30,<br>2018<br>(In millions) |  | December 31,<br>2017 |
|---|--|--|----------------------|
| <b>ASSETS</b>   |  |  |                      |
| Current Assets  |  |  |                      |
| Cash and cash equivalents   | \$ 84                                  |  | \$ 66                |
| Restricted cash   | 20                                     |  | 23                   |
| Accounts receivable (less allowance for doubtful accounts of \$75 and \$49, respectively) |  |  |                      |
| Customer  | 1,690                                  |  | 1,758                |
| Other   | 83                                     |  | 98                   |
| Inventories   |  |  |                      |
| Fuel and gas  | 390                                    |  | 399                  |
| Materials and supplies  | 377                                    |  | 380                  |
| Derivative assets   | 97                                     |  | 103                  |
| Regulatory assets   | 90                                     |  | 55                   |
| Other   | 272                                    |  | 199                  |
|   | 3,103                                  |  | 3,081                |
| Investments   |  |  |                      |
| Nuclear decommissioning trust funds   | 1,525                                  |  | 1,492                |
| Investments in equity method investees  | 1,670                                  |  | 1,073                |
| Other   | 241                                    |  | 232                  |
|   | 3,436                                  |  | 2,797                |
| Property  |  |  |                      |
| Property, plant, and equipment  | 32,600                                 |  | 31,424               |
| Accumulated depreciation and amortization   | (10,988 )                              |  | (10,703 )            |
|   | 21,612                                 |  | 20,721               |
| Other Assets  |  |  |                      |
| Goodwill  | 2,293                                  |  | 2,293                |
| Regulatory assets   | 3,689                                  |  | 3,723                |
| Intangible assets   | 864                                    |  | 867                  |
| Notes receivable  | 67                                     |  | 73                   |
| Derivative assets   | 31                                     |  | 51                   |
| Prepaid postretirement costs  | 45                                     |  | —                    |
| Other   | 152                                    |  | 161                  |
|   | 7,141                                  |  | 7,168                |
| Total Assets  | \$ 35,292                              |  | \$ 33,767            |

See Combined Notes to Consolidated Financial Statements (Unaudited)

7

---



## DTE Energy Company

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

|   | September<br>30,<br>2018        | December<br>31,<br>2017 |
|---|---------------------------------|-------------------------|
|   | (In millions, except<br>shares) |                         |
| <b>LIABILITIES AND EQUITY</b>   |                                 |                         |
| <b>Current Liabilities</b>  |                                 |                         |
| Accounts payable  | \$1,160                         | \$1,171                 |
| Accrued interest  | 143                             | 111                     |
| Dividends payable   | 161                             | 158                     |
| Short-term borrowings   | 77                              | 621                     |
| Current portion long-term debt, including capital leases  | 1                               | 109                     |
| Derivative liabilities  | 79                              | 99                      |
| Regulatory liabilities  | 34                              | 18                      |
| Other   | 462                             | 525                     |
|   | 2,117                           | 2,812                   |
| <b>Long-Term Debt (net of current portion)</b>  |                                 |                         |
| Mortgage bonds, notes, and other  | 12,475                          | 11,039                  |
| Junior subordinated debentures  | 1,145                           | 1,145                   |
| Capital lease obligations   | —                               | 1                       |
|   | 13,620                          | 12,185                  |
| <b>Other Liabilities</b>  |                                 |                         |
| Deferred income taxes   | 1,974                           | 1,888                   |
| Regulatory liabilities  | 3,029                           | 2,875                   |
| Asset retirement obligations  | 2,428                           | 2,320                   |
| Unamortized investment tax credit   | 140                             | 122                     |
| Derivative liabilities  | 66                              | 47                      |
| Accrued pension liability   | 719                             | 924                     |
| Accrued postretirement liability  | —                               | 61                      |
| Nuclear decommissioning   | 224                             | 220                     |
| Other   | 285                             | 323                     |
|   | 8,865                           | 8,780                   |
| <b>Commitments and Contingencies (Notes 5 and 11)</b>   |                                 |                         |
| <b>Equity</b>   |                                 |                         |
| Common stock (No par value, 400,000,000 shares authorized, and 181,925,024 and 179,386,967 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively) | 4,232                           | 3,989                   |
| Retained earnings   | 6,093                           | 5,643                   |
| Accumulated other comprehensive loss  | (118)                           | (120)                   |
| Total DTE Energy Company Equity   | 10,207                          | 9,512                   |
| Noncontrolling interests  | 483                             | 478                     |
| Total Equity  | 10,690                          | 9,990                   |
| Total Liabilities and Equity  | \$35,292                        | \$33,767                |

See Combined Notes to Consolidated Financial Statements (Unaudited)



## DTE Energy Company

## Consolidated Statements of Cash Flows (Unaudited)

|  | Nine Months Ended September 30, |          |
|--|---------------------------------|----------|
|  | 2018                            | 2017     |
|  | (In millions)                   |          |
| Operating Activities   |                                 |          |
| Net Income   | \$ 922                          | \$ 832   |
| Adjustments to reconcile Net Income to Net cash from operating activities: |                                 |          |
| Depreciation and amortization  | 826                             | 756      |
| Nuclear fuel amortization  | 39                              | 39       |
| Allowance for equity funds used during construction                        | (20 )                           | (17 )    |
| Deferred income taxes  | 118                             | 261      |
| Equity earnings of equity method investees                                 | (99 )                           | (77 )    |
| Dividends from equity method investees                                     | 48                              | 55       |
| Asset (gains) losses and impairments, net                                  | 11                              | 5        |
| Changes in assets and liabilities:   |                                 |          |
| Accounts receivable, net   | 85                              | 43       |
| Inventories  | 11                              | (41 )    |
| Prepaid postretirement benefit costs                                       | (45 )                           | —        |
| Accounts payable   | 9                               | 25       |
| Accrued pension liability  | (205 )                          | (230 )   |
| Accrued postretirement liability   | (61 )                           | (30 )    |
| Derivative assets and liabilities  | 24                              | (133 )   |
| Regulatory assets and liabilities  | 283                             | 260      |
| Other current and noncurrent assets and liabilities                        | 101                             | (198 )   |
| Net cash from operating activities   | 2,047                           | 1,550    |
| Investing Activities   |                                 |          |
| Plant and equipment expenditures — utility                                 | (1,562 )                        | (1,439 ) |
| Plant and equipment expenditures — non-utility                             | (217 )                          | (133 )   |

|  |         |   |         |   |
|--|---------|---|---------|---|
| Proceeds from sale of nuclear decommissioning trust fund assets        |         |   | 951     |   |
| Investment in nuclear decommissioning trust funds                      | (810)   | ) | (936)   | ) |
| Distributions from equity method investees                             | 8       |   | 10      |   |
| Contributions to equity method investees                               | (545)   | ) | (194)   | ) |
| Other  | (20)    | ) | (61)    | ) |
| Net cash used for investing activities                                 | (2,336) | ) | (1,802) | ) |
| Financing Activities   |         |   |         |   |
| Issuance of long-term debt, net of issuance costs                      | 1,433   |   | 1,010   |   |
| Redemption of long-term debt   | (105)   | ) | (385)   | ) |
| Short-term borrowings, net   | (544)   | ) | 160     |   |
| Issuance of common stock   | 7       |   | —       |   |
| Repurchase of common stock   | —       |   | (51)    | ) |
| Dividends on common stock  | (459)   | ) | (444)   | ) |
| REF contributions from noncontrolling interests                        | 43      |   | 34      |   |
| Distributions to noncontrolling interests                              | (31)    | ) | (29)    | ) |
| Other  | (40)    | ) | (70)    | ) |
| Net cash from financing activities                                     | 304     |   | 225     |   |
| Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash | 15      |   | (27)    | ) |
| Cash, Cash Equivalents, and Restricted Cash at Beginning of Period     | 89      |   | 113     |   |
| Cash, Cash Equivalents, and Restricted Cash at End of Period           | \$ 104  |   | \$ 86   |   |
| Supplemental disclosure of non-cash investing and financing activities |         |   |         |   |
| Plant and equipment expenditures in accounts payable                   | \$ 275  |   | \$ 222  |   |

See Combined Notes to Consolidated Financial Statements (Unaudited)

9

---

## DTE Energy Company

## Consolidated Statements of Changes in Equity (Unaudited)

|  | Common Stock                               |          | Retained Earnings | Accumulated Other Comprehensive Income (Loss) |        | Noncontrolling Interests | Total     |
|--|--|----------|-------------------|---|--------|--------------------------|-----------|
|  | Shares                                     | Amount   |                   |   |        |                          |           |
|  | (Dollars in millions, shares in thousands) |          |                   |   |        |                          |           |
| Balance, December 31, 2017   | 179,387                                    | \$ 3,989 | \$ 5,643          | \$ (120 )                                     | \$ 478 |                          | \$ 9,990  |
| Implementation of ASU 2016-01  | —  | —        | 5                 | (5 )  | —      |                          | —         |
| Net Income (Loss)  | —  | —        | 929               | —   | (7 )   |                          | 922       |
| Dividends declared on common stock   | —  | —        | (481 )            | —   | —      |                          | (481 )    |
| Issuance of common stock   | 255  | 26       | —                 | —   | —      |                          | 26        |
| Contribution of common stock to pension plan   | 1,751                                      | 175      | —                 | —   | —      |                          | 175       |
| Benefit obligations, net of tax  | —  | —        | —                 | 7   | —      |                          | 7         |
| Net unrealized gains on derivatives, net of tax                                      | —  | —        | —                 | 1   | —      |                          | 1         |
| Foreign currency translation   | —  | —        | —                 | (1 )  | —      |                          | (1 )      |
| Stock-based compensation, net contributions from noncontrolling interests, and other | 532  | 42       | (3 )              | —   | 12     |                          | 51        |
| Balance, September 30, 2018  | 181,925                                    | \$ 4,232 | \$ 6,093          | \$ (118 )                                     | \$ 483 |                          | \$ 10,690 |

See Combined Notes to Consolidated Financial Statements (Unaudited)

## DTE Electric Company

## Consolidated Statements of Operations (Unaudited)

|   | Three Months<br>Ended<br>September 30, |         | Nine Months<br>Ended<br>September 30, |         |
|---|--|---------|---------------------------------------|---------|
|   | 2018                                   | 2017    | 2018                                  | 2017    |
|   | (In millions)                          |         |                                       |         |
| Operating Revenues — Utility operations | \$1,521                                | \$1,434 | \$4,002                               | \$3,827 |
| Operating Expenses                      |  |         |                                       |         |
| Fuel and purchased power — utility      | 438                                    | 428     | 1,163                                 | 1,097   |
| Operation and maintenance               | 360                                    | 349     | 1,025                                 | 1,068   |
| Depreciation and amortization           | 202                                    | 188     | 616                                   | 549     |
| Taxes other than income                 | 77                                     | 74      | 232                                   | 229     |
|   | 1,077                                  | 1,039   | 3,036                                 | 2,943   |
| Operating Income                        | 444                                    | 395     | 966                                   | 884     |
| Other (Income) and Deductions           |  |         |                                       |         |
| Interest expense                        | 73                                     | 68      | 210                                   | 206     |
| Non-operating retirement benefits, net  | (1 )                                   | —       | (1 )                                  | —       |
| Other income                            | (23 )                                  | (21 )   | (72 )                                 | (57 )   |
| Other expenses                          | 9                                      | 11      | 49                                    | 23      |
|   | 58                                     | 58      | 186                                   | 172     |
| Income Before Income Taxes              | 386                                    | 337     | 780                                   | 712     |
| Income Tax Expense                      | 81                                     | 118     | 172                                   | 249     |
| Net Income                              | \$305                                  | \$219   | \$608                                 | \$463   |

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Electric Company

Consolidated Statements of Comprehensive Income (Unaudited)

|                            | Three         |       | Nine      |       |
|----------------------------|---------------|-------|-----------|-------|
|                            | Months        |       | Months    |       |
|                            | Ended         |       | Ended     |       |
|                            | September     |       | September |       |
|                            | 30,           | 30,   | 30,       | 30,   |
|                            | 2018          | 2017  | 2018      | 2017  |
|                            | (In millions) |       |           |       |
| Net Income                 | \$305         | \$219 | \$608     | \$463 |
| Other comprehensive income | —             | —     | —         | —     |
| Comprehensive Income       | \$305         | \$219 | \$608     | \$463 |

See Combined Notes to Consolidated Financial Statements (Unaudited)



## DTE Electric Company

## Consolidated Statements of Financial Position (Unaudited)

|   | September 30,<br>2018<br>(In millions) | December 31,<br>2017 |
|---|--|----------------------|
| <b>ASSETS</b>   |  |                      |
| Current Assets  |  |                      |
| Cash and cash equivalents   | \$ 12                                  | \$ 15                |
| Accounts receivable (less allowance for doubtful accounts of \$43 and \$31, respectively) |  |                      |
| Customer  | 894                                    | 791                  |
| Affiliates  | 4                                      | 20                   |
| Other   | 40                                     | 37                   |
| Inventories   |  |                      |
| Fuel  | 145                                    | 190                  |
| Materials and supplies  | 277                                    | 275                  |
| Regulatory assets   | 89                                     | 50                   |
| Prepaid property tax  | 111                                    | 48                   |
| Other   | 15                                     | 20                   |
|   | 1,587                                  | 1,446                |
| Investments   |  |                      |
| Nuclear decommissioning trust funds   | 1,525                                  | 1,492                |
| Other   | 40                                     | 36                   |
|   | 1,565                                  | 1,528                |
| Property  |  |                      |
| Property, plant, and equipment  | 23,683                                 | 22,972               |
| Accumulated depreciation and amortization   | (8,156 )                               | (7,984 )             |
|   | 15,527                                 | 14,988               |
| Other Assets  |  |                      |
| Regulatory assets   | 3,003                                  | 3,005                |
| Intangible assets   | 29                                     | 25                   |
| Prepaid postretirement costs — affiliates   | 113                                    | 113                  |
| Other   | 117                                    | 123                  |
|   | 3,262                                  | 3,266                |
| Total Assets  | \$ 21,941                              | \$ 21,228            |

See Combined Notes to Consolidated Financial Statements (Unaudited)

## DTE Electric Company

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

|  | September<br>30,<br>2018        | December<br>31,<br>2017 |
|--|---------------------------------|-------------------------|
|  | (In millions, except<br>shares) |                         |
| <b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>  |                                 |                         |
| <b>Current Liabilities</b>   |                                 |                         |
| Accounts payable   |                                 |                         |
| Affiliates   | \$56                            | \$ 52                   |
| Other  | 391                             | 416                     |
| Accrued interest   | 78                              | 72                      |
| Current portion long-term debt, including capital leases   | 1                               | 5                       |
| Regulatory liabilities   | 13                              | 17                      |
| Short-term borrowings  |                                 |                         |
| Affiliates   | 143                             | 116                     |
| Other  | 51                              | 238                     |
| Other  | 143                             | 145                     |
|  | 876                             | 1,061                   |
| <b>Long-Term Debt (net of current portion)</b>   |                                 |                         |
| Mortgage bonds, notes, and other   | 6,537                           | 6,017                   |
| Capital lease obligations  | —                               | 1                       |
|  | 6,537                           | 6,018                   |
| <b>Other Liabilities</b>   |                                 |                         |
| Deferred income taxes  | 2,210                           | 2,088                   |
| Regulatory liabilities   | 2,259                           | 2,137                   |
| Asset retirement obligations   | 2,228                           | 2,125                   |
| Unamortized investment tax credit  | 138                             | 120                     |
| Nuclear decommissioning  | 224                             | 220                     |
| Accrued pension liability — affiliates   | 626                             | 811                     |
| Accrued postretirement liability — affiliates  | 240                             | 311                     |
| Other  | 76                              | 72                      |
|  | 8,001                           | 7,884                   |
| <b>Commitments and Contingencies (Notes 5 and 11)</b>  |                                 |                         |
| <b>Shareholder's Equity</b>  |                                 |                         |
| Common stock (\$10 par value, 400,000,000 shares authorized, and 138,632,324 shares issued and outstanding for both periods) | 4,306                           | 4,306                   |
| Retained earnings  | 2,221                           | 1,956                   |
| Accumulated other comprehensive income   | —                               | 3                       |
| Total Shareholder's Equity   | 6,527                           | 6,265                   |
| Total Liabilities and Shareholder's Equity   | \$21,941                        | \$ 21,228               |

See Combined Notes to Consolidated Financial Statements (Unaudited)



## DTE Electric Company

## Consolidated Statements of Cash Flows (Unaudited)

|  | Nine Months Ended September 30, |          |
|--|---------------------------------|----------|
|  | 2018                            | 2017     |
|  | (In millions)                   |          |
| Operating Activities   |                                 |          |
| Net Income   | \$ 608                          | \$ 463   |
| Adjustments to reconcile<br>Net Income to Net cash<br>from operating activities: |                                 |          |
| Depreciation and<br>amortization   | 616                             | 549      |
| Nuclear fuel amortization  | 39                              | 39       |
| Allowance for equity<br>funds used during<br>construction                        | (14 )                           | (14 )    |
| Deferred income taxes  | 156                             | 248      |
| Changes in assets and<br>liabilities:  |                                 |          |
| Accounts receivable, net   | (89 )                           | (104 )   |
| Inventories  | 43                              | 32       |
| Accounts payable   | 18                              | 32       |
| Accrued pension liability<br>— affiliates  | (185 )                          | (182 )   |
| Accrued postretirement<br>liability — affiliates                                 | (71 )                           | (17 )    |
| Regulatory assets and<br>liabilities   | 195                             | 223      |
| Other current and<br>noncurrent assets and<br>liabilities                        | (71 )                           | (174 )   |
| Net cash from operating<br>activities  | 1,245                           | 1,095    |
| Investing Activities   |                                 |          |
| Plant and equipment<br>expenditures  | (1,248 )                        | (1,103 ) |
| Proceeds from sale of<br>nuclear decommissioning<br>trust fund assets            | 810                             | 951      |
| Investment in nuclear<br>decommissioning trust<br>funds                          | (810 )                          | (936 )   |
| Other  | (7 )                            | —        |
| Net cash used for<br>investing activities  | (1,255 )                        | (1,088 ) |
| Financing Activities   |                                 |          |
|  | 520                             | 435      |

|  |       |     |       |     |
|--|-------|-----|-------|-----|
| Issuance of long-term debt, net of issuance costs                      |       |     |       |     |
| Redemption of long-term debt   | —     |     | (300) | )   |
| Short-term borrowings, net — affiliate                                 | 27    |     | (51)  | )   |
| Short-term borrowings, net — other                                     | (187) | )   | 249   |     |
| Dividends on common stock  | (346) | )   | (324) | )   |
| Other  | (7)   | )   | (17)  | )   |
| Net cash from (used for) financing activities                          | 7     |     | (8)   | )   |
| Net Decrease in Cash and Cash Equivalents                              | (3)   | )   | (1)   | )   |
| Cash and Cash Equivalents at Beginning of Period                       |       |     | 13    |     |
| Cash and Cash Equivalents at End of Period                             | \$    | 12  | \$    | 12  |
| Supplemental disclosure of non-cash investing and financing activities |       |     |       |     |
| Plant and equipment expenditures in accounts payable                   | \$    | 152 | \$    | 112 |

See Combined Notes to Consolidated Financial Statements (Unaudited)

## DTE Electric Company

## Consolidated Statements of Changes in Shareholder's Equity (Unaudited)

|                                    | Common Stock                               |          | Additional | Retained | Accumulated   |         |
|------------------------------------|--|----------|------------|----------|---------------|---------|
|                                    | Shares                                     | Amount   | Paid-in    | Earnings | Other         | Total   |
|                                    |  |          | Capital    |          | Comprehensive |         |
|                                    |  |          |            |          | Income        |         |
|                                    | (Dollars in millions, shares in thousands) |          |            |          |               |         |
| Balance, December 31, 2017         | 138,632                                    | \$ 1,386 | \$ 2,920   | \$ 1,956 | \$ 3          | \$6,265 |
| Implementation of ASU 2016-01      | —  | —        | —          | 3        | (3 )          | —       |
| Net Income                         | —  | —        | —          | 608      | —             | 608     |
| Dividends declared on common stock | —  | —        | —          | (346 )   | —             | (346 )  |
| Balance, September 30, 2018        | 138,632                                    | \$ 1,386 | \$ 2,920   | \$ 2,221 | \$ —          | \$6,527 |

See Combined Notes to Consolidated Financial Statements (Unaudited)

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

Index of Combined Notes to Consolidated Financial Statements (Unaudited)

The Combined Notes to Consolidated Financial Statements (Unaudited) are a combined presentation for DTE Energy and DTE Electric. The following list indicates the Registrant(s) to which each note applies:

|         |   |                             |
|---------|---|-----------------------------|
| Note 1  | Organization and Basis of Presentation        | DTE Energy and DTE Electric |
| Note 2  | Significant Accounting Policies               | DTE Energy and DTE Electric |
| Note 3  | New Accounting Pronouncements                 | DTE Energy and DTE Electric |
| Note 4  | Revenue                                       | DTE Energy and DTE Electric |
| Note 5  | Regulatory Matters                            | DTE Energy and DTE Electric |
| Note 6  | Earnings per Share                            | DTE Energy                  |
| Note 7  | Fair Value                                    | DTE Energy and DTE Electric |
| Note 8  | Financial and Other Derivative Instruments    | DTE Energy and DTE Electric |
| Note 9  | Long-Term Debt                                | DTE Energy and DTE Electric |
| Note 10 | Short-Term Credit Arrangements and Borrowings | DTE Energy and DTE Electric |
| Note 11 | Commitments and Contingencies                 | DTE Energy and DTE Electric |
| Note 12 | Retirement Benefits and Trusteed Assets       | DTE Energy and DTE Electric |
| Note 13 | Segment and Related Information               | DTE Energy                  |

NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION

Corporate Structure

DTE Energy owns the following businesses:

• DTE Electric is a public utility engaged in the generation, purchase, distribution, and sale of electricity to approximately 2.2 million customers in southeastern Michigan;

• DTE Gas is a public utility engaged in the purchase, storage, transportation, distribution, and sale of natural gas to approximately 1.3 million customers throughout Michigan and the sale of storage and transportation capacity; and

• Other businesses involved in 1) services related to the gathering, transportation, and storage of natural gas; 2) power and industrial projects; and 3) energy marketing and trading operations.

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

Basis of Presentation

The Consolidated Financial Statements should be read in conjunction with the Combined Notes to Consolidated Financial Statements included in the combined DTE Energy and DTE Electric 2017 Annual Report on Form 10-K. The accompanying Consolidated Financial Statements of the Registrants are prepared using accounting principles generally accepted in the United States of America. These accounting principles require management to use estimates and assumptions that impact reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from the Registrants' estimates.

The Consolidated Financial Statements are unaudited but, in the Registrants' opinions include all adjustments necessary to present a fair statement of the results for the interim periods. All adjustments are of a normal recurring nature, except as otherwise disclosed in these Consolidated Financial Statements and Combined Notes to Consolidated Financial Statements. Financial results for this interim period are not necessarily indicative of results that may be expected for any other interim period or for the fiscal year ending December 31, 2018.

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

The information in these combined notes relates to each of the Registrants as noted in the Index of Combined Notes to Consolidated Financial Statements. However, DTE Electric does not make any representation as to information related solely to DTE Energy or the subsidiaries of DTE Energy other than itself.

Certain prior year balances for DTE Energy were reclassified to match the current year's Consolidated Financial Statements presentation.

Due to the implementation of ASU 2017-07, amounts previously included in Operation and maintenance were reclassified to Non-operating retirement benefits, net on the Consolidated Statements of Operations. See Note 3 to the Consolidated Financial Statements, "New Accounting Pronouncements."

The Dividends Declared per Common Share for the three months ended September 30, 2017 on DTE Energy's Consolidated Statements of Operations was revised to reflect zero dividend declarations in the third quarter of 2017, or \$0.00 for the three-month period. The financial statements previously reflected one dividend declaration of \$0.83 for the three-month period ended September 30, 2017. This revision was not material to DTE Energy's Consolidated Financial Statements.

#### Principles of Consolidation

The Registrants consolidate all majority-owned subsidiaries and investments in entities in which they have controlling influence. Non-majority owned investments are accounted for using the equity method when the Registrants are able to significantly influence the operating policies of the investee. When the Registrants do not influence the operating policies of an investee, the cost method is used. These Consolidated Financial Statements also reflect the Registrants' proportionate interests in certain jointly-owned utility plants. The Registrants eliminate all intercompany balances and transactions.

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

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

DTE Energy owns a 55% interest in SGG, which owns and operates midstream natural gas assets. SGG has contracts through which certain construction risk is designed to pass-through to the customers, with DTE Energy retaining operational and customer default risk. SGG is a VIE with DTE Energy as the primary beneficiary.

The Registrants have variable interests in NEXUS, which include DTE Energy's 50% ownership interest and DTE Electric's transportation services contract. NEXUS is a joint venture which owns a 256-mile pipeline to transport Utica and Marcellus shale gas to Ohio, Michigan, and Ontario market centers. NEXUS is a VIE as it has insufficient equity at risk to finance its activities. The Registrants are not the primary beneficiaries, as the power to direct significant activities is shared between the owners of the equity interests. DTE Energy accounts for its ownership interest in NEXUS under the equity method.

The Registrants hold ownership interests in certain limited partnerships. The limited partnerships include investment funds which support regional development and economic growth, as well as an operational business providing energy-related products. These entities are generally VIEs as a result of certain characteristics of the limited partnership voting rights. The ownership interests are accounted for under the equity method as the Registrants are not



the primary beneficiaries.

18

---

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

DTE Energy has variable interests in VIEs through certain of its long-term purchase and sale contracts. DTE Electric has variable interests in VIEs through certain of its long-term purchase contracts. As of September 30, 2018, the carrying amount of assets and liabilities in DTE Energy's Consolidated Statements of Financial Position that relate to its variable interests under long-term purchase and sale contracts are predominantly related to working capital accounts and generally represent the amounts owed by or to DTE Energy for the deliveries associated with the current billing cycle under the contracts. As of September 30, 2018, the carrying amount of assets and liabilities in DTE Electric's Consolidated Statements of Financial Position that relate to its variable interests under long-term purchase contracts are predominantly related to working capital accounts and generally represent the amounts owed by DTE Electric for the deliveries associated with the current billing cycle under the contracts. The Registrants have not provided any significant form of financial support associated with these long-term contracts. There is no significant potential exposure to loss as a result of DTE Energy's variable interests through these long-term purchase and sale contracts. In addition, there is no significant potential exposure to loss as a result of DTE Electric's variable interests through these long-term purchase contracts.

The maximum risk exposure for consolidated VIEs is reflected on the Registrants' Consolidated Statements of Financial Position and, for DTE Energy, in Note 11 to the Consolidated Financial Statements, "Commitments and Contingencies," related to the REF guarantees and indemnities. For non-consolidated VIEs, the maximum risk exposure of the Registrants is generally limited to their investment, notes receivable, future funding commitments, and amounts which DTE Energy has guaranteed. See Note 11 to the Consolidated Financial Statements, "Commitments and Contingencies," for further discussion of the NEXUS guarantee arrangements.

The following table summarizes the major Consolidated Statements of Financial Position items for consolidated VIEs as of September 30, 2018 and December 31, 2017. All assets and liabilities of a consolidated VIE are presented where it has been determined that a consolidated VIE has either (1) assets that can be used only to settle obligations of the VIE or (2) liabilities for which creditors do not have recourse to the general credit of the primary beneficiary. VIEs, in which DTE Energy holds a majority voting interest and is the primary beneficiary, that meet the definition of a business and whose assets can be used for purposes other than the settlement of the VIE's obligations have been excluded from the table below.

Amounts for DTE Energy's consolidated VIEs are as follows:

|  | September 30, 2018 |       |         | December 31, 2017  |       |         |
|--|--------------------|-------|---------|--------------------|-------|---------|
|  | SGG <sup>(a)</sup> | Other | Total   | SGG <sup>(a)</sup> | Other | Total   |
|  | (In millions)      |       |         |                    |       |         |
| <b>ASSETS</b>  |                    |       |         |                    |       |         |
| Cash and cash equivalents                                | \$23               | \$15  | \$38    | \$23               | \$14  | \$37    |
| Restricted cash  | —                  | 4     | 4       | —                  | 8     | 8       |
| Accounts receivable                                      | 9                  | 32    | 41      | 11                 | 42    | 53      |
| Inventories  | 3                  | 62    | 65      | 3                  | 114   | 117     |
| Property, plant, and equipment, net                      | 392                | 50    | 442     | 400                | 75    | 475     |
| Goodwill   | 25                 | —     | 25      | 25                 | —     | 25      |
| Intangible assets  | 561                | —     | 561     | 572                | —     | 572     |
| Other current and long-term assets                       | 1                  | —     | 1       | 4                  | —     | 4       |
|  | \$1,014            | \$163 | \$1,177 | \$1,038            | \$253 | \$1,291 |
| <b>LIABILITIES</b>                                       |                    |       |         |                    |       |         |
| Accounts payable and accrued current liabilities         | \$2                | \$30  | \$32    | \$26               | \$47  | \$73    |
| Current portion long-term debt, including capital leases | —                  | —     | —       | —                  | 4     | 4       |
| Mortgage bonds, notes, and other                         | —                  | —     | —       | —                  | 1     | 1       |
| Other current and long-term liabilities                  | 7                  | 6     | 13      | 1                  | 16    | 17      |
|  | \$9                | \$36  | \$45    | \$27               | \$68  | \$95    |

---

(a) Amounts shown are 100% of SGG's assets and liabilities, of which DTE Energy owns 55%.

19

---

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

Amounts for DTE Energy's non-consolidated VIEs are as follows:

|  | September<br>30,<br>2018 | December<br>31, 2017 |
|--|--------------------------|----------------------|
|  | (In millions)            |                      |
| Investments in equity method investees | \$ 1,342                 | \$ 811               |
| Notes receivable                       | \$ 18                    | \$ 17                |
| Future funding commitments             | \$ 135                   | \$ 598               |

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

Other Income

The following is a summary of DTE Energy's Other income:

|   | Three<br>Months<br>Ended<br>September<br>30,<br>2018 | Three<br>Months<br>Ended<br>September<br>30,<br>2017 | Nine<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |
|---|--|--|---|---|
|   | (In millions)  |  |   |   |
| Equity earnings of equity method investees          | \$46   | \$ 26  | \$99  | \$77  |
| Income from REF entities                            | 27   | 20   | 75  | 60  |
| Contract services                                   | 11   | 9  | 43  | 17  |
| Allowance for equity funds used during construction | 7  | 5  | 20  | 17  |
| Gains from equity securities                        | 5  | 6  | 6   | 19  |
| Other   | 3  | 8  | 19  | 14  |
|   | \$99   | \$ 74  | \$262   | \$204   |

The following is a summary of DTE Electric's Other income:

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2018 | Three<br>Months<br>Ended<br>September<br>30,<br>2017 | Nine<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |
|--|--|--|---|---|
|  | (In millions)  |  |   |   |
| Contract services                                      | \$11   | \$ 9   | \$ 44   | \$ 18   |
| Allowance for equity funds used during construction    | 5  | 4  | 14  | 14  |
| Gains from equity securities allocated from DTE Energy | 5  | 6  | 6   | 19  |
| Other  | 2  | 2  | 8   | 6   |
|  | \$23   | \$ 21  | \$ 72   | \$ 57   |

Changes in Accumulated Other Comprehensive Income (Loss)

For the three and nine months ended September 30, 2018 and 2017, reclassifications out of Accumulated other comprehensive income (loss) for the Registrants were not material. Changes in Accumulated other comprehensive income (loss) are presented in DTE Energy's Consolidated Statements of Changes in Equity and DTE Electric's Consolidated Statements of Changes in Shareholder's Equity. For further discussion regarding changes in Accumulated other comprehensive income (loss), see Note 3 to the Consolidated Financial Statements, "New Accounting Pronouncements."



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

### Income Taxes

The 2018 estimated annual effective tax rates for DTE Energy and DTE Electric are 12% and 22%, respectively. These tax rates are affected by estimated annual permanent items, including AFUDC equity, production tax credits, and other flow-through items, as well as discrete items that may occur in any given period, but are not consistent from period to period.

The interim effective tax rate of the Registrants are as follows:

|              | Effective Tax Rate |           |      |      |
|--------------|--------------------|-----------|------|------|
|              | Three              | Nine      |      |      |
|              | Months             | Months    |      |      |
|              | Ended              | Ended     |      |      |
|              | September          | September |      |      |
|              | 30,                | 30,       |      |      |
|              | 2018               | 2017      | 2018 | 2017 |
| DTE Energy   | 9 %                | 22 %      | 12 % | 22 % |
| DTE Electric | 21 %               | 35 %      | 22 % | 35 % |

The 13% decrease and the 10% decrease in DTE Energy's effective tax rate for the three and nine months ended September 30, 2018 and 2017, respectively, was primarily due to the reduction of the corporate tax rate from 35% to 21%, which became effective in 2018.

The decrease in the effective tax rate for the three months ended September 30, 2018 was also impacted by an increase in annual production tax credits, offset by a \$20 million valuation allowance for the AMT credit carryover. The decrease in the effective tax rate for the nine months ended September 30, 2018 was also impacted by an increase in annual production tax credits, partially offset by true-up adjustments to the remeasurement of deferred taxes in 2018 of \$21 million, \$20 million valuation allowance for the AMT credit carryover, a reduction of excess tax benefits on stock-based compensation and other adjustments. For further discussion regarding the true-up adjustments, and the valuation allowance, see Note 3 to the Consolidated Financial Statements, "New Accounting Pronouncements."

The 14% decrease and the 13% decrease in DTE Electric's effective tax rate for the three and nine months ended September 30, 2018 and 2017, respectively, was primarily due to the reduction of the corporate tax rate from 35% to 21%, which became effective in 2018. The decrease in the effective tax rate for the nine months ended September 30, 2018 was partially offset by true-up adjustments to the remeasurement of deferred taxes in 2018 of \$7 million.

DTE Energy's total amount of unrecognized tax benefits as of September 30, 2018 was \$8 million, which if recognized, would favorably impact its effective tax rate. DTE Electric's total amount of unrecognized tax benefits as of September 30, 2018 was \$10 million, which if recognized, would favorably impact its effective tax rate. The Registrants do not anticipate any material changes to the unrecognized tax benefits in the next twelve months. DTE Electric had income tax payables of \$4 million with DTE Energy at September 30, 2018 and income tax receivables with DTE Energy of \$12 million at December 31, 2017.

### Unrecognized Compensation Costs

As of September 30, 2018, DTE Energy had \$86 million of total unrecognized compensation cost related to non-vested stock incentive plan arrangements. That cost is expected to be recognized over a weighted-average period of 1.29 years.

### Allocated Stock-Based Compensation

DTE Electric received an allocation of costs from DTE Energy associated with stock-based compensation of \$11 million and \$10 million for the three months ended September 30, 2018 and 2017, respectively, while such allocation was \$27 million and \$28 million for the nine months ended September 30, 2018 and 2017, respectively.

### Cash, Cash Equivalents, and Restricted Cash

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

one year is classified as a Current Asset.

21

---

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

The following is a table that provides a reconciliation of DTE Energy's Cash and cash equivalents as well as Restricted cash reported within the Consolidated Statements of Financial Position that sum to the total of the same such amounts shown in the Consolidated Statements of Cash Flows:

|  | September     | December |
|--|---------------|----------|
|  | 30,           | 31,      |
|  | 2018          | 2017     |
|  | (In millions) |          |
| Cash and cash equivalents  | \$84          | \$ 66    |
| Restricted cash  | 20            | 23       |
| Total cash, cash equivalents, and restricted cash shown in the Consolidated Statements of Cash Flows | \$104         | \$ 89    |

### NOTE 3 — NEW ACCOUNTING PRONOUNCEMENTS

#### Recently Adopted Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), as amended.

The objectives of this ASU are to improve upon revenue recognition requirements by providing a single comprehensive model to determine the measurement of revenue and timing of recognition. The core principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This ASU also required expanded qualitative and quantitative disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. The standard is to be applied retrospectively. The Registrants adopted the standard effective January 1, 2018, using the modified retrospective approach. Under the modified retrospective approach, the information for periods prior to the adoption date has not been restated and continues to be reported under the accounting standards in effect for those periods. As permitted under the standard, the Registrants have elected to apply the guidance only to those contracts that were not completed at January 1, 2018, and have elected not to restate the impacts of any contract modifications made prior to the earliest period presented.

The adoption of the ASU did not have a significant impact on the Registrants' financial position or results of operations, but required additional disclosures for revenue. See Note 4 to the Consolidated Financial Statements, "Revenue."

In March 2017, the FASB issued ASU No. 2017-07, Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments in this update required that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside of income from operations. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable. The Registrants adopted the standard effective January 1, 2018. The standard has been applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. As permitted by the standard, the Registrants have used benefit cost amounts disclosed for prior periods as the basis for retrospective application in the income statement. As a result of regulatory mechanisms, the impact to the Consolidated Financial Statements was not material for the three and nine months ended September 30, 2018.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, as amended. The new guidance is intended to improve the recognition and measurement of financial instruments. The guidance primarily impacts accounting for equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) and financial liabilities under the fair value option. The guidance requires equity investments to be generally measured at



fair value, with subsequent changes in fair value recognized in net income. The guidance requires entities to make a cumulative-effect adjustment to the Statements of Financial Position as of the beginning of the first reporting period in which the guidance is effective. The Registrants adopted the standard effective January 1, 2018. Upon adoption, DTE Energy and DTE Electric recorded a cumulative-effect adjustment to reclassify \$5 million and \$3 million of unrealized gains from Accumulated other comprehensive income (loss) to Retained earnings, respectively.

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

In March 2018, the FASB issued ASU No. 2018-05, Income Taxes (Topic 740): Amendments to SEC paragraphs pursuant to SEC Staff Accounting Bulletin No. 118. The Amendments in this update add various SEC paragraphs pursuant to the issuance of SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118). SAB 118 directs taxpayers to consider the implications of the TCJA as provisional when it does not have the necessary information available, prepared, or analyzed in reasonable detail to complete its accounting for the change in the tax law. As described in Note 10 to the Consolidated Financial Statements, "Income Taxes," within the combined DTE Energy and DTE Electric 2017 Annual Report on Form 10-K and in accordance with SAB 118, the Registrants recorded amounts that were considered provisional. During the nine months ended September 30, 2018, DTE Energy and DTE Electric recorded true-up adjustments to the remeasurement of deferred taxes of \$21 million and \$7 million, respectively. The impact of the true-up adjustments was an increase in Income Tax Expense, of which \$16 million was attributable to the regulated utilities and offset to Regulatory liabilities. The true-up adjustments were a result of further analysis for items subject to further consideration at December 31, 2017, under SAB 118 and primarily related to timing differences not recoverable from DTE Electric and DTE Gas customers. Additionally, during the three and nine months ended September 30, 2018, DTE Energy recorded a valuation allowance of \$20 million against AMT credits that are expected to be subject to sequestration when refunded in accordance with TCJA. This adjustment increased Income Tax Expense and reduced the deferred tax asset related to AMT credits determined to be unrealizable. The valuation allowance adjustment was the result of further analysis for items subject to further consideration at December 31, 2017 under SAB 118. The Registrants will continue to analyze the amounts throughout 2018, which may result in additional changes.

## Recently Issued Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), as amended. This guidance requires a lessee to account for leases as finance or operating leases, and disclose key information about leasing arrangements. Both types of leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability on its balance sheet, with differing methodology for income statement recognition, depending on the lease classification. The Registrants will adopt the standard on January 1, 2019. The standard allows lessees and lessors to apply either, 1) a modified retrospective approach for leases existing or entered into after the beginning of the earliest comparative period in the Consolidated Financial Statements, or 2) a prospective transition approach for leases existing as of January 1, 2019 with a cumulative effect adjustment to be recorded to retained earnings. The Registrants plan to apply the standard on a prospective basis. The Registrants expect to elect the package of practical expedients allowing entities to not reassess whether an agreement is a lease, to carryforward the existing lease classification, and to not reassess initial direct costs associated with existing leases. The Registrants also plan to elect to exclude leases from the balance sheet that are for a period of one year or less, as well as, the practical expedient allowing entities to not evaluate land easements under the new guidance at adoption if they were not previously accounted for as leases. A third-party software tool is being implemented that will assist with the initial adoption and ongoing compliance of the standard. Preliminary system configuration has been completed and testing is in progress. The Registrants are continuing procedures to ensure all leases are captured, as well as, evaluating and implementing, new business processes, internal controls, and accounting policies. In addition, the Registrants are monitoring utility industry implementation issues for purchase power agreements, pipeline laterals, and other industry specific arrangements. While the Registrants expect an increase in assets and liabilities, as well as additional disclosures, they are still assessing the impact of this ASU on their Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this update replace the incurred loss impairment methodology in current generally accepted accounting principles with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Entities will apply the new guidance as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The ASU is effective for the Registrants beginning after December 15, 2019, and interim periods therein. Early adoption is permitted. The Registrants are

currently assessing the impact of this standard on their Consolidated Financial Statements.

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

In February 2018, the FASB issued ASU No. 2018-02, Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the TCJA. The amendments in this update also require entities to disclose their accounting policy for releasing income tax effects from accumulated other comprehensive income. The ASU is effective for the Registrants for fiscal years beginning after December 15, 2018, and interim periods therein. Early adoption is permitted. The Registrants are currently assessing the impact of this standard on their Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurements (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this update modify the disclosure requirements on fair value measurements in Topic 820. The ASU is effective for the Registrants for fiscal years beginning after December 15, 2019, and interim periods therein. Early adoption is permitted. The Registrants are currently assessing the impact of this standard on their Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-14, Compensation — Retirement Benefits — Defined Benefit Plans (Subtopic 715-20): Disclosure Framework — Changes to the Disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments in this update modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The ASU is effective for the Registrants for fiscal years ending after December 15, 2020. Early adoption is permitted. The Registrants are currently assessing the impact of this standard on their Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The ASU is effective for the Registrants for fiscal years beginning after December 15, 2019, and interim periods therein. Early adoption is permitted. The Registrants are currently assessing the impact of this standard on their Consolidated Financial Statements.

#### NOTE 4 — REVENUE

##### Significant Accounting Policy

Upon the adoption of Topic 606, revenue is measured based upon the consideration specified in a contract with a customer at the time when performance obligations are satisfied. Under Topic 606, a performance obligation is a promise in a contract to transfer a distinct good or service or a series of distinct goods or services to the customer. The Registrants recognize revenue when performance obligations are satisfied by transferring control over a product or service to a customer. The Registrants have determined control to be transferred when the product is delivered or the service is provided to the customer. For the three and nine months ended September 30, 2018, recognition of revenue for the Registrants subsequent to the adoption of Topic 606 is substantially similar in amount and approach to that prior to adoption.

Rates for DTE Electric and DTE Gas include provisions to adjust billings for fluctuations in fuel and purchased power costs, cost of natural gas, and certain other costs. Revenues are adjusted for differences between actual costs subject to reconciliation and the amounts billed in current rates. Under or over recovered revenues related to these cost recovery mechanisms are included in Regulatory assets or liabilities on the Registrants' Consolidated Statements of Financial Position and are recovered or returned to customers through adjustments to the billing factors.

For discussion of derivative contracts, see Note 8 to the Consolidated Financial Statements, "Financial and Other Derivative Instruments."



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

Disaggregation of Revenue

The following is a summary of revenues disaggregated by segment for DTE Energy:

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine<br>Months<br>Ended<br>September<br>30,<br>2018 |
|--|--|---|
|  | (In millions)  |   |
| Electric <sup>(a)</sup>                          |  |   |
| Residential                                      | \$ 773   | \$ 1,943  |
| Commercial                                       | 495  | 1,370   |
| Industrial                                       | 173  | 527   |
| Other  | 80   | 162   |
| Total Electric operating revenues <sup>(b)</sup> | \$ 1,521   | \$ 4,002  |
| Gas  |  |   |
| Gas sales  | \$ 89  | \$ 726  |
| End User Transportation                          | 34   | 168   |
| Intermediate Transportation                      | 9  | 38  |
| Other  | 32   | 37  |
| Total Gas operating revenues <sup>(c)</sup>      | \$ 164   | \$ 969  |
| Other segment operating revenues                 |  |   |
| Gas Storage and Pipelines                        | \$ 122   | \$ 363  |
| Power and Industrial Projects <sup>(d)</sup>     | \$ 612   | \$ 1,717  |
| Energy Trading <sup>(e)</sup>                    | \$ 1,332   | \$ 3,994  |

(a) Revenues under the Electric segment generally represent those of DTE Electric.

(b) Includes \$6 million and \$15 million of other revenues which are outside the scope of Topic 606 for the three and nine months ended September 30, 2018, respectively.

(c) Includes a reduction of \$4 million under Alternative Revenue Programs for the nine months ended September 30, 2018, and \$2 million and \$6 million of other revenues, which are both outside the scope of Topic 606 for the three and nine months ended September 30, 2018, respectively.

(d) Includes revenues outside the scope of Topic 606 primarily related to \$37 million and \$93 million of contracts accounted for as leases for the three and nine months ended September 30, 2018, respectively. During the third quarter 2018, DTE Energy revised the classification of certain amounts totaling \$788 million previously disclosed as lease revenues for the six months ended June 30, 2018 to be within the scope of Topic 606. This change had no impact to the Consolidated Statements of Operations, Financial Position, or Cash Flows.

(e) Includes revenues outside the scope of Topic 606 primarily related to \$1.1 billion and \$3.2 billion of derivatives for the three and nine months ended September 30, 2018, respectively.

Nature of Goods and Services

The following is a description of principal activities, separated by reportable segments, from which DTE Energy generates revenue. For more detailed information about reportable segments, see Note 13 to the Consolidated Financial Statements, "Segment and Related Information."

The Registrants have contracts with customers which may contain more than one performance obligation. When more than one performance obligation exists in a contract, the consideration under the contract is allocated to the

performance obligations based on the relative standalone selling price. DTE Energy generally determines standalone selling prices based on the prices charged to customers or the use of the adjusted market assessment approach. The adjusted market assessment approach involves the evaluation of the market in which DTE Energy sells goods or services and estimating the price that a customer in that market would be willing to pay.

Under Topic 606, when a customer simultaneously receives and consumes the product or service provided, revenue is considered to be recognized over time. Alternatively, if it is determined that the criteria for recognition of revenue over time is not met, the revenue is considered to be recognized at a point in time.

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

Electric

Electric consists principally of DTE Electric. Electric revenues are primarily comprised of the supply and delivery of electricity, and related capacity. Revenues are primarily associated with cancelable contracts, with the exception of certain long-term contracts with commercial and industrial customers. Revenues, including estimated unbilled amounts, are generally recognized over time based upon volumes delivered or through the passage of time ratably based upon providing a stand-ready service. The Registrants have determined that the above methods represent a faithful depiction of the transfer of control to the customer. Unbilled revenues are typically determined utilizing approved tariff rates and estimated meter volumes. Estimated unbilled amounts recognized in revenue are subject to adjustment in the following reporting period as actual volumes by customer class are known. Revenues are typically subject to tariff rates based upon customer class and type of service, and are billed and received monthly. Tariff rates are determined by the MPSC on a per unit or monthly basis.

Gas

Gas consists principally of DTE Gas. Gas revenues are primarily comprised of the supply and delivery of natural gas, and other services including storage, transportation, and appliance maintenance. Revenues are primarily associated with cancelable contracts with the exception of certain long-term contracts with commercial and industrial customers. Revenues, including estimated unbilled amounts, are generally recognized over time based upon volumes delivered or through the passage of time ratably based upon providing a stand-ready service. DTE Energy has determined that the above methods represent a faithful depiction of the transfer of control to the customer. Unbilled revenues are typically determined using both estimated meter volumes and estimated usage based upon the number of unbilled days and historical temperatures. Estimated unbilled amounts recognized in revenue are subject to adjustment in the following reporting period as actual volumes by customer class and service type are known. Revenues are typically subject to tariff rates or other rates subject to regulatory oversight and are billed and received monthly. Tariff rates are determined by the MPSC on a per unit or monthly basis.

Gas Storage and Pipelines

Gas Storage and Pipelines revenues generally consist of services related to the gathering, transportation, and storage of natural gas. Contracts are primarily long-term in nature. Revenues, including estimated unbilled amounts, are generally recognized over time based upon services provided or through the passage of time ratably based upon providing a stand-ready service. DTE Energy has determined that the above methods represent a faithful depiction of the transfer of control to the customer. Revenues are typically billed and received monthly. Pricing for such revenues may consist of demand rates, commodity rates, transportation rates, and other associated fees. Consideration may consist of both fixed and variable components. Generally, uncertainties in the variable consideration components are resolved and revenues are known at the time of recognition.

Power and Industrial Projects

Power and Industrial Projects revenues include contracts accounted for as leases which are outside of the scope of Topic 606. For performance obligations within the scope of Topic 606, the timing of revenue recognition is dependent upon when control over the associated product or service is transferred.

Revenues at Power and Industrial Projects, within the scope of Topic 606, generally consist of sales of refined coal, coal, blast furnace coke, coke oven gas, electricity, equipment maintenance services, and other energy related products and services. Revenues, including estimated unbilled amounts, for the sale of blast furnace coke are generally recognized at a point in time when the product is delivered, which represents the transfer of control to the customer. Other revenues are generally recognized over time based upon services provided or through the passage of time ratably based upon providing a stand-ready service. DTE Energy has determined that the above methods represent a faithful depiction of the transfer of control to the customer. Market based pricing structures exist in such contracts including adjustments for consumer price or other indices. Consideration may consist of both fixed and variable components. Generally, uncertainties in the variable consideration components are resolved and revenues are known at the time of recognition. Billing terms vary and are generally monthly with payment terms typically within 30 days following billing.



Energy Trading

Energy Trading revenues consist primarily of derivative contracts outside of the scope of Topic 606. For performance obligations within the scope of Topic 606, the timing of revenue recognition is dependent upon when control over the associated product or service is transferred.

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

Revenues, including estimated unbilled amounts, within the scope of Topic 606 arising from the sale of natural gas, electricity, power capacity, and other energy related products are generally recognized over time based upon volumes delivered or through the passage of time ratably based upon providing a stand-ready service. DTE Energy has determined that the above methods represent a faithful depiction of the transfer of control to the customer. Revenues are known at the time of recognition. Payment for the aforementioned revenues is generally due from customers in the month following delivery.

Revenues associated with RECs are recognized at a point in time when control of the RECs are transferred to the customer which is deemed to be when the subject RECs are entered for transfer to the customer in the applicable regulatory tracking system. Revenues associated with RECs under a wholesale full requirements power contract are deferred until control has been transferred. The deferred revenues represent a contract liability for which payment has been received and the amounts have been estimated using the adjusted market assessment approach. With the exception of RECs, generally all other performance obligations associated with wholesale full requirements power contracts are satisfied over time in conjunction with the delivery of power. At the time power is delivered, DTE Energy may not have control over the RECs as the RECs are not self-generated and may not yet have been procured resulting in deferred revenues.

Deferred Revenue

The following is a summary of deferred revenue activity:

|   | DTE<br>Energy<br>(In<br>millions) |
|---|-----------------------------------|
| Beginning Balance, January 1, 2018  | \$ 56                             |
| Increases due to cash received or receivable, excluding amounts recognized as revenue during the period | 37                                |
| Revenue recognized that was included in the deferred revenue balance at the beginning of the period     | (30 )                             |
| Ending Balance, September 30, 2018  | \$ 63                             |

The deferred revenues at DTE Energy generally represent amounts paid by or receivable from customers for which the associated performance obligation has not yet been satisfied.

Deferred revenues include amounts associated with REC performance obligations under certain wholesale full requirements power contracts. Deferred revenues associated with RECs are recognized as revenue when control of the RECs has transferred.

Other performance obligations associated with deferred revenues include providing products and services related to customer prepayments. Deferred revenues associated with these products and services are recognized when control has transferred to the customer.

The following table represents deferred revenue amounts for DTE Energy that are expected to be recognized as revenue in future periods:

|                     | DTE<br>Energy<br>(In<br>millions) |
|---------------------|-----------------------------------|
| 2018                | \$ 8                              |
| 2019                | 27                                |
| 2020                | 1                                 |
| 2021                | 5                                 |
| 2022                | 7                                 |
| 2023 and thereafter | 15                                |
|                     | \$ 63                             |



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

Transaction Price Allocated to the Remaining Performance Obligations

In accordance with optional exemptions available under Topic 606, the Registrants did not disclose the value of unsatisfied performance obligations for (1) contracts with an original expected length of one year or less, (2) with the exception of fixed consideration, contracts for which revenue is recognized at the amount to which the Registrants have the right to invoice for goods provided and services performed, and (3) contracts for which variable consideration relates entirely to an unsatisfied performance obligation.

Such contracts consist of varying types of performance obligations across the segments, including the supply and delivery of energy related products and services. Contracts with variable volumes and/or variable pricing, including those with pricing provisions tied to a consumer price or other index, have also been excluded as the related consideration under the contract is variable at inception of the contract. Contract lengths vary from cancelable to multi-year.

The Registrants expect to recognize revenue for the following amounts related to fixed consideration associated with remaining performance obligations in each of the future periods noted:

|                     | DTE<br>Energy<br>(In millions) | DTE<br>Electric |
|---------------------|--------------------------------|-----------------|
| 2018                | \$50                           | \$ 4            |
| 2019                | 245                            | 8               |
| 2020                | 201                            | —               |
| 2021                | 157                            | —               |
| 2022                | 120                            | —               |
| 2023 and thereafter | 411                            | —               |
| Total               | \$1,184                        | \$ 12           |

Other Matters

DTE Energy has recognized charges of \$39 million and \$95 million related to expense recognized for estimated uncollectible accounts receivable for the three and nine months ended September 30, 2018, respectively. DTE Electric has recognized charges of \$26 million and \$57 million related to expense recognized for estimated uncollectible accounts receivable for the three and nine months ended September 30, 2018, respectively.

NOTE 5 — REGULATORY MATTERS

2017 Electric Rate Case Filing

DTE Electric filed a rate case with the MPSC on April 19, 2017 requesting an increase in base rates of \$231 million based on a projected twelve-month period ending October 31, 2018. On November 1, 2017, DTE Electric self-implemented a base rate increase of \$125 million. On April 18, 2018, the MPSC issued an order approving an annual revenue increase of \$65.2 million for service rendered on or after May 1, 2018. The MPSC authorized a return on equity of 10.0%. On June 28, 2018, the MPSC issued an order on a rehearing granting in part and denying in part, petitions for rehearings of DTE Electric and other intervenors. As a result, the approved addition to base rates increased from \$65.2 million to \$74.4 million. In August 2018, DTE Electric filed to refund its customers \$26.2 million, inclusive of interest, based on their pro rata share of the revenue collected through the self-implementation surcharge in effect from November 1, 2017 to May 1, 2018. DTE Electric has recorded a refund liability as of September 30, 2018. The refund is proposed to be in effect commencing on November 1, 2018.

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

#### 2018 Electric Rate Case Filing

DTE Electric filed a rate case with the MPSC on July 6, 2018 requesting an increase in base rates of \$328 million based on a projected twelve-month period ending April 30, 2020. The requested increase in base rates is primarily due to an increase in net plant resulting from infrastructure investments, depreciation expense, as requested in the 2016 DTE Main Electric Depreciation Case Filing, and reliability improvement projects. The rate filing also requests an increase in return on equity from 10.0% to 10.5% and includes projected changes in sales, operation and maintenance expenses, and working capital. In addition, the rate filing requests an Infrastructure Recovery Mechanism to recover the incremental revenue requirement associated with certain distribution, fossil generation, and nuclear generation capital expenditures through 2022. Finally, as noted in the 2017 Tax Reform section below, DTE Electric addressed Calculation C in this filing. A final MPSC order in this case is expected by May 2019.

#### Certificate of Necessity

On July 31, 2017, DTE Electric filed a request for authority to build a 1,100 megawatt natural gas fueled combined cycle generation facility at DTE Electric's Belle River Power Plant. DTE Electric requested the MPSC to issue three CONs for the following: (1) power supplied by the proposed project is needed, (2) the size, fuel type, and other design characteristics of the proposed project represent the most reasonable and prudent means of meeting the power need, and (3) the estimated capital costs of \$989 million for the proposed project will be recoverable in rates from DTE Electric's customers. The MPSC issued an order on April 27, 2018 approving DTE Electric's request for the three CONs with recoverable amounts through rates up to \$951.8 million.

#### 2017 Gas Rate Case Filing

DTE Gas filed a rate case with the MPSC on November 22, 2017 requesting an increase in base rates of \$85.1 million based on a projected twelve-month period ending September 30, 2019. The requested increase in base rates was primarily due to an increase in net plant. The rate filing also requested an increase in return on equity from 10.1% to 10.5% and included projected changes in sales, operations and maintenance expenses, and working capital. On May 24, 2018, DTE Gas reduced its initial requested increase in base rates to \$38.1 million, primarily due to the effects of the TCJA on the original request. To mitigate the impact to its customers resulting from ASU No. 2017-07, Compensation — Retirement Benefits (Topic 715), DTE Gas suggested regulatory accounting treatment, consistent with the methodology approved by the MPSC in the 2017 DTE Electric Rate Case order. As such, beginning January 1, 2018, pension and postretirement cost components previously included as capital overhead are being deferred. For further discussion of ASU No. 2017-07, see Note 3 to the Consolidated Financial Statements, "New Accounting Pronouncements." On September 13, 2018, the MPSC issued an order approving an annual revenue increase of \$9 million for services rendered on or after October 1, 2018. The MPSC authorized a return on equity of 10%. Refer to the 2017 Tax Reform section below for further detail regarding the impact of the TCJA Credit A filing for DTE Gas.

#### 2017 Tax Reform

On December 27, 2017, the MPSC issued an order to consider changes in the rates of all Michigan rate-regulated utilities to reflect the effects of the federal TCJA. On January 19, 2018, DTE Electric and DTE Gas filed information with the MPSC regarding the potential change in revenue requirements due to the TCJA effective January 1, 2018, and outlined their recommended method to flow the current and deferred tax benefits of those impacts to ratepayers. On February 22, 2018, the MPSC issued an order in this case requiring utilities, including DTE Electric and DTE Gas, to follow a 3-step approach of credits and calculations. The first step is to establish Credit A, through contested cases. Credit A is a going-forward tax credit to reflect the reduction of the corporate tax rate from 35% to 21%. DTE Gas submitted its Credit A filing on March 28, 2018, reflecting a reduction in revenues of \$38.2 million. The MPSC approved the \$38.2 million reduction on May 30, 2018, effective July 1, 2018. With approval of the DTE Gas Rate Order on September 13, 2018, effective October 1, 2018, this separate Credit A was terminated. DTE Electric filed its Credit A application on May 18, 2018, reflecting a reduction in revenues of \$157 million. On July 24, 2018, the MPSC issued an order approving a settlement in DTE Electric's Credit A filing reflecting a reduction in revenues of \$157 million. Rates reflecting this reduction were effective August 1, 2018.



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

The second step is to establish Credit B, through contested cases. Credit B is a backward-looking tax credit to reflect the reduction of the corporate rate of 35% to 21%, for the period January 1, 2018 up to the date Credit A is implemented. The Credit B filing is required within sixty days after Credit A is implemented. For Credit B, DTE Electric and DTE Gas have been deferring the impact of the reduction to the corporate tax rate since January 1, 2018. DTE Gas submitted its Credit B filing on July 30, 2018, reflecting a \$25 million refund effective January 2019 through June 2019. On October 24, 2018, the MPSC issued an order approving the refund in DTE Gas' Credit B filing. DTE Electric submitted its Credit B filing on September 21, 2018, reflecting a \$93 million refund effective January 2019 through June 2019.

The third step is to perform Calculation C to address all remaining issues relative to the new tax law, which is primarily the remeasurement of deferred taxes and how the amounts deferred as Regulatory liabilities will flow to ratepayers. DTE Gas is required to file Calculation C no later than November 16, 2018. DTE Electric addressed Calculation C in its general rate case filed July 6, 2018.

#### NOTE 6 — EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income, adjusted for income allocated to participating securities, by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the dilution that would occur if any potentially dilutive instruments were exercised or converted into common shares. DTE Energy's participating securities are restricted shares under the stock incentive program that contain rights to receive non-forfeitable dividends. Equity units, performance shares, and stock options do not receive cash dividends; as such, these awards are not considered participating securities.

The following is a reconciliation of DTE Energy's basic and diluted income per share calculation:

|   | Three<br>Months<br>Ended<br>September<br>30,<br>2018 |        | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |        |
|---|--|--------|---|--------|
|   | 2018   | 2017   | 2018  | 2017   |
|   | (In millions, except per share amounts)              |        |   |        |
| <b>Basic Earnings per Share</b>                             |  |        |   |        |
| Net Income Attributable to DTE Energy Company               | \$334  | \$270  | \$929   | \$847  |
| Less: Allocation of earnings to net restricted stock awards | 1  | 1      | 2   | 2      |
| Net income available to common shareholders — basic         | \$333  | \$269  | \$927   | \$845  |
| <br>  |  |        |   |        |
| Average number of common shares outstanding — basic         | 182  | 179    | 181   | 179    |
| Basic Earnings per Common Share                             | \$1.84   | \$1.51 | \$5.13  | \$4.72 |
| <br>  |  |        |   |        |
| <b>Diluted Earnings per Share</b>                           |  |        |   |        |
| Net Income Attributable to DTE Energy Company               | \$334  | \$270  | \$929   | \$847  |
| Less: Allocation of earnings to net restricted stock awards | 1  | 1      | 2   | 2      |
| Net income available to common shareholders — diluted       | \$333  | \$269  | \$927   | \$845  |
| <br>  |  |        |   |        |
| Average number of common shares outstanding — diluted       | 182  | 179    | 181   | 179    |
| Diluted Earnings per Common Share <sup>(a)</sup>            | \$1.84   | \$1.51 | \$5.13  | \$4.72 |

(a) The 2016 Equity Units excluded from the calculation of diluted EPS were approximately 6.2 million for the three months ended September 30, 2018 and 2017, and 6.4 million for the nine months ended September 30, 2018 and

2017, as the dilutive stock price threshold was not met.



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

NOTE 7 — FAIR VALUE

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Registrants make certain assumptions they believe 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 Registrants and their counterparties is incorporated in the valuation of assets and liabilities through the use of credit reserves, the impact of which was immaterial at September 30, 2018 and December 31, 2017. The Registrants believe they use valuation techniques that maximize the use of observable market-based inputs and minimize the use of unobservable inputs.

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

• Level 1 — Consists of unadjusted quoted prices in active markets for identical assets or liabilities that the Registrants have 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.

Edgar Filing: DTE ENERGY CO - Form 10-Q

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

The following table presents assets and liabilities for DTE Energy measured and recorded at fair value on a recurring basis:

|  | September 30, 2018 |          |          |       |                        |                            | December 31, 2017 |          |          |       |                        |                            |
|--|--------------------|----------|----------|-------|------------------------|----------------------------|-------------------|----------|----------|-------|------------------------|----------------------------|
|  | Level 1            | Level 2  | Level 3  | Other | Netting <sup>(a)</sup> | Net Balance <sup>(b)</sup> | Level 1           | Level 2  | Level 3  | Other | Netting <sup>(a)</sup> | Net Balance <sup>(b)</sup> |
| (In millions)                          |                    |          |          |       |                        |                            |                   |          |          |       |                        |                            |
| <b>Assets</b>                          |                    |          |          |       |                        |                            |                   |          |          |       |                        |                            |
| Cash equivalents <sup>(c)</sup>        | \$33               | \$3      | \$—      | \$—   | \$—                    | \$36                       | \$16              | \$3      | \$—      | \$—   | \$—                    | \$19                       |
| <b>Nuclear decommissioning trusts</b>  |                    |          |          |       |                        |                            |                   |          |          |       |                        |                            |
| Equity securities                      | 973                | —        | —        | —     | —                      | 973                        | 978               | —        | —        | —     | —                      | 978                        |
| Fixed income securities                | 5                  | 519      | —        | —     | —                      | 524                        | 18                | 477      | —        | —     | —                      | 495                        |
| Private equity securities              | —                  | —        | —        | 11    | —                      | 11                         | —                 | —        | —        | 5     | —                      | 5                          |
| Cash equivalents                       | 17                 | —        | —        | —     | —                      | 17                         | 14                | —        | —        | —     | —                      | 14                         |
| <b>Other investments<sup>(d)</sup></b> |                    |          |          |       |                        |                            |                   |          |          |       |                        |                            |
| Equity securities                      | 125                | —        | —        | —     | —                      | 125                        | 118               | —        | —        | —     | —                      | 118                        |
| Fixed income securities                | 69                 | —        | —        | —     | —                      | 69                         | 72                | —        | —        | —     | —                      | 72                         |
| Cash equivalents                       | 4                  | —        | —        | —     | —                      | 4                          | 4                 | —        | —        | —     | —                      | 4                          |
| <b>Derivative assets</b>               |                    |          |          |       |                        |                            |                   |          |          |       |                        |                            |
| <b>Commodity contracts</b>             |                    |          |          |       |                        |                            |                   |          |          |       |                        |                            |
| Natural gas                            | 75                 | 72       | 53       | —     | (139 )                 | 61                         | 148               | 112      | 97       | —     | (256 )                 | 101                        |
| Electricity                            | —                  | 190      | 44       | —     | (173 )                 | 61                         | —                 | 243      | 42       | —     | (241 )                 | 44                         |
| Other                                  | 1                  | —        | 6        | —     | (1 )                   | 6                          | —                 | —        | 9        | —     | —                      | 9                          |
| Foreign currency exchange contracts    | —                  | 1        | —        | —     | (1 )                   | —                          | —                 | 1        | —        | —     | (1 )                   | —                          |
| Total derivative assets                | 76                 | 263      | 103      | —     | (314 )                 | 128                        | 148               | 356      | 148      | —     | (498 )                 | 154                        |
| Total                                  | \$1,302            | \$785    | \$103    | \$11  | \$(314 )               | \$1,887                    | \$1,368           | \$836    | \$148    | \$5   | \$(498 )               | \$1,859                    |
| <b>Liabilities</b>                     |                    |          |          |       |                        |                            |                   |          |          |       |                        |                            |
| <b>Derivative liabilities</b>          |                    |          |          |       |                        |                            |                   |          |          |       |                        |                            |
| <b>Commodity contracts</b>             |                    |          |          |       |                        |                            |                   |          |          |       |                        |                            |
| Natural gas                            | \$(69 )            | \$(61 )  | \$(99 )  | \$—   | \$139                  | \$(90 )                    | \$(141 )          | \$(111)  | \$(126)  | \$—   | \$263                  | \$(115 )                   |
| Electricity                            | —                  | (173 )   | (54 )    | —     | 172                    | (55 )                      | —                 | (245 )   | (30 )    | —     | 246                    | (29 )                      |
| Other                                  | (1 )               | —        | —        | —     | 1                      | —                          | —                 | —        | (1 )     | —     | 1                      | —                          |
| Foreign currency exchange contracts    | —                  | (1 )     | —        | —     | 1                      | —                          | —                 | (3 )     | —        | —     | 1                      | (2 )                       |
| Total derivative liabilities           | (70 )              | (235 )   | (153 )   | —     | 313                    | (145 )                     | (141 )            | (359 )   | (157 )   | —     | 511                    | (146 )                     |
| Total                                  | \$(70 )            | \$(235 ) | \$(153 ) | \$—   | \$313                  | \$(145 )                   | \$(141 )          | \$(359 ) | \$(157 ) | \$—   | \$511                  | \$(146 )                   |

Edgar Filing: DTE ENERGY CO - Form 10-Q

|                                |         |         |         |       |          |          |          |         |         |      |          |          |
|--------------------------------|---------|---------|---------|-------|----------|----------|----------|---------|---------|------|----------|----------|
| Net Assets                     |         |         |         |       |          |          |          |         |         |      |          |          |
| (Liabilities) at end of period | \$1,232 | \$550   | \$(50 ) | \$ 11 | \$(1 )   | \$1,742  | \$1,227  | \$477   | \$(9 )  | \$ 5 | \$ 13    | \$1,713  |
| Assets                         |         |         |         |       |          |          |          |         |         |      |          |          |
| Current                        | \$108   | \$213   | \$76    | \$ —  | \$(264 ) | \$133    | \$157    | \$298   | \$104   | \$ — | \$(437 ) | \$122    |
| Noncurrent                     | 1,194   | 572     | 27      | 11    | (50 )    | 1,754    | 1,211    | 538     | 44      | 5    | (61 )    | 1,737    |
| Total Assets                   | \$1,302 | \$785   | \$103   | \$ 11 | \$(314 ) | \$1,887  | \$1,368  | \$836   | \$148   | \$ 5 | \$(498 ) | \$1,859  |
| Liabilities                    |         |         |         |       |          |          |          |         |         |      |          |          |
| Current                        | \$(62 ) | \$(194) | \$(86 ) | \$ —  | \$263    | \$(79 )  | \$(137 ) | \$(313) | \$(108) | \$ — | \$459    | \$(99 )  |
| Noncurrent                     | (8 )    | (41 )   | (67 )   | —     | 50       | (66 )    | (4 )     | (46 )   | (49 )   | —    | 52       | (47 )    |
| Total Liabilities              | \$(70 ) | \$(235) | \$(153) | \$ —  | \$313    | \$(145 ) | \$(141 ) | \$(359) | \$(157) | \$ — | \$511    | \$(146 ) |
| Net Assets                     |         |         |         |       |          |          |          |         |         |      |          |          |
| (Liabilities) at end of period | \$1,232 | \$550   | \$(50 ) | \$ 11 | \$(1 )   | \$1,742  | \$1,227  | \$477   | \$(9 )  | \$ 5 | \$ 13    | \$1,713  |

(a) Amounts represent assets valued at NAV as a practical expedient for fair value.

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

At September 30, 2018, the \$36 million consisted of \$21 million, \$4 million, and \$11 million of cash equivalents included in Cash and Cash equivalents, Restricted cash, and Other investments on DTE Energy's Consolidated Statements of Financial Position, respectively. At December 31, 2017, the \$19 million consisted of \$8 million and \$11 million of cash equivalents included in Restricted cash and Other investments on DTE Energy's Consolidated Statements of Financial Position, respectively.

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

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

The following table presents assets for DTE Electric measured and recorded at fair value on a recurring basis as of:

|                                 | September 30, 2018 |         |         |                      |             | December 31, 2017 |         |         |                      |             |
|---------------------------------|--------------------|---------|---------|----------------------|-------------|-------------------|---------|---------|----------------------|-------------|
|                                 | Level 1            | Level 2 | Level 3 | Other <sup>(a)</sup> | Net Balance | Level 1           | Level 2 | Level 3 | Other <sup>(a)</sup> | Net Balance |
| (In millions)                   |                    |         |         |                      |             |                   |         |         |                      |             |
| Assets                          |                    |         |         |                      |             |                   |         |         |                      |             |
| Cash equivalents <sup>(b)</sup> | \$8                | \$3     | \$ —    | \$ —                 | \$ 11       | \$8               | \$3     | \$ —    | \$ —                 | \$ 11       |
| Nuclear decommissioning trusts  |                    |         |         |                      |             |                   |         |         |                      |             |
| Equity securities               | 973                | —       | —       | —                    | 973         | 978               | —       | —       | —                    | 978         |
| Fixed income securities         | 5                  | 519     | —       | —                    | 524         | 18                | 477     | —       | —                    | 495         |
| Private equity securities       | —                  | —       | —       | 11                   | 11          | —                 | —       | —       | 5                    | 5           |
| Cash equivalents                | 17                 | —       | —       | —                    | 17          | 14                | —       | —       | —                    | 14          |
| Other investments               |                    |         |         |                      |             |                   |         |         |                      |             |
| Equity securities               | 12                 | —       | —       | —                    | 12          | 11                | —       | —       | —                    | 11          |
| Derivative assets — FTRs        | —                  | —       | 6       | —                    | 6           | —                 | —       | 9       | —                    | 9           |
| Total                           | \$1,015            | \$522   | \$ 6    | \$ 11                | \$ 1,554    | \$1,029           | \$480   | \$ 9    | \$ 5                 | \$ 1,523    |
| Assets                          |                    |         |         |                      |             |                   |         |         |                      |             |
| Current                         | \$8                | \$3     | \$ 6    | \$ —                 | \$ 17       | \$8               | \$3     | \$ 9    | \$ —                 | \$ 20       |
| Noncurrent                      | 1,007              | 519     | —       | 11                   | 1,537       | 1,021             | 477     | —       | 5                    | 1,503       |
| Total Assets                    | \$1,015            | \$522   | \$ 6    | \$ 11                | \$ 1,554    | \$1,029           | \$480   | \$ 9    | \$ 5                 | \$ 1,523    |

(a) Amounts represent assets valued at NAV as a practical expedient for fair value.

At September 30, 2018, the \$11 million consisted of cash equivalents included in Other investments on DTE Electric's Consolidated Statements of Financial Position. At December 31, 2017, the \$11 million consisted of cash equivalents included in Other investments on DTE Electric's Consolidated Statements of Financial Position.

#### Cash Equivalents

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

#### Nuclear Decommissioning Trusts and Other Investments

The nuclear decommissioning trusts and other investments hold debt and equity securities directly and indirectly through institutional mutual funds and commingled funds. Other assets such as private market investments are used to enhance long-term returns while improving portfolio diversification. All pricing for private market investments in this category are classified as NAV assets. Exchange-traded debt and equity securities held directly are valued using quoted market prices in actively traded markets. Non-exchange-traded fixed income securities are valued based upon quotations available from brokers or pricing services. The institutional mutual funds hold exchange-traded equity or debt securities (exchange and non-exchange traded) and are valued based on publicly available NAVs. A primary price source is identified by asset type, class, or issue for each security. The trustee monitors prices supplied by pricing services and may use a supplemental price source or change the primary price source of a given security if the trustee determines that another price source is considered preferable. The Registrants have obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. Additionally, the Registrants selectively corroborate the fair value of securities by comparison of market-based price sources. Investment policies and procedures are determined by DTE Energy's Trust Investments Department which reports to DTE Energy's Vice President and Treasurer.

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

Derivative Assets and Liabilities

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

The following table presents the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for DTE Energy:

|   | Three Months Ended<br>September 30, 2018 |             |         |         | Three Months Ended<br>September 30, 2017 |             |       |         |
|---|--|-------------|---------|---------|--|-------------|-------|---------|
|   | Natural<br>Gas                           | Electricity | Other   | Total   | Natural<br>Gas                           | Electricity | Other | Total   |
|   | (In millions)                            |             |         |         |  |             |       |         |
| Net Assets (Liabilities) as of June 30  | \$ (25)                                  | \$ (13 )    | \$ 15   | \$ (23) | \$ (17)                                  | \$ 6        | \$ 5  | \$ (6 ) |
| Transfers into Level 3 from Level 2   | —  | —           | —       | —       | —  | —           | —     | —       |
| Transfers from Level 3 into Level 2   | —  | —           | —       | —       | —  | —           | —     | —       |
| Total gains (losses)  |  |             |         |         |  |             |       |         |
| Included in earnings  | (30 )                                    | 21          | —       | (9 )    | (8 )                                     | 33          | 1     | 26      |
| Recorded in Regulatory liabilities  | —  | —           | (8 )    | (8 )    | —  | —           | 2     | 2       |
| Purchases, issuances, and settlements   |  |             |         |         |  |             |       |         |
| Settlements   | 9  | (18 )       | (1 )    | (10 )   | 23                                       | (32 )       | (6 )  | (15 )   |
| Net Assets (Liabilities) as of September 30   | \$ (46)                                  | \$ (10 )    | \$ 6    | \$ (50) | \$ (2 )                                  | \$ 7        | \$ 2  | \$ 7    |
| The amount of total gains (losses) included in Net Income attributed to the change in unrealized gains (losses) related to assets and liabilities held at September 30, 2018 and 2017 and reflected in Operating Revenues — | \$ (31)                                  | \$ 10       | \$ (1 ) | \$ (22) | \$ (8 )                                  | \$ 18       | \$ 1  | \$ 11   |
| Non-utility operations and Fuel, purchased power, and gas — non-utility in DTE Energy's Consolidated Statements of Operations   |  |             |         |         |  |             |       |         |

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

|   | Nine Months Ended September 30, 2018 |             |        |         | Nine Months Ended September 30, 2017 |             |        |        |
|---|--------------------------------------|-------------|--------|---------|--------------------------------------|-------------|--------|--------|
|   | Natural Gas                          | Electricity | Other  | Total   | Natural Gas                          | Electricity | Other  | Total  |
| Net Assets (Liabilities) as of December 31  | \$(29 )                              | \$ 12       | \$ 8   | \$(9 )  | \$(96)                               | \$ 9        | \$(1 ) | \$(88) |
| Transfers into Level 3 from Level 2   | —                                    | —           | —      | —       | —                                    | —           | —      | —      |
| Transfers from Level 3 into Level 2   | (3 )                                 | —           | —      | (3 )    | —                                    | —           | —      | —      |
| Total gains (losses)  |                                      |             |        |         |                                      |             |        |        |
| Included in earnings  | (128 )                               | 25          | 1      | (102 )  | 38                                   | 45          | 1      | 84     |
| Recorded in Regulatory liabilities  | —                                    | —           | 6      | 6       | —                                    | —           | 15     | 15     |
| Purchases, issuances, and settlements   |                                      |             |        |         |                                      |             |        |        |
| Settlements   | 114                                  | (47 )       | (9 )   | 58      | 56                                   | (47 )       | (13 )  | (4 )   |
| Net Assets (Liabilities) as of September 30   | \$(46 )                              | \$ (10 )    | \$ 6   | \$(50 ) | \$(2 )                               | \$ 7        | \$ 2   | \$ 7   |
| The amount of total gains (losses) included in Net Income attributed to the change in unrealized gains (losses) related to assets and liabilities held at September 30, 2018 and 2017 and reflected in Operating Revenues — Non-utility operations and Fuel, purchased power, and gas — non-utility in DTE Energy's Consolidated Statements of Operations | \$(109)                              | \$ 4        | \$(3 ) | \$(108) | \$ 8                                 | \$ 35       | \$ —   | \$ 43  |

The following table presents the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for DTE Electric:

|   | Three Months Ended September 30, 2018 |      | Nine Months Ended September 30, 2017 |       |
|---|---------------------------------------|------|--------------------------------------|-------|
|   | 2018                                  | 2017 | 2018                                 | 2017  |
| Net Assets as of beginning of period  | \$ 15                                 | \$ 8 | \$ 9                                 | \$ 2  |
| Change in fair value recorded in Regulatory liabilities   | (8 )                                  | 2    | 6                                    | 15    |
| Purchases, issuances, and settlements   |                                       |      |                                      |       |
| Settlements   | (1 )                                  | (6 ) | (9 )                                 | (13 ) |
| Net Assets as of September 30   | \$ 6                                  | \$ 4 | \$ 6                                 | \$ 4  |
| The amount of total gains (losses) included in Regulatory liabilities attributed to the change in unrealized gains (losses) related to assets held at September 30, 2018 and 2017 and reflected in DTE Electric's Consolidated Statements of Financial Position | \$(2 )                                | \$ 1 | \$ 6                                 | \$ 4  |

Derivatives are transferred between levels primarily due to changes in the source data used to construct price curves as a result of changes in market liquidity. Transfers in and transfers out are reflected as if they had occurred at the beginning of the period.

There were no transfers between Levels 1 and 2 for the Registrants during the three and nine months ended September 30, 2018 and 2017, and there were no transfers from or into Level 3 for DTE Electric during the same periods.

The following tables present the unobservable inputs related to DTE Energy's Level 3 assets and liabilities:

September 30,  
 2018

Edgar Filing: DTE ENERGY CO - Form 10-Q

| Commodity Contracts | Derivative Assets<br>(In millions) | Derivative Liabilities<br>(In millions) | Valuation Techniques | Unobservable Input                   | Range                 | Weighted Average |
|---------------------|------------------------------------|---|----------------------|--------------------------------------|-----------------------|------------------|
| Natural Gas         | \$ 53                              | \$ (99 )                                | Discounted Cash Flow | Cash Forward basis price (per MMBtu) | \$(1.81)—\$5.99/MMBtu | \$(0.12)/MMBtu   |
| Electricity         | \$ 44                              | \$ (54 )                                | Discounted Cash Flow | Cash Forward basis price (per MWh)   | \$(6 )—\$9 /MWh       | \$1 /MWh         |

35

---

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

| Commodity Contracts | December 31, 2017 |                        | Derivative Valuation Techniques | Unobservable Input              | Range                 | Weighted Average |
|---------------------|-------------------|------------------------|---------------------------------|---------------------------------|-----------------------|------------------|
|                     | Derivative Assets | Derivative Liabilities |                                 |                                 |                       |                  |
| Natural Gas         | \$97              | \$(126)                | Discounted Cash Flow            | Forward basis price (per MMBtu) | \$(1.10)—\$9.75/MMBtu | \$(0.03)/MMBtu   |
| Electricity         | \$42              | \$(30)                 | Discounted Cash Flow            | Forward basis price (per MWh)   | \$(5 )—\$15 /MWh      | \$2 /MWh         |

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

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

Fair Value of Financial Instruments

The following table presents the carrying amount and fair value of financial instruments for DTE Energy:

|   | September 30, 2018 |         |            |         | December 31, 2017 |         |            |       |
|---|--------------------|---------|------------|---------|-------------------|---------|------------|-------|
|   | Carrying Amount    |         | Fair Value |         | Carrying Amount   |         | Fair Value |       |
|   | Level 1            | Level 2 | Level 3    | Level 1 | Level 2           | Level 3 |            |       |
|   | (In millions)      |         |            |         |                   |         |            |       |
| Notes receivable <sup>(a)</sup> , excluding capital leases      | \$37               | \$—     | \$—        | \$37    | \$38              | \$—     | \$—        | \$38  |
| Dividends payable   | \$161              | \$161   | \$—        | \$—     | \$158             | \$158   | \$—        | \$—   |
| Short-term borrowings   | \$77               | \$—     | \$77       | \$—     | \$621             | \$—     | \$621      | \$—   |
| Notes payable — Other <sup>(b)</sup> , excluding capital leases | \$11               | \$—     | \$—        | \$11    | \$12              | \$—     | \$—        | \$12  |
| Long-term debt <sup>(c)</sup>                                   | \$13,621           | \$1,840 | \$11,094   | \$930   | \$12,288          | \$1,939 | \$10,571   | \$764 |

(a) Current portion included in Current Assets — Other on DTE Energy's Consolidated Statements of Financial Position.

(b) Included in Current Liabilities — Other and Other Liabilities — Other on DTE Energy's Consolidated Statements of Financial Position.

(c) Includes debt due within one year, unamortized debt discounts, and issuance costs. Excludes Capital lease obligations.

The following table presents the carrying amount and fair value of financial instruments for DTE Electric:

|   | September 30, 2018 |         |            | December 31, 2017 |         |            |
|---|--------------------|---------|------------|-------------------|---------|------------|
|   | Carrying Amount    |         | Fair Value | Carrying Amount   |         | Fair Value |
|   | Level 1            | Level 2 | Level 3    | Level 1           | Level 2 | Level 3    |
|   | (In millions)      |         |            |                   |         |            |
| Short-term borrowings — affiliates                              | \$143              | \$—     | \$143      | \$116             | \$—     | \$116      |
| Short-term borrowings — other                                   | \$51               | \$—     | \$51       | \$238             | \$—     | \$238      |
| Notes payable — Other <sup>(a)</sup> , excluding capital leases | \$2                | \$—     | \$2        | \$2               | \$—     | \$2        |
| Long-term debt <sup>(b)</sup>                                   | \$6,537            | \$—     | \$6,537    | \$6,441           | \$—     | \$6,441    |

(a)



Included in Current Liabilities — Other and Other Liabilities — Other on DTE Electric's Consolidated Statements of Financial Position.

(b) Includes debt due within one year, unamortized debt discounts, and issuance costs. Excludes Capital lease obligations.

For further fair value information on financial and derivative instruments, see Note 8 to the Consolidated Financial Statements, "Financial and Other Derivative Instruments."

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

Nuclear Decommissioning Trust Funds

DTE Electric has a legal obligation to decommission its nuclear power plants following the expiration of its operating licenses. This obligation is reflected as an Asset retirement obligation on DTE Electric's Consolidated Statements of Financial Position. Rates approved by the MPSC provide for the recovery of decommissioning costs of Fermi 2 and the disposal of low-level radioactive waste.

The following table summarizes DTE Electric's fair value of the nuclear decommissioning trust fund assets:

|                             | September<br>30,<br>2018 | December<br>31, 2017 |
|-----------------------------|--------------------------|----------------------|
|                             | (In millions)            |                      |
| Fermi 2                     | \$1,507                  | \$ 1,475             |
| Fermi 1                     | 3                        | 3                    |
| Low-level radioactive waste | 15                       | 14                   |
|                             | \$1,525                  | \$ 1,492             |

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

|                                  | Three<br>Months<br>Ended<br>September<br>30,<br>2018 |        | Nine Months<br>Ended<br>September<br>30,<br>2017 |         |
|----------------------------------|--|--------|--|---------|
|                                  | (In millions)  |        |  |         |
| Realized gains                   | \$10   | \$14   | \$52   | \$63    |
| Realized losses                  | \$(7 )   | \$(7 ) | \$(22 )  | \$(23 ) |
| Proceeds from sale of securities | \$194  | \$246  | \$810  | \$951   |

Realized gains and losses from the sale of securities and unrealized gains and losses incurred by the Fermi 2 trust are recorded to the Regulatory asset and Nuclear decommissioning liability. Realized gains and losses from the sale of securities and unrealized gains and losses on the low-level radioactive waste funds are recorded to the Nuclear decommissioning liability.

The following table sets forth DTE Electric's fair value and unrealized gains and losses for the nuclear decommissioning trust funds:

|                           | September 30, 2018 |                     |                      | December 31, 2017 |                     |                      |
|---------------------------|--------------------|---------------------|----------------------|-------------------|---------------------|----------------------|
|                           | Fair<br>Value      | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value     | Unrealized<br>Gains | Unrealized<br>Losses |
|                           | (In millions)      |                     |                      |                   |                     |                      |
| Equity securities         | \$973              | \$ 337              | \$ (45 )             | \$978             | \$ 320              | \$ (32 )             |
| Fixed income securities   | 524                | 5                   | (10 )                | 495               | 13                  | (3 )                 |
| Private equity securities | 11                 | —                   | —                    | 5                 | —                   | —                    |
| Cash equivalents          | 17                 | —                   | —                    | 14                | —                   | —                    |
|                           | \$1,525            | \$ 342              | \$ (55 )             | \$1,492           | \$ 333              | \$ (35 )             |

The following table summarizes the fair value of the fixed income securities held in nuclear decommissioning trust funds by contractual maturity:

September  
30, 2018  
(In  
millions)

|                                  |        |
|----------------------------------|--------|
| Due within one year              | \$ 27  |
| Due after one through five years | 99     |
| Due after five through ten years | 118    |
| Due after ten years              | 280    |
|                                  | \$ 524 |

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

Other Securities

At September 30, 2018 and December 31, 2017, the Registrants' securities, included in Other investments on the Consolidated Statements of Financial Position, were comprised primarily of money market and equity securities. For the three months ended September 30, 2018 and 2017, gains related to equity securities were \$5 million and \$6 million, respectively, for the Registrants. For the nine months ended September 30, 2018 and 2017, gains related to equity securities were \$4 million and \$19 million, respectively, for the Registrants. Gains or losses related to the Rabbi Trust assets are allocated from DTE Energy to DTE Electric.

NOTE 8 — FINANCIAL AND OTHER DERIVATIVE INSTRUMENTS

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

The Registrants' primary market risk exposure is associated with commodity prices, credit, and interest rates. The Registrants have risk management policies to monitor and manage market risks. The Registrants use derivative instruments to manage some of the exposure. DTE Energy uses derivative instruments for trading purposes in its Energy Trading segment. Contracts classified as derivative instruments include electricity, natural gas, oil, certain coal forwards, futures, options, swaps, and foreign currency exchange contracts. Items not classified as derivatives include natural gas inventory, pipeline transportation contracts, renewable energy credits, and natural gas storage assets. DTE Electric — DTE Electric generates, purchases, distributes, and sells electricity. DTE Electric uses forward contracts to manage changes in the price of electricity and fuel. Substantially all of these contracts meet the normal purchases and normal sales exception and are therefore accounted for under the accrual method. Other derivative contracts are MTM and recoverable through the PSCR mechanism when settled. This results in the deferral of unrealized gains and losses as Regulatory assets or liabilities until realized.

DTE Gas — DTE Gas purchases, stores, transports, distributes, and sells natural gas, and sells storage and transportation capacity. DTE Gas has fixed-priced contracts for portions of its expected natural gas supply requirements through March 2021. Substantially all of these contracts meet the normal purchases and normal sales exception and are therefore accounted for under the accrual method. DTE Gas may also sell forward transportation and storage capacity contracts. Forward transportation and storage contracts are generally not derivatives and are therefore accounted for under the accrual method.

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

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

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

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

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

**Corporate and Other — Interest Rate Risk —** DTE Energy may use interest rate swaps, treasury locks, and other derivatives to hedge the risk associated with interest rate market volatility.

**Credit Risk —** DTE Energy maintains credit policies that significantly minimize overall credit risk. These policies include an evaluation of potential customers' and counterparties' financial condition, including the viability of underlying productive assets, credit rating, collateral requirements, or other credit enhancements such as letters of credit or guarantees. DTE Energy generally uses standardized agreements that allow the netting of positive and negative transactions associated with a single counterparty. DTE Energy maintains a provision for credit losses based on factors surrounding the credit risk of its customers, historical trends, and other information. Based on DTE Energy's credit policies and its September 30, 2018 provision for credit losses, DTE Energy's exposure to counterparty nonperformance is not expected to have a material adverse effect on DTE Energy's Consolidated Financial Statements.

**Derivative Activities**

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

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

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

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

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

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

The following table presents the fair value of derivative instruments for DTE Energy:

|   | September 30,<br>2018 |                           | December 31,<br>2017 |                           |
|---|-----------------------|---------------------------|----------------------|---------------------------|
|   | Derivative<br>Assets  | Derivative<br>Liabilities | Derivative<br>Assets | Derivative<br>Liabilities |
| (In millions)   |                       |                           |                      |                           |
| Derivatives not designated as hedging instruments       |                       |                           |                      |                           |
| Commodity contracts                                     |                       |                           |                      |                           |
| Natural gas   | \$200                 | \$ (229 )                 | \$357                | \$ (378 )                 |
| Electricity   | 234                   | (227 )                    | 285                  | (275 )                    |
| Other   | 7                     | (1 )                      | 9                    | (1 )                      |
| Foreign currency exchange contracts                     | 1                     | (1 )                      | 1                    | (3 )                      |
| Total derivatives not designated as hedging instruments | \$442                 | \$ (458 )                 | \$652                | \$ (657 )                 |
| Current   | \$361                 | \$ (342 )                 | \$540                | \$ (558 )                 |
| Noncurrent  | 81                    | (116 )                    | 112                  | (99 )                     |
| Total derivatives                                       | \$442                 | \$ (458 )                 | \$652                | \$ (657 )                 |

The following table presents the fair value of derivative instruments for DTE Electric:

|   | September 30,<br>2018 |      | December 31,<br>2017 |  |
|---|-----------------------|------|----------------------|--|
| (In millions)   |                       |      |                      |  |
| FTRs — Other current assets                             | \$ 6                  | \$ 9 |                      |  |
| Total derivatives not designated as hedging instruments | \$ 6                  | \$ 9 |                      |  |

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

DTE Energy also provides and receives collateral in the form of letters of credit which can be offset against net Derivative assets and liabilities as well as Accounts receivable and payable. DTE Energy had issued letters of credit of \$4 million outstanding at September 30, 2018 and December 31, 2017, which could be used to offset net Derivative liabilities. Letters of credit received from third parties which could be used to offset net Derivative assets were \$6 million and \$4 million at September 30, 2018 and December 31, 2017, respectively. Such balances of letters of credit are excluded from the tables below and are not netted with the recognized assets and liabilities in DTE Energy's Consolidated Statements of Financial Position.

For contracts with certain clearing agents, the fair value of derivative instruments is netted against realized positions with the net balance reflected as either 1) a Derivative asset or liability or 2) an Account receivable or payable. Other than certain clearing agents, Accounts receivable and Accounts payable that are subject to netting arrangements have not been offset against the fair value of Derivative assets and liabilities.

For DTE Energy, the total cash collateral posted, net of cash collateral received, was \$13 million and \$28 million as of September 30, 2018 and December 31, 2017, respectively. DTE Energy had \$1 million of cash collateral related to unrealized positions to net against Derivative assets and no cash collateral related to unrealized positions to net against Derivative liabilities as of September 30, 2018. DTE Energy had \$9 million of cash collateral related to unrealized positions to net against Derivative assets while Derivative liabilities are shown net of cash collateral of \$22 million as

of December 31, 2017. DTE Energy recorded cash collateral paid of \$21 million and cash collateral received of \$7 million not related to unrealized derivative positions as of September 30, 2018. DTE Energy recorded cash collateral paid of \$18 million and cash collateral received of \$3 million not related to unrealized derivative positions as of December 31, 2017. These amounts are included in Accounts receivable and Accounts payable and are recorded net by counterparty.



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

The following table presents the netting offsets of Derivative assets and liabilities for DTE Energy:

|                                     | September 30, 2018                               |   |  | December 31, 2017                                |   |  |
|-------------------------------------|--|---|--|--|---|--|
|                                     | Gross Amounts of Recognized Assets (Liabilities) | Gross Amounts Offset in the Consolidated Statements of Financial Position | Net Amounts of Assets (Liabilities) Presented in the Consolidated Statements of Financial Position | Gross Amounts of Recognized Assets (Liabilities) | Gross Amounts Offset in the Consolidated Statements of Financial Position | Net Amounts of Assets (Liabilities) Presented in the Consolidated Statements of Financial Position |
| (In millions)                       |  |   |  |  |   |  |
| Derivative assets                   |  |   |  |  |   |  |
| Commodity contracts                 |  |   |  |  |   |  |
| Natural gas                         | \$200  | \$ (139 )   | \$ 61  | \$357  | \$ (256 )   | \$ 101   |
| Electricity                         | 234  | (173 )  | 61   | 285  | (241 )  | 44   |
| Other                               | 7  | (1 )  | 6  | 9  | —   | 9  |
| Foreign currency exchange contracts | 1  | (1 )  | —  | 1  | (1 )  | —  |
| Total derivative assets             | \$442  | \$ (314 )   | \$ 128   | \$652  | \$ (498 )   | \$ 154   |
| Derivative liabilities              |  |   |  |  |   |  |
| Commodity contracts                 |  |   |  |  |   |  |
| Natural gas                         | \$(229)  | \$ 139  | \$ (90 )   | \$(378)  | \$ 263  | \$ (115 )  |
| Electricity                         | (227 )   | 172   | (55 )  | (275 )   | 246   | (29 )  |
| Other                               | (1 )   | 1   | —  | (1 )   | 1   | —  |
| Foreign currency exchange contracts | (1 )   | 1   | —  | (3 )   | 1   | (2 )   |
| Total derivative liabilities        | \$(458)  | \$ 313  | \$ (145 )  | \$(657)  | \$ 511  | \$ (146 )  |

The following table presents the netting offsets of Derivative assets and liabilities showing the reconciliation of derivative instruments to DTE Energy's Consolidated Statements of Financial Position:

|                                 | September 30, 2018 |            |                        |            | December 31, 2017 |            |                        |            |
|---------------------------------|--------------------|------------|------------------------|------------|-------------------|------------|------------------------|------------|
|                                 | Derivative Assets  |            | Derivative Liabilities |            | Derivative Assets |            | Derivative Liabilities |            |
|                                 | Current            | Noncurrent | Current                | Noncurrent | Current           | Noncurrent | Current                | Noncurrent |
| (In millions)                   |                    |            |                        |            |                   |            |                        |            |
| Total fair value of derivatives | \$361              | \$ 81      | \$(342)                | \$ (116 )  | \$540             | \$ 112     | \$(558)                | \$ (99 )   |
| Counterparty netting            | (263 )             | (50 )      | 263                    | 50         | (437 )            | (52 )      | 437                    | 52         |
| Collateral adjustment           | (1 )               | —          | —                      | —          | —                 | (9 )       | 22                     | —          |
| Total derivatives as reported   | \$97               | \$ 31      | \$(79 )                | \$ (66 )   | \$103             | \$ 51      | \$(99 )                | \$ (47 )   |

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

The effect of derivatives not designated as hedging instruments on DTE Energy's Consolidated Statements of Operations is as follows:

| Derivatives not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income on Derivatives | Gain (Loss)   |        |  |       |
|---|---|---|--------|--|-------|
|   |   | Recognized in Income on Derivatives for the Three Months Ended September 30, 2018 |        | Gain (Loss) Recognized in Income on Derivatives for the Nine Months Ended September 30, 2017 |       |
|   |   | 2018  | 2017   | 2018   | 2017  |
|   |   | (In millions)   |        |  |       |
| Commodity contracts                               |   |   |        |  |       |
| Natural gas                                       | Operating Revenues — Non-utility operations                 | \$(29)  | \$(14) | \$(51)   | \$63  |
| Natural gas                                       | Fuel, purchased power, and gas — non-utility                | (6 )  | 10     | (74 )  | 56    |
| Electricity                                       | Operating Revenues — Non-utility operations                 | 26  | 33     | 37   | 39    |
| Other   | Operating Revenues — Non-utility operations                 | —   | 2      | 1  | 1     |
| Foreign currency exchange contracts               | Operating Revenues — Non-utility operations                 | (2 )  | (2 )   | 2  | (3 )  |
| Total   |   | \$(11)  | \$29   | \$(85)   | \$156 |

Revenues and energy costs related to trading contracts are presented on a net basis in DTE Energy's Consolidated Statements of Operations. Commodity derivatives used for trading purposes, and financial non-trading commodity derivatives, are accounted for using the MTM method with unrealized and realized gains and losses recorded in Operating Revenues — Non-utility operations. Non-trading physical commodity sale and purchase derivative contracts are generally accounted for using the MTM method with unrealized and realized gains and losses for sales recorded in Operating Revenues — Non-utility operations and purchases recorded in Fuel, purchased power, and gas — non-utility. The following represents the cumulative gross volume of DTE Energy's derivative contracts outstanding as of September 30, 2018:

| Commodity                                    | Number of Units |
|--|-----------------|
| Natural gas (MMBtu)                          | 1,845,918,994   |
| Electricity (MWh)                            | 35,321,134      |
| Foreign currency exchange (Canadian dollars) | 101,360,396     |

Various subsidiaries of DTE Energy have entered into contracts which contain ratings triggers and are guaranteed by DTE Energy. These contracts contain provisions which allow the counterparties to require that DTE Energy post cash or letters of credit as collateral in the event that DTE Energy's credit rating is downgraded below investment grade. Certain of these provisions (known as "hard triggers") state specific circumstances under which DTE Energy can be required to post collateral upon the occurrence of a credit downgrade, while other provisions (known as "soft triggers") are not as specific. For contracts with soft triggers, it is difficult to estimate the amount of collateral which may be requested by counterparties and/or which DTE Energy may ultimately be required to post. The amount of such collateral which could be requested fluctuates based on commodity prices (primarily natural gas, power, and coal) and the provisions and maturities of the underlying transactions. As of September 30, 2018, DTE Energy's contractual obligation to post collateral in the form of cash or letters of credit in the event of a downgrade to below investment grade, under both hard trigger and soft trigger provisions, was \$502 million.

As of September 30, 2018, DTE Energy had \$363 million of derivatives in net liability positions, for which hard triggers exist. There is \$1 million of collateral that has been posted against such liabilities, including cash and letters of credit. Associated derivative net asset positions for which contractual offset exists were \$295 million. The net remaining amount of \$67 million is derived from the \$502 million noted above.

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

NOTE 9 — LONG-TERM DEBT

Debt Issuances

In 2018, the following debt was issued:

| Company      | Month  | Type                          | Interest Rate | Maturity Date | Amount<br>(In<br>millions) |
|--------------|--------|-------------------------------|---------------|---------------|----------------------------|
| DTE Electric | May    | Mortgage Bonds <sup>(a)</sup> | 4.05%         | 2048          | \$ 525                     |
| DTE Energy   | August | Senior Notes <sup>(b)</sup>   | 3.70%         | 2023          | 600                        |
| DTE Gas      | August | Mortgage Bonds <sup>(b)</sup> | 3.81%         | 2028          | 195                        |
| DTE Gas      | August | Mortgage Bonds <sup>(b)</sup> | 4.14%         | 2048          | 125                        |
|              |        |                               |               |               | \$ 1,445                   |

<sup>(a)</sup> Bonds were issued as Green Bonds and the proceeds will be used to finance expenditures for solar and wind energy, payments under power purchase agreements for solar and wind energy, and energy optimization programs.

<sup>(b)</sup> Proceeds were used for the repayment of short-term borrowings and for general corporate purposes.

Debt Redemptions

In 2018, the following debt was redeemed:

| Company    | Month   | Type                 | Interest Rate | Maturity Date | Amount<br>(In<br>millions) |
|------------|---------|----------------------|---------------|---------------|----------------------------|
| DTE Gas    | April   | Senior Notes         | 6.04%         | 2018          | \$ 100                     |
| DTE Energy | Various | Other Long-Term Debt | Various       | 2018          | 5                          |
|            |         |                      |               |               | \$ 105                     |

NOTE 10 — SHORT-TERM CREDIT ARRANGEMENTS AND BORROWINGS

DTE Energy, DTE Electric, and DTE Gas have unsecured revolving credit agreements that can be used for general corporate borrowings, but are intended to provide liquidity support for each of the companies' commercial paper programs. Borrowings under the revolvers are available at prevailing short-term interest rates. Additionally, DTE Energy has other facilities to support letter of credit issuance.

The agreements require DTE Energy, DTE Electric, and DTE Gas to maintain a total funded debt to capitalization ratio of no more than 0.65 to 1. In the agreements, "total funded debt" means all indebtedness of each respective company and their consolidated subsidiaries, including capital lease obligations, hedge agreements, and guarantees of third parties' debt, but excluding contingent obligations, nonrecourse and junior subordinated debt, and certain equity-linked securities and, except for calculations at the end of the second quarter, certain DTE Gas short-term debt. "Capitalization" means the sum of (a) total funded debt plus (b) "consolidated net worth," which is equal to consolidated total equity of each respective company and their consolidated subsidiaries (excluding pension effects under certain FASB statements), as determined in accordance with accounting principles generally accepted in the United States of America. At September 30, 2018, the total funded debt to total capitalization ratios for DTE Energy, DTE Electric, and DTE Gas were 0.54 to 1, 0.51 to 1, and 0.50 to 1, respectively, and were in compliance with this financial covenant.

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

The availability under the facilities in place at September 30, 2018 is shown in the following table:

|   | DTE<br>Energy | DTE<br>Electric | DTE<br>Gas | Total    |
|---|---------------|-----------------|------------|----------|
|   | (In millions) |                 |            |          |
| Unsecured letter of credit facility, expiring in February 2019  | \$ 150        | \$ —            | \$—        | \$ 150   |
| Unsecured letter of credit facility, expiring in September 2019 | 70            | —               | —          | 70       |
| Unsecured revolving credit facility, expiring April 2022        | 1,200         | 400             | 300        | 1,900    |
|   | 1,420         | 400             | 300        | 2,120    |
| Amounts outstanding at September 30, 2018                       |               |                 |            |          |
| Commercial paper issuances                                      | —             | 51              | 26         | 77       |
| Letters of credit   | 159           | —               | —          | 159      |
|   | 159           | 51              | 26         | 236      |
| Net availability at September 30, 2018                          | \$ 1,261      | \$ 349          | \$ 274     | \$ 1,884 |

DTE Energy has \$9 million of other outstanding letters of credit which are used for various corporate purposes and are not included in the facilities described above.

In conjunction with maintaining certain exchange traded risk management positions, DTE Energy may be required to post collateral with its clearing agent. DTE Energy has a demand financing agreement for up to \$100 million with its clearing agent. The agreement, as amended, also allows for up to \$50 million of additional margin financing provided that DTE Energy posts a letter of credit for the incremental amount and allows the right of setoff with posted collateral. At September 30, 2018, the capacity under this facility was \$125 million. The amount outstanding under this agreement was \$6 million and \$56 million at September 30, 2018 and December 31, 2017, respectively, and was fully offset by the posted collateral.

#### NOTE 11 — COMMITMENTS AND CONTINGENCIES

##### Environmental

##### DTE Electric

Air — DTE Electric is subject to the EPA ozone and fine particulate transport and acid rain regulations that limit power plant emissions of SO<sub>2</sub> and NO<sub>x</sub>. The EPA and the State of Michigan have also issued emission reduction regulations relating to ozone, fine particulate, regional haze, mercury, and other air pollution. These rules have led to controls on fossil-fueled power plants to reduce SO<sub>2</sub>, NO<sub>x</sub>, mercury, and other emissions. Additional rulemakings may occur over the next few years which could require additional controls for SO<sub>2</sub>, NO<sub>x</sub>, and other hazardous air pollutants.

The EPA proposed revised air quality standards for ground level ozone in November 2014 and specifically requested comments on the form and level of the ozone standards. The standards were finalized in October 2015. The State of Michigan recommended to the EPA in October 2016 which areas of the state are not attaining the new standard. On April 30, 2018, the EPA finalized the State of Michigan's recommended non-attainment designation for southeast Michigan. The State is required to develop and implement a plan to address the southeast Michigan ozone non-attainment area by 2021. DTE Electric cannot predict the financial impact of the State's plan to address the ozone non-attainment area at this time.

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

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

In August 2010, the U.S. Department of Justice, at the request of the EPA, brought a civil suit in the U.S. District Court for the Eastern District of Michigan against DTE Energy and DTE Electric, related to the June 2010 NOV/FOV and the outage work performed at Unit 2 of the Monroe Power Plant. In August 2011, the U.S. District Court judge granted DTE Energy's motion for summary judgment in the civil case, dismissing the case and entering judgment in favor of DTE Energy and DTE Electric. In October 2011, the EPA filed a Notice of Appeal to the Court of Appeals for the Sixth Circuit. In March 2013, the Court of Appeals remanded the case to the U.S. District Court for review of the procedural component of the New Source Review notification requirements. In September 2013, the EPA filed a motion seeking leave to amend their complaint regarding the June 2010 NOV/FOV adding additional claims related to outage work performed at the Trenton Channel and Belle River Power Plants as well as additional claims related to work performed at the Monroe Power Plant. In March 2014, the U.S. District Court judge again granted DTE Energy's motion for summary judgment dismissing the civil case related to Monroe Unit 2. In April 2014, the U.S. District Court judge granted motions filed by the EPA and the Sierra Club to amend their New Source Review complaint adding additional claims for Monroe Units 1, 2, and 3, Belle River Units 1 and 2, and Trenton Channel Unit 9. In October 2014, the EPA and the U.S. Department of Justice filed a notice of appeal of the U.S. District Court judge's dismissal of the Monroe Unit 2 case. The amended New Source Review claims were all stayed pending resolution of the appeal by the Court of Appeals for the Sixth Circuit. On January 10, 2017, a divided panel of the Court reversed the decision of the U.S. District Court. On May 8, 2017, DTE Energy and DTE Electric filed a motion to stay the mandate pending filing of a petition for writ of certiorari with the U.S. Supreme Court. The Sixth Circuit granted the motion on May 16, 2017, staying the claims in the U.S. District Court until the U.S. Supreme Court disposes of the case. DTE Electric and DTE Energy filed a petition for writ of certiorari on July 31, 2017. On December 11, 2017, the U.S. Supreme Court denied certiorari. As a result of the Supreme Court electing not to review the matter, the case was sent back to the U.S. District Court for further proceedings and on June 14, 2018 the case was stayed for 180 days pending settlement negotiations. The proceedings at the District Court are currently stayed while the parties discuss potential resolution of the matter.

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

The EPA has implemented regulatory actions under the Clean Air Act to address emissions of GHGs from the utility sector and other sectors of the economy. Among these actions, in 2015 the EPA finalized performance standards for emissions of carbon dioxide from new and existing EGUs. In February 2016, the U.S. Supreme Court granted petitioners' requests for a stay of the carbon rules for existing EGUs (also known as the EPA Clean Power Plan) pending final review by the courts. The Clean Power Plan has no legal effect while the stay is in place. On March 28, 2017, a presidential executive order was issued on "Promoting Energy Independence and Economic Growth." The order instructs the EPA to review, and if appropriate, suspend, revise or rescind the Clean Power Plan rule. Following the issuance of this order, the federal government requested the U.S. Court of Appeals for the D.C. Circuit to hold all legal challenges in abeyance until the review of these regulations is completed. On October 10, 2017, the EPA proposed to rescind the Clean Power Plan and announced its intent to issue an ANPR seeking input as to whether it should replace the rule and, if so, what form it should take. In August 2018, the EPA proposed revised emission guidelines for GHGs from existing electric utility generating units. This proposed rule, named the Affordable Clean Energy (ACE) rule, is intended to replace the Clean Power Plan rule. Comments on the proposed ACE rule are due on October 31, 2018. It is not possible to determine the potential impact of the EPA's proposed ACE rule on existing sources at this time.

Pending or future legislation or other regulatory actions could have a material impact on DTE Electric's operations and financial position and the rates charged to its customers. Impacts include expenditures for environmental equipment

beyond what is currently planned, financing costs related to additional capital expenditures, the purchase of emission credits from market sources, higher costs of purchased power, and the retirement of facilities where control equipment is not economical. DTE Electric would seek to recover these incremental costs through increased rates charged to its utility customers, as authorized by the MPSC.

To comply with air pollution requirements, DTE Electric spent approximately \$2.4 billion through 2017. DTE Electric does not anticipate additional capital expenditures through 2024.

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

**Water** — In response to an EPA regulation, DTE Electric was required to examine alternatives for reducing the environmental impacts of the cooling water intake structures at several of its facilities. Based on the results of completed studies and expected future studies, DTE Electric may be required to install technologies to reduce the impacts of the water intake structures. A final rule became effective in October 2014. The final rule requires studies to be completed and submitted as part of the National Pollutant Discharge Elimination System (NPDES) permit application process to determine the type of technology needed to reduce impacts to fish. DTE Electric has initiated the process of completing the required studies. Final compliance for the installation of any required technology will be determined by each state on a case by case, site specific basis. DTE Electric is currently evaluating the compliance options and working with the State of Michigan on evaluating whether any controls are needed. These evaluations/studies may require modifications to some existing intake structures. It is not possible to quantify the impact of this rulemaking at this time.

**Contaminated and Other Sites** — Prior to the construction of major interstate natural gas pipelines, gas for heating and other uses was manufactured locally from processes involving coal, coke, or oil. The facilities, which produced gas, have been designated as MGP sites. DTE Electric conducted remedial investigations at contaminated sites, including three former MGP sites. The investigations have revealed contamination related to the by-products of gas manufacturing at each MGP site. In addition to the MGP sites, DTE Electric is also in the process of cleaning up other contaminated sites, including the area surrounding an ash landfill, electrical distribution substations, electric generating power plants, and underground and aboveground storage tank locations. The findings of these investigations indicated that the estimated cost to remediate these sites is expected to be incurred over the next several years. At September 30, 2018 and December 31, 2017, DTE Electric had \$5 million and \$6 million, respectively, accrued for remediation. Any change in assumptions, such as remediation techniques, nature and extent of contamination, and regulatory requirements, could impact the estimate of remedial action costs for the sites and affect DTE Electric's financial position and cash flows. DTE Electric believes the likelihood of a material change to the accrued amount is remote based on current knowledge of the conditions at each site.

**Coal Combustion Residuals and Effluent Limitations Guidelines** — A final EPA rule for the disposal of coal combustion residuals, commonly known as coal ash, became effective in October 2015, and was revised in October 2016 and July 2018. Additionally, a D.C. District Court Decision on August 21, 2018 could affect the compliance and closure plans for CCR regulated impoundments and timing of closures of some regulated CCR impoundments. Legislation introduced into the Michigan House of Representatives on June 12, 2018 would provide for a CCR program to be regulated in Michigan once approval is requested from, and approved by, the EPA. DTE Electric owns and operates three permitted engineered coal ash storage facilities to dispose of coal ash from coal-fired power plants and operates a number of smaller impoundments at its power plants. CCR obligations vary based on plant life, but include the installation of monitoring wells, compliance with groundwater standards, and the closure of landfills and basins at the end of the useful life of the associated power plant or as a basin becomes inactive. Under the current CCR rules and uncertainty regarding the DC District Court decision, capital costs and timing associated with the building of new CCR facilities or retirement of existing CCR facilities are being evaluated.

In November 2015, the EPA finalized the ELG Rule for the steam electric power generating industry which may require additional controls to be installed between 2018 and 2023. On April 12, 2017, the EPA granted a petition for reconsideration of the ELG Rule. The EPA also signed an administrative stay of the ELG Rule's compliance deadlines for fly ash transport water, bottom ash transport water, and flue gas desulfurization (FGD) wastewater, among others. On June 6, 2017, the EPA published in the Federal Register a proposed rule to postpone certain applicable deadlines within the ELG rule. The final rule was published on September 18, 2017, which extended the earliest compliance deadlines for the FGD wastewater and bottom ash transport until November 1, 2020 in order for the EPA to propose and finalize a new ruling. The ELG compliance requirements, final deadlines, and compliance costs will not be known until the EPA completes its reconsideration of the ELG Rule.





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

#### DTE Gas

Contaminated and Other Sites — DTE Gas owns or previously owned, 14 former MGP sites. Investigations have revealed contamination related to the by-products of gas manufacturing at each site. Cleanup of six of the MGP sites is complete, and the sites are closed. DTE Gas has also completed partial closure of six additional sites. Cleanup activities associated with the remaining sites will continue over the next several years. The MPSC has established a cost deferral and rate recovery mechanism for investigation and remediation costs incurred at former MGP sites. In addition to the MGP sites, DTE Gas is also in the process of cleaning up other contaminated sites, including gate stations, gas pipeline releases, and underground storage tank locations. As of September 30, 2018 and December 31, 2017, DTE Gas had \$32 million and \$41 million accrued for remediation, respectively. Any change in assumptions, such as remediation techniques, nature and extent of contamination, and regulatory requirements, could impact the estimate of remedial action costs for the sites and affect DTE Gas' financial position and cash flows. DTE Gas anticipates the cost amortization methodology approved by the MPSC, which allows for amortization of the MGP costs over a ten-year period beginning with the year subsequent to the year the MGP costs were incurred, will prevent environmental costs from having a material adverse impact on DTE Gas' results of operations.

#### Non-utility

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

#### Other

In 2010, the EPA finalized a new one-hour SO<sub>2</sub> ambient air quality standard that requires states to submit plans and associated timelines for non-attainment areas that demonstrate attainment with the new SO<sub>2</sub> standard in phases. Phase 1 addresses non-attainment areas designated based on ambient monitoring data. Phase 2 addresses non-attainment areas with large sources of SO<sub>2</sub> and modeled concentrations exceeding the National Ambient Air Quality Standards for SO<sub>2</sub>. Phase 3 addresses smaller sources of SO<sub>2</sub> with modeled or monitored exceedances of the new SO<sub>2</sub> standard. Michigan's Phase 1 non-attainment area includes DTE Energy facilities in southwest Detroit and areas of Wayne County. Modeling runs by the MDEQ suggest that emission reductions may be required by significant sources of SO<sub>2</sub> emissions in these areas, including DTE Electric power plants and DTE Energy's Michigan coke battery facility. As part of the state implementation plan process, DTE Energy has worked with the MDEQ to develop air permits reflecting significant SO<sub>2</sub> emission reductions that, in combination with other non-DTE Energy sources' emission reduction strategies, will help the state attain the standard and sustain its attainment. Since several non-DTE Energy sources are also part of the proposed compliance plan, DTE Energy is unable to determine the full impact of the final required emissions reductions at this time.

Michigan's Phase 2 non-attainment area includes DTE Electric facilities in St. Clair County. State implementation plan (SIP) submittal and EPA approval describing the control strategy and timeline for demonstrating compliance with the new SO<sub>2</sub> standard is the next step in the process, expected to be completed by the end of the year. DTE Energy is currently working with the MDEQ to develop the required SIP. DTE Energy is unable to determine the full impact of the SIP strategy.

#### Synthetic Fuel Guarantees

DTE Energy discontinued the operations of its synthetic fuel production facilities throughout the United States as of December 31, 2007. DTE Energy 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 that will survive until 90 days after expiration of all applicable statutes of limitations. DTE Energy estimates that its maximum potential liability under these guarantees at September 30, 2018 was approximately \$400 million. Payments under these guarantees are considered remote.

#### REF Guarantees

DTE Energy has provided certain guarantees and indemnities in conjunction with the sales of interests in or lease of its REF facilities. The guarantees cover potential commercial, environmental, and tax-related obligations that will survive until 90 days after expiration of all applicable statutes of limitations. DTE Energy estimates that its maximum

potential liability under these guarantees at September 30, 2018 was \$468 million. Payments under these guarantees are considered remote.

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

#### NEXUS Guarantees

NEXUS entered into certain 15-year capacity lease agreements for the transportation of natural gas with DTE Gas and Texas Eastern Transmission, LP, an unrelated third party. Pursuant to the terms of those agreements, in December 2016, DTE Energy executed separate guarantee agreements with DTE Gas and Texas Eastern Transmission, LP, with maximum potential payments totaling \$85 million and \$44 million at September 30, 2018, respectively; each representing 50% of all payment obligations due and payable by NEXUS. Should NEXUS fail to perform under the terms of those agreements, DTE Energy is required to perform on its behalf. Each guarantee terminates at the earlier of (i) such time as all of the guaranteed obligations have been fully performed, or (ii) two months following the end of the primary term of the capacity lease agreements. Subsequent to the NEXUS in-service date, the amount of each guarantee decreases annually as payments are made by NEXUS to each of the aforementioned counterparties. Payments under these guarantees are considered remote.

#### Other Guarantees

In certain limited circumstances, the Registrants enter into contractual guarantees. The Registrants may guarantee another entity's obligation in the event it fails to perform and may provide guarantees in certain indemnification agreements. Finally, the Registrants may provide indirect guarantees for the indebtedness of others. DTE Energy's guarantees are not individually material with maximum potential payments totaling \$56 million at September 30, 2018. Payments under these guarantees are considered remote.

DTE Energy is periodically required to obtain performance surety bonds in support of obligations to various governmental entities and other companies in connection with its operations. As of September 30, 2018, DTE Energy had \$66 million of performance bonds outstanding. In the event that such bonds are called for nonperformance, DTE Energy would be obligated to reimburse the issuer of the performance bond. DTE Energy is released from the performance bonds as the contractual performance is completed and does not believe that a material amount of any currently outstanding performance bonds will be called.

#### Labor Contracts

There are several bargaining units for DTE Energy subsidiaries' approximate 5,000 represented employees, including DTE Electric's approximate 2,700 represented employees. The majority of the represented employees are under contracts that expire in 2020 and 2021.

#### Purchase Commitments

Utility capital expenditures, expenditures for non-utility businesses, and contributions to equity method investees will be approximately \$3.6 billion and \$1.9 billion in 2018 for DTE Energy and DTE Electric, respectively. The Registrants have made certain commitments in connection with the estimated 2018 annual capital expenditures and contributions to equity method investees.

#### Other Contingencies

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

For a discussion of contingencies related to regulatory matters and derivatives, see Notes 5 and 8 to the Consolidated Financial Statements, "Regulatory Matters" and "Financial and Other Derivative Instruments," respectively.

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

NOTE 12 — RETIREMENT BENEFITS AND TRUSTEED ASSETS

The following tables detail the components of net periodic benefit costs (credits) for pension benefits and other postretirement benefits for DTE Energy:

|  | Pension Benefits |        | Other Postretirement Benefits |          |
|--|------------------|--------|-------------------------------|----------|
|  | 2018             | 2017   | 2018                          | 2017     |
| Three Months Ended September 30, (In millions) |                  |        |                               |          |
| Service cost                                   | \$24             | \$22   | \$ 6                          | \$ 7     |
| Interest cost                                  | 51               | 53     | 18                            | 18       |
| Expected return on plan assets                 | (82 )            | (78 )  | (36 )                         | (33 )    |
| Amortization of:                               |                  |        |                               |          |
| Net actuarial loss                             | 43               | 46     | 3                             | 3        |
| Prior service cost (credit)                    | —                | 1      | —                             | (3 )     |
| Net periodic benefit cost (credit)             | \$36             | \$44   | \$ (9 )                       | \$ (8 )  |
|  |                  |        |                               |          |
|  | Pension Benefits |        | Other Postretirement Benefits |          |
|  | 2018             | 2017   | 2018                          | 2017     |
| Nine Months Ended September 30, (In millions)  |                  |        |                               |          |
| Service cost                                   | \$74             | \$69   | \$ 20                         | \$ 20    |
| Interest cost                                  | 151              | 160    | 52                            | 55       |
| Expected return on plan assets                 | (247 )           | (233 ) | (107 )                        | (98 )    |
| Amortization of:                               |                  |        |                               |          |
| Net actuarial loss                             | 132              | 132    | 8                             | 10       |
| Prior service cost (credit)                    | —                | 1      | —                             | (10 )    |
| Net periodic benefit cost (credit)             | \$110            | \$129  | \$ (27 )                      | \$ (23 ) |

DTE Electric participates in various plans that provide pension and other postretirement benefits for DTE Energy and its affiliates. The plans are sponsored by DTE Energy's subsidiary, DTE Energy Corporate Services, LLC. DTE Electric accounts for its participation in DTE Energy's qualified and nonqualified pension plans by applying multiemployer accounting. DTE Electric accounts for its participation in other postretirement benefit plans by applying multiple-employer accounting. Within multiemployer and multiple-employer plans, participants pool plan assets for investment purposes and to reduce the cost of plan administration. The primary difference between plan types is assets contributed in multiemployer plans can be used to provide benefits for all participating employers, while assets contributed within a multiple-employer plan are restricted for use by the contributing employer. As a result of multiemployer accounting treatment, capitalized costs associated with these plans are reflected in Property, plant, and equipment in DTE Electric's Consolidated Financial Statements. The same capitalized costs are reflected as Regulatory assets and liabilities in DTE Energy's Consolidated Financial Statements. Plan participants of all plans are solely DTE Energy and affiliate participants.

DTE Energy's subsidiaries are responsible for their share of qualified and nonqualified pension benefit costs. DTE Electric's allocated portion of pension benefit costs included in capital expenditures and operating and maintenance expense were \$30 million and \$33 million for the three months ended September 30, 2018 and 2017, respectively, and \$90 million and \$102 million for the nine months ended September 30, 2018 and 2017, respectively. These amounts include recognized contractual termination benefit charges, curtailment gains, and settlement charges.

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

The following tables detail the components of net periodic benefit costs (credits) for other postretirement benefits for DTE Electric:

|  | Other<br>Postretirement<br>Benefits |         |
|--|-------------------------------------|---------|
|  | 2018                                | 2017    |
| Three Months Ended September 30, (In millions) |                                     |         |
| Service cost                                   | \$ 5                                | \$ 5    |
| Interest cost                                  | 13                                  | 14      |
| Expected return on plan assets                 | (25 )                               | (23 )   |
| Amortization of:                               |                                     |         |
| Net actuarial loss                             | 3                                   | 2       |
| Prior service credit                           | —                                   | (2 )    |
| Net periodic benefit credit                    | \$ (4 )                             | \$ (4 ) |

|   | Other<br>Postretirement<br>Benefits |          |
|---|-------------------------------------|----------|
|   | 2018                                | 2017     |
| Nine Months Ended September 30, (In millions) |                                     |          |
| Service cost                                  | \$ 15                               | \$ 15    |
| Interest cost                                 | 40                                  | 42       |
| Expected return on plan assets                | (74 )                               | (68 )    |
| Amortization of:                              |                                     |          |
| Net actuarial loss                            | 7                                   | 6        |
| Prior service credit                          | —                                   | (7 )     |
| Net periodic benefit credit                   | \$ (12 )                            | \$ (12 ) |

Pension and Other Postretirement Contributions

During 2018, DTE Energy contributed the following amounts of DTE Energy common stock to the DTE Energy Company Affiliates Employee Benefit Plans Master Trust:

| Date          | Number of Shares | Price per Share | Amount<br>(In<br>millions) |
|---------------|------------------|-----------------|----------------------------|
| March 7, 2018 | 1,751,401        | \$99.92         | \$ 175                     |

The above contribution was made on behalf of DTE Electric, who paid DTE Energy cash consideration of \$175 million in March 2018. DTE Energy does not anticipate making any additional contributions to its pension or other postretirement benefit plans in 2018.

NOTE 13 — SEGMENT AND RELATED INFORMATION

DTE Energy sets strategic goals, allocates resources, and evaluates performance based on the following structure: Electric segment consists principally of DTE Electric, which is engaged in the generation, purchase, distribution, and sale of electricity to approximately 2.2 million residential, commercial, and industrial customers in southeastern Michigan.

Gas segment consists principally of DTE Gas, which is engaged in the purchase, storage, transportation, distribution, and sale of natural gas to approximately 1.3 million residential, commercial, and industrial customers throughout Michigan and the sale of storage and transportation capacity.

Gas Storage and Pipelines is primarily engaged in services related to the gathering, transportation, and storage of natural gas.



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

Power and Industrial Projects is comprised primarily of projects that deliver energy and utility-type products and services to industrial, commercial, and institutional customers, produce reduced emissions fuel, and sell electricity and pipeline-quality gas from renewable energy projects.

Energy Trading consists of energy marketing and trading operations.

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

The federal income tax provisions or benefits of DTE Energy's subsidiaries are determined on an individual company basis and recognize the tax benefit of tax credits and net operating losses, if applicable. The state and local income tax provisions of the utility subsidiaries are determined on an individual company basis and recognize the tax benefit of various tax credits and net operating losses, if applicable. The subsidiaries record federal, state, and local income taxes payable to or receivable from DTE Energy based on the federal, state, and local tax provisions of each company. Inter-segment billing for goods and services exchanged between segments is based upon tariffed or market-based prices of the provider and primarily consists of the sale of reduced emissions fuel, power sales, and natural gas sales in the following segments:

|                               | Three<br>Months<br>Ended<br>September<br>30,<br>2018 |       | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |       |
|-------------------------------|--|-------|---|-------|
|                               | (In millions)  |       |   |       |
| Electric                      | \$13   | \$11  | \$39  | \$36  |
| Gas                           | 3  | 1     | 9   | 6     |
| Gas Storage and Pipelines     | 7  | 10    | 29  | 32    |
| Power and Industrial Projects | 171  | 138   | 488   | 462   |
| Energy Trading                | 6  | 8     | 18  | 27    |
| Corporate and Other           | 1  | 1     | 2   | 2     |
|                               | \$201  | \$169 | \$585   | \$565 |

Financial data of DTE Energy's business segments follows:

|  | Three Months<br>Ended<br>September 30,<br>2018 |         | Nine Months<br>Ended September<br>30,<br>2017 |         |
|--|--|---------|---|---------|
|  | (In millions)                                  |         |   |         |
| Operating Revenues — Utility operations                  |  |         |   |         |
| Electric   | \$1,521  | \$1,434 | \$4,002                                       | \$3,827 |
| Gas  | 164  | 152     | 969   | 929     |
| Operating Revenues — Non-utility operations              |  |         |   |         |
| Gas Storage and Pipelines                                | 122  | 115     | 363   | 333     |
| Power and Industrial Projects                            | 612  | 537     | 1,717   | 1,592   |
| Energy Trading   | 1,332  | 1,174   | 3,994   | 3,217   |
| Corporate and Other                                      | —  | 2       | 2   | 3       |
| Reconciliation and Eliminations                          | (201 )   | (169 )  | (585 )  | (565 )  |
| Total  | \$3,550  | \$3,245 | \$10,462                                      | \$9,336 |
| Net Income (Loss) Attributable to DTE Energy by Segment: |  |         |   |         |
| Electric   |  |         | \$305   | \$219   |
| Gas  |  |         | \$608   | \$463   |
|  |  |         | (30 )   | (15 )   |
|  |  |         | 88  | 93      |



Edgar Filing: DTE ENERGY CO - Form 10-Q

|   |       |       |        |       |
|---|-------|-------|--------|-------|
| Gas Storage and Pipelines                     | 66    | 36    | 188    | 121   |
| Power and Industrial Projects                 | 58    | 44    | 146    | 104   |
| Energy Trading                                | (13 ) | 1     | 13     | 97    |
| Corporate and Other                           | (52 ) | (15 ) | (114 ) | (31 ) |
| Net Income Attributable to DTE Energy Company | \$334 | \$270 | \$929  | \$847 |

51

---

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

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

The following combined discussion is separately filed by DTE Energy and DTE Electric. However, DTE Electric does not make any representations as to information related solely to DTE Energy or the subsidiaries of DTE Energy other than itself.

EXECUTIVE OVERVIEW

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

The following table summarizes DTE Energy's financial results:

|   | Three<br>Months<br>Ended<br>September<br>30,<br>2018 |        | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |        |
|---|--|--------|---|--------|
| Net Income Attributable to DTE Energy Company | \$334  | \$270  | \$929   | \$847  |
| Diluted Earnings per Common Share             | \$1.84   | \$1.51 | \$5.13  | \$4.72 |

(In millions, except per share amounts)

The increase in Net Income in the third quarter and nine-month period was primarily due to higher earnings in the Electric, Gas Storage and Pipelines, and Power and Industrial Projects segments, partially offset by lower earnings in the Gas, Energy Trading, and Corporate and Other segments. The increase in the nine-month period was partially offset by true-up adjustments for the remeasurement of deferred taxes of \$21 million as the adjustments increased Income Tax Expense, of which \$16 million was attributable to the regulated utilities and offset to Regulatory liabilities. Additionally, during the third quarter and nine-month period, DTE Energy recorded a valuation allowance of \$20 million for the AMT credit carryover. This adjustment also increased Income Tax Expense. Total Income Tax Expense decreased from the prior year due to the reduction of the corporate tax rate from 35% to 21%, which became effective in 2018.

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

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

DTE Energy's utilities are investing capital to improve customer reliability through investments in base infrastructure and new generation, and to comply with environmental requirements. DTE Energy expects that planned significant capital investments will result in earnings growth. DTE Energy is focused on executing plans to achieve operational excellence and customer satisfaction with a focus on customer affordability. DTE Energy operates in a constructive regulatory environment and has solid relationships with its regulators.

In May 2017, DTE Energy announced its plan to reduce carbon emissions. This goal will be attained by cutting carbon emissions 30% by the early 2020s, 45% by 2030, 75% by 2040, and more than 80% by 2050. To achieve this reduction, DTE Energy will transition away from coal-powered sources and incorporate more renewable energy, energy waste reduction, demand response, and highly-efficient natural gas fueled power plants. DTE Energy has already begun the transition in the way it produces power through the continued retirement of its aging coal-fired plants. In May 2018, DTE Energy announced its plans to accelerate its clean energy initiatives by targeting at least a 50% clean energy goal by 2030, achieved through a combination of investments in renewable energy and energy efficiency projects. Refer to the "Capital Investments" section below for further discussion.

DTE Energy has significant investments in non-utility businesses. DTE Energy employs disciplined investment criteria when assessing growth opportunities that leverage its assets, skills, and expertise, and provides diversity in earnings and geography. Specifically, DTE Energy invests in targeted energy markets with attractive competitive dynamics where meaningful scale is in alignment with its risk profile. DTE Energy expects growth opportunities in the Gas Storage and Pipelines and Power and Industrial Projects segments.

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

#### CAPITAL INVESTMENTS

DTE Energy's utility businesses require significant capital investments to maintain and improve the electric generation and electric and natural gas distribution infrastructure and to comply with environmental regulations and renewable energy requirements.

DTE Electric's capital investments over the 2018-2022 period are estimated at \$10.4 billion comprised of \$4.1 billion for capital replacements and other projects, \$4.3 billion for distribution infrastructure, and \$2.0 billion for new generation. DTE Electric has retired four coal-fired generation units at the Trenton Channel, River Rouge, and St. Clair facilities and has announced plans to retire its remaining thirteen coal-fired generating units. Seven of these coal-fired generating units will be retired through 2023 at the Trenton Channel, River Rouge, and St. Clair facilities. The remaining coal-fired generating units at the Belle River and Monroe facilities are expected to be retired by 2040. The retired facilities will be replaced with renewables, energy efficiency, demand response, and natural gas fueled generation. DTE Electric constructed and placed in service 50 megawatts of solar generation in 2017. In April 2018, DTE Electric received approval from the MPSC to build a natural gas fueled combined cycle generation facility to provide approximately 1,100 megawatts of energy beginning in 2022. In March 2018, DTE Electric filed its 2018 Renewable Energy Plan with the MPSC proposing approximately 1,000 additional megawatts of energy from new wind and solar projects to be completed by 2022. The MPSC had previously approved 300 of the 1,000 additional megawatts for wind projects in an MPSC order received in September 2016. In January 2018, DTE Electric filed with the MPSC its five-year distribution operations investment and maintenance plan to improve system reliability. DTE Electric plans to seek regulatory approval for capital expenditures consistent with prior ratemaking treatment. For further discussion of regulatory matters, see Note 5 to the Consolidated Financial Statements, "Regulatory Matters." DTE Gas' capital investments over the 2018-2022 period are estimated at \$2.1 billion comprised of \$950 million for base infrastructure, \$1.1 billion for gas main renewal, meter move out, and pipeline integrity programs, and \$10 million for expenditures related to the NEXUS Pipeline. DTE Gas includes base infrastructure capital expenditures in general rate case filings.

DTE Energy's non-utility businesses' capital investments are primarily for expansion, growth, and ongoing maintenance. Gas Storage and Pipelines' capital investments over the 2018-2022 period are estimated at \$2.8 billion to \$3.4 billion for gathering and pipeline investments and expansions, including the NEXUS Pipeline. Power and Industrial Projects' capital investments over the 2018-2022 period are estimated at \$800 million to \$1.2 billion for investments in cogeneration and on-site energy projects.

#### ENVIRONMENTAL MATTERS

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

DTE Electric is subject to the EPA ozone and fine particulate transport and acid rain regulations that limit power plant emissions of SO<sub>2</sub> and NO<sub>x</sub>. The EPA and the State of Michigan have also issued emission reduction regulations relating to ozone, fine particulate, regional haze, mercury, and other air pollution. These rules have led to controls on fossil-fueled power plants to reduce SO<sub>2</sub>, NO<sub>x</sub>, mercury, and other emissions. Additional rulemakings may occur over the next few years which could require additional controls for SO<sub>2</sub>, NO<sub>x</sub>, and other hazardous air pollutants. To comply with existing requirements, DTE Electric spent approximately \$2.4 billion through 2017. DTE Electric does not anticipate additional capital expenditures through 2024.

The EPA has implemented regulatory actions under the Clean Air Act to address emissions of GHGs from the utility sector and other sectors of the economy. Among these actions, in 2015 the EPA finalized performance standards for emissions of carbon dioxide from new and existing EGUs. In February 2016, the U.S. Supreme Court granted petitioners' requests for a stay of the carbon rules for existing EGUs (also known as the EPA Clean Power Plan) pending final review by the courts. The Clean Power Plan has no legal effect while the stay is in place. On March 28, 2017, a presidential executive order was issued on "Promoting Energy Independence and Economic Growth." The order instructs the EPA to review, and if appropriate, suspend, revise or rescind the Clean Power Plan rule. Following the issuance of this order, the federal government requested the U.S. Court of Appeals for the D.C. Circuit to hold all legal challenges in abeyance until the review of these regulations is completed. On October 10, 2017, the EPA proposed to rescind the Clean Power Plan and announced its intent to issue an ANPR seeking input as to whether it should replace the rule and, if so, what form it should take. In August 2018, the EPA proposed revised emission guidelines for GHGs from existing electric utility generating units. This proposed rule, named the Affordable Clean Energy (ACE) rule, is intended to replace the Clean Power Plan rule. Comments on the proposed ACE rule are due on October 31, 2018. It is not possible to determine the potential impact of the EPA's proposed ACE rule on existing sources at this time.

Pending or future legislation or other regulatory actions could have a material impact on DTE Electric's operations and financial position and the rates charged to its customers. Impacts include expenditures for environmental equipment beyond what is currently planned, financing costs related to additional capital expenditures, the purchase of emission credits from market sources, higher costs of purchased power, and the retirement of facilities where control equipment is not economical. DTE Electric would seek to recover these incremental costs through increased rates charged to its utility customers, as authorized by the MPSC.

Increased costs for energy produced from traditional coal-based sources due to recent, pending, and future regulatory initiatives, could also increase the economic viability of energy produced from renewable, natural gas fueled generation, and/or nuclear sources, energy efficiency initiatives, and the potential development of market-based trading of carbon instruments which could provide new business opportunities for DTE Energy's utility and non-utility segments. At the present time, it is not possible to quantify the financial impacts of these climate related regulatory initiatives on the Registrants or their customers.

For further discussion of environmental matters, see Note 11 to the Consolidated Financial Statements, "Commitments and Contingencies."

#### OUTLOOK

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

Looking forward, DTE Energy will focus on several areas that are expected to improve future performance:

- electric and gas customer satisfaction;
- electric distribution system reliability;
- new electric generation;
- gas distribution system renewal;
- rate competitiveness and affordability;
- regulatory stability and investment recovery for the electric and gas utilities;
- employee safety and engagement;
- cost structure optimization across all business segments;
- cash, capital, and liquidity to maintain or improve financial strength; and
- investments that integrate assets and leverage skills and expertise.

DTE Energy will continue to pursue opportunities to grow its businesses in a disciplined manner if it can secure opportunities that meet its strategic, financial, and risk criteria.

## RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations includes financial information prepared in accordance with GAAP, as well as the non-GAAP financial measures, Utility Margin and Non-utility Margin, discussed below, which DTE Energy uses as measures of its operational performance. Generally, a non-GAAP financial measure is a numerical measure of financial performance, financial position or cash flows that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP.

DTE Energy uses Utility Margin and Non-utility Margin, non-GAAP financial measures, to assess its performance by reportable segment.

Utility Margin includes electric and gas Operating Revenues net of Fuel, purchased power, and gas expenses. The utilities' fuel, purchased power, and natural gas supply are passed through to customers, and therefore, result in changes to the utilities' revenues that are comparable to changes in such expenses. As such, DTE Energy believes Utility Margin provides a meaningful basis for evaluating the utilities' operations across periods, as it excludes the revenue effect of fluctuations in these expenses.

The Non-utility Margin relates to the Power and Industrial Projects and Energy Trading segments. For the Power and Industrial Projects segment, Non-utility Margin primarily includes Operating Revenues net of Fuel, purchased power, and gas expenses. Operating Revenues include sales of refined coal to third parties and the affiliated Electric utility, metallurgical coke and related by-products, petroleum coke, renewable natural gas, and electricity, as well as rental income and revenues from utility-type consulting, management, and operational services. For the Energy Trading segment, Non-utility Margin includes revenue and realized and unrealized gains and losses from physical and financial power and gas marketing, optimization, and trading activities, net of Purchased power and gas related to these activities. DTE Energy evaluates its operating performance of these non-utility businesses using the measure of Operating Revenues net of Fuel, purchased power, and gas expenses.

Utility Margin and Non-utility Margin are not measures calculated in accordance with GAAP and should be viewed as a supplement to and not a substitute for the results of operations presented in accordance with GAAP. Utility Margin and Non-utility Margin do not intend to represent operating income, the most comparable GAAP measure, as an indicator of operating performance and are not necessarily comparable to similarly titled measures reported by other companies.

The following sections provide a detailed discussion of the operating performance and future outlook of DTE Energy's segments. Segment information, described below, includes intercompany revenues and expenses, and other income and deductions that are eliminated in the Consolidated Financial Statements.

|   | Three<br>Months<br>Ended<br>September<br>30,<br>2018 |       | Nine Months<br>Ended<br>September<br>30,<br>2017 |       |
|---|--|-------|--|-------|
|   | 2018   | 2017  | 2018   | 2017  |
| Net Income (Loss) Attributable to DTE Energy by Segment |  |       |  |       |
| Electric  | \$305  | \$219 | \$608  | \$463 |
| Gas   | (30)   | (15)  | 88   | 93    |
| Gas Storage and Pipelines                               | 66   | 36    | 188  | 121   |
| Power and Industrial Projects                           | 58   | 44    | 146  | 104   |
| Energy Trading  | (13)   | 1     | 13   | 97    |
| Corporate and Other                                     | (52)   | (15)  | (114)  | (31)  |
| Net Income Attributable to DTE Energy Company           | \$334  | \$270 | \$929  | \$847 |



## ELECTRIC

The Results of Operations discussion for DTE Electric is presented in a reduced disclosure format in accordance with General Instruction H(2) of Form 10-Q.

The Electric segment consists principally of DTE Electric. Electric results are discussed below:

|   | Three Months  |         | Nine Months   |         |
|---|---------------|---------|---------------|---------|
|   | Ended         |         | Ended         |         |
|   | September 30, |         | September 30, |         |
|   | 2018          | 2017    | 2018          | 2017    |
|   | (In millions) |         |               |         |
| Operating Revenues — Utility operations       | \$1,521       | \$1,434 | \$4,002       | \$3,827 |
| Fuel and purchased power — utility            | 438           | 428     | 1,163         | 1,097   |
| Utility Margin                                | 1,083         | 1,006   | 2,839         | 2,730   |
| Operation and maintenance                     | 352           | 338     | 1,001         | 1,034   |
| Depreciation and amortization                 | 201           | 188     | 615           | 549     |
| Taxes other than income                       | 77            | 74      | 232           | 229     |
| Operating Income                              | 453           | 406     | 991           | 918     |
| Other (Income) and Deductions                 | 67            | 69      | 211           | 206     |
| Income Tax Expense                            | 81            | 118     | 172           | 249     |
| Net Income Attributable to DTE Energy Company | \$305         | \$219   | \$608         | \$463   |

See DTE Electric's Consolidated Statements of Operations for a complete view of its results. For an explanation of differences between the Electric segment and DTE Electric's Consolidated Statements of Operations, refer to Note 12 to the Consolidated Financial Statements, "Retirement Benefits and Trusteed Assets."

Utility Margin increased \$77 million and \$109 million in the three and nine months ended September 30, 2018, respectively. Revenues associated with certain mechanisms and surcharges are offset by related expenses elsewhere in the Registrants' Consolidated Statements of Operations.

The following table details changes in various Utility Margin components relative to the comparable prior period:

|                                 | Three         | Nine   |
|---------------------------------|---------------|--------|
|                                 | Month         | Months |
|                                 | (In millions) |        |
| Weather                         | \$91          | \$157  |
| Implementation of new rates     | 19            | 50     |
| PSCR disallowance in 2017       | —             | 13     |
| Base sales                      | 4             | (33)   |
| TCJA rate reduction             | (40)          | (117)  |
| Regulatory mechanisms and other | 3             | 39     |
| Increase in Utility Margin      | \$77          | \$109  |



|  | Three Months          |               | Nine Months   |               |
|--|-----------------------|---------------|---------------|---------------|
|  | Ended                 |               | Ended         |               |
|  | September 30,         | September 30, | September 30, | September 30, |
|  | 2018                  | 2017          | 2018          | 2017          |
|  | (In thousands of MWh) |               |               |               |
| DTE Electric Sales   |                       |               |               |               |
| Residential  | 5,028                 | 4,335         | 12,387        | 11,290        |
| Commercial   | 4,836                 | 4,801         | 13,218        | 13,208        |
| Industrial   | 2,641                 | 2,627         | 7,893         | 7,461         |
| Other  | 49                    | 48            | 157           | 188           |
|  | 12,554                | 11,811        | 33,655        | 32,147        |
| Interconnection sales <sup>(a)</sup>                             | 629                   | 318           | 2,523         | 2,330         |
| Total DTE Electric Sales   | 13,183                | 12,129        | 36,178        | 34,477        |
| DTE Electric Deliveries  |                       |               |               |               |
| Retail and wholesale   | 12,554                | 11,811        | 33,655        | 32,147        |
| Electric retail access, including self-generators <sup>(b)</sup> | 1,277                 | 1,249         | 3,634         | 3,636         |
| Total DTE Electric Sales and Deliveries                          | 13,831                | 13,060        | 37,289        | 35,783        |

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

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

Operation and maintenance expense increased \$14 million and decreased \$33 million in the three and nine months ended September 30, 2018, respectively. The increase in the third quarter was primarily due to increased distribution expenses of \$2 million and increased uncollectible expense of \$9 million due to increased arrears. The decrease in the nine-month period was primarily due to decreased power plant generation expenses of \$26 million, decreased distribution expenses of \$19 million, and a one-time benefits expense reimbursement of \$9 million, partially offset by increased uncollectible expense of \$16 million due to increased arrears. The decrease in power plant generation expenses includes a decrease of \$23 million of costs related to the 2016 fire at a generation facility incurred in 2017 and \$8 million in related insurance proceeds received in 2018.

Depreciation and amortization expense increased \$13 million and \$66 million in the three and nine months ended September 30, 2018, respectively. The increase in the third quarter was primarily due to an increase to depreciable base of \$11 million and an increase of \$4 million associated with the TRM. The increase in the nine-month period was primarily due to an increase to depreciable base of \$36 million and an increase of \$34 million associated with the TRM.

Other (Income) and Deductions decreased \$2 million and increased \$5 million in the three and nine months ended September 30, 2018, respectively. The decrease in the third quarter was primarily due to decreased non-operating retirement benefits of \$2 million. The increase in the nine-month period was primarily due to lower investment earnings of \$16 million, partially offset by decreased non-operating retirement benefits of \$10 million.

Outlook — DTE Electric will continue to move forward in its efforts to achieve operational excellence, sustain strong cash flows, and earn its authorized return on equity. DTE Electric expects that planned significant capital investments will result in earnings growth. DTE Electric expects to continue its efforts to improve productivity and decrease costs while improving customer satisfaction with consideration of customer rate affordability. Looking forward, additional factors may impact earnings, such as weather, the outcome of regulatory proceedings, benefit plan design changes, investment returns and changes in discount rate assumptions in benefit plans and health care costs, uncertainty of legislative or regulatory actions regarding climate change, and effects of energy waste reduction programs.

DTE Electric filed a rate case with the MPSC on April 19, 2017 requesting an increase in base rates of \$231 million based on a projected twelve-month period ending October 31, 2018. On November 1, 2017, DTE Electric self-implemented a base rate increase of \$125 million. On April 18, 2018, the MPSC issued an order approving an

annual revenue increase of \$65.2 million for service rendered on or after May 1, 2018. The MPSC authorized a return on equity of 10.0%. On June 28, 2018, the MPSC issued an order on a rehearing granting in part and denying in part, petitions for rehearings of DTE Electric and other intervenors. As a result, the approved addition to base rates increased from \$65.2 million to \$74.4 million. In August 2018, DTE Electric filed to refund its customers \$26.2 million, inclusive of interest, based on their pro rata share of the revenue collected through the self-implementation surcharge in effect from November 1, 2017 to May 1, 2018. DTE Electric has recorded a refund liability as of September 30, 2018. The refund is proposed to be in effect commencing on November 1, 2018.

DTE Electric filed a rate case with the MPSC on July 6, 2018 requesting an increase in base rates of \$328 million based on a projected twelve-month period ending April 30, 2020. The requested increase in base rates is primarily due to an increase in net plant resulting from infrastructure investments, depreciation expense, as requested in the 2016 DTE Main Electric Depreciation Case Filing, and reliability improvement projects. The rate filing also requests an increase in return on equity from 10.0% to 10.5% and includes projected changes in sales, operation and maintenance expenses, and working capital. In addition, the rate filing requests an Infrastructure Recovery Mechanism to recover the incremental revenue requirement associated with certain distribution, fossil generation, and nuclear generation capital expenditures through 2022. Finally, as noted below, DTE Electric addressed Calculation C in this filing. A final MPSC order in this case is expected by May 2019.

On January 19, 2018, DTE Electric filed information with the MPSC regarding the potential change in revenue requirements due to the TCJA effective January 1, 2018, and outlined its recommended method to flow the current and deferred tax benefits of those impacts to ratepayers.

On February 22, 2018, the MPSC issued an order in this case requiring utilities, including DTE Electric, to follow a 3-step approach of credits and calculations. The first step is to establish Credit A, through contested cases. Credit A is a going-forward tax credit to reflect the reduction of the corporate tax rate from 35% to 21%. DTE Electric filed its Credit A application on May 18, 2018, reflecting a reduction in revenues of \$157 million. On July 24, 2018, the MPSC issued an order approving a settlement in DTE Electric's Credit A filing reflecting a reduction in revenues of \$157 million. Rates reflecting this reduction were effective August 1, 2018. The second step is to establish Credit B, through contested cases. Credit B is a backward-looking tax credit to reflect the reduction of the corporate rate of 35% to 21%, for the period January 1, 2018 up to the date Credit A is implemented. The Credit B filing is required within sixty days after Credit A is implemented. For Credit B, DTE Electric has been deferring the impact of the reduction to the corporate tax rate since January 1, 2018. DTE Electric submitted its Credit B filing on September 21, 2018, reflecting a \$93 million refund effective January 2019 through June 2019. The third step is to perform Calculation C to address all remaining issues relative to the new tax law, which is primarily the remeasurement of deferred taxes and how the amounts deferred as Regulatory liabilities will flow to ratepayers. DTE Electric addressed Calculation C in its general rate case filed July 6, 2018.

#### GAS

The Gas segment consists principally of DTE Gas. Gas results are discussed below:

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2018 |         | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |       |
|--|--|---------|---|-------|
|  | 2018   | 2017    | 2018  | 2017  |
|  | (In millions)  |         |   |       |
| Operating Revenues — Utility operations              | \$164  | \$152   | \$969   | \$929 |
| Cost of gas — utility                                | 18   | 12      | 291   | 278   |
| Utility Margin                                       | 146  | 140     | 678   | 651   |
| Operation and maintenance                            | 124  | 109     | 357   | 328   |
| Depreciation and amortization                        | 32   | 31      | 95  | 91    |
| Taxes other than income                              | 15   | 10      | 54  | 48    |
| Operating Income (Loss)                              | (25 )  | (10 )   | 172   | 184   |
| Other (Income) and Deductions                        | 12   | 13      | 39  | 40    |
| Income Tax Expense (Benefit)                         | (7 )   | (8 )    | 45  | 51    |
| Net Income (Loss) Attributable to DTE Energy Company | \$(30 )  | \$(15 ) | \$88  | \$93  |

Utility Margin increased \$6 million and \$27 million in the three and nine months ended September 30, 2018, respectively. Revenues associated with certain surcharges are offset by related expenses elsewhere in DTE Energy's Consolidated Statements of Operations.



The following table details changes in various Utility Margin components relative to the comparable prior period:

|   | Three<br>Months<br>(In millions) | Nine<br>Months<br>(In millions) |
|---|----------------------------------|---------------------------------|
| Weather                                       | \$—                              | \$ 46                           |
| Midstream storage and transportation revenues | 2                                | 6                               |
| Infrastructure recovery mechanism             | 3                                | 4                               |
| Revenue decoupling mechanism                  | —                                | (4 )                            |
| TCJA rate reduction reserve                   | —                                | (27 )                           |
| Other   | 1                                | 2                               |
| Increase in Utility Margin                    | \$6                              | \$ 27                           |

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 | Three<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |
|--|--|---|--|---|
|  | (In Bcf)   |   |  |   |

#### Gas Markets

|                             |     |    |     |     |
|-----------------------------|-----|----|-----|-----|
| Gas sales                   | 8   | 8  | 91  | 77  |
| End-user transportation     | 34  | 34 | 138 | 119 |
|                             | 42  | 42 | 229 | 196 |
| Intermediate transportation | 78  | 55 | 212 | 205 |
| Total Gas sales             | 120 | 97 | 441 | 401 |

Operation and maintenance expense increased \$15 million and \$29 million in the three and nine months ended September 30, 2018, respectively. The increase in the third quarter was primarily due to increased gas operations expenses of \$9 million and increased uncollectible expense of \$5 million due to increased arrears. The increase in the nine-month period was primarily due to increased uncollectible expense of \$15 million due to increased arrears and increased gas operations expenses of \$14 million.

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

DTE Gas filed a rate case with the MPSC on November 22, 2017 requesting an increase in base rates of \$85.1 million based on a projected twelve-month period ending September 30, 2019. The requested increase in base rates was primarily due to an increase in net plant. The rate filing also requested an increase in return on equity from 10.1% to 10.5% and included projected changes in sales, operations and maintenance expenses, and working capital. On May 24, 2018, DTE Gas reduced its initial requested increase in base rates to \$38.1 million, primarily due to the effects of the TCJA on the original request. On September 13, 2018, the MPSC issued an order approving an annual revenue increase of \$9 million for services rendered on or after October 1, 2018. The MPSC authorized a return on equity of 10%. Refer to the discussion below for further detail regarding the impact of the TCJA Credit A filing for DTE Gas. On January 19, 2018, DTE Gas filed information with the MPSC regarding the potential change in revenue requirements due to the TCJA effective January 1, 2018, and outlined its recommended method to flow the current and deferred tax benefits of those impacts to ratepayers.



On February 22, 2018, the MPSC issued an order in this case requiring utilities, including DTE Gas, to follow a 3-step approach of credits and calculations. The first step is to establish Credit A, through contested cases. Credit A is a going-forward tax credit to reflect the reduction of the corporate tax rate from 35% to 21%. DTE Gas submitted its Credit A filing on March 28, 2018, reflecting a reduction in revenues of \$38.2 million. The MPSC approved the \$38.2 million reduction on May 30, 2018, effective July 1, 2018. With approval of the DTE Gas Rate Order on September 13, 2018, effective October 1, 2018, this separate Credit A was terminated. The second step is to establish Credit B, through contested cases. Credit B is a backward-looking tax credit to reflect the reduction of the corporate rate of 35% to 21%, for the period January 1, 2018 up to the date Credit A is implemented. The Credit B filing is required within sixty days after Credit A is implemented. For Credit B, DTE Gas has been deferring the impact of the reduction to the corporate tax rate since January 1, 2018. DTE Gas submitted its Credit B filing on July 30, 2018, reflecting a \$25 million refund effective January 2019 through June 2019. On October 24, 2018, the MPSC issued an order approving the refund in DTE Gas' Credit B filing. The third step is to perform Calculation C to address all remaining issues relative to the new tax law, which is primarily the remeasurement of deferred taxes and how the amounts deferred as Regulatory liabilities will flow to ratepayers. DTE Gas is required to file Calculation C no later than November 16, 2018.

#### GAS STORAGE AND PIPELINES

The Gas Storage and Pipelines segment consists of the non-utility gas pipelines and storage businesses. Gas Storage and Pipelines results are discussed below:

|   | Three<br>Months<br>Ended<br>September<br>30, |       | Nine Months<br>Ended<br>September<br>30, |       |
|---|--|-------|--|-------|
|   | 2018   | 2017  | 2018                                     | 2017  |
|   | (In millions)                                |       |  |       |
| Operating Revenues — Non-utility operations               | \$122  | \$115 | \$363                                    | \$333 |
| Cost of gas — Non-utility                                 | 6  | 8     | 19                                       | 23    |
| Operation and maintenance                                 | 25   | 19    | 71                                       | 57    |
| Depreciation and amortization                             | 22   | 19    | 61                                       | 57    |
| Taxes other than income                                   | 2  | 1     | 7  | 5     |
| Asset (gains) losses and impairments, net                 | 1  | 1     | (1)                                      | 2     |
| Operating Income  | 66   | 67    | 206                                      | 189   |
| Other (Income) and Deductions                             | (23)   | 5     | (56)                                     | (18)  |
| Income Tax Expense  | 16   | 19    | 52                                       | 66    |
| Net Income  | 73   | 43    | 210                                      | 141   |
| Less: Net Income Attributable to Noncontrolling Interests | 7  | 7     | 22                                       | 20    |
| Net Income Attributable to DTE Energy Company             | \$66   | \$36  | \$188                                    | \$121 |

Operating Revenues — Non-utility operations increased \$7 million and \$30 million in the three and nine months ended September 30, 2018, respectively. The increase in both periods was primarily due to increased pipeline and gathering volumes.

Operation and maintenance expense increased \$6 million and \$14 million in the three and nine months ended September 30, 2018, respectively. The increase in both periods was primarily due to additional compression activity on the Bluestone Pipeline and Susquehanna gathering systems and increased labor related expenses.

Other (Income) and Deductions increased \$28 million and \$38 million in the three and nine months ended September 30, 2018, respectively. The increase in both periods was primarily due to increased earnings from pipeline investments and \$16 million net loss on extinguishment of debt within the storage business in 2017.

Outlook — The Bluestone Pipeline and Susquehanna gathering system will be expanded with additional compression facilities and gathering lines as needed to accommodate shipper demand. DTE Energy believes its long-term agreements with producers and the quality of the natural gas reserves in the Marcellus region soundly position

Bluestone Pipeline and Susquehanna gathering system for future revenues.

NEXUS Pipeline filed its request for in-service with the FERC at the end of September 2018 and received FERC authorization on October 10, 2018. NEXUS provides a transportation path for Appalachian Basin shale gas, including Utica and Marcellus shale gas, directly to consuming markets in northern Ohio, southeastern Michigan, and Dawn Ontario. DTE Energy owns a 50% partnership interest in the NEXUS Pipeline, with an investment balance of \$1,176 million at September 30, 2018.

60

---



AGS and SGG provide a platform for midstream growth and access to further investment opportunities in the Appalachian basin, an additional connection to the NEXUS Pipeline which should drive incremental volumes on the NEXUS Pipeline, and producer relationships that may lead to more partnering opportunities.

Gas Storage and Pipelines expects to maintain its steady growth by developing an asset portfolio with multiple growth platforms through investment in new projects and expansions. Gas Storage and Pipelines will continue to look for additional investment opportunities and other storage and pipeline projects at favorable prices.

#### POWER AND INDUSTRIAL PROJECTS

The Power and Industrial Projects segment is comprised primarily of projects that deliver energy and utility-type products and services to industrial, commercial, and institutional customers, produce reduced emissions fuel, and sell electricity and pipeline-quality gas from renewable energy projects. Power and Industrial Projects results are discussed below:

|   | Three Months Ended September 30, |       | Nine Months Ended September 30, |         |
|---|----------------------------------|-------|---------------------------------|---------|
|   | 2018                             | 2017  | 2018                            | 2017    |
|   | (In millions)                    |       |                                 |         |
| Operating Revenues — Non-utility operations             | \$612                            | \$537 | \$1,717                         | \$1,592 |
| Fuel, purchased power, and gas — non-utility            | 532                              | 460   | 1,494                           | 1,388   |
| Non-utility Margin                                      | 80                               | 77    | 223                             | 204     |
| Operation and maintenance                               | 88                               | 80    | 260                             | 247     |
| Depreciation and amortization                           | 17                               | 18    | 50                              | 55      |
| Taxes other than income                                 | 3                                | 3     | 10                              | 9       |
| Asset (gains) losses and impairments, net               | 9                                | 5     | 9                               | 7       |
| Operating Loss  | (37 )                            | (29 ) | (106 )                          | (114 )  |
| Other (Income) and Deductions                           | (27 )                            | (21 ) | (68 )                           | (59 )   |
| Income Taxes Expense (Benefit)                          | (1 )                             | 2     | (3 )                            | (8 )    |
| Production Tax Credits                                  | (61 )                            | (40 ) | (152 )                          | (116 )  |
|   | (62 )                            | (38 ) | (155 )                          | (124 )  |
| Net Income  | 52                               | 30    | 117                             | 69      |
| Less: Net Loss Attributable to Noncontrolling Interests | (6 )                             | (14 ) | (29 )                           | (35 )   |
| Net Income Attributable to DTE Energy Company           | \$58                             | \$44  | \$146                           | \$104   |

Operating Revenues — Non-utility operations increased \$75 million and \$125 million in the three and nine months ended September 30, 2018, respectively. The increase was due to the following:

|   | Three Months  | Nine Months   |
|---|---------------|---------------|
|   | ended         | ended         |
|   | September 30, | September 30, |
|   | 2018          | 2017          |
|   | (In millions) |               |
| Higher production offset by lower coal prices in the REF business | \$—           | \$ 60         |
| Higher production and higher coal prices in the REF business      | 62            | —             |
| Higher demand due to improved conditions in the steel business    | 5             | 42            |
| Higher production in the renewables business                      | 6             | 22            |
| Other   | 2             | 1             |
|   | \$75          | \$ 125        |

Non-utility Margin increased \$3 million and \$19 million in the three and nine months ended September 30, 2018, respectively. The following table details changes in Non-utility margin relative to the comparable prior periods:

|  | Three Months  | Nine Months   |
|--|---------------|---------------|
|  | ended         | ended         |
|  | September 30, | September 30, |
|  | 2018          | 2017          |

Edgar Filing: DTE ENERGY CO - Form 10-Q

(In millions)

|   |      |       |
|---|------|-------|
| New projects and higher production in the renewables business | \$6  | \$ 18 |
| Higher production in the REF business                         | (2 ) | (2 )  |
| Other   | (1 ) | 3     |
|   | \$3  | \$ 19 |

61

---

Operation and maintenance expense increased \$8 million and \$13 million in the three and nine months ended September 30, 2018, respectively. The increase in the third quarter and nine-month period was primarily due to higher production in the REF business.

Depreciation and amortization expense decreased \$1 million and \$5 million in the three and nine months ended September 30, 2018, respectively. The decrease in the third quarter and nine-month period was primarily due to a termination of a project in the REF business.

Other (Income) and Deductions increased \$6 million and \$9 million in the three and nine months ended September 30, 2018, respectively. The increase in the third quarter and nine-month period was primarily due to higher production in the REF business offset by an insurance settlement recorded in the prior year.

Income Taxes — Production Tax Credits increased \$21 million and \$36 million in the three and nine months ended September 30, 2018, respectively. The increase in the third quarter and nine-month period was primarily due to higher production in the REF business.

Net Loss Attributable to Noncontrolling Interests decreased \$8 million and \$6 million in the three and nine months ended September 30, 2018, respectively. The decrease in the third quarter and nine-month period was primarily due to a termination of a project in the REF business.

Outlook — Power and Industrial Projects has constructed and placed in service REF facilities at ten sites including facilities located at seven third-party owned coal-fired power plants. DTE Energy has sold membership interests in two of the facilities and entered into lease arrangements in four of the facilities. DTE Energy is currently negotiating the sales of three membership interest transactions at existing facilities and will continue to optimize the remaining facilities.

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

#### ENERGY TRADING

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

|  | Three Months<br>Ended<br>September 30,<br>2018 |         | Nine Months<br>Ended<br>September 30,<br>2017 |         |
|--|--|---------|---|---------|
|  | 2018   | 2017    | 2018  | 2017    |
|  | (In millions)                                  |         |   |         |
| Operating Revenues — Non-utility operations          | \$1,332  | \$1,174 | \$3,994                                       | \$3,217 |
| Purchased power and gas — non-utility                | 1,328  | 1,154   | 3,913   | 2,999   |
| Non-utility Margin                                   | 4  | 20      | 81  | 218     |
| Operation and maintenance                            | 19   | 15      | 53  | 50      |
| Depreciation and amortization                        | 1  | 1       | 4   | 3       |
| Taxes other than income                              | 1  | 1       | 4   | 4       |
| Operating Income (Loss)                              | (17  | ) 3     | 20  | 161     |
| Other (Income) and Deductions                        | 1  | 1       | 3   | 2       |
| Income Tax Expense (Benefit)                         | (5   | ) 1     | 4   | 62      |
| Net Income (Loss) Attributable to DTE Energy Company | \$(13  | ) \$1   | \$13  | \$97    |

Operating Revenues — Non-utility operations increased \$158 million and \$777 million in the three and nine months ended September 30, 2018, respectively. The increase in the third quarter and nine-month period was primarily due to higher volumes and higher gas prices in the gas structured strategy.

Non-utility Margin decreased \$16 million and \$137 million in the three and nine months ended September 30, 2018, respectively. The following tables detail changes in Non-utility margin relative to the comparable prior periods:

|  | Three<br>Months<br>(In<br>millions) |
|--|-------------------------------------|
| Unrealized Margins <sup>(a)</sup>  |                                     |
| Favorable results, primarily in the gas trading strategy                                     | \$ 21                               |
| Unfavorable results, primarily in gas structured and power trading strategies <sup>(b)</sup> | (66 )                               |
|  | (45 )                               |
| Realized Margins <sup>(a)</sup>  |                                     |
| Favorable results, primarily in power and environmental trading, and gas storage strategies  | 41                                  |
| Unfavorable results, primarily in the gas trading strategy                                   | (12 )                               |
|  | 29                                  |
| Decrease in Non-utility Margin   | \$ (16 )                            |

---

(a) Natural gas structured transactions typically involve a physical purchase or sale of natural gas in the future and/or natural gas basis financial instruments which are derivatives and a related non-derivative pipeline transportation contract. These gas structured transactions can result in significant earnings volatility as the derivative components are marked-to-market without revaluing the related non-derivative contracts.

(b) Amount includes \$54 million of timing related losses to gas strategies which will reverse in future periods as the underlying contracts settle.

|  | Nine<br>Months<br>(In<br>millions) |
|--|------------------------------------|
| Unrealized Margins <sup>(a)</sup>  |                                    |
| Favorable results, primarily in the gas trading strategy   | \$ 16                              |
| Unfavorable results, primarily in gas structured and gas storage strategies <sup>(b)</sup>                           | (151 )                             |
|  | (135 )                             |
| Realized Margins <sup>(a)</sup>  |                                    |
| Favorable results, primarily in gas storage, and power and environmental trading strategies                          | 55                                 |
| Unfavorable results, primarily in power full requirements, gas structured, and gas trading strategies <sup>(c)</sup> | (57 )                              |
|  | (2 )                               |
| Decrease in Non-utility Margin   | \$ (137 )                          |

---

(a) Natural gas structured transactions typically involve a physical purchase or sale of natural gas in the future and/or natural gas basis financial instruments which are derivatives and a related non-derivative pipeline transportation contract. These gas structured transactions can result in significant earnings volatility as the derivative components are marked-to-market without revaluing the related non-derivative contracts.

(b) Amount includes \$144 million of timing related losses to gas strategies which will reverse in future periods as the underlying contracts settle.

(c) Amount includes \$8 million of timing related gains to gas strategies recognized in previous periods that reversed as the underlying contracts settled.

Outlook — In the near-term, Energy Trading expects market conditions to remain challenging, and the profitability of this segment may be impacted by the volatility in commodity prices and the uncertainty of impacts associated with regulatory changes, and changes in operating rules of Regional Transmission Organizations. Significant portions of the Energy Trading portfolio are economically hedged. Most financial instruments and physical power and natural gas contracts are deemed derivatives, whereas natural gas inventory, pipeline transportation, renewable energy credits, and

storage assets are not derivatives. As a result, Energy Trading will experience earnings volatility as derivatives are marked-to-market without revaluing the underlying non-derivative contracts and assets. Energy Trading's strategy is to economically manage the price risk of these underlying non-derivative contracts and assets with futures, forwards, swaps, and options. This results in gains and losses that are recognized in different interim and annual accounting periods.

See also the "Fair Value" section herein and Notes 7 and 8 to the Consolidated Financial Statements, "Fair Value" and "Financial and Other Derivative Instruments," respectively.

## CORPORATE AND OTHER

Corporate and Other includes various holding company activities, holds certain non-utility debt, and holds energy-related investments. The net losses of \$52 million and \$114 million in the three and nine months ended September 30, 2018, respectively, represent increases of \$37 million and \$83 million from the net losses of \$15 million and \$31 million in the comparable 2017 period. The increase in the third quarter was primarily due to a valuation allowance for the AMT credit carryover, a reduction in the corporate tax rate from the TCJA in December 2017, higher interest expense, and one-time tax items. For the nine-month period, the increase was primarily due to a valuation allowance for the AMT credit carryover, effective tax rate adjustments, a reduction in the corporate tax rate from the TCJA in December 2017, lower excess tax benefits on stock-based compensation, higher interest expense, and one-time tax items.

## CAPITAL RESOURCES AND LIQUIDITY

### Cash Requirements

DTE Energy uses cash to maintain and invest in the electric and natural gas utilities, to grow the non-utility businesses, to retire, and pay interest on long-term debt, and to pay dividends. DTE Energy believes it will have sufficient internal and external capital resources to fund anticipated capital and operating requirements. DTE Energy expects that cash from operations in 2018 will be approximately \$2.2 billion. DTE Energy anticipates base level utility capital investments, including environmental, renewable, and energy waste reduction expenditures; expenditures for non-utility businesses; and contributions to equity method investees in 2018 of approximately \$3.6 billion. DTE Energy plans to seek regulatory approval to include utility capital expenditures in regulatory rate base consistent with prior treatment. Capital spending for growth of existing or new non-utility businesses will depend on the existence of opportunities that meet strict risk-return and value creation criteria.

|  | Nine Months<br>Ended<br>September<br>30,<br>2018 2017<br>(In millions) |         |
|--|--|---------|
| Cash, Cash Equivalents, and Restricted Cash                                |  |         |
| Cash Flow From (Used For)  |  |         |
| Operating Activities   |  |         |
| Net Income   | \$922  | \$832   |
| Adjustments to reconcile Net Income to Net cash from operating activities: |  |         |
| Depreciation and amortization  | 826  | 756     |
| Nuclear fuel amortization  | 39   | 39      |
| Allowance for equity funds used during construction                        | (20 )  | (17 )   |
| Deferred income taxes  | 118  | 261     |
| Asset (gains) losses and impairments, net                                  | 11   | 5       |
| Working capital and other  | 151  | (326 )  |
| Net cash from operating activities   | 2,047  | 1,550   |
| Investing Activities   |  |         |
| Plant and equipment expenditures — utility                                 | (1,562)  | (1,439) |
| Plant and equipment expenditures — non-utility                             | (217 )   | (133 )  |
| Contributions to equity method investees                                   | (545 )   | (194 )  |
| Other  | (12 )  | (36 )   |
| Net cash used for investing activities                                     | (2,336)  | (1,802) |
| Financing Activities   |  |         |
| Issuance of long-term debt, net of issuance costs                          | 1,433  | 1,010   |
| Redemption of long-term debt   | (105 )   | (385 )  |
| Short-term borrowings, net   | (544 )   | 160     |
| Issuance of common stock   | 7  | —       |
| Repurchase of common stock   | —  | (51 )   |
| Dividends on common stock  | (459 )   | (444 )  |
| REF contributions from noncontrolling interests                            | 43   | 34      |
| Distributions to noncontrolling interests                                  | (31 )  | (29 )   |
| Other  | (40 )  | (70 )   |
| Net cash from financing activities   | 304  | 225     |
| Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash     | \$15   | \$(27 ) |

#### Cash from Operating Activities

A majority of DTE Energy's operating cash flows are provided by the electric and natural gas utilities, which are significantly influenced by factors such as weather, electric retail access, regulatory deferrals, regulatory outcomes, economic conditions, changes in working capital, and operating costs.

Cash from operations increased by \$497 million in 2018 due primarily to an increase in Net Income, Depreciation and amortization, and working capital adjustments, partially offset by a decrease to Deferred income taxes.

The change in working capital items in 2018 is primarily related to increases of cash from Accounts receivable, net, Inventories, Other current and noncurrent assets and liabilities, and Derivative assets and liabilities, partially offset by an increase in cash used for Accrued postretirement obligation.

#### Cash used for Investing Activities

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

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

65

---



Capital spending within the non-utility businesses is primarily for ongoing maintenance, expansion, and growth. DTE Energy looks to make growth investments that meet strict criteria in terms of strategy, management skills, risks, and returns. All new investments are analyzed for their rates of return and cash payback on a risk adjusted basis. DTE Energy has been disciplined in how it deploys capital and will not make investments unless they meet the criteria. For new business lines, DTE Energy initially invests based on research and analysis. DTE Energy starts with a limited investment, evaluates the results, and either expands or exits the business based on those results. In any given year, the amount of growth capital will be determined by the underlying cash flows of DTE Energy, with a clear understanding of any potential impact on its credit ratings.

Net cash used for investing activities increased by \$534 million in 2018 due primarily to an increase in capital expenditures, and Contributions to equity method investees, primarily to the NEXUS pipeline, partially offset by a decrease in Investing Activities — Other, primarily the result of two 2017 acquisitions of landfill gas facilities, which are presented in Investing Activities — Other.

#### Cash from Financing Activities

DTE Energy relies on both short-term borrowing and long-term financing as a source of funding for capital requirements not satisfied by its operations.

DTE Energy's strategy is to have a targeted debt portfolio blend of fixed and variable interest rates and maturity. DTE Energy continually evaluates its leverage target, which is currently 50% to 54%, to ensure it is consistent with the objective of a strong investment grade debt rating.

Net cash from financing activities increased by \$79 million in 2018 due primarily to an increase in Issuance of long-term debt, and decreases in Redemptions of long-term debt and Repurchases of common stock, partially offset by cash used for Short-term borrowings.

#### Outlook

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

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

DTE Energy has approximately \$1 million in long-term debt, including capital leases, maturing in the next twelve months. The repayment of the debt is expected to be paid through internally generated funds or the issuance of long-term debt.

DTE Energy has approximately \$2.0 billion of available liquidity at September 30, 2018, consisting of cash and amounts available under unsecured revolving credit agreements.

Through September 30, 2018, DTE Energy has issued approximately \$260 million of equity through the dividend reinvestment plan and pension and other employee benefit plans.

DTE Energy does not anticipate making any additional contributions to its pension or other postretirement benefit plans in 2018.

Various subsidiaries and equity investees of DTE Energy have entered into contracts which contain ratings triggers and are guaranteed by DTE Energy. These contracts contain provisions which allow the counterparties to require that DTE Energy post cash or letters of credit as collateral in the event that DTE Energy's credit rating is downgraded below investment grade. Certain of these provisions (known as "hard triggers") state specific circumstances under which DTE Energy can be required to post collateral upon the occurrence of a credit downgrade, while other provisions (known as "soft triggers") are not as specific. For contracts with soft triggers, it is difficult to estimate the amount of collateral which may be requested by counterparties and/or which DTE Energy may ultimately be required to post. The amount of such collateral which could be requested fluctuates based on commodity prices (primarily natural gas, power, and coal) and the provisions and maturities of the underlying transactions. As of September 30, 2018, DTE Energy's contractual obligation to post collateral in the form of cash or letters of credit in the event of a downgrade to below investment grade, under both hard trigger and soft trigger provisions, was \$502 million.

DTE Energy believes it will have sufficient operating flexibility, cash resources, and funding sources to maintain adequate amounts of liquidity and to meet future operating cash and capital expenditure needs. However, virtually all of DTE Energy's businesses are capital intensive, or require access to capital, and the inability to access adequate capital could adversely impact earnings and cash flows.

See Notes 5, 9, 10, 11, and 12 to the Consolidated Financial Statements, "Regulatory Matters," "Long-Term Debt," "Short-Term Credit Arrangements and Borrowings," "Commitments and Contingencies," and "Retirement Benefits and Trusteed Assets," respectively.

#### NEW ACCOUNTING PRONOUNCEMENTS

See Note 3 to the Consolidated Financial Statements, "New Accounting Pronouncements."

#### FAIR VALUE

Derivatives are generally recorded at fair value and shown as Derivative assets or liabilities. Contracts DTE Energy typically classifies as derivative instruments include power, natural gas, oil, and certain coal forwards, futures, options and swaps, and foreign currency exchange contracts. Items DTE Energy does not generally account for as derivatives include natural gas inventory, pipeline transportation contracts, renewable energy credits, and storage assets. See Notes 7 and 8 to the Consolidated Financial Statements, "Fair Value" and "Financial and Other Derivative Instruments," respectively.

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

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

The Registrants have established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). For further discussion of the fair value hierarchy, see Note 7 to the Consolidated Financial Statements, "Fair Value."

The following table provides details on changes in DTE Energy's MTM net asset (or liability) position:

|  | DTE<br>Energy<br>(In<br>millions) |
|--|-----------------------------------|
| MTM at December 31, 2017                                 | \$ 8                              |
| Reclassified to realized upon settlement                 | 69                                |
| Changes in fair value recorded to income                 | (85 )                             |
| Amounts recorded to unrealized income                    | (16 )                             |
| Changes in fair value recorded in regulatory liabilities | 6                                 |
| Change in collateral                                     | (15 )                             |
| MTM at September 30, 2018                                | \$ (17 )                          |

The table below shows the maturity of DTE Energy's MTM positions. The positions from 2021 and beyond principally represent longer tenor gas structured transactions:

| Source of Fair Value              | 2018          | 2019 | 2020  | 2021<br>and<br>Beyond | Total<br>Fair<br>Value |
|-----------------------------------|---------------|------|-------|-----------------------|------------------------|
|                                   | (In millions) |      |       |                       |                        |
| Level 1                           | \$9           | \$3  | \$(3) | \$(3)                 | \$6                    |
| Level 2                           | 8             | 7    | 4     | 9                     | 28                     |
| Level 3                           | (10)          | (1)  | 3     | (42)                  | (50)                   |
| MTM before collateral adjustments | \$7           | \$9  | \$4   | \$(36)                | (16)                   |
| Collateral adjustments            |               |      |       |                       | (1)                    |
| MTM at September 30, 2018         |               |      |       |                       | \$(17)                 |

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Price Risk

The Electric and Gas businesses have commodity price risk, primarily related to the purchases of coal, natural gas, uranium, and electricity. However, the Registrants do not bear significant exposure to earnings risk, as such changes are included in the PSCR and GCR regulatory rate-recovery mechanisms. In addition, changes in the price of natural gas can impact the valuation of lost and stolen gas, storage sales, and transportation services revenue at the Gas segment. The Gas segment manages its market price risk related to storage sales revenue primarily through the sale of long-term storage contracts. The Registrants are exposed to short-term cash flow or liquidity risk as a result of the time differential between actual cash settlements and regulatory rate recovery.

DTE Energy's Gas Storage and Pipelines segment has exposure to natural gas price fluctuations which impact the pricing for natural gas storage, gathering, and transportation. DTE Energy manages its exposure through the use of short, medium, and long-term storage, gathering, and transportation contracts.

DTE Energy's Power and Industrial Projects business segment is subject to electricity, natural gas, and coal product price risk. DTE Energy manages its exposure to commodity price risk through the use of long-term contracts.

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

Credit Risk

The Registrants regularly review contingent matters relating to customers and their contracts and record provisions for amounts considered at risk of probable loss in the allowance for doubtful accounts. The Registrants believe their accrued amounts are adequate for probable loss.

### Trading Activities

DTE Energy is exposed to credit risk through trading activities. Credit risk is the potential loss that may result if the trading counterparties fail to meet their contractual obligations. DTE Energy utilizes both external and internal credit assessments when determining the credit quality of trading counterparties.

The following table displays the credit quality of DTE Energy's trading counterparties as of September 30, 2018:

|   | Credit<br>Exposure<br>Before<br>Cash<br>Collateral<br>(In millions) | Cash<br>Collateral | Net<br>Credit<br>Exposure |
|---|---|--------------------|---------------------------|
| Investment Grade <sup>(a)</sup>         |   |                    |                           |
| A- and Greater                          | \$295   | \$ —               | \$ 295                    |
| BBB+ and BBB                            | 270   | —                  | 270                       |
| BBB-                                    | 39  | —                  | 39                        |
| Total Investment Grade                  | 604   | —                  | 604                       |
| Non-investment grade <sup>(b)</sup>     | 6   | —                  | 6                         |
| Internally Rated — investment grade     | 343   | (1 )               | 342                       |
| Internally Rated — non-investment grade | 33  | (8 )               | 25                        |
| Total                                   | \$986   | \$ (9 )            | \$ 977                    |

This category includes counterparties with minimum credit ratings of Baa3 assigned by Moody's Investors Service (Moody's) or BBB- assigned by Standard & Poor's Rating Group, a division of McGraw-Hill Companies, Inc. (Standard & Poor's). The five largest counterparty exposures, combined, for this category represented 19% of the total gross credit exposure.

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

(c) This category includes counterparties that have not been rated by Moody's or Standard & Poor's, but are considered investment grade based on DTE Energy's evaluation of the counterparty's creditworthiness. The five largest counterparty exposures, combined, for this category represented 14% of the total gross credit exposure.

(d) This category includes counterparties that have not been rated by Moody's or Standard & Poor's, and are considered non-investment grade based on DTE Energy's evaluation of the counterparty's creditworthiness. The five largest counterparty exposures, combined, for this category represented 1% of the total gross credit exposure.

### Other

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

### Interest Rate Risk

DTE Energy is subject to interest rate risk in connection with the issuance of debt. In order to manage interest costs, DTE Energy may use treasury locks and interest rate swap agreements. DTE Energy's exposure to interest rate risk arises primarily from changes in U.S. Treasury rates, commercial paper rates, and London Inter-Bank Offered Rates (LIBOR). As of September 30, 2018, DTE Energy had a floating rate debt-to-total debt ratio of 0.6%.

### Foreign Currency Exchange Risk

DTE Energy has foreign currency exchange risk arising from market price fluctuations associated with fixed priced contracts. These contracts are denominated in Canadian dollars and are primarily for the purchase and sale of natural gas and power, as well as for long-term transportation capacity. To limit DTE Energy's exposure to foreign currency exchange fluctuations, DTE Energy has entered into a series of foreign currency exchange forward contracts through June 2022.



Summary of Sensitivity Analyses

Sensitivity analyses were performed on the fair values of commodity contracts for DTE Energy and long-term debt obligations for the Registrants. The commodity contracts listed below principally relate to energy marketing and trading activities. The sensitivity analyses involved increasing and decreasing forward prices and rates at September 30, 2018 and 2017 by a hypothetical 10% and calculating the resulting change in the fair values.

The results of the sensitivity analyses:

| Activity                          | Assuming a 10% Increase in Prices/Rates |                          | Assuming a 10% Decrease in Prices/Rates |                          | Change in the Fair Value of |
|-----------------------------------|---|--------------------------|---|--------------------------|-----------------------------|
|                                   | As of September 30, 2018                | As of September 30, 2017 | As of September 30, 2018                | As of September 30, 2017 |                             |
|                                   | (In millions)                           |                          |   |                          |                             |
| Gas contracts                     | \$(7 )                                  | \$3                      | \$9                                     | \$(3 )                   | Commodity contracts         |
| Power contracts                   | \$8                                     | \$9                      | \$(11 )                                 | \$(11 )                  | Commodity contracts         |
| Interest rate risk — DTE Energy   | \$(618)                                 | \$(545)                  | \$649                                   | \$548                    | Long-term debt              |
| Interest rate risk — DTE Electric | \$(282)                                 | \$(249)                  | \$304                                   | \$267                    | Long-term debt              |

For further discussion of market risk, see Note 8 to the Consolidated Financial Statements, "Financial and Other Derivative Instruments."

Item 4. Controls and Procedures

DTE Energy

(a) Evaluation of disclosure controls and procedures

Management of DTE Energy carried out an evaluation, under the supervision and with the participation of DTE Energy's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of DTE Energy's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2018, which is the end of the period covered by this report. Based on this evaluation, DTE Energy's CEO and CFO have concluded that such disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed by DTE Energy in reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms and (ii) is accumulated and communicated to DTE Energy's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Due to the inherent limitations in the effectiveness of any disclosure controls and procedures, management cannot provide absolute assurance that the objectives of its disclosure controls and procedures will be attained.

(b) Changes in internal control over financial reporting

There have been no changes in DTE Energy's internal control over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, DTE Energy's internal control over financial reporting.

DTE Electric

(a) Evaluation of disclosure controls and procedures

Management of DTE Electric carried out an evaluation, under the supervision and with the participation of DTE Electric's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of DTE Electric's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2018, which is the end of the period covered by this report. Based on this evaluation, DTE Electric's CEO and CFO have concluded that such disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed by DTE Electric in reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms and (ii) is accumulated and communicated to DTE Electric's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Due to the inherent limitations in the effectiveness of any disclosure controls and procedures, management cannot provide absolute assurance that the objectives of its disclosure controls and procedures will be attained.

(b) Changes in internal control over financial reporting

There have been no changes in DTE Electric's internal control over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, DTE Electric's internal control over financial reporting.



## Part II — Other Information

## Item 1. Legal Proceedings

An FOV was issued by the EPA to DTE Electric in 2017 alleging violations related to exceedances of mercury emission limits for the Monroe Power Plant. DTE Electric and the EPA have agreed to address the alleged violations through a consent agreement and the payment of a \$120,000 civil penalty.

In March 2018, the Trenton Channel Power Plant experienced exceedances of its mercury emission limits. The exceedances were reported to the EPA and the MDEQ. On September 12, 2018, the EPA issued a NOV. DTE Electric is currently working with the EPA to address the NOV. At this time, DTE Electric cannot predict the impact of the NOV.

For more information on legal proceedings and matters related to the Registrants, see Notes 5 and 11 to the Consolidated Financial Statements, "Regulatory Matters" and "Commitments and Contingencies," respectively.

## Item 1A. Risk Factors

There are various risks associated with the operations of the Registrants' businesses. To provide a framework to understand the operating environment of the Registrants, a brief explanation of the more significant risks associated with the Registrants' businesses is provided in Part 1, Item 1A. Risk Factors in DTE Energy's and DTE Electric's combined 2017 Annual Report on Form 10-K. Although the Registrants have tried to identify and discuss key risk factors, others could emerge in the future.

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

## Purchases of DTE Energy Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information about DTE Energy purchases of equity securities that are registered by DTE Energy pursuant to Section 12 of the Exchange Act of 1934 for the quarter ended September 30, 2018:

|                         | Number of<br>Shares<br>Purchased <sup>(a)</sup> | Average<br>Price<br>Paid per<br>Share <sup>(a)</sup> | Number<br>of Shares<br>Purchased<br>as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Average<br>Price<br>Paid<br>per<br>Share | Maximum<br>Dollar<br>Value that<br>May<br>Yet Be<br>Purchased<br>Under<br>the Plans<br>or<br>Programs |
|-------------------------|---|--|--|--|---|
| 07/01/2018 — 07/31/2018 | 1,948   | \$ 103.35  | —  | —  | —   |
| 08/01/2018 — 08/31/2018 | 1,273   | \$ 109.28  | —  | —  | —   |
| 09/01/2018 — 09/30/2018 | 1,298   | \$ 111.27  | —  | —  | —   |
| Total                   | 3,519   |  | —  |  |   |

<sup>(a)</sup> Represents shares of common stock withheld to satisfy income tax obligations upon the vesting of restricted stock based on the price in effect at the grant date.

Edgar Filing: DTE ENERGY CO - Form 10-Q

Item 6. Exhibits

| Exhibit Number | Description  | DTE Energy | DTE Electric |
|----------------|--|------------|--------------|
|                | (i) Exhibits filed herewith:   |            |              |
| <u>4.300</u>   | Forty-ninth Supplemental Indenture dated as of August 1, 2018, to Indenture of Mortgage and Deed of Trust, dated as of March 1, 1944, between DTE Gas Company and Citibank, N.A., trustee. (2018 Series B and C)                           | X          |              |
| <u>4.301</u>   | Supplemental Indenture dated as of August 1, 2018, to the Amended and Restated Indenture, dated as of April 9, 1924, between DTE Energy Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee. (2018 Series D) | X          |              |
| <u>12.87</u>   | Computation of Ratio of Earnings to Fixed Charges  | X          |              |
| <u>12.88</u>   | Computation of Ratio of Earnings to Fixed Charges  |            | X            |
| <u>31.153</u>  | Chief Executive Officer Section 302 Form 10-Q Certification of Periodic Report   | X          |              |
| <u>31.154</u>  | Chief Financial Officer Section 302 Form 10-Q Certification of Periodic Report   | X          |              |
| <u>31.155</u>  | Chief Executive Officer Section 302 Form 10-Q Certification of Periodic Report   |            | X            |
| <u>31.156</u>  | Chief Financial Officer Section 302 Form 10-Q Certification of Periodic Report   |            | X            |
| 101.INS        | XBRL Instance Document   | X          | X            |
| 101.SCH        | XBRL Taxonomy Extension Schema   | X          | X            |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase   | X          | X            |
| 101.DEF        | XBRL Taxonomy Extension Definition Database  | X          | X            |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase   | X          | X            |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase  | X          | X            |
|                | (ii) Exhibits furnished herewith:  |            |              |
| <u>32.153</u>  | Chief Executive Officer Section 906 Form 10-Q Certification of Periodic Report   | X          |              |
| <u>32.154</u>  | Chief Financial Officer Section 906 Form 10-Q Certification of Periodic Report   | X          |              |
| <u>32.155</u>  | Chief Executive Officer Section 906 Form 10-Q Certification of Periodic Report   |            | X            |
| <u>32.156</u>  | Chief Financial Officer Section 906 Form 10-Q Certification of Periodic Report   |            | X            |



Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized. The signature for each undersigned Registrant shall be deemed to relate only to matters having reference to such Registrant and any subsidiaries thereof.

Date: October 24, 2018

DTE ENERGY COMPANY

By: /S/ JEFFREY A. JEWELL

Jeffrey A. Jewell

Vice President, Controller, and Chief Accounting Officer

(Duly Authorized Officer)

DTE ELECTRIC COMPANY

By: /S/ JEFFREY A. JEWELL

Jeffrey A. Jewell

Vice President, Controller, and Chief Accounting Officer

(Duly Authorized Officer)