

DTE ENERGY CO  
 Form 10-Q  
 April 24, 2019

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 March 31, 2019

Commission File Number	Registrants, State of Incorporation, Address, and Telephone Number	I.R.S. Employer Identification No.
1-11607	DTE Energy Company (a Michigan corporation) One Energy Plaza Detroit, Michigan 48226-1279 313-235-4000	38-3217752
1-2198	DTE Electric Company (a Michigan corporation) One Energy Plaza Detroit, Michigan 48226-1279 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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
------------	---	--	--	--	--

DTE Electric	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
--------------	--	--	---	--	--

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

Edgar Filing: DTE ENERGY CO - Form 10-Q

Number of shares of Common Stock outstanding at March 31, 2019:

Registrant	Description	Shares
DTE Energy	Common Stock, without par value	183,212,427

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>26</u>
<u>Note 6 — Earnings Per Share</u>	<u>26</u>
<u>Note 7 — Fair Value</u>	<u>27</u>
<u>Note 8 — Financial and Other Derivative Instruments</u>	<u>35</u>
<u>Note 9 — Long-Term Debt</u>	<u>39</u>
<u>Note 10 — Short-Term Credit Arrangements and Borrowings</u>	<u>39</u>
<u>Note 11 — Leases</u>	<u>40</u>
<u>Note 12 — Commitments and Contingencies</u>	<u>46</u>
<u>Note 13 — Retirement Benefits and Trusteed Assets</u>	<u>51</u>
<u>Note 14 — Segment and Related Information</u>	<u>52</u>
<b><u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b><u>54</u></b>
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b><u>68</u></b>
<b><u>Item 4. Controls and Procedures</u></b>	<b><u>71</u></b>
<b><u>PART II - OTHER INFORMATION</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	<b><u>72</u></b>
<b><u>Item 1A. Risk Factors</u></b>	<b><u>72</u></b>
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<b><u>72</u></b>
<b><u>Item 6. Exhibits</u></b>	<b><u>73</u></b>
<u>Signatures</u>	<u>74</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.
ASU	Accounting Standards Update issued by the FASB
CCR	Coal Combustion Residuals
CFTC	U.S. Commodity Futures Trading Commission
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
NO <sub>x</sub>	Nitrogen Oxides
NRC	U.S. Nuclear Regulatory Commission
PG&E	Pacific Gas and Electric Corporation

DEFINITIONS

Production tax credits	Tax credits as authorized under Sections 45K and 45 of the Internal Revenue Code that are designed to stimulate investment in and development of alternate fuel sources. The amount of a production tax credit can vary each year as determined by the Internal Revenue Service.
PSCR	A Power Supply Cost Recovery mechanism authorized by the MPSC that allows DTE Electric to recover through rates its fuel, fuel-related, and purchased power costs.
RDM	A Revenue Decoupling Mechanism authorized by the MPSC that is designed to minimize the impact on revenues of changes in average customer usage.
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.
RNG	Renewable 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 liability	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
Topic 840	FASB issued ASC 840, Leases
Topic 842	FASB issued ASU No. 2016-02, Leases, as amended, which replaced Topic 840
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	

Bcf Billion cubic feet of natural gas

BTU British thermal unit, heat value (energy content) of fuel

MMBtu One million BTU

MWh Megawatt-hour 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 2018 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;
- the operational failure of electric or gas distribution systems or infrastructure;
- 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;
- the risk of a major safety incident;
- 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 incidents 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;
- 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, store 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 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 Ended March 31, 2019 2018 (In millions, except per share amounts)	
Operating Revenues		
Utility operations	\$1,864	\$1,740
Non-utility operations	1,650	2,013
	3,514	3,753
Operating Expenses		
Fuel, purchased power, and gas — utility	582	553
Fuel, purchased power, and gas — non-utility	1,385	1,773
Operation and maintenance	591	534
Depreciation and amortization	296	281
Taxes other than income	118	111
Asset (gains) losses and impairments, net	—	(3 )
	2,972	3,249
Operating Income	542	504
Other (Income) and Deductions		
Interest expense	152	135
Interest income	(4 )	(3 )
Non-operating retirement benefits, net	9	9
Other income	(88 )	(81 )
Other expenses	11	25
	80	85
Income Before Income Taxes	462	419
Income Tax Expense	54	68
Net Income	408	351
Less: Net Income (Loss) Attributable to Noncontrolling Interests	7	(10 )
Net Income Attributable to DTE Energy Company	\$401	\$361
Basic Earnings per Common Share		
Net Income Attributable to DTE Energy Company	\$2.20	\$2.01
Diluted Earnings per Common Share		
Net Income Attributable to DTE Energy Company	\$2.19	\$2.00

Weighted Average Common Shares Outstanding		
Basic	182	180
Diluted	183	180
See Combined Notes to Consolidated Financial Statements (Unaudited)		

5

---

## DTE Energy Company

## Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended March 31, 2019 2018 (In millions)	
Net Income	\$408	\$351
Other comprehensive income (loss), net of tax:		
Benefit obligations, net of taxes of \$1 and \$1, respectively	4	2
Net unrealized losses on derivatives during the period, net of taxes of \$(1) and \$—, respectively	(3)	—
Foreign currency translation	1	—
Other comprehensive income	2	2
Comprehensive income	410	353
Less: Comprehensive income (loss) attributable to noncontrolling interests	7	(10)
Comprehensive Income Attributable to DTE Energy Company	\$403	\$363

See Combined Notes to Consolidated Financial Statements (Unaudited)

## DTE Energy Company

## Consolidated Statements of Financial Position (Unaudited)

	March 31, 2019 (In millions)	December 31, 2018
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 56	\$ 71
Restricted cash	5	5
Accounts receivable (less allowance for doubtful accounts of \$91 for both periods)		
Customer	1,683	1,789
Other	72	108
Inventories		
Fuel and gas	195	406
Materials and supplies	409	405
Derivative assets	72	102
Regulatory assets	117	153
Other	231	221
	2,840	3,260
Investments		
Nuclear decommissioning trust funds	1,509	1,378
Investments in equity method investees	1,772	1,771
Other	238	219
	3,519	3,368
Property		
Property, plant, and equipment	32,214	31,810
Accumulated depreciation and amortization	(10,350)	(10,160)
	21,864	21,650
Other Assets		
Goodwill	2,293	2,293
Regulatory assets	4,520	4,568
Intangible assets	846	849
Notes receivable	158	64
Derivative assets	22	31
Prepaid postretirement costs	76	45
Operating lease right-of-use assets	138	—
Other	158	160
	8,211	8,010

Edgar Filing: DTE ENERGY CO - Form 10-Q

Total Assets	\$	36,434	\$	36,288
--------------	----	--------	----	--------

See Combined Notes to Consolidated Financial Statements (Unaudited)

7

---



## DTE Energy Company

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

	March 31, 2019	December 31, 2018
	(In millions, except shares)	
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$981	\$1,329
Accrued interest	149	127
Dividends payable	173	172
Short-term borrowings	156	609
Current portion long-term debt, including finance leases	1,499	1,499
Derivative liabilities	50	67
Gas inventory equalization	88	—
Regulatory liabilities	95	126
Operating lease liabilities	33	—
Other	423	509
	3,647	4,438
<b>Long-Term Debt (net of current portion)</b>		
Mortgage bonds, notes, and other	11,624	10,982
Junior subordinated debentures	1,146	1,145
Finance lease liabilities	6	7
	12,776	12,134
<b>Other Liabilities</b>		
Deferred income taxes	2,029	1,975
Regulatory liabilities	2,895	2,922
Asset retirement obligations	2,500	2,469
Unamortized investment tax credit	137	138
Derivative liabilities	52	89
Accrued pension liability	722	837
Nuclear decommissioning	224	205
Operating lease liabilities	98	—
Other	334	364
	8,991	8,999
<b>Commitments and Contingencies (Notes 5 and 12)</b>		
<b>Equity</b>		
Common stock (No par value, 400,000,000 shares authorized, and 183,212,427 and 181,925,281 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively)	4,324	4,245
Retained earnings	6,364	6,112
Accumulated other comprehensive loss	(143)	(120)
Total DTE Energy Company Equity	10,545	10,237
Noncontrolling interests	475	480
Total Equity	11,020	10,717
Total Liabilities and Equity	\$36,434	\$36,288

See Combined Notes to Consolidated Financial Statements (Unaudited)

8

---

## DTE Energy Company

## Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended March 31, 2019		2018
	(In millions)		
Operating Activities			
Net Income	\$	408	\$ 351
Adjustments to reconcile Net Income to Net cash from operating activities:			
Depreciation and amortization	296		281
Nuclear fuel amortization	15		15
Allowance for equity funds used during construction	(7	)	(7 )
Deferred income taxes	49		60
Equity earnings of equity method investees	(23	)	(21 )
Dividends from equity method investees	44		15
Changes in assets and liabilities:			
Accounts receivable, net	143		33
Inventories	207		182
Prepaid postretirement benefit costs	(31	)	—
Accounts payable	(288	)	(136 )
Gas inventory equalization	88		85
Accrued pension liability	(115	)	(187 )
Accrued postretirement liability	—		(36 )
Derivative assets and liabilities	(15	)	(7 )
Regulatory assets and liabilities	112		148
Other current and noncurrent assets and liabilities	(131	)	62
Net cash from operating activities	752		838
Investing Activities			
Plant and equipment expenditures — utility	(641	)	(466 )
Plant and equipment expenditures — non-utility	(27	)	(61 )

Proceeds from sale of nuclear decommissioning trust fund assets			336	
Investment in nuclear decommissioning trust funds	(178)	)	(337)	)
Distributions from equity method investees			4	
Contributions to equity method investees	(22)	)	(64)	)
Notes receivable	(48)	)	3	
Other	(9)	)	(1)	)
Net cash used for investing activities	(748)	)	(586)	)
Financing Activities				
Issuance of long-term debt, net of issuance costs	644		—	
Short-term borrowings, net	(453)	)	14	
Dividends paid on common stock	(172)	)	(158)	)
Contributions from noncontrolling interest, principally REF entities	9		12	
Distributions to noncontrolling interests	(21)	)	(4)	)
Other	(26)	)	(19)	)
Net cash used for financing activities	(19)	)	(155)	)
Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	(15)	)	97	
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period			89	
Cash, Cash Equivalents, and Restricted Cash at End of Period	\$ 61		\$ 186	
Supplemental disclosure of non-cash investing and financing activities				
Plant and equipment expenditures in accounts payable	\$ 235		\$ 179	

See Combined Notes to Consolidated Financial Statements (Unaudited)

## DTE Energy Company

## Consolidated Statements of Changes in Equity (Unaudited)

	Common Stock		Retained	Accumulated	Noncontrolling	
	Shares	Amount	Earnings	Other	Interests	Total
				Comprehensive		
				Income		
				(Loss)		
	(Dollars in millions, shares in thousands)					
Balance, December 31, 2018	181,925	\$4,245	\$ 6,112	\$ (120 )	\$ 480	\$10,717
Implementation of ASU 2018-02	—	—	25	(25 )	—	—
Net Income	—	—	401	—	7	408
Dividends declared on common stock (\$0.945 per Common Share)	—	—	(173 )	—	—	(173 )
Contribution of common stock to pension plan	815	100	—	—	—	100
Other comprehensive income, net of tax	—	—	—	2	—	2
Stock-based compensation, net contributions from noncontrolling interests, and other	472	(21 )	(1 )	—	(12 )	(34 )
Balance, March 31, 2019	183,212	\$4,324	\$ 6,364	\$ (143 )	\$ 475	\$11,020

	Common Stock		Retained	Accumulated	Noncontrolling	
	Shares	Amount	Earnings	Other	Interests	Total
				Comprehensive		
				Income		
				(Loss)		
	(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)	—	—	361	—	(10 )	351
Dividends declared on common stock (\$0.88 per Common Share)	—	—	(160 )	—	—	(160 )
Contribution of common stock to pension plan	1,751	175	—	—	—	175
Other comprehensive income, net of tax	—	—	—	2	—	2
Stock-based compensation, net contributions from noncontrolling interests, and other	345	(1 )	(1 )	—	7	5
Balance, March 31, 2018	181,483	\$4,163	\$ 5,848	\$ (123 )	\$ 475	\$10,363

See Combined Notes to Consolidated Financial Statements (Unaudited)

## DTE Electric Company

## Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31,		
	2019	2018	
	(In millions)		
Operating Revenues — Utility operations	\$1,235	\$1,205	
Operating Expenses			
Fuel and purchased power — utility	346	339	
Operation and maintenance	358	320	
Depreciation and amortization	221	212	
Taxes other than income	84	81	
	1,009	952	
Operating Income	226	253	
Other (Income) and Deductions			
Interest expense	76	68	
Interest income	(1	) —	
Other income	(33	) (27	)
Other expenses	8	25	
	50	66	
Income Before Income Taxes	176	187	
Income Tax Expense	29	47	
Net Income	\$147	\$140	

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Electric Company

Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended March 31, 2019	2018
Net Income	\$ 147	\$ 140
Other comprehensive income	—	—
Comprehensive Income	\$ 147	\$ 140

See Combined Notes to Consolidated Financial Statements (Unaudited)

12

---

## DTE Electric Company

## Consolidated Statements of Financial Position (Unaudited)

	March 31, 2019 (In millions)	December 31, 2018
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 10	\$ 18
Accounts receivable (less allowance for doubtful accounts of \$49 and \$53, respectively)		
Customer	728	750
Affiliates	15	11
Other	25	54
Inventories		
Fuel	116	171
Materials and supplies	283	279
Notes receivable		
Affiliates	83	—
Other	13	6
Regulatory assets	102	148
Prepaid property tax	87	47
Other	27	36
	1,489	1,520
Investments		
Nuclear decommissioning trust funds	1,509	1,378
Other	35	34
	1,544	1,412
Property		
Property, plant, and equipment	23,100	22,747
Accumulated depreciation and amortization	(7,442 )	(7,310 )
	15,658	15,437
Other Assets		
Regulatory assets	3,791	3,829
Intangible assets	24	21
Prepaid postretirement costs — affiliates	189	189
Operating lease right-of-use assets	70	—
Other	135	121
	4,209	4,160
Total Assets	\$ 22,900	\$ 22,529



See Combined Notes to Consolidated Financial Statements (Unaudited)

13

---

## DTE Electric Company

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

	March 31, 2019	December 31, 2018
	(In millions, except shares)	
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable		
Affiliates	\$71	\$ 71
Other	363	441
Accrued interest	81	74
Accrued vacation	44	41
Current portion long-term debt, including finance leases	4	4
Regulatory liabilities	87	98
Short-term borrowings		
Affiliates	51	101
Other	—	149
Operating lease liabilities	14	—
Other	101	98
	816	1,077
<b>Long-Term Debt (net of current portion)</b>		
Mortgage bonds, notes, and other	7,178	6,538
Finance lease liabilities	6	7
	7,184	6,545
<b>Other Liabilities</b>		
Deferred income taxes	2,276	2,246
Regulatory liabilities	2,142	2,171
Asset retirement obligations	2,299	2,271
Unamortized investment tax credit	136	137
Nuclear decommissioning	224	205
Accrued pension liability — affiliates	615	718
Accrued postretirement liability — affiliates	257	278
Operating lease liabilities	50	—
Other	85	88
	8,084	8,114
<b>Commitments and Contingencies (Notes 5 and 12)</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)	4,631	4,631
Retained earnings	2,185	2,162
Total Shareholder's Equity	6,816	6,793
Total Liabilities and Shareholder's Equity	\$22,900	\$ 22,529

See Combined Notes to Consolidated Financial Statements (Unaudited)



## DTE Electric Company

## Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended March 31, 2019		2018
	(In millions)		
Operating Activities			
Net Income	\$	147	\$ 140
Adjustments to reconcile Net Income to Net cash from operating activities:			
Depreciation and amortization	221		212
Nuclear fuel amortization	15		15
Allowance for equity funds used during construction	(6	)	(5 )
Deferred income taxes	23		48
Changes in assets and liabilities:			
Accounts receivable, net	47		39
Inventories	51		50
Accounts payable	(36	)	(30 )
Accrued pension liability — affiliates	(103	)	(178 )
Accrued postretirement liability — affiliates	(21	)	(24 )
Regulatory assets and liabilities	130		97
Other current and noncurrent assets and liabilities	(146	)	(41 )
Net cash from operating activities	322		323
Investing Activities			
Plant and equipment expenditures	(531	)	(370 )
Notes receivable, including affiliates	(96	)	—
Proceeds from sale of nuclear decommissioning trust fund assets	176		336
Investment in nuclear decommissioning trust funds	(178	)	(337 )
Other	(10	)	—
Net cash used for investing activities	(639	)	(371 )

Financing Activities			
Issuance of long-term debt, net of issuance costs	644		—
Short-term borrowings, net — affiliate	(50)	)	26
Short-term borrowings, net — other	(149)	)	142
Dividends paid on common stock	(124)	)	(115)
Other	(12)	)	(4)
Net cash from financing activities	309		49
Net Increase (Decrease) in Cash and Cash Equivalents	(8)	)	1
Cash and Cash Equivalents at Beginning of Period			15
Cash and Cash Equivalents at End of Period	\$ 10		\$ 16
Supplemental disclosure of non-cash investing and financing activities			
Plant and equipment expenditures in accounts payable	\$ 140		\$ 109

See Combined Notes to Consolidated Financial Statements (Unaudited)

## DTE Electric Company

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

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Total
	(Dollars in millions, shares in thousands)				
Balance, December 31, 2018	138,632	\$ 1,386	\$ 3,245	\$ 2,162	\$6,793
Net Income	—	—	—	147	147
Dividends declared on common stock	—	—	—	(124 )	(124 )
Balance, March 31, 2019	138,632	\$ 1,386	\$ 3,245	\$ 2,185	\$6,816

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	(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	—	—	—	140	—	140
Dividends declared on common stock	—	—	—	(115 )	—	(115 )
Balance, March 31, 2018	138,632	\$ 1,386	\$ 2,920	\$ 1,984	\$ —	\$6,290

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	Leases	DTE Energy and DTE Electric
Note 12	Commitments and Contingencies	DTE Energy and DTE Electric
Note 13	Retirement Benefits and Trusteed Assets	DTE Energy and DTE Electric
Note 14	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 2018 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, 2019.

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 the Registrants were reclassified to match the current year's Consolidated Financial Statements presentation.

#### 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 generally 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.

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 March 31, 2019, 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 March 31, 2019, 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.

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

The maximum risk exposure for consolidated VIEs is reflected on the Registrants' Consolidated Statements of Financial Position and, for DTE Energy, in Note 12 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 12 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 March 31, 2019 and December 31, 2018. 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:

	March 31, 2019			December 31, 2018		
	SGG <sup>(a)</sup>	Other	Total	SGG <sup>(a)</sup>	Other	Total
	(In millions)					
<b>ASSETS</b>						
Cash and cash equivalents	\$21	\$14	\$35	\$25	\$14	\$39
Restricted cash	—	5	5	—	5	5
Accounts receivable	10	28	38	9	37	46
Inventories	—	47	47	1	92	93
Property, plant, and equipment, net	394	42	436	395	46	441
Goodwill	25	—	25	25	—	25
Intangible assets	553	—	553	557	—	557
Other current and long-term assets	1	—	1	3	—	3
	\$1,004	\$136	\$1,140	\$1,015	\$194	\$1,209
<b>LIABILITIES</b>						
Accounts payable and accrued current liabilities	\$1	\$22	\$23	\$3	\$31	\$34
Other current and long-term liabilities	8	10	18	9	10	19
	\$9	\$32	\$41	\$12	\$41	\$53

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

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

	March 31, 2019	December 31, 2018
	(In millions)	
Investments in equity method investees	\$1,412	\$1,425
Notes receivable	\$26	\$15
Future funding commitments	\$64	\$55

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

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

Other Income

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

	Three Months Ended March 31, 2019	2018
	(In millions)	
Income from REF entities	\$ 27	\$ 23
Equity earnings of equity method investees	23	21
Gains from equity securities	17	—
Contract services	8	20
Allowance for equity funds used during construction	7	7
Other	6	10
	\$ 88	\$ 81

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

	Three Months Ended March 31, 2019	2018
	(In millions)	
Gains from equity securities allocated from DTE Energy	\$ 17	\$ —
Contract services	8	20
Allowance for equity funds used during construction	6	5
Other	2	2
	\$ 33	\$ 27

Changes in Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) is the change in common shareholders' equity during a period from transactions and events from non-owner sources, including Net Income. The amounts recorded to Accumulated other comprehensive income (loss) for DTE Energy include changes in benefit obligations, consisting of deferred actuarial losses and prior service costs, unrealized gains and losses from derivatives accounted for as cash flow hedges, DTE Energy's interest in other comprehensive income of equity investees which comprise the net unrealized gains and losses on investments, and foreign currency translation adjustments. DTE Energy releases income tax effects from accumulated other comprehensive income when the circumstances upon which they are premised cease to exist.

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." For the three months ended March 31, 2019 and 2018, reclassifications out of Accumulated other comprehensive income (loss) not relating to the adoption of new accounting pronouncements for DTE Energy were not material.

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

Income Taxes

The 2019 estimated annual effective tax rates for DTE Energy and DTE Electric are 12% and 16%, 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 Months Ended March 31, 2019	2018
DTE Energy	12%	16%	
DTE Electric	16%	25%	

The 4% decrease in DTE Energy's effective tax rate for the three months ended March 31, 2019 was primarily due to the amortization of the TCJA regulatory liability of 3% in 2019 and the remeasurement of deferred taxes in 2018 of \$21 million that impacted the effective tax rate by 5%. The decrease in the effective tax rate was partially offset by lower production tax credits of 5% in 2019.

The 9% decrease in DTE Electric's effective tax rate for the three months ended March 31, 2019 was primarily due to the amortization of the TCJA regulatory liability of 4% and higher production tax credits of 1% in 2019. The remeasurement of deferred taxes in 2018 of \$8 million impacted the effective tax rate by 4%.

DTE Energy's total amount of unrecognized tax benefits as of March 31, 2019 was \$8 million, which if recognized, would favorably impact its effective tax rate. DTE Electric's total amount of unrecognized tax benefits as of March 31, 2019 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 receivables of \$3 million with DTE Energy at March 31, 2019 and income tax receivables with DTE Energy of \$8 million at December 31, 2018.

Unrecognized Compensation Costs

As of March 31, 2019, DTE Energy had \$121 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 1.77 years.

Allocated Stock-Based Compensation

DTE Electric received an allocation of costs from DTE Energy associated with stock-based compensation of \$13 million and \$9 million for the three months ended March 31, 2019 and 2018, 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.

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

NOTE 3 — NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted 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 adopted the standard on January 1, 2019 using the prospective approach. The standard provides a number of transition practical expedients of which the Registrants elected the package of three expedients that must be taken together, 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; but did not elect to apply hindsight in determining lease term and impairment of the right-of-use assets. The Registrants also elected to not evaluate land easements under the new guidance at adoption if they were not previously accounted for as leases. These practical expedients apply to leases that commenced prior to January 1, 2019.

At adoption of the new standard, the Registrants recognized on the Consolidated Statements of Financial Position, right-of-use assets and lease liabilities for certain operating leases of approximately \$137 million and \$130 million, respectively, for DTE Energy and approximately \$74 million and \$67 million, respectively, for DTE Electric as of January 1, 2019. The right-of-use lease assets include \$9 million of prepaid lease costs that have been reclassified from Other assets, current and noncurrent, and \$2 million of deferred lease costs that have been reclassified from Other liabilities, current and noncurrent, for the Registrants. The adoption of the ASU did not have a significant impact on the Registrants' Consolidated Statements of Operations, but required additional disclosures for leases. See Note 11 to the Consolidated Financial Statements, "Leases."

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 from 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 Registrants adopted the standard effective January 1, 2019. Upon adoption, DTE Energy reclassified \$25 million of income tax effects from Accumulated other comprehensive income (loss) to Retained Earnings.

Recently Issued Pronouncements

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.

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.

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

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.

In October 2018, the FASB issued ASU No. 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities. The amendments in this update modify the requirements for determining whether a decision-making fee is a variable interest and require reporting entities to consider indirect interests held through related parties under common control on a proportional basis. 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.

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

## NOTE 4 — REVENUE

## Disaggregation of Revenue

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

	Three Months Ended March 31, 2019 2018 (In millions)	
Electric <sup>(a)</sup>		
Residential	\$553	\$586
Commercial	421	429
Industrial	163	176
Other <sup>(b)</sup>	98	14
Total Electric operating revenues <sup>(c)</sup>	\$1,235	\$1,205
Gas		
Gas sales	\$477	\$457
End User Transportation	81	85
Intermediate Transportation	26	18
Other <sup>(d)</sup>	61	(10 )
Total Gas operating revenues <sup>(e)</sup>	\$645	\$550
Other segment operating revenues		
Gas Storage and Pipelines <sup>(f)</sup>	\$116	\$119
Power and Industrial Projects <sup>(g)</sup>	\$388	\$567
Energy Trading <sup>(h)</sup>	\$1,301	\$1,498

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

(b) Includes a reduction of \$39 million in revenues related to the TCJA rate reduction liability for the three months ended March 31, 2018. Also includes revenue adjustments related to various regulatory mechanisms.

(c) Includes \$4 million and \$5 million of other revenues outside the scope of Topic 606 for the three months ended March 31, 2019 and 2018, respectively.

(d) Includes a reduction of \$32 million in revenues related to the TCJA rate reduction liability for the three months ended March 31, 2018. Also includes revenue adjustments related to various regulatory mechanisms.

(e) Includes \$3 million under Alternative Revenue Programs for the three months ended March 31, 2018 and \$2 million of other revenues for both periods, which are both outside the scope of Topic 606.

(f) Includes revenues outside the scope of Topic 606 primarily related to \$2 million of contracts accounted for as leases for the three months ended March 31, 2019.

(g) Includes revenues outside the scope of Topic 606 primarily related to \$31 million and \$28 million of contracts accounted for as leases for the three months ended March 31, 2019 and 2018, respectively.

(h) Includes revenues outside the scope of Topic 606 primarily related to \$926 million and \$1.2 billion of derivatives for the three months ended March 31, 2019 and 2018, respectively.

## Deferred Revenue

The following is a summary of deferred revenue activity:

DTE  
Energy



	(In millions)
Beginning Balance, January 1, 2019	\$ 74
Increases due to cash received or receivable, excluding amounts recognized as revenue during the period	17
Revenue recognized that was included in the deferred revenue balance at the beginning of the period	(16 )
Ending Balance, March 31, 2019	\$ 75

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.

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

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 Energy (In millions)
2019	\$ 43
2020	3
2021	5
2022	7
2023	6
2024 and thereafter	11
	\$ 75

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 Energy	DTE Electric
	(In millions)	
2019	\$173	\$ 6
2020	295	—
2021	240	—
2022	188	—
2023	134	—
2024 and thereafter	656	—
	\$1,686	\$ 6

Other Matters

DTE Energy has recognized charges of \$29 million and \$25 million related to expense recognized for estimated uncollectible accounts receivable for the three months ended March 31, 2019 and 2018, respectively. DTE Electric has recognized charges of \$16 million and \$14 million related to expense recognized for estimated uncollectible accounts receivable for the three months ended March 31, 2019 and 2018, respectively.



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

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. In March 2019, the MPSC approved the self-implementation refund of \$27.2 million, including interest. The refund will be effective on a per kilowatt-hour basis for bills rendered May and June 2019. DTE Electric has a refund liability as of March 31, 2019.

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 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. On February 1, 2019, DTE Electric reduced its initial requested increase in base rates to \$248.6 million, primarily reflecting the reduction in requested depreciation expense resulting from the MPSC's approval of new depreciation rates. A final MPSC order in this case is expected in May 2019.

2016 DTE Electric Depreciation Case Filing

DTE Electric filed a depreciation case with the MPSC on November 1, 2016 requesting an increase in depreciation rates for plant in service balances as of December 31, 2015. The MPSC issued an order on December 6, 2018 authorizing DTE Electric to increase its composite depreciation rate from 3.06% to 3.72%. The new rates will be effective upon a final order in DTE Electric's 2018 rate case filing expected in May 2019.

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. In 2018, MPSC orders for the first two steps, Credit A and Credit B, were issued for DTE Electric and DTE Gas. 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 filed its Calculation C case on November 16, 2018 to reduce the revenue requirement by \$12 million related to the amortization of deferred tax remeasurement. 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.

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

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

	Three Months Ended March 31, 2019 2018 (In millions, except per share amounts)	
<b>Basic Earnings per Share</b>		
Net Income Attributable to DTE Energy Company	\$401	\$361
Less: Allocation of earnings to net restricted stock awards	1	1
Net income available to common shareholders — basic	\$400	\$360
Average number of common shares outstanding — basic	182	180
Basic Earnings per Common Share	\$2.20	\$2.01
<b>Diluted Earnings per Share</b>		
Net Income Attributable to DTE Energy Company	\$401	\$361
Less: Allocation of earnings to net restricted stock awards	1	1
Net income available to common shareholders — diluted	\$400	\$360
Average number of common shares outstanding — basic	182	180
Incremental shares attributable to:		
Average dilutive equity units, performance share awards, and stock options	1	—
Average number of common shares outstanding — diluted	183	180
Diluted Earnings per Common Share <sup>(a)</sup>	\$2.19	\$2.00

(a) The 2016 Equity Units excluded from the calculation of diluted EPS was approximately 6.6 million for the three months ended March 31, 2018 as the dilutive stock price threshold was not met.

**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 March 31, 2019 and December 31, 2018. The Registrants believe they use valuation techniques that maximize the use of observable market-based inputs and minimize the use of unobservable inputs.

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

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<sup>(a)</sup>:

	March 31, 2019					December 31, 2018						
	Level 1	Level 2	Level 3	Other	Netting <sup>(c)</sup>	Net Balance	Level 1	Level 2	Level 3	Other	Netting <sup>(c)</sup>	Net Balance
	(In millions)											
<b>Assets</b>												
Cash equivalents <sup>(d)</sup>	\$17	\$2	\$—	\$—	\$—	\$19	\$16	\$2	\$—	\$—	\$—	\$18
<b>Nuclear decommissioning trusts</b>												
Equity securities	964	—	—	—	—	964	851	—	—	—	—	851
Fixed income securities	13	504	—	—	—	517	12	490	—	—	—	502
Private equity and other	—	—	—	23	—	23	—	—	—	20	—	20
Cash equivalents	5	—	—	—	—	5	5	—	—	—	—	5
<b>Other investments<sup>(e)</sup></b>												
Equity securities	124	—	—	—	—	124	110	—	—	—	—	110
Fixed income securities	72	—	—	—	—	72	69	—	—	—	—	69
Cash equivalents	4	—	—	—	—	4	4	—	—	—	—	4
Other	—	—	—	—	—	—	—	—	—	—	—	—
<b>Derivative assets</b>												
<b>Commodity contracts</b>												
Natural gas	41	80	57	—	(116 )	62	199	87	63	—	(277 )	72
Electricity	—	134	21	—	(128 )	27	—	247	56	—	(252 )	51
Other	2	—	2	—	(2 )	2	—	—	7	—	(1 )	6
Foreign currency exchange contracts	—	3	—	—	—	3	—	4	—	—	—	4
Total derivative assets	43	217	80	—	(246 )	94	199	338	126	—	(530 )	133
Total	\$1,242	\$723	\$80	\$23	\$(246 )	\$1,822	\$1,266	\$830	\$126	\$20	\$(530 )	\$1,712
<b>Liabilities</b>												
<b>Derivative liabilities</b>												
<b>Commodity contracts</b>												
Natural gas	\$(42 )	\$(57 )	\$(67 )	\$—	\$107	\$(59 )	\$(197 )	\$(71 )	\$(112)	\$—	\$272	\$(108 )
Electricity	—	(119 )	(46 )	—	128	(37 )	—	(227 )	(58 )	—	240	(45 )
Other	—	(1 )	—	—	1	—	—	(1 )	—	—	1	—
Interest rate contracts	—	(6 )	—	—	—	(6 )	—	(3 )	—	—	—	(3 )
—	—	—	—	—	—	—	—	—	—	—	—	—



Edgar Filing: DTE ENERGY CO - Form 10-Q

Foreign currency exchange contracts												
Total derivative liabilities	(42 )	(183 )	(113 )	—	236	(102 )	(197 )	(302 )	(170 )	—	513	(156 )
Total	\$(42 )	\$(183)	\$(113)	\$ —	\$ 236	\$(102 )	\$(197 )	\$(302)	\$(170)	\$ —	\$ 513	\$(156 )
Net Assets												
(Liabilities) at end of period	\$1,200	\$540	\$(33 )	\$ 23	\$(10 )	\$1,720	\$1,069	\$528	\$(44 )	\$ 20	\$(17 )	\$1,556
Assets												
Current	\$57	\$167	\$61	\$ —	\$(194 )	\$91	\$212	\$273	\$96	\$ —	\$(461 )	\$120
Noncurrent	1,185	556	19	23	(52 )	1,731	1,054	557	30	20	(69 )	1,592
Total Assets	\$1,242	\$723	\$80	\$ 23	\$(246 )	\$1,822	\$1,266	\$830	\$126	\$ 20	\$(530 )	\$1,712
Liabilities												
Current	\$(37 )	\$(147)	\$(53 )	\$ —	\$187	\$(50 )	\$(191 )	\$(251)	\$(76 )	\$ —	\$451	\$(67 )
Noncurrent	(5 )	(36 )	(60 )	—	49	(52 )	(6 )	(51 )	(94 )	—	62	(89 )
Total Liabilities	\$(42 )	\$(183)	\$(113)	\$ —	\$ 236	\$(102 )	\$(197 )	\$(302)	\$(170)	\$ —	\$ 513	\$(156 )
Net Assets												
(Liabilities) at end of period	\$1,200	\$540	\$(33 )	\$ 23	\$(10 )	\$1,720	\$1,069	\$528	\$(44 )	\$ 20	\$(17 )	\$1,556

(a) See footnotes on following page.

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

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

(c) 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 March 31, 2019, the \$19 million consisted of \$4 million, \$5 million, and \$10 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, 2018, the \$18 million consisted of \$3 million, \$5 million and \$10 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.

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

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

	March 31, 2019					December 31, 2018				
	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	\$2	\$ —	\$ —	\$ 10	\$8	\$2	\$ —	\$ —	\$ 10
Nuclear decommissioning trusts										
Equity securities	964	—	—	—	964	851	—	—	—	851
Fixed income securities	13	504	—	—	517	12	490	—	—	502
Private equity and other	—	—	—	23	23	—	—	—	20	20
Cash equivalents	5	—	—	—	5	5	—	—	—	5
Other investments										
Equity securities	11	—	—	—	11	10	—	—	—	10
Derivative assets — FTRs	—	—	2	—	2	—	—	6	—	6
Total	\$1,001	\$506	\$ 2	\$ 23	\$ 1,532	\$886	\$492	\$ 6	\$ 20	\$ 1,404
Assets										
Current	\$8	\$2	\$ 2	\$ —	\$ 12	\$8	\$2	\$ 6	\$ —	\$ 16
Noncurrent	993	504	—	23	1,520	878	490	—	20	1,388
Total Assets	\$1,001	\$506	\$ 2	\$ 23	\$ 1,532	\$886	\$492	\$ 6	\$ 20	\$ 1,404

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

At March 31, 2019, the \$10 million consisted of cash equivalents included in Other investments on DTE Electric's

(b) Consolidated Statements of Financial Position. At December 31, 2018, the \$10 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 commingled funds. Exchange-traded debt and equity securities held directly are valued using quoted market prices in actively traded markets. Commingled funds that hold exchange-traded equity or debt securities are valued based on stated NAVs. Non-exchange-traded fixed income securities are valued based upon quotations available from brokers or pricing services. Other assets such as private equity investments are classified as NAV assets. 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.

30

---

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 March 31, 2019				Three Months Ended March 31, 2018			
	Natural Gas	Electricity	Other	Total	Natural Gas	Electricity	Other	Total
	(In millions)							
Net Assets (Liabilities) as of January 1	\$ (49)	\$ (2 )	\$ 7	\$ (44)	\$ (29)	\$ 12	\$ 8	\$ (9 )
Transfers into Level 3 from Level 2	—	—	—	—	—	—	—	—
Transfers from Level 3 into Level 2	—	—	—	—	(3 )	—	—	(3 )
Total gains (losses)								
Included in earnings	31	(31 )	(1 )	(1 )	(70 )	131	—	61
Recorded in Regulatory liabilities	—	—	(3 )	(3 )	—	—	—	—
Purchases, issuances, and settlements								
Settlements	8	8	(1 )	15	92	(156 )	(4 )	(68 )
Net Assets (Liabilities) as of March 31	\$ (10)	\$ (25 )	\$ 2	\$ (33)	\$ (10)	\$ (13 )	\$ 4	\$ (19)
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 March 31, 2019 and 2018 and reflected in Operating Revenues — Non-utility operations and Fuel, purchased power, and gas — non-utility in DTE Energy's Consolidated Statements of Operations	\$ 16	\$ (21 )	\$ (1 )	\$ (6 )	\$ (58)	\$ (10 )	\$ —	\$ (68)

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

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 March 31, 2019	2018
	(In millions)	
Net Assets as of beginning of period	\$ 6	\$ 9
Change in fair value recorded in Regulatory liabilities	(3 )	—
Purchases, issuances, and settlements		
Settlements	(1 )	(4 )
Net Assets as of March 31	\$ 2	\$ 5
The amount of total gains (losses) included in Regulatory liabilities attributed to the change in unrealized gains (losses) related to assets held at March 31, 2019 and 2018 and reflected in DTE Electric's Consolidated Statements of Financial Position	\$ —	\$ 3

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 months ended March 31, 2019 and 2018, 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:

Commodity Contracts	March 31, 2019		Derivative Valuation Techniques	Unobservable Input	Range	Weighted Average
	Assets	Liabilities				
(In millions)						
Natural Gas	\$57	\$ (67 )	Discounted Cash Flow	Forward basis price (per MMBtu)	\$(0.88)—\$5.97/MMBtu	\$(0.07)/MMBtu
Electricity	\$21	\$ (46 )	Discounted Cash Flow	Forward basis price (per MWh)	\$(7 )—\$7 /MWh	\$—
December 31, 2018						
Commodity Contracts	March 31, 2018		Derivative Valuation Techniques	Unobservable Input	Range	Weighted Average
	Assets	Liabilities				
(In millions)						
Natural Gas	\$63	\$ (112 )	Discounted Cash Flow	Forward basis price (per MMBtu)	\$(2.15)—\$5.59/MMBtu	\$(0.10)/MMBtu
Electricity	\$56	\$ (58 )	Discounted Cash Flow	Forward basis price (per MWh)	\$(7 )—\$9 /MWh	\$1 /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.

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

Fair Value of Financial Instruments

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

	March 31, 2019				December 31, 2018			
	Carrying Amount		Fair Value		Carrying Amount		Fair Value	
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 3
(In millions)								
Notes receivable <sup>(a)</sup> , excluding lessor finance leases	\$143	\$—	\$—	\$143	\$40	\$—	\$—	\$40
Dividends payable	\$173	\$173	\$—	\$—	\$172	\$172	\$—	\$—
Short-term borrowings	\$156	\$—	\$156	\$—	\$609	\$—	\$609	\$—
Notes payable — Other <sup>(b)</sup> , excluding lessee finance leases	\$30	\$—	\$—	\$30	\$41	\$—	\$—	\$41
Long-term debt <sup>(c)</sup>	\$14,265	\$1,960	\$11,615	\$1,431	\$13,622	\$1,796	\$10,712	\$1,317

(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 finance lease obligations.

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

	March 31, 2019			December 31, 2018		
	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 lessor finance leases	\$18	\$—	\$18	\$6	\$—	\$6
Notes receivable — affiliates	\$83	\$—	\$83	\$—	\$—	\$—
Short-term borrowings — affiliates	\$51	\$—	\$51	\$101	\$—	\$101
Short-term borrowings — other	\$—	\$—	\$—	\$149	\$149	\$—
Notes payable — Other <sup>(b)</sup> , excluding lessee finance leases	\$23	\$—	\$23	\$21	\$—	\$21
Long-term debt <sup>(c)</sup>	\$7,178	\$—	\$7,124	\$491	\$6,538	\$6,552

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

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

(c) Includes debt due within one year, unamortized debt discounts, and issuance costs. Excludes finance 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."

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:

	March 31, 2019	December 31, 2018
	(In millions)	
Fermi 2	\$1,502	\$ 1,372
Fermi 1	3	3
Low-level radioactive waste	4	3
	\$1,509	\$ 1,378



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

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 Months Ended March 31, 2019 2018 (In millions)	
Realized gains	\$11	\$23
Realized losses	\$(7 )	\$(9 )
Proceeds from sale of securities	\$176	\$336

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:

	March 31, 2019			December 31, 2018		
	Fair Value	Unrealized Gains	Unrealized Losses	Fair Value	Unrealized Gains	Unrealized Losses
	(In millions)					
Equity securities	\$964	\$ 313	\$ (51 )	\$851	\$ 235	\$ (79 )
Fixed income securities	517	13	(3 )	502	7	(8 )
Private equity and other	23	—	—	20	—	—
Cash equivalents	5	—	—	5	—	—
	\$1,509	\$ 326	\$ (54 )	\$1,378	\$ 242	\$ (87 )

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

	March 31, 2019 (In millions)
Due within one year	\$ 26
Due after one through five years	96
Due after five through ten years	109
Due after ten years	286
	\$ 517

#### Other Securities

At March 31, 2019 and December 31, 2018, 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 March 31, 2019, gains related to equity securities were \$17 million and losses related to equity securities held at March 31, 2018 were \$3 million for the Registrants. Gains or losses related to the Rabbi Trust assets are allocated from DTE Energy to DTE Electric.

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

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 2022. 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, renewable 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.

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.

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

**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 March 31, 2019 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.

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

	March 31, 2019		December 31, 2018	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
	(In millions)			
Derivatives designated as hedging instruments				
Interest rate contracts	\$—	\$ (6 )	\$—	\$ (3 )
Derivatives not designated as hedging instruments				
Commodity contracts				
Natural gas	\$178	\$ (166 )	\$349	\$ (380 )
Electricity	155	(165 )	303	(285 )
Other	4	(1 )	7	(1 )
Foreign currency exchange contracts	3	—	4	—
Total derivatives not designated as hedging instruments	\$340	\$ (332 )	\$663	\$ (666 )
Current	\$266	\$ (237 )	\$563	\$ (518 )
Noncurrent	74	(101 )	100	(151 )

Total derivatives

\$340 \$ (338 ) \$663 \$ (669 )

36

---

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 Electric:

	March 31,	December 31,
	2019	2018
	(In millions)	

FTRs — Other current assets	\$ 2	\$ 6
-----------------------------	------	------

Total derivatives not designated as hedging instruments	\$ 2	\$ 6
---	------	------

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 March 31, 2019 and December 31, 2018, 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 \$8 million at March 31, 2019 and December 31, 2018. 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.

The following table presents net cash collateral offsetting arrangements for DTE Energy:

	March 31,	December 31,
	2019	2018
	(In millions)	
Cash collateral netted against Derivative assets	\$(10)	\$(17)
Cash collateral recorded in Accounts receivable <sup>(a)</sup>	10	10
Cash collateral recorded in Accounts payable <sup>(a)</sup>	(6)	(6)
Total net cash collateral posted (received)	\$(6)	\$(13)

(a) Amounts 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:

	March 31, 2019			December 31, 2018		
	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	\$178	\$ (116 )	\$ 62	\$349	\$ (277 )	\$ 72
Electricity	155	(128 )	27	303	(252 )	51
Other	4	(2 )	2	7	(1 )	6
Foreign currency exchange contracts	3	—	3	4	—	4
Total derivative assets	\$340	\$ (246 )	\$ 94	\$663	\$ (530 )	\$ 133
Derivative liabilities						
Commodity contracts						
Natural gas	\$(166)	\$ 107	\$ (59 )	\$(380)	\$ 272	\$ (108 )
Electricity	(165 )	128	(37 )	(285 )	240	(45 )
Other	(1 )	1	—	(1 )	1	—
Interest rate contracts	(6 )	—	(6 )	(3 )	—	(3 )
Total derivative liabilities	\$(338)	\$ 236	\$ (102 )	\$(669)	\$ 513	\$ (156 )

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:

	March 31, 2019				December 31, 2018			
	Derivative Assets		Derivative Liabilities		Derivative Assets		Derivative Liabilities	
	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent
(In millions)								
Total fair value of derivatives	\$266	\$ 74	\$(237)	\$ (101 )	\$563	\$ 100	\$(518)	\$ (151 )
Counterparty netting	(187 )	(49 )	187	49	(451 )	(62 )	451	62
Collateral adjustment	(7 )	(3 )	—	—	(10 )	(7 )	—	—
Total derivatives as reported	\$72	\$ 22	\$(50 )	\$ (52 )	\$102	\$ 31	\$(67 )	\$ (89 )

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

Location of Gain (Loss) Recognized in Income on Derivatives	Gain (Loss) Recognized in Income on Derivatives for the Three Months Ended March

		31,
		2019 2018
		(In millions)
Commodity contracts		
Natural gas	Operating Revenues — Non-utility operations	\$(15) \$(110)
Natural gas	Fuel, purchased power, and gas — non-utility	70 52
Electricity	Operating Revenues — Non-utility operations	(49 ) 129
Other	Operating Revenues — Non-utility operations	1 (1 )
Foreign currency exchange contracts	Operating Revenues — Non-utility operations	(1 ) 2
Total		\$6 \$72

38

---



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

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 March 31, 2019:

Commodity	Number of Units
Natural gas (MMBtu)	2,537,411,045
Electricity (MWh)	33,565,053
Foreign currency exchange (Canadian dollars)	97,013,854

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 March 31, 2019, 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 \$537 million.

As of March 31, 2019, DTE Energy had \$263 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 \$222 million. The net remaining amount of \$40 million is derived from the \$537 million noted above.

#### NOTE 9 — LONG-TERM DEBT

##### Debt Issuances

In 2019, the following debt was issued:

Company	Month	Type	Interest Rate	Maturity Date	Amount (In millions)
DTE Electric	February	Mortgage Bonds <sup>(a)</sup>	3.95%	2049	\$ 650 \$ 650

<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.

#### 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.



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

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 March 31, 2019, the total funded debt to total capitalization ratios for DTE Energy, DTE Electric, and DTE Gas were 0.55 to 1, 0.51 to 1, and 0.46 to 1, respectively, and were in compliance with this financial covenant.

The availability under the facilities in place at March 31, 2019 is shown in the following table:

	DTE Energy	DTE Electric	DTE Gas	Total
	(In millions)			
Unsecured letter of credit facility, expiring in February 2021	\$ 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 March 31, 2019				
Commercial paper issuances	77	—	79	156
Letters of credit	195	—	—	195
	272	—	79	351
Net availability at March 31, 2019	\$ 1,148	\$ 400	\$ 221	\$ 1,769

In February 2019, DTE Energy amended its \$150 million letter of credit facility. The facility's maturity date was amended from February 2019 to February 2021.

In April 2019, DTE Energy, DTE Electric, and DTE Gas entered into a fourth amended and restated five-year unsecured revolving credit agreement. The agreement's expiration was amended from April 2022 to April 2024. As part of this amendment, DTE Energy increased its \$1,200 million unsecured revolving credit facility to \$1,500 million and DTE Electric increased its \$400 million unsecured revolving credit facility to \$500 million.

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 March 31, 2019, the capacity under this facility was \$150 million. The amount outstanding under this agreement was \$79 million and \$93 million at March 31, 2019 and December 31, 2018, respectively, and was fully offset by the posted collateral.

#### NOTE 11 — LEASES

Disclosures related to the three months ended March 31, 2019 are presented as required under Topic 842. Prior period disclosures for the year ended December 31, 2018 are presented under Topic 840. The Registrants have elected to use a practical expedient provided by Topic 842 whereby comparative disclosures for prior periods are allowed to be presented under Topic 840. Prior period disclosures under Topic 840 have been provided on an annual basis. As a result, the disclosures presented under Topic 842 and Topic 840 will not be fully comparable in specific disclosure requirements or time period.



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

Lessee

Topic 842 — Leases at DTE Energy are primarily comprised of various forms of equipment, computer hardware, coal railcars, production facilities, buildings, and certain easement leases with terms ranging from approximately 2 to 40 years. Leases at DTE Electric are primarily comprised of various forms of equipment, computer hardware, coal railcars, and certain easement leases with terms ranging from approximately 2 to 40 years.

A lease is deemed to exist when the Registrants have the right to control the use of identified property, plant or equipment, as conveyed through a contract, for a certain period of time and consideration paid. The right to control is deemed to occur when the Registrants have the right to obtain substantially all of the economic benefits of the identified assets and the right to direct the use of such assets.

Lease liabilities are determined utilizing a discount rate to determine the present values of lease payments. Topic 842 requires the use of the rate implicit in the lease when it is readily determinable. When the rate implicit in the lease is not readily determinable, the incremental borrowing rate is used. The Registrants have determined their respective incremental borrowing rates based upon the rate of interest that would have been paid on a collateralized basis over similar tenors to that of the leases. The incremental borrowing rates for DTE Electric and DTE Gas have been determined utilizing respective secured borrowing rates for first mortgage bonds with like tenors of remaining lease terms. Incremental borrowing rates for non-utility entities have been determined utilizing an implied secured borrowing rate based upon an unsecured rate for a similar tenor of remaining lease terms, which is then adjusted for the estimated impact of collateral.

Certain leases of the Registrants contain escalation clauses whereby the payments are adjusted for consumer price or labor indices. DTE Energy has leases with non-index based escalation clauses for fixed dollar or percentage increases. DTE Electric has leases with non-index based escalation clauses for fixed dollar increases. DTE Energy also has leases with variable payments based upon usage of, or revenues associated with, the leased assets. DTE Electric also has leases with variable payments based upon the usage of the leased assets.

Certain leases of easements and coal railcars contain provisions whereby the Registrants have the option to terminate the lease agreement by giving notice of such termination during the time frames specified in the respective lease. The Registrants have considered such provisions in the determination of the lease term when it is reasonably certain that the lease would be terminated.

The Registrants have certain leases which contain purchase options. Based upon the nature of the leased property and terms of the purchase options, the Registrants have determined it is not reasonably certain that such purchase options will be utilized. Thus, the impact of the purchase options has not been included in the determination of right-of-use assets and lease liabilities for the subject leases.

The Registrants have certain leases which contain renewal options and/or evergreen clauses. Where the renewal options or evergreen provisions were deemed reasonably certain to occur, the impacts of such options were included in the determination of the right of use assets and lease liabilities.

The Registrants have agreements with lease and non-lease components, which are generally accounted for separately. Consideration in a lease is allocated between lease and non-lease components based upon the estimated relative standalone prices. The Registrants have certain coal railcar leases for which non-lease and lease components are accounted for as a single lease component, as permitted under Topic 842.

The components of lease cost for DTE Energy were as follows:

	Three
	months
	ended
	March
	31, 2019
	(In
	millions)
Operating lease cost	\$ 11

Finance lease cost:	
Amortization of right-of-use assets	1
Interest of lease liabilities	—
Total finance lease cost	1
Variable lease cost	5
	\$ 17

41

---

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

The components of lease cost for DTE Electric were as follows:

	Three months ended March 31, 2019 (In millions)
Operating lease cost	\$ 4
Finance lease cost:	
Amortization of right-of-use assets	1
Interest of lease liabilities	—
Total finance lease cost	1
Variable lease cost	—
	\$ 5

The Registrants have elected not to apply the recognition requirements of Topic 842 to leases with a term of 12 months or less. DTE Energy and DTE Electric recorded expense for short-term leases of \$2 million and \$1 million, respectively, for the period ended March 31, 2019.

Other information related to leases were as follows for the three months ended March 31,

	DTE Energy 2019	DTE Electric 2019
	(In millions)	

Supplemental Cash Flows Information

Cash paid for amounts included in the measurement of these liabilities:

Operating cash flows from finance leases	\$ 1	\$ 1
Operating cash flows from operating leases	\$ 10	\$ 3
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 11	\$ —

Weighted Average Remaining Lease Term

Operating leases	9.1 years	10.4 years
Finance leases	2.7 years	2.7 years

Weighted Average Discount Rate

Operating leases	3.8%	3.6%
Finance leases	3.0%	3.0%

The Registrants' future minimum lease payments under leases for remaining periods as of March 31, 2019 were as follows:

	DTE Energy Operating Leases	DTE Electric Operating Leases	DTE Energy Finance Leases	DTE Electric Finance Leases
	(In millions)			
2019	\$28	\$ 3	\$12	\$ 3
2020	30	4	12	4

Edgar Filing: DTE ENERGY CO - Form 10-Q

2021	22	3	11	3
2022	16	—	7	—
2023	13	—	6	—
2024 and thereafter	50	—	30	—
Total future minimum lease payments	159	10	78	10
Imputed interest	(28 )	—	(14 )	—
	\$131	\$ 10	\$64	\$ 10

42

---



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

Finance leases reported on the Consolidated Statement of Financial Position were as follows:

	DTE Energy	DTE Electric
	March 31,	2019
	(In millions)	
Right-of-use assets, within Property, plant, and equipment, net	\$ 10	\$ 10
Current lease liabilities, within Current Liabilities — Other	\$ 4	\$ 4

Topic 840 — The following disclosures are presented under Topic 840 for the year ended December 31, 2018.

The Registrants lease various assets under operating leases, including coal railcars, office buildings, a warehouse, computers, vehicles, and other equipment. The lease arrangements expire at various dates through 2051 and 2046 for DTE Energy and DTE Electric, respectively.

The Registrants' future minimum lease payments under non-cancelable operating leases at December 31, 2018 were as follows:

	DTE Energy	DTE Electric
	(In millions)	
2019	\$ 42	\$ 17
2020	30	12
2021	18	10
2022	11	7
2023	8	5
2024 and thereafter	45	29
	\$ 154	\$ 80

#### Lessor

Topic 842 — DTE Energy leases a portion of its pipeline system to the Vector Pipeline through a 20-year finance lease contract that expires in 2020, with renewal options extending for five years each. DTE Energy owns a 40% interest in the Vector Pipeline. In addition, DTE Energy has two energy services agreements, of which a portion are accounted for as finance leases. These agreements expire in 2019 and 2026.

DTE Energy also leases various assets under operating leases for a pipeline, energy facilities and related equipment. Such leases are comprised of both fixed payments and variable payments which are contingent on volumes, with terms ranging from 3 to 24 years. Generally, the operating leases do not have renewal provisions or options to purchase the assets at the end of the lease. The operating leases generally do not have termination for convenience provisions. Termination may be allowed under specific circumstances stated in the lease contract, such as under an event of default.

Certain of the finance and operating leases have lease terms that extend to the end of the estimated economic life of the leased assets, thereby resulting in no residual value. Any remaining residual values under the finance and operating leases are expected to be recovered through rates, renewals or new lease contracts. Residual values have been determined using the estimated economic life of the leased assets. The finance and operating leases do not contain residual value guarantees.

Certain of the operating leases have both lease and non-lease components. The lease and non-lease components are allocated based upon estimated relative standalone selling prices.

A lease is deemed to exist when the Registrants have provided other parties with the right to control the use of identified property, plant or equipment, as conveyed through a contract, for a certain period of time and consideration received. The right to control is deemed to occur when the Registrants have provided other parties with the right to obtain substantially all of the economic benefits of the identified assets and the right to direct the use of such assets.



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

DTE Energy's lease income associated with operating leases were as follows:

	Three months ended March 31, 2019 (In millions)
Fixed payments	\$ 17
Variable payments	27
	\$ 44

DTE Energy's minimum future rental revenues under operating leases for remaining periods as of March 31, 2019 were:

	DTE Energy (In millions)
2019	\$ 50
2020	67
2021	65
2022	22
2023	22
2024 and thereafter	216
	\$ 442

Depreciation expense associated with DTE Energy's property under operating leases was \$8 million for the three months ended March 31, 2019.

Property under operating leases for DTE Energy were as follows:

	DTE Energy March 31, 2019 (In millions)
Gross property under operating leases	\$ 442
Accumulated amortization of property under operating leases	\$ 154

The components of DTE Energy's net investment in finance leases for remaining periods were as follows:

	DTE Energy March 31, 2019 (In millions)
2019	\$ 7
2020	9
2021	—
2022	—
2023	—

Edgar Filing: DTE ENERGY CO - Form 10-Q

2024 and thereafter	1
Total minimum future lease receipts	17
Residual value of leased pipeline	40
Less unearned income	8
Net investment in finance lease	49
Less current portion	5
	\$ 44

Interest income recognized under finance leases was \$1 million for the three months ended March 31, 2019.

Topic 840 — DTE Energy leases various assets under operating leases for energy facilities and related equipment.

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

DTE Energy's minimum future rental revenues under non-cancelable operating leases as of December 31, 2018 were:

	DTE Energy (In millions)
2019	\$ 66
2020	66
2021	64
2022	20
2023	20
2024 and thereafter	196
	\$ 432

The amounts listed above do not include contingent rentals associated with the leased assets. DTE Energy had contingent rental revenues of \$107 million, \$91 million, and \$101 million in 2018, 2017, and 2016, respectively. DTE Energy leases a portion of its pipeline system to the Vector Pipeline through a capital lease contract that expires in 2020, with renewal options extending for five years. DTE Energy owns a 40% interest in the Vector Pipeline. In addition, DTE Energy has two energy services agreements, for which a portion of are accounted for as capital leases. These agreements expire in 2019 and 2026.

The components of DTE Energy's net investment in capital leases at December 31, 2018, were as follows:

	DTE Energy (In millions)
2019	\$ 10
2020	9
2021	—
2022	—
2023	—
2024 and thereafter	1
Total minimum future lease receipts	20
Residual value of leased pipeline	40
Less unearned income	9
Net investment in capital lease	51
Less current portion	5
	\$ 46

Property under operating leases for DTE Energy as of December 31, 2018 were as follows:

	DTE Energy (In millions)
Gross property under operating leases	\$ 447
Accumulated amortization of property under operating leases	\$ 148

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

NOTE 12 — 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. The Registrants cannot predict the financial impact of the State's plan to address the ozone non-attainment area at this time.

In July 2009, the Registrants 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.

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 pending settlement negotiations. The proceedings at the District Court remain 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.

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

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 fossil-fuel fired 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 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. In addition, in December 2018, the EPA issued proposed revisions to the carbon dioxide performance standards for new, modified, or reconstructed fossil-fuel fired EGUs. The carbon standards for new sources are not expected to have a material impact on DTE Electric, since DTE Electric has no plans to build new coal-fired generation and any potential new gas generation will be able to comply with the standards. These proposed rules do not impact DTE Energy's recently revised goal to reduce carbon emissions 32% by the early 2020s, 50% by 2030, and 80% by 2040 from the 2005 carbon emissions levels. 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 2018. DTE Electric does not anticipate additional capital expenditures for air pollution requirements through 2025.

**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 the 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 March 31, 2019 and December 31, 2018, DTE Electric had \$8 million and \$7 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, D.C. District Court Decisions on August 21, 2018 and March 19, 2019 may affect the timing of closure of coal ash impoundments that are not lined with an engineered liner system. In 2019, the EPA is expected to affirmatively undertake rulemaking to implement the D.C. District Court's decisions that will determine any changes to DTE Electric's plans in the operation and closure of coal ash impoundments.

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

At the State level, legislation was signed by the Governor in December 2018. The bill provides for a CCR program to be regulated in Michigan once approval is requested and received from 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 D.C. 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 requires additional controls to be installed between 2018 and 2023. Compliance schedules for individual facilities and individual waste streams are determined through issuance of new National Pollutant Discharge Elimination System (NPDES) permits by the State of Michigan. The State of Michigan has issued a NPDES permit for the Belle River Power Plant establishing a compliance deadline of December 31, 2021. No new permits that would require ELG compliance have been issued for other facilities, consequently no compliance timelines have been established.

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 (Postponement Rule) to postpone certain applicable deadlines within the 2015 ELG rule. The Postponement Rule was published on September 18, 2017. The Postponement Rule nullified the administrative stay but also extended the earliest compliance deadlines for only FGD wastewater and bottom ash transport water until November 1, 2020 in order for the EPA to propose and finalize a new ruling. The ELG compliance requirements and final deadlines for bottom ash transport water and FGD wastewater, and total ELG related compliance costs will not be known until the EPA completes its reconsideration of the ELG Rule expected by the end of 2019.

#### 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 March 31, 2019 and December 31, 2018, DTE Gas had \$30 million and \$25 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 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.



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

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 and is expected to be completed by the end of 2019. 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 March 31, 2019 was approximately \$400 million. Payment 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 March 31, 2019 was \$380 million. Payments under these guarantees are considered remote.

#### NEXUS Guarantees

NEXUS entered into certain 15-year capacity 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 \$242 million and \$377 million at March 31, 2019, respectively; each representing 50% of all payment obligations due and payable by NEXUS. 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 agreements. In October 2018, NEXUS Pipeline was placed in service. The amount of each guarantee decreases annually as payments are made by NEXUS to each of the aforementioned counterparties. NEXUS also entered into certain 15-year capacity agreements for the transportation of natural gas with Vector, an equity method investee of DTE Energy. Pursuant to the terms of those agreements, in October 2018, DTE Energy executed a guarantee agreement with Vector, with a maximum potential payment totaling \$7 million at March 31, 2019, representing 50% of the first-year payment obligations due and payable by NEXUS. The guarantee terminates at the earlier of (i) such time as all of the guaranteed obligations have been fully performed or (ii) 15 years from the date DTE Energy entered into the guarantee.

In conjunction with the execution of an agreement under which NEXUS agreed to purchase Generation Pipeline, LLC, in January 2019, DTE Energy executed a guarantee agreement with the sellers of Generation Pipeline. The maximum potential payment, which represents a portion of the purchase price due and payable by NEXUS at the completion of the closing of the acquisition, totals \$15 million at March 31, 2019. The guarantee terminates upon any of the following events: (i) all NEXUS obligations under the purchase agreement have been paid in full; (ii) the completion of the closing, or (iii) the termination of the purchase agreement by NEXUS in accordance with its terms.

Should NEXUS fail to perform under the terms of these agreements, DTE Energy is required to perform on its behalf. Payments under these guarantees are considered remote.

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

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 \$64 million at March 31, 2019. 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 March 31, 2019, DTE Energy had \$76 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 5,200 represented employees, including DTE Electric's approximate 2,800 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 \$3.9 billion and \$2.2 billion in 2019 for DTE Energy and DTE Electric, respectively. The Registrants have made certain commitments in connection with the estimated 2019 annual capital expenditures and contributions to equity method investees.

Bankruptcies

DTE Energy's Power and Industrial Projects segment holds ownership interests in, and operates, five generating plants that sell electric output from renewable sources under long-term power purchase agreements with PG&E. PG&E filed for Chapter 11 bankruptcy protection on January 29, 2019. As of March 31, 2019, PG&E's account is substantially current and DTE Energy determined no reserve was necessary.

As of March 31, 2019, the book value of long-lived assets used in producing electric output for sale to PG&E was approximately \$105 million. The Power and Industrial Projects segment also has equity investments, including a note receivable, of approximately \$74 million in entities that sell power to PG&E. In January 2019, following the bankruptcy filing, DTE Energy performed an impairment analysis on its long-lived assets. Based on its undiscounted cash flow projections, DTE Energy determined it did not have an impairment loss as of December 31, 2018. DTE Energy also determined there was not an other-than-temporary decline in its equity investments. There were no other new events occurring during the first quarter of 2019 that would negatively impact the assumptions made within the December 31, 2018 impairment analysis. Therefore, no triggering events were identified. DTE Energy's assumptions and conclusions may change, and it could have impairment losses if any of the terms of the contracts are not honored by PG&E or the contracts are rejected through the bankruptcy process.

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 13 — 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	
	Three Months Ended			
	March 31, 2019		2018	
	2019	2018	2019	2018
	(In millions)			
Service cost	\$21	\$25	\$ 5	\$ 7
Interest cost	55	50	18	17
Expected return on plan assets	(81 )	(82 )	(31 )	(36 )
Amortization of:				
Net actuarial loss	32	44	3	3
Prior service credit	—	—	(2 )	—
Net periodic benefit cost (credit)	\$27	\$37	\$ (7 )	\$ (9 )

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 Statements of Financial Position. The same capitalized costs are reflected as Regulatory assets and liabilities in DTE Energy's Consolidated Statements of Financial Position. In addition, the service cost and non-service cost components are presented in Operation and maintenance in DTE Electric's Consolidated Statements of Operations. The same non-service cost components are presented in Other (Income) and Deductions — Non-operating retirement benefits, net in DTE Energy's Consolidated Statements of Operations. 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 \$23 million and \$30 million for the three months ended March 31, 2019 and 2018, respectively. These amounts include recognized contractual termination benefit charges, curtailment gains, and settlement charges.

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

	Other Postretirement Benefits	
	Three Months Ended March	
	2019	2018
	(In millions)	



Edgar Filing: DTE ENERGY CO - Form 10-Q

Service cost	\$ 4	\$ 5
Interest cost	13	13
Expected return on plan assets	(21 )	(24 )
Amortization of:		
Net actuarial loss	1	2
Prior service credit	(1 )	—
Net periodic benefit credit	\$ (4 )	\$ (4 )

51

---

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

Pension and Other Postretirement Contributions

During 2019, 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 (In millions)
March 5, 2019	814,597	\$122.76	\$ 100

The above contribution was made on behalf of DTE Electric, for which DTE Electric paid DTE Energy cash consideration of \$100 million in March 2019. At the discretion of management and depending upon financial market conditions, DTE Energy anticipates making up to an additional \$50 million in contributions to the qualified pension plans in 2019. DTE Energy does not anticipate making any contributions to the other postretirement benefit plans in 2019.

NOTE 14 — 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.

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.

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

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 Months Ended March 31, 2019 2018 (In millions)	
Electric	\$ 14	\$ 13
Gas	2	2
Gas Storage and Pipelines	3	8
Power and Industrial Projects	145	155
Energy Trading	7	7
Corporate and Other	1	1
	\$ 172	\$ 186

Financial data of DTE Energy's business segments follows:

	Three Months Ended March 31, 2019 2018 (In millions)	
Operating Revenues — Utility operations		
Electric	\$1,235	\$1,205
Gas	645	550
Operating Revenues — Non-utility operations		
Gas Storage and Pipelines	116	119
Power and Industrial Projects	388	567
Energy Trading	1,301	1,498
Corporate and Other	1	—
Reconciliation and Eliminations	(172 )	(186 )
Total	\$3,514	\$3,753

	Three Months Ended March 31, 2019 2018 (In millions)	
Net Income (Loss) Attributable to DTE Energy by Segment:		
Electric	\$ 147	\$ 140
Gas	151	104
Gas Storage and Pipelines	48	62
Power and Industrial Projects	26	45
Energy Trading	32	31
Corporate and Other	(3 )	(21 )
Net Income Attributable to DTE Energy Company	\$ 401	\$ 361



## 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 Months Ended March 31, 2019 2018 (In millions, except per share amounts)	
Net Income Attributable to DTE Energy Company	\$401	\$361
Diluted Earnings per Common Share	\$2.19	\$2.00

The increase in Net Income for the three months ended was primarily due to higher earnings in the Electric and Gas segments, partially offset by lower earnings in the Gas Storage and Pipelines and Power and Industrial Projects segments.

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 March 2019, DTE Energy announced updated plans for accelerating its reduction of carbon emissions to 32% by the early 2020s, at least 50% by 2030, and 80% by 2040 from the 2005 carbon emissions levels. To achieve this reduction, DTE Energy will transition away from coal-powered sources and incorporate more renewable energy, energy waste reduction projects, demand response, and natural gas fueled generation. 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 to be achieved through a combination of investments in renewable energy and energy waste reduction 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.

54

---

## 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 2019-2023 period are estimated at \$11.3 billion comprised of \$4.0 billion for capital replacements and other projects, \$4.6 billion for distribution infrastructure, and \$2.7 billion for new generation. DTE Electric has retired five coal-fired generation units at the Trenton Channel, River Rouge, and St. Clair facilities and has announced plans to retire its remaining twelve coal-fired generating units. Six of these coal-fired generating units will be retired through 2022 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 waste reduction, demand response, and natural gas fueled generation.

DTE Gas' capital investments over the 2019-2023 period are estimated at \$2.5 billion comprised of \$1.2 billion for base infrastructure, and \$1.3 billion for gas main renewal, meter move out, and pipeline integrity programs. DTE Gas plans to seek regulatory approval for capital expenditures consistent with ratemaking treatment.

DTE Energy's non-utility businesses' capital investments are primarily for expansion, growth, and ongoing maintenance. Gas Storage and Pipelines' capital investments over the 2019-2023 period are estimated at \$4.0 billion to \$5.0 billion for gathering and pipeline investments and expansions. Power and Industrial Projects' capital investments over the 2019-2023 period are estimated at \$1.0 billion to \$1.4 billion for industrial energy services and RNG 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.

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 waste reduction 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 12 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 Months Ended March 31, 2019 2018 (In millions)	
Net Income (Loss) Attributable to DTE Energy by Segment		
Electric	\$147	\$140
Gas	151	104
Gas Storage and Pipelines	48	62
Power and Industrial Projects	26	45
Energy Trading	32	31
Corporate and Other	(3 )	(21 )
Net Income Attributable to DTE Energy Company	\$401	\$361

#### 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 Ended March 31, 2019 2018 (In millions)	
Operating Revenues — Utility operations	\$1,235	\$1,205
Fuel and purchased power — utility	346	339
Utility Margin	889	866
Operation and maintenance	352	312
Depreciation and amortization	221	212
Taxes other than income	84	81
Operating Income	232	261
Other (Income) and Deductions	56	74
Income Tax Expense	29	47
Net Income Attributable to DTE Energy Company	\$147	\$140

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 13 to the Consolidated Financial Statements, "Retirement Benefits and Trusteed Assets."

Utility Margin increased \$23 million in the three months ended March 31, 2019. 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 Months (In millions)
Weather	\$ 8
Implementation of new rates	8

Base sales	4
Regulatory mechanisms and other	3
Increase in Utility Margin	\$ 23

57

---

	Three Months Ended March 31, 2019 2018 (In thousands of MWh)	
DTE Electric Sales		
Residential	3,688	3,677
Commercial	4,077	4,030
Industrial	2,460	2,604
Other	63	57
	10,288	10,368
Interconnection sales <sup>(a)</sup>	1,030	1,082
Total DTE Electric Sales	11,318	11,450
DTE Electric Deliveries		
Retail and wholesale	10,288	10,368
Electric retail access, including self-generators <sup>(b)</sup>	1,120	1,142
Total DTE Electric Sales and Deliveries	11,408	11,510

(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 \$40 million in the three months ended March 31, 2019. The increase in the first quarter was primarily due to increased distribution expense of \$10 million for higher storm and line clearance expense, a one-time benefits expense reimbursement in 2018 of \$9 million, insurance proceeds from a 2016 fire at a generation facility received in 2018 of \$7 million, higher power plant generation expense of \$5 million, an increase in energy waste reduction expense of \$4 million, and an increase in renewable energy expense of \$3 million.

Depreciation and amortization expense increased \$9 million in the three months ended March 31, 2019. The increase in the first quarter was primarily due to an increase in depreciable base of \$14 million, partially offset by an decrease in regulatory asset amortization of \$5 million.

Other (Income) and Deductions decreased \$18 million in the three months ended March 31, 2019. The decrease in the first quarter was primarily due to the change in investment earnings (loss in 2018 of \$3 million compared to a gain of \$17 million in 2019) and decreased non-operating retirement plan financing of \$3 million, partially offset by increased interest expense of \$8 million.

Income Tax Expense decreased \$18 million in the three months ended March 31, 2019. The decrease in the first quarter was primarily due to amortization of the TCJA regulatory liability and \$8 million of true-up adjustments for the remeasurement of deferred tax assets and liabilities in 2018.

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 will maintain a strong focus on customers by increasing reliability and satisfaction while keeping customer rate increases affordable. 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 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 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. DTE Electric also included Calculation C in this filing to address all remaining issues relative to the enactment of the TCJA, which is primarily the remeasurement of deferred taxes and how the amounts deferred as Regulatory liabilities will flow to ratepayers. On February 1, 2019, DTE Electric reduced its initial requested increase in base rates to \$248.6 million, primarily reflecting the reduction in requested depreciation expense resulting from the MPSC's approval of new depreciation rates. A final MPSC order in this case is expected in May 2019. Refer to Note 5 to the Consolidated Financial Statements, "Regulatory Matters" for additional information.

#### GAS

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

	Three Months Ended March 31, 2019	2018
	(In millions)	
Operating Revenues — Utility operations	\$645	\$550
Cost of gas — utility	241	220
Utility Margin	404	330
Operation and maintenance	128	111
Depreciation and amortization	35	32
Taxes other than income	24	21
Operating Income	217	166
Other (Income) and Deductions	16	14
Income Tax Expense	50	48
Net Income Attributable to DTE Energy Company	\$151	\$104

Utility Margin increased \$74 million in the three months ended March 31, 2019. Revenues associated with certain mechanisms and 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 Months (In millions)
Implementation of new rates	\$ 23
Weather	18
TCJA rate reduction liability	14
Midstream storage and transportation revenues	9
Regulatory mechanism — RDM	3
Other regulatory mechanisms and other	7
Increase in Utility Margin	\$ 74



Three  
Months  
Ended  
March  
31,  
2019 2018  
(In Bcf)

Gas Markets		
Gas sales	69	62
End-user transportation	58	59
	127	121
Intermediate transportation	127	72
Total Gas sales	254	193

Operation and maintenance expense increased \$17 million in the three months ended March 31, 2019. The increase in the first quarter was primarily due to higher gas operations expense of \$7 million, a one-time benefits expense reimbursement in 2018 of \$3 million, and an increase in energy waste reduction expense of \$2 million.

Income Tax Expense increased \$2 million in the three months ended March 31, 2019. The increase in the first quarter was primarily due to the higher earnings partially offset by \$8 million of true-up adjustments for the remeasurement of deferred tax assets and liabilities in 2018.

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 its Calculation C case with the MPSC on November 16, 2018 to reduce the revenue requirement by \$12 million related to the amortization of deferred tax remeasurement. Calculation C addresses all remaining issues relative to the enactment of the TCJA, which is primarily the remeasurement of deferred taxes and how the amounts deferred as Regulatory liabilities will flow to ratepayers. Refer to Note 5 to the Consolidated Financial Statements, "Regulatory Matters" for additional information.

#### 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 Months Ended March 31, 2019 2018 (In millions)	
Operating Revenues — Non-utility operations	\$116	\$119
Cost of gas — Non-utility	—	4
Operation and maintenance	25	23
Depreciation and amortization	22	20
Taxes other than income	3	3
Asset (gains) losses and impairments, net	—	(2 )
Operating Income	66	71
Other (Income) and Deductions	(6 )	(17 )
Income Tax Expense	18	19

Edgar Filing: DTE ENERGY CO - Form 10-Q

Net Income	54	69
Less: Net Income Attributable to Noncontrolling Interests	6	7
Net Income Attributable to DTE Energy Company	\$48	\$62

Operating Revenues — Non-utility operations decreased \$3 million in the three months ended March 31, 2019. The decrease was primarily due to lower physical sales of gas from AGS customers for resale to optimize available transportation capacity and lower gathering and storage revenue, partially offset by higher pipeline revenue.

Cost of gas — Non-utility decreased \$4 million in the three months ended March 31, 2019. The decrease was due to lower physical purchases of gas from AGS customers for resale to optimize available transportation capacity.

Other (Income) and Deductions decreased \$11 million in the three months ended March 31, 2019. The decrease was primarily due to decreased earnings from pipeline investments and higher interest expense.

Outlook — DTE Energy believes its long-term agreements with producers and the quality of the natural gas reserves in the Marcellus/Utica region soundly position the gathering systems for future revenues.

The NEXUS Pipeline 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.

On January 11, 2019, NEXUS signed an agreement to purchase Generation Pipeline, LLC, a public utility regulated by the Public Utilities Commission of Ohio. This 23-mile pipeline system supplies gas to industrial customers in the Toledo, OH area, has existing interconnects with ANR Pipeline Company and Panhandle Eastern Pipeline Company, and is located 4 miles away from NEXUS. The transaction is expected to close in 2019 upon regulatory approvals.

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 March 31, 2019 2018 (In millions)	
Operating Revenues — Non-utility operations	\$388	\$567
Fuel, purchased power, and gas — non-utility	304	498
Non-utility Margin	84	69
Operation and maintenance	81	82
Depreciation and amortization	17	16
Taxes other than income	4	4
Operating Loss	(18 )	(33 )
Other (Income) and Deductions	(27 )	(18 )
Income Taxes		
Expense	3	—
Production Tax Credits	(21 )	(43 )
	(18 )	(43 )
Net Income	27	28
Less: Net Income (Loss) Attributable to Noncontrolling Interests	1	(17 )
Net Income Attributable to DTE Energy Company	\$26	\$45



Operating Revenues — Non-utility operations decreased \$179 million in the three months ended March 31, 2019. The decrease was due to the following:

	Three Months (In millions)
Higher demand and prices in the Steel business	\$ 12
Higher demand in the Onsite business	7
Higher production and a new project in the Renewables business	3
Lower revenue due to customer discount in the Renewables business	(5 )
Lower revenue due to sale of membership interests in three projects and project terminations in the REF business	(196 )
	\$ (179 )

Non-utility Margin increased \$15 million in the three months ended March 31, 2019. The following table details changes in Non-utility margin relative to the comparable prior periods:

	Three Months (In millions)
Higher due to sale of membership interests in three projects and project terminations in the REF business	\$ 6
Higher demand in the On-site business	6
Higher demand and prices in the Steel business	5
Higher production and a new project in the Renewables business	3
Lower due to customer discounts in the Renewables business	(5 )
	\$ 15

Other (Income) and Deductions increased \$9 million in the three months ended March 31, 2019. The increase in the first quarter was primarily due to sale of membership interests in three projects in the REF business.

Income Taxes — Production Tax Credits decreased \$22 million in the three months ended March 31, 2019. The decrease in the first quarter was primarily due to sale of membership interests in three projects in the REF business.

Net Income (Loss) Attributable to Noncontrolling Interests decreased \$18 million in the three months ended March 31, 2019. The decrease in the first quarter was primarily due to project terminations 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 five of the facilities and entered into lease arrangements in three of the facilities. Three REF facilities will phase out in 2019 with the remaining seven to be phased out at the end of 2021.

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 Ended March 31, 2019 2018 (In millions)	
Operating Revenues — Non-utility operations	\$ 1,301	\$ 1,498
Purchased power and gas — non-utility	1,235	1,436
Non-utility Margin	66	62
Operation and maintenance	19	17
Depreciation and amortization	1	1
Taxes other than income	2	2
Operating Income	44	42
Other (Income) and Deductions	1	1
Income Tax Expense	11	10
Net Income Attributable to DTE Energy Company	\$ 32	\$ 31

Operating Revenues — Non-utility operations decreased \$197 million in the three months ended March 31, 2019. The decrease in the first quarter was primarily due to a decrease in gas prices and volumes, primarily in the gas structured and gas transportation strategies.

Non-utility Margin increased \$4 million in the three months ended March 31, 2019. The following table details changes in Non-utility margin relative to the comparable prior period:

	Three Months (In millions)
Unrealized Margins <sup>(a)</sup>	
Favorable results, primarily in gas structured and gas transportation strategies <sup>(b)</sup>	\$ 56
Unfavorable results, primarily in the gas storage strategy	(4 )
	52
Realized Margins <sup>(a)</sup>	
Favorable results, primarily in power full requirements and gas trading strategies	29
Unfavorable results, primarily in gas structured and gas storage strategies <sup>(c)</sup>	(77 )
	(48 )
Increase in Non-utility Margin	\$ 4

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.

<sup>(b)</sup> Amount includes \$48 million of timing related gains related to gas strategies which will reverse in future periods as the underlying contracts settle.

<sup>(c)</sup> Amount includes \$53 million of timing related gains related 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 loss of \$3 million for the three months ended March 31, 2019, represents a decrease of \$18 million from the net loss of \$21 million in the comparable 2018 period. The net loss decrease in the first quarter was primarily due to effective income tax rate adjustments and higher excess tax benefits on stock-based compensation, offset by higher interest expense.

#### 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 2019 will be approximately \$2.4 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 2019 of approximately \$3.9 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.

	Three Months Ended March 31, 2019 2018 (In millions)	
Cash, Cash Equivalents, and Restricted Cash		
Cash Flow From (Used For)		
Operating Activities		
Net Income	\$408	\$351
Adjustments to reconcile Net Income to Net cash from operating activities:		
Depreciation and amortization	296	281
Nuclear fuel amortization	15	15
Allowance for equity funds used during construction	(7 )	(7 )
Deferred income taxes	49	60
Working capital and other	(9 )	138
Net cash from operating activities	752	838
Investing Activities		
Plant and equipment expenditures — utility	(641 )	(466 )
Plant and equipment expenditures — non-utility	(27 )	(61 )
Contributions to equity method investees	(22 )	(64 )
Notes receivable	(48 )	3
Other	(10 )	2
Net cash used for investing activities	(748 )	(586 )
Financing Activities		
Issuance of long-term debt, net of issuance costs	644	—
Short-term borrowings, net	(453 )	14
Dividends paid on common stock	(172 )	(158 )
Contributions from noncontrolling interest, principally REF entities	9	12

Edgar Filing: DTE ENERGY CO - Form 10-Q

Distributions to noncontrolling interests	(21 )	(4 )
Other	(26 )	(19 )
Net cash used for financing activities	(19 )	(155 )
Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	\$(15 )	\$97

64

---

#### 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 decreased by \$86 million in 2019 due primarily to a decrease in cash from working capital items, partially offset by an increase in Net Income and Depreciation Expense.

The change in working capital items in 2019 was primarily related to an increase in cash used for accounts payable and other current and noncurrent assets and liabilities, partially offset by an increase in cash from accounts receivable and change in accrued pension liability.

#### 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.

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 \$162 million in 2019 due primarily to the increase in Plant and equipment expenditures — utility and Notes Receivable, partially offset by the decrease in Contributions to equity method investees and Plant and equipment expenditures — non-utility.

#### Net Cash used for 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 targets balance sheet financial metrics to ensure it is consistent with the objective of a strong investment grade debt rating.

Net cash from financing activities increased by \$136 million in 2019 due primarily to an increase in Issuance of long-term debt, partially offset by the increase in repayments of Short-term borrowings, Distributions to noncontrolling interests, and Dividends on common stock.

#### 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 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 \$1.5 billion 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 \$1.8 billion of available liquidity at March 31, 2019, consisting of cash and amounts available under unsecured revolving credit agreements.

DTE Energy expects to issue equity up to \$250 million in 2019 through the pension and other employee benefit plans, which is exclusive from any amounts related to the Equity Units described in Note 14 to the Consolidated Financial Statements, "Long-Term Debt," within the combined DTE Energy and DTE Electric 2018 Annual Report on Form 10-K.

At the discretion of management and depending upon financial market conditions, DTE Energy anticipates making up to an additional \$50 million in contributions to the qualified pension plans in 2019. DTE Energy does not anticipate making any contributions to the other postretirement benefit plans in 2019.

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 March 31, 2019, 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 \$537 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, 12, and 13 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 Energy (In millions)
MTM at December 31, 2018	\$ (23 )
Reclassified to realized upon settlement	9
Changes in fair value recorded to income	6
Amounts recorded to unrealized income	15
Changes in fair value recorded in regulatory liabilities	(3 )
Amounts recorded in other comprehensive income, pretax	(3 )
Change in collateral	6
MTM at March 31, 2019	\$ (8 )

The table below shows the maturity of DTE Energy's MTM positions. The positions from 2022 and beyond principally represent longer tenor gas structured transactions:

Source of Fair Value	2019	2020	2021	2022 and Beyond	Total Fair Value
	(In millions)				
Level 1	\$(1 )	\$2	\$(1 )	\$ 1	\$ 1
Level 2	17	13	3	1	34
Level 3	1	(3 )	(7 )	(24 )	(33 )
MTM before collateral adjustments	\$17	\$12	\$(5 )	\$(22 )	2
Collateral adjustments					(10 )
MTM at March 31, 2019					\$ (8 )

### 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

##### Bankruptcies

DTE Energy's Power and Industrial Projects segment holds ownership interests in, and operates, five generating plants that sell electric output from renewable sources under long-term power purchase agreements with PG&E. PG&E filed for Chapter 11 bankruptcy protection on January 29, 2019. As of March 31, 2019, PG&E's account is substantially current and DTE Energy determined no reserve was necessary.

As of March 31, 2019, the book value of long-lived assets used in producing electric output for sale to PG&E was approximately \$105 million. The Power and Industrial Projects segment also has equity investments, including a note receivable, of approximately \$74 million in entities that sell power to PG&E. In January 2019, following the bankruptcy filing, DTE Energy performed an impairment analysis on its long-lived assets. Based on its undiscounted cash flow projections, DTE Energy determined it did not have an impairment loss as of December 31, 2018. DTE Energy also determined there was not an other-than-temporary decline in its equity investments. There were no other new events occurring during the first quarter of 2019 that would negatively impact the assumptions made within the December 31, 2018 impairment analysis. Therefore, no triggering events were identified. DTE Energy's assumptions and conclusions may change, and it could have impairment losses if any of the terms of the contracts are not honored by PG&E or the contracts are rejected through the bankruptcy process.

##### Other

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 March 31, 2019:

	Credit Exposure Before Cash Collateral (In millions)	Cash Collateral	Net Credit Exposure
Investment Grade <sup>(a)</sup>			
A- and Greater	\$276	\$ —	\$ 276
BBB+ and BBB	281	—	281
BBB-	44	—	44
Total Investment Grade	601	—	601
Non-investment grade <sup>(b)</sup>	5	—	5
Internally Rated — investment grade	305	(1 )	304
Internally Rated — non-investment grade	22	(5 )	17
Total	\$933	\$ (6 )	\$ 927

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 16% 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 March 31, 2019, DTE Energy had a floating rate debt-to-total debt ratio of 1.1%.

### 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 2023.



## 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 March 31, 2019 and 2018 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 As of March 31,		Assuming a 10% Decrease in Prices/Rates As of March 31,		Change in the Fair Value of
	2019	2018	2019	2018	
	(In millions)				
Gas contracts	\$20	\$18	\$(20 )	\$(19 )	Commodity contracts
Power contracts	\$1	\$5	\$(3 )	\$(8 )	Commodity contracts
Interest rate risk — DTE Energy	\$(636)	\$(593)	\$683	\$572	Long-term debt
Interest rate risk — DTE Electric	\$(310)	\$(250)	\$335	\$268	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 March 31, 2019, 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 March 31, 2019 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 March 31, 2019, 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 March 31, 2019 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

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 12 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 2018 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

On March 5, 2019, DTE Energy contributed \$100 million of its common stock to the DTE Energy Company Affiliates Employee Benefit Plans Master Trust. The contribution consisted of 814,597 shares valued at \$122.76 per share, the closing market price of DTE Energy common stock on that date. The shares were contributed to the trust in a private placement transaction made in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended. The common stock contribution was made on behalf of DTE Electric, for which DTE Electric paid DTE Energy cash consideration of \$100 million in March 2019.

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 March 31, 2019:

	Number of Shares Purchased <sup>(a)</sup>	Average Price Paid per Share <sup>(a)</sup>	Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Average Price Paid per Share	Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs
01/01/2019 — 01/31/2019	19,596	\$ 110.07	—	—	—
02/01/2019 — 02/28/2019	139,603	\$ 116.60	—	—	—
03/01/2019 — 03/31/2019	127,332	\$ 117.94	—	—	—
Total	43,932		—		

<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>31.161</u>	Chief Executive Officer Section 302 Form 10-Q Certification of Periodic Report	X	
<u>31.162</u>	Chief Financial Officer Section 302 Form 10-Q Certification of Periodic Report	X	
<u>31.163</u>	Chief Executive Officer Section 302 Form 10-Q Certification of Periodic Report		X
<u>31.164</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>32.161</u>	Chief Executive Officer Section 906 Form 10-Q Certification of Periodic Report	X	
<u>32.162</u>	Chief Financial Officer Section 906 Form 10-Q Certification of Periodic Report	X	
<u>32.163</u>	Chief Executive Officer Section 906 Form 10-Q Certification of Periodic Report		X
<u>32.164</u>	Chief Financial Officer Section 906 Form 10-Q Certification of Periodic Report		X
	(iii) Exhibits incorporated by reference:		
<u>4.302</u>	Supplemental Indenture dated as of February 1, 2019, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between DTE Electric Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee. (2019 Series A) (Exhibit 4.70 to DTE Energy's Form S-3 filed on April 1, 2019)		X
<u>4.303</u>	Form of Fourth Amended and Restated Five-Year Credit Agreement, dated as of April 15, 2019, by and among DTE Energy, the lenders party thereto, Citibank, N.A., as Administrative Agent. (Exhibit 10.01 to DTE Energy's Form 8-K filed on April 16, 2019)	X	
<u>4.304</u>		X	

Edgar Filing: DTE ENERGY CO - Form 10-Q

Form of Fourth Amended and Restated Five-Year Credit Agreement, dated as of April 15, 2019, by and among DTE Gas the lenders party thereto, and Citibank, N.A. as Administrative Agent.(Exhibit 10.02 to DTE Energy's Form 8-K filed on April 16, 2019)

4.305

Form of Fourth Amended and Restated Five-Year Credit Agreement, dated as of April 15, 2019, by and among DTE Electric Company, the lenders party thereto, and Citibank, N.A., as Administrative Agent. (Exhibit 10.01 to DTE Energy's and DTE Electric's Form 8-K filed on April 16, 2019)

X

73

---

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: April 24, 2019

DTE ENERGY COMPANY

By: /S/ MARK C. ROLLING

Mark C. Rolling

Vice President, Controller, and Chief Accounting Officer

(Duly Authorized Officer)

DTE ELECTRIC COMPANY

By: /S/ MARK C. ROLLING

Mark C. Rolling

Vice President, Controller, and Chief Accounting Officer

(Duly Authorized Officer)