

DTE ENERGY CO
 Form 10-Q
 October 25, 2017

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

FORM 10-Q

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

For the Quarterly Period ended September 30, 2017

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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

DTE Energy Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
 (Do not check if a smaller reporting company) Emerging growth company

DTE Electric Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
 (Do not check if a smaller reporting company) Emerging growth company

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

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

DTE Energy Yes No DTE Electric Yes No

Number of shares of Common Stock outstanding at September 30, 2017:

Registrant	Description	Shares
------------	-------------	--------

Edgar Filing: DTE ENERGY CO - Form 10-Q

DTE Energy Common Stock, without par value 179,390,286

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 an individual registrant is filed by such registrant solely on its 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>
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<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>21</u>
<u>Note 4 — Acquisition</u>	<u>22</u>
<u>Note 5 — Regulatory Matters</u>	<u>24</u>
<u>Note 6 — Earnings Per Share</u>	<u>25</u>
<u>Note 7 — Fair Value</u>	<u>26</u>
<u>Note 8 — Financial and Other Derivative Instruments</u>	<u>33</u>
<u>Note 9 — Long-Term Debt</u>	<u>38</u>
<u>Note 10 — Short-Term Credit Arrangements and Borrowings</u>	<u>38</u>
<u>Note 11 — Commitments and Contingencies</u>	<u>39</u>
<u>Note 12 — Retirement Benefits and Trusteed Assets</u>	<u>44</u>
<u>Note 13 — Segment and Related Information</u>	<u>45</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>46</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>61</u>
<u>Item 4. Controls and Procedures</u>	<u>64</u>
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>65</u>
<u>Item 1A. Risk Factors</u>	<u>65</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>65</u>
<u>Item 6. Exhibits</u>	<u>66</u>
<u>Signatures</u>	<u>67</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.
ANPR	Advanced Notice of Proposed Rulemaking
ASU	Accounting Standards Update issued by the FASB
CCR	Coal Combustion Residuals
CFTC	U.S. Commodity Futures Trading Commission
CON	Certificate of Necessity
DTE Electric	DTE Electric Company (a direct wholly-owned subsidiary of DTE Energy) and subsidiary companies
DTE Energy	DTE Energy Company, directly or indirectly the parent of DTE Electric, DTE Gas, and numerous non-utility subsidiaries
DTE Gas	DTE Gas Company (an indirect wholly-owned subsidiary of DTE Energy) and subsidiary companies
EGU	Electric Generating Unit
ELG	Effluent Limitations Guidelines
EPA	U.S. Environmental Protection Agency
Equity units	DTE Energy's 2016 Equity Units issued in October 2016, which were used to finance the October 1, 2016 Gas Storage and Pipelines acquisition
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FOV	Finding of Violation
FTRs	Financial Transmission Rights are financial instruments that entitle the holder to receive payments related to costs incurred for congestion on the transmission grid.
GCR	A Gas Cost Recovery mechanism authorized by the MPSC that allows DTE Gas to recover through rates its natural gas costs.
GHGs	Greenhouse gases

MDEQ	Michigan Department of Environmental Quality
MGP	Manufactured Gas Plant
MISO	Midcontinent Independent System Operator, Inc.
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 _x	Nitrogen Oxides
NRC	U.S. Nuclear Regulatory Commission

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.
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.
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 ₂	Sulfur Dioxide
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	Heat value (energy content) of fuel
MMBtu	One million BTU
MWh	Megawatthour of electricity

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 of 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 report 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 2016 Annual Report on Form 10-K.

FORWARD-LOOKING STATEMENTS

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

- impact of regulation by the EPA, the FERC, the MPSC, the NRC, and for DTE Energy, the CFTC, as well as other applicable governmental proceedings and regulations, including any associated impact on rate structures;
- the amount and timing of cost recovery allowed as a result of regulatory proceedings, related appeals, or new legislation, including legislative amendments and retail access programs;
- economic conditions and population changes in the Registrants' geographic area resulting in changes in demand, customer conservation, and thefts of electricity and, for DTE Energy, natural gas;
- environmental issues, laws, regulations, and the increasing costs of remediation and compliance, including actual and potential new federal and state requirements;
- health, safety, financial, environmental, and regulatory risks associated with ownership and operation of nuclear facilities;
- changes in the cost and availability of coal and other raw materials, purchased power, and natural gas;
- volatility in the short-term natural gas storage markets impacting third-party storage revenues related to DTE Energy;
- impact of volatility of prices in the oil and gas markets on DTE Energy's gas storage and pipelines operations;
- impact of volatility in prices in the international steel markets on DTE Energy's power and industrial projects operations;
- volatility in commodity markets, deviations in weather, and related risks impacting the results of DTE Energy's energy trading operations;
- changes in the financial condition of DTE Energy's 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;
- the cost of protecting assets against, or damage due to, cyber crime and terrorism;
- employee relations and the impact of collective bargaining agreements;
- the risk of a major safety incident at an electric distribution or generation facility and, for DTE Energy, a gas storage, transmission, or distribution facility;
- 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;
 - implementation of new information systems; 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 September 30, 2017 2016		Nine Months Ended September 30, 2017 2016	
	(In millions, except per share amounts)			
Operating Revenues				
Utility operations	\$1,573	\$1,748	\$4,714	\$4,847
Non-utility operations	1,672	1,180	4,622	2,909
	3,245	2,928	9,336	7,756
Operating Expenses				
Fuel, purchased power, and gas — utility	437	503	1,362	1,482
Fuel, purchased power, and gas — non-utility	1,469	1,034	3,897	2,527
Operation and maintenance	566	562	1,725	1,620
Depreciation and amortization	258	230	756	702
Taxes other than income	91	92	297	282
Asset (gains) losses and impairments, net	6	—	9	(1)
	2,827	2,421	8,046	6,612
Operating Income	418	507	1,290	1,144
Other (Income) and Deductions				
Interest expense	146	114	404	341
Interest income	(4)	(3)	(9)	(17)
Other income	(74)	(51)	(204)	(160)
Other expenses	13	12	26	27
	81	72	217	191
Income Before Income Taxes	337	435	1,073	953
Income Tax Expense	74	110	241	243
Net Income	263	325	832	710
Less: Net Loss Attributable to Noncontrolling Interests	(7)	(13)	(15)	(27)
Net Income Attributable to DTE Energy Company	\$270	\$338	\$847	\$737
Basic Earnings per Common Share				
Net Income Attributable to DTE Energy Company	\$1.51	\$1.88	\$4.72	\$4.10
Diluted Earnings per Common Share				
Net Income Attributable to DTE Energy Company	\$1.51	\$1.88	\$4.72	\$4.10

Edgar Filing: DTE ENERGY CO - Form 10-Q

Weighted Average Common Shares Outstanding

Basic	179	179	179	179
Diluted	179	180	179	180
Dividends Declared per Common Share	\$0.825	\$0.77	\$2.475	\$2.23

See Combined Notes to Consolidated Financial Statements (Unaudited)

5

DTE Energy Company

Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In millions)			
Net Income	\$263	\$325	\$832	\$710
Other comprehensive income, net of tax:				
Benefit obligations, net of taxes of \$2, \$2, \$6, and \$3, respectively	3	4	10	6
Net unrealized gains on investments during the period, net of taxes of \$1, respectively	—	1	1	1
Foreign currency translation	2	(1)	2	—
Other comprehensive income	5	4	13	7
Comprehensive income	268	329	845	717
Less: Comprehensive loss attributable to noncontrolling interests	(7)	(13)	(15)	(27)
Comprehensive Income Attributable to DTE Energy Company	\$275	\$342	\$860	\$744

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Energy Company

Consolidated Statements of Financial Position (Unaudited)

	September 30, 2017 (In millions)		December 31, 2016
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 63		\$ 92
Restricted cash	23		21
Accounts receivable (less allowance for doubtful accounts of \$39 and \$41, respectively)			
Customer	1,395		1,522
Other	166		71
Inventories			
Fuel and gas	453		416
Materials and supplies	363		356
Derivative assets	76		47
Regulatory assets	6		42
Other	270		195
	2,815		2,762
Investments			
Nuclear decommissioning trust funds	1,439		1,320
Investments in equity method investees	971		752
Other	224		201
	2,634		2,273
Property			
Property, plant, and equipment	30,924		30,029
Accumulated depreciation and amortization	(10,617)	)	(10,299)
	20,307		19,730
Other Assets			
Goodwill	2,293		2,286
Regulatory assets	3,828		3,871
Intangible assets	883		842
Notes receivable	74		73
Derivative assets	62		34
Other	175		170
	7,315		7,276
Total Assets	\$ 33,071		\$ 32,041

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Energy Company

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

	September 30, 2017	December 31, 2016
	(In millions, except shares)	
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	\$994	\$1,079
Accrued interest	131	96
Dividends payable	148	148
Short-term borrowings	659	499
Current portion long-term debt, including capital leases	109	14
Derivative liabilities	42	69
Regulatory liabilities	86	34
Other	429	498
	2,598	2,437
Long-Term Debt (net of current portion)		
Mortgage bonds, notes, and other	11,038	10,506
Junior subordinated debentures	756	756
Capital lease obligations	1	7
	11,795	11,269
Other Liabilities		
Deferred income taxes	4,396	4,162
Regulatory liabilities	489	555
Asset retirement obligations	2,288	2,197
Unamortized investment tax credit	138	93
Derivative liabilities	48	98
Accrued pension liability	922	1,152
Accrued postretirement liability	6	36
Nuclear decommissioning	213	194
Other	325	349
	8,825	8,836
Commitments and Contingencies (Notes 5 and 11)		
Equity		
Common stock, without par value, 400,000,000 shares authorized, and 179,390,286 and 179,432,581 shares issued and outstanding, respectively	3,978	4,030
Retained earnings	5,515	5,114
Accumulated other comprehensive loss	(120)	(133)
Total DTE Energy Company Equity	9,373	9,011
Noncontrolling interests	480	488
Total Equity	9,853	9,499
Total Liabilities and Equity	\$33,071	\$32,041

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Energy Company

Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2017	2016
	(In millions)	
Operating Activities		
Net Income	\$ 832	\$ 710
Adjustments to reconcile Net Income to Net cash from operating activities:		
Depreciation and amortization	756	702
Nuclear fuel amortization	39	44
Allowance for equity funds used during construction	(17)	(15)
Deferred income taxes	261	244
Equity earnings of equity method investees	(77)	(49)
Dividends from equity method investees	55	52
Asset (gains) losses and impairments, net	5	—
Changes in assets and liabilities:		
Accounts receivable, net	43	6
Inventories	(41)	10
Accounts payable	25	39
Accrued pension liability	(230)	(1)
Accrued postretirement liability	(30)	(80)
Derivative assets and liabilities	(133)	122
Regulatory assets and liabilities	260	93
Other current and noncurrent assets and liabilities	(198)	(110)
Net cash from operating activities	1,550	1,767
Investing Activities		
Plant and equipment expenditures — utility	(1,439)	(1,267)
Plant and equipment expenditures — non-utility	(133)	(75)
Proceeds from sale of nuclear decommissioning	951	1,135

trust fund assets				
Investment in nuclear decommissioning trust funds	(936)	)	(1,140))
Distributions from equity method investees	10		8	
Contributions to equity method investees	(194)	)	(199))
Other	(63)	)	35	
Net cash used for investing activities	(1,804)	)	(1,503))
Financing Activities				
Issuance of long-term debt, net of issuance costs	1,010		646	
Redemption of long-term debt	(385)	)	(322))
Repurchase of long-term debt	—		(59))
Short-term borrowings, net	160		(89))
Repurchase of common stock	(51)	)	(33))
Dividends on common stock	(444)	)	(393))
Other	(65)	)	15	
Net cash from (used for) financing activities	225		(235))
Net Increase (Decrease) in Cash and Cash Equivalents	(29)	)	29	
Cash and Cash Equivalents at Beginning of Period	92		37	
Cash and Cash Equivalents at End of Period	\$ 63		\$ 66	
Supplemental disclosure of non-cash investing and financing activities				
Plant and equipment expenditures in accounts payable	\$ 222		\$ 168	

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Energy Company

Consolidated Statements of Changes in Equity (Unaudited)

	Common Stock		Retained Earnings	Accumulated	Noncontrolling Interests	Total
	Shares	Amount		Other Comprehensive Income (Loss)		
(Dollars in millions, shares in thousands)						
Balance, December 31, 2016	179,433	\$4,030	\$ 5,114	\$ (133)	\$ 488	\$9,499
Net Income (Loss)	—	—	847	—	(15)	832
Dividends declared on common stock	—	—	(444)	—	—	(444)
Repurchase of common stock	(524)	(51)	—	—	—	(51)
Benefit obligations, net of tax	—	—	—	10	—	10
Net change in unrealized gains on investments, net of tax	—	—	—	1	—	1
Foreign currency translation	—	—	—	2	—	2
Stock-based compensation, net contributions from noncontrolling interests, and other	481	(1)	(2)	—	7	4
Balance, September 30, 2017	179,390	\$3,978	\$ 5,515	\$ (120)	\$ 480	\$9,853

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Electric Company

Consolidated Statements of Operations (Unaudited)

	Three Months Ended September 30, 2017 2016		Nine Months Ended September 30, 2017 2016	
	(In millions)			
Operating Revenues — Utility operations	\$1,434	\$1,608	\$3,827	\$3,976
Operating Expenses				
Fuel and purchased power — utility	428	495	1,097	1,191
Operation and maintenance	349	363	1,068	1,019
Depreciation and amortization	188	176	549	539
Taxes other than income	74	73	229	216
	1,039	1,107	2,943	2,965
Operating Income	395	501	884	1,011
Other (Income) and Deductions				
Interest expense	68	66	206	196
Interest income	—	—	—	(8)
Other income	(21)	(15)	(57)	(48)
Other expenses	11	9	23	22
	58	60	172	162
Income Before Income Taxes	337	441	712	849
Income Tax Expense	118	156	249	302
Net Income	\$219	\$285	\$463	\$547

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Electric Company

Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(In millions)			
Net Income	\$219	\$285	\$463	\$547
Other comprehensive income	—	—	—	—
Comprehensive Income	\$219	\$285	\$463	\$547

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Electric Company

Consolidated Statements of Financial Position (Unaudited)

	September 30, 2017 (In millions)	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 12	\$ 13
Accounts receivable (less allowance for doubtful accounts of \$23 and \$25, respectively)		
Customer	770	728
Affiliates	16	12
Other	86	29
Inventories		
Fuel	182	225
Materials and supplies	282	271
Regulatory assets	5	36
Prepaid property tax	107	45
Other	14	18
	1,474	1,377
Investments		
Nuclear decommissioning trust funds	1,439	1,320
Other	35	36
	1,474	1,356
Property		
Property, plant, and equipment	22,606	22,094
Accumulated depreciation and amortization	(7,921)	(7,721)
	14,685	14,373
Other Assets		
Regulatory assets	3,108	3,113
Intangible assets	33	31
Prepaid postretirement costs — affiliates	114	114
Other	124	125
	3,379	3,383
Total Assets	\$ 21,012	\$ 20,489

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Electric Company

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

	September 30, 2017	December 31, 2016
	(In millions, except shares)	
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities		
Accounts payable		
Affiliates	\$52	\$ 58
Other	371	452
Accrued interest	70	65
Current portion long-term debt, including capital leases	5	6
Regulatory liabilities	70	27
Short-term borrowings		
Affiliates	66	117
Other	311	62
Other	146	146
	1,091	933
Long-Term Debt (net of current portion)		
Mortgage bonds, notes, and other	6,016	5,878
Capital lease obligations	1	7
	6,017	5,885
Other Liabilities		
Deferred income taxes	3,985	3,793
Regulatory liabilities	189	229
Asset retirement obligations	2,094	2,012
Unamortized investment tax credit	136	90
Nuclear decommissioning	213	194
Accrued pension liability — affiliates	826	1,008
Accrued postretirement liability — affiliates	252	269
Other	75	81
	7,770	7,676
Commitments and Contingencies (Notes 5 and 11)		
Shareholder's Equity		
Common stock, \$10 par value, 400,000,000 shares authorized, and 138,632,324 shares issued and outstanding	4,206	4,206
Retained earnings	1,926	1,787
Accumulated other comprehensive income	2	2
Total Shareholder's Equity	6,134	5,995
Total Liabilities and Shareholder's Equity	\$21,012	\$ 20,489

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Electric Company

Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2017	2016
	(In millions)	
Operating Activities		
Net Income	\$ 463	\$ 547
Adjustments to reconcile Net Income to Net cash from operating activities:		
Depreciation and amortization	549	539
Nuclear fuel amortization	39	44
Allowance for equity funds used during construction	(14)	(13)
Deferred income taxes	248	298
Changes in assets and liabilities:		
Accounts receivable, net	(104)	(135)
Inventories	32	18
Accounts payable	32	59
Accrued pension liability — affiliates	(182)	9
Accrued postretirement liability — affiliates	(17)	(52)
Regulatory assets and liabilities	223	100
Other current and noncurrent assets and liabilities	(174)	(119)
Net cash from operating activities	1,095	1,295
Investing Activities		
Plant and equipment expenditures	(1,103)	(999)
Notes receivable, including affiliates	5	(64)
Proceeds from sale of nuclear decommissioning trust fund assets	951	1,135
Investment in nuclear decommissioning trust funds	(936)	(1,140)
Other	(5)	40
Net cash used for investing activities	(1,088)	(1,028)

Financing Activities			
Issuance of long-term debt, net of issuance costs	435		355
Redemption of long-term debt	(300)	)	(10)
Repurchase of long-term debt	—		(59)
Short-term borrowings, net — affiliate	(51)	)	37
Short-term borrowings, net — other	249		(272)
Dividends on common stock	(324)	)	(315)
Other	(17)	)	(2)
Net cash used for financing activities	(8)	)	(266)
Net Increase (Decrease) in Cash and Cash Equivalents	(1)	)	1
Cash and Cash Equivalents at Beginning of Period			15
Cash and Cash Equivalents at End of Period	\$ 12		\$ 16
Supplemental disclosure of non-cash investing and financing activities			
Plant and equipment expenditures in accounts payable	\$ 112		\$ 118

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Electric Company

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

	Common Stock		Additional	Retained	Accumulated	
	Shares	Amount	Paid-in	Earnings	Other	Total
			Capital		Comprehensive	
					Income	
	(Dollars in millions, shares in thousands)					
Balance, December 31, 2016	138,632	\$ 1,386	\$ 2,820	\$ 1,787	\$ 2	\$5,995
Net Income	—	—	—	463	—	463
Dividends declared on common stock	—	—	—	(324)	—	(324)
Balance, September 30, 2017	138,632	\$ 1,386	\$ 2,820	\$ 1,926	\$ 2	\$6,134

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	Acquisition	DTE Energy
Note 5	Regulatory Matters	DTE Energy and DTE Electric
Note 6	Earnings per Share	DTE Energy
Note 7	Fair Value	DTE Energy and DTE Electric
Note 8	Financial and Other Derivative Instruments	DTE Energy and DTE Electric
Note 9	Long-Term Debt	DTE Energy and DTE Electric
Note 10	Short-Term Credit Arrangements and Borrowings	DTE Energy and DTE Electric
Note 11	Commitments and Contingencies	DTE Energy and DTE Electric
Note 12	Retirement Benefits and Trusteed Assets	DTE Energy and DTE Electric
Note 13	Segment and Related Information	DTE Energy

NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION

Corporate Structure

DTE Energy owns the following businesses:

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

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

• Other businesses involved in 1) natural gas pipelines, gathering, and storage; 2) power and industrial projects; and 3) energy marketing and trading operations.

DTE Electric and DTE Gas are regulated by the MPSC. Certain activities of DTE Electric and DTE Gas, as well as various other aspects of businesses under DTE Energy, are regulated by the FERC. In addition, the 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 2016 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, 2017.

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 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. See Note 4 to the Consolidated Financial Statements, "Acquisition," for more information.

The Registrants hold variable interests in NEXUS, including a 50% ownership interest. NEXUS is a joint venture which is in the process of constructing a 255-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 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 September 30, 2017, the carrying amount of assets and liabilities in DTE Energy's Consolidated Statements of Financial Position that relate to its variable interests under long-term purchase and sale contracts are predominantly related to working capital accounts and generally represent the amounts owed by or to DTE Energy for the deliveries associated with the current billing cycle under the contracts. As of September 30, 2017, 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 in Note 11 to the Consolidated Financial Statements, "Commitments and Contingencies," related to the REF guarantees and indemnities. For non-consolidated VIEs, the maximum risk exposure of the Registrants is generally limited to their investment, notes receivable, future funding commitments, and amounts which DTE Energy has guaranteed. See Note 11 to the Consolidated Financial Statements, "Commitments and Contingencies," for further discussion of the NEXUS guarantee arrangements.

The following table summarizes the major Consolidated Statements of Financial Position items for consolidated VIEs as of September 30, 2017 and December 31, 2016. 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.

	September 30, 2017			December 31, 2016		
	SGG ^(a)	Other	Total	SGG ^(a)	Other	Total
	(In millions)					
ASSETS						
Cash and cash equivalents	\$31	\$13	\$44	\$36	\$27	\$63
Restricted cash	—	8	8	—	7	7
Accounts receivable	11	30	41	8	34	42
Inventories	3	84	87	3	112	115
Property, plant, and equipment, net	397	70	467	398	76	474
Goodwill	25	—	25	17	—	17
Intangible assets	576	—	576	586	—	586
Other current and long-term assets	1	—	1	1	1	2
	\$1,044	\$205	\$1,249	\$1,049	\$257	\$1,306
LIABILITIES						
Accounts payable and accrued current liabilities	\$26	\$29	\$55	\$19	\$32	\$51
Current portion long-term debt, including capital leases	—	3	3	—	5	5
Mortgage bonds, notes, and other	—	2	2	—	5	5
Other current and long-term liabilities	1	15	16	2	15	17
	\$27	\$49	\$76	\$21	\$57	\$78

(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:

	September 30, 2017	December 31, 2016
	(In millions)	
Investments in equity method investees	\$716	\$509
Notes receivable	\$17	\$15
Future funding commitments	\$688	\$692

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 September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(In millions)			
Equity earnings of equity method investees	\$26	\$14	\$77	\$49
Income from REF entities	20	20	60	59
Gains from trading securities	6	5	19	15
Allowance for equity funds used during construction	5	5	17	15
Contract services	9	5	17	16
Other	8	2	14	6
	\$74	\$51	\$204	\$160

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

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(In millions)			
Gains from trading securities allocated from DTE Energy	\$6	\$5	\$19	\$15
Contract services	9	5	18	16
Allowance for equity funds used during construction	4	4	14	13
Equity earnings of equity method investees	—	—	1	1
Other	2	1	5	3
	\$21	\$15	\$57	\$48

Changes in Accumulated Other Comprehensive Income (Loss)

For the three and nine months ended September 30, 2017 and 2016, reclassifications out of Accumulated other comprehensive income (loss) for the Registrants were not material. Changes in Accumulated other comprehensive income (loss) are presented in DTE Energy's Consolidated Statements of Changes in Equity and DTE Electric's Consolidated Statements of Changes in Shareholder's Equity.

Income Taxes

The effective tax rate of the Registrants are as follows:

	Effective Tax Rate			
	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2016
DTE Energy	22%	25%	22%	25%
DTE Electric	35%	35%	35%	36%

The 3% decrease in DTE Energy's effective tax rate for the three months ended September 30, 2017 was primarily due to higher forecasted production tax credits in 2017. The 3% decrease in DTE Energy's effective tax rate for the nine months ended September 30, 2017 was primarily due to higher forecasted production tax credits in 2017 and \$13 million of excess tax benefits on stock-based compensation recognized in accordance with ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which was adopted effective July 1, 2016.

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

DTE Energy's total amount of unrecognized tax benefits as of September 30, 2017 and December 31, 2016 was \$10 million. The amount, if recognized, that would favorably impact DTE Energy's effective tax rate as of September 30, 2017 and December 31, 2016 was \$6 million and \$7 million, respectively. DTE Electric's total amount of unrecognized tax benefits as of September 30, 2017 and December 31, 2016 was \$13 million, of which \$8 million, 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 with DTE Energy of \$9 million at September 30, 2017 and December 31, 2016.

Unrecognized Compensation Costs

As of September 30, 2017, DTE Energy had \$71 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 1.35 years.

Allocated Stock-Based Compensation

DTE Electric received an allocation of costs from DTE Energy associated with stock-based compensation of \$10 million and \$7 million for the three months ended September 30, 2017 and 2016, respectively, while such allocation was \$28 million and \$26 million for the nine months ended September 30, 2017 and 2016, respectively.

NOTE 3 — NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Pronouncements

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330), Simplifying the Measurement of Inventory. The ASU replaces the current lower of cost or market test with a lower of cost or net realizable value test when cost is determined on a first-in, first-out or average cost basis. The standard is effective for public entities for annual reporting periods beginning after December 15, 2016, and interim periods therein. It was applied prospectively. The Registrants adopted this ASU at January 1, 2017. The adoption of the ASU did not have a significant impact on the Registrants' Consolidated Financial Statements.

Recently Issued Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), as amended. The objectives of this ASU are to improve upon revenue recognition requirements by providing a single comprehensive model to determine the measurement of revenue and timing of recognition. The core principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This ASU also requires expanded qualitative and quantitative disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. The standard is to be applied retrospectively. The Registrants will adopt the standard effective January 1, 2018 using the modified retrospective approach. The Registrants are finalizing the assessment of the impact of the ASU, as amended, on their Consolidated Financial Statements. The ASU is not expected to significantly affect the Registrants' results of operations. The Registrants will continue to evaluate the impact of the ASU on existing revenue recognition policies and procedures. Industry-related issues being vetted through the final stages of the American Institute of Certified Public Accountants' Power and Utilities Industry Task Force process will continue to be monitored. The ASU will result in additional disclosures for revenue compared to the current guidance. Accordingly, the Registrants are evaluating information that would be useful for users of the Consolidated Financial Statements.

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

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), a replacement of Leases (Topic 840). This guidance requires a lessee to account for leases as finance or operating leases. 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. For lessors, the standard modifies the classification criteria and the accounting for sales-type and direct financing leases. Entities will classify leases to determine how to recognize lease-related revenue and expense. This standard is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. The Registrants do not plan to early adopt the standard. A modified retrospective approach is required for leases existing or entered into after the beginning of the earliest comparative period in the Consolidated Financial Statements, with certain practical expedients permitted. The Registrants expect an increase in assets and liabilities, however, they are currently assessing the impact of this ASU on their Consolidated Financial Statements. This assessment includes monitoring unresolved utility industry implementation guidance. The Registrants have conducted outreach activities across their lines of business and have begun implementation of a third-party software tool that will assist with the initial adoption and ongoing compliance.

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 GAAP 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 March 2017, the FASB issued ASU No. 2017-07, Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments in this update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside income from operations. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable. The standard will be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The ASU is effective for the Registrants for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted. The Registrants will adopt the standard effective January 1, 2018. The components of net periodic benefit costs (credits) for pension benefits and other postretirement benefits are disclosed in Note 12 to the Consolidated Financial Statements, "Retirement Benefits and Trusteed Assets." The ASU will not have a significant impact on the Registrants' Consolidated Financial Statements.

NOTE 4 — ACQUISITION

Gas Storage and Pipelines Acquisition

Effective October 1, 2016, DTE Energy closed on the purchase of midstream natural gas assets in support of the strategy to continue to grow and earn competitive returns for shareholders. DTE Energy purchased 100% of AGS, located in Pennsylvania and West Virginia, and 40% of SGG, located in West Virginia, from M3 Midstream. In addition, DTE Energy purchased 15% of SGG from Vega Energy Partners, resulting in 55% total ownership of SGG by DTE Energy.

Consideration transferred for the entities acquired was approximately \$1.2 billion paid in cash and the assumption of SGG debt of \$204 million. The \$204 million of debt was comprised of DTE Energy's 55% interest in SGG of \$112

million and 45% related to noncontrolling interest partners of \$92 million. The acquisition was financed through the issuance of equity units and senior notes. These entities are part of DTE Energy's Gas Storage and Pipelines segment which owns and manages a network of natural gas gathering, transmission, and storage facilities servicing the Midwest, Ontario, and Northeast markets. SGG has been deemed to be a VIE, and DTE Energy is the primary beneficiary. Thus, SGG's assets and liabilities are included in DTE Energy's Consolidated Statements of Financial Position. See Note 1 to the Consolidated Financial Statements, "Organization and Basis of Presentation," for more information.

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

DTE Energy applied purchase accounting to the acquired entities. The excess purchase price over the fair value of net assets acquired was classified as goodwill. September 30, 2017 marked the expiration of the one-year period from the acquisition to revise the fair value of assets acquired and liabilities assumed. As of September 30, 2017, the final working capital adjustments and certain indemnification claims were settled. The settlements and final revisions to the purchase price allocation resulted in purchase accounting adjustments of approximately \$7 million of additional goodwill. The factors contributing to the recognition of goodwill were based on various strategic benefits that are expected to be realized from the AGS and SGG acquisition. The acquisition provides DTE Energy with 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 a new set of producer relationships that may lead to more partnering opportunities. The goodwill is expected to be deductible for income tax purposes.

The final allocation of the purchase price was based on estimated fair values of the AGS and SGG assets acquired and liabilities assumed at the date of acquisition, October 1, 2016. The components of the final purchase price allocation, inclusive of purchase accounting adjustments, are as follows:

	(In millions)
Assets	
Cash	\$ 83
Accounts receivable	24
Inventory	6
Property, plant, and equipment, net	719
Goodwill	275
Customer relationship intangibles	770
Other current assets	1
	\$ 1,878
Liabilities	
Accounts payable	\$ 19
Other current liabilities	11
Long-term debt	204
Other long-term liabilities	20
	\$ 254
Less: Noncontrolling interest	392
Total cash consideration	\$ 1,232

The intangible assets recorded as a result of the acquisition pertain to existing customer relationships, which were valued at approximately \$770 million as of the acquisition date. The fair value of the intangible assets acquired was estimated by applying the income approach. The income approach was based upon discounted projected future cash flows attributable to the existing contracts and agreements. The fair value measurement was based on significant unobservable inputs, including management estimates and assumptions, and thus represents a Level 3 measurement, pursuant to the applicable accounting guidance. Key estimates and inputs included revenue and expense projections and discount rates based on the risks associated with the entities. The intangible assets are amortized on a straight-line basis over a period of 40 years, which is based on the number of years the assets are expected to economically contribute to the business. The expected economic benefit incorporates existing customer contracts with a weighted-average amortization life of 10 years and expected renewal rates, based on the estimated volume and production lives of gas resources in the region.

The fair value of the noncontrolling interest in the table above was derived based on the purchase price DTE Energy paid for the 55% interest in SGG.

DTE Energy evaluated pre-acquisition contingencies relating to the purchase that existed as of the acquisition date. Based on the evaluation, DTE Energy determined that \$30 million of certain pre-acquisition contingencies, related to repairing existing rights-of-way, were probable in nature and estimable as of the acquisition date. Accordingly, DTE Energy recorded its best estimates for these contingencies as part of purchase accounting, which are included in the Other current and long-term liabilities in the purchase price allocation table above.

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

DTE Energy incurred \$15 million of direct transaction costs for the year ended December 31, 2016. These costs were primarily related to advisory fees and included in Operation and maintenance in DTE Energy's 2016 Consolidated Statements of Operations.

DTE Energy's 2016 Consolidated Statements of Operations included Operating Revenues — Non-utility operations of \$39 million and Net Income of \$4 million associated with the acquired entities for the three-month period following the acquisition date, excluding the \$15 million transaction costs described above. The pro forma financial information was not presented for DTE Energy because the effects of the acquisition were not material to the Consolidated Statements of Operations.

NOTE 5 — REGULATORY MATTERS

2016 Electric Rate Case Filing

DTE Electric filed a rate case with the MPSC on February 1, 2016 requesting an increase in base rates of \$344 million based on a projected twelve-month period ending July 31, 2017. On August 1, 2016, DTE Electric self-implemented a base rate increase of \$245 million. On January 31, 2017, the MPSC issued an order approving an annual revenue increase of \$184 million for service rendered on or after February 7, 2017. The MPSC authorized a return on equity of 10.1%. On April 28, 2017, DTE Electric filed to refund its customers their pro-rata share of the revenue collected through the self-implementation surcharge in effect from August 1, 2016 through February 7, 2017. On September 15, 2017, the MPSC approved a settlement authorizing DTE Electric to refund its customers \$38.5 million of the self-implementation surcharge during the months of October through December 2017. DTE has recorded a refund liability for the settlement as of September 30, 2017.

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. The requested increase in base rates is primarily due to an increase in net plant resulting from infrastructure investments, environmental compliance, and reliability improvement projects. The rate filing also includes projected changes in sales, operation and maintenance expenses, and working capital. The rate filing also requests an increase in return on equity from 10.1% to 10.5%. To mitigate the impact to its customers resulting from ASU No. 2017-07, Compensation — Retirement Benefits (Topic 715), DTE Electric suggested regulatory accounting treatment for the pension and postretirement cost components previously included as capital overhead. If the MPSC adopts DTE Electric's suggestion, the rate request will be reduced. For further discussion of ASU No. 2017-07, see Note 3 to the Consolidated Financial Statements, "New Accounting Pronouncements." On September 8, 2017, DTE Electric filed an application with the MPSC for a \$125 million self-implemented base rate increase effective November 1, 2017. A final MPSC order in this case is expected by April 2018.

PSCR Proceedings

The PSCR process is designed to allow DTE Electric to recover all of its power supply costs if incurred under reasonable and prudent policies and practices. DTE Electric's power supply costs include fuel and related transportation costs, purchased and net interchange power costs, NO_x and SO₂ emission allowances costs, urea costs, transmission costs, MISO, and other related costs. The MPSC reviews these costs, policies, and practices for prudence in annual plan and reconciliation filings.

2015 PSCR Year — In March 2016, DTE Electric filed its 2015 PSCR reconciliation that included the recovery of approximately \$13 million of costs related to the pass through of a billing adjustment associated with a previous MPSC ordered customer refund. On July 12, 2017, the MPSC issued an order that disallowed recovery of this 2015 PSCR billing adjustment pass through of approximately \$16 million, inclusive of interest. DTE Electric recorded the impact of the disallowance in the second quarter of 2017 and filed a claim of appeal with the Michigan Court of Appeals in August 2017.

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

Certificate of Necessity

On July 31, 2017, DTE Electric filed a request for authority to build a 1,100 megawatt natural gas fueled combined cycle generation facility at DTE Electric's Belle River Power Plant. DTE Electric requested the MPSC to issue three CONs for the following: (1) power supplied by the proposed project is needed, (2) the size, fuel type, and other design characteristics of the proposed project represent the most reasonable and prudent means of meeting the power need, and (3) the estimated capital costs of \$989 million for the proposed project will be recoverable in rates from DTE Electric's customers. DTE Electric also reserved the right to revise, amend, or otherwise change the relief it is requesting in any way appropriate, including updating of the cost estimate within the 150 days of the filing date. DTE Electric expects an order in this proceeding from the MPSC by April 28, 2018.

NOTE 6 — EARNINGS PER SHARE

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

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2016	2017	2016	2017
	(In millions, except per share amounts)			
Basic Earnings per Share				
Net Income Attributable to DTE Energy Company	\$270	\$338	\$847	\$737
Less: Allocation of earnings to net restricted stock awards	1	—	2	1
Net income available to common shareholders — basic	\$269	\$338	\$845	\$736
Average number of common shares outstanding	179	179	179	179
Basic Earnings per Common Share	\$1.51	\$1.88	\$4.72	\$4.10
Diluted Earnings per Share				
Net Income Attributable to DTE Energy Company	\$270	\$338	\$847	\$737
Less: Allocation of earnings to net restricted stock awards	1	—	2	1
Net income available to common shareholders — diluted	\$269	\$338	\$845	\$736
Average number of common shares outstanding	179	179	179	179
Incremental shares attributable to:				
Average dilutive performance share awards and stock options ^(a)	—	1	—	1
Average number of common shares outstanding — diluted	179	180	179	180
Diluted Earnings per Common Share	\$1.51	\$1.88	\$4.72	\$4.10

(a) The 2016 equity units are potentially dilutive securities but were excluded from the calculation of diluted EPS for the three and nine months ended September 30, 2017, as the dilutive stock price threshold was not met.

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

NOTE 7 — FAIR VALUE

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Registrants make certain assumptions they believe that market participants would use in pricing assets or liabilities, including assumptions about risk, and the risks inherent in the inputs to valuation techniques. Credit risk of the Registrants and their counterparties is incorporated in the valuation of assets and liabilities through the use of credit reserves, the impact of which was immaterial at September 30, 2017 and December 31, 2016. The Registrants believe they use valuation techniques that maximize the use of observable market-based inputs and minimize the use of unobservable inputs.

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

• Level 1 — Consists of unadjusted quoted prices in active markets for identical assets or liabilities that the Registrants have the ability to access as of the reporting date.

• Level 2 — Consists of inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.

• Level 3 — Consists of unobservable inputs for assets or liabilities whose fair value is estimated based on internally developed models or methodologies using inputs that are generally less readily observable and supported by little, if any, market activity at the measurement date. Unobservable inputs are developed based on the best available information and subject to cost-benefit constraints.

Edgar Filing: DTE ENERGY CO - Form 10-Q

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

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

	September 30, 2017				Net Balance	December 31, 2016				Net Balance
	Level 1	Level 2	Level 3	Netting ^(a)		Level 1	Level 2	Level 3	Netting ^(a)	
(In millions)										
Assets:										
Cash equivalents ^(b)	\$ 16	\$ 3	\$ —	\$ —	\$ 19	\$ 14	\$ 3	\$ —	\$ —	\$ 17
Nuclear decommissioning trusts ^(c)										
Equity securities	949	—	—	—	949	887	—	—	—	887
Fixed income securities	10	474	—	—	484	11	414	—	—	425
Cash equivalents	6	—	—	—	6	8	—	—	—	8
Other investments ^(d)										
Equity securities	120	—	—	—	120	104	—	—	—	104
Fixed income securities	63	—	—	—	63	58	—	—	—	58
Cash equivalents	4	—	—	—	4	3	—	—	—	3
Derivative assets										
Commodity Contracts										
Natural Gas	64	104	62	(151)	79	216	79	53	(306)	42
Electricity	—	155	47	(148)	54	—	154	39	(157)	36
Other	—	—	4	—	4	—	—	2	—	2
Foreign currency exchange contracts	—	3	—	(2)	1	—	6	—	(5)	1
Total derivative assets	64	262	113	(301)	138	216	239	94	(468)	81
Total	\$ 1,232	\$ 739	\$ 113	\$ (301)	\$ 1,783	\$ 1,301	\$ 656	\$ 94	\$ (468)	\$ 1,583
Liabilities:										
Derivative liabilities										
Commodity Contracts										
Natural Gas	\$(64)	\$(76)	\$(64)	\$ 151	\$(53)	\$(226)	\$(86)	\$(149)	\$ 321	\$(140)
Electricity	—	(159)	(40)	164	(35)	—	(159)	(30)	163	(26)
Other	—	—	(2)	2	—	—	—	(3)	2	(1)
Foreign currency exchange contracts	—	(4)	—	2	(2)	—	(3)	—	3	—
Total derivative liabilities	(64)	(239)	(106)	319	(90)	(226)	(248)	(182)	489	(167)
Total	\$(64)	\$(239)	\$(106)	\$ 319	\$(90)	\$(226)	\$(248)	\$(182)	\$ 489	\$(167)
Net Assets (Liabilities) at end of period	\$ 1,168	\$ 500	\$ 7	\$ 18	\$ 1,693	\$ 1,075	\$ 408	\$(88)	\$ 21	\$ 1,416
Assets:										
Current	\$ 65	\$ 194	\$ 61	\$(225)	\$ 95	\$ 205	\$ 199	\$ 60	\$(400)	\$ 64
Noncurrent	1,167	545	52	(76)	1,688	1,096	457	34	(68)	1,519
Total Assets	\$ 1,232	\$ 739	\$ 113	\$(301)	\$ 1,783	\$ 1,301	\$ 656	\$ 94	\$(468)	\$ 1,583
Liabilities:										
Current	\$(60)	\$(183)	\$(54)	\$ 255	\$(42)	\$(203)	\$(211)	\$(79)	\$ 424	\$(69)
Noncurrent	(4)	(56)	(52)	64	(48)	(23)	(37)	(103)	65	(98)
Total Liabilities	\$(64)	\$(239)	\$(106)	\$ 319	\$(90)	\$(226)	\$(248)	\$(182)	\$ 489	\$(167)
	\$ 1,168	\$ 500	\$ 7	\$ 18	\$ 1,693	\$ 1,075	\$ 408	\$(88)	\$ 21	\$ 1,416

Net Assets (Liabilities) at
end of period

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

At September 30, 2017, available-for-sale securities of \$19 million, included \$8 million and \$11 million of cash equivalents included in Restricted cash and Other investments on DTE Energy's Consolidated Statements of

(b) Financial Position, respectively. At December 31, 2016, available-for-sale securities of \$17 million, included \$7 million and \$10 million of cash equivalents included in Restricted cash and Other investments on DTE Energy's Consolidated Statements of Financial Position, respectively.

At September 30, 2017, the Nuclear Decommissioning Master Trust had outstanding commitments to invest in (c) private equity investments of approximately \$25 million. These commitments will be funded by existing nuclear decommissioning trust funds.

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

27

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

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

	September 30, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Net Balance	Level 1	Level 2	Level 3	Net Balance
(In millions)								
Assets:								
Cash equivalents ^(a)	\$8	\$3	\$ —	\$ 11	\$8	\$3	\$ —	\$ 11
Nuclear decommissioning trusts ^(b)								
Equity securities	949	—	—	949	887	—	—	887
Fixed income securities	10	474	—	484	11	414	—	425
Cash equivalents	6	—	—	6	8	—	—	8
Other investments								
Equity securities	10	—	—	10	9	—	—	9
Derivative assets — FTRs	—	—	4	4	—	—	2	2
Total	\$983	\$477	\$ 4	\$ 1,464	\$923	\$417	\$ 2	\$ 1,342
Assets:								
Current	\$8	\$3	\$ 4	\$ 15	\$8	\$3	\$ 2	\$ 13
Noncurrent	975	474	—	1,449	915	414	—	1,329
Total Assets	\$983	\$477	\$ 4	\$ 1,464	\$923	\$417	\$ 2	\$ 1,342

(a) At September 30, 2017 and December 31, 2016, available-for-sale securities of \$11 million consisted of cash equivalents included in Other investments on DTE Electric's Consolidated Statements of Financial Position.

(b) At September 30, 2017, the Nuclear Decommissioning Master Trust had outstanding commitments to invest in private equity investments of approximately \$25 million. These commitments will be funded by existing nuclear decommissioning trust funds.

Cash Equivalents

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

Nuclear Decommissioning Trusts and Other Investments

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

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

Derivative Assets and Liabilities

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

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

	Three Months Ended September 30, 2017				Three Months Ended September 30, 2016			
	Natural Gas	Electricity	Other	Total	Natural Gas	Electricity	Other	Total
	(In millions)							
Net Assets (Liabilities) as of June 30	\$(17)	\$ 6	\$ 5	\$(6)	\$(62)	\$ (6)	\$(1)	\$(69)
Transfers into Level 3 from Level 2	—	—	—	—	—	—	—	—
Transfers from Level 3 into Level 2	—	—	—	—	(1)	—	—	(1)
Total gains (losses)								
Included in earnings	(8)	33	1	26	(65)	24	—	(41)
Recorded in Regulatory liabilities	—	—	2	2	—	—	2	2
Purchases, issuances, and settlements								
Settlements	23	(32)	(6)	(15)	28	(24)	(2)	2
Net Assets (Liabilities) as of September 30	\$(2)	\$ 7	\$ 2	\$ 7	\$(100)	\$ (6)	\$(1)	\$(107)
The amount of total gains (losses) included in Net Income attributed to the change in unrealized gains (losses) related to assets and liabilities held at September 30, 2017 and 2016 and reflected in Operating Revenues — Non-utility operations and Fuel, purchased power, and gas — non-utility in DTE Energy's Consolidated Statements of Operations	\$(8)	\$ 18	\$ 1	\$ 11	\$(50)	\$ 6	\$ —	\$(44)

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

	Nine Months Ended September 30, 2017				Nine Months Ended September 30, 2016			
	Natural Gas	Electricity	Other	Total	Natural Gas	Electricity	Other	Total
(In millions)								
Net Assets (Liabilities) as of December 31	\$ (96)	\$ 9	\$ (1)	\$ (88)	\$ (5)	\$ 6	\$ (5)	\$ (4)
Transfers into Level 3 from Level 2	—	—	—	—	—	—	—	—
Transfers from Level 3 into Level 2	—	—	—	—	—	—	—	—
Total gains (losses)								
Included in earnings	38	45	1	84	(123)	(22)	1	(144)
Recorded in Regulatory liabilities	—	—	15	15	—	—	6	6
Purchases, issuances, and settlements								
Issuances	—	—	—	—	—	1	—	1
Settlements	56	(47)	(13)	(4)	28	9	(3)	34
Net Assets (Liabilities) as of September 30	\$ (2)	\$ 7	\$ 2	\$ 7	\$ (100)	\$ (6)	\$ (1)	\$ (107)
The amount of total gains (losses) included in Net Income attributed to the change in unrealized gains (losses) related to assets and liabilities held at September 30, 2017 and 2016 and reflected in Operating Revenues — Non-utility operations and Fuel, purchased power, and gas — non-utility in DTE Energy's Consolidated Statements of Operations	\$ 8	\$ 35	\$ —	\$ 43	\$ (165)	\$ (1)	\$ 2	\$ (164)

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
(In millions)				
Net Assets as of beginning of period	\$ 8	\$ 4	\$ 2	\$ 3
Change in fair value recorded in Regulatory liabilities	2	2	15	6
Purchases, issuances, and settlements				
Settlements	(6)	(3)	(13)	(6)
Net Assets as of September 30	\$ 4	\$ 3	\$ 4	\$ 3
The amount of total gains (losses) included in Regulatory liabilities attributed to the change in unrealized gains (losses) related to assets held at September 30, 2017 and 2016 and reflected in DTE Electric's Consolidated Statements of Financial Position	\$ 1	\$ 1	\$ 4	\$ 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 and nine months ended September 30, 2017 and 2016, 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:

Edgar Filing: DTE ENERGY CO - Form 10-Q

Commodity Contracts	September 30, 2017		Derivative Valuation Techniques	Unobservable Input	Range	Weighted Average
	Derivative Assets	Derivative Liabilities				
Natural Gas	\$ 62	\$ (64)	Discounted Cash Flow	Forward basis price (per MMBtu)	\$(1.92)—\$6.36/MMBtu	\$(0.03)/MMBtu
Electricity	\$ 47	\$ (40)	Discounted Cash Flow	Forward basis price (per MWh)	\$(10)—\$7 /MWh	\$1 /MWh

30

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

Commodity Contracts	December 31, 2016		Derivative Valuation Techniques	Unobservable Input	Range	Weighted Average
	Derivative Assets	Derivative Liabilities				
Natural Gas	\$ 53	\$ (149)	Discounted Cash Flow	Forward basis price (per MMBtu)	\$(1.00)—\$7.90/MMBtu	\$(0.05)/MMBtu
Electricity	\$ 39	\$ (30)	Discounted Cash Flow	Forward basis price (per MWh)	\$(6)—\$12 /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.

Fair Value of Financial Instruments

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

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

	September 30, 2017			December 31, 2016				
	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Carrying Amount	Fair Value Level 1	Level 2	Level 3
	(In millions)							
Notes receivable, excluding capital leases	\$36	\$—	\$—	\$36	\$36	\$—	\$—	\$36
Dividends payable	\$148	\$148	\$—	\$—	\$148	\$148	\$—	\$—
Short-term borrowings	\$659	\$—	\$659	\$—	\$499	\$—	\$499	\$—
Notes payable — Other	\$16	\$—	\$—	\$16	\$17	\$—	\$—	\$17
Long-term debt ^(b)	\$11,897	\$1,554	\$10,522	\$744	\$11,270	\$1,465	\$9,384	\$1,056

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

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

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

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

	September 30, 2017			December 31, 2016		
	Carrying	Fair Value		Carrying	Fair Value	
	Amount	Level 1	Level 2 Level 3	Amount	Level 1	Level 2 Level 3
	(In millions)					
Notes receivable, excluding capital leases	\$—	\$—	\$—	\$5	\$—	\$5
Short-term borrowings — affiliates	\$66	\$—	\$66	\$117	\$—	\$117
Short-term borrowings — other	\$311	\$—	\$—	\$62	\$—	\$—
Notes payable — Other	\$5	\$—	\$5	\$6	\$—	\$6
Long-term debt ^(b)	\$6,016	\$—	\$6,395	\$163	\$5,878	\$—
				\$6,026		\$264

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

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

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

Nuclear Decommissioning Trust Funds

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

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

	September 30, 2017	December 31, 2016
	(In millions)	
Fermi 2	\$1,423	\$1,291
Fermi 1	3	3
Low-level radioactive waste	13	26
Total	\$1,439	\$1,320

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 September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(In millions)			
Realized gains	\$14	\$13	\$63	\$59
Realized losses	\$(7)	\$(8)	\$(23)	\$(48)
Proceeds from sale of securities	\$246	\$394	\$951	\$1,135

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

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

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

	September 30, 2017			December 31, 2016		
	Fair Value	Unrealized Gains	Unrealized Losses	Fair Value	Unrealized Gains	Unrealized Losses
	(In millions)					
Equity securities	\$949	\$ 287	\$ (34)	\$887	\$ 222	\$ (46)
Fixed income securities	484	14	(2)	425	11	(5)
Cash equivalents	6	—	—	8	—	—
	\$1,439	\$ 301	\$ (36)	\$1,320	\$ 233	\$ (51)

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

	September 30, 2017 (In millions)
Due within one year	\$ 15
Due after one through five years	100
Due after five through ten years	111
Due after ten years	258
	\$ 484

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

Unrealized losses incurred by the Fermi 2 trust are recognized as a Regulatory asset and Nuclear decommissioning liability. Unrealized losses on the low-level radioactive waste funds are recognized as a Nuclear decommissioning liability.

Other Securities

At September 30, 2017 and December 31, 2016, the Registrants' securities were comprised primarily of money market and equity securities. There were no unrealized losses on available-for-sale securities which were reclassified out of Other comprehensive income (loss) and realized into Net Income for DTE Energy or DTE Electric during the three and nine months ended September 30, 2017 and 2016. For the three months ended September 30, 2017 and 2016, gains related to trading securities held at September 30, 2017 and 2016 were \$6 million and \$5 million, respectively, for the Registrants. For the nine months ended September 30, 2017 and 2016, gains related to trading securities held at September 30, 2017 and 2016 were \$19 million and \$15 million, respectively, for the Registrants. The trading gains or losses related to the Rabbi Trust assets, included in Other investments at DTE Energy, are allocated from DTE Energy to DTE Electric.

NOTE 8 — FINANCIAL AND OTHER DERIVATIVE INSTRUMENTS

The Registrants recognize all derivatives at their fair value as Derivative assets or liabilities on their respective Consolidated Statements of Financial Position unless they qualify for certain scope exceptions, including the normal purchases and normal sales exception. Further, derivatives that qualify and are designated for hedge accounting are classified as either hedges of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge); or as hedges of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge). For cash flow hedges, the portion of the derivative gain or loss that is effective in offsetting the change in the value of the underlying exposure is deferred in Accumulated other comprehensive income (loss) and later reclassified into earnings when the underlying transaction occurs. Gains or

losses from the ineffective portion of cash flow hedges are recognized in earnings immediately. For fair value hedges, changes in fair values for the derivative and hedged item are recognized in earnings each period. For derivatives that do not qualify or are not designated for hedge accounting, changes in fair value are recognized in earnings each period.

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

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 energy 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 2020. Substantially all of these contracts meet the normal purchases and normal sales exception and are therefore accounted for under the accrual method. DTE Gas may also sell forward transportation and storage capacity contracts. Forward transportation and storage contracts are generally not derivatives and are therefore accounted for under the accrual method.

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

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

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

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

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

Credit Risk — DTE Energy maintains credit policies that significantly minimize overall credit risk. These policies include an evaluation of potential customers' and counterparties' financial condition, including the viability of underlying productive assets, credit rating, collateral requirements, or other credit enhancements such as letters of credit or guarantees. DTE Energy generally uses standardized agreements that allow the netting of positive and negative transactions associated with a single counterparty. DTE Energy maintains a provision for credit losses based on factors surrounding the credit risk of its customers, historical trends, and other information. Based on DTE Energy's credit policies and its September 30, 2017 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.

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

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:

	September 30, 2017		December 31, 2016	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
	(In millions)			
Derivatives not designated as hedging instruments				
Commodity Contracts				
Natural Gas	\$230	\$ (204)	\$348	\$ (461)
Electricity	202	(199)	193	(189)
Other	4	(2)	2	(3)
Foreign currency exchange contracts	3	(4)	6	(3)
Total derivatives not designated as hedging instruments	\$439	\$ (409)	\$549	\$ (656)
Current	\$301	\$ (297)	\$447	\$ (493)
Noncurrent	138	(112)	102	(163)
Total derivatives	\$439	\$ (409)	\$549	\$ (656)

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

	September 30, 2017		December 31, 2016	
	(In millions)			
FTRs — Other current assets	\$ 4	\$ 2		
Total derivatives not designated as hedging instrument	\$ 4	\$ 2		

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

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 approximately \$2 million outstanding at September 30, 2017 and December 31, 2016, 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 \$3 million and \$2 million at September 30, 2017 and December 31, 2016, respectively. Such balances of letters of credit are excluded from the tables below and are not netted with the recognized assets and liabilities in DTE Energy's Consolidated Statements of Financial Position.

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

For DTE Energy, the total cash collateral posted, net of cash collateral received, was \$42 million and \$34 million as of September 30, 2017 and December 31, 2016, respectively. DTE Energy had \$12 million of cash collateral related to unrealized positions to net against Derivative assets while Derivative liabilities are shown net of cash collateral of \$30 million as of September 30, 2017. DTE Energy had \$7 million of cash collateral related to unrealized positions to net against Derivative assets while Derivative liabilities are shown net of cash collateral of \$28 million as of December 31, 2016. DTE Energy recorded cash collateral paid of \$25 million and cash collateral received of \$1 million not related to unrealized derivative positions as of September 30, 2017. DTE Energy recorded cash collateral paid of \$18 million and cash collateral received of \$5 million not related to unrealized derivative positions as of December 31, 2016. These amounts are included in Accounts receivable and Accounts payable and are recorded net by counterparty.

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

	September 30, 2017			December 31, 2016		
	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
Derivative assets						
Commodity Contracts						
Natural Gas	\$230	\$ (151)	\$ 79	\$348	\$ (306)	\$ 42
Electricity	202	(148)	54	193	(157)	36
Other	4	—	4	2	—	2
Foreign currency exchange contracts	3	(2)	1	6	(5)	1

(In millions)

Edgar Filing: DTE ENERGY CO - Form 10-Q

Total derivative assets	\$439	\$ (301)	\$ 138	\$549	\$ (468)	\$ 81
Derivative liabilities						
Commodity Contracts						
Natural Gas	\$(204)	\$ 151	\$ (53)	\$(461)	\$ 321	\$ (140)
Electricity	(199)	164	(35)	(189)	163	(26)
Other	(2)	2	—	(3)	2	(1)
Foreign currency exchange contracts	(4)	2	(2)	(3)	3	—
Total derivative liabilities	\$(409)	\$ 319	\$ (90)	\$(656)	\$ 489	\$ (167)

36

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 showing the reconciliation of derivative instruments to DTE Energy's Consolidated Statements of Financial Position:

	September 30, 2017		December 31, 2016	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
	Current	Noncurrent	Current	Noncurrent
(In millions)				
Total fair value of derivatives	\$301	\$ 138	\$(297)	\$(112)
Counterparty netting	(225)	(64)	225	64
Collateral adjustment	—	(12)	30	—
Total derivatives as reported	\$76	\$ 62	\$(42)	\$(48)

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

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Gain (Loss)			
		Recognized in Income on Derivatives for the Three Months Ended September 30, 2017	Recognized in Income on Derivatives for the Three Months Ended September 30, 2016	Recognized in Income on Derivatives for the Nine Months Ended September 30, 2017	Recognized in Income on Derivatives for the Nine Months Ended September 30, 2016
		(In millions)			
Commodity Contracts					
Natural Gas	Operating Revenues — Non-utility operations	\$(14)	\$16	\$63	\$(70)
Natural Gas	Fuel, purchased power, and gas — non-utility	10	(59)	56	(27)
Electricity	Operating Revenues — Non-utility operations	33	23	39	18
Other	Operating Revenues — Non-utility operations	2	1	1	(1)
Foreign currency exchange contracts	Operating Revenues — Non-utility operations	(2)	—	(3)	(4)
Total		\$29	\$(19)	\$156	\$(84)

Revenues and energy costs related to trading contracts are presented on a net basis in DTE Energy's Consolidated Statements of Operations. Commodity derivatives used for trading purposes, and financial non-trading commodity derivatives, are accounted for using the MTM method with unrealized and realized gains and losses recorded in Operating Revenues — Non-utility operations. Non-trading physical commodity sale and purchase derivative contracts are generally accounted for using the MTM method with unrealized and realized gains and losses for sales recorded in Operating Revenues — Non-utility operations and purchases recorded in Fuel, purchased power, and gas — non-utility. The following represents the cumulative gross volume of DTE Energy's derivative contracts outstanding as of September 30, 2017:

Commodity	Number of Units
Natural Gas (MMBtu)	1,751,191,598
Electricity (MWh)	28,924,416
Foreign Currency Exchange (Canadian dollars)	89,049,511

Various subsidiaries of DTE Energy have entered into contracts which contain ratings triggers and are guaranteed by DTE Energy. These contracts contain provisions which allow the counterparties to require that DTE Energy post cash or letters of credit as collateral in the event that DTE Energy's credit rating is downgraded below investment grade. Certain of these provisions (known as "hard triggers") state specific circumstances under which DTE Energy can be required to post collateral upon the occurrence of a credit downgrade, while other provisions (known as "soft triggers") are not as specific. For contracts with soft triggers, it is difficult to estimate the amount of collateral which may be requested by counterparties and/or which DTE Energy may ultimately be required to post. The amount of such collateral which could be requested fluctuates based on commodity prices (primarily natural gas, power, and coal) and the provisions and maturities of the underlying transactions. As of September 30, 2017, 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 approximately \$470 million.

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

As of September 30, 2017, DTE Energy had approximately \$339 million of derivatives in net liability positions, for which hard triggers exist. There is no 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 approximately \$276 million. The net remaining amount of approximately \$63 million is derived from the \$470 million noted above.

NOTE 9 — LONG-TERM DEBT

Debt Issuances

In 2017, the following debt was issued:

Company	Month	Type	Interest Rate	Maturity	Amount (In millions)
DTE Energy	March	Senior Notes ^(a)	3.80%	2027	\$ 500
DTE Electric	August	General and Refunding Mortgage Bonds ^(b)	3.75%	2047	440
DTE Gas	September	First Mortgage Bonds ^(a)	3.08%	2029	40
DTE Gas	September	First Mortgage Bonds ^(a)	3.75%	2047	40
					\$ 1,020

(a) Proceeds were used for repayment of short-term borrowings and general corporate purposes.

(b) Proceeds were used to repay \$300 million of DTE Electric's 2008 series G 5.60% Senior Notes due on June 15, 2018, for the repayment of short-term borrowings and general corporate purposes.

Debt Redemptions

In 2017, the following debt was redeemed:

Company	Month	Type	Interest Rate	Maturity	Amount (In millions)
DTE Electric	August	Senior Notes	5.60%	2018	\$ 300
DTE Energy	September	Secured Note ^(a)	7.29%	2029	77
DTE Energy	Various	Other Long-Term Debt	Various	2017	8
					\$ 385

(a) DTE Energy's Gas Storage and Pipelines segment recognized a \$16 million net loss on extinguishment of debt associated with early repayment, consisting of \$20 million of early redemption premiums and \$4 million of unamortized debt premiums. The loss is reflected in Other (Income) and Deductions — Interest Expense on the Consolidated Statements of Operations.

NOTE 10 — SHORT-TERM CREDIT ARRANGEMENTS AND BORROWINGS

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

The agreements require DTE Energy, DTE Electric, and DTE Gas to maintain a total funded debt to capitalization ratio of no more than 0.65 to 1. In the agreements, "total funded debt" means all indebtedness of each respective company and their consolidated subsidiaries, including capital lease obligations, hedge agreements, and guarantees of third parties' debt, but excluding contingent obligations, nonrecourse and junior subordinated debt, and certain equity-linked securities and, except for calculations at the end of the second quarter, certain DTE Gas short-term debt. "Capitalization" means the sum of (a) total funded debt plus (b) "consolidated net worth," which is equal to consolidated total equity of each respective company and their consolidated subsidiaries (excluding pension effects under certain

FASB statements), as determined in accordance with accounting principles generally accepted in the United States of America. At September 30, 2017, the total funded debt to total capitalization ratios for DTE Energy, DTE Electric, and DTE Gas were 0.54 to 1, 0.51 to 1, and 0.48 to 1, respectively, and were in compliance with this financial covenant.

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

The availability under the facilities in place at September 30, 2017 is shown in the following table:

	DTE Energy	DTE Electric	DTE Gas	Total
	(In millions)			
Unsecured letter of credit facility, expiring in February 2019	\$ 150	\$ —	\$ —	\$ 150
Unsecured letter of credit facility, expiring in September 2019 ^(a)	70	—	—	70
Unsecured revolving credit facility, expiring April 2022	1,200	400	300	1,900
	1,420	400	300	2,120
Amounts outstanding at September 30, 2017				
Commercial paper issuances	98	311	250	659
Letters of credit	132	—	—	132
	230	311	250	791
Net availability at September 30, 2017	\$ 1,190	\$ 89	\$ 50	\$ 1,329

^(a) In August 2017, DTE Energy amended its \$70 million letter of credit facility. The facility's maturity date was extended from September 2017 to September 2019.

DTE Energy has approximately \$17 million of other outstanding letters of credit which are used for various corporate purposes and are not included in the facilities described above.

In conjunction with maintaining certain exchange traded risk management positions, DTE Energy may be required to post collateral with its clearing agent. DTE Energy has a demand financing agreement for up to \$100 million with its clearing agent. The agreement, as amended, also allows for up to \$50 million of additional margin financing provided that DTE Energy posts a letter of credit for the incremental amount and allows the right of setoff with posted collateral. At September 30, 2017, the capacity under this facility was \$100 million. The amount outstanding under this agreement was \$32 million and \$50 million at September 30, 2017 and December 31, 2016, respectively, and was fully offset by the posted collateral.

NOTE 11 — COMMITMENTS AND CONTINGENCIES

Environmental

DTE Electric

Air — DTE Electric is subject to the EPA ozone and fine particulate transport and acid rain regulations that limit power plant emissions of SO₂ and NO_x. 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 NO_x, SO₂, mercury, and other emissions. Additional rulemakings may occur over the next few years which could require additional controls for SO₂, NO_x, and other hazardous air pollutants.

The Cross State Air Pollution Rule (CSAPR), required further reductions of SO₂ and NO_x emissions beginning in January 2015. On September 7, 2016, the EPA finalized an update to the CSAPR ozone season program by issuing the CSAPR Update Rule. This rule is expected to reduce summertime (May-September) NO_x emissions from power plants in 22 states in the eastern half of the U.S., including DTE Electric facilities. The CSAPR Update Rule is intended to reduce air quality impacts of the interstate transport of air pollution on downwind areas' ability to meet the 2008 ozone National Ambient Air Quality Standards implementing power sector emission budgets and NO_x allowance trading programs. DTE Electric expects to meet its obligations under CSAPR. DTE Electric does not expect this rule to have a material effect on its compliance program.

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. The Registrants expect the EPA to designate areas as either attainment or non-attainment with the 2015 ozone standards in the fourth quarter of 2017. DTE Electric cannot predict the financial impact of the revised ozone standards at this

time.

39

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

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

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. Oral arguments before the Sixth Circuit occurred in December 2015. On January 10, 2017, a divided panel of the Court reversed the decision of the U.S. District Court. On February 24, 2017, DTE Energy and DTE Electric filed a petition with the Sixth Circuit Court for a rehearing and a rehearing en banc, which was denied on May 1, 2017. 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 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. Responses to the petition are due November 1, 2017.

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 NOV/FOVs, DTE Electric could be required to install additional pollution control equipment at some or all of the power plants in question, implement early retirement of facilities where control equipment is not economical, engage in supplemental environmental programs, and/or pay fines. The Registrants cannot predict the financial impact or outcome of this matter, or the timing of its resolution.

The EPA has implemented regulatory actions under the Clean Air Act to address emissions of GHGs from the utility sector and other sectors of the economy. Among these actions, the EPA finalized performance standards for emissions of carbon dioxide from new and existing 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. 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.

Additionally, federal agencies have been directed to conduct a review of all existing regulations that potentially burden the development and use of domestically produced energy resources. Following the issuance of this order, the federal government requested the U.S. Court of Appeals for the D.C. Circuit to hold all legal challenges in abeyance

until the review of these regulations is completed. On October 10, 2017, the EPA proposed to rescind the Clean Power Plan and announced its intent to issue an ANPR seeking input as to whether it should replace the rule and, if so, what form it should take. It is not possible to determine the potential impact of the EPA Clean Power Plan on existing sources at this time.

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

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

To comply with air pollution requirements, DTE Electric spent approximately \$2.4 billion through 2016. DTE Electric does not anticipate additional capital expenditures through 2023.

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 2015. The final rule requires studies to be completed by April 2018 to determine the type of technology needed to reduce impacts to fish. DTE Electric has initiated the process of completing the required studies. Final compliance for the installation of any required technology will be determined by each state on a case by case, site specific basis. DTE Electric is currently evaluating the compliance options and working with the State of Michigan on evaluating whether any controls are needed. These evaluations/studies may require modifications to some existing intake structures. It is not possible to quantify the impact of this rulemaking at this time.

Contaminated and Other Sites — Prior to the construction of major interstate natural gas pipelines, gas for heating and other uses was manufactured locally from processes involving coal, coke, or oil. The facilities, which produced gas, have been designated as MGP sites. DTE Electric conducted remedial investigations at contaminated sites, including three former MGP sites. The investigations have revealed contamination related to the by-products of gas manufacturing at each MGP site. In addition to the MGP sites, DTE Electric is also in the process of cleaning up other contaminated sites, including the area surrounding an ash landfill, electrical distribution substations, electric generating power plants, and underground and aboveground storage tank locations. The findings of these investigations indicated that the estimated cost to remediate these sites is expected to be incurred over the next several years. At September 30, 2017 and December 31, 2016, DTE Electric had \$8 million 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 CCR, commonly known as coal ash, became effective in October 2015, and was revised in October 2016. In September 2017, the EPA indicated that it intends to reconsider certain provisions of the CCR Rule, but the nature and timing of such a reconsideration is unknown. 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.

In November 2015, the EPA finalized the ELG Rule for the steam electric power generating industry which may require additional controls to be installed between 2018 and 2023. Compliance schedules for individual facilities and individual waste streams are determined through issuance of new wastewater permits by the State of Michigan. The State of Michigan has issued a National Pollutant Discharge Elimination System permit for the Belle River Power Plant establishing a compliance deadline of December 31, 2021. No new permits have been issued for other facilities, consequently no compliance timelines have been established. Under the current rule, certain ELG requirements would be required to be performed in conjunction with the CCR. Over the next six years, to comply with the ELG requirements of the November 2015 rules and for CCR requirements, costs associated with the building of new facilities or installation of controls are estimated to be approximately \$311 million.

On April 12, 2017, the EPA granted a petition for reconsideration of the ELG Rule. The EPA also signed an administrative stay of the ELG Rule's compliance deadlines for fly ash transport water, bottom ash transport water, and flue gas desulfurization (FGD) wastewater, among others. On June 6, 2017, the EPA published in the Federal Register a proposed rule to postpone certain applicable deadlines within the ELG rule. The final rule was published on September 18, 2017, which extended the earliest compliance deadlines for the FGD wastewater and bottom ash

transport until November 1, 2020 in order for the EPA to propose and finalize a new ruling. The ELG compliance requirements, final deadlines, and compliance costs will not be known until the EPA completes its reconsideration of the ELG Rule.

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

DTE Gas

Contaminated and Other Sites — DTE Gas owns or previously owned, 14 former MGP sites. Investigations have revealed contamination related to the by-products of gas manufacturing at each site. Cleanup of six of the MGP sites is complete, and the sites are closed. DTE Gas has also completed partial closure of six additional sites. Cleanup activities associated with the remaining sites will continue over the next several years. The MPSC has established a cost deferral and rate recovery mechanism for investigation and remediation costs incurred at former MGP sites. In addition to the MGP sites, DTE Gas is also in the process of cleaning up other contaminated sites, including gate stations, gas pipeline releases, and underground storage tank locations. As of September 30, 2017 and December 31, 2016, DTE Gas had \$41 million and \$43 million accrued for remediation, respectively. Any change in assumptions, such as remediation techniques, nature and extent of contamination, and regulatory requirements, could impact the estimate of remedial action costs for the sites and affect DTE Gas' financial position and cash flows. DTE Gas anticipates the cost amortization methodology approved by the MPSC, which allows for amortization of the MGP costs over a ten-year period beginning with the year subsequent to the year the MGP costs were incurred, will prevent environmental costs from having a material adverse impact on DTE Gas' results of operations.

Non-utility

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

Other

In 2010, the EPA finalized a new one-hour SO₂ ambient air quality standard that requires states to submit plans and associated timelines for non-attainment areas that demonstrate attainment with the new SO₂ 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 SO₂ and modeled concentrations exceeding the National Ambient Air Quality Standards for SO₂. Phase 3 addresses smaller sources of SO₂ with modeled or monitored exceedances of the new SO₂ standard. Michigan's Phase 1 non-attainment area includes DTE Energy facilities in southwest Detroit and areas of Wayne County. Modeling runs by the MDEQ suggest that emission reductions may be required by significant sources of SO₂ 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 SO₂ 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 plans (SIPs) for Phase 2 areas describing the control strategy and timeline for demonstrating compliance with the new SO₂ standard are due to the EPA by April 2018. 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, as it is currently under development.

Synthetic Fuel Guarantees

DTE Energy discontinued the operations of its synthetic fuel production facilities throughout the United States as of December 31, 2007. DTE Energy provided certain guarantees and indemnities in conjunction with the sales of interests in its synfuel facilities. The guarantees cover potential commercial, environmental, oil price, and tax-related obligations that will survive until 90 days after expiration of all applicable statutes of limitations. DTE Energy estimates that its maximum potential liability under these guarantees at September 30, 2017 was approximately \$620 million. Payment under these guarantees is considered remote.

REF Guarantees

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

potential liability under these guarantees at September 30, 2017 was approximately \$364 million. Payment under these guarantees is considered remote.

42

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

NEXUS Guarantees

NEXUS entered into certain 15-year capacity lease agreements for the transportation of natural gas with DTE Gas and Texas Eastern Transmission, LP, an unrelated third party. Pursuant to the terms of those agreements, in December 2016, DTE Energy executed separate guarantee agreements with DTE Gas and Texas Eastern Transmission, LP, with maximum potential payments totaling \$75 million and \$9 million at September 30, 2017, respectively; each representing 50% of all payment obligations due and payable by NEXUS. Should NEXUS fail to perform under the terms of those agreements, DTE Energy is required to perform on its behalf. Each guarantee terminates at the earlier of (i) such time as all of the guaranteed obligations have been fully performed, or (ii) two months following the end of the primary term of the capacity lease agreements. Subsequent to the NEXUS in-service date, the amount of each guarantee decreases annually as payments are made by NEXUS to each of the aforementioned counterparties. Payments under these guarantees are considered remote.

Other Guarantees

In certain limited circumstances, the Registrants enter into contractual guarantees. The Registrants may guarantee another entity's obligation in the event it fails to perform and may provide guarantees in certain indemnification agreements. Finally, the Registrants may provide indirect guarantees for the indebtedness of others. DTE Energy's guarantees are not individually material with maximum potential payments totaling \$55 million at September 30, 2017. Payment under these guarantees is considered remote.

DTE Energy is periodically required to obtain performance surety bonds in support of obligations to various governmental entities and other companies in connection with its operations. As of September 30, 2017, DTE Energy had approximately \$57 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's approximately 4,800 represented employees, including DTE Electric's approximately 2,600 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 \$2.5 billion and \$1.5 billion in 2017 for DTE Energy and DTE Electric, respectively. The Registrants have made certain commitments in connection with these estimated 2017 expenditures and contributions to equity method investees.

Other Contingencies

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

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

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

NOTE 12 — RETIREMENT BENEFITS AND TRUSTEED ASSETS

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

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Three Months Ended September 30, (In millions)				
Service cost	\$22	\$23	\$ 7	\$ 7
Interest cost	53	55	18	20
Expected return on plan assets	(78)	(77)	(33)	(33)
Amortization of:				
Net actuarial loss	46	43	3	6
Prior service cost (credit)	1	—	(3)	(29)
Net periodic benefit cost (credit)	\$44	\$44	\$ (8)	\$ (29)

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Nine Months Ended September 30, (In millions)				
Service cost	\$69	\$69	\$ 20	\$ 20
Interest cost	160	164	55	60
Expected return on plan assets	(233)	(232)	(98)	(97)
Amortization of:				
Net actuarial loss	132	124	10	22
Prior service cost (credit)	1	—	(10)	(88)
Net periodic benefit cost (credit)	\$129	\$125	\$ (23)	\$ (83)

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

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Three Months Ended September 30, (In millions)				
Service cost	\$16	\$18	\$ 5	\$ 5
Interest cost	40	42	14	15
Expected return on plan assets	(56)	(55)	(23)	(23)
Amortization of:				
Net actuarial loss	32	31	2	4
Prior service cost (credit)	1	—	(2)	(22)
Net periodic benefit cost (credit)	\$33	\$36	\$ (4)	\$ (21)

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Nine Months Ended September 30, (In millions)				
Service cost	\$53	\$53	\$ 15	\$ 15

Edgar Filing: DTE ENERGY CO - Form 10-Q

Interest cost	121	125	42	46
Expected return on plan assets	(167)	(165)	(68)	(68)
Amortization of:				
Net actuarial loss	94	88	6	15
Prior service cost (credit)	1	1	(7)	(66)
Net periodic benefit cost (credit)	\$102	\$102	\$(12)	\$(58)

44

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

Pension and Other Postretirement Contributions

During the first nine months of 2017, DTE Energy made cash contributions of \$220 million, including contributions from DTE Electric of \$185 million, to its pension plans. At the discretion of management and depending upon financial market conditions, DTE Energy may make additional contributions up to \$88 million, including additional contributions from DTE Electric of \$85 million, to its pension plans in 2017.

DTE Energy does not anticipate making any contributions to the other postretirement benefit plans in 2017.

NOTE 13 — SEGMENT AND RELATED INFORMATION

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

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

Gas Storage and Pipelines consists of natural gas pipeline, gathering, and storage businesses.

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 from renewable energy projects.

Energy Trading consists of energy marketing and trading operations.

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

The federal income tax provisions or benefits of DTE Energy's subsidiaries are determined on an individual company basis and recognize the tax benefit of tax credits and net operating losses, if applicable. The state and local income tax provisions of the utility subsidiaries are determined on an individual company basis and recognize the tax benefit of various tax credits and net operating losses, if applicable. The subsidiaries record federal, state, and local income taxes payable to or receivable from DTE Energy based on the federal, state, and local tax provisions of each company.

Inter-segment billing for goods and services exchanged between segments is based upon tariffed or market-based prices of the provider and primarily consists of the sale of reduced emissions fuel, power sales, and natural gas sales in the following segments:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(In millions)			
Electric	\$11	\$15	\$36	\$32
Gas	1	5	6	8
Gas Storage and Pipelines	10	2	32	7
Power and Industrial Projects	138	178	462	476
Energy Trading	8	10	27	28
Corporate and Other	1	—	2	2
	\$169	\$210	\$565	\$553

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

Financial data of DTE Energy's business segments follows:

	Three Months Ended September 30, 2017 2016		Nine Months Ended September 30, 2017 2016			
	(In millions)					
Operating Revenues — Utility operations						
Electric	\$1,434	\$1,608	\$3,827	\$3,976		
Gas	152	160	929	911		
Operating Revenues — Non-utility operations						
Gas Storage and Pipelines	115	63	333	199		
Power and Industrial Projects	537	524	1,592	1,414		
Energy Trading	1,174	782	3,217	1,807		
Corporate and Other	2	1	3	2		
Reconciliation and Eliminations	(169)	(210)	(565)	(553)		
Total	\$3,245	\$2,928	\$9,336	\$7,756		
Net Income (Loss) Attributable to DTE Energy by Segment:						
Electric			\$219	\$285	\$463	\$547
Gas			(15)	(4)	93	96
Gas Storage and Pipelines			36	28	121	93
Power and Industrial Projects			44	34	104	66
Energy Trading			1	(4)	97	(34)
Corporate and Other			(15)	(1)	(31)	(31)
Net Income Attributable to DTE Energy Company			\$270	\$338	\$847	\$737

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 September 30, 2017 2016		Nine Months Ended September 30, 2017 2016	
	(In millions, except per share amounts)			
Net Income Attributable to DTE Energy Company	\$270	\$338	\$847	\$737
Diluted Earnings per Common Share	\$1.51	\$1.88	\$4.72	\$4.10

The decrease in Net Income in the third quarter was primarily due to lower earnings in the Electric and Corporate and Other segments, partially offset by higher earnings in the Power and Industrial Projects and Gas Storage and Pipelines

segments. The increase in Net Income in the nine-month period was primarily due to higher earnings in the Energy Trading, Power and Industrial Projects, and Gas Storage and Pipelines segments, partially offset by lower earnings in the Electric segment.

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

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

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

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

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

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

CAPITAL INVESTMENTS

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

DTE Electric's capital investments over the 2017-2021 period are estimated at \$8.4 billion comprised of \$3.2 billion for capital replacements and other projects, \$3.2 billion for distribution infrastructure, and \$2.0 billion for new generation. DTE Electric has retired four coal-fired generation units at the Trenton Channel, River Rouge, and St. Clair facilities and has announced plans to retire its remaining thirteen coal-fired generating units. Seven of these coal-fired generating units will be retired through 2023 at the Trenton Channel, River Rouge, and St. Clair facilities. The remaining coal-fired generating units at the Belle River and Monroe facilities are expected to be retired by 2040. The retired facilities will be replaced with renewables, energy efficiency, demand response, and natural gas fueled generation. DTE Electric plans to build a natural gas fueled combined cycle generation facility to provide approximately 1,100 megawatts of energy beginning in 2022. In the third quarter of 2017, DTE Electric filed a CON with the MPSC seeking approval for the planned build of this natural gas plant. In September 2016, DTE Electric received an order from the MPSC in its amended Renewable Energy Plan approving two 150 megawatt wind projects expected to be constructed and in service between 2018 and 2020, and 25 megawatts of company-owned solar projects which will be constructed and in service between 2019 and 2020. DTE Electric constructed and placed in service 50 megawatts of solar generation in 2017. DTE Electric plans to seek regulatory approval for capital expenditures consistent with prior ratemaking treatment.

DTE Gas' capital investments over the 2017-2021 period are estimated at \$1.8 billion comprised of \$1.0 billion for base infrastructure, \$700 million for gas main renewal, meter move out, and pipeline integrity programs, and \$100 million for expenditures related to the NEXUS Pipeline. DTE Gas plans to seek regulatory approval in general rate case filings for base infrastructure capital expenditures consistent with prior 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 2017-2021 period are estimated at \$2.2 billion to \$2.8 billion for gathering and pipeline investments and expansions, including the NEXUS Pipeline. Power and

Industrial Projects' capital investments over the 2017-2021 period are estimated at \$600 million to \$1.0 billion for investments in cogeneration and on-site energy projects.

ENVIRONMENTAL MATTERS

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

DTE Electric is subject to the EPA ozone and fine particulate transport and acid rain regulations that limit power plant emissions of SO₂ and NO_x. 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 NO_x, SO₂, mercury and other emissions. Additional rulemakings are expected over the next few years which could require additional controls for SO₂, NO_x, and other hazardous air pollutants. To comply with these requirements, DTE Electric spent approximately \$2.4 billion through 2016. DTE Electric does not anticipate additional capital expenditures through 2023.

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, the EPA finalized performance standards for emissions of carbon dioxide from new and existing 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. 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.

Additionally, federal agencies have been directed to conduct a review of all existing regulations that potentially burden the development and use of domestically produced energy resources. Following the issuance of this order, the federal government requested the U.S. Court of Appeals for the D.C. Circuit to hold all legal challenges in abeyance until the review of these regulations is completed. On October 10, 2017, the EPA proposed to rescind the Clean Power Plan and announced its intent to issue an ANPR seeking input as to whether it should replace the rule and, if so, what form it should take. It is not possible to determine the potential impact of the EPA Clean Power Plan on existing sources at this time.

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

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

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

OUTLOOK

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

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

- electric and gas customer satisfaction;
- electric distribution system reliability;
- new electric generation;

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

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

RESULTS OF OPERATIONS

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

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

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

The Non-utility Margin relates to our 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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In millions)			
Net Income (Loss) Attributable to DTE Energy by Segment				
Electric	\$219	\$285	\$463	\$547
Gas	(15)	(4)	93	96
Gas Storage and Pipelines	36	28	121	93
Power and Industrial Projects	44	34	104	66
Energy Trading	1	(4)	97	(34)
Corporate and Other	(15)	(1)	(31)	(31)
Net Income Attributable to DTE Energy Company	\$270	\$338	\$847	\$737

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In millions)			
Operating Revenues — Utility operations	\$1,434	\$1,608	\$3,827	\$3,976
Fuel and purchased power — utility	428	495	1,097	1,191
Utility Margin	1,006	1,113	2,730	2,785
Operation and maintenance	349	363	1,068	1,019
Depreciation and amortization	188	176	549	539
Taxes other than income	74	73	229	216
Operating Income	395	501	884	1,011
Other (Income) and Deductions	58	60	172	162
Income Tax Expense	118	156	249	302
Net Income Attributable to DTE Energy Company	\$219	\$285	\$463	\$547

See DTE Electric's Consolidated Statements of Operations for a complete view of its results.

Utility Margin decreased \$107 million and \$55 million in the three and nine months ended September 30, 2017, respectively. Revenues associated with certain mechanisms and surcharges are offset by related expenses elsewhere in the Registrants' Consolidated Statements of Operations.

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

	Three Months	Nine Months
	Months	Months
	(In millions)	
Implementation of new rates	\$—	\$ 97
PSCR disallowance	—	(13)
Base sales	(19)	(14)
Weather	(84)	(117)

Regulatory mechanisms and other (4) (8)
Decrease in Utility Margin \$(107) \$ (55)

50

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(In thousands of MWh)			
DTE Electric Sales				
Residential	4,335	5,174	11,290	12,361
Commercial	4,801	5,085	13,208	13,427
Industrial	2,627	2,618	7,461	7,596
Other	48	57	188	193
	11,811	12,934	32,147	33,577
Interconnection sales ^(a)	318	456	2,330	1,992
Total DTE Electric Sales	12,129	13,390	34,477	35,569
DTE Electric Deliveries				
Retail and wholesale	11,811	12,934	32,147	33,577
Electric retail access, including self-generators ^(b)	1,249	1,241	3,636	3,731
Total DTE Electric Sales and Deliveries	13,060	14,175	35,783	37,308

(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 decreased \$14 million and increased \$49 million in the three and nine months ended September 30, 2017, respectively. The decrease in the third quarter was primarily due to decreased power plant generation expenses of \$24 million related to outages, partially offset by increased distribution operations expenses of \$7 million and increased expenses of \$2 million related to the 2016 fire at a generation facility. The increase in the nine-month period was primarily due to increased storm restoration expenses of \$24 million, increased distribution operations expenses of \$7 million, and \$19 million related to the 2016 fire at a generation facility. DTE Electric expects the power plant generation expenses related to the 2016 fire at a generation facility to be partially reimbursed by insurance proceeds.

Depreciation and amortization expense increased \$12 million and \$10 million in the three and nine months ended September 30, 2017, respectively. The increase in the third quarter was primarily due to \$15 million of increased expense from an increased depreciable base, partially offset by a decrease of \$3 million in amortization of regulatory assets. The increase in the nine-month period was primarily due to \$27 million of increased expenses from an increased depreciable base, partially offset by a decrease of \$10 million associated with the TRM and a decrease of \$7 million in amortization of regulatory assets.

Other (Income) and Deductions decreased \$2 million and increased \$10 million in the three and nine months ended September 30, 2017, respectively. The decrease in the third quarter was primarily due to \$2 million of contributions to not-for-profit organizations in 2016. The increase in the nine-month period was primarily due to lower interest income of \$8 million related to a sales and use tax settlement received in 2016 and higher interest expense of \$10 million, partially offset by \$5 million of higher investment earnings and \$2 million of contributions to not-for-profit organizations in 2016.

Outlook — DTE Electric will continue to move forward in its efforts to achieve operational excellence, sustain strong cash flows, and earn its authorized return on equity. DTE Electric expects that planned significant capital investments will result in earnings growth. DTE Electric expects to continue its efforts to improve productivity and decrease costs while improving customer satisfaction with consideration of customer rate affordability. Looking forward, additional factors may impact earnings, such as weather, the outcome of regulatory proceedings, benefit plan design changes, investment returns and changes in discount rate assumptions in benefit plans and health care costs, impact of 2016 Michigan energy legislation, uncertainty of legislative or regulatory actions regarding climate change, and effects of

energy efficiency programs.

DTE Electric filed a rate case with the MPSC on April 19, 2017 requesting an increase in base rates of \$231 million based on a projected twelve-month period ending October 31, 2018. The requested increase in base rates is primarily due to an increase in net plant resulting from infrastructure investments, environmental compliance, and reliability improvement projects. The rate filing also includes projected changes in sales, operation and maintenance expenses, and working capital. The rate filing also requests an increase in return on equity from 10.1% to 10.5% on capital structure. On September 8, 2017, DTE Electric filed an application with the MPSC for a \$125 million self-implemented base rate increase effective November 1, 2017. A final MPSC order in this case is expected by April 2018.

51

GAS

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(In millions)			
Operating Revenues — Utility operations	\$152	\$160	\$929	\$911
Cost of gas — utility	12	15	278	306
Utility Margin	140	145	651	605
Operation and maintenance	110	99	330	293
Depreciation and amortization	31	27	91	79
Taxes other than income	10	13	48	49
Operating Income (Loss)	(11)	6	182	184
Other (Income) and Deductions	12	13	38	35
Income Tax Expense (Benefit)	(8)	(3)	51	53
Net Income (Loss) Attributable to DTE Energy Company	\$(15)	\$(4)	\$93	\$96

Utility Margin decreased \$5 million and increased \$46 million in the three and nine months ended September 30, 2017, respectively. Revenues associated with certain surcharges are offset by related expenses elsewhere in DTE Energy's Consolidated Statements of Operations.

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

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(In millions)	
Implementation of new rates	\$1	\$70
Revenue decoupling mechanism	—	6
Weather	2	(22)
Other	(8)	(8)
Increase (decrease) in Utility Margin	\$(5)	\$46

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(In Bcf)	
Gas Markets		
Gas sales	87	77
End-user transportation	34	38
	42	45
Intermediate transportation	55	44
Total Gas sales	97	89

Operation and maintenance expense increased \$11 million and \$37 million in the three and nine months ended September 30, 2017, respectively. The increase in the third quarter was primarily due to increased employee benefits expenses of \$8 million and increased gas operations expenses of \$2 million. The increase in the nine-month period was primarily due to increased employee benefits expenses of \$24 million, increased corporate expenses of \$8 million, and increased gas operations expenses of \$5 million.

Depreciation and amortization expense increased \$4 million and \$12 million in the three and nine months ended September 30, 2017, respectively. The increase in both periods was primarily due to increased expense from an increased depreciable base and higher depreciation rates.

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.

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 September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(In millions)			
Operating Revenues — Non-utility operations	\$115	\$63	\$333	\$199
Cost of gas — Non-utility	8	—	23	—
Operation and maintenance	19	15	57	47
Depreciation and amortization	19	8	57	27
Taxes other than income	1	1	5	3
Asset (gains) losses and impairments, net	1	—	2	—
Operating Income	67	39	189	122
Other (Income) and Deductions	5	(9)	(18)	(28)
Income Tax Expense	19	19	66	55
Net Income	43	29	141	95
Less: Net Income Attributable to Noncontrolling Interests	7	1	20	2
Net Income Attributable to DTE Energy Company	\$36	\$28	\$121	\$93

Operating Revenues — Non-utility operations increased \$52 million and \$134 million in the three and nine months ended September 30, 2017, respectively. The increase in both periods was primarily due to the acquisition of AGS and SGG and increased volumes from Susquehanna gathering.

Cost of gas — Non-utility increased \$8 million and \$23 million in the three and nine months ended September 30, 2017, respectively. The increase in both periods was primarily driven by physical purchase of gas from AGS customers for resale to optimize available transportation capacity.

Operation and maintenance expense and Depreciation and amortization expense increased in the three and nine months ended September 30, 2017, respectively. The increase in both periods was primarily due to the acquisition of AGS and SGG.

Other (Income) and Deductions decreased \$14 million and \$10 million in the three and nine months ended September 30, 2017, respectively. The decrease in both periods was primarily driven by recognizing a \$16 million net loss on extinguishment of debt within the storage business, partially offset by increased AFUDC recorded on the NEXUS Pipeline.

Net Income Attributable to Noncontrolling Interests increased \$6 million and \$18 million in the three and nine months ended September 30, 2017, respectively. The increase in both periods was primarily due to the acquisition of SGG. See Note 4 to the Consolidated Financial Statements, "Acquisition," for discussion of the acquisition of AGS and SGG in October 2016.

Outlook — The Susquehanna gathering system is being expanded with additional compression facilities and gathering lines as needed to accommodate shipper demand. DTE Energy believes its long-term agreement with Southwestern Energy Production Company and the quality of the natural gas reserves in the Marcellus region soundly positions

Bluestone Pipeline and Susquehanna gathering system for future growth.

53

Progress continues on development activities on the NEXUS Pipeline, a transportation path to transport Appalachian Basin shale gas, including Utica and Marcellus shale gas, directly to consuming markets in northern Ohio, southeastern Michigan, and Dawn Ontario. DTE Energy owns a 50% partnership interest in the NEXUS Pipeline, with an investment balance of \$534 million at September 30, 2017. A FERC application was filed in the fourth quarter of 2015 and was approved on August 25, 2017. Construction is scheduled to commence in October 2017, with a third quarter 2018 in-service target date for the NEXUS Pipeline.

The October 2016 acquisition of AGS and SGG provides 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 a new set of producer relationships that may lead to more partnering opportunities.

In May 2017, DTE Energy filed a FERC application for approval of the Birdsboro Pipeline, a 14-mile lateral to serve a new power plant in Pennsylvania. DTE Energy is targeting a 2018 in-service date.

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 from renewable energy projects. Power and Industrial Projects results are discussed below:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(In millions)			
Operating Revenues — Non-utility operations	\$537	\$524	\$1,592	\$1,414
Fuel, purchased power, and gas — non-utility	460	451	1,388	1,218
Non-utility Margin	77	73	204	196
Operation and maintenance	80	78	248	236
Depreciation and amortization	18	18	55	54
Taxes other than income	3	3	9	10
Asset (gains) losses and impairments, net	5	(1)	7	(1)
Operating Loss	(29)	(25)	(115)	(103)
Other (Income) and Deductions	(21)	(12)	(60)	(44)
Income Taxes				
Expense (Benefit)	2	1	(8)	(11)
Production Tax Credits	(40)	(34)	(116)	(85)
	(38)	(33)	(124)	(96)
Net Income	30	20	69	37
Less: Net Loss Attributable to Noncontrolling Interests	(14)	(14)	(35)	(29)
Net Income Attributable to DTE Energy Company	\$44	\$34	\$104	\$66

Operating Revenues — Non-utility operations increased \$13 million and \$178 million in the three and nine months ended September 30, 2017, respectively. The increases are due to the following:

	Three Months	Nine Months
	(In millions)	
Lower coal prices offset by higher production associated with new projects in the REF business	\$(17)	\$115
Higher sales due to improved conditions in the steel business	36	85

Edgar Filing: DTE ENERGY CO - Form 10-Q

Lower production and one-time revenue recovery in third quarter 2016 in the renewables business	(5)	(16)
Other	(1)	(6)
	\$13	\$ 178

54

Non-utility Margin increased \$4 million and \$8 million in the three and nine months ended September 30, 2017, respectively. The increases are due to the following:

	Three Months (In millions)	Nine Months
Higher sales due to improved conditions in the steel business	\$ 11	\$ 38
Lower sales primarily associated with expired contracts in the on-site business	(3)	(11)
Lower production and one-time revenue recovery in third quarter 2016 in the renewables business	(4)	(13)
Other	—	(6)
	\$ 4	\$ 8

Operation and maintenance expense increased \$2 million and \$12 million in the three and nine months ended September 30, 2017, respectively. The increase in the third quarter was primarily due to higher maintenance in the renewables projects. The increase in the nine-month period was primarily due to \$6 million of higher maintenance in the renewables projects and \$5 million of higher spending due to new projects in the REF business.

Asset (gains) losses and impairments, net decreased \$6 million and \$8 million in the three and nine months ended September 30, 2017, respectively. The decrease in both periods was primarily due to a \$6 million impairment recorded in the petroleum coke business in 2017.

Other (Income) and Deductions increased \$9 million and \$16 million in the three and nine months ended September 30, 2017, respectively. The increase in the third quarter was primarily due to a \$6 million increase in equity earnings in the renewable business and a \$4 million increase due to an insurance settlement in the renewable business. The increase in the nine-month period was primarily due to a \$6 million increase in equity earnings in the renewable business, a \$4 million increase due to an insurance settlement in the renewable business, a \$3 million increase in equity earnings in the landfill gas business, and a \$2 million increase due to an insurance settlement in the REF business.

Income Taxes — Production Tax Credits increased \$6 million and \$31 million in the three and nine months ended September 30, 2017, respectively. The increase in both periods was primarily due to new projects in the REF business.

Net Loss Attributable to Noncontrolling Interests increased \$6 million in the nine months ended September 30, 2017. The increase was due to higher production in the existing lease arrangements with investors at various REF facilities.

Outlook — Power and Industrial Projects has constructed and placed in service REF facilities at eleven sites including facilities located at eight third-party owned coal-fired power plants. DTE Energy has sold membership interests in four of the facilities and entered into lease arrangements in three of the facilities. DTE Energy will continue to optimize these facilities by seeking investors or entering into lease arrangements for facilities operating at DTE Electric and other utility sites. DTE Energy is in the process of entering into a sublicense agreement with a third-party owned and operated REF facility.

DTE Energy expects sustained production levels of metallurgical coke and pulverized coal supplied to steel industry customers for 2018. The segment has four renewable power generation facilities in operation. On-site energy services will continue to be delivered in accordance with the terms of long-term contracts. In October 2017, a Power and Industrial Projects subsidiary and Ford Motor Company (Ford) entered into a 30-year agreement to build, own, and operate utility assets to supply utility services to Ford's new Research & Engineering Campus located in Dearborn, Michigan. Simultaneously, DTE Electric and Ford entered into a 30-year agreement to supply steam to the campus using a combined heat and power facility owned by DTE Electric. Construction is scheduled to begin in the fourth

quarter of 2017, with commercial operation expected to begin in late 2019. DTE Energy will continue to look for additional investment opportunities and other energy projects at favorable prices. 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		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(In millions)			
Operating Revenues — Non-utility operations	\$1,174	\$782	\$3,217	\$1,807
Purchased power and gas — non-utility	1,154	773	2,999	1,810
Non-utility Margin	20	9	218	(3)
Operation and maintenance	15	14	50	46
Depreciation and amortization	1	1	3	2
Taxes other than income	1	1	4	2
Operating Income (Loss)	3	(7)	161	(53)
Other (Income) and Deductions	1	—	2	3
Income Tax Expense (Benefit)	1	(3)	62	(22)
Net Income (Loss) Attributable to DTE Energy Company	\$1	\$(4)	\$97	\$(34)

Operating Revenues — Non-utility operations increased \$392 million and \$1,410 million in the three and nine months ended September 30, 2017, respectively. The increase in the third quarter was primarily due to higher volumes in the gas structured strategy. The increase in the nine-month period was primarily due to higher gas prices and higher volumes in the gas structured strategy.

Non-utility Margin increased \$11 million and \$221 million in the three and nine months ended September 30, 2017, respectively. The increases were due to the unrealized and realized margins presented in the following tables:

	Three Months (In millions)
Unrealized Margins ^(a)	
Favorable results, primarily in gas structured and power trading strategies ^(b)	\$ 53
Unfavorable results, primarily in gas trading and gas transportation strategies	(15)
	\$ 38
Realized Margins ^(a)	
Unfavorable results, primarily in power full requirements, environmental trading, power trading, and gas storage strategies ^(c)	\$ (39)
Favorable results, primarily in the gas trading strategy	12
	\$ (27)
Increase in Non-utility Margin	\$ 11

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

(b) Amount includes \$39 million of timing related gains related to gas strategies which will reverse in future periods as the underlying contracts settle.

(c)

Amount includes \$2 million of timing related gains related to gas strategies recognized in previous periods that reversed as the underlying contracts settled.

	Nine Months (In millions)
Unrealized Margins ^(a)	
Favorable results, primarily in gas structured, gas full requirements, and environmental trading strategies ^(b)	\$ 158
Unfavorable results, primarily in gas trading and power full requirements strategies	(15)
	\$ 143
Realized Margins ^(a)	
Favorable results, primarily in gas structured, gas storage, and gas trading strategies ^(c)	\$ 94
Unfavorable results, primarily in power full requirements and power trading strategies	(16)
	\$ 78
Increase in Non-utility Margin	\$ 221

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.

(a) Amount includes \$152 million of timing related gains related to gas strategies which will reverse in future periods as the underlying contracts settle.

(b) Amount includes \$89 million of timing related losses 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 financial reform, regulatory changes, and changes in operating rules of Regional Transmission Organizations. Significant portions of the Energy Trading portfolio are economically hedged. Most financial instruments and physical power and natural gas contracts are deemed derivatives, whereas natural gas inventory, pipeline transportation, renewable energy credits, and storage assets are not derivatives. As a result, Energy Trading will experience earnings volatility as derivatives are marked-to-market without revaluing the underlying non-derivative contracts and assets. Energy Trading's strategy is to economically manage the price risk of these underlying non-derivative contracts and assets with futures, forwards, swaps, and options. This results in gains and losses that are recognized in different interim and annual accounting periods.

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

CORPORATE AND OTHER

Corporate and Other includes various holding company activities, holds certain non-utility debt, and holds energy-related investments. The net losses of \$15 million and \$31 million in the three and nine months ended September 30, 2017, represent an increase of \$14 million and no change from the net losses of \$1 million and \$31 million in the comparable 2016 periods. The increase in the third quarter was primarily due to effective income tax rate adjustments. For the nine-month period, decreases primarily due to interest expense and effective income tax rate adjustments were offset by excess tax benefits on stock-based compensation recognized in accordance with ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which was adopted effective July 1, 2016.

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 2017 will be approximately \$1.9 billion. DTE Energy anticipates base level utility

capital investments; environmental, renewable, and energy optimization expenditures; expenditures for non-utility businesses; and contributions to equity method investees in 2017 of approximately \$2.5 billion. DTE Energy plans to seek regulatory approval to include utility capital expenditures in regulatory rate base consistent with prior treatment. Capital spending for growth of existing or new non-utility businesses will depend on the existence of opportunities that meet strict risk-return and value creation criteria.

	Nine Months Ended September 30, 2017 2016 (In millions)	
Cash and Cash Equivalents		
Cash Flow From (Used For)		
Operating Activities		
Net Income	\$832	\$710
Adjustments to reconcile Net Income to Net cash from operating activities:		
Depreciation and amortization	756	702
Nuclear fuel amortization	39	44
Allowance for equity funds used during construction	(17)	(15)
Deferred income taxes	261	244
Asset (gains) losses and impairments, net	5	—
Working capital and other	(326)	82
Net cash from operating activities	1,550	1,767
Investing Activities		
Plant and equipment expenditures — utility	(1,439)	(1,267)
Plant and equipment expenditures — non-utility	(133)	(75)
Contributions to equity method investees	(194)	(199)
Other	(38)	38
Net cash used for investing activities	(1,804)	(1,503)
Financing Activities		
Issuance of long-term debt, net of issuance costs	1,010	646
Redemption of long-term debt	(385)	(322)
Repurchase of long-term debt	—	(59)
Short-term borrowings, net	160	(89)
Repurchase of common stock	(51)	(33)
Dividends on common stock and other	(509)	(378)
Net cash from (used for) financing activities	225	(235)
Net Increase (Decrease) in Cash and Cash Equivalents	\$(29)	\$29
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 \$217 million in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The decrease in operating cash flows reflects a decrease to working capital adjustments, partially offset by an increase to Net Income, Deferred income taxes, and Depreciation and amortization.

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 \$301 million in 2017 due to increased capital expenditures, and the two acquisitions of landfill gas facilities, which are presented in Investing Activities — Other.

Cash from (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 continually evaluates its leverage target, which is currently 50% to 53%, to ensure it is consistent with the objective of a strong investment grade debt rating.

Net cash from financing activities increased by \$460 million in 2017 primarily due to an increase in Issuance of long-term debt and Short-term borrowings, partially offset by an increase in Redemption of long-term debt, Dividends on common stock, and Repurchase of 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 to maintain and improve the electric generation and electric and natural gas distribution infrastructure and to comply with new and existing state and federal regulations that will result in additional environmental and renewable energy investments which will increase the base from which rates are determined. Non-utility growth is expected from additional investments, primarily in the Gas Storage and Pipelines and Power and Industrial Projects segments. DTE Energy may be impacted by the timing of collection or refund of various recovery and tracking mechanisms, as a result of timing of MPSC orders. Energy prices are likely to be a source of volatility with regard to working capital requirements for the foreseeable future. DTE Energy continues its efforts to identify opportunities to improve cash flows through working capital initiatives and maintaining flexibility in the timing and extent of long-term capital projects.

DTE Energy has approximately \$110 million in long-term debt, including capital leases, maturing in the next twelve months. The repayment of the debt is expected to be paid through internally generated funds or the issuance of long-term debt.

DTE Energy has approximately \$1.4 billion of available liquidity at September 30, 2017, consisting of cash and amounts available under unsecured revolving credit agreements.

At the discretion of management and depending upon financial market conditions, DTE Energy may make additional contributions up to \$88 million, including contributions from DTE Electric of \$85 million, to its pension plans in 2017. DTE Energy does not anticipate making any contributions to the other postretirement benefit plans in 2017.

Various subsidiaries and an equity investee of DTE Energy have entered into contracts which contain ratings triggers and are guaranteed by DTE Energy. These contracts contain provisions which allow the counterparties to require that DTE Energy post cash or letters of credit as collateral in the event that DTE Energy's credit rating is downgraded below investment grade. Certain of these provisions (known as "hard triggers") state specific circumstances under which DTE Energy can be required to post collateral upon the occurrence of a credit downgrade, while other provisions (known as "soft triggers") are not as specific. For contracts with soft triggers, it is difficult to estimate the amount of collateral which may be requested by counterparties and/or which DTE Energy may ultimately be required to post. The amount of such collateral which could be requested fluctuates based on commodity prices (primarily natural gas, power, and coal) and the provisions and maturities of the underlying transactions. As of September 30, 2017, 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 approximately \$470 million.

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

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

and Trusteed Assets," respectively.

59

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:

	Nine Months Ended September 30, 2017 (In millions)
MTM at December 31, 2016	\$ (86)
Reclassified to realized upon settlement	(34)
Changes in fair value recorded to income	156
Amounts recorded to unrealized income	122
Changes in fair value recorded in regulatory liabilities	15
Change in collateral	(3)
MTM at September 30, 2017	\$ 48

The table below shows the maturity of DTE Energy's MTM positions. The positions from 2020 and beyond principally represent longer tenor gas structured transactions:

Source of Fair Value	2017	2018	2019	2020 and Beyond	Total Fair Value
	(In millions)				
Level 1	\$(7)	\$ 2	\$ 5	\$ —	\$ —
Level 2	5	6	6	6	23
Level 3	(14)	17	12	(8)	7
MTM before collateral adjustments	\$(16)	\$ 25	\$ 23	\$ (2)	30

Collateral adjustments	18
MTM at September 30, 2017	\$ 48

60

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Price Risk

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

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

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

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

Credit Risk

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

Trading Activities

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

The following table displays the credit quality of DTE Energy's trading counterparties as of September 30, 2017:

	Credit Exposure Before Cash Collateral	Net Credit Exposure
	(In millions)	
Investment Grade ^(a)		
A- and Greater	\$242	—\$ 242
BBB+ and BBB	282	— 282
BBB-	86	— 86
Total Investment Grade	610	— 610
Non-investment grade ^(b)	2	— 2
Internally Rated — investment grade ^(c)	266	— 266
Internally Rated — non-investment grade ^(d)	15	— 15
Total	\$893	—\$ 893

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 approximately 18% of the total gross credit exposure.

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

This category includes counterparties that have not been rated by Moody's or Standard & Poor's, but are considered investment grade based on DTE Energy's evaluation of the counterparty's creditworthiness. The five largest counterparty exposures, combined, for this category represented approximately 11% of the total gross credit exposure.

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

Other

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

Interest Rate Risk

DTE Energy is subject to interest rate risk in connection with the issuance of debt. In order to manage interest costs, DTE Energy may use treasury locks and interest rate swap agreements. DTE Energy's exposure to interest rate risk arises primarily from changes in U.S. Treasury rates, commercial paper rates, and London Inter-Bank Offered Rates (LIBOR). As of September 30, 2017, DTE Energy had a floating rate debt-to-total debt ratio of approximately 5.3%.

Foreign Currency Exchange Risk

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

exchange fluctuations, DTE Energy has entered into a series of foreign currency exchange forward contracts through June 2022.

62

Summary of Sensitivity Analyses

The Registrants performed sensitivity analyses on the fair values of commodity contracts and long-term debt obligations. The commodity contracts listed below principally relate to energy marketing and trading activities. The sensitivity analyses involved increasing and decreasing forward prices and rates at September 30, 2017 and 2016 by a hypothetical 10% and calculating the resulting change in the fair values.

The results of the sensitivity analyses:

Activity	Assuming a 10% Increase in Prices/Rates		Assuming a 10% Decrease in Prices/Rates		Change in the Fair Value of
	As of September 30, 2017	As of September 30, 2016	As of September 30, 2017	As of September 30, 2016	
	(In millions)				
Gas contracts	\$3	\$17	\$(3)	\$(17)	Commodity contracts
Power contracts	\$9	\$14	\$(11)	\$(14)	Commodity contracts
Interest rate risk — DTE Energy	\$(545)	\$(388)	\$548	\$408	Long-term debt
Interest rate risk — DTE Electric	\$(249)	\$(235)	\$267	\$252	Long-term debt

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

Item 4. Controls and Procedures

DTE Energy

(a) Evaluation of disclosure controls and procedures

Management of DTE Energy carried out an evaluation, under the supervision and with the participation of DTE Energy's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of DTE Energy's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2017, which is the end of the period covered by this report. Based on this evaluation, DTE Energy's CEO and CFO have concluded that such disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed by DTE Energy in reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms and (ii) is accumulated and communicated to DTE Energy's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Due to the inherent limitations in the effectiveness of any disclosure controls and procedures, management cannot provide absolute assurance that the objectives of its disclosure controls and procedures will be attained.

(b) Changes in internal control over financial reporting

There have been no changes in DTE Energy's internal control over financial reporting during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, DTE Energy's internal control over financial reporting.

DTE Electric

(a) Evaluation of disclosure controls and procedures

Management of DTE Electric carried out an evaluation, under the supervision and with the participation of DTE Electric's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of DTE Electric's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2017, which is the end of the period covered by this report. Based on this evaluation, DTE Electric's CEO and CFO have concluded that such disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed by DTE Electric in reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms and (ii) is accumulated and communicated to DTE Electric's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Due to the inherent limitations in the effectiveness of any disclosure controls and procedures, management cannot provide absolute assurance that the objectives of its disclosure controls and procedures will be attained.

(b) Changes in internal control over financial reporting

There have been no changes in DTE Electric's internal control over financial reporting during the quarter ended September 30, 2017 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

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

Item 1A. Risk Factors

There are various risks associated with the operations of the Registrants' businesses. To provide a framework to understand the operating environment of the Registrants, a brief explanation of the more significant risks associated with the Registrants' businesses is provided in Part 1, Item 1A. Risk Factors in DTE Energy's and DTE Electric's combined 2016 Annual Report on Form 10-K. Although the Registrants have tried to identify and discuss key risk factors, others could emerge in the future.

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

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

The following table provides information about DTE Energy purchases of equity securities that are registered by DTE Energy pursuant to Section 12 of the Exchange Act of 1934 for the quarter ended September 30, 2017:

	Number of Shares Purchased ^(a)	Average Price Paid per Share ^(a)	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
07/01/2017 — 07/31/2017	12,287	\$ 106.05	—	—	—
08/01/2017 — 08/31/2017	7,066	\$ 97.73	—	—	—
09/01/2017 — 09/30/2017	440	\$ 97.78	—	—	—
Total	9,793		—		

^(a) 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.

Item 6. Exhibits

Exhibit Number	Description	DTE Energy	DTE Electric
	(i) Exhibits filed herewith:		
<u>10.107</u>	Supplemental Indenture, dated as of August 1, 2017, 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. (2017 Series B).	X	X
<u>10.108</u>	Forty-Eighth Supplemental Indenture, dated as of September 1, 2017 to Indenture of Mortgage and Deed of Trust dated as of March 1, 1944 between DTE Gas Company and Citibank, N.A. (2017 First Mortgage Bonds Series C and D).	X	
<u>12.79</u>	Computation of Ratio of Earnings to Fixed Charges	X	
<u>12.80</u>	Computation of Ratio of Earnings to Fixed Charges		X
<u>31.137</u>	Chief Executive Officer Section 302 Form 10-Q Certification of Periodic Report	X	
<u>31.138</u>	Chief Financial Officer Section 302 Form 10-Q Certification of Periodic Report	X	
<u>31.139</u>	Chief Executive Officer Section 302 Form 10-Q Certification of Periodic Report		X
<u>31.140</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>32.137</u>	Chief Executive Officer Section 906 Form 10-Q Certification of Periodic Report	X	
<u>32.138</u>	Chief Financial Officer Section 906 Form 10-Q Certification of Periodic Report	X	
<u>32.139</u>	Chief Executive Officer Section 906 Form 10-Q Certification of Periodic Report		X
<u>32.140</u>	Chief Financial Officer Section 906 Form 10-Q Certification of Periodic Report		X

Signatures

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

Date: October 25, 2017

DTE ENERGY COMPANY

By: /S/DONNA M. ENGLAND

Donna M. England
Chief Accounting Officer
(Duly Authorized Officer)

DTE ELECTRIC COMPANY

By: /S/DONNA M. ENGLAND

Donna M. England
Chief Accounting Officer
(Duly Authorized Officer)