

**Detroit Edison**



10CFR50.71(b)

April 6, 2001  
NRC-01-0028

U. S. Nuclear Regulatory Commission  
Attention: Document Control Desk  
Washington D C 20555-0001

Reference: Fermi 2  
NRC Docket No. 50-341  
NRC License No. NPF-43

Subject: Annual Financial Report

Pursuant to 10 CRF 50.71(b), please find attached the 2000 Annual Financial Report for the Detroit Edison Company.

Should you have any questions or require additional information, please contact me at (734) 586-4258.

Sincerely,



Norman K. Peterson  
Director – Nuclear Licensing

Enclosure

cc: w/enclosure

M. A. Ring  
M. A. Shuaibi  
NRC Resident Office  
Regional Administrator, Region III  
Supervisor, Electric Operators,  
Michigan Public Service Commission

14004

**DTE Energy**



# Powering Growth

2000  
Annual Report

## See how we're growing!

### **Extending the energy value chain**

See our fold-out grid providing an overview of who we are

### **Solid results in a challenging year**

Financial highlights reflect a year of change

### **We're becoming a high-performance growth company**

The chairman reviews 2000 and looks to the future

### **Our plan to accelerate growth**

Our business strategy features three growth horizons

### **Better, faster, smarter. Our future depends on it!**

Competition and technology transform the electric industry

### **Natural gas will allow us to grow in new ways**

The proposed merger will help us span the entire energy value chain

### **Operating efficiencies spur utility growth**

Cost savings flow to our bottom line

### **Distributed generation powers the future**

Offering integrated energy solutions gives us a niche

### **Merchant energy fuels our growth over next five years**

A new merchant initiative is planned for Michigan and the region

### **Leveraging our strengths in coal marketing and delivery**

We're linking our coal business in profitable new ways

### **Energy trading triples growth and continues momentum**

We're a growing leader with a proven track record

### **On-site industrial energy projects add new business**

We're expanding our project portfolio in select industries

### **Business in niche fuel markets grows**

We're experts in serving unique energy users

### **Our commitment to the community is strong**

We will continue our long tradition of support

### **A dynamic board empowers our growth**

### **An experienced executive committee guides our growth**

### **A progressive team leads our transformation**

### **Management's discussion and analysis**

### **Report of management's responsibility**

### **Independent auditors' report**

### **Financial statements**

### **Notes to consolidated financial statements**

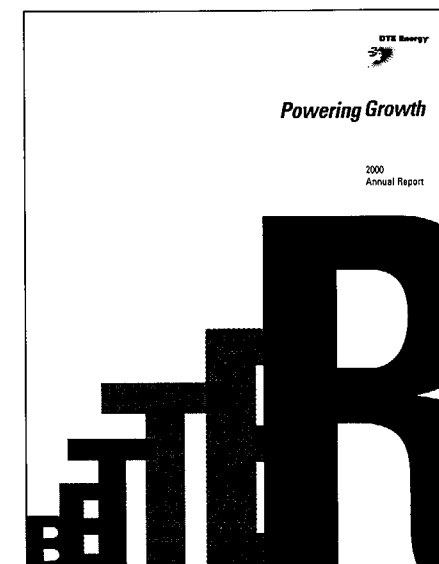
### **Words our industry uses**

A glossary of terms used in this report

### **11-year statistical review**

### **Other information about DTE Energy**

Important shareholder data and contacts



## About the cover

It is the fast-moving, high-performance companies that will prosper in today's fiercely competitive business environment. DTE Energy intends to be one of them. To get there, we must grow better, faster, smarter. That's what we're doing.

## At your service


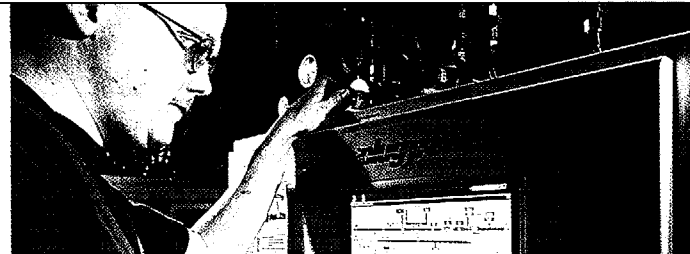
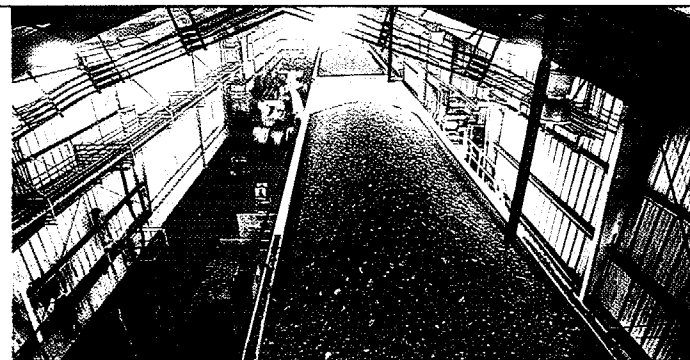
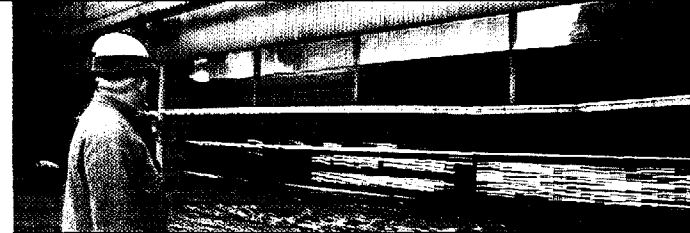
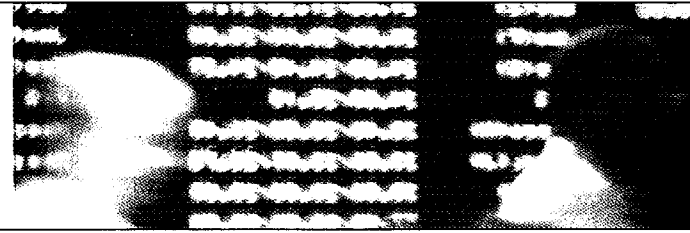
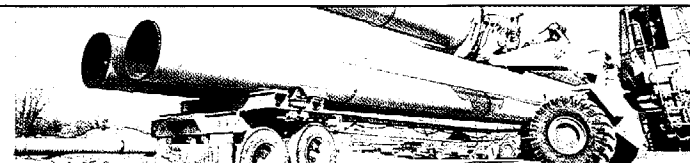
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313.235.8030

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800.551.5009

*This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based upon the company's best estimates. Actual results may differ materially.*

# Extending the *energy* value chain

		<i>Businesses</i>	<i>Overview</i>	<i>Customers</i>	<i>Competitors</i>
<i>Electricity</i>		Detroit Edison	Generates and distributes electricity throughout Southeastern Michigan.	Serves 2.1 million residential, commercial and industrial customers in Southeastern Michigan.	Other utilities as well as independent power producers including municipalities and cooperatives.
		International Transmission Company (ITC)	Transmits electricity.	Detroit Edison and other transmission dependent companies.	None at this time.
<i>Technology Development and Investments</i>		Edison Development Corporation	Venture capital investments in new energy technologies. Thirty-two percent ownership of Plug Power Inc. residential fuel cells.	DTE Energy shareholders.	Other venture investment companies.
		DTE Energy Technologies Inc.	Offers distributed generation products and services (international distribution of 400 kW turbine generator set, Midwest distribution of Plug Power residential fuel cells), refrigeration and HVAC energy products and cable testing services.	Retail, commercial, institutional, industrial and residential customers. Electric and gas utilities, municipalities and cooperatives and government agencies.	Other distributed generation developers and marketers, power generation manufacturers, other fuel cell developers and marketers, energy services companies, data processing companies, utilities, construction and maintenance firms.
<i>Fossil Fuels</i>		Midwest Energy Resources Co.	Transports and delivers low-sulfur Western coal by rail and lake vessel.	Utilities and industrial customers in the Great Lakes and Canada that use low-sulfur Western coal, such as Ontario Power Generation and General Motors.	Other utility subsidiaries and independent companies.
		DTE Coal Services Inc.	Provides coal sourcing and/or transportation, coal and sulfur dioxide trading, and coal tolling services.	Utility, industrial and independent power producer customers in North America, including Louisiana Generating LLC, FirstEnergy, Ontario Power Generation, NIPSCO and Holnam.	Utility subsidiaries and independent companies.
		DTE Rail Services Inc.	Provides rail car maintenance and repair. Operates as a subsidiary of DTE Coal Services.	Owners/operators of rail fleets.	Progress Rail, Trinity and other rail car leasing companies and fleet owners.
		DTE Transportation Services Inc.	Provides rail car sourcing and fleet management. Operates as a subsidiary of DTE Coal Services.	Rail shippers.	OTSI, AllTrans and other transportation service providers.
<i>Energy Projects and Services</i>		DTE Energy Services Inc.	Develops, owns, operates and maintains energy projects, including cogeneration, merchant power, pulverized coal injection, coke oven batteries, synthetic fuels production, backup generation, and heating and cooling.	Steel, auto, heavy industrial, pulp and paper, food, health care, commercial, institutional, merchant power generation and other energy-intensive industries.	Utility-affiliated developers, independent developers and energy companies.
		DTE Biomass Energy Inc.	Recovers landfill gas to produce steam and electricity.	Landfill owners and utilities, and industries located close to landfills.	Other landfill gas extraction companies.
<i>Energy Marketing and Trading</i>		DTE Energy Trading Inc.	Markets and trades electricity and related fuels, and provision of risk management solutions.	Wholesale customers, other energy trading firms and DTE Energy retail marketing affiliates.	Power marketers, natural gas marketers and utilities.
		DTE Energy Marketing Inc.	Sells electricity and natural gas.	Medium and large commercial, institutional and industrial customers.	Utility affiliates of competitive energy companies and consumer marketing companies.
Once our proposed merger with MCN Energy is complete, we will add natural gas to our product service offering.					
<i>Natural Gas</i>		MichCon	Produces, gathers, processes, transmits, stores and distributes natural gas.	Serves 1.2 million residential, commercial and industrial customers in more than 500 communities throughout Michigan.	Other utilities.
		Citizens Gas Fuel Company	Distributes natural gas.	Serves 15,000 customers in Lenawee County, Mich.	



*We're a*  
***premier energy*** *provider*

DTE Energy is a leading energy provider in the Great Lakes region. We are a developer of merchant power and industrial energy projects. We are a growing leader in energy trading. We sell electricity, coal, landfill gas, steam and chilled water. We hope to sell natural gas soon, too. We are one of the nation's largest purchasers, transporters and marketers of coal. We develop and invest in emerging energy technologies such as distributed generation. In fact, we intend to become the pre-eminent supplier of integrated distributed generation solutions.

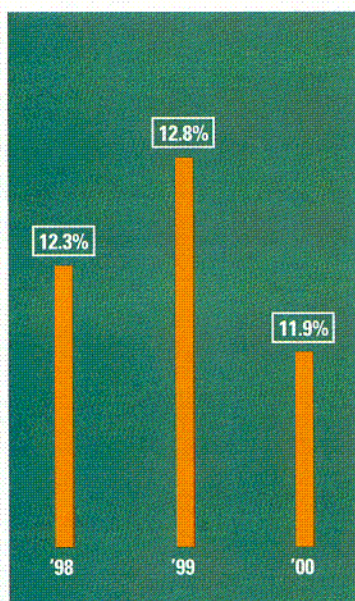
DTE Energy's principal subsidiary, Detroit Edison, is the nation's seventh largest electric utility, supplying energy to 2.1 million customers in Southeastern Michigan. When our proposed merger with MCN Energy is complete, we'll add a second utility subsidiary, MichCon – the nation's 10th largest natural gas local distribution company. It serves 1.2 million customers across Michigan. Together, these operations will create a premier energy provider with assets of more than \$17 billion.

DTE Energy is a fast-paced, progressive, high-performance and customer-driven company. Innovation, commitment and shared values form the foundation of our success.

# Solid *results* in a challenging year

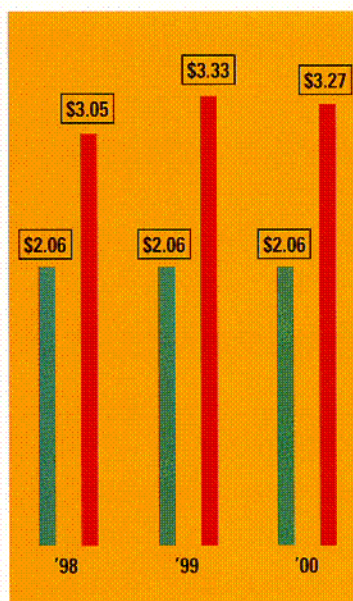
	2000	1999	% Change
Operating Revenues (Millions)	\$ 5,597	\$ 4,728	18.4
Non-regulated Operating Revenues (Millions)	\$ 1,468	\$ 681	115.6
Net Income (Millions)	\$ 468	\$ 483	(3.1)
Basic and Diluted Earnings Per Common Share	\$ 3.27	\$ 3.33	(1.8)
Dividends Declared Per Share	\$ 2.06	\$ 2.06	—
Dividend Yield	5.3%	6.5%	(18.6)
Return on Average Common Equity	11.9%	12.8%	(7.0)
Cash Flow From Operations (Millions)	\$ 1,088	\$ 1,097	(0.8)
Average Common Shares Outstanding (Millions)	143	145	(1.4)
Book Value Per Share	\$ 28.14	\$ 26.95	4.4
Market Price	\$ 38.94	\$ 31.63	23.1
Total Market Capitalization (Millions)	\$ 5,554	\$ 4,586	21.1
Investments and Capital Expenditures (Millions)	\$ 749	\$ 768	(2.5)
Total Assets (Millions)	\$ 12,662	\$ 12,316	2.8
System Sales (kWh-Millions)	52,408	51,852	1.1

**Return on Common Equity**



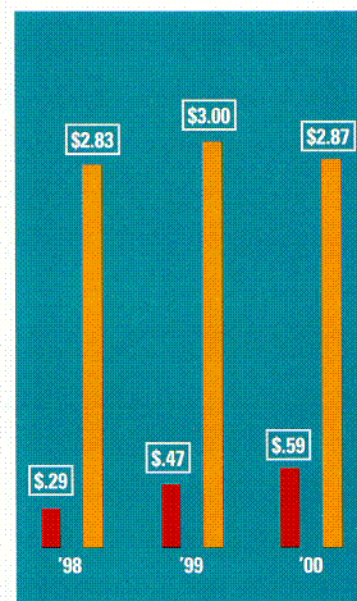
Return on common equity decreased 0.9 percent in 2000.

**Earnings Per Share vs. Dividends Per Share**



Dividends remained at \$2.06 per share from 1998 to 2000, while earnings per share averaged \$3.22 over the same three-year period.

**Earnings Per Share\***



Earnings per share increased from 1998 to 2000 for non-regulated business, while regulated business averaged \$2.90 per share over the same period.

\* Non-regulated earnings exclude financial services and holding company administrative charges.

# *We're becoming a high-performance growth* company

**Anthony F. Earley, Jr.,  
chairman of the board  
and chief executive officer.**



We've changed. Take a look at the new DTE Energy. I think you'll like what you see. We've established ourselves as a growth leader in our industry over the last four years. Now we're positioned to accelerate that growth.

As I write this letter, we're waiting to complete the merger of DTE Energy and MCN Energy. While Federal Trade Commission approval is taking longer than expected, we hope it will come soon. But because we've had more than a year to prepare, the new combined company will hit the ground running. We expect a smooth transition.

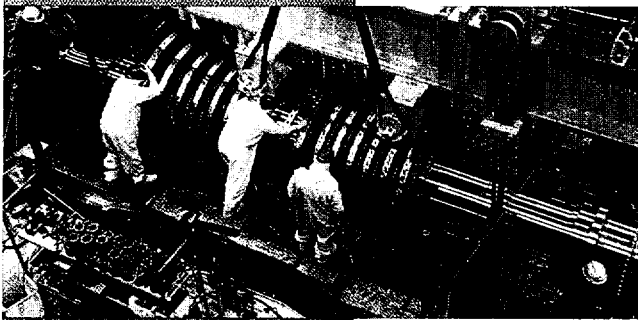
***I'm extremely excited about our future.*** The proposed merger will create opportunities for us across the entire energy value chain. It will create the largest electric and natural gas utility in Michigan and position our non-regulated businesses for regional growth. Strategic ownership in key natural gas pipelines will strengthen our standing in the Midwest, where about half the nation's energy is consumed. In addition, we've identified synergy savings of \$1 billion pretax over the next 10 years.

Throughout this report, you'll read examples of how natural gas will complement our electric businesses.

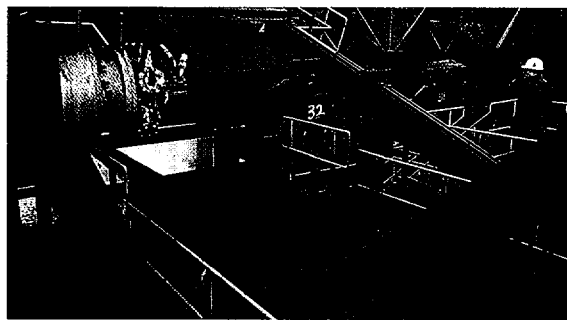
We intend to build DTE Energy into one of the top integrated energy providers in the Great Lakes region. To accomplish this, we're raising our goal of 6 percent annual earnings growth to 8 percent. While reaching this goal may take several years, it is achievable. An outline of our three-phased growth plan follows this letter.

***We overcame many challenges in 2000 to post strong year-end results.*** The June passage of Michigan's electric restructuring legislation provided residential customers with an immediate 5 percent rate cut. Suspension of Michigan's fuel clause adjustment mechanism kept the utility from recovering fuel and fuel-related electric expenses. An unseasonably cool summer left our utility with surplus purchased power. And delays in the merger process with MCN Energy added cost to the integration process. Still, we had a successful year. We are determined to build on our track record of sustainable growth.

*It is the  
progressive,  
fast-moving,  
customer-focused  
companies that  
will prosper in  
today's volatile  
business  
environment.*



Above: A new high pressure turbine installed at the Fermi 2 nuclear plant last spring increased output by 20 MW.



Above, right: DTE Energy is the second largest producer of coke for the North American steel industry.

*Investments  
in emerging  
energy-related  
businesses will  
drive our  
growth in the  
long term.*

Net earnings were \$468 million, or \$3.27 per share. When adjusted for the one-time impact of legislation and merger costs, that is \$3.54 per share on the base business, an increase of \$0.21 per share or 6.3 percent from the prior year.

Non-regulated businesses contributed \$84 million, or \$0.59 per share, an increase of 22 percent over 1999. After adjusting for operating losses at Plug Power, these businesses achieved our target of \$100 million in net income. They include a portfolio of projects with a compounded average growth rate of 82 percent since 1997. This spectacular growth is due in large part to the strong pace set by DTE Energy Services. It achieved net income of \$100 million in 2000, a 30 percent increase over 1999. New on-site energy projects for large industrial customers and a growing merchant energy position fueled the increase.

DTE Energy Trading also had a strong year. Net income grew 25 percent, revenues nearly 300 percent. In 2001, we will further expand this business to accommodate growing merchant power sales and the addition of innovative offerings like coal tolling and, once the proposed merger is complete, gas-to-electric tolling as well as natural gas trading services.

DTE Coal Services continued to track at 20 percent annual volume growth while doubling

its profits. With a fleet of more than 9,000 rail cars and expertise in coal marketing and delivery throughout the United States, this subsidiary offers customers unique services that save them time and money.

DTE Biomass Energy has added 25 landfill gas recovery projects over the past five years. Net income for 2000 was \$5.19 million. Even more important, this business has reduced the company's carbon dioxide emissions by an equivalent of 10 percent.

Long term, investments in emerging energy-related businesses will drive our growth. DTE Energy Technologies, while not yet contributing to our bottom line, has tremendous potential. Through this subsidiary we intend to become a leader in distributed generation, offering a full range of energy solutions. Distributed generation produces energy at or near the point of use.

I'm still excited about our investment in Plug Power, a developer of residential fuel cell systems. I believe these fuel cells could change the way we power our homes and businesses. While Plug's stock price dropped when technology companies fell out of favor with investors last fall, long term I think it's a winner. Under the direction of a new chief executive, Plug is making progress in meeting development targets for product rollout.

The more traditional side of our business – power generation – also is striving for breakthrough performance. In 2000, General Electric named our Fermi 2 power plant the No. 1 Boiling Water Reactor in the World for 1999. We are very proud of this recognition.

Strengthening the relationship with our unions is another way we're improving operations. During 2000, every one of our power plants formed Union-Management Partnership committees. A number of these committees are already working on major issues that will allow our plants to run more days at higher power levels.

***DTE Energy has an impressive story to tell.***

The bad news is we're not getting credit for it. Our company's total return to shareholders was 23 percent for the year, well below the industry average. Despite above average earnings growth, our price/earnings ratio remains quite pedestrian. That's frustrating and unacceptable.

Two factors will have a major impact on our stock price. The first is successfully implementing the merger and delivering the savings we've identified. The second is leveraging Michigan's new electric restructuring legislation. We believe that achieving these goals in 2001 will lead to improved valuation relative to our peers in the industry.

***Restructuring legislation is bringing competition and choice to Michigan.***

Residential customers benefited immediately with a 5 percent rate cut in June, along with a rate freeze and cap for the next three-to-five years. In addition, by Jan. 1, 2002, all Michigan customers will be able to select their energy provider.

Significant benefits exist for our company, too. If we are creative in reducing costs and improving efficiency, the savings we achieve may flow directly to our bottom line. We also have opportunities to create new sources of revenue by marketing our generation and natural gas storage capabilities, once the proposed merger is complete.

The legislation provides a mechanism for our electric utility, Detroit Edison, to recover stranded costs through the sale of rate reduction bonds. This process is called securitization. In January 2001, the Michigan Public Service Commission (MPSC) issued a final order approving the securitization of \$1.77 billion immediately. We will use the savings to expand the 5 percent rate cut to our business customers and create a Low-Income Energy-Efficiency Fund. The proceeds will be used to pay down debt and buy back stock.



**Top: The proposed merger with MCN Energy will give us one-third of all the natural gas storage in Michigan.**

**Above: Julius Simpson uses the company's Learning Zone to explore career options.**

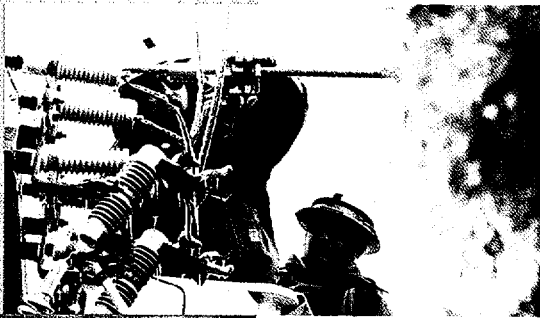


Photo by Danny Johnston, Associated Press

Above: Detroit Edison linemen Cecil Thomas Jr. (left) and Paul Kosmicki repair an ice-covered distribution line in Little Rock, Ark.

*DTE Energy  
continues to  
recreate itself  
to adapt to a  
changing world  
and a changing  
industry.*

The legislation lets us maximize the value of our transmission operations by forming a new subsidiary, International Transmission Company (ITC). We transferred all our transmission assets to ITC in January 2001. This is the first step in our plan to divest transmission within the next two years.

The final step in Michigan's electric restructuring process will be permanent deregulation of generation. But getting this legislation passed may be a struggle in light of the difficulties plaguing California as it adjusts to a new deregulated electric environment. We'll have to let events in California stabilize before we develop our strategy.

While we are just launching restructuring in Michigan, I don't anticipate California-like problems here. The drafters of our legislation paid attention to the early warning signs in California and established safeguards that will provide for an orderly transition to competition.

*DTE Energy continues to recreate itself to adapt to a changing world and a changing industry.*

Moving forward, we face a number of challenges:

- Sustaining growth during the transition to a restructured electric utility environment.

- Completing the proposed merger and delivering the synergies we've identified.
- Managing escalating natural gas prices.
- Continuing to develop capabilities in all phases of energy supply, power generation, transportation and marketing.
- Finding innovative ways to meet growing environmental pressures.
- And continuing to build a corporate culture that embraces our core values of respect, integrity, learning, customer service and business success.

*We are not the same company we were just a few years ago.* We are better. Faster. Smarter. Thanks, in large part, to the quality and commitment of our employees. In fact, in 2000, our employees were faced with multiple challenges, yet they showed a maturity and confidence that allowed us to succeed.

High-performance employees create high-performing companies. At DTE Energy, our future is in good hands.

*Anthony F. Earley Jr.*

Anthony F. Earley, Jr.  
Chairman of the Board and Chief Executive Officer

January 31, 2001

# Our plan to *accelerate growth*

Our goal is to build DTE Energy into one of the top energy providers in the Great Lakes region by 2005. To get there, we must raise our current annual rate of 6 percent earnings per share growth. We have a solid plan based on three horizons that can move us to 8 percent growth over the next few years.

## **Horizon 1: Gas and Electric Business Excellence**

We will meet our customer needs and generate cash for corporate growth by:

- Aggressively driving continuous improvement.
- Achieving a balance among cost, reliability and customer satisfaction.
- Leveraging opportunities to create value with other parts of DTE Energy.

## **Horizon 2: New Business Growth**

We have successfully established a portfolio of non-regulated businesses that will contribute a projected \$125 million to net income in 2001.

Mid-term growth will come from:

- Owning and operating merchant power plants both in Michigan and regionally.
- Accelerating our energy marketing and trading activities.
- Building on our leadership position in coal marketing and transportation.
- Pursuing more business in niche fuel markets.
- Adding more on-site energy projects for large industrial customers.

- Leveraging our traditional investments into new opportunities, for example, in gas-fired generation, gas storage and pipelines, upon completion of the proposed merger with MCN Energy.

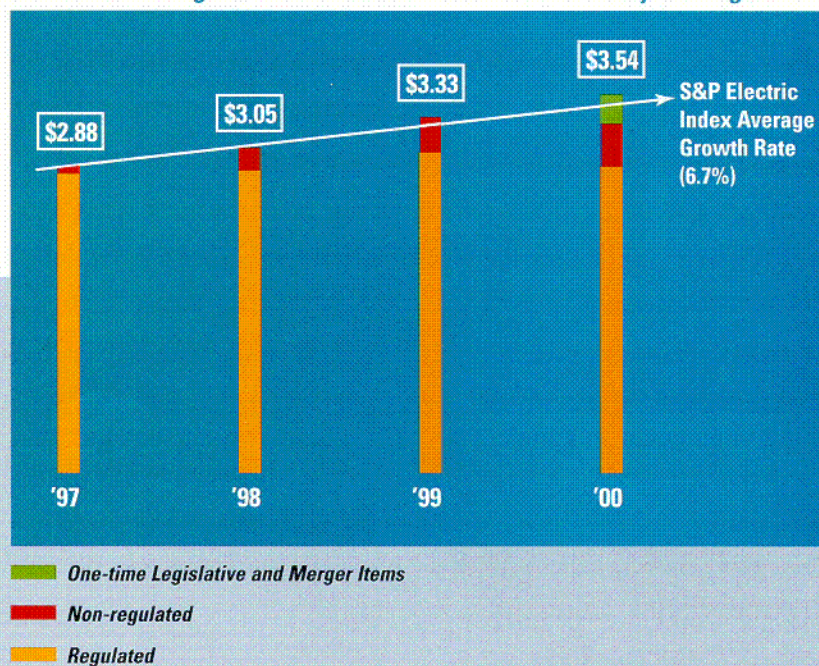
## **Horizon 3: New Technology**

Long term, our vision is to be the pre-eminent supplier of integrated distributed generation solutions. We will achieve this by using distributed generation technology to:

- Complement existing utility facilities by reducing peak load and energy losses, and improving customer reliability and quality.
- Provide mini-distribution systems serving remote communities or new subdivisions.
- Deliver power at lower cost and higher reliability to commercial, industrial and residential customers.

*We are raising  
our performance  
objectives  
through 2005.*

## **Our Earnings Per Share Growth Exceeds Industry Average\***



DTE Energy's earnings per share growth rate of 7.1 percent exceeds the Standard & Poor's electric average of 6.7 percent.

\* Industry earnings for 2000 are First Call estimates.

CO2



# *Better, faster, smarter*

*Some of the  
most dramatic  
changes in the  
history of our  
industry are  
happening now.*

The future will look nothing like the past. It's an exciting time to be in our business.

During most of the 1990s we had adequate supplies of electricity and natural gas. Prices were stable. The weather, which has a major impact on both industries, was relatively mild.

That changed in 2000. December was one of the coldest and snowiest months on record since the 1880s. At the same time, supplies of electricity and natural gas became tight, resulting in significant price volatility in both industries. Add to that increasing concern about the environment and rapid advances in technology, and you have a powerful catalyst for change.

Automotive companies will also have a growing influence on the future of the energy industry as they look for environmentally friendly ways to replace the conventional gasoline engine. Over the next decade, electricity produced by hydrogen fuel cells could gradually replace internal combustion. Fuel cells will become a growing source of energy.

Here are a few more predictions. Environmental regulation will intensify. Sustainable energy sources will gain prominence. Tremendous innovations in the energy industry and energy-related technologies will continue. These innovations will create competition that drives deregulation.

There will be more consolidation and more mergers among utilities. We'll see more convergence in the electric and gas industries. Super utilities will surface. Oil companies will become broader energy companies, competing in both the mobile and stationary energy markets.

Some of the most dramatic changes in the history of our industry are happening as we move from a highly regulated environment to increased competition. And these changes will have a direct impact on each of you. Customers will benefit by more and better choices in terms of service, reliability and cost. Your challenge is learning to become a sophisticated consumer when it comes to your energy needs. You will have a bewildering array of options.

The challenge for companies like DTE Energy is staying a step ahead of the competition. We must be faster, more flexible, creative, highly efficient and customer-focused. We must stay close to our customers, anticipate their needs and respond quickly to changes in the marketplace. We must continuously improve to reduce operating costs while maintaining top-quality service and reliability. We must keep pace with new technologies and participate in those that can provide economic solutions that let us maximize future shareholder value. We must innovate, innovate, innovate.

## *Our future depends on it!*

To understand customers' needs, we're spending a lot of time learning about their product and service requirements. This is being accomplished through customer meetings, focus groups and new research methods that help design products to match power needs with our offerings.

Technology will fuel much of our progress. We're on the verge of technological changes that will reinvent the energy business in the same way personal computers transformed the computer industry. We'll experience the same migration that moved computers from room-sized operations to desktops, laptops and, finally, hand-held units. In our business, the trend is from large central station generation to localized distributed generation in the not-too-distant future. In the next 10 years, many of you could own a personal generation unit that powers your home or business.

Distributed generation produces energy at or near the point of use. DTE Energy's vision is to become the pre-eminent supplier of integrated distributed generation solutions. That means providing one-stop shopping for all our customers' needs – from fuel cells to standby generators to mini-turbine generators . . . and everything in between.

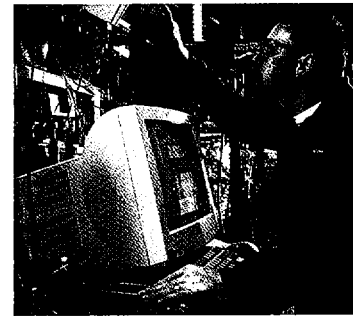
Imagine a box about the size of a washing machine, sitting outside next to your air-conditioning compressor, that produces all the electricity you need with near-perfect reliability and quality, using an environmentally friendly electrochemical reaction supplied by natural gas. The technology is here. Energy|now™ fuel cells are coming to select locations later this year.

Manufactured by Plug Power (DTE Energy owns 32 percent), the energy|now system will be distributed in Michigan, Illinois, Indiana and Ohio through an exclusive agreement with our subsidiary, DTE Energy Technologies. We will bring a residential system to market in 2002.

Another important step in our distributed generation strategy is a joint venture with Pratt & Whitney Canada and Turbo Genset to develop a 400-kilowatt electric generator for residential subdivisions, and commercial and light industrial use. The generator uses advanced aerospace technology to produce reliable energy. It is smaller and weighs substantially less than conventional generators in this power range. Commercial production is expected to begin in 2002. DTE Energy Technologies is designing the controls and will assemble and package the unit.



**Top:** The company's 240-MW Georgetown merchant plant near Indianapolis began operation last summer.



**Above:** Plug Power technician Bill McArdle tests fuel cell units at the Albany, New York, research lab.

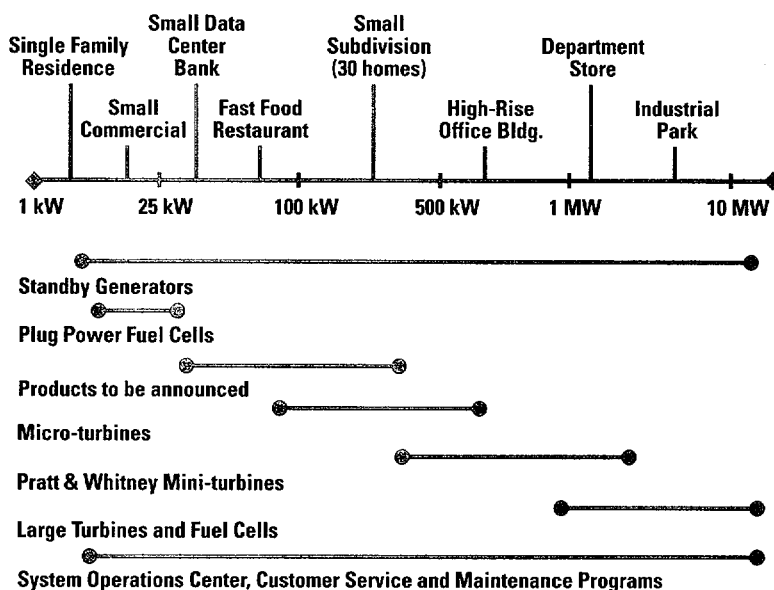
Plug Power's development agreement with German-based Vaillant, one of Europe's leading heating appliance manufacturers, adds to our portfolio of products. The agreement, signed last March, is for a combination furnace, hot water heater and fuel cell system that will provide both heat and electricity for homes. This will allow for highly efficient use of fuel. The product is scheduled for testing by the end of 2001 in the European markets where it will be sold. Sales are scheduled to begin in 2003.

These are just a few examples of the market potential for distributed generation. It will also provide opportunities to reduce our power

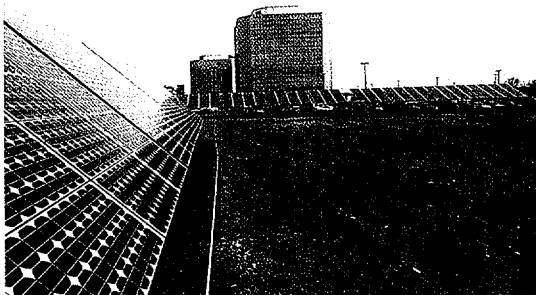
generation, transmission and distribution costs and extend the life of our existing delivery system. It will fill growing worldwide capacity needs, especially for those in remote areas or underdeveloped countries – much like cell phones brought wireless communications to all parts of the world.

Distributed generation will improve customer service for those homes and businesses with increased reliability and quality needs. And it will address environmental concerns. It is clean power. While it is not a cure-all, we believe distributed generation has enormous long-term potential for our company and our industry.

### *Distributed Generation Portfolio Fits All Energy Needs*



We intend to provide a broad portfolio of distributed generation products to fit all our customers' energy needs – from 1 kW standby generators to 10 MW turbines and fuel cells.



**Above, left: Our SolarCurrents II plant in Southfield, Mich., together with a nearby sister plant, have produced a combined 287 MWh of "green" electric energy since 1996.**

**Above, right: Detroit Edison is participating in the nation's first real-world test of high temperature superconductor cables to improve reliability.**

Some utility analysts expect the energy industry to experience a surge of innovation similar to that now sweeping telecommunications. We want to drive that change. Our distributed generation strategy will help us get there. So will investments in other energy-related technologies with strong earnings potential.

We are investing in ventures that give us exposure to companies and new technologies related to micro-turbines, flywheels, solar cells, hydrogen generation, superconductivity, fuel cells and more. This is our approach to learning about innovative technologies.

Of course, technology is just part of the equation. Environmental requirements will also drive considerable change throughout our industry. We'll see more and more emphasis on sustainable energy sources such as landfill gas and solar. Nationally, nuclear power may get a second look, with the licenses of many plants extended. Fuel prices and availability, as well as environmental issues, will drive the selection of future sources of electric generation.

Another factor vital to success within our industry is continued growth. We see new generation as a growth business. But gas storage and pipelines also will become a critical element. Energy

marketing and trading is playing a bigger role. The major players are building asset positions (either through outright ownership or other interests) and developing capabilities across all phases of energy supply, power generation, transportation and marketing. Having capabilities that span the entire energy system and work in tandem creates even greater value for our company.

That is what we want for DTE Energy. We intend to make our company the top full-service energy provider in the Great Lakes region and beyond. We will accomplish this by finding opportunities for integration and synergies across our various assets and businesses.

There is an adage that warns if you do not think about the future, you won't have one. At DTE Energy, we are shaping our future NOW. Although we have nearly 100 years of success under our belt, we are not dwelling on the past or sleeping through the present. We are working aggressively to prepare for a second century of success as a fast-paced, high-performance, customer-driven company.

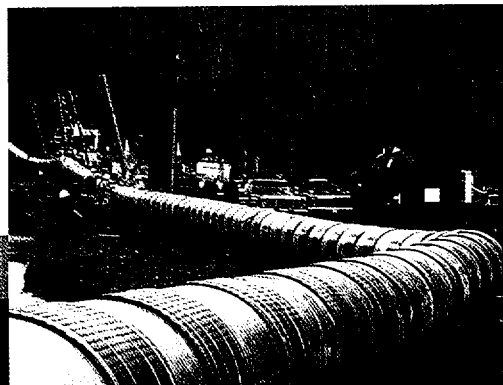
The rest of this annual report describes how we are implementing our plan.

# *Natural gas* will allow us to grow in new ways

The proposed merger with MCN Energy will give our company natural gas capabilities that support our existing businesses and present new opportunities to grow. It will extend our reach to a new customer base. It will improve operating performance through cost-reduction synergies. It will broaden our trading knowledge and capacity. It will allow us to compete more effectively in growing gas-fired energy projects. And it will give us a stronger position in emerging technologies, such as fuel cells powered by natural gas.

*We will  
continue to  
develop or  
acquire gas  
storage and  
pipeline assets  
once the merger  
is complete.*

Midfield Terminal at Detroit Metro Airport is an exciting example of the new projects the merger will bring to our company. The 2 million-square-foot terminal will have its own electric-generation plant built and operated by MichCon, MCN Energy's natural gas subsidiary, and a joint venture partner. The plant will have a heating capacity of 140 million Btu, a cooling capacity of 9,200 tons and on-site electric generation of more than 17 megawatts. That's enough energy to power more than 3,500 homes. The power plant's unique design allows it to take advantage of the rapidly changing energy market. It can either buy or produce electricity, depending on which represents the best value. The new terminal will open December 2001.



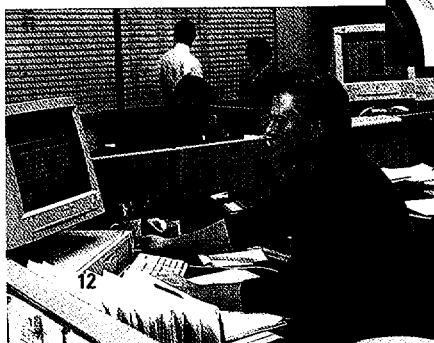
**Above:** The proposed merger with MCN Energy will give us strategic ownership in natural gas pipelines along the Midwest-to-Northeast corridor of the United States.

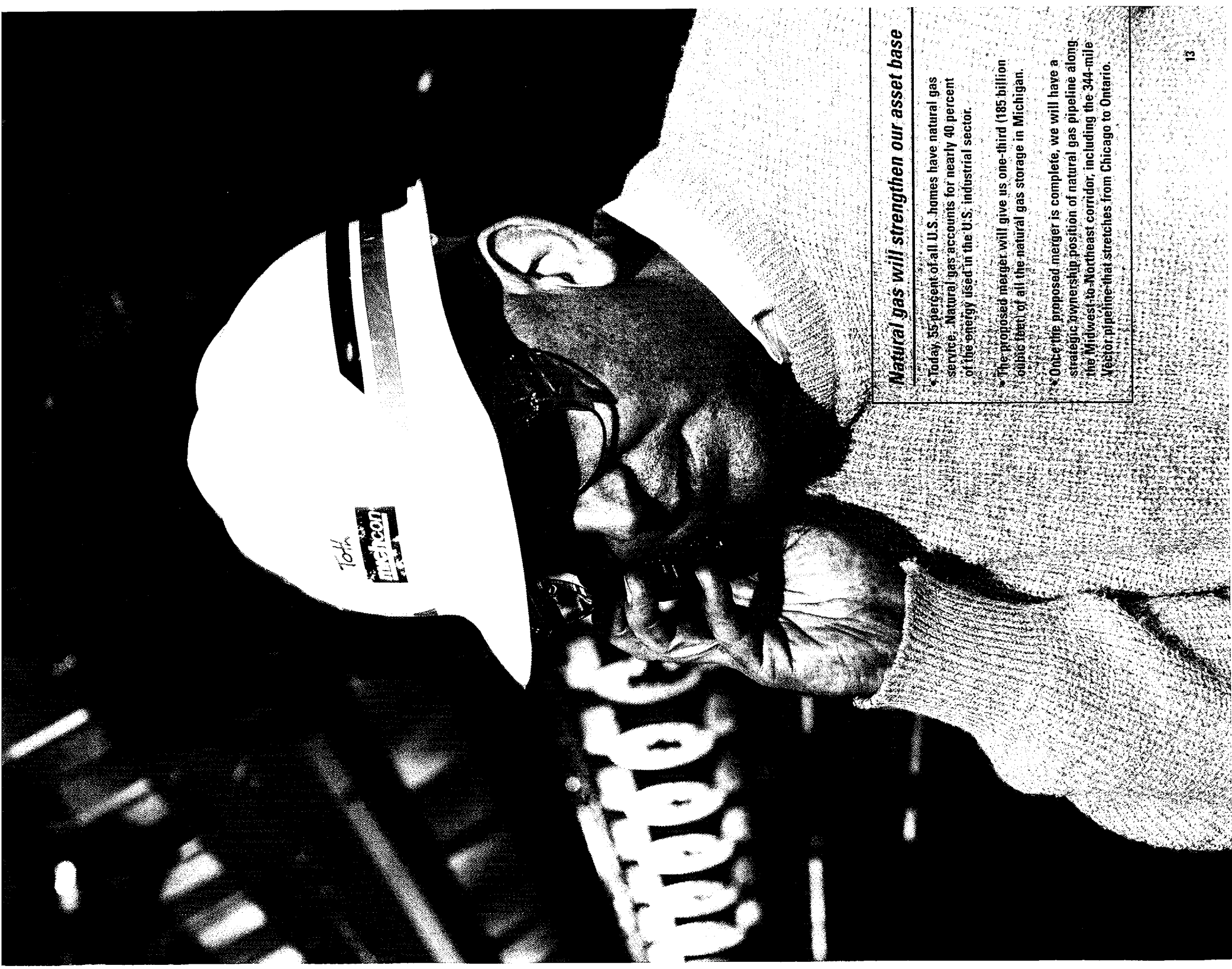
**Right:** Larry Toth gauges progress on construction of the Midfield Terminal energy center.



**Above:** Norb Koss monitors and controls natural gas pressure and flow rates throughout MichCon's system.

**Left:** Bob Minoff is a physical trader at CoEnergy Trading Company – an MCN Energy subsidiary that sells more than 400 billion cubic feet (Bcf) of gas annually, while managing 70 Bcf of storage.





### *Natural gas will strengthen our asset base*

- Today, 35 percent of all U.S. homes have natural gas service. Natural gas accounts for nearly 40 percent of the energy used in the U.S. industrial sector.
- The proposed merger will give us one-third (185 billion cubic feet) of all the natural gas storage in Michigan.
- Once the proposed merger is complete, we will have a strategic ownership position of natural gas pipeline along the Midwest-to-Northeast corridor, including the 344-mile Vector pipeline that stretches from Chicago to Ontario.

# *Operating* efficiencies spur *utility* growth

Customer service can be defined in many ways. Reliability. Responsiveness. Caring. At our utility subsidiary, Detroit Edison, our goal is high quality at low cost. Our challenge is finding ways to continuously improve. That means reducing expenses and operating more efficiently while maintaining customer satisfaction.

*We're working*

*aggressively*

*to improve*

*customer*

*satisfaction*

*and reliability,*

*and we're*

*getting results.*

We've done a thorough job planning the integration of Detroit Edison and MichCon. Now we're ready to make it happen. We're focused on delivering the synergy savings we've identified through the merger process. They will make us a leaner, nimbler organization.

We're using technology in innovative ways to further improve reliability and customer service. We successfully completed the launch of our new Customer Service and Billing System for Detroit Edison customers. The new system consolidates all accounts at the same site onto the same bill. We are also bringing service to customers through use of the Internet and automated meter-reading technologies. And as always, we're keeping a watchful eye on our system reliability. We spent more than \$500 million in 2000 to maintain and improve the electrical system.



**Above:** As part of a pilot program, Detroit Edison's Bob Kress installs a meter equipped with advanced remote reading technology.



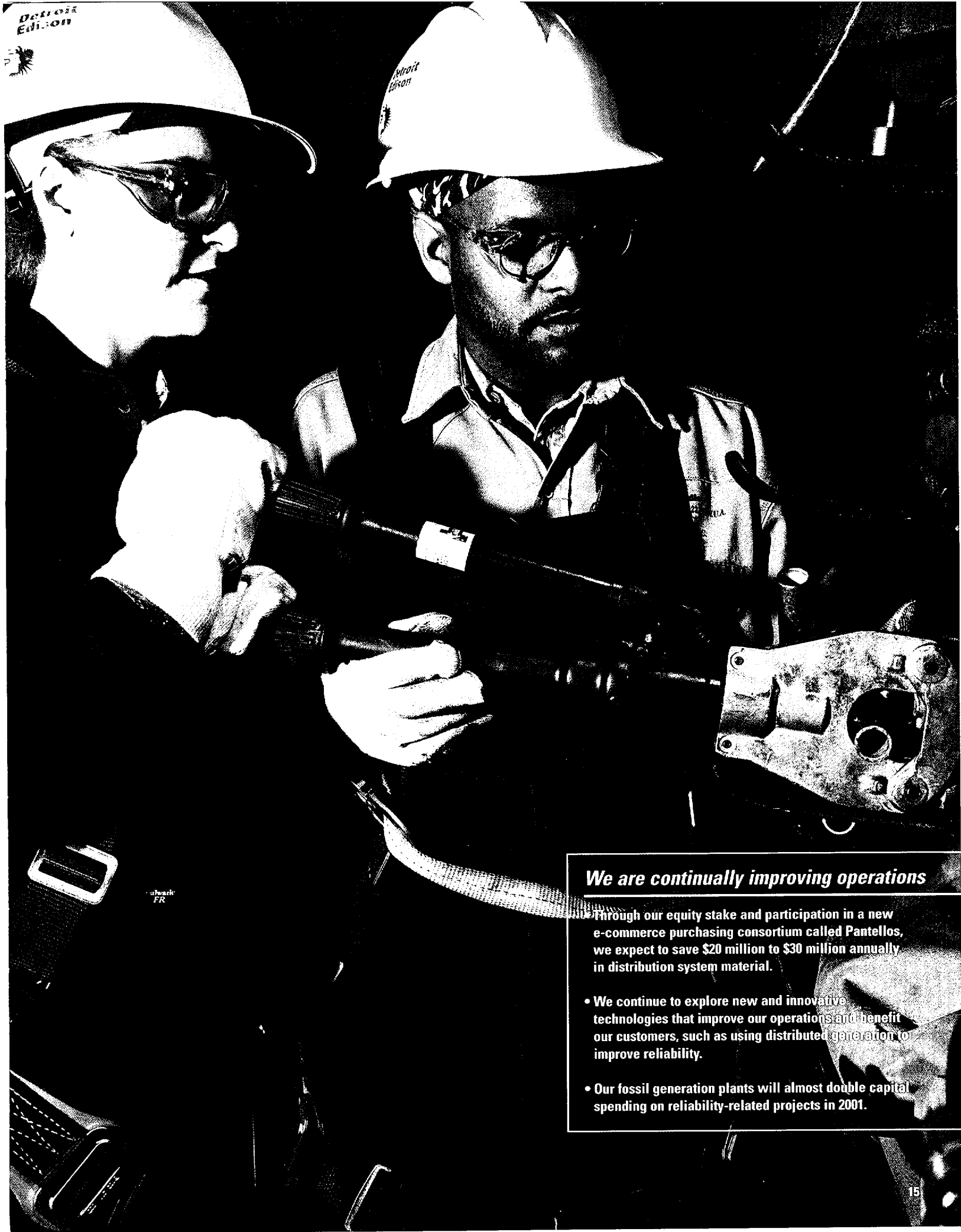
Photo by Stanton Breidenthal, Arkansas Democrat - Gazette.

**Above:** A convoy of Detroit Edison trucks heads for Little Rock, Ark., during a major ice storm.

**Left:** Larry Masur packages high temperature superconducting cable for shipment to a facility that will complete the manufacturing process.

**Right:** Jan Iaquina (left) and David Fitzhugh press a fitting on an underground cable in Detroit.





### ***We are continually improving operations***

Through our equity stake and participation in a new e-commerce purchasing consortium called Pantellos, we expect to save \$20 million to \$30 million annually in distribution system material.

- We continue to explore new and innovative technologies that improve our operations and benefit our customers, such as using distributed generation to improve reliability.
- Our fossil generation plants will almost double capital spending on reliability-related projects in 2001.

# *Distributed generation* powers the future

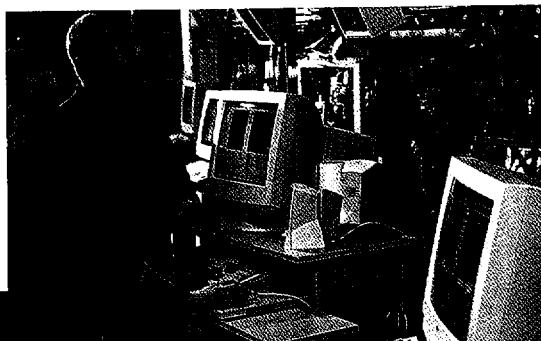
Technology is driving fundamental change within our industry. We're keeping ahead of the curve with a growing portfolio of distributed generation products. We are well on our way to becoming the pre-eminent supplier of integrated distributed generation solutions.

Distributed generation uses advanced technology to generate safe, clean, affordable, reliable, high-quality power. It will augment the traditional power grid supplied by large power plants with smaller generating units located closer to the consumer. Our industry is recognizing this shift as a realistic, economical way to improve the reliability of supply and distribution, and offer more choices to customers.

*Distributed  
generation will  
reshape the  
production and  
delivery of  
electricity in  
this decade.*

Our DTE Energy Technologies subsidiary develops, markets and sells distributed generation products and services under the energy|now brand name. These products, developed in partnership with leading manufacturers and suppliers, include standby and free-standing generators, micro-turbines and a unique fuel cell system.

Energy|now fuel cells, manufactured by Plug Power, are essentially miniature on-site power plants. Currently about the size of a refrigerator, they are permanently installed stand-alone power sources that can supply up to 15 kilowatts of electricity without interruption, independent of or as a complement to the local power grid. Energy|now fuel cells will be placed at select locations later this year. We will bring a residential system to market in 2002.



Above: Jeff Ruszczyk (left) and James Graham test fuel cells at Plug Power's research laboratory.

Left: Ed Henderson of DTE Energy Technologies and Don Tidwell of American Residential Services Inc. install a backup generator.

Right: Wei Ping Kan inspects a Plug Power circuit board.



**Plug Power**

### ***Technology applications expand***

- DTE Energy Technologies sells, installs and services energy|now standby power systems throughout Southeastern Michigan, and soon will exercise exclusive distribution rights for energy|now fuel cells in Michigan, Indiana, Illinois and Ohio.

- It is estimated that as many as 25 million households in the United States alone may be able to benefit from fuel cell power generation.

- Future offerings under development include uninterruptible power supplies and remote monitoring systems.

# Merchant energy

*fuels non-regulated growth over next five years*

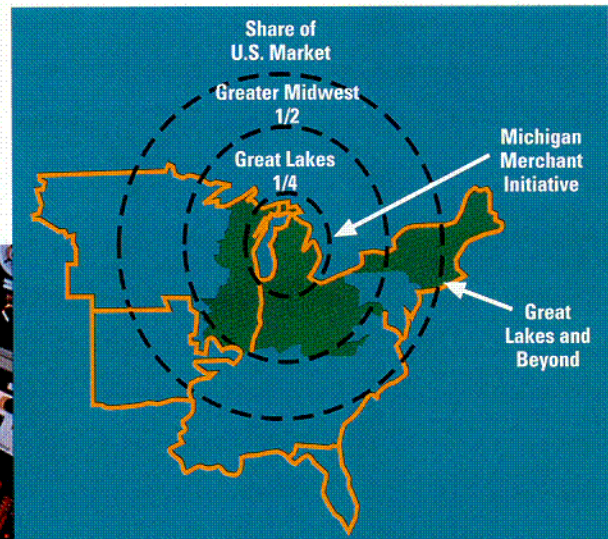
Merchant Energy provides tremendous growth opportunities for our company, both within Michigan and regionally. No other Midwest utility has staked out a clear leadership position. This arena is ours to take through our subsidiary, DTE Energy Services, which is aggressively pursuing these opportunities.

Merchant power plants generate energy for resale on the open market, typically during peak demand periods. A good example is our 240-megawatt (MW) Georgetown merchant plant near Indianapolis, which began operation last summer. DTE Energy Services built, owns and operates this state-of-the-art natural-gas turbine facility. At full capacity, Georgetown will generate enough energy to power 300,000 homes. We have a number of similar projects under development in the region.

We intend to expand our merchant energy position regionally by adding strategically placed generation assets, capitalizing on our new gas storage and pipeline assets, and expanding our trading capabilities in electricity, coal and natural gas.

*An estimated  
40,000 MW of  
additional  
capacity will  
likely be required  
in the Midwest  
by 2005.*

## Regional Merchant Energy Strategy



Above: Steve Engel monitors turbine operation at River Rouge Power Plant (Unit 1).

Left: DTE Energy Services is expanding its Georgetown merchant facility to 240 MW by summer 2001.

Above: DTE Energy's regional merchant strategy involves staking out a leadership position in the Midwest, where almost half of our nation's energy is consumed.

Right: Greg Fountain (left) and Scott Geordt survey DTE Energy Services' newest merchant plant near Indianapolis.



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### ***Merchant energy activity builds***

- We refurbished our River Rouge (Mich.) Unit 1 as a 240-MW merchant gas generator in 2000.
- A number of other sites in the Great Lakes region are under development, and we recently placed an initial order with a combustion turbine manufacturer to support the merchant power program.
- We expect to own or control about 5,000 MW of merchant generation over the next five years (in addition to 11,500 MW of Detroit Edison assets).

*We're leveraging our strengths in*  
***coal marketing*** *and delivery*

Today, coal fuels close to 56 percent of all electricity generated in the United States and approximately 81 percent in Michigan. DTE Energy is among the top three North American coal marketers and transporters and the clear leader in the Great Lakes region.

We are leveraging our strengths in coal in profitable new ways. A good example is the long-term contract our DTE Coal Services subsidiary signed with Louisiana Generating LLC, a subsidiary of NRG Energy. We provide Louisiana Generating with coal unit trains to haul approximately 8 million tons of coal annually from the Powder River Basin of Wyoming to St. Louis.

*We are*

*decreasing*

*customer costs*

*and increasing*

*the efficiency*

*of their rail*

*car fleets.*

What makes this contract unique is our guarantee to provide the rail car capacity needed to meet Louisiana Generating's annual requirements. DTE Coal Services operates in a pool of cars for its customers to generate maximum cost efficiency. Our expertise in rail car maintenance and service, and transportation management saves this customer both time and money.



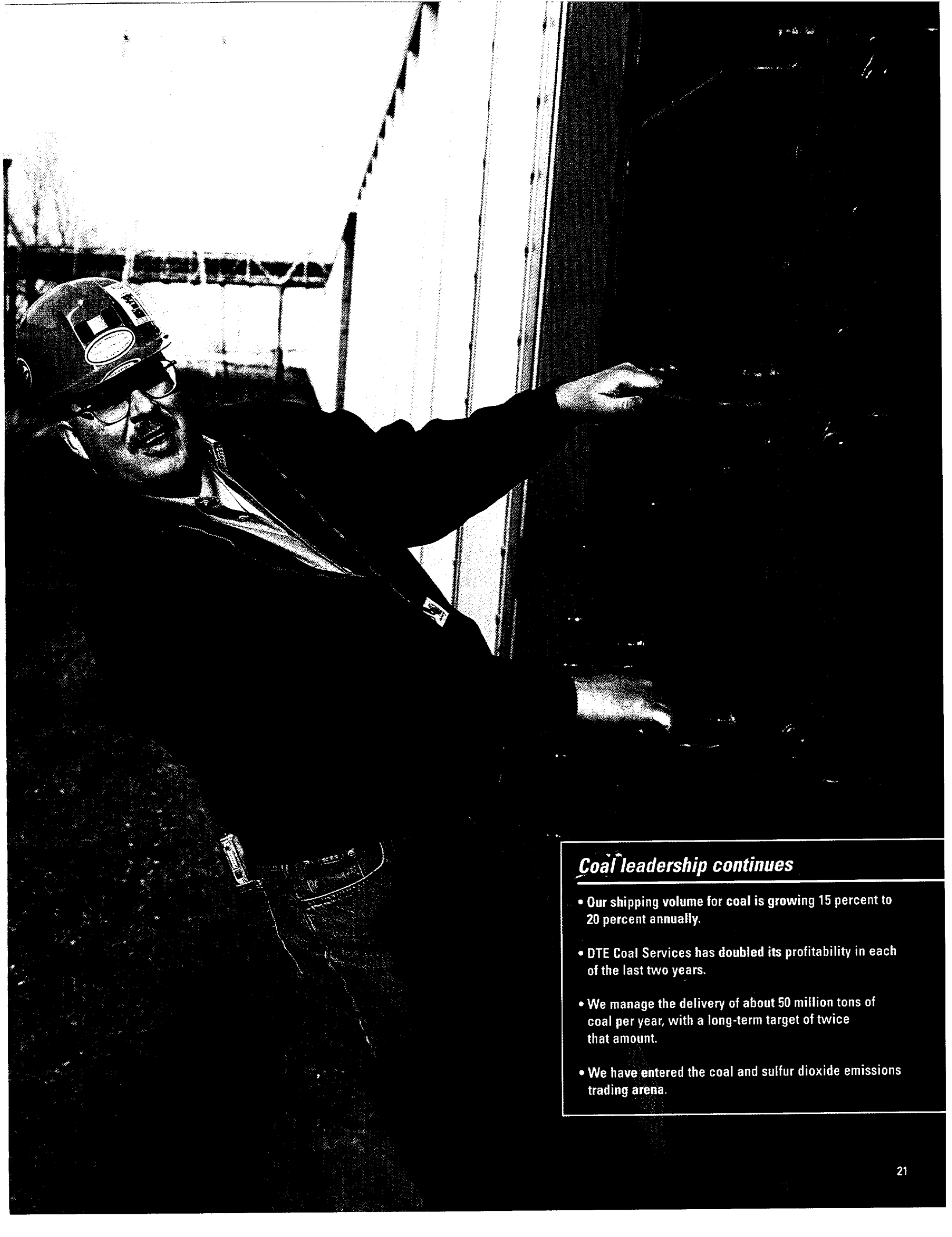
Above: Serlon Elvine tests coal quality at Detroit Edison's Warren Service Center.



Above: DTE Coal Services delivers approximately 50 million tons of coal per year throughout the United States.

Left: A coal train arrives in St. Louis for unloading. DTE Coal Services owns a fleet of 9,000 rail cars.





### ***Coal leadership continues***

- Our shipping volume for coal is growing 15 percent to 20 percent annually.
- DTE Coal Services has doubled its profitability in each of the last two years.
- We manage the delivery of about 50 million tons of coal per year, with a long-term target of twice that amount.
- We have entered the coal and sulfur dioxide emissions trading arena.

# *Energy trading*

## *triples growth and continues momentum*

Within the next five years, buying and selling electricity on the open market is expected to become a \$300 billion business. DTE Energy Trading is a growing leader with a proven track record. It ranks in the upper quartile of power marketers in profitability, return on equity and risk management processes.

One of its strengths is supporting the business strategies of other DTE Energy subsidiaries to provide a total energy solution. For example, DTE Energy Trading will serve as the marketer for all of the company's merchant assets as well as for external customers. In 2000, it surpassed 30,000 gigawatt-hours in merchant sales totalling \$1 billion in revenue, triple the 1999 revenue level. We expect similar growth in 2001.

### *DTE Energy*

### *Trading ranks*

### *in the upper*

### *quartile of U.S.*

### *power marketers.*

Coal tolling is another example. DTE Coal Services buys coal and arranges transportation, then delivers the coal to a power plant with excess capacity. The plant burns the coal to produce electricity, then DTE Energy Trading markets the excess power to fulfill its contracts. It's a great way to profit without owning the assets – while at the same time helping the asset owner improve profitability.

DTE Energy is an established leader in coal tolling. In 2000, we worked with six different sites tolling more than 3 million tons of coal. In 2001, we plan to aggressively pursue additional business with more sites and longer contract durations.



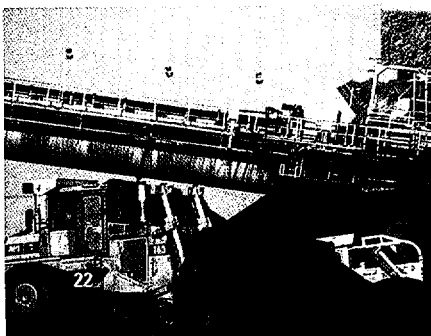
Above: The proposed merger with MCN Energy will give us new opportunities to trade natural gas and non-regulated gas storage assets.

Left: Coal tolling is a growing business for our company.



Above: Scott May and Jaime Johnson track trades on the New York Mercantile Exchange.

Right: Sue Whitener, Rick Schmelz, Jr., (center) and Ed Chao are part of the DTE Energy Trading team that boosted sales volume close to 300 percent in 2000.





### *An integral part of our growth strategy*

- DTE Energy Trading sales volume increased close to 300 percent in 2000 for the second year in a row. Its revenue is expected to double in 2001.
- DTE Energy Trading serves a 13-state region conducting an average of 2,000 transactions per month for 140 clients.
- Upon completion of the MCN Energy merger, DTE Energy Trading will increase natural gas trading by adding staff and by adding gas storage assets to its product portfolio.

# *DTE Energy Services expands on-site energy projects*

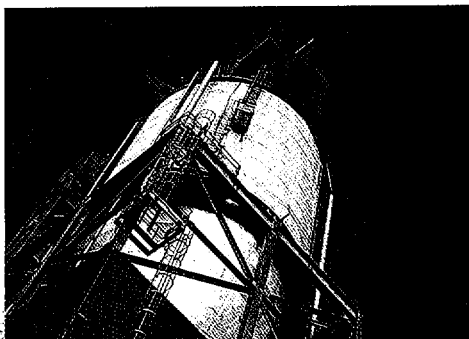
We have become a premier developer of energy projects for industrial, commercial and institutional customers in select energy-intensive industries. These customized projects are designed to fill the energy needs of a wide array of large customers. We provide expertise in developing, financing, building, owning and maintaining energy facilities so our customers can focus on their core business activities.

*We have a  
solid track*

Our on-site energy portfolio includes cogeneration and generation, powerhouse operations, heating/cooling systems and pulverized coal injection (PCI) projects. The heating and cooling system built and operated by DTE Energy Services at General Motors' headquarters in Detroit's Renaissance Center is an example of a full-service energy solution we're providing to a large customer.

*record in on-site  
energy projects.*

Another successful project completed in 2000 is our pulverized coal injection facility at Bethlehem Steel's Sparrows Point Division. Under the 12-year agreement, DTE Energy Services will pulverize and deliver about 2,000 tons of coal per day to the steelmaker. Pulverized coal injection results in lower cost of steel production with no sacrifice in steel quality.



**Above: DTE Energy Services has constructed the two newest PCI facilities in North America.**



**Above: Greg Haneckow monitors the Renaissance Center's new heating and cooling system owned and operated by DTE Energy Services.**

**Right: Charles Holt (left), Shawn Dedenbach and John Garvey of DTE Energy Services study project development options.**

**Left: DTE Energy Services operates or is constructing more than 25 major projects representing \$1.3 billion in assets.**





### *We have a solid track record*

- We have multiple projects in the steel industry with repeat customers, including coke batteries, pulverized coal injection and power generation.
- DTE Energy Services' on-site power plant projects include not only industrial customers, but also commercial and institutional clients, such as the Illinois Institute of Technology.
- We provide heating, cooling and utility services for customers in the automotive industry.

# Business in *niche* fuel markets grows

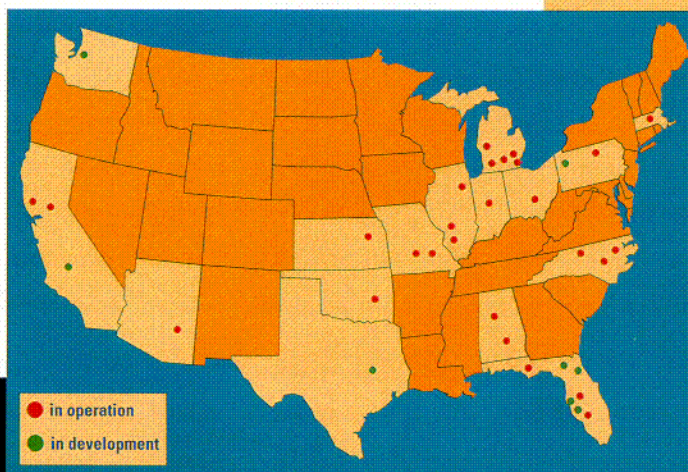
We're growing our position in niche energy markets such as landfill gas recovery, coke battery operations and synthetic fuel production. We have a solid track record and reputation for developing successful business structures in these areas.

The company's DTE Energy Biomass subsidiary extracts nearly 70 million cubic feet per day of gas from landfills throughout the United States that is turned into steam or electricity. One of our newest projects is a landfill site in Wichita, Kan., which provides nearly 3 million cubic feet of gas per day to High Plains Corporation. The gas is burned in a boiler to meet the fuel needs of its ethanol processing operation. Burning landfill gas helps High Plains lower its total fuel costs and also helps the environment by reducing emissions of greenhouse gases. In fact, the project was recently recognized with the 2000 Kansas Pollution Prevention Award from the Kansas Department of Health and Environment and the U.S. Environmental Protection Agency.

Our DTE Energy Services subsidiary is the second largest producer of coke for the steel industry in North America. These facilities heat raw metallurgical coal to high temperatures to produce industrial coke, a key ingredient in making steel. Our new Indiana Harbor coke battery had record production in 2000. DTE Energy Services also is one of the nation's major synfuel producers.

*We are  
marketing our  
industry-leading  
skills in new  
ways to expand  
our service  
offerings.*

**Biomass Sites**

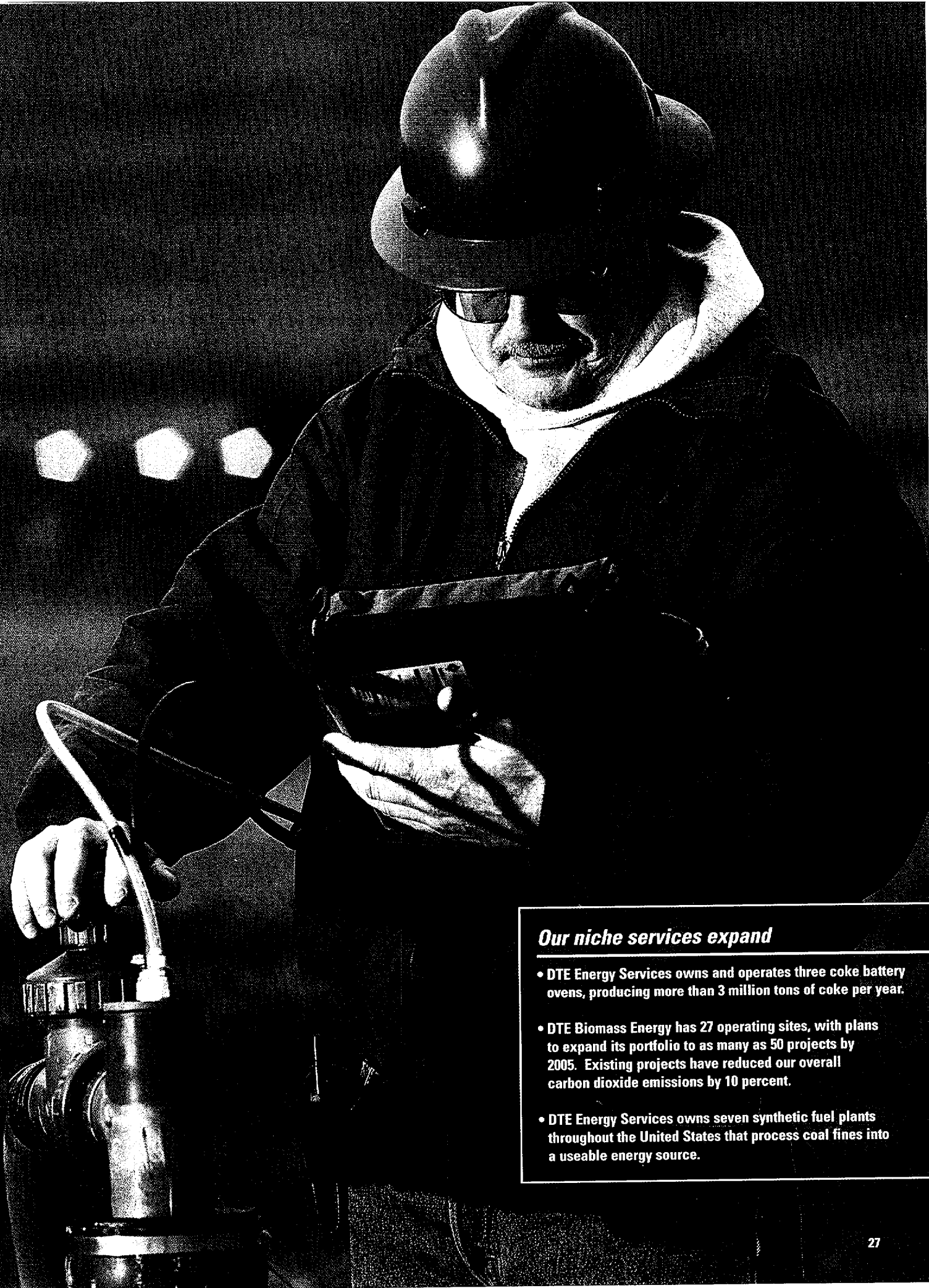


Above: DTE Energy Biomass currently operates 27 landfill gas sites with aggressive plans to expand.

Left: The new DTE Energy Services coke battery operation in Indiana Harbor had record production in 2000.

Right: Mark Oliger adjusts wellhead pressure at a landfill site in Wichita, Kan.

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### ***Our niche services expand***

- DTE Energy Services owns and operates three coke battery ovens, producing more than 3 million tons of coke per year.
- DTE Biomass Energy has 27 operating sites, with plans to expand its portfolio to as many as 50 projects by 2005. Existing projects have reduced our overall carbon dioxide emissions by 10 percent.
- DTE Energy Services owns seven synthetic fuel plants throughout the United States that process coal fines into a useable energy source.

# *Our commitment to the community is strong*

For nearly a century, the names Detroit Edison and MichCon have been synonymous with corporate citizenship. The proposed merger of these two companies will create a new organization equally focused on community involvement. This commitment will be stronger than ever.

In 2000, Detroit Edison and the Detroit Edison Foundation contributed nearly \$4 million to nonprofit institutions, and MichCon and the MichCon Foundation gave more than \$2 million. Monetary contributions are just one way we support our communities. Equally important is the role our employees play as volunteers. For example, as part of a three-year partnership with Habitat for Humanity, employee teams built two homes in Southeastern Michigan during 2000. The first project, a women-only build, featured a volunteer team of approximately 225 DTE Energy employees and their friends. The all-female crew constructed a new home for a low-income single mother.

*Our heritage  
of philanthropy  
and spirit of  
volunteerism will  
never change.  
  
We care and  
it shows.*

We care about our communities. Our support takes many forms, including economic development activities, supplier diversity and ethnic marketing initiatives, and school safety and environmental programs. We take our role as good corporate citizens seriously. It's a fundamental part of who we are as a company.

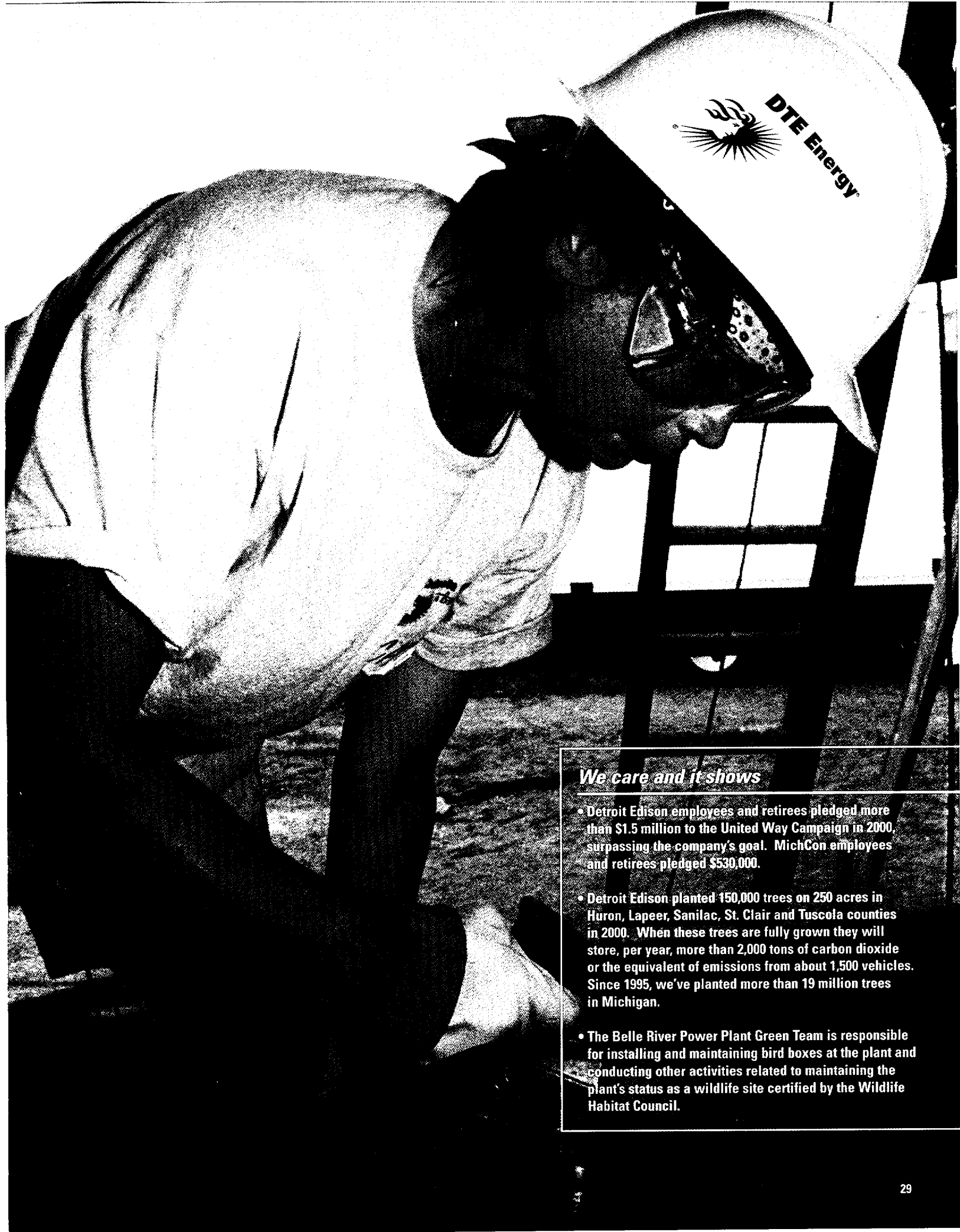


**Above:** Lisa Appel of the Wildlife Habitat Council helps create a butterfly garden for DTE Energy's Detroit headquarters.

**Right:** Cathy Robinette joins 200-plus DTE Energy teammates in a Habitat for Humanity women-only build last summer.

**Above:** MichCon is a major sponsor of Metro Detroit Youth Day, attended by 16,000 young people in 2000.

**Left:** Detroit Edison's Louie the Lightning Bug® teaches children to be safe around electricity.



### ***We care and it shows***

- Detroit Edison employees and retirees pledged more than \$1.5 million to the United Way Campaign in 2000, surpassing the company's goal. MichCon employees and retirees pledged \$530,000.
- Detroit Edison planted 150,000 trees on 250 acres in Huron, Lapeer, Sanilac, St. Clair and Tuscola counties in 2000. When these trees are fully grown they will store, per year, more than 2,000 tons of carbon dioxide or the equivalent of emissions from about 1,500 vehicles. Since 1995, we've planted more than 19 million trees in Michigan.
- The Belle River Power Plant Green Team is responsible for installing and maintaining bird boxes at the plant and conducting other activities related to maintaining the plant's status as a wildlife site certified by the Wildlife Habitat Council.

# A dynamic *board* empowers our growth



**Terence E. Adderley**, 67, is chairman, president and chief executive officer of Kelly Services Inc. He was appointed president and CEO in 1967 and has served as the company's chairman since 1998. He was elected to the DTE Energy Board in 1987. (E, F, O)



**Allan D. Gilmour**, 66, is retired vice chairman of Ford Motor Company. He was elected to the DTE Energy Board in 1995. (C, E, F, O)



**Lillian Bauder**, 61, is vice president of Corporate Affairs for Masco Corporation and president of the Masco Charitable Trust since 1995. She joined DTE Energy's Board in 1986. (A, E, N, P)



**Theodore S. Leipprandt**, 67, is owner of Leipprandt Orchards and retired president and chief executive officer of Cooperative Elevator Co. He was elected to the DTE Energy Board in 1990. (A, N, P)



**David Bing**, 57, is chairman of the board of Bing Steel Inc., a position he has held since 1985, and chairman of Superb Manufacturing since 1987. Mr. Bing joined the DTE Energy Board in 1985. (A, O)



**John E. Lobbia**, 59, retired as chairman and chief executive officer of DTE Energy and Detroit Edison in 1998. He joined the company in 1965 and has served on the Board since 1988. (F, N)



**William C. Brooks**, 67, is chairman of The Brooks Group International Ltd. since 1998. He is a retired vice president of General Motors Corp. He was elected to the DTE Energy Board in 1997. (C, P)



**Eugene A. Miller**, 63, is chairman, president and chief executive officer of Comerica Incorporated and Comerica Bank, positions he has held since 1993. He joined the DTE Energy Board in 1989. (C, E, F, O)



**Anthony F. Earley, Jr.**, 51, is chairman and chief executive officer of DTE Energy since 1998. He also serves as chairman and CEO of Detroit Edison. He joined DTE Energy in 1994 as president and chief operating officer, the same year he was elected to the DTE Energy Board. (E)



**Charles W. Pryor, Jr.**, 56, is president and chief executive officer of Westinghouse Electric, a position he has held since 1997. Mr. Pryor joined the DTE Energy Board in 1999. (N)



**Larry G. Garberding**, 62, is executive vice president and chief financial officer of DTE Energy and Detroit Edison, a position he has held since joining the company in 1990. He was elected to the DTE Energy Board that same year. (E, F)

## Committee Membership:

A - Audit, C - Corporate Governance, E - Executive, F - Finance, N - Nuclear Review, O - Organization and Compensation, P - Public Responsibility

# An experienced *executive* committee guides our growth

**Anthony F. Earley, Jr.**, 51, is chairman and chief executive officer of DTE Energy and its largest subsidiary, Detroit Edison. He joined the company in 1994 as president and chief operating officer (COO) and that same year was elected a company director. He was named to his current position in 1998. Before joining DTE Energy, Earley served as president and COO of Long Island Lighting Company where he had worked since 1985.

**Gerard M. Anderson**, 42, is president and chief operating officer of DTE Energy Resources. He was named to his present position in 1998. Previously he was executive vice president of DTE Energy. Anderson joined the company in 1993 from the consulting firm of McKinsey & Co., where he was a consultant in the energy and financial arenas.

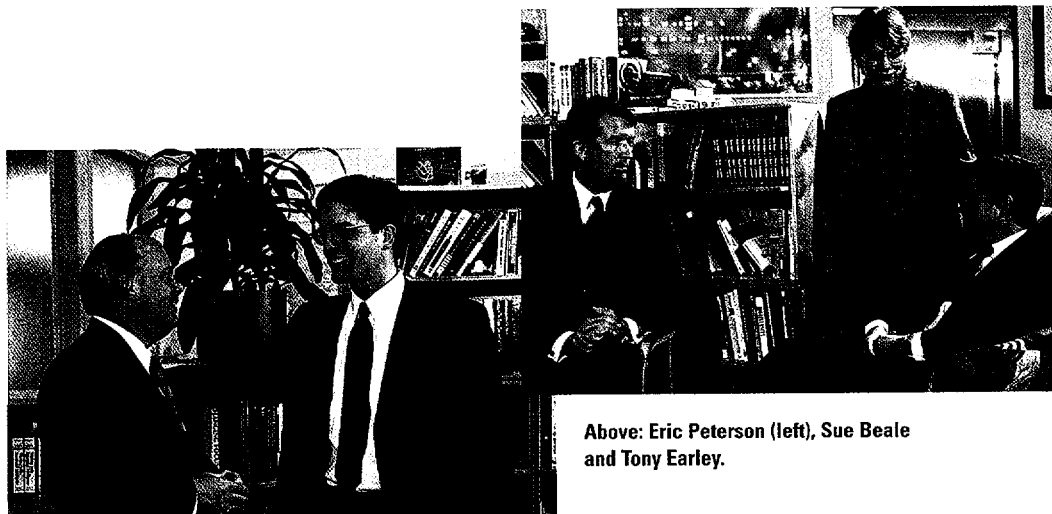
**Robert J. Buckler**, 51, is president and chief operating officer of DTE Energy Distribution. He joined the company in 1974 and was named to his current post in 1998. During his tenure, he has held numerous positions throughout the organization including power plant engineering, construction and operation, fuel supply management, transmission and distribution operation, customer service, marketing and strategic planning.

**Larry G. Garberding**, 62, is executive vice president and chief financial officer of DTE Energy since 1995, and Detroit Edison since 1990, when he joined the company. Before that, he held leadership positions with several natural gas companies as deregulation came to their industry. Those companies are NICOR Inc., Tenneco Gas Marketing Company, Tennessee Gas Transmission Company and K-N Energy.

**Eric H. Peterson**, 40, is senior vice president and General Counsel since September 2000. Before joining the company, he was a partner in the Dallas law firm, Worsham Forsythe Wooldridge LLP. In his 15 years there, Peterson gained extensive experience in a variety of activities related to the utility industry, including domestic and international mergers and acquisitions.

**S. Martin Taylor**, 60, is senior vice president of Corporate and Public Affairs since 1999. Taylor joined the company in 1989 with an extensive political background. He served in the cabinets of two Michigan governors and early in his career, worked as a corporate attorney in Chicago.

**Susan M. Beale**, 52, is vice president and corporate secretary since 1995. She joined the company in 1982 after working as an attorney for Consumers Power and Southern California Edison. Beale serves as secretary to the Executive Committee.



Above: Eric Peterson (left), Sue Beale and Tony Earley.



Above: Bob Buckler (left) and Gerry Anderson.

Left: Larry Garberding (left) and S. Martin Taylor.



*A progressive* **team** *leads our*  
*transformation*

**Michael E. Champley**  
Senior Vice President  
Energy Marketing and Trading

**Lynne Ellyn**  
Senior Vice President  
Chief Information Officer

**Douglas R. Gipson**  
Executive Vice President and  
Chief Nuclear Officer

**Ron A. May**  
Vice President  
Energy Delivery and Service

**David E. Meador**  
Senior Vice President-Finance  
and Treasurer

**Sandra J. Miller**  
Vice President  
Human Resources

**William T. O'Connor**  
Vice President  
Nuclear Generation

**Michael C. Porter**  
Vice President  
Corporate Communications

**William R. Roller**  
Vice President  
Power Generation

**Larry E. Steward**  
Vice President  
Human Resources Strategy

**Albert J. Tack**  
General Auditor

**Theodore J. Vogel**  
Vice President  
Tax Counsel

**Subsidiary Presidents**

**G. Paul Horst**  
President  
DTE Energy Technologies

**Barry G. Markowitz**  
President  
DTE Energy Services

**Samuel Snick Meyers**  
President  
DTE Energy Trading

**Evan J. O'Neil**  
President  
DTE Coal Services

**Curtis T. Ranger**  
President  
DTE Biomass Energy

**Joseph L. Welch**  
President  
International Transmission  
Company

# Management's discussion and analysis of financial condition and results of operations

## GROWTH

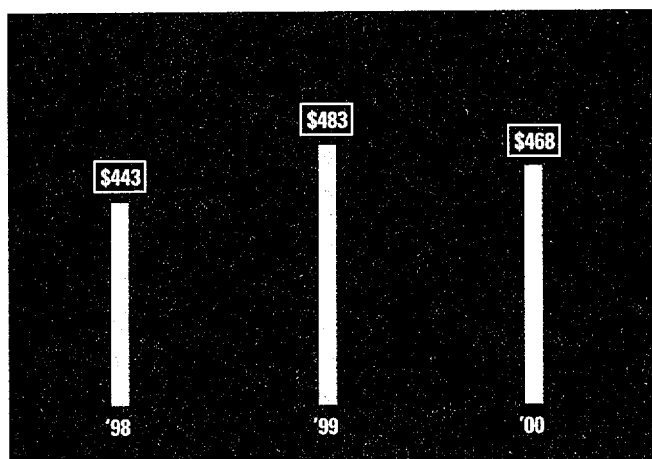
DTE Energy Company (Company) is focused on prudently growing its earnings base. For the past three years, it has articulated a growth strategy that has consistently achieved its 6% growth objective (after adjustment in 2000 for one-time legislative and merger items). Given its prior successes, depth of management team and strategic asset base, the Company has increased its growth objective up to 8% over the next several years. The new anticipated growth rate is expected to be achieved by strengthening our core electric and gas (after the proposed merger with MCN Energy Group Inc. (MCN)) utility businesses in the short term, building our non-regulated businesses in the mid term and leveraging investments in energy technology over the long term. The growth strategy, focused on the greater Midwest region, leverages and expands existing assets and skills.

We will strengthen our core electric and gas (after the proposed merger with MCN) utility businesses through continuous improvement actions, balancing cost, reliability and customer satisfaction, and leveraging opportunities to create value with the non-regulated businesses.

We have established a portfolio of non-regulated businesses, with approximately \$1.7 billion in assets that contributed approximately \$84 million to net income in 2000 and is expected to provide the greatest growth potential for the Company in the next five years. These non-regulated businesses are expected to provide approximately \$125 million in net income in 2001. Our merchant energy business will include optimizing fuel supply and plant operations, broadening coal marketing and coal tolling efforts, rapidly expanding power marketing and trading operations, growing an emerging base of non-regulated generation assets in the Midwest region and capitalizing on MCN's storage and pipeline assets to serve the rapidly expanding generation sector.

The Company's long-term growth strategy recognizes the fact that competition, new technologies and environmental concerns will reshape the electric utility industry and the manner in which power is delivered. As a result, the Company has started a distributed generation business, DTE Energy Technologies, a wholly owned subsidiary, which will provide

**Consolidated Net Income**  
(Millions)



Consolidated net income was lower in 2000 due primarily to a 5% rate reduction at Detroit Edison.

one-stop sales and service to energy customers using a variety of new technology products, including backup generation, micro-turbines, fuel cells and control equipment. Additionally, the Company continues to make strategic technology investments in companies like Plug Power, a developer and manufacturer of fuel cell systems.

As discussed in Note 2, the Company and MCN have entered into a merger agreement. The Company expects that completion of the proposed merger will result in the issuance of approximately 30 million shares of its common stock and approximately \$1.4 billion in external financing. The proposed merger is expected to create a fully integrated electric and natural gas company that is anticipated to support the Company's commitment to a long-term earnings growth rate of up to 8%. The proposed merger is expected to permit the Company to be responsive to competitive pressures. The external financing needs of the proposed merger may create a sensitivity to interest rate changes. The Company will need to successfully integrate the two operations to service the expected debt requirements and achieve aggregate operating cost reductions. The delay in the receipt of regulatory approvals will negatively impact the effect on earnings in 2001 resulting from the proposed merger, as will the escalation in the price of natural gas. The Company believes that the

proposed merger is strategic for the Company and has and will continue to fulfill all of its obligations under the merger agreement. The Company continues to approach this proposed merger with the best interests of the Company's shareholders in mind. See Notes 2 and 11 for further discussion of the proposed DTE/MCN merger and the financial instruments used to hedge the interest rate risk associated with financing the proposed merger.

The Company projects that 2001 earnings will be approximately \$3.60 to \$3.70 per share. In addition, 2002 earnings are expected to grow at least 6%, consistent with the Company's growth objective. These earnings estimates exclude the impact of the Company's proposed merger with MCN.

The Company's earnings are largely dependent on the earnings of The Detroit Edison Company (Detroit Edison), the principal operating subsidiary of the Company, and the use of alternate fuels tax credits generated from certain non-regulated businesses. Securitization, discussed in Note 3, is expected to reduce Detroit Edison's earnings, which may impact the Company's ability to use all future available alternate fuels tax credits. However, if that is the case, a portion of the tax credits may be monetized through sale of interests in projects that generate the credits.

## **ELECTRIC INDUSTRY RESTRUCTURING**

Detroit Edison is subject to regulation by the Michigan Public Service Commission (MPSC) and the Federal Energy Regulatory Commission (FERC). Michigan legislators and regulators have focused on competition and Electric Choice in the Michigan electric public utility industry and are committed to opening the electric generation market in Michigan to competition while providing for the right of electric utilities to recover stranded costs. Electric Choice will give all retail customers the opportunity to access alternative generation resources.

### **Michigan's Customer Choice and Electricity Reliability Act**

See Note 3 for a discussion of Public Acts 141 and 142 of 2000 (PA 141 and PA 142), new legislation signed into effect on June 3, 2000, by Michigan Governor John Engler.

### **Michigan Public Service Commission Restructuring Orders**

Detroit Edison expects that a limited liability corporation, wholly owned by Detroit Edison, will issue approximately \$1.751 billion of securitization bonds in the first quarter of 2001. The bonds may not exceed 15 years in term to recover Detroit Edison's qualified costs, as approved by the MPSC. Detroit Edison will

use the proceeds of the bonds to retire debt and equity as required by Michigan restructuring legislation in a manner that will maintain its debt/equity ratio at approximately 50%. See Note 3 for additional discussion of the November 2, 2000 and January 4, 2001 MPSC orders regarding securitization of Detroit Edison's qualified costs.

On October 24, 2000, the MPSC initiated a case to determine the methodology of calculating net stranded costs, as required by PA 141. Methods to be considered include: (1) the relationship of market value to net book value of generation assets and purchase power contracts, (2) evaluations based on the market price of power in relation to the price assumed by the MPSC in prior orders and (3) any other method the MPSC considers appropriate. It is expected that the MPSC will issue an order by the end of 2001. Detroit Edison is unable to predict the outcome of these proceedings.

### **Electric Choice**

The Electric Choice program began in December 1999, when Detroit Edison delivered energy from an alternate supplier in a MPSC-directed 90 megawatt (MW) voluntary portion of the program. As of December 31, 2000, Detroit Edison has made available 1,125 MW, or more than 12% of its capacity, for Electric Choice. Detroit Edison has spent approximately \$57 million through December 31, 2000, and estimates that additional expenditures of up to \$25 million may be required through 2001 to fully implement the program on January 1, 2002. Securitization proceeds will recover \$28 million of this amount, with recovery of the remaining balance determined in current and future MPSC net stranded cost proceedings.

Detroit Edison anticipates that Electric Choice will result in a decrease in its annual sales as well as a decrease in its peak demand beginning in 2002. These decreases are not expected to have a significant impact on the Company's net income due to effective load management techniques, which are expected to reduce high-cost sales during peak periods and increase non-regulated sales outside of Detroit Edison's service territory at other times.

### **Federal Energy Regulatory Commission**

Detroit Edison is regulated at the federal level by the FERC with respect to accounting, sales for resale in interstate commerce, transmission services, issuances of securities, licensing of hydro and pumping stations and other matters. The FERC, as a policy matter, believes that transmission should be made available on a non-discriminatory basis.

On September 28, 2000, the FERC conditionally approved an open access transmission tariff designed to allow for the

collection of \$138 million in annual revenues for transmission services provided by the International Transmission Company (ITC), a wholly owned subsidiary of Detroit Edison. The level of tariff represents an increase of \$45 million over current tariffs. These revenues may not be collected until such time as ITC notifies FERC that the Company's Board of Directors has approved a sale or spin-off of the transmission business to a fully independent transmission company that has no active or passive ownership interests by the Company, Detroit Edison or any other market participant. The ITC must become independent within 24 months of the September 28, 2000 order and join a FERC-approved Regional Transmission Organization (RTO) by December 15, 2001; otherwise the innovative transmission rates will revert back to present tariff rates, and revenue collected under the new transmission tariff will be refunded back to ITC customers. If ITC becomes independent, but has not joined an RTO in the required time frame, FERC has the authority to assign ITC to an RTO. The Company and Detroit Edison intend to comply with the FERC requirements. Effective January 1, 2001, Detroit Edison transferred approximately \$390 million of property and other assets to ITC. This transfer began the process of establishing the transmission business as an independent company.

In June 1999, Detroit Edison, along with Consumers Energy Co., the American Electric Power Service Corp., FirstEnergy Corp., and Virginia Electric and Power Co., filed applications with FERC requesting approval of the Alliance RTO (Alliance). The Alliance would operate more than 43,000 miles of transmission lines in nine states. In December 1999, FERC issued an order approving the Alliance proposal, but indicated that certain elements needed modification or further development. In January 2001, FERC approved key aspects of Alliance's compliance filing, including independence, scope and configuration and rate design, but directed Alliance to make certain additional modifications in the areas of ancillary services, market monitoring and inter-regional coordination. Alliance was directed to make a further compliance filing by May 15, 2001, and file actual tariffs rates, terms and conditions no later than 120 days prior to commencement of operation.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash From Operating Activities

Net cash from operating activities, which is the Company's primary source of liquidity, was \$1,088 million in 2000, \$1,097 million in 1999 and \$834 million in 1998. Net cash from operating activities decreased in 2000, due primarily to lower net income, partially offset by higher non-cash items. Net cash from operating activities increased in 1999, due

primarily to higher net income and non-cash items and lower cash used for current assets and liabilities.

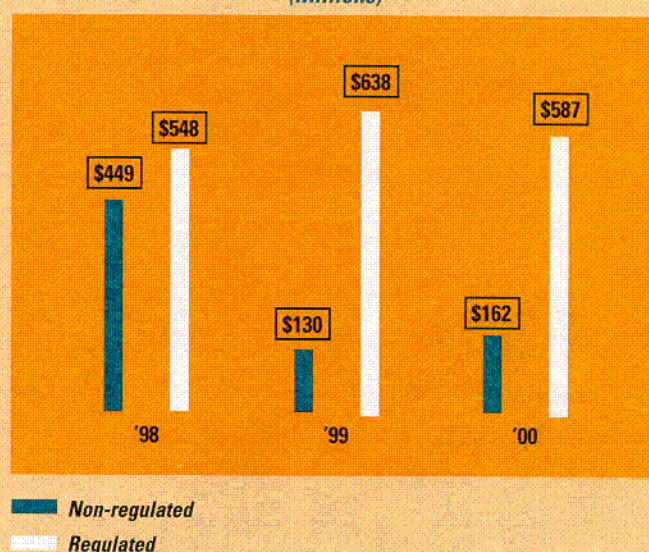
### Cash Used for Investing Activities

Net cash used for investing activities was lower in 2000, due primarily to decreased plant and equipment expenditures by Detroit Edison, partially offset by higher non-regulated plant and equipment expenditures. Net cash used for investing activities was lower in 1999 due to lower investments in non-regulated businesses, partially offset by increased plant and equipment expenditures by Detroit Edison.

Cash requirements for 2000 Detroit Edison capital expenditures were \$587 million. Detroit Edison's cash requirements for capital expenditures are expected to be approximately \$2.5 billion for the period 2001 through 2005.

Cash requirements for 2000 non-regulated investments and capital expenditures were \$162 million. Excluding the effects of the proposed merger with MCN, cash requirements for non-regulated investments and capital expenditures are expected to be approximately \$1.2 billion for the period 2001 through 2005.

**Investments and Capital Expenditures**  
(Millions)



The level of investments and capital expenditures remained fairly stable for the regulated business, while levels have decreased for the non-regulated businesses after a peak in 1998.

### Cash Used for Financing Activities

Net cash used for financing activities was lower in 2000 due to decreased redemptions of long-term debt, partially offset by repurchases of common stock.

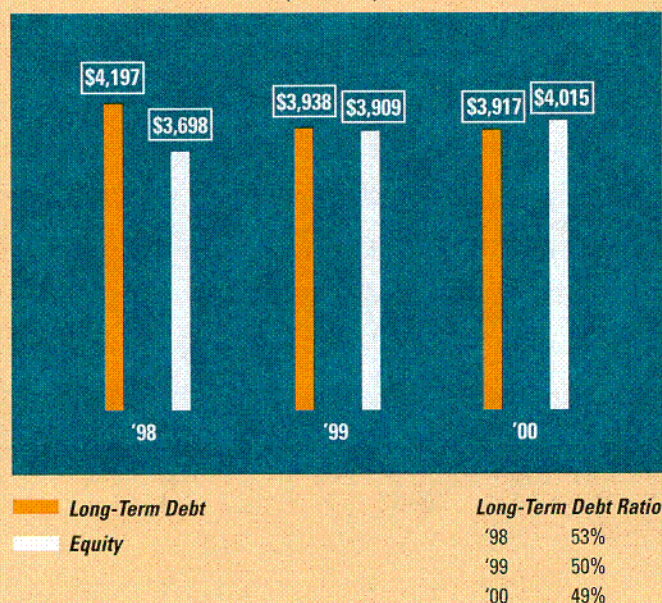
Net cash used for Company financing activities was \$426 million in 1999, due to higher redemptions and reduced issuances of long-term debt.

The following securities were issued and redeemed in 2000:

<b>Securities Issued</b>		(Millions)
Mortgage Bonds		
2000 Series A 7.50% issued in February		\$220
2000 Series B (variable) issued in August		51
Term Loan		
7.37% issued in August		2
<b>Total Issued</b>		<b>\$273</b>
<b>Securities Redeemed</b>		
Mandatory Redemptions		
Mortgage Bonds		
1990 Series A, B, C 7.9%-8.4% redeemed in March	\$	19
1993 Series E 6.25%-6.4% redeemed in March		175
Non-Recourse Debt		86
Early Redemptions		
Mortgage Bonds		
Series KKP 7.3%-7.65% redeemed in September		51
<b>Total Redeemed</b>		<b>\$331</b>

Due to the securitization of \$1.751 billion of Detroit Edison's qualified costs in the first quarter of 2001, the Company expects that 75% of the proceeds will be used to retire debt and 25% to repurchase the Company's common stock. In February 2001, the Company's Board of Directors increased the authorization for a stock repurchase program for the purchase of up to 20 million shares. Stock repurchases will be made from time to time on the open market or through negotiated transactions.

**Capitalization**  
(Millions)



The long-term debt ratio has improved due to lower long-term debt levels and higher equity.

## ENVIRONMENTAL MATTERS

Protecting the environment from damage, as well as correcting past environmental damage, continues to be a focus of state and federal regulators. Legislation and/or rulemaking could further impact the electric utility industry including Detroit Edison. The U.S. Environmental Protection Agency (EPA) and the Michigan Department of Environmental Quality have aggressive programs regarding the clean-up of contaminated property. Detroit Edison anticipates that it will be periodically included in these types of environmental proceedings. Detroit Edison has spent approximately \$50 million and estimates that it will incur approximately \$410 million of future capital expenditures, over the next three years, to comply with recent EPA ozone transport regulations and final new air quality standards relating to ozone and particulate air pollution.

## INTEREST RATE RISK

The Company is subject to interest rate risk in conjunction with the anticipated issuance of long-term debt to be used to finance the proposed merger with MCN. The Company's exposure to interest rate risk arises from market fluctuations in interest rates until the date of the anticipated debt issuance. To limit the sensitivity to interest rate fluctuations, the Company has entered into a series of forward-starting interest rate swaps and Treasury locks and designated such instruments as hedges. See Note 11 for further discussion of these derivative financial instruments.

A sensitivity analysis model was used to calculate the fair value of the Company's derivative financial instruments using applicable market interest rates in effect at December 31, 2000. The sensitivity analysis involved increasing and decreasing the market rates by a hypothetical 10% and calculating the resulting change in the fair value of the interest rate sensitive instruments. The favorable (unfavorable) changes in fair value are as follows:

	Assuming 10% Increase in Rates	Assuming 10% Decrease in Rates
(Millions)		
Interest Rate Risk		
Interest Rate Sensitive		
Forward-Starting Swaps		
– 5-year	\$ 6.5	\$ (6.8)
– 10-year	20.5	(21.7)
Treasury Locks		
– 10-year	1.9	(2.0)
– 30-year	11.8	(13.2)

## MARKET RISK

Detroit Edison expects to have adequate supplies of electric capacity in 2001 and plans to meet expected customer demand through its own electric generating capability and purchase of over 2,000 MW from other suppliers. Detroit Edison has secured purchase power contracts for its 2001 requirements, but has not procured its purchase power requirements for 2002 and beyond. Detroit Edison expects that its future electricity demands will be impacted by the Electric Choice program, interruptible contracts with certain customers and weather.

As a result of the June 2000 Michigan restructuring legislation, the MPSC determined that adjusting rates for changes in fuel and purchased power expenses would be inconsistent with the legislation. Therefore, actual fuel and purchased power costs are recorded in the period incurred, without any change in revenue.

Detroit Edison had investments valued at market of \$398 million and \$361 million in three nuclear decommissioning trust funds at December 31, 2000 and 1999, respectively. At December 31, 2000, these investments consisted of approximately 43% in fixed debt instruments, 53% in publicly traded equity securities and 4% in cash equivalents. At December 31, 1999, these investments consisted of approximately 37% in fixed debt instruments, 59% in publicly traded equity securities and 4% in cash equivalents. A hypothetical 10% increase in interest rates and a 10% decrease in equity prices quoted by stock exchanges would result in a \$14 million and \$11 million reduction in the fair value of debt and a \$21 million reduction in the fair value of equity securities held by the trusts both at December 31, 2000 and 1999, respectively.

A hypothetical 10% decrease in interest rates would increase the fair value of long-term debt from \$4.2 billion to \$4.7 billion at December 31, 2000, and from \$4 billion to \$4.5 billion at December 31, 1999.

DTE Energy Trading, Inc. (DTE ET), an indirect wholly owned subsidiary of the Company, provides price risk management services using energy commodity derivative instruments. The Company measures the risk inherent in DTE ET's portfolio using Value at Risk (VaR) analysis and other methodologies, which simulate forward price curves in electric power markets, to quantify estimates of the magnitude and probability of potential future losses related to open contract positions. DTE ET VaR expresses the potential loss in fair value of its forward contract and option position over a particular period of time, with a specified likelihood of occurrence, due to an

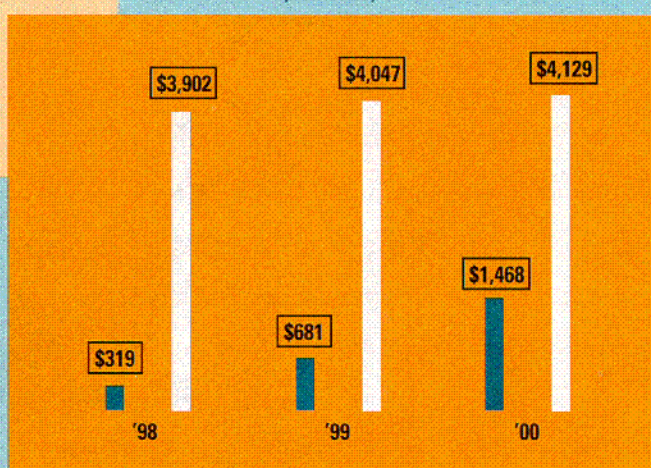
adverse market movement. The Company calculates VaR based on a 95% confidence interval, using 10-day holding periods. The VaR model uses the variance-covariance statistical modeling technique, and implied and historical volatilities and correlations over the past 20-day period. The estimated market prices used to value these transactions for VaR purposes reflect the use of established pricing models and various factors including quotations from exchanges and over-the-counter markets, price volatility factors, the time value of money, and location differentials. At December 31, 2000 and 1999, DTE ET's VaR from its power marketing and trading activities was less than 1% of the Company's consolidated "Income Before Income Taxes" for the years ended December 31, 2000 and 1999. For further information, see Notes 1 and 11.

## RESULTS OF OPERATIONS

Net income for 2000 was \$468 million, down \$15 million from 1999 earnings due primarily to the 5% residential rate reduction provided for in the June 2000 Michigan restructuring legislation, and expenses incurred for the proposed merger with MCN, partially offset by lower income taxes resulting from tax credits generated by non-regulated businesses.

Since the MPSC has determined that adjusting rates for changes in fuel and purchased power expenses, through continuance of the PSCR clause, is inconsistent with the June 2000 Michigan restructuring legislation, the Company expects that the distribution of yearly earnings will shift significantly. The first and fourth quarters of the year are

**Operating Revenues**  
(Millions)



	Total Operating Revenues
'98	\$4,221
'99	\$4,728
'00	\$5,597

The Company has experienced dramatic revenue growth in its non-regulated businesses.

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expected to show higher earnings, while lower earnings are expected in the second and third quarters. In addition, the fuel clause suspension will have an impact on earnings, since rates will no longer be adjusted for changes in fuel and purchased power expenses.

Net income for 1999 was up \$40 million over 1998 earnings due primarily to lower income taxes resulting from tax credits generated by non-regulated businesses and the effects of the end of the Fermi 2 phase-in plan in 1998.

### Operating Revenues

Operating revenues were \$5.6 billion, up 18% from 1999 operating revenues of \$4.7 billion. Operating revenues increased (decreased) due to the following:

(Millions)	2000	1999
<b>Detroit Edison</b>		
Rate change	\$ 70	\$ (25)
Residential rate reduction	(43)	—
System sales volume and mix	24	151
Suspension of PSCR mechanism	14	—
Wholesale sales	(2)	(19)
Fermi 2 performance disallowances	—	34
Other — net	19	4
Total Detroit Edison	82	145
<b>Non-Regulated</b>		
DTE Energy Services	54	147
DTE Energy Trading	734	209
Other — net	(1)	6
Total Non-Regulated	787	362
<b>Total</b>	<b>\$869</b>	<b>\$507</b>

Detroit Edison megawatt-hour (MWh) sales for 2000 and the percentage change by year were as follows:

	2000	2000	1999
(Thousands of MWh)			
<b>Sales</b>			
Residential	13,903	(1.1)%	2.3%
Commercial	19,762	1.1	3.4
Industrial	16,090	2.8	6.4
Other (primarily sales for resale)	2,653	2.2	10.1
Total System	52,408	1.1	4.3
Wholesale sales	2,592	(29.4)	(29.5)
Total	55,000	(0.9)	1.1

Residential sales decreased in 2000 due to reduced cooling demand, and increased in 1999 due to more heating demand, increased usage, and growth in the customer base. In both 2000 and 1999, commercial and industrial sales increased due to favorable economic conditions. In addition, industrial sales increased due to sales to the Ford Rouge plant. Wholesale sales decreased due to lower demand for energy and decreased availability of energy for sale.

Non-regulated revenues were higher due to an increased level of operations, primarily at DTE Energy Trading, and the addition of new businesses.

### Operating Expenses

#### Fuel and Purchased Power

Net system output and average fuel and purchased power unit costs per MWh for Detroit Edison were as follows:

(Thousands of MWh)	2000	1999	1998
Power plant generation			
Fossil	42,100	43,016	44,091
Nuclear	8,239	9,484	7,130
Purchased power	8,877	6,959	7,216
Net system output	59,216	59,459	58,437
Average unit cost (\$/MWh)			
Generation	\$12.78	\$12.51	\$12.76
Purchased Power	\$62.57	\$54.80	\$42.26

In 2000, fuel and purchased power expense increased due to greater purchases of energy and higher purchased power unit costs. The increase was partially offset by reduced plant generation and lower cost of low sulfur western coal.

In 1999, fuel and purchased power expense increased due to higher purchased power unit costs and a 1.7% increase in net system output. The increase was partially offset by lower fuel unit costs primarily resulting from increased usage of low-cost nuclear fuel.

Non-regulated purchased power expense increased in all periods due to the operations of DTE Energy Trading, with purchased power expenses amounting to \$959 million, \$227 million and \$42 million in 2000, 1999 and 1998, respectively.

### Operation and Maintenance

In 2000, operation and maintenance expense remained at the same level as 1999. Higher non-regulated expenses of \$50 million were due to an increased level of operations and the addition of new businesses. Lower Detroit Edison expenses resulted primarily from decreased storm activities

(\$26 million) and elimination of Y2K costs (\$46 million). The decrease was partially offset by expenses associated with the proposed DTE/MCN merger (\$25 million).

In 1999, operation and maintenance expense increased \$192 million. Higher non-regulated expenses of \$162 million were due to an increased level of operations and the addition of new businesses. Higher Detroit Edison expenses of \$30 million were due to increased system and customer enhancements (\$22 million), higher Y2K costs (\$10 million), higher employee benefit costs (\$9 million), and generation reliability and maintenance work to address unplanned outages (\$8 million), partially offset by lower storm expense (\$19 million).

### ***Depreciation and Amortization***

In 2000, depreciation and amortization expense was higher due to increased levels of plant in service and the accelerated amortization of unamortized nuclear costs, partially offset by a reduction in amortization for the deferral of the effects of the 5% residential rate reduction.

In 1999, depreciation and amortization expense increased due to higher levels of plant in service, the accelerated amortization of unamortized nuclear costs, the adjustment recording one-half of utility earnings in excess of the allowed 11.6% return on equity sharing threshold as additional nuclear cost amortization, and increased Fermi 2 decommissioning funding due to higher revenues.

### **Interest Expense**

In 2000, interest expense decreased due to the redemption of long-term securities and the write-off in 1999 of unamortized bond issuance expense, partially offset in 2000 by increased short-term borrowing costs.

In 1999, interest expense increased due to the write-off of unamortized bond issuance expense for early redemption of securities and higher short-term borrowing costs.

### **Income Taxes**

Income tax expense for the Company decreased, due primarily to the decrease in pretax income and increased utilization of alternate fuels credits generated from non-regulated businesses. The majority of alternate fuels credits are available through 2002, while others have been extended through 2007.

## **FORWARD-LOOKING STATEMENTS**

Certain information presented herein is based on the expectations of the Company and Detroit Edison, and, as such, is forward-looking. The Private Securities Litigation Reform Act of 1995 encourages reporting companies to provide analyses and estimates of future prospects and also permits reporting companies to point out that actual results may differ from those anticipated.

Actual results for the Company and Detroit Edison may differ from those expected due to a number of variables including, but not limited to, interest rates, the level of borrowings, weather, actual sales, changes in the cost of fuel and purchased power due to the suspension of the PSCR mechanism, (including natural gas subsequent to the proposed merger with MCN), the effects of competition and the phased-in implementation of Electric Choice, the implementation of utility restructuring in Michigan (which involves pending regulatory and related judicial proceedings, the successful recovery of stranded costs, and actual and possible reductions in rates and earnings), environmental and nuclear requirements, the impact of FERC proceedings and regulations, and the contributions to earnings by non-regulated businesses. In addition, expected results will be affected by the Company's proposed merger with MCN and the timing of the accretive effect of such merger. While the Company and Detroit Edison believe that estimates given accurately measure the expected outcome, actual results could vary materially due to the variables mentioned, as well as others.

# *Report of management's responsibility for financial statements*

The consolidated financial statements of DTE Energy Company and subsidiary companies have been prepared by management in conformity with accounting principles generally accepted in the United States of America, based on available facts and circumstances and management's best estimates and judgments of known conditions. It is the responsibility of management to assure the integrity and objectivity of such financial statements and to assure that these statements fairly report the Company's financial position and the results of its operations.

To meet this responsibility, management maintains a high standard of record keeping and an effective system of internal controls, including an extensive program of internal audits, written administrative policies and procedures, and programs to assure the selection and training of qualified personnel.

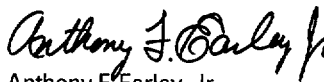
These financial statements have been audited by the Company's independent auditors, Deloitte & Touche LLP, whose report appears on this page. Its audit was conducted in accordance with auditing standards generally accepted in the United States of America. Such standards include the evaluation of internal controls to establish a basis for

developing the scope of the audit, as well as such other procedures they deem necessary for expressing an opinion as to whether the financial statements are presented fairly.

The Board of Directors, through its Audit Committee consisting solely of outside directors, meets with Deloitte & Touche LLP, representatives of management and the Company's internal auditors to review the activities of each and to discuss accounting, auditing and financial matters and the carrying out of responsibilities and duties of each group. Deloitte & Touche LLP has full and free access to meet with the Audit Committee to discuss its audit results and opinions, without management representatives present, to allow for complete independence.



Larry G. Garberding  
Executive Vice President and Chief Financial Officer



Anthony F. Earley, Jr.  
Chairman of the Board and Chief Executive Officer

## *Independent auditors' report*

**Deloitte  
& Touche**

Suite 900  
600 Renaissance Center  
Detroit, Michigan 48243-1704

January 24, 2001

To the Board of Directors and Shareholders of  
DTE Energy Company

We have audited the consolidated balance sheets of DTE Energy Company and subsidiaries (the "Company") as of December 31, 2000 and 1999, and the related consolidated statements of income, cash flows, and changes in shareholders' equity for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and

disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of DTE Energy Company and subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

**DTE Energy****Consolidated statement of *income****(Millions, except per share amounts)*

	Year Ended December 31		
	2000	1999	1998
<b>Operating Revenues</b>	<b>\$5,597</b>	<b>\$ 4,728</b>	<b>\$ 4,221</b>
<b>Operating Expenses</b>			
Fuel and purchased power	2,233	1,335	1,063
Operation and maintenance	1,480	1,480	1,288
Depreciation and amortization	758	735	661
Taxes other than income	296	277	272
<b>Total Operating Expenses</b>	<b>4,767</b>	<b>3,827</b>	<b>3,284</b>
<b>Operating Income</b>	<b>830</b>	<b>901</b>	<b>937</b>
<b>Interest Expense and Other</b>			
Interest expense	336	340	319
Preferred stock dividends of subsidiary	—	—	6
Other — net	17	18	15
<b>Total Interest Expense and Other</b>	<b>353</b>	<b>358</b>	<b>340</b>
<b>Income Before Income Taxes</b>	<b>477</b>	<b>543</b>	<b>597</b>
<b>Income Taxes</b>	<b>9</b>	<b>60</b>	<b>154</b>
<b>Net Income</b>	<b>\$ 468</b>	<b>\$ 483</b>	<b>\$ 443</b>
<b>Average Common Shares Outstanding</b>	<b>143</b>	<b>145</b>	<b>145</b>
<b>Earnings per Common Share — Basic and Diluted</b>	<b>\$ 3.27</b>	<b>\$ 3.33</b>	<b>\$ 3.05</b>

(See Notes to Consolidated Financial Statements.)

# Consolidated balance sheet

(Millions, except per share amounts and shares)

	December 31	
	2000	1999
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 64	\$ 33
Restricted cash	88	131
Accounts receivable		
Customer (less allowance for doubtful accounts of \$21)	510	388
Accrued unbilled revenues	188	166
Other	140	144
Inventories (at average cost)		
Fuel	163	175
Materials and supplies	172	168
Assets from risk management activities	289	67
Other	38	38
	1,652	1,310
<b>Investments</b>		
Nuclear decommissioning trust funds	398	361
Other	269	274
	667	635
<b>Property</b>		
Property, plant and equipment	12,179	11,755
Property under capital leases	221	222
Nuclear fuel under capital lease	705	663
Construction work in progress	57	106
	13,162	12,746
<b>Less accumulated depreciation and amortization</b>	5,775	5,598
	7,387	7,148
<b>Regulatory Assets</b>	2,686	2,935
<b>Other Assets</b>	270	288
<b>Total Assets</b>	<b>\$12,662</b>	<b>\$12,316</b>

(See Notes to Consolidated Financial Statements.)

	December 31	
	2000	1999
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 404	\$ 273
Accrued interest	59	57
Dividends payable	73	75
Accrued payroll	103	97
Short-term borrowings	503	387
Income taxes	97	61
Current portion long-term debt	233	270
Current portion capital leases	41	36
Liabilities from risk management activities	280	50
Other	218	259
	2,011	1,565
<b>Other Liabilities</b>		
Deferred income taxes	1,801	1,925
Capital leases	145	153
Regulatory liabilities	185	262
Other	588	564
	2,719	2,904
<b>Long-Term Debt</b>	3,917	3,938
<b>Shareholders' Equity</b>		
Common Stock, without par value, 400,000,000 shares authorized, 142,651,172 and 145,041,324 issued and outstanding, respectively	1,918	1,950
Retained earnings	2,097	1,959
	4,015	3,909
<b>Commitments and Contingencies (Notes 1, 2, 3, 4, 10, 11, 12 and 13)</b>		
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$12,662</b>	<b>\$12,316</b>

(See Notes to Consolidated Financial Statements.)

**DTE Energy**

# *Consolidated statement of cash flows*

*(Millions)*

	Year Ended December 31		
	2000	1999	1998
<b>Operating Activities</b>			
Net Income	\$ 468	\$ 483	\$ 443
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	758	735	661
Other	(146)	(90)	(146)
Changes in current assets and liabilities:			
Restricted cash	43	(10)	(67)
Accounts receivable	(140)	(94)	(84)
Inventories	8	(5)	(35)
Payables	139	30	99
Other	(42)	48	(37)
Net cash from operating activities	1,088	1,097	834
<b>Investing Activities</b>			
Plant and equipment expenditures	(749)	(739)	(589)
Investment in non-regulated businesses	—	(29)	(408)
Net cash used for investing activities	(749)	(768)	(997)
<b>Financing Activities</b>			
Issuance of long-term debt	273	265	763
Increase in short-term borrowings	116	156	189
Redemption of long-term debt	(331)	(548)	(255)
Redemption of preferred stock	—	—	(150)
Repurchase of common stock	(70)	—	—
Dividends on common stock	(296)	(299)	(299)
Net cash (used for) from financing activities	(308)	(426)	248
Net Increase (Decrease) in Cash and Cash Equivalents	31	(97)	85
Cash and Cash Equivalents at Beginning of the Year	33	130	45
Cash and Cash Equivalents at End of the Year	\$ 64	\$ 33	\$ 130
<b>Supplementary Cash Flow Information</b>			
Interest paid (excluding interest capitalized)	\$ 334	\$ 340	\$ 309
Income taxes paid	104	152	160
New capital lease obligations	41	3	52

(See Notes to Consolidated Financial Statements.)

**DTE Energy**

# *Consolidated statement of changes in shareholders' equity*

(Millions, except per share amounts; shares in thousands)

	2000		1999		1998	
	Shares	Amount	Shares	Amount	Shares	Amount
<b>Detroit Edison Cumulative Preferred Stock</b>						
Balance at beginning of year	—	\$ —	—	\$ —	1,501	\$ 144
Redemption of Cumulative Preferred Stock	—	—	—	—	(1,501)	(150)
Preferred stock expense	—	—	—	—	—	6
Balance at end of year	—	\$ —	—	\$ —	—	\$ —
<b>Common Stock</b>						
Balance at beginning of year	145,041	\$ 1,950	145,071	\$ 1,951	145,098	\$ 1,951
Repurchase and retirement of common stock	(2,390)	(32)	(30)	(1)	(27)	—
Balance at end of year	142,651	\$ 1,918	145,041	\$ 1,950	145,071	\$ 1,951
<b>Retained Earnings</b>						
Balance at beginning of year		\$ 1,959		\$ 1,747		\$ 1,611
Net income		468		483		443
Dividends declared on common stock (\$2.06 per share)		(294)		(299)		(299)
Preferred stock expense		—		—		(6)
Repurchase and retirement of common stock		(39)		—		—
Other		3		28		(2)
Balance at end of year		\$ 2,097		\$ 1,959		\$ 1,747
<b>Total Shareholders' Equity</b>		<b>\$ 4,015</b>		<b>\$ 3,909</b>		<b>\$ 3,698</b>

(See Notes to Consolidated Financial Statements.)

# *Notes to consolidated financial statements*

## **NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

### **Corporate Structure and Principles of Consolidation**

DTE Energy Company (Company), a Michigan corporation incorporated in 1995, is an exempt holding company under the Public Utility Holding Company Act. The Company has no significant operations of its own, holding instead the stock of its principal operating subsidiary, The Detroit Edison Company (Detroit Edison), an electric public utility regulated by the Michigan Public Service Commission (MPSC) and the Federal Energy Regulatory Commission (FERC), and other energy-related businesses.

All majority-owned subsidiaries are consolidated. Non-majority owned investments, including investments in limited liability companies, partnerships and joint ventures, are accounted for using the equity method. All significant inter-company balances and transactions have been eliminated.

In October 1999, the Company's investee, Plug Power Inc., completed its initial public offering (IPO) of shares of common stock at \$15 per share. After the IPO, the Company owned approximately 32% of Plug Power's outstanding common stock. As a result of Plug Power's IPO, the Company recognized its proportionate share of Plug Power's net assets immediately after the IPO and recorded an increase of \$44 million in its investment and an after-tax increase of \$28 million to retained earnings with no earnings impact in 1999. The balance of the Plug Power investment at December 31, 2000, is approximately \$37 million.

### **Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Regulation and Regulatory Assets and Liabilities**

Detroit Edison's transmission and distribution business meets the criteria of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." This accounting standard recognizes the cost-

based ratemaking process, which results in differences in the application of generally accepted accounting principles between regulated and non-regulated businesses. SFAS No. 71 requires the recording of regulatory assets and liabilities for certain transactions that would have been treated as revenue and expense in non-regulated businesses. Continued applicability of SFAS No. 71 requires that rates be designed to recover specific costs of providing regulated services and products, and that it be reasonable to assume that rates are set at levels that will recover a utility's costs and can be charged to and collected from customers.

MPSC orders issued in 1997 and 1998 altered the regulatory process in Michigan and provided a plan for transition to competition for the generation business of Detroit Edison. Therefore, effective December 31, 1998, Detroit Edison's generation business no longer met the criteria of SFAS No. 71. See the following table of regulatory assets and liabilities, and Note 3 for further details.

June 2000 Michigan restructuring legislation provided for securitization, a mechanism for Detroit Edison to refinance specific assets and costs at lower interest rates through the issuance of securitization bonds. The MPSC, in an order issued on January 4, 2001, clarifying a November 2, 2000 order, authorized Detroit Edison to securitize up to \$1.774 billion of qualified costs, including most of the regulatory assets currently recorded. The MPSC denied Detroit Edison's request to include the residential rate reduction commencing June 5, 2000, until the date of the order and proposed 2000 Electric Choice implementation costs in the amount securitized. Detroit Edison will continue to defer the 2000 and future Electric Choice implementation costs (\$30 million in 2000 and an estimated \$25 million in 2001) as regulatory assets, whose recovery will be determined in annual true-ups of stranded cost proceedings. The MPSC also clarified that recovery of incurred costs, equal to the impact of the 5% residential rate reduction from the date of the November order until the securitization bonds are issued (approximately \$10 million in 2000 and approximately \$15 million for the first quarter of 2001), will occur before any rate reductions are provided to the commercial and industrial customers and before the low income energy efficiency fund is initiated. Securitization bonds are expected to be issued in the first quarter of 2001.

Detroit Edison has recorded the following regulatory assets and liabilities at December 31:

(Millions)	2000	1999
<b>Assets</b>		
Unamortized nuclear costs	\$2,328	\$2,570
Unamortized loss on reacquired debt	82	85
Recoverable income taxes	194	201
Power supply cost recovery	—	39
Electric Choice implementation costs	57	29
Other	25	11
Total Assets	\$2,686	\$2,935
<b>Liabilities</b>		
Unamortized deferred investment tax credits	\$ 167	\$ 177
Fermi 2 capacity factor performance standard	—	63
Other	18	22
Total Liabilities	\$ 185	\$ 262

### **Unamortized nuclear costs – See Note 3.**

#### **Unamortized loss on reacquired debt**

In accordance with MPSC regulations applicable to Detroit Edison, the discount, premium and expense related to debt redeemed with a refinancing are amortized over the life of the replacement issue. If related to the generation business, the unamortized amounts will be securitized. See Note 3. Discount, premium and expense on early redemptions of debt subsequent to December 31, 1998, are charged to earnings if they relate to the generation business of Detroit Edison or other non-regulated operations of the Company.

#### **Recoverable income taxes**

In 1993, the Company was required to adopt SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires that deferred income taxes be recorded at the current income tax rate for all temporary differences between the book and tax basis of assets and liabilities. Prior to 1993, only those deferred taxes that were authorized by the MPSC were recorded. On adoption of SFAS No. 109, the MPSC authorized the Company to record a regulatory asset providing assurance of future revenue recovery from customers for all deferred income taxes.

#### **Power supply cost recovery (PSCR)**

As a result of the June 2000 Michigan restructuring legislation, the MPSC determined that adjusting rates for changes in fuel and purchased power expenses, through continuance of the PSCR clause, would be inconsistent with the legislation. See Note 3 for further discussion. Beginning in June 2000, actual fuel and purchased power costs are recorded in the period incurred.

#### **Electric Choice implementation costs**

Costs incurred to implement the Electric Choice program, which will allow customers to purchase electricity from a supplier other than Detroit Edison.

### **Unamortized deferred investment tax credits**

Investment tax credits utilized, which relate to utility property, were deferred and are amortized over the estimated composite service life of the related property.

### **Fermi 2 capacity factor performance standard**

As a result of the June 2000 Michigan restructuring legislation and the corresponding MPSC orders regarding the PSCR clause, the MPSC mechanism that provided for the disallowance of net incremental replacement power cost when Fermi 2 did not perform to certain operating criteria, is no longer in effect.

### **Cash Equivalents**

For purposes of the Consolidated Statement of Cash Flows, the Company considers investments purchased with a maturity of three months or less to be cash equivalents.

### **Restricted Cash**

Cash maintained for debt service requirements and other contractual obligations is classified as restricted cash.

### **Revenues**

Detroit Edison records unbilled revenues for electric and steam heating services provided after cycle billings through month-end.

### **Property, Retirement and Maintenance, Depreciation and Amortization**

A summary of property by classification at December 31 is as follows:

(Millions)	2000	1999
<b>Distribution</b>		
Property	\$ 5,153	\$ 4,856
Construction work in progress	1	1
Property under capital leases	9	4
Less accumulated depreciation	(1,924)	(1,767)
	3,239	3,094
<b>Transmission</b>		
Property	\$ 772	\$ 742
Construction work in progress	—	—
Property under capital leases	—	—
Less accumulated depreciation	(389)	(413)
	383	329
<b>Generation</b>		
Property	5,506	5,606
Construction work in progress	1	3
Property under capital leases	211	217
Less accumulated depreciation	(2,715)	(2,747)
	3,003	3,079
Nuclear fuel under capital lease	705	663
Less accumulated amortization	(631)	(599)
	74	64
<b>Non-utility</b>		
Property	748	551
Construction work in progress	55	102
Property under capital leases	1	1
Less accumulated depreciation	(116)	(72)
	688	582
<b>Total Property</b>	<b>\$ 7,387</b>	<b>\$ 7,148</b>

## *Notes to consolidated financial statements*

Utility properties are stated at original cost less regulatory disallowances and impairment losses. In general, the cost of properties retired in the normal course of business is charged to accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred, and the cost of new property installed, which replaces property retired, is charged to property accounts. Detroit Edison recognizes a provision, in current liabilities, for incremental costs of Fermi 2 refueling outages, including maintenance activities, anticipated to be incurred during the next scheduled Fermi 2 refueling outage. The annual provision for utility property depreciation is calculated on the straight-line remaining life method by applying annual rates approved by the MPSC to the average of year-beginning and year-ending balances of depreciable property by primary plant accounts. Provision for depreciation of utility plant, as a percent of average depreciable property, was 3.38%, 3.33% and 3.32% for 2000, 1999 and 1998, respectively.

Effective January 2001, the transmission assets of Detroit Edison were transferred to International Transmission Company, a wholly owned subsidiary of Detroit Edison. This transfer began the process of establishing the transmission business as a fully independent company pursuant to FERC orders.

Non-utility property is stated at original cost. Depreciation is computed over the estimated useful lives using straight-line and declining-balance methods.

### **Long-Lived Assets**

Long-lived assets held and used by the Company are reviewed for impairment based on market factors and operational considerations whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

### **Software Costs**

The Company capitalizes the cost of software developed for internal use. These costs are amortized on a straight-line basis over a five-year period beginning with the project's completion.

### **Debt Issue Costs**

The costs related to the issuance of long-term debt are amortized over the life of each issue.

### **Stock-Based Compensation**

The Company accounts for stock-based compensation using the intrinsic value method. Compensation expense is not

recorded for stock options granted with an exercise price equal to the fair market value at the date of grant. For grants of restricted stock, compensation equal to the market value of the shares at the date of grant is deferred and amortized to expense over the vesting period. During the restriction period, recipients of restricted stock grants have the right to be paid an amount equal to the dividend equivalent of such shares as dividends are paid. The Company recognizes these amounts as compensation expense.

### **Accounting for Risk Management Activities**

Trading activities of DTE Energy Trading Inc. (DTE ET), an indirect wholly owned subsidiary of the Company, are accounted for using the mark-to-market method of accounting. Under such method, DTE ET's energy trading contracts, including both transactions for physical delivery and financial instruments, are recorded at market value. The resulting unrealized gains and losses from changes in market value of open positions are recorded as other current assets or liabilities. Current period changes in the trading assets or liabilities are recognized as net gains or losses in operating revenues. The market prices used to value these transactions reflect management's best estimate considering various factors, including closing exchange and over-the-counter quotations, time value and volatility factors underlying the commitments. Realized gains and losses from transactions settled with cash are also recognized in operating revenues. Transactions settled by physical delivery of the underlying commodity are recorded gross in operating revenues and fuel and purchased power expense.

Detroit Edison accounts for its forward purchase and sale commitments and over-the-counter options on a settlement basis.

### **Accounting for Derivative Instruments and Hedging Activities**

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as of January 1, 2001. See Note 11 for further discussion.

### **Reclassifications**

Certain prior year balances have been reclassified to conform to the 2000 presentation.

## **NOTE 2 – MERGER AGREEMENT**

In October 1999, the Company entered into a definitive merger agreement with MCN. MCN, a Michigan corporation, is primarily involved in natural gas production, gathering, processing, transmission, storage and distribution and energy marketing. MCN's largest subsidiary is Michigan Consolidated Gas Company, a natural gas utility serving 1.2 million customers in more than 500 communities throughout Michigan.

The merger agreement provides that the Company will acquire all outstanding shares of MCN for \$28.50 per share in cash or 0.775 shares of Company common stock for each share of MCN common stock, subject to certain allocation procedures requiring that the aggregate number of shares of MCN common stock that will be converted into cash and the Company's common stock will be equal to 55% and 45%, respectively, of the total number of shares of MCN common stock outstanding immediately prior to the proposed merger. The transaction was preliminarily valued at \$4.6 billion, which includes the assumption of approximately \$2 billion of MCN's debt. The Company expects to continue as an exempt public utility holding company after the completion of the proposed merger. Shareholders of the Company have approved the issuance of the necessary shares of common stock to complete the proposed merger and shareholders of MCN have approved the Agreement and Plan of Merger.

The proposed merger is being reviewed by the Federal Trade Commission (FTC) pursuant to the Hart-Scott-Rodino Act. The FTC staff has focused primarily on possible competition between the Company and MCN for cogeneration load and other gas/electric displacement technologies in the companies' coincident retail distribution areas. The Company and MCN are taking action to address issues raised by the FTC staff, including an agreement for the proposed transfer to a unit of Exelon Corp. (previously Unicom Corp.) of a property interest allowing for the utilization of up to 20 billion cubic feet of natural gas transportation capacity annually on the Michigan Consolidated Gas Company system in the applicable distribution area. The MPSC approved the agreement in February 2001. The agreement is subject to regulatory approvals and consummation of the merger. The Company cannot predict the timing or outcome of the regulatory review process and, therefore, a projected completion date for the proposed merger cannot be predicted.

## **NOTE 3 – REGULATORY MATTERS**

Detroit Edison is subject to the primary regulatory jurisdiction of the MPSC, which, from time to time, issues its orders pertaining to Detroit Edison's conditions of service, rates and

recovery of certain costs including the costs of generating facilities, regulatory assets and certain other revenue, accounting and operating-related matters.

### **Electric Industry Restructuring**

There are ongoing proceedings for the restructuring of the Michigan electric public utility industry and the implementation of Electric Choice.

In a December 28, 1998 order, as clarified March 8, 1999, the MPSC authorized the accelerated amortization of the remaining net book balances (as of December 31, 1998) of Fermi 2 and its associated regulatory assets in a manner that provided an opportunity for full recovery under rates from bundled customers and through transition surcharges from future retail access customers, taking into account the related tax consequences of those assets, by December 31, 2007.

On June 3, 2000, Michigan Governor John Engler signed Enrolled Senate Bill No. 937, Public Act 141 of 2000 (PA 141), which provides Detroit Edison with the right to recover stranded costs, codifies and establishes January 1, 2002, as the date for full implementation of the MPSC's existing Electric Choice program, and requires the MPSC to reduce electric residential rates by 5%.

On that same date, the Governor signed Enrolled Senate Bill No. 1253, Public Act 142 of 2000 (PA 142). PA 142 provides for the recovery through securitization of "qualified costs," which consist of an electric utility's regulatory assets plus various costs associated with, or resulting from, the establishment of a competitive electric market, and the issuance of securitization bonds.

In an order issued on November 2, 2000, and clarified on January 4, 2001, the MPSC approved the issuance of securitization bonds, which may not exceed 15 years in term, the proceeds of which will be used to recover up to \$1.774 billion (compared to approximately \$1.850 billion requested by Detroit Edison) of qualified costs. The qualified costs approved by the MPSC include Fermi 2 costs, costs of certain other regulatory assets, Electric Choice implementation costs, the initial and periodic costs of issuance associated with securitization bonds, and the costs of retiring and refunding securities with the proceeds of securitization. Detroit Edison will use the proceeds of securitization bonds to retire debt and equity as required. The issuance of securitization bonds will result in an overall revenue requirement reduction for Detroit Edison.

## *Notes to consolidated financial statements*

Acting pursuant to PA 141, in an order issued June 5, 2000, the MPSC reduced Detroit Edison's residential electric rates by 5%, or approximately \$65 million on an annual basis, and imposed a rate freeze for all classes of customers through 2003.

The legislation also contains provisions preventing rate increases for residential customers through 2005, for small business customers through 2004 and remaining business customers through 2003. Certain costs may be deferred after 2003 and during the period that rate increases are impermissible. This rate cap may be lifted when certain market test provisions are met, namely, an electric utility has no more than 30% of generation capacity in its relevant market, with allowance for capacity needed to meet a utility's responsibility to serve its customers. Statewide, multi-utility transmission system improvements also are required. If these market conditions and transmission improvements conditions are not met, the rate cap may continue until such conditions are met or through 2013.

In addition, as a result of the legislation the Company must:

- File an application by June 5, 2001, to unbundle its commercial and industrial rates.
- Join a FERC-approved Regional Transmission Organization (RTO) or divest its interest in transmission by December 15, 2001.
- Continue to provide service to customers who wish to take service from Detroit Edison.
- Establish a worker transition program for workers that might be displaced.

As a result of the legislation discussed above, in several orders issued on June 19, 2000, the MPSC determined that adjusting rates for changes in fuel and purchased power expenses, through continuance of the PSCR clause, would be inconsistent with the new statutes. Detroit Edison was not permitted to collect the 1998 PSCR underrecovery of \$8.6 million, plus accrued interest of \$3.0 million. Detroit Edison reversed approximately \$55 million of liabilities associated with the PSCR clause as of the effective date of the legislation. Parties have filed Claims of Appeal regarding the PSCR issues with the Michigan Court of Appeals. The Company is not able to determine the timing or outcome of these proceedings.

Detroit Edison is unable to predict the outcome of the matters discussed herein. Resolution of these matters is dependent upon future MPSC orders which may impact the financial position of Detroit Edison.

### **Accounting Implications**

Due to 1997 and 1998 restructuring orders which provided sufficient details regarding the transition to competition for its electric generation business, at December 31, 1998, Detroit Edison performed an impairment test of its Fermi 2 nuclear generation plant and related regulatory assets. The impairment test for Fermi 2 indicated that it was fully impaired. Therefore, the Fermi 2 plant asset and its related regulatory assets were written off. At December 31, 1998, the accumulation of future regulatory recovery for Fermi 2 assets from bundled customers and transition surcharges from future retail access customers was calculated. Since the December 28, 1998 MPSC order provided for full recovery of Fermi 2 through the regulated transmission and distribution business, a regulatory asset was established which was planned to be amortized through December 31, 2007. There was no impact on income from the write-off of the Fermi 2 plant assets and subsequent recording of the regulatory asset for unamortized nuclear costs. The regulatory asset is included in the amounts planned to be securitized as provided for in the 2000 Michigan restructuring legislation and MPSC orders.

### **Other**

In accordance with a November 1997 MPSC order, Detroit Edison reduced revenues by \$53 million to reflect the scheduled reduction in the revenue requirement for Fermi 2, in accordance with the 1988 settlement agreement. The \$53 million decrease is included in the \$94 million decrease effective January 1, 1999. In addition, the November 1997 MPSC order authorized the deferral of \$30 million of 1997 storm damage costs and amortization and recovery of the costs over a 24-month period commencing January 1998. In December 1997, ABATE and the Residential Ratepayer Consortium filed a lawsuit in Ingham County Circuit Court contending that Detroit Edison and the MPSC breached the December 1988 MPSC order, but the lawsuit was subsequently dismissed. The Michigan Attorney General has filed an appeal of the November 1997 order in the Michigan Court of Appeals. In June 1999, in an unpublished opinion, the Michigan Court of Appeals remanded back to the MPSC for hearing the November 1997 order. Detroit Edison filed a motion for rehearing with the Michigan Court of Appeals in

July 1999, but the motion was subsequently dismissed. In December 2000, the MPSC issued an order reopening the case for hearing. Detroit Edison is unable to determine the timing or the outcome of the remand.

#### **NOTE 4 – FERMI 2**

##### **General**

Fermi 2, a nuclear generating unit, began commercial operation in January 1988. The Nuclear Regulatory Commission (NRC) maintains jurisdiction over the licensing and operation of Fermi 2. Fermi 2 has a design electrical rating (net) of 1,150 megawatts (MW). This unit represents approximately 11% of total operation and maintenance expenses and 10% of summer net rated capability of Detroit Edison. The net book balance of the Fermi 2 plant was written off at December 31, 1998, and an equivalent regulatory asset was established. See Note 3.

Ownership of an operating nuclear generating unit subjects Detroit Edison to significant additional risks. Fermi 2 is regulated by a number of different governmental agencies concerned with public health, safety and environmental protection. Consequently, Fermi 2 is subjected to greater scrutiny than a conventional fossil-fuel plant.

##### **Insurance**

Detroit Edison insures Fermi 2 with property damage insurance provided by Nuclear Electric Insurance Limited (NEIL). The NEIL insurance policies provide \$500 million of composite primary coverage (with a \$1 million deductible) and \$2.25 billion of excess coverage, respectively, for stabilization, decontamination and debris removal costs, repair and/or replacement of property and decommissioning. The combined limits provide total property damage insurance of \$2.75 billion.

Detroit Edison maintains insurance policies with NEIL providing for extra expenses, including certain replacement power costs necessitated by Fermi 2's unavailability due to an insured event. These policies have a 12-week waiting period and provide for three years of coverage.

Under the NEIL policies, Detroit Edison could be liable for maximum retrospective assessments of up to approximately \$15 million per loss if any one loss should exceed the accumulated funds available to NEIL.

As required by federal law, Detroit Edison maintains \$200 million of public liability insurance for a nuclear incident. Further, under the Price-Anderson Amendments Act of 1988 (Act), deferred premium charges of \$84 million could be levied against each licensed nuclear facility, but not more than \$10 million per year per facility. On December 31, 2000, there

were 106 licensed nuclear facilities in the United States.

Thus, deferred premium charges in the aggregate amount of approximately \$8.89 billion could be levied against all owners of licensed nuclear facilities in the event of a nuclear incident at any of these facilities. The Act will expire on August 1, 2002. It is unknown whether this statute will be renewed or modified.

##### **Decommissioning**

The NRC has jurisdiction over the decommissioning of nuclear power plants and requires decommissioning funding based upon a formula. The MPSC and FERC regulate the recovery of costs of decommissioning nuclear power plants and both require the use of external trust funds to finance the decommissioning of Fermi 2. Rates approved by the MPSC provide for the decommissioning costs of Fermi 2. Detroit Edison is continuing to fund FERC jurisdictional amounts for decommissioning even though explicit provisions are not included in FERC rates. Detroit Edison believes that the MPSC and FERC collections will be adequate to fund the estimated cost of decommissioning using the NRC formula.

Detroit Edison has established external trust funds to hold decommissioning and low-level radioactive waste disposal funds collected from customers. During 2000, 1999 and 1998, Detroit Edison collected \$38 million, \$38 million and \$36 million, respectively, from customers for decommissioning and low-level radioactive waste disposal. Such amounts were recorded as components of depreciation and amortization expense and in other liabilities. A net unrealized loss of \$18 million and a net unrealized gain of \$4 million in 2000 and 1999, respectively, were recorded as adjustments to the nuclear decommissioning trust funds and other liabilities. Investments in debt and equity securities held within the external trust funds are classified as "available for sale."

At December 31, 2000, Detroit Edison had a reserve of \$351 million for the future decommissioning of Fermi 2, \$15 million for low-level radioactive waste disposal costs, and \$32 million for the decommissioning of Fermi 1, an experimental nuclear unit on the Fermi 2 site that has been shut down since 1972. These reserves are included in other liabilities, with a like amount deposited in external trust funds. It is estimated that the cost of decommissioning Fermi 2, when its license expires in the year 2025, will be \$912 million in 2000 dollars and \$3.7 billion in 2025 dollars using a 6% inflation rate. The cost of decommissioning Fermi 1 is approximately \$30-35 million. During 2000, Detroit Edison decided to proceed with the decommissioning of Fermi 1, with the goal of removing the radioactive material and terminating the Fermi 1 license. The full project is expected to take about five years.

## Notes to consolidated financial statements

### Fermi 2 Phase-In Plan

Based on a MPSC-authorized phase-in plan, Detroit Edison recorded a receivable totaling \$507 million from 1988 through 1992. Beginning in 1993 and ending in 1998, these amounts were amortized to operating expense as they were included in rates. Amortization of these amounts totaled \$84 million in 1998.

### Capacity Factor Performance Standard

At December 31, 1999, Detroit Edison had an accrual of \$63 million for the Fermi 2 capacity factor performance standard disallowances that were expected to be imposed by the MPSC. As a result of the June 2000 Michigan restructuring legislation, this liability was reversed.

### Nuclear Fuel Disposal Costs

In accordance with the Federal Nuclear Waste Policy Act of 1982, Detroit Edison has a contract with the U.S. Department of Energy (DOE) for the future storage and disposal of spent nuclear fuel from Fermi 2. Detroit Edison is obligated to pay DOE a fee of one mill per net kilowatthour of Fermi 2 electricity generated and sold. The fee is a component of nuclear fuel expense. Delays have occurred in the DOE's program for the acceptance and disposal of spent nuclear fuel at a permanent repository. Until the DOE is able to fulfill its obligation under the contract, Detroit Edison is responsible for the spent nuclear fuel storage and estimates that existing storage capacity will be sufficient until 2007, after the expansion of such storage capacity in 2001.

### NOTE 5 – JOINTLY OWNED UTILITY PLANT

Detroit Edison's portion of jointly owned utility plant at December 31, 2000 is as follows:

	Belle River	Ludington Pumped Storage
In-service date	1984-1985	1973
Ownership interest	*	49%
Investment (Millions)	\$1,030	\$192
Accumulated depreciation (Millions)	\$ 436	\$ 96

\* Detroit Edison's ownership interest is 62.78% in Unit No. 1, 81.39% of the portion of the facilities applicable to Belle River used jointly by the Belle River and St. Clair Power Plants, 49.59% in certain transmission lines and, at December 31, 2000, 75% in facilities used in common with Unit No. 2.

### Belle River

The Michigan Public Power Agency (MPPA) has an ownership interest in Belle River Unit No. 1 and certain other related facilities. MPPA is entitled to 18.61% of the capacity and energy of the entire plant and is responsible for the same percentage of the plant's operation and maintenance expenses and capital improvements.

### Ludington Pumped Storage

Operation, maintenance and other expenses of the Ludington Pumped Storage Plant are shared by Detroit Edison and Consumers Energy Company in proportion to their respective ownership interests in the plant.

### NOTE 6 – INCOME TAXES

Total income tax expense as a percent of income before tax varied from the statutory federal income tax rate for the following reasons:

	2000	1999	1998
Statutory income tax rate	35.0%	35.0%	35.0%
Deferred Fermi 2 depreciation and return	—	—	3.9
Investment tax credit	(2.2)	(1.9)	(2.5)
Depreciation	2.3	1.5	5.1
Removal costs	(5.0)	(2.3)	(1.9)
Alternate fuels credit	(27.1)	(21.3)	(13.1)
Other—net	(1.1)	0.1	(1.0)
Effective income tax rate	1.9%	11.1%	25.5%

Components of income tax expense were as follows:

(Millions)	2000	1999	1998
Current federal income tax expense	\$ 138	\$ 144	\$ 143
Deferred federal income tax (benefit) expense	\$(118)	(73)	26
Investment tax credit	(11)	(11)	(15)
Total	\$ 9	\$ 60	\$ 154

Internal Revenue Code Section 29 provides a tax credit (alternate fuels credit) for qualified fuels produced and sold by a taxpayer to an unrelated person during the taxable year. The alternate fuels credit reduced current federal income tax expense \$130 million, \$116 million and \$79 million for 2000, 1999 and 1998, respectively.

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

(Millions)	2000	1999
Property	\$ (1,212)	\$ (1,209)
Unamortized nuclear costs	(822)	(899)
Property taxes	(68)	(66)
Investment tax credit	90	96
Reacquired debt losses	(29)	(30)
Contributions in aid of construction	90	73
Other	88	51
	<b>\$ (1,863)</b>	<b>\$ (1,984)</b>
Deferred income tax liabilities	<b>\$ (2,414)</b>	<b>\$ (2,463)</b>
Deferred income tax assets	551	479
	<b>\$ (1,863)</b>	<b>\$ (1,984)</b>

Included in deferred income tax assets is an alternative minimum tax credit carry-forward of \$125 million for 2000 and \$50 million for 1999.

The federal income tax returns of the Company are settled through 1992. The Company believes that adequate provisions for federal income taxes have been made through December 31, 2000.

#### NOTE 7 – SHAREHOLDERS' EQUITY

At December 31, 2000, the Company had 5 million shares of Cumulative Preferred Stock, without par value, authorized with no shares issued. At December 31, 2000, 1.5 million shares of preferred stock are reserved for issuance in accordance with the Shareholders Rights Agreement.

At December 31, 2000, Detroit Edison had 30 million shares of Cumulative Preference Stock of \$1 par value and 6.75 million shares of Cumulative Preferred Stock of \$100 par value authorized, with no shares issued.

In September 1997, the Board of Directors of the Company declared a dividend distribution of one right (Right) for each share of Company common stock outstanding. Under certain circumstances, each Right entitles the shareholder to purchase one one-hundredth of a share of Company Series A Junior Participating Preferred Stock at a price of \$90. If the acquiring person or group acquires 10% or more of the Company common stock, and the Company survives, each Right (other than those held by the acquirer) will entitle its holder to buy Company common stock having a value of \$180 for \$90. If the acquiring person or group acquires 10% or more of the Company common stock, and the Company does not survive, each Right (other than those held by the surviving or acquiring company) will entitle its holder to buy shares of common stock of the surviving or acquiring company having a value of \$180 for \$90. The Rights will expire on October 6, 2007, unless redeemed by the Company at \$0.01 per Right at any time

prior to an event that would permit the Rights to be exercised. The Company may amend the Rights agreement without the approval of the holders of the Rights Certificates, except that the redemption price may not be less than \$0.01 per Right.

During the year ended December 31, 2000, the Company repurchased approximately 2.3 million shares at an aggregate cost of approximately \$70 million, under a program that began in February 2000.

#### NOTE 8 – LONG-TERM DEBT

The Company's long-term debt outstanding at December 31 was:

(Millions)	2000	1999
<b>Mortgage Bonds</b>		
6.6% to 8.4% due 2001 to 2023	<b>\$1,564</b>	\$1,539
<b>Remarketed Notes</b>		
6.0% to 7.4% due 2028 to 2034 (a)	<b>410</b>	410
6.2% and 7.1% due 2038	<b>400</b>	400
<b>Tax Exempt Revenue Bonds</b>		
<b>Secured by Mortgage Bonds</b>		
Installment Sales Contracts		
6.6% due 2004 to 2024 (b)	<b>125</b>	176
Loan Agreements		
6.1% due 2008 to 2030 (b)	<b>882</b>	831
<b>Unsecured</b>		
Installment Sales Contracts		
6.4% due 2004	<b>24</b>	24
Loan Agreements		
3.9% due 2024 to 2030 (a)	<b>113</b>	113
<b>QUIDS</b>		
7.4% to 7.6% due 2026 to 2028	<b>385</b>	385
<b>Non-Recourse Debt</b>		
7.8% due 2001 to 2009 (b)	<b>247</b>	330
Less amount due within one year	<b>(233)</b>	(270)
<b>Total Long-Term Debt</b>	<b>\$3,917</b>	<b>\$3,938</b>

(a) Variable rate at December 31, 2000.

(b) Weighted average interest rate at December 31, 2000.

In the years 2001 - 2005, the Company's long-term debt maturities are \$233 million, \$275 million, \$238 million, \$64 million and \$254 million, respectively.

Detroit Edison's 1924 Mortgage and Deed of Trust (Mortgage), the lien of which covers a substantial portion of Detroit Edison's properties, provides for the issuance of additional General and Refunding Mortgage Bonds (Mortgage Bonds). At December 31, 2000, approximately \$4.2 billion principal amount of Mortgage Bonds could have been issued on the basis of property additions, combined with an earnings test provision, assuming an interest rate of 7% on any such additional Mortgage Bonds. An additional \$2.1 billion principal amount of Mortgage Bonds could have been issued on the basis of bond retirements.

Unless an event of default has occurred, and is continuing, each series of Quarterly Income Debt Securities (QUIDS) provides that interest will be paid quarterly. However,

## Notes to consolidated financial statements

Detroit Edison also has the right to extend the interest payment period on the QUIDS for up to 20 consecutive interest payment periods. Interest would continue to accrue during the deferral period. If this right is exercised, Detroit Edison may not declare or pay dividends on, or redeem, purchase or acquire, any of its capital stock during the deferral period. Detroit Edison may redeem any series of capital stock pursuant to the terms of any sinking fund provisions during the deferral period. Additionally, during any deferral period, Detroit Edison may not enter into any inter-company transactions with any affiliate of Detroit Edison, including the Company, to enable the payment of dividends on any equity securities of the Company.

At December 31, 2000, \$273 million of notes and bonds were subject to periodic remarketings within one year. Remarketing agents remarket these securities at the lowest interest rate necessary to produce a par bid. In the event that a remarketing fails, Standby Note Purchase Agreements and/or Letters of Credit provide that banks will purchase the securities and, after the conclusion of all necessary proceedings, remarket the bonds. In the event the banks' obligations under the Standby Note Purchase Agreements and/or Letters of Credit are not honored, then Detroit Edison would be required to purchase any securities subject to a failed remarketing.

At December 31, 2000, the Company had letters of credit from a bank that allowed the Company to use approximately \$45 million of cash previously classified as restricted on the Company's balance sheet. There are no amounts drawn on these letters of credit at December 31, 2000.

### NOTE 9 – SHORT-TERM CREDIT ARRANGEMENTS AND BORROWINGS

At December 31, 2000, Detroit Edison had total short-term credit arrangements of approximately \$517 million, under which \$245 million was outstanding. At December 31, 1999, \$162 million was outstanding. The weighted average interest rates for short-term borrowings at December 31, 2000 and 1999 were 6.6% and 6.9%, respectively.

Detroit Edison's short-term credit arrangements included bank lines of credit of \$201 million, all of which had commitment fees in lieu of compensating balances. Detroit Edison uses bank lines of credit and other credit facilities to support the issuance of commercial paper and bank loans. Detroit Edison had \$45 million and \$162 million of commercial paper outstanding at December 31, 2000 and 1999, respectively.

Detroit Edison's short-term credit arrangements also included a \$200 million short-term financing agreement secured by its customer accounts receivable and unbilled revenues portfolio under which \$200 million was outstanding at December 31, 2000 and 1999, with a weighted average interest rate of 6.76% and 5.42%, respectively.

Detroit Edison has a nuclear fuel financing arrangement with Renaissance Energy Company (Renaissance), an unaffiliated company. Renaissance may issue commercial paper or borrow from participating banks on the basis of promissory notes. To the extent the maximum amount of funds available to Renaissance (currently \$400 million) is not needed by Renaissance to purchase nuclear fuel, such funds may be loaned to Detroit Edison for general corporate purposes pursuant to a separate Loan Agreement. At December 31, 2000, approximately \$316 million was available to Detroit Edison under such Loan Agreement.

At December 31, 2000 and 1999, DTE Capital Corporation (DTE Capital), a wholly owned subsidiary of the Company, had \$258 million and \$25 million of commercial paper outstanding with a weighted average interest rate of 7.69% and 6.80%, respectively. A \$400 million short-term credit arrangement, backed by a Support Agreement from the Company, provided credit support for this commercial paper.

During the first quarter of 2000, plans were announced to terminate DTE Capital's operations. Subsequently, the Company assumed all of DTE Capital's outstanding guarantees. The Company is authorized to issue up to \$550 million of guarantees. At December 31, 2000, the Company had assumed and/or issued guarantees of various consolidated affiliate obligations of approximately \$238 million.

### NOTE 10 – LEASES

Future minimum lease payments under capital leases, consisting of nuclear fuel (\$85 million computed on a projected units of production basis), lake vessels (\$13 million), locomotives and coal cars (\$142 million), office space (\$9 million), and computers, vehicles and other equipment (\$1 million) at December 31, 2000 are as follows:

(Millions)					Remaining	Interest	Total
2001	2002	2003	2004	2005	Years		
\$54	\$45	\$30	\$21	\$14	\$86	\$(64)	\$186

Future minimum lease payments for operating leases are as follows:

(Millions)						
2001	2002	2003	2004	2005	Remaining Years	Total
\$10	\$10	\$9	\$9	\$9	\$45	\$92

Rental expenses for both capital and operating leases were \$116 million (including \$38 million for nuclear fuel), \$107 million (including \$52 million for nuclear fuel) and \$96 million (including \$49 million for nuclear fuel) for 2000, 1999 and 1998, respectively.

Detroit Edison has a contract with Renaissance which provides for the purchase by Renaissance for Detroit Edison of up to \$400 million of nuclear fuel, subject to the continued availability of funds to Renaissance to purchase such fuel. Title to the nuclear fuel is held by Renaissance. Detroit Edison makes quarterly payments under the contract based on the consumption of nuclear fuel for the generation of electricity.

## NOTE 11 – FINANCIAL AND OTHER DERIVATIVE INSTRUMENTS

### Trading Activities

DTE ET markets and trades electricity and natural gas physical products and financial instruments, and provides risk management services utilizing energy commodity derivative instruments, which include futures, exchange traded and over-the-counter options, and forward purchase and sale commitments.

### Notional Amounts and Terms

The notional amounts and terms of DTE ET's outstanding energy trading financial instruments at December 31, 2000 were:

	Fixed Price Payor	Fixed Price Receiver	Maximum Terms in Years
(Thousand of MWh)			
Electricity Commodities	1,116	1,933	1

At December 31, 2000, DTE ET also had sales and purchase commitments for physical delivery of electricity associated with contracts based on fixed prices totaling 810,578 net MWh purchased with terms extending up to 2 years.

Notional amounts reflect the volume of transactions, but do not necessarily represent the amounts exchanged by the parties to the energy commodity derivative instruments. Accordingly, notional amounts do not accurately measure DTE ET's exposure to market or credit risks. The maximum terms in years detailed above are not indicative of likely future cash flows as these positions may be offset in the markets at any time in response to DTE ET's risk management needs.

### Fair Values

The average fair values of DTE ET's derivative financial assets and liabilities during 2000 were \$109.4 million and \$95.1 million, respectively, and during 1999 \$28.7 million and \$24.3 million, respectively. At December 31, 2000 and 1999, the fair values of the derivative financial assets and liabilities were \$288.9 million and \$279.9 million and, \$66.6 million and \$49.6 million, respectively. Net unrealized gains were \$9.0 million and \$17.0 million at December 31, 2000 and 1999, respectively.

### Market Risk

DTE ET manages, on a portfolio basis, the market risks inherent in its activities subject to parameters established by the Company's Risk Management Committee (RMC), which is authorized by its Board of Directors. Market risks are monitored by the RMC to ensure compliance with the Company's stated risk management policies. DTE ET marks its portfolio to market and measures its risk on a daily basis in accordance with Value at Risk (VaR) and other risk methodologies. The quantification of market risk using VaR provides a consistent measure of risk across diverse energy markets and products.

### Credit Risk

DTE ET is exposed to credit risk in the event of nonperformance by customers or counterparties of its contractual obligations. The concentration of customers and/or counterparties may impact overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions. However, DTE ET maintains credit policies with regard to its customers and counterparties that management believes significantly minimize overall credit risk. These policies include an evaluation of potential customers' and counterparties' financial condition and credit rating, collateral requirements or other credit enhancements such as letters of credit or guarantees, and the use of standardized agreements which allow for the netting or offsetting of positive and negative exposures associated with a single counterparty. Based on these policies, the Company does not anticipate a materially adverse effect on financial position or results of operations as a result of customer or counterparty nonperformance. Those futures and option contracts which are traded on the New York Mercantile Exchange are financially guaranteed by the Exchange and have nominal credit risk.

### Non-Trading Activities

The Company has entered into a series of forward-starting interest rate swaps and Treasury locks in order to limit its sensitivity to interest rate fluctuations associated with its anticipated issuance of long-term debt to be used to finance

## Notes to consolidated financial statements

the proposed merger with MCN. The Company has designated these instruments as hedges. The Company expects to issue this debt subsequent to the proposed merger. The forward-starting swaps, which include notional amounts of \$250 million and \$450 million in five- and 10-year maturities, respectively, have a weighted average interest rate of 7.55% and 7.61%, respectively. The Treasury locks, which include notional amounts of \$50 million and \$150 million in 10- and 30-year maturities, respectively, have a weighted average interest rate of 6.01% and 6.26%, respectively. At December 31, 2000, the fair value of these derivative financial instruments indicated an unrealized loss of approximately \$84 million. The unrealized loss is not reflected in the financial statements at December 31, 2000, but would be recognized as a deferred item upon issuance of the anticipated long-term debt. The deferred item would be amortized through interest expense over the life of the associated long-term debt as a yield adjustment.

PCI Enterprises Company (PCI), a wholly owned coal pulverizing subsidiary, entered into a seven-year interest rate swap agreement beginning June 30, 1997, with the intent of reducing the impact of changes in interest rates on a portion of its variable rate non-recourse debt. The initial notional amount was \$30 million. The notional amount outstanding at December 31, 2000 and 1999, was \$22 million and \$24 million, respectively, and will decline throughout the term of the loan based on amortization of principal amounts. PCI pays a fixed interest rate of 6.96% on the notional amount and receives a variable interest rate based on LIBOR. In 2000 and 1999, the average rate received was 6.48% and 5.28%, respectively. The net of interest received and interest paid on the swap is accrued as a component of interest expense in the current period.

### New Accounting Pronouncement

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133. SFAS No. 133, as amended, requires every derivative instrument to be recorded on the balance sheet as an asset or a liability measured at its fair value, and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

SFAS No. 133 requires that as of the date of initial adoption, the difference between the fair market value of derivative instruments recorded on the balance sheet and the previous carrying amount of those derivatives be reported in net income or other comprehensive income, as appropriate, as the

cumulative effect of a change in accounting principle in accordance with Accounting Principles Board Opinion 20, "Accounting Changes."

As of January 1, 2001, the Company adopted SFAS No. 133, as required. The cumulative effect of the adoption of SFAS No. 133 is expected to be an after-tax increase in net income of approximately \$3.6 million, and an after-tax decrease in other comprehensive income of approximately \$41.5 million. The adoption will also impact assets and liabilities recorded on the balance sheet. At January 1, 2001, the Company had the following types of derivative instruments: forward-starting swaps, Treasury locks, wholesale power contracts and an interest rate swap.

### Fair Value of Financial Instruments

The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. The carrying amount of financial instruments, except for long-term debt and other instruments disclosed herein, approximates fair value. The estimated fair value of total long-term debt at December 31, 2000 and 1999 was \$4.2 billion and \$4 billion, respectively, compared to the carrying amount of \$4.1 billion and \$4.2 billion, respectively.

## NOTE 12 – COMMITMENTS AND CONTINGENCIES

### Commitments

Detroit Edison has outstanding purchase commitments of approximately \$1,048 million at December 31, 2000, which includes, among other things, line construction and clearance costs, and equipment purchases. The Company and Detroit Edison have also entered into long-term fuel supply commitments of approximately \$1,005 million.

Detroit Edison has an Energy Purchase Agreement (Agreement) for the purchase of steam and electricity from the Detroit Resource Recovery Facility. Under the Agreement, Detroit Edison will purchase steam through 2008 and electricity through June 2024. In 1996, a special charge to net income of \$149 million (\$97 million after-tax) or \$0.67 per share was recorded. The special charge included a reserve for steam purchase commitments from 1997 through 2008 and expenditures for closure of a portion of the steam heating system. The reserve for steam purchase commitments was recorded at its present value; therefore Detroit Edison is recording non-cash accretion expense through 2008. In addition, amortization of the reserve for steam purchase commitments is netted against losses on steam heating

purchases recorded in fuel and purchased power expense. Purchases of steam and electricity were approximately \$35 million, \$35 million and \$31 million for 2000, 1999 and 1998, respectively. Annual steam purchase commitments are approximately \$38 million, \$39 million, \$40 million, \$42 million and \$43 million for 2001, 2002, 2003, 2004 and 2005, respectively.

In October 1995, the MPSC issued an order approving Detroit Edison's six-year capacity and energy purchase agreement with Ontario Hydro. Ontario Hydro agreed to sell Detroit Edison 300 MW of capacity from mid-May through mid-September. This purchase offsets a concurrent agreement to lease approximately one-third of Detroit Edison's Ludington 917 MW capacity to FirstEnergy for the same time period. The net economic effect of the Ludington lease and the Ontario Hydro purchase is an estimated reduction in expense of \$74 million over the term of the agreement.

The EPA has issued ozone transport regulations and final new air quality standards relating to ozone and particulate air pollution. In September 1998, the EPA issued a State Implementation Plan (SIP) call, giving states a year to develop new regulations to limit nitrogen oxide emissions because of their contribution to ozone formation. Detroit Edison has spent approximately \$50 million and estimates that it will incur approximately \$410 million of future capital expenditures over the next three years to comply. In March 2000, the U.S. Court of Appeals, D.C. Circuit ruled in favor of the EPA's SIP call regulations. The new air quality standards have been upheld in legal challenges in the U.S. Court of Appeals, but the U.S. Supreme Court has agreed to hear the appeal. Until the legal issues are resolved, it is impossible to predict the full impact of the new air quality standards. Under the June 2000 Michigan restructuring legislation, beginning January 1, 2004, annual return of and on this capital expenditure, in excess of current depreciation levels, would be deferred, in ratemaking, until after the expiration of the rate cap period, presently expected to end December 31, 2005.

### Contingencies

The Company is involved in various legal proceedings, including environmental matters, of a nature considered normal to its business. The Company believes that such litigation and the matters discussed above will not have a material effect on its financial position and results of operations.

See Notes 3 and 4 for a discussion of contingencies related to Regulatory Matters and Fermi 2.

## NOTE 13 – EMPLOYEE BENEFITS

### Retirement Plan

Detroit Edison has a trustee and non-contributory defined benefit retirement plan covering all eligible employees who

have completed six months of service. The plan provides retirement benefits based on the employees' years of benefit service, average final compensation and age at retirement. Detroit Edison's policy is to fund pension cost calculated under the projected unit credit actuarial cost method.

Net pension cost included the following components:

(Millions)	2000	1999	1998
Service cost – benefits earned during period	\$ 35	\$ 35	\$ 31
Interest cost on projected benefit obligation	107	92	88
Expected return on Plan assets	(139)	(124)	(118)
Amortization of unrecognized prior service cost	10	5	5
Amortization of unrecognized net asset resulting from initial application	(4)	(4)	(4)
Net pension cost	\$ 9	\$ 4	\$ 2

The following reconciles the funded status of the Plan to the amount recorded in the Consolidated Balance Sheet at December 31:

(Millions)	2000	1999
Projected benefit obligation at beginning of year	\$1,457	\$1,400
Service cost – benefits earned during period	35	35
Interest cost on projected benefit obligation	107	92
Net loss (gain)	21	(49)
Benefits paid to participants	(82)	(77)
Plan amendments	2	56
Projected benefit obligation at year-end	1,540	1,457
Fair value of Plan assets (primarily equity and debt securities) at beginning of year	1,585	1,416
Actual return on Plan assets	(87)	246
Benefits paid to participants	(82)	(77)
Fair value of Plan assets at end of year	1,416	1,585
Plan assets (less than) in excess of projected benefit obligation	(124)	128
Unrecognized net asset resulting from initial application	(7)	(11)
Unrecognized net loss (gain)	112	(136)
Unrecognized prior service cost	85	94
Asset recorded in the Consolidated Balance Sheet	\$ 66	\$ 75

Assumptions used in determining the projected benefit obligation at December 31 were as follows:

	2000	1999
Discount rate	7.5%	7.5%
Annual increase in future compensation levels	4.0	4.0
Expected long-term rate of return on Plan assets	9.5	9.5

The unrecognized net asset at the date of initial application is being amortized over approximately 15.4 years, which was the average remaining service period of employees at January 1, 1987.

There are several supplemental non-qualified, non-contributory, retirement benefit plans for certain management employees.

## Notes to consolidated financial statements

### Savings and Investment Plans

Detroit Edison has voluntary defined contribution plans qualified under Section 401 (a) and (k) of the Internal Revenue Code for all eligible employees. Detroit Edison contributes up to 6% of base compensation for non-represented employees and up to 4% for represented employees. Matching contributions were \$22 million, \$21 million and \$21 million for 2000, 1999 and 1998, respectively.

### Other Postretirement Benefits

Detroit Edison provides certain postretirement health care and life insurance benefits for retired employees. Substantially all of Detroit Edison's employees will become eligible for such benefits if they reach retirement age while working for Detroit Edison. These benefits are provided principally through insurance companies and other organizations.

Net other postretirement benefits cost included the following components:

(Millions)	2000	1999	1998
Service cost – benefits earned during period	\$ 22	\$ 23	\$ 19
Interest cost on accumulated benefit obligation	48	41	38
Expected return on assets	(46)	(39)	(30)
Amortization of unrecognized transition obligation	20	21	21
Net other postretirement benefits cost	\$ 44	\$ 46	\$ 48

The following reconciles the funded status to the amount recorded in the Consolidated Balance Sheet at December 31:

(Millions)	2000	1999
Postretirement benefit obligation at beginning of year	\$ 607	\$ 625
Service cost – benefits earned during period	22	23
Interest cost on accumulated benefit obligation	48	43
Benefit payments	(31)	(29)
Net loss (gain)	105	(55)
Postretirement benefit obligation at year-end	751	607
Fair value of assets (primarily equity and debt securities) at beginning of year	501	422
Detroit Edison contributions	23	26
Benefit payments	(9)	(8)
Actual return on assets	2	61
Fair value of assets at year-end	517	501
Postretirement benefit obligation in (excess) of assets	(234)	(106)
Unrecognized transition obligation	246	267
Unrecognized net loss (gain)	44	(105)
Asset recorded in the Consolidated Balance Sheet	\$ 56	\$ 56

Assumptions used in determining the postretirement benefit obligation at December 31 were as follows:

	2000	1999
Discount rate	7.5%	7.5%
Annual increase in future compensation levels	4.0	4.0
Expected long-term rate of return on assets	9.0	9.0

Benefit costs were calculated assuming health care cost trend rates beginning at 9.2% for 2001 and decreasing to 5% in 2008 and thereafter for persons under age 65 and decreasing from 9.8% to 5% for persons age 65 and over. A one-percentage-point increase in health care cost trend rates would have increased the aggregate of the service cost and interest cost components of benefit costs by \$12.6 million and would have increased the accumulated benefit obligation by \$96.4 million at December 31, 2000. A one-percentage-point decrease in the health care cost trend rates would have decreased the aggregate of the service cost and interest cost components of benefit costs by \$10.1 million and would have decreased the accumulated benefit obligation by \$78.9 million at December 31, 2000.

### NOTE 14 – STOCK-BASED COMPENSATION

The Company adopted a Long-Term Incentive Plan (LTIP) in 1995. Under the LTIP, certain key employees may be granted restricted common stock, stock options, stock appreciation rights, performance shares and performance units. Common stock granted under the LTIP may not exceed 7.2 million shares. Performance units (which have a face amount of \$1) granted under the LTIP may not exceed 25 million in the aggregate. As of December 31, 2000, no stock appreciation rights or performance units have been granted under the LTIP.

Under the LTIP, shares of restricted common stock were awarded and are restricted for a period not exceeding four years. All shares are subject to forfeiture if specified performance measures are not met. During the applicable restriction period, the recipient has all the voting, dividend and other rights of a record holder except that the shares are nontransferable, and non-cash distributions paid upon the shares would be subject to transfer restrictions and risk of forfeiture to the same extent as the shares themselves.

The shares were recorded at the market value on the date of grant and amortized to expense based on the award that was expected to vest and the period during which the related employee services were to be rendered. Restricted common stock activity for the year ended December 31 was:

	2000	1999	1998
Restricted common shares awarded	29,565	99,500	74,000
Weighted average market price of shares awarded	\$ 32.00	\$ 40.99	\$ 38.77
Compensation cost charged against income (Thousands)	\$ 1,130	\$ 945	\$ 976

Effective February 22, 2000, under the LTIP, the Company's Special Committee on Compensation (the "Committee") granted performance share awards. The performance share award includes a target award established by the Committee that when paid, can equal a multiple from zero to two times the recipients target award, based on the Company's performance as compared against the goals established by the Committee on February 22, 2000, for the four fiscal year cycle that began on January 1, 2000. The four performance goals established by the Committee with respect to this grant are based on:

- 1) the Company's four-year total shareholder return compared to the Dow Jones Electric Utility Industry Group;
- 2) the Company's four-year earnings per share growth;
- 3) the Company's four-year employee satisfaction goal; and
- 4) the Company's four-year Institute of Nuclear Power Operations goal. During the applicable restriction period, the recipient of a performance share award has no rights as a shareholder until and to the extent that the performance share award is earned and common stock is actually distributed to the recipient. However, recipients will be paid an amount equal to the dividend equivalent on such shares as dividends are paid. Performance share awards are nontransferable and are subject to risk of forfeiture. As of December 31, 2000, there were 125,750 performance share awards outstanding.

Stock options were also issued under the LTIP. Usually options are exercisable at a rate of 25% per year during the four years following the date of grant. However in 2000, more than 97% of the 2,018,400 options granted vest 50%, 20%, 20% and 10% over a four-year period. The options will expire 10 years after the date of the grant. The option exercise price equals the fair

market value of the stock on the date that the option was granted. Stock option activity was as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 1998	310,500	28.50
Granted	319,500	38.38
Exercised	(22,625)	28.50
Outstanding at December 31, 1998 (58,750 exercisable)	607,375	33.70
Granted	428,000	41.30
Exercised	(11,675)	30.99
Canceled	(24,625)	31.96
Outstanding at December 31, 1999 (194,371 exercisable)	999,075	37.03
Granted	2,018,400	32.10
Exercised	(10,750)	28.50
Canceled	(29,500)	41.14
Outstanding at December 31, 2000 (442,431 exercisable at a weighted exercise price of \$34.72)	2,977,225	33.68

The range of exercise prices for options outstanding at December 31, 2000 was \$28.50 to \$43.85. The number, weighted average exercise price and weighted average remaining contractual life of options outstanding was as follows:

Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
\$28.50-\$34.75	2,260,475	\$31.65	8.8 years
\$38.04-\$43.85	716,750	\$40.11	7.9 years
	2,977,225	\$33.68	8.6 years

The Company applies APB Opinion 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recorded for options granted. As required by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company has determined the pro forma information as if it had accounted for its employee stock options under the fair value method. The fair value for these options was estimated at the date of grant using a modified Black/Scholes option pricing model – American style and the following weighted average assumptions:

	2000	1999	1998
Risk-free interest rate	6.57%	5.64%	5.84%
Dividend yield	6.48%	4.95%	5.39%
Expected volatility	18.51%	17.28%	17.48%
Expected life	10 years	10 years	10 years
Fair value per option	\$5.19	\$7.18	\$6.43

## Notes to consolidated financial statements

The pro forma effect of these options would be to reduce pretax income by \$2,725,000, \$1,289,000, and \$695,000 for the years ended December 31, 2000, 1999 and 1998, respectively, and to reduce earnings per share by \$0.02 and \$0.01 for the years ended December 31, 2000 and 1999, respectively. There was no pro forma effect on earnings per share for the year ended December 31, 1998.

### NOTE 15 – SEGMENT AND RELATED INFORMATION

The Company's reportable business segments are its electric utility, Detroit Edison, which is engaged in the generation, purchase, transmission, distribution and sale of electric energy in a 7,600-square-mile area in Southeastern Michigan, its energy trading company, and energy services business, which develops and manages energy-related projects and services primarily concentrated in the steel industry. All Other includes businesses involved in new energy technologies. Inter-segment revenues are not material. Income taxes are allocated based on inter-company tax sharing agreements, which generally allocate the tax benefit of alternate fuels tax credits and accelerated depreciation to the respective subsidiary, without regard to the subsidiary's own net income or whether such tax benefits are realized by the Company. Financial data for business segments are as follows:

(Millions)	Electric Utility	Energy Trading	Energy Services	All Other	Reconciliations and Eliminations	Consolidated
<b>2000</b>						
Operating revenues	\$ 4,129	\$ 985	\$ 472	\$ 92	\$ (81)	\$ 5,597
Depreciation and amortization	719	—	34	5	—	758
Interest expense	277	—	30	4	25	336
Income tax expense (benefit)	172	5	(141)	(18)	(9)	9
Net income (loss)	411	10	109	(35)	(27)	468
Total assets	10,986	468	942	268	(2)	12,662
Capital expenditures	587	—	100	62	—	749
<b>1999</b>						
Operating revenues	\$ 4,047	\$ 251	\$ 418	\$ 39	\$ (27)	\$ 4,728
Depreciation and amortization	703	—	31	1	—	735
Interest expense	284	—	38	1	17	340
Income tax expense (benefit)	211	5	(132)	(12)	(12)	60
Net income (loss)	434	8	84	(23)	(20)	483
Total assets	11,051	109	945	175	36	12,316
Capital expenditures	638	—	95	35	—	768
<b>1998</b>						
Operating revenues	\$ 3,902	\$ 42	\$ 271	\$ 12	\$ (6)	\$ 4,221
Depreciation and amortization	643	—	18	—	—	661
Interest expense	277	—	33	—	9	319
Income tax expense (benefit)	260	(4)	(92)	(5)	(5)	154
Net income (loss)	412	(7)	55	(6)	(11)	443
Total assets	10,987	31	864	75	131	12,088
Capital expenditures	548	—	433	16	—	997

### NOTE 16 – SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(Millions, except per share amounts)	2000 Quarter Ended			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
Operating revenues	\$1,182	\$1,428	\$1,547	\$1,440
Operating income	215	203	172	240
Net income	117	108	104	139
Earnings per common share	0.81	0.76	0.73	0.97

(Millions, except per share amounts)	1999 Quarter Ended			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
Operating revenues	\$1,024	\$1,150	\$1,440	\$1,114
Operating income	215	211	281	194
Net income	115	110	161	97
Earnings per common share	0.79	0.76	1.11	0.67

# Words *our industry uses*

## **Biomass**

Landfill waste contains a variety of organic fuel sources that produce methane and carbon dioxide. Instead of allowing the gas to escape into the air, DTE Energy Biomass captures the methane, which is burned to produce steam or electricity.

## **Btu**

Abbreviation for British thermal unit used to measure the quality of natural gas.

## **Coal Fines**

Particles of coal that are a byproduct of the coal mining process. Coal fines plants chemically process this byproduct, creating briquettes of synthetic fuel.

## **Coal Pulverizing**

The first step in the process of generating electricity from coal. A pulverizer grinds coal to powder. The powder is then fed to a furnace where it mixes with hot air to burn more efficiently.

## **Coal Tolling**

The process of paying a third party generator (power plant) to convert supplied fuel (coal, gas or oil) into energy for a negotiated fee. The supplying entity recoups costs and profit through sale of the resultant energy.

## **Cogeneration**

Generally, the dual use of steam, heat or resultant energy for an industrial, commercial or manufacturing plant or process, and for the generation of electricity.

## **Coke and Coke Battery Ovens**

Raw coal is heated to high temperatures in ovens to drive off impurities, leaving a carbon residue called coke. Coke is combined with iron ore to create a high metallic iron that is used to produce steel. A continuous number of ovens configured in a module are referred to as a battery.

## **Core Business**

Our facilities, infrastructure and operational processes that make electricity and deliver it to customers.

## **Distributed Generation**

Energy produced at or close to the point of use, in contrast to central station generation which is the production of electricity at large power plants. Distributed generation includes fuel cells, small gas turbine engines called micro-turbines, and other devices capable of producing 2 kW to 1 MW of power.

## **Distribution System**

Low-voltage electrical system used to deliver electricity from the wholesale transmission system to the end-user customer. Detroit Edison is the distribution utility for Southeastern Michigan.

## **Energy Value Chain**

The different components of an integrated energy system, for example, natural gas transportation, power generation, electric transmission, and gas and electric distribution. Value is created when these components work together.

## **Generating Capacity**

The amount of energy we can produce using all of our power generation facilities.

## **Kilowatt (kW)**

One thousand watts of power. A light bulb is often 100 watts.

## **Marketer**

An entity that takes title to and sells power and has Federal Energy Regulatory Commission approval to market energy services. The marketer role also may be assumed by utilities that sell power outside their own service areas.

## **Megawatt (MW)**

One million watts of power.

## **Merchant Power Generation**

Generation of energy for resale on the open market, typically during peak demand periods.

## **Securitization**

A mechanism for utilities to refinance specific assets and costs at lower interest rates through the sale of rate reduction bonds.

## **Stranded Costs**

Michigan Public Service Commission approved costs such as generation, power contract and regulatory assets currently paid by customers, but which may not be recoverable by the utility if customers switch to other suppliers.

## **Synthetic Fuels (Synfuels)**

Fuel made by capturing coal fines and processing them into briquettes that are burned either to produce energy or make steel.

## **Tax-Advantaged Businesses**

Businesses formed to use alternate energy sources, such as biomass and synthetic fuels produced from coal. To encourage the development of these resources and ultimately reduce dependence on imported energy, these businesses receive federal tax benefits.

## **Third-Party Owned**

Assets owned by parties other than DTE Energy or its subsidiaries.

## **Transmission System**

High-voltage wires that connect generation facilities with distribution facilities. Detroit Edison builds, maintains, owns and operates a transmission system throughout Southeastern Michigan.

**DTE Energy****Statistical review***(Millions, except electric customers and common share data)*

	2000	1999	1998	1997
<b>Operating Revenues</b>				
Residential	\$ 1,265	\$ 1,300	\$ 1,253	\$ 1,179
Commercial	1,670	1,629	1,553	1,501
Industrial	848	809	753	726
Other	346	309	343	251
Non-regulated	1,468	681	319	107
<b>Total</b>	<b>\$ 5,597</b>	<b>\$ 4,728</b>	<b>\$ 4,221</b>	<b>\$ 3,764</b>
<b>Net Income</b>	<b>\$ 468</b>	<b>\$ 483</b>	<b>\$ 443</b>	<b>\$ 417</b>
<b>Electric Sales (Millions of kWh)</b>				
Residential	13,903	14,064	13,752	12,898
Commercial	19,762	19,546	18,897	17,997
Industrial	16,090	15,647	14,700	14,345
Other	2,653	2,595	2,357	1,855
<b>Total system</b>	<b>52,408</b>	<b>51,852</b>	<b>49,706</b>	<b>47,095</b>
<b>Interconnection</b>	<b>2,592</b>	<b>3,672</b>	<b>5,207</b>	<b>3,547</b>
<b>Total</b>	<b>55,000</b>	<b>55,524</b>	<b>54,913</b>	<b>50,642</b>
<b>Electric Customers at Year End (Thousands)</b>				
Residential	1,922	1,904	1,884	1,870
Commercial	185	182	181	178
Industrial	1	1	1	1
Other	2	2	2	2
<b>Total</b>	<b>2,110</b>	<b>2,089</b>	<b>2,068</b>	<b>2,051</b>
<b>Financial Position at Year End</b>				
Net property	\$ 7,387	\$ 7,148	\$ 6,943	\$ 8,934
Total assets	12,662	12,316	12,088	11,223
Long-term debt	3,917	3,938	4,197	3,777
Total shareholders' equity	4,015	3,909	3,698	3,706
<b>Common Share Data</b>				
Earnings per common share	\$ 3.27	\$ 3.33	\$ 3.05	\$ 2.88
Dividend payout ratio	63%	62%	68%	72%
Dividends declared	\$ 2.06	\$ 2.06	\$ 2.06	\$ 2.06
Dividends paid	\$ 2.06	\$ 2.06	\$ 2.06	\$ 2.06
Average common shares outstanding at year end (Millions)	143	145	145	145
Return on average common equity	11.90%	12.75%	12.25%	12.03%
Book value per share	\$ 28.14	\$ 26.75	\$ 25.49	\$ 24.51
Market value per share (Year end)	38 <sup>15</sup> / <sub>16</sub>	31 <sup>1</sup> / <sub>16</sub>	43 <sup>3</sup> / <sub>16</sub>	34 <sup>11</sup> / <sub>16</sub>
Market price: High	41 <sup>1</sup> / <sub>4</sub>	44 <sup>1</sup> / <sub>16</sub>	49 <sup>1</sup> / <sub>4</sub>	34 <sup>3</sup> / <sub>4</sub>
Low	28 <sup>7</sup> / <sub>16</sub>	31 <sup>1</sup> / <sub>16</sub>	33 <sup>1</sup> / <sub>2</sub>	26 <sup>1</sup> / <sub>2</sub>
<b>Miscellaneous Financial Data</b>				
Cash flow from operations	\$ 1,088	\$ 1,097	\$ 834	\$ 905
Investments and capital expenditures	749	768	997	700
Average cost rate long-term debt (Year end)	7.1%	7.1%	7.3%	7.3%
<b>Miscellaneous Operating Data</b>				
System peak demand (MW)	10,919	11,018	10,704	10,305
Employees at year end	9,144	8,886	8,781	8,732

1996	1995	1994	1993	1992	1991	1990
\$ 1,198	\$ 1,211	\$ 1,136	\$ 1,126	\$ 1,098	\$ 1,155	\$ 1,045
1,506	1,496	1,473	1,428	1,438	1,411	1,328
731	728	736	720	749	724	740
207	199	174	281	273	302	463
3	2	—	—	—	—	—
\$ 3,645	\$ 3,636	\$ 3,519	\$ 3,555	\$ 3,558	\$ 3,592	\$ 3,576
\$ 309	\$ 406	\$ 390	\$ 491	\$ 558	\$ 535	\$ 479
12,949	13,006	12,170	12,033	11,309	12,222	11,513
17,706	17,471	17,042	15,996	15,384	15,571	15,145
14,062	13,825	13,356	12,618	11,827	11,564	12,250
1,690	1,671	1,586	2,318	2,177	1,692	1,596
46,407	45,973	44,154	42,965	40,697	41,049	40,504
2,046	2,969	1,978	3,611	3,204	5,534	11,887
48,453	48,942	46,132	46,576	43,901	46,583	52,391
1,847	1,825	1,805	1,790	1,778	1,771	1,758
175	174	172	171	169	168	166
1	1	1	1	1	1	1
2	2	2	2	2	2	2
2,025	2,002	1,980	1,964	1,950	1,942	1,927
\$ 8,833	\$ 8,823	\$ 8,925	\$ 8,900	\$ 9,024	\$ 9,002	\$ 9,062
11,015	11,131	10,993	11,135	10,309	10,464	10,573
3,779	3,756	3,825	3,831	3,973	4,218	4,924
3,588	3,763	3,706	3,677	3,448	3,201	2,965
\$ 2.13	\$ 2.80	\$ 2.67	\$ 3.34	\$ 3.79	\$ 3.64	\$ 3.26
97 %	74 %	77 %	61 %	52 %	51 %	54 %
\$ 2.06	\$ 2.06	\$ 2.06	\$ 2.06	\$ 1.98	\$ 1.88	\$ 1.78
\$ 2.06	\$ 2.06	\$ 2.06	\$ 2.04	\$ 1.955	\$ 1.855	\$ 1.755
145	145	146	147	147	147	147
8.87 %	11.85 %	11.64 %	15.23 %	18.56 %	19.55 %	19.11 %
\$ 23.69	\$ 23.62	\$ 22.89	\$ 22.34	\$ 21.13	\$ 19.32	\$ 17.56
32%	34½	26%	30	32¾	34¾	28¾
37¼	34¾	30¼	37½	35¼	35¾	30¼
27%	25¾	24¼	29½	30¼	27¾	23½
\$ 1,079	\$ 913	\$ 923	\$ 1,110	\$ 1,063	\$ 952	\$ 923
531	454	366	396	416	272	230
7.1 %	7.1 %	7.2 %	7.4 %	8.6 %	9.1 %	9.2 %
10,337	10,049	9,684	9,362	8,704	8,980	9,032
8,526	8,340	8,494	8,919	9,183	9,357	9,669

# Other information about *DTE Energy*

## Market for the Company's Common Equity and Related Shareholder Matters

DTE Energy's common stock is listed on the New York Stock Exchange and the Chicago Stock Exchange (symbol DTE). The following table indicates the reported high and low sales prices of DTE Energy common stock on the composite tape of the New York Stock Exchange and dividends paid per share for each quarterly period during the past two years:

Calendar	Quarter	High	Low	Dividends Paid Per Share
2000	First	41 <sup>1</sup> / <sub>16</sub>	28 <sup>1</sup> / <sub>16</sub>	\$0.515
	Second	35 <sup>15</sup> / <sub>16</sub>	28 <sup>1</sup> / <sub>16</sub>	0.515
	Third	40 <sup>1</sup> / <sub>16</sub>	30 <sup>7</sup> / <sub>16</sub>	0.515
	Fourth	39 <sup>3</sup> / <sub>16</sub>	34 <sup>15</sup> / <sub>16</sub>	0.515
1999	First	43 <sup>3</sup> / <sub>16</sub>	37 <sup>15</sup> / <sub>16</sub>	\$0.515
	Second	44 <sup>11</sup> / <sub>16</sub>	38 <sup>1</sup> / <sub>16</sub>	0.515
	Third	41 <sup>1</sup> / <sub>16</sub>	35 <sup>3</sup> / <sub>16</sub>	0.515
	Fourth	37 <sup>3</sup> / <sub>16</sub>	31 <sup>1</sup> / <sub>16</sub>	0.515

As of Jan. 1, 2001, 142,651,172 shares of the Company's common stock were outstanding. These shares were held by a total of 96,153 shareholders.

The amount of future dividends will depend on the Company's earnings, financial condition and other factors, including the effects of utility restructuring and the transition to competition, and the successful completion of the pending merger with MCN Energy.

## Distribution of Ownership of DTE Energy Common Stock as of Jan. 1, 2001:

Type of Owner	Owners	Shares
Individuals	47,721	10,407,523
Joint Accounts	38,408	12,108,010
Trust Accounts	9,417	5,739,650
Nominees	18	99,213,431
Institutions/Foundations	155	44,373
Brokers/Security Dealers	7	15,184
Others	427	15,123,001
Total	96,153	142,651,172

State and Country	Owners	Shares
Michigan	48,979	29,792,477
Florida	6,096	2,350,862
California	5,067	1,496,136
New York	3,927	100,238,701
Illinois	3,791	1,086,049
Ohio	3,143	828,243
44 Other States	24,724	6,737,132
Foreign Countries	426	121,572
Total	96,153	142,651,172

## Annual Meeting of Shareholders

The 2001 Annual Meeting of DTE Energy Shareholders will be held at 10 a.m., Detroit time, Wednesday, April 25, 2001, at the DTE Energy Building, 660 Plaza Drive, Detroit.

## Corporate Address

DTE Energy  
2000 2nd Ave., Detroit, MI 48226-1279  
Telephone: 313.235.4000  
Web site: [www.dteenergy.com](http://www.dteenergy.com)

## Independent Auditors

Deloitte & Touche LLP  
600 Renaissance Center, Suite 900, Detroit, MI 48243-1704

## Form 10-K

Copies of Form 10-K, Securities and Exchange Commission Annual Report, are available. Requests should be directed to:

Susan M. Beale  
Vice President and Corporate Secretary  
DTE Energy  
2000 2nd Ave., Detroit, MI 48226-1279

## Transfer Agent

The Detroit Edison Company  
2000 2nd Ave., Detroit, MI 48226-1279  
Shareholder Services: 800.551.5009

## Registrar of Stock

The Detroit Edison Company  
2000 2nd Ave., Detroit, MI 48226-1279  
DTE Energy common stock

## Other Shareholder Information

Shareholders who hold stock in street form may request a DTE Energy mid-year report by writing to the address below.

Shareholders of record automatically receive the mid-year report. As a service to shareholders of record, DTE Energy offers direct deposit of dividend payments. Payments can be electronically transferred directly to the bank or savings and loan account of choice on the payment date. Please write to the address below, or call 800.551.5009 to receive an authorization form to request direct deposit of dividend payments.

DTE Energy  
c/o Detroit Edison, Shareholder Services, 434 W.C.B.  
2000 2nd Ave., Detroit, MI 48226-1279

# *Five Core Values define the essence of DTE Energy*

## **Respect**

*Treat everyone with dignity*

- We respect the diversity and value of each person.
- We recognize and develop others' capabilities.
- We listen first to achieve understanding, then strive to be understood.
- We give and receive honest feedback with respect and compassion.

## **Integrity**

*Honor our values and commitments*

- We act with honor and integrity.
- We ensure that our actions are aligned with corporate values.
- We actively contribute through open and honest communication.
- We believe that how we achieve results is as important as the results.

## **Learning**

*Build on our past and reach to the future*

- We drive for continuous improvement; we refuse to accept the status quo.
- We strive to be innovative and creative.
- We learn from each other; teach one another.
- We take prudent risks and learn from successes and mistakes.

## **Customer Service**

*Deliver services and products that meet or exceed customer expectations*

- We understand and anticipate our customers' needs.
- We protect the safety of our employees and customers.
- We improve the quality of life in the communities we serve.
- We protect the environment.

## **Business Success**

*Commit to the strength and vibrancy of the enterprise*

- We vigorously pursue sustained growth and profitability.
- We establish and pursue clear, well-defined goals.
- We invest in the near term with an eye to long-term success.
- We have enterprise-wide focus and commitment to DTE Energy's success.

DTE Energy Company  
2000 2nd Ave., Detroit, MI 48226-1279

**DTE Energy®**



AS TTB