DTE ENERGY CO
Form 10-Q
July 26, 2017

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period ended June 30, 2017

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

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

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

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

DTE Energy Yes x No o DTE Electric Yes x No o

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

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

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

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

DTE Energy Yes o No x DTE Electric Yes o No x

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

Registrant	Description	Shares

DTE Energy	Common Stock, without par value	179,393,579
DTE Electric	Common Stock, $10 par value, directly owned by DTE Energy	138,632,324

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

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

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DEFINITIONS

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

MPSC	Michigan Public Service Commission
MTM	Mark-to-market
NAV	Net Asset Value
NEXUS	NEXUS Gas Transmission, LLC, a joint venture in which DTE Energy own a 50% partnership interest.
Non-utility	An entity that is not a public utility. Its conditions of service, prices of goods and services, and other operating related matters are not directly regulated by the MPSC.
NOV	Notice of Violation
NO_X	Nitrogen Oxides
NRC	U.S. Nuclear Regulatory Commission
Production tax credits	Tax credits as authorized under Sections 45K and 45 of the Internal Revenue Code that are designed to stimulate investment in and development of alternate fuel sources. The amount of a production tax credit can vary each year as determined by the Internal Revenue Service.

DEFINITIONS

PSCR	A Power Supply Cost Recovery mechanism authorized by the MPSC that allows DTE Electric to recover through rates its fuel, fuel-related, and purchased power costs.
REF	Reduced Emissions Fuel
Registrants	DTE Energy and DTE Electric
Retail access	Michigan legislation provided customers the option of access to alternative suppliers for electricity and natural gas.
SGG	Stonewall Gas Gathering is a midstream natural gas asset located in West Virginia. DTE Energy purchased 55% of SGG in October 2016, and this asset is part of DTE Energy's Gas Storage and Pipelines segment.
SO2	Sulfur Dioxide
TRM	A Transitional Reconciliation Mechanism authorized by the MPSC that allows DTE Electric to recover through rates the deferred net incremental revenue requirement associated with the transition of City of Detroit's Public Lighting Department customers to DTE Electric's distribution system.
VIE	Variable Interest Entity

Units of Measurement

Bcf	Billion cubic feet of natural gas
BTU	Heat value (energy content) of fuel
MMBtu	One million BTU
MWh	Megawatthour of electricity

FILING FORMAT

This combined Form 10-Q is separately filed by DTE Energy and DTE Electric. Information in this combined Form 10-Q relating to each individual Registrant is filed by such Registrant on its own behalf. DTE Electric makes no representation regarding information relating to any other companies affiliated with DTE Energy other than its own subsidiaries. Neither DTE Energy, nor any of DTE Energy’s other subsidiaries (other than DTE Electric), has any obligation in respect of DTE Electric's debt securities, and holders of such debt securities should not consider the financial resources or results of operations of DTE Energy nor any of DTE Energy’s other subsidiaries (other than DTE Electric and its own subsidiaries (in relevant circumstances)) in making a decision with respect to DTE Electric's debt securities. Similarly, none of DTE Electric nor any other subsidiary of DTE Energy has any obligation in respect of debt securities of DTE Energy. This combined Form 10-Q should be read in its entirety. No one section of this combined Form 10-Q deals with all aspects of the subject matter of this combined Form 10-Q. This combined Form 10-Q report should be read in conjunction with the Consolidated Financial Statements and Combined Notes to Consolidated Financial Statements and with Management's Discussion and Analysis included in the combined DTE Energy and DTE Electric 2016 Annual Report on Form 10-K.

FORWARD-LOOKING STATEMENTS

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

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

- the timing and extent of changes in interest rates;
- the level of borrowings;
- the potential for increased costs or delays in completion of significant capital projects;
- changes in, and application of, federal, state, and local tax laws and their interpretations, including the Internal Revenue Code, regulations, rulings, court proceedings, and audits;
- the effects of weather and other natural phenomena on operations and sales to customers, and purchases from suppliers;
- unplanned outages;
- the cost of protecting assets against, or damage due to, cyber crime and terrorism;
- employee relations and the impact of collective bargaining agreements;
- the risk of a major safety incident at an electric distribution or generation facility and, for DTE Energy, a gas storage, transmission, or distribution facility;
- the availability, cost, coverage, and terms of insurance and stability of insurance providers;
- cost reduction efforts and the maximization of plant and distribution system performance;
- the effects of competition;
- changes in and application of accounting standards and financial reporting regulations;
- changes in federal or state laws and their interpretation with respect to regulation, energy policy, and other business issues;
- contract disputes, binding arbitration, litigation, and related appeals;
- implementation of new information systems; and
- the risks discussed in the Registrants' public filings with the Securities and Exchange Commission.

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

Part I — Financial Information
Item 1. Financial Statements

DTE Energy Company

Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions, except per share amounts)			
Operating Revenues				
Utility operations	$1,423	$1,435	$3,141	$3,099
Non-utility operations	1,432	827	2,950	1,729
	2,855	2,262	6,091	4,828
Operating Expenses				
Fuel, purchased power, and gas — utility	396	414	925	979
Fuel, purchased power, and gas — non-utility	1,248	717	2,428	1,493
Operation and maintenance	559	542	1,159	1,058
Depreciation and amortization	249	243	498	472
Taxes other than income	97	91	206	190
Asset (gains) losses and impairments, net	3	(1)	3	(1)
	2,552	2,006	5,219	4,191
Operating Income	303	256	872	637
Other (Income) and Deductions				
Interest expense	133	114	258	227
Interest income	(2)	(3)	(5)	(14)
Other income	(66)	(57)	(130)	(109)
Other expenses	6	7	13	15
	71	61	136	119
Income Before Income Taxes	232	195	736	518
Income Tax Expense	57	50	167	133
Net Income	175	145	569	385
Less: Net Loss Attributable to Noncontrolling Interests	(2)	(7)	(8)	(14)
Net Income Attributable to DTE Energy Company	$177	$152	$577	$399
Basic Earnings per Common Share				
Net Income Attributable to DTE Energy Company	$0.99	$0.84	$3.21	$2.22
Diluted Earnings per Common Share				
Net Income Attributable to DTE Energy Company	$0.99	$0.84	$3.21	$2.22
Weighted Average Common Shares Outstanding				

Basic	179	179	179	179
Diluted	179	180	179	180
Dividends Declared per Common Share	$0.825	$0.73	$1.65	$1.46

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Energy Company

Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Net Income	$175	$145	$569	$385
Other comprehensive income (loss), net of tax:				
Benefit obligations, net of taxes of $2, $(1), $4, and $1, respectively	3	(1)	7	2
Net unrealized gains on investments during the period, net of taxes of $—, respectively	1	—	1	—
Foreign currency translation	—	(1)	—	1
Other comprehensive income (loss)	4	(2)	8	3
Comprehensive income	179	143	577	388
Less: Comprehensive loss attributable to noncontrolling interests	(2)	(7)	(8)	(14)
Comprehensive Income Attributable to DTE Energy Company	$181	$150	$585	$402

See Combined Notes to Consolidated Financial Statements (Unaudited)

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DTE Energy Company

Consolidated Statements of Financial Position (Unaudited)

	June 30, 2017	December 31, 2016
	(In millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 62	$ 92
Restricted cash	22	21
Accounts receivable (less allowance for doubtful accounts of $36 and $41, respectively)		
Customer	1,451	1,522
Other	92	71
Inventories		
Fuel and gas	353	416
Materials and supplies	390	356
Derivative assets	81	47
Regulatory assets	12	42
Other	168	195
	2,631	2,762
Investments		
Nuclear decommissioning trust funds	1,392	1,320
Investments in equity method investees	941	752
Other	217	201
	2,550	2,273
Property		
Property, plant, and equipment	30,599	30,029
Accumulated depreciation and amortization	(10,536)	(10,299)
	20,063	19,730
Other Assets		
Goodwill	2,291	2,286
Regulatory assets	3,861	3,871
Intangible assets	890	842
Notes receivable	70	73
Derivative assets	58	34
Other	168	170
	7,338	7,276
Total Assets	$ 32,582	$ 32,041

See Combined Notes to Consolidated Financial Statements (Unaudited)

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DTE Energy Company

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

	June 30, 2017	December 31, 2016
	(In millions, except shares)	
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$988	$1,079
Accrued interest	105	96
Dividends payable	296	148
Short-term borrowings	420	499
Current portion long-term debt, including capital leases	412	14
Derivative liabilities	39	69
Gas inventory equalization	35	—
Regulatory liabilities	61	34
Other	391	498
	2,747	2,437
Long-Term Debt (net of current portion)		
Mortgage bonds, notes, and other	10,600	10,506
Junior subordinated debentures	756	756
Capital lease obligations	2	7
	11,358	11,269
Other Liabilities		
Deferred income taxes	4,293	4,162
Regulatory liabilities	551	555
Asset retirement obligations	2,261	2,197
Unamortized investment tax credit	138	93
Derivative liabilities	63	98
Accrued pension liability	1,019	1,152
Accrued postretirement liability	36	36
Nuclear decommissioning	206	194
Other	339	349
	8,906	8,836
Commitments and Contingencies (Notes 5 and 11)		
Equity		
Common stock, without par value, 400,000,000 shares authorized, and 179,393,579 and 179,432,581 shares issued and outstanding, respectively	3,968	4,030
Retained earnings	5,245	5,114
Accumulated other comprehensive loss	(125)	(133)
Total DTE Energy Company Equity	9,088	9,011
Noncontrolling interests	483	488
Total Equity	9,571	9,499
Total Liabilities and Equity	$32,582	$32,041

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Energy Company

Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30, 2017		2016	
	(In millions)			
Operating Activities				
Net Income	$ 569		$ 385	
Adjustments to reconcile Net Income to net cash from operating activities:				
Depreciation and amortization	498		472	
Nuclear fuel amortization	24		29	
Allowance for equity funds used during construction	(12	)	(10	)
Deferred income taxes	164		134	
Equity earnings of equity method investees	(51	)	(35	)
Dividends from equity method investees	37		33	
Asset (gains) losses and impairments, net	3		—	
Changes in assets and liabilities:				
Accounts receivable, net	49		81	
Inventories	32		86	
Accounts payable	23		(10	)
Gas inventory equalization	35		46	
Accrued pension liability	(133	)	3	
Accrued postretirement liability	—		(53	)
Derivative assets and liabilities	(123	)	93	
Regulatory assets and liabilities	216		71	
Other current and noncurrent assets and liabilities	(148	)	(49	)
Net cash from operating activities	1,183		1,276	
Investing Activities				
Plant and equipment expenditures — utility	(968	)	(797	)
Plant and equipment expenditures — non-utility	(68	)	(64	)

Proceeds from sale of nuclear decommissioning trust fund assets	705	741
Investment in nuclear decommissioning trust funds	(688)	(744)
Distributions from equity method investees	7	7
Contributions to equity method investees	(175)	(121)
Other	(62)	40
Net cash used for investing activities	(1,249)	(938)
Financing Activities		
Issuance of long-term debt, net of issuance costs	495	588
Redemption of long-term debt	(6)	(313)
Short-term borrowings, net	(79)	(324)
Repurchase of common stock	(51)	(33)
Dividends on common stock	(296)	(262)
Other	(27)	1
Net cash from (used for) financing activities	36	(343)
Net Decrease in Cash and Cash Equivalents	(30)	(5)
Cash and Cash Equivalents at Beginning of Period	92	37
Cash and Cash Equivalents at End of Period	$ 62	$ 32
Supplemental disclosure of non-cash investing and financing activities		
Plant and equipment expenditures in accounts payable	$ 218	$ 154

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Energy Company

Consolidated Statements of Changes in Equity (Unaudited)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
	Shares	Amount				
	(Dollars in millions, shares in thousands)					
Balance, December 31, 2016	179,433	$4,030	$5,114	$(133)	$488	$9,499
Net Income (Loss)	—	—	577	—	(8)	569
Dividends declared on common stock	—	—	(444)	—	—	(444)
Repurchase of common stock	(524)	(51)	—	—	—	(51)
Benefit obligations, net of tax	—	—	—	7	—	7
Net change in unrealized gains on investments, net of tax	—	—	—	1	—	1
Stock-based compensation, net contributions from noncontrolling interests, and other	485	(11)	(2)	—	3	(10)
Balance, June 30, 2017	179,394	$3,968	$5,245	$(125)	$483	$9,571

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Electric Company

Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Operating Revenues — Utility operations	$1,218	$1,215	$2,393	$2,368
Operating Expenses				
Fuel and purchased power — utility	355	361	669	696
Operation and maintenance	336	332	719	656
Depreciation and amortization	180	187	361	363
Taxes other than income	75	70	155	143
	946	950	1,904	1,858
Operating Income	272	265	489	510
Other (Income) and Deductions				
Interest expense	72	65	138	130
Interest income	—	—	—	(8)
Other income	(17)	(17)	(36)	(33)
Other expenses	5	6	12	13
	60	54	114	102
Income Before Income Taxes	212	211	375	408
Income Tax Expense	74	76	131	146
Net Income	$138	$135	$244	$262

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Electric Company

Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Net Income	$138	$135	$244	$262
Other comprehensive income	—	—	—	—
Comprehensive Income	$138	$135	$244	$262

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Electric Company

Consolidated Statements of Financial Position (Unaudited)

	June 30, 2017	December 31, 2016
	(In millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 9	$ 13
Accounts receivable (less allowance for doubtful accounts of $20 and $25, respectively)		
Customer	742	728
Affiliates	15	12
Other	48	29
Inventories		
Fuel	184	225
Materials and supplies	292	271
Regulatory assets	8	36
Other	62	63
	1,360	1,377
Investments		
Nuclear decommissioning trust funds	1,392	1,320
Other	35	36
	1,427	1,356
Property		
Property, plant, and equipment	22,436	22,094
Accumulated depreciation and amortization	(7,881)	(7,721)
	14,555	14,373
Other Assets		
Regulatory assets	3,129	3,113
Intangible assets	34	31
Prepaid postretirement costs — affiliates	114	114
Other	125	125
	3,402	3,383
Total Assets	$ 20,744	$ 20,489

See Combined Notes to Consolidated Financial Statements (Unaudited)

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DTE Electric Company

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

	June 30, 2017	December 31, 2016
	(In millions, except shares)	
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities		
Accounts payable		
Affiliates	$48	$ 58
Other	359	452
Accrued interest	66	65
Current portion long-term debt, including capital leases	305	6
Regulatory liabilities	56	27
Short-term borrowings		
Affiliates	78	117
Other	326	62
Other	133	146
	1,371	933
Long-Term Debt (net of current portion)		
Mortgage bonds, notes, and other	5,580	5,878
Capital lease obligations	2	7
	5,582	5,885
Other Liabilities		
Deferred income taxes	3,872	3,793
Regulatory liabilities	248	229
Asset retirement obligations	2,070	2,012
Unamortized investment tax credit	135	90
Nuclear decommissioning	206	194
Accrued pension liability — affiliates	886	1,008
Accrued postretirement liability — affiliates	271	269
Other	80	81
	7,768	7,676
Commitments and Contingencies (Notes 5 and 11)		
Shareholder's Equity		
Common stock, $10 par value, 400,000,000 shares authorized, and 138,632,324 shares issued and outstanding	4,206	4,206
Retained earnings	1,815	1,787
Accumulated other comprehensive income	2	2
Total Shareholder's Equity	6,023	5,995
Total Liabilities and Shareholder's Equity	$20,744	$ 20,489

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Electric Company

Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30, 2017		2016	
	(In millions)			
Operating Activities				
Net Income	$ 244		$ 262	
Adjustments to reconcile Net Income to net cash from operating activities:				
Depreciation and amortization	361		363	
Nuclear fuel amortization	24		29	
Allowance for equity funds used during construction	(10	)	(9	)
Deferred income taxes	130		146	
Changes in assets and liabilities:				
Accounts receivable, net	(36	)	(32	)
Inventories	23		25	
Accounts payable	(4	)	32	
Accrued pension liability — affiliates	(122	)	5	
Accrued postretirement liability — affiliates	2		(34	)
Regulatory assets and liabilities	193		82	
Other current and noncurrent assets and liabilities	(91	)	(44	)
Net cash from operating activities	714		825	
Investing Activities				
Plant and equipment expenditures	(737	)	(640	)
Proceeds from sale of assets	—		6	
Notes receivable, including affiliates	5		(62	)
Proceeds from sale of nuclear decommissioning trust fund assets	705		741	
Investment in nuclear decommissioning trust funds	(688	)	(744	)
Other	(5	)	36	

Net cash used for investing activities	(720)	(663)
Financing Activities		
Issuance of long-term debt, net of issuance costs	—	297
Redemption of long-term debt	—	(10)
Short-term borrowings, net — affiliate	(39)	33
Short-term borrowings, net — other	264	(272)
Dividends on common stock	(216)	(210)
Other	(7)	(2)
Net cash from (used for) financing activities	2	(164)
Net Decrease in Cash and Cash Equivalents	(4)	(2)
Cash and Cash Equivalents at Beginning of Period	13	15
Cash and Cash Equivalents at End of Period	$ 9	$ 13
Supplemental disclosure of non-cash investing and financing activities		
Plant and equipment expenditures in accounts payable	$ 133	$ 112

See Combined Notes to Consolidated Financial Statements (Unaudited)

DTE Electric Company

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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
	(Dollars in millions, shares in thousands)					
Balance, December 31, 2016	138,632	$ 1,386	$ 2,820	$ 1,787	$ 2	$ 5,995
Net Income	—	—	—	244	—	244
Dividends declared on common stock	—	—	—	(216)	—	(216)
Balance, June 30, 2017	138,632	$ 1,386	$ 2,820	$ 1,815	$ 2	$ 6,023

See Combined Notes to Consolidated Financial Statements (Unaudited)

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

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

NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION
Corporate Structure
DTE Energy owns the following businesses:

- DTE Electric is a public utility engaged in the generation, purchase, distribution, and sale of electricity to approximately 2.2 million customers in southeastern Michigan;
- DTE Gas is a public utility engaged in the purchase, storage, transportation, distribution, and sale of natural gas to approximately 1.3 million customers throughout Michigan and the sale of storage and transportation capacity; and
- Other businesses involved in 1) natural gas pipelines, gathering, and storage; 2) power and industrial projects; and 3) energy marketing and trading operations.

DTE Electric and DTE Gas are regulated by the MPSC. Certain activities of DTE Electric and DTE Gas, as well as various other aspects of businesses under DTE Energy are regulated by the FERC. In addition, the Registrants are regulated by other federal and state regulatory agencies including the NRC, the EPA, the MDEQ, and for DTE Energy, the CFTC.
Basis of Presentation
The Consolidated Financial Statements should be read in conjunction with the Combined Notes to Consolidated Financial Statements included in the combined DTE Energy and DTE Electric 2016 Annual Report on Form 10-K.
The accompanying Consolidated Financial Statements of the Registrants are prepared using accounting principles generally accepted in the United States of America. These accounting principles require management to use estimates and assumptions that impact reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from the Registrants' estimates.
The Consolidated Financial Statements are unaudited but, in the Registrants' opinions include all adjustments necessary to present a fair statement of the results for the interim periods. All adjustments are of a normal recurring nature, except as otherwise disclosed in these Consolidated Financial Statements and Combined Notes to Consolidated Financial Statements. Financial results for this interim period are not necessarily indicative of results that may be expected for any other interim period or for the fiscal year ending December 31, 2017.

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

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

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

Principles of Consolidation

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

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

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

DTE Energy owns a 55% interest in SGG, which owns and operates midstream natural gas assets. SGG has contracts through which certain construction risk is designed to pass-through to the customers, with DTE Energy retaining operational and customer default risk. SGG is a VIE with DTE Energy as the primary beneficiary. See Note 4 to the Consolidated Financial Statements, "Acquisition," for more information.

DTE Energy has variable interests in VIEs through certain of its long-term purchase and sale contracts. DTE Electric has variable interests in VIEs through certain of its long-term purchase contracts. As of June 30, 2017, the carrying amount of assets and liabilities in DTE Energy's Consolidated Statements of Financial Position that relate to its variable interests under long-term purchase and sale contracts are predominantly related to working capital accounts and generally represent the amounts owed by or to DTE Energy for the deliveries associated with the current billing cycle under the contracts. As of June 30, 2017, the carrying amount of assets and liabilities in DTE Electric's Consolidated Statements of Financial Position that relate to its variable interests under long-term purchase contracts are predominantly related to working capital accounts and generally represent the amounts owed by DTE Electric for the deliveries associated with the current billing cycle under the contracts. The Registrants have not provided any significant form of financial support associated with these long-term contracts. There is no significant potential exposure to loss as a result of DTE Energy's variable interests through these long-term purchase and sale contracts. In addition, there is no significant potential exposure to loss as a result of DTE Electric's variable interests through these long-term purchase contracts.

The maximum risk exposure for consolidated VIEs is reflected on the Registrants' Consolidated Statements of Financial Position. For non-consolidated VIEs, the maximum risk exposure is generally limited to its investment, notes receivable, and future funding commitments.

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

The following table summarizes the major Consolidated Statements of Financial Position items for consolidated VIEs as of June 30, 2017 and December 31, 2016. All assets and liabilities of a consolidated VIE are presented where it has been determined that a consolidated VIE has either (1) assets that can be used only to settle obligations of the VIE or (2) liabilities for which creditors do not have recourse to the general credit of the primary beneficiary. VIEs, in which DTE Energy holds a majority voting interest and is the primary beneficiary, that meet the definition of a business and whose assets can be used for purposes other than the settlement of the VIE's obligations have been excluded from the table below.

	June 30, 2017			December 31, 2016		
	SGG[(a)]	Other	Total	SGG[(a)]	Other	Total
	(In millions)					
ASSETS						
Cash and cash equivalents	$33	$15	$48	$36	$27	$63
Restricted cash	—	7	7	—	7	7
Accounts receivable	9	36	45	8	34	42
Inventories	3	62	65	3	112	115
Property, plant, and equipment, net	395	71	466	398	76	474
Goodwill	22	—	22	17	—	17
Intangible assets	580	—	580	586	—	586
Other current and long-term assets	1	—	1	1	1	2
	$1,043	$191	$1,234	$1,049	$257	$1,306
LIABILITIES						
Accounts payable and accrued current liabilities	$20	$37	$57	$19	$32	$51
Current portion long-term debt, including capital leases	—	4	4	—	5	5
Mortgage bonds, notes, and other	—	3	3	—	5	5
Other current and long-term liabilities	2	15	17	2	15	17
	$22	$59	$81	$21	$57	$78

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

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

	June 30, 2017	December 31, 2016
	(In millions)	
Investments in equity method investees	$182	$ 187
Notes receivable	$17	$ 15
Future funding commitments	$15	$ 7

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

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES
Other Income
The following is a summary of DTE Energy's Other income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Equity earnings of equity method investees	$25	$ 20	$51	$35
Income from REF entities	22	20	40	39
Gains from trading securities	5	5	13	10
Allowance for equity funds used during construction	5	5	12	10
Contract services	4	5	8	11
Other	5	2	6	4
	$66	$ 57	$130	$109

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Gains from trading securities allocated from DTE Energy	$5	$ 5	$13	$ 10
Contract services	5	5	9	11
Allowance for equity funds used during construction	4	5	10	9
Equity earnings of equity method investees	1	1	1	1
Other	2	1	3	2
	$17	$ 17	$36	$ 33

Changes in Accumulated Other Comprehensive Income (Loss)
For the three and six months ended June 30, 2017 and 2016, reclassifications out of Accumulated other comprehensive income (loss) for the Registrants were not material. Changes in Accumulated other comprehensive income (loss) are presented in DTE Energy's Consolidated Statements of Changes in Equity and DTE Electric's Consolidated Statements of Changes in Shareholder's Equity.
Income Taxes
The effective tax rate of the Registrants are as follows:

	Effective Tax Rate			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
DTE Energy	25%	26%	23%	26%
DTE Electric	35%	36%	35%	36%

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

DTE Energy's total amount of unrecognized tax benefits as of June 30, 2017 and December 31, 2016 was $10 million. The amount, if recognized, that would favorably impact DTE Energy's effective tax rate as of June 30, 2017 and December 31, 2016 was $6 million and $7 million, respectively. DTE Electric's total amount of unrecognized tax benefits as of June 30, 2017 and December 31, 2016 was $13 million, of which $8 million, if recognized, would favorably impact its effective tax rate. The Registrants do not anticipate any material changes to the unrecognized tax benefits in the next twelve months.

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

DTE Electric had income tax receivables with DTE Energy of $9 million at June 30, 2017 and December 31, 2016.

Unrecognized Compensation Costs

As of June 30, 2017, DTE Energy had $83 million of total unrecognized compensation cost related to non-vested stock incentive plan arrangements. That cost is expected to be recognized over a weighted-average period of 1.60 years.

Allocated Stock-Based Compensation

DTE Electric received an allocation of costs from DTE Energy associated with stock-based compensation of $10 million and $9 million for the three months ended June 30, 2017 and 2016, respectively, while such allocation was $18 million and $19 million for the six months ended June 30, 2017 and 2016, respectively.

NOTE 3 — NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Pronouncements

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

Recently Issued Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), as amended. The objectives of this ASU are to improve upon revenue recognition requirements by providing a single comprehensive model to determine the measurement of revenue and timing of recognition. The core principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This ASU also requires expanded qualitative and quantitative disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. The standard is to be applied retrospectively. The Registrants will adopt the standard effective January 1, 2018. The Registrants are currently assessing the impact of the ASU, as amended, on their Consolidated Financial Statements as well as the transition method the Registrants will use to adopt the guidance. The Registrants have completed the preliminary evaluations of the impact of this guidance and do not expect the ASU to significantly affect results of operations for tariff-based sales, which represent a majority of the Registrants' revenues, and the remaining non-tariff revenues. The Registrants will continue to evaluate the impact of the ASU on existing revenue recognition policies and procedures and monitor the unresolved industry-related issues. The previously disclosed issue regarding contributions in aid of construction (CIAC) has been resolved, subject to finalization of implementation guidance. The Registrants do not expect CIAC to be in the scope of the ASU, therefore, the accounting will not change as a result of ASC 606. Based on recent developments in the industry-related issue resolution process, accounting for certain contracts where collectibility is in question is not expected to result in a significant change. The Registrants are evaluating information that would be useful for users of the Consolidated Financial Statements and have determined the ASU will result in additional disclosures for revenue compared to the current guidance.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), a replacement of Leases (Topic 840). This guidance requires a lessee to account for leases as finance or operating leases. Both leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability on its balance sheet, with differing methodology for income statement recognition. For lessors, the standard modifies the classification criteria and the accounting for sales-type and direct financing leases. Entities will classify leases to determine how to recognize lease-related revenue and expense. This standard is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. The Registrants do not plan to early adopt the standard. A modified retrospective approach is required for leases existing or entered into after the beginning of the earliest comparative period in the Consolidated Financial Statements. The Registrants expect an increase in assets and liabilities, however, they are currently assessing the impact of this ASU on their Consolidated Financial Statements. This assessment includes monitoring unresolved utility industry implementation guidance.

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

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

NOTE 4 — ACQUISITION

Gas Storage and Pipelines Acquisition

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

Consideration transferred for the entities acquired was approximately $1.2 billion paid in cash and the assumption of SGG debt of $204 million. The $204 million of debt was comprised of DTE Energy's 55% interest in SGG of $112 million and 45% related to noncontrolling interest partners of $92 million. The acquisition was financed through the issuance of equity units and senior notes. These entities are part of DTE Energy's Gas Storage and Pipelines segment which owns and manages a network of natural gas gathering, transmission, and storage facilities servicing the Midwest, Ontario, and Northeast markets. SGG has been deemed to be a VIE, and DTE Energy is the primary beneficiary. Thus, SGG's assets and liabilities are included in DTE Energy's Consolidated Statements of Financial Position. See Note 1 to the Consolidated Financial Statements, "Organization and Basis of Presentation," for more information.

DTE Energy has applied purchase accounting to the acquired entities. The allocation of the purchase price included in the Consolidated Statements of Financial Position is preliminary and may be revised up to one year from the date of acquisition due to adjustments in the estimated fair value of the assets acquired and the liabilities assumed. The purchase price is subject to (i) final working capital settlement adjustments and (ii) resolution of any indemnification claims that might be deducted from the $130 million of cash consideration paid and held in escrow. As such, DTE Energy cannot estimate the potential amount of the additional revisions to the purchase price allocation in 2017. The excess purchase price over the fair value of net assets acquired was classified as goodwill. Through the second quarter of 2017, the final working capital adjustments and certain indemnification claims were settled, resulting in purchase accounting adjustments of approximately $5 million of additional goodwill. As of June 30, 2017, total goodwill was approximately $273 million. The remaining cash consideration held in escrow as of June 30, 2017 was approximately $28 million. The factors contributing to the recognition of goodwill are based on various strategic benefits that are expected to be realized from the AGS and SGG acquisition. The acquisition provides DTE Energy with a platform for midstream growth and access to further investment opportunities in the Appalachian basin, an additional connection to the NEXUS Pipeline which should drive incremental volumes on the NEXUS Pipeline, and a new set of producer relationships that may lead to more partnering opportunities. The goodwill is expected to be deductible for income tax purposes.

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

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

	(In millions)
Assets	
Cash	$ 83
Accounts receivable	24
Inventory	6
Property, plant, and equipment, net	730
Goodwill	273
Customer relationship intangibles	770
Other current assets	1
	$ 1,887
Liabilities	
Accounts payable	$ 19
Other current liabilities	14
Long-term debt	204
Other long-term liabilities	26
	$ 263
Less: Noncontrolling interest	392
Total cash consideration	$ 1,232

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

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

DTE Energy evaluated pre-acquisition contingencies relating to AGS and SGG that existed as of the acquisition date. Based on the evaluation, DTE Energy determined that $39 million of certain pre-acquisition contingencies, related to repairing existing rights-of-way, are probable in nature and estimable as of the acquisition date. Accordingly, DTE Energy recorded its best estimates for these contingencies as part of the purchase accounting for AGS and SGG.

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

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

NOTE 5 — REGULATORY MATTERS

2016 Electric Rate Case Filing

DTE Electric filed a rate case with the MPSC on February 1, 2016 requesting an increase in base rates of $344 million based on a projected twelve-month period ending July 31, 2017. On August 1, 2016, DTE Electric self-implemented a base rate increase of $245 million. On January 31, 2017, the MPSC issued an order approving an annual revenue increase of $184 million for service rendered on or after February 7, 2017. The MPSC authorized a return on equity of 10.1%. On April 28, 2017, DTE Electric filed to refund its customers their pro-rata share of the revenue collected through the self-implementation surcharge in effect from August 1, 2016 through February 7, 2017. As of June 30, 2017, DTE Electric has recorded a refund liability of $37 million, representing the total estimated refund due to customers, inclusive of interest.

2017 Electric Rate Case Filing

DTE Electric filed a rate case with the MPSC on April 19, 2017 requesting an increase in base rates of $231 million based on a projected twelve-month period ending October 31, 2018. The requested increase in base rates is primarily due to an increase in net plant resulting from infrastructure investments, environmental compliance, and reliability improvement projects. The rate filing also includes projected changes in sales, operation and maintenance expenses, and working capital. The rate filing also requests an increase in return on equity from 10.1% to 10.5% on capital structure. To mitigate the impact to its customers regarding ASU No. 2017-07, Compensation — Retirement Benefits (Topic 715), DTE Electric suggested regulatory accounting treatment for the pension and postretirement cost components previously included as capital overhead. If the MPSC adopts DTE Electric's suggestion, the rate request will be reduced. For further discussion of ASU No. 2017-07, see Note 3 to the Consolidated Financial Statements, "New Accounting Pronouncements." DTE Electric anticipates self-implementing a rate increase in November 2017, with an MPSC order expected by April 2018.

PSCR Proceedings

The PSCR process is designed to allow DTE Electric to recover all of its power supply costs if incurred under reasonable and prudent policies and practices. DTE Electric's power supply costs include fuel and related transportation costs, purchased and net interchange power costs, NOx and SO_2 emission allowances costs, urea costs, transmission costs, MISO, and other related costs. The MPSC reviews these costs, policies, and practices for prudence in annual plan and reconciliation filings.

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

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

NOTE 6 — EARNINGS PER SHARE

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions, except per share amounts)			
Basic Earnings per Share				
Net Income Attributable to DTE Energy Company	$177	$152	$577	$399
Less: Allocation of earnings to net restricted stock awards	—	—	1	1
Net income available to common shareholders — basic	$177	$152	$576	$398
Average number of common shares outstanding	179	179	179	179
Basic Earnings per Common Share	$0.99	$0.84	$3.21	$2.22
Diluted Earnings per Share				
Net Income Attributable to DTE Energy Company	$177	$152	$577	$399
Less: Allocation of earnings to net restricted stock awards	—	—	1	1
Net income available to common shareholders — diluted	$177	$152	$576	$398
Average number of common shares outstanding	179	179	179	179
Incremental shares attributable to:				
Average dilutive performance share awards and stock options[a]	—	1	—	1
Average number of common shares outstanding — diluted	179	180	179	180
Diluted Earnings per Common Share	$0.99	$0.84	$3.21	$2.22

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

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

NOTE 7 — FAIR VALUE

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

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

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

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

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

	June 30, 2017					December 31, 2016				
	Level 1	Level 2	Level 3	Netting[a]	Net Balance	Level 1	Level 2	Level 3	Netting[a]	Net Balance
	(In millions)									
Assets:										
Cash equivalents[b]	$15	$3	$—	$—	$18	$14	$3	$—	$—	$17
Nuclear decommissioning trusts[c]										
Equity securities	911	—	—	—	911	887	—	—	—	887
Fixed income securities	9	470	—	—	479	11	414	—	—	425
Cash equivalents	2	—	—	—	2	8	—	—	—	8
Other investments[d]										
Equity securities	114	—	—	—	114	104	—	—	—	104
Fixed income securities	65	—	—	—	65	61	—	—	—	61
Derivative assets										
Commodity Contracts										
Natural Gas	74	96	56	(155)	71	216	79	53	(306)	42
Electricity	—	206	60	(207)	59	—	154	39	(157)	36
Other	—	—	8	—	8	—	—	2	—	2
Foreign currency exchange contracts	—	3	—	(2)	1	—	6	—	(5)	1
Total derivative assets	74	305	124	(364)	139	216	239	94	(468)	81
Total	$1,190	$778	$124	$(364)	$1,728	$1,301	$656	$94	$(468)	$1,583
Liabilities:										
Derivative liabilities										
Commodity Contracts										
Natural Gas	$(74)	$(69)	$(73)	$156	$(60)	$(226)	$(86)	$(149)	$321	$(140)
Electricity	—	(214)	(54)	227	(41)	—	(159)	(30)	163	(26)
Other	—	—	(3)	3	—	—	—	(3)	2	(1)
Foreign currency exchange contracts	—	(2)	—	1	(1)	—	(3)	—	3	—
Total derivative liabilities	(74)	(285)	(130)	387	(102)	(226)	(248)	(182)	489	(167)
Total	$(74)	$(285)	$(130)	$387	$(102)	$(226)	$(248)	$(182)	$489	$(167)
Net Assets (Liabilities) at end of period	$1,116	$493	$(6)	$23	$1,626	$1,075	$408	$(88)	$21	$1,416
Assets:										
Current	$74	$225	$74	$(274)	$99	$205	$199	$60	$(400)	$64
Noncurrent	1,116	553	50	(90)	1,629	1,096	457	34	(68)	1,519
Total Assets	$1,190	$778	$124	$(364)	$1,728	$1,301	$656	$94	$(468)	$1,583
Liabilities:										
Current	$(61)	$(215)	$(58)	$295	$(39)	$(203)	$(211)	$(79)	$424	$(69)
Noncurrent	(13)	(70)	(72)	92	(63)	(23)	(37)	(103)	65	(98)
Total Liabilities	$(74)	$(285)	$(130)	$387	$(102)	$(226)	$(248)	$(182)	$489	$(167)
Net Assets (Liabilities) at end of period	$1,116	$493	$(6)	$23	$1,626	$1,075	$408	$(88)	$21	$1,416

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

(b) At June 30, 2017, available-for-sale securities of $18 million, included $7 million and $11 million of cash equivalents included in Restricted cash and Other investments on DTE Energy's Consolidated Statements of Financial Position, respectively. At December 31, 2016, available-for-sale securities of $17 million, included $7 million and $10 million of cash equivalents included in Restricted cash and Other investments on DTE Energy's Consolidated Statements of Financial Position, respectively.

(c) At June 30, 2017, the Nuclear Decommissioning Master Trust had outstanding commitments to invest in private equity investments of approximately $15 million. These commitments will be funded by existing nuclear decommissioning trust funds.

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

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

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

	June 30, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Net Balance	Level 1	Level 2	Level 3	Net Balance
	(In millions)							
Assets:								
Cash equivalents[a]	$8	$3	$ —	$ 11	$8	$3	$ —	$ 11
Nuclear decommissioning trusts[b]								
Equity securities	911	—	—	911	887	—	—	887
Fixed income securities	9	470	—	479	11	414	—	425
Cash equivalents	2	—	—	2	8	—	—	8
Other investments								
Equity securities	9	—	—	9	9	—	—	9
Derivative assets — FTRs	—	—	8	8	—	—	2	2
Total	$939	$473	$ 8	$ 1,420	$923	$417	$ 2	$ 1,342
Assets:								
Current	$8	$3	$ 8	$ 19	$8	$3	$ 2	$ 13
Noncurrent	931	470	—	1,401	915	414	—	1,329
Total Assets	$939	$473	$ 8	$ 1,420	$923	$417	$ 2	$ 1,342

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

(b) At June 30, 2017, the Nuclear Decommissioning Master Trust had outstanding commitments to invest in private equity investments of approximately $15 million. These commitments will be funded by existing nuclear decommissioning trust funds.

Cash Equivalents

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

Nuclear Decommissioning Trusts and Other Investments

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

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

Derivative Assets and Liabilities
Derivative assets and liabilities are comprised of physical and financial derivative contracts, including futures, forwards, options, and swaps that are both exchange-traded and over-the-counter traded contracts. Various inputs are used to value derivatives depending on the type of contract and availability of market data. Exchange-traded derivative contracts are valued using quoted prices in active markets. The Registrants consider the following criteria in determining whether a market is considered active: frequency in which pricing information is updated, variability in pricing between sources or over time, and the availability of public information. Other derivative contracts are valued based upon a variety of inputs including commodity market prices, broker quotes, interest rates, credit ratings, default rates, market-based seasonality, and basis differential factors. The Registrants monitor the prices that are supplied by brokers and pricing services and may use a supplemental price source or change the primary price source of an index if prices become unavailable or another price source is determined to be more representative of fair value. The Registrants have obtained an understanding of how these prices are derived. Additionally, the Registrants selectively corroborate the fair value of their transactions by comparison of market-based price sources. Mathematical valuation models are used for derivatives for which external market data is not readily observable, such as contracts which extend beyond the actively traded reporting period. The Registrants have established a Risk Management Committee whose responsibilities include directly or indirectly ensuring all valuation methods are applied in accordance with predefined policies. The development and maintenance of the Registrants' forward price curves has been assigned to DTE Energy's Risk Management Department, which is separate and distinct from the trading functions within DTE Energy.
The following tables present the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for DTE Energy:

	Three Months Ended June 30, 2017				Three Months Ended June 30, 2016			
	Natural Gas	Electricity	Other	Total	Natural Gas	Electricity	Other	Total
	(In millions)							
Net Liabilities as of March 31	$(15)	$ (6)	$(2)	$(23)	$(34)	$ (16)	$(7)	$(57)
Transfers into Level 3 from Level 2	—	—	—	—	—	—	—	—
Transfers from Level 3 into Level 2	—	—	—	—	—	—	—	—
Total gains (losses)								
Included in earnings	(6)	21	—	15	(36)	12	2	(22)
Recorded in Regulatory liabilities	—	—	11	11	—	—	6	6
Purchases, issuances, and settlements								
Purchases	—	—	—	—	—	1	—	1
Settlements	4	(9)	(4)	(9)	8	(3)	(2)	3
Net Assets (Liabilities) as of June 30	$(17)	$ 6	$5	$(6)	$(62)	$ (6)	$(1)	$(69)
The amount of total gains (losses) included in Net Income attributed to the change in unrealized gains (losses) related to assets and liabilities held at June 30, 2017 and 2016 and reflected in Operating Revenues — Non-utility operations and Fuel, purchased power, and gas — non-utility in DTE Energy's Consolidated Statements of Operations	$(20)	$ 20	$—	$—	$(41)	$ (4)	$2	$(43)

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

	Six Months Ended June 30, 2017				Six Months Ended June 30, 2016			
	Natural Gas	Electricity	Other	Total	Natural Gas	Electricity	Other	Total
	(In millions)							
Net Assets (Liabilities) as of December 31	$(96)	$ 9	$(1)	$(88)	$(5)	$ 6	$(5)	$(4)
Transfers into Level 3 from Level 2	—	—	—	—	—	—	—	—
Transfers from Level 3 into Level 2	—	—	—	—	(1)	—	—	(1)
Total gains (losses)								
Included in earnings	46	11	1	58	(56)	(46)	1	(101)
Recorded in Regulatory liabilities	—	—	13	13	—	—	4	4
Purchases, issuances, and settlements								
Issuances	—	—	—	—	—	1	—	1
Settlements	33	(14)	(8)	11	—	33	(1)	32
Net Assets (Liabilities) as of June 30	$(17)	$ 6	$ 5	$(6)	$(62)	$ (6)	$(1)	$(69)
The amount of total gains (losses) included in Net Income attributed to the change in unrealized gains (losses) related to assets and liabilities held at June 30, 2017 and 2016 and reflected in Operating Revenues — Non-utility operations and Fuel, purchased power, and gas — non-utility in DTE Energy's Consolidated Statements of Operations	$16	$ 17	$(1)	$32	$(113)	$ (7)	$ 1	$(119)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Net Assets as of beginning of period	$1	$ 1	$2	$ 3
Change in fair value recorded in Regulatory liabilities	11	6	13	4
Purchases, issuances, and settlements				
Settlements	(4)	(3)	(7)	(3)
Net Assets as of June 30	$8	$ 4	$8	$ 4
The amount of total gains (losses) included in Regulatory liabilities attributed to the change in unrealized gains (losses) related to assets held at June 30, 2017 and 2016 and reflected in DTE Electric's Consolidated Statements of Financial Position	$8	$ 4	$8	$ 4

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

There were no transfers between Levels 1 and 2 for the Registrants during the three and six months ended June 30, 2017 and 2016, and there were no transfers from or into Level 3 for DTE Electric during the same periods.

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

	June 30, 2017					
Commodity Contracts	Derivative Assets	Derivative Liabilities	Valuation Techniques	Unobservable Input	Range	Weighted Average

	(In millions)					
Natural Gas	$56	$ (73)	Discounted Cash Flow	Forward basis price (per MMBtu)	$(1.30)—$6.35/MMBtu	$(0.08)/MMBtu
Electricity	$60	$ (54)	Discounted Cash Flow	Forward basis price (per MWh)	$(4)—$8 /MWh	$1 /MWh

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

Commodity Contracts	December 31, 2016 Derivative Assets	Derivative Liabilities	Valuation Techniques	Unobservable Input	Range	Weighted Average
	(In millions)					
Natural Gas	$ 53	$ (149)	Discounted Cash Flow	Forward basis price (per MMBtu)	$(1.00) — $7.90/MMBtu	$(0.05)/MMBtu
Electricity	$ 39	$ (30)	Discounted Cash Flow	Forward basis price (per MWh)	$(6) — $12 /MWh	$1 /MWh

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

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

Fair Value of Financial Instruments

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

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

	June 30, 2017				December 31, 2016			
	Carrying	Fair Value			Carrying	Fair Value		
	Amount	Level 1	Level 2	Level 3	Amount	Level 1	Level 2	Level 3
	(In millions)							
Notes receivable, excluding capital leases	$33	$—	$—	$33	$36	$—	$—	$36
Dividends payable	$296	$296	$—	$—	$148	$148	$—	$—
Short-term borrowings	$420	$—	$420	$—	$499	$—	$499	$—
Notes payable — Other[(a)]	$17	$—	$—	$17	$17	$—	$—	$17
Long-term debt[(b)]	$11,762	$1,553	$10,241	$830	$11,270	$1,465	$9,384	$1,056

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

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

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

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

	June 30, 2017				December 31, 2016			
	Carrying	Fair Value			Carrying	Fair Value		
	Amount	Level 1	Level 2	Level 3	Amount	Level 1	Level 2	Level 3
	(In millions)							
Notes receivable, excluding capital leases	$—	$—	$—	$—	$5	$—	$—	$5
Short-term borrowings — affiliates	$78	$—	$—	$78	$117	$—	$—	$117
Short-term borrowings — other	$326	$—	$326	$—	$62	$—	$62	$—
Notes payable — Other(a)	$5	$—	$—	$5	$6	$—	$—	$6
Long-term debt(b)	$5,880	$—	$6,214	$160	$5,878	$—	$6,026	$264

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

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

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

Nuclear Decommissioning Trust Funds

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

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

	June 30, 2017	December 31, 2016
	(In millions)	
Fermi 2	$1,377	$ 1,291
Fermi 1	3	3
Low-level radioactive waste	12	26
Total	$1,392	$ 1,320

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Realized gains	$26	$37	$49	$46
Realized losses	$(8)	$(25)	$(16)	$(40)
Proceeds from sale of securities	$311	$481	$705	$741

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

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

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

	June 30, 2017			December 31, 2016		
	Fair Value	Unrealized Gains	Unrealized Losses	Fair Value	Unrealized Gains	Unrealized Losses
	(In millions)					
Equity securities	$911	$ 257	$ (38)	$887	$ 222	$ (46)
Fixed income securities	479	14	(3)	425	11	(5)
Cash equivalents	2	—	—	8	—	—
	$1,392	$ 271	$ (41)	$1,320	$ 233	$ (51)

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

	June 30, 2017
	(In millions)
Due within one year	$ 15
Due after one through five years	99
Due after five through ten years	103
Due after ten years	262
	$ 479

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

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

Other Securities

At June 30, 2017 and December 31, 2016, the Registrants' securities were comprised primarily of money market and equity securities. There were no unrealized losses on available-for-sale securities which were reclassified out of Other comprehensive income (loss) and realized into Net Income for DTE Energy or DTE Electric during the three and six months ended June 30, 2017 and 2016. For the three months ended June 30, 2017 and 2016, gains related to trading securities held at June 30, 2017 and 2016 were $5 million for the Registrants. For the six months ended June 30, 2017 and 2016, gains related to trading securities held at June 30, 2017 and 2016 were $13 million and $10 million, respectively, for the Registrants. The trading gains or losses related to the Rabbi Trust assets, included in Other investments at DTE Energy, are allocated from DTE Energy to DTE Electric.

NOTE 8 — FINANCIAL AND OTHER DERIVATIVE INSTRUMENTS

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

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

The Registrants' primary market risk exposure is associated with commodity prices, credit, and interest rates. The Registrants have risk management policies to monitor and manage market risks. The Registrants use derivative instruments to manage some of the exposure. DTE Energy uses derivative instruments for trading purposes in its Energy Trading segment. Contracts classified as derivative instruments include electricity, natural gas, oil, certain coal forwards, futures, options, swaps, and foreign currency exchange contracts. Items not classified as derivatives include natural gas inventory, pipeline transportation contracts, renewable energy credits, and natural gas storage assets.

DTE Electric — DTE Electric generates, purchases, distributes, and sells electricity. DTE Electric uses forward energy contracts to manage changes in the price of electricity and fuel. Substantially all of these contracts meet the normal purchases and normal sales exception and are therefore accounted for under the accrual method. Other derivative contracts are MTM and recoverable through the PSCR mechanism when settled. This results in the deferral of unrealized gains and losses as Regulatory assets or liabilities until realized.

DTE Gas — DTE Gas purchases, stores, transports, distributes, and sells natural gas, and sells storage and transportation capacity. DTE Gas has fixed-priced contracts for portions of its expected natural gas supply requirements through March 2020. Substantially all of these contracts meet the normal purchases and normal sales exception and are therefore accounted for under the accrual method. DTE Gas may also sell forward transportation and storage capacity contracts. Forward transportation and storage contracts are generally not derivatives and are therefore accounted for under the accrual method.

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

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

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

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

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

Credit Risk — DTE Energy maintains credit policies that significantly minimize overall credit risk. These policies include an evaluation of potential customers' and counterparties' financial condition, including the viability of underlying productive assets, credit rating, collateral requirements, or other credit enhancements such as letters of credit or guarantees. DTE Energy generally uses standardized agreements that allow the netting of positive and negative transactions associated with a single counterparty. DTE Energy maintains a provision for credit losses based on factors surrounding the credit risk of its customers, historical trends, and other information. Based on DTE Energy's credit policies and its June 30, 2017 provision for credit losses, DTE Energy's exposure to counterparty nonperformance is not expected to have a material adverse effect on DTE Energy's Consolidated Financial Statements.

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

Derivative Activities

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

- Asset Optimization — Represents derivative activity associated with assets owned and contracted by DTE Energy, including forward natural gas purchases and sales, natural gas transportation, and storage capacity. Changes in the value of derivatives in this category typically economically offset changes in the value of underlying non-derivative positions, which do not qualify for fair value accounting. The difference in accounting treatment of derivatives in this category and the underlying non-derivative positions can result in significant earnings volatility.
- Marketing and Origination — Represents derivative activity transacted by originating substantially hedged positions with wholesale energy marketers, producers, end-users, utilities, retail aggregators, and alternative energy suppliers.
- Fundamentals Based Trading — Represents derivative activity transacted with the intent of taking a view, capturing market price changes, or putting capital at risk. This activity is speculative in nature as opposed to hedging an existing exposure.
- Other — Includes derivative activity at DTE Electric related to FTRs. Changes in the value of derivative contracts at DTE Electric are recorded as Derivative assets or liabilities, with an offset to Regulatory assets or liabilities as the settlement value of these contracts will be included in the PSCR mechanism when realized.

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

	June 30, 2017		December 31, 2016	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
	(In millions)			
Derivatives not designated as hedging instruments				
Commodity Contracts				
Natural Gas	$226	$ (216)	$348	$ (461)
Electricity	266	(268)	193	(189)
Other	8	(3)	2	(3)
Foreign currency exchange contracts	3	(2)	6	(3)
Total derivatives not designated as hedging instruments	$503	$ (489)	$549	$ (656)
Current	$355	$ (334)	$447	$ (493)
Noncurrent	148	(155)	102	(163)
Total derivatives	$503	$ (489)	$549	$ (656)

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

	June 30, 2017	December 31, 2016
	(In millions)	
FTRs — Other current assets	$ 8	$ 2
Total derivatives not designated as hedging instrument	$ 8	$ 2

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

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

DTE Energy also provides and receives collateral in the form of letters of credit which can be offset against net Derivative assets and liabilities as well as Accounts receivable and payable. DTE Energy had issued letters of credit of approximately $1 million and $2 million outstanding at June 30, 2017 and December 31, 2016, respectively, which could be used to offset net Derivative liabilities. Letters of credit received from third parties which could be used to offset net Derivative assets were $3 million and $2 million at June 30, 2017 and December 31, 2016, respectively. Such balances of letters of credit are excluded from the tables below and are not netted with the recognized assets and liabilities in DTE Energy's Consolidated Statements of Financial Position.

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

For DTE Energy, the total cash collateral posted, net of cash collateral received, was $44 million and $34 million as of June 30, 2017 and December 31, 2016, respectively. DTE Energy had $1 million of cash collateral related to unrealized positions to net against Derivative assets while Derivative liabilities are shown net of cash collateral of $24 million as of June 30, 2017. DTE Energy had $7 million of cash collateral related to unrealized positions to net against Derivative assets while Derivative liabilities are shown net of cash collateral of $28 million as of December 31, 2016. DTE Energy recorded cash collateral paid of $23 million and cash collateral received of $2 million not related to unrealized derivative positions as of June 30, 2017. DTE Energy recorded cash collateral paid of $18 million and cash collateral received of $5 million not related to unrealized derivative positions as of December 31, 2016. These amounts are included in Accounts receivable and Accounts payable and are recorded net by counterparty.

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

	June 30, 2017			December 31, 2016		
	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Consolidated Statements of Financial Position	Net Amounts of Assets (Liabilities) Presented in the Consolidated Statements of Financial Position	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Consolidated Statements of Financial Position	Net Amounts of Assets (Liabilities) Presented in the Consolidated Statements of Financial Position
	(In millions)					
Derivative assets						
Commodity Contracts						
Natural Gas	$226	$ (155)	$ 71	$348	$ (306)	$ 42
Electricity	266	(207)	59	193	(157)	36
Other	8	—	8	2	—	2
Foreign currency exchange contracts	3	(2)	1	6	(5)	1
Total derivative assets	$503	$ (364)	$ 139	$549	$ (468)	$ 81

Derivative liabilities						
Commodity Contracts						
Natural Gas	$(216)	$ 156	$ (60)	$(461)	$ 321	$ (140)
Electricity	(268)	227	(41)	(189)	163	(26)
Other	(3)	3	—	(3)	2	(1)
Foreign currency exchange contracts	(2)	1	(1)	(3)	3	—
Total derivative liabilities	$(489)	$ 387	$ (102)	$(656)	$ 489	$ (167)

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

	June 30, 2017				December 31, 2016			
	Derivative Assets		Derivative Liabilities		Derivative Assets		Derivative Liabilities	
	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent
	(In millions)							
Total fair value of derivatives	$355	$ 148	$(334)	$ (155)	$447	$ 102	$(493)	$ (163)
Counterparty netting	(273)	(90)	273	90	(396)	(65)	396	65
Collateral adjustment	(1)	—	22	2	(4)	(3)	28	—
Total derivatives as reported	$81	$ 58	$(39)	$ (63)	$47	$ 34	$(69)	$ (98)

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

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Gain (Loss) Recognized in Income on Derivatives for the Three Months Ended June 30,		Gain (Loss) Recognized in Income on Derivatives for the Six Months Ended June 30,	
		2017	2016	2017	2016
		(In millions)			
Commodity Contracts					
Natural Gas	Operating Revenues — Non-utility operations	$20	$(30)	$77	$(86)
Natural Gas	Fuel, purchased power, and gas — non-utility	(15)	(9)	46	32
Electricity	Operating Revenues — Non-utility operations	13	19	6	(5)
Other	Operating Revenues — Non-utility operations	(1)	—	(1)	(2)
Foreign currency exchange contracts	Operating Revenues — Non-utility operations	(1)	1	(1)	(4)
Total		$16	$(19)	$127	$(65)

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

The following represents the cumulative gross volume of DTE Energy's derivative contracts outstanding as of June 30, 2017:

Commodity	Number of Units
Natural Gas (MMBtu)	1,751,695,227
Electricity (MWh)	33,160,985
Oil (Gallons)	10,584,000
Foreign Currency Exchange (Canadian dollars)	69,543,810

Various subsidiaries of DTE Energy have entered into contracts which contain ratings triggers and are guaranteed by DTE Energy. These contracts contain provisions which allow the counterparties to require that DTE Energy post cash or letters of credit as collateral in the event that DTE Energy's credit rating is downgraded below investment grade. Certain of these provisions (known as "hard triggers") state specific circumstances under which DTE Energy can be required to post collateral upon the occurrence of a credit downgrade, while other provisions (known as "soft triggers") are not as specific. For contracts with soft triggers, it is difficult to estimate the amount of collateral which may be requested by counterparties and/or which DTE Energy may ultimately be required to post. The amount of such collateral which could be requested fluctuates based on commodity prices (primarily natural gas, power, and coal) and the provisions and maturities of the underlying transactions. As of June 30, 2017, DTE Energy's contractual obligation to post collateral in the form of cash or letters of credit in the event of a downgrade to below investment grade, under both hard trigger and soft trigger provisions, was approximately $484 million.

As of June 30, 2017, DTE Energy had approximately $403 million of derivatives in net liability positions, for which hard triggers exist. There is $2 million collateral that has been posted against such liabilities, including cash and letters of credit. Associated derivative net asset positions for which contractual offset exists were approximately $343 million. The net remaining amount of approximately $58 million is derived from the $484 million noted above.

NOTE 9 — LONG-TERM DEBT

Debt Issuances

In 2017, the following debt was issued:

Company	Month	Type	Interest Rate	Maturity	Amount
					(In millions)
DTE Energy	March	Senior Notes[a]	3.80%	2027	$ 500
					$ 500

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

Debt Redemptions

In 2017, the following debt was redeemed:

Company	Month	Type	Interest Rate	Maturity	Amount
					(In millions)
DTE Energy	Various	Other Long-Term Debt	Various	2017	$ 6
					$ 6

In July 2017, DTE Electric gave notice of its intent to call for the redemption of $300 million of 5.60% senior notes, due in June 2018, to be redeemed in August 2017.

NOTE 10 — SHORT-TERM CREDIT ARRANGEMENTS AND BORROWINGS

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

The agreements require DTE Energy, DTE Electric, and DTE Gas to maintain a total funded debt to capitalization ratio of no more than 0.65 to 1. In the agreements, "total funded debt" means all indebtedness of each respective company and their consolidated subsidiaries, including capital lease obligations, hedge agreements, and guarantees of third parties' debt, but excluding contingent obligations, nonrecourse and junior subordinated debt, and certain equity-linked securities and, except for calculations at the end of the second quarter, certain DTE Gas short-term debt. "Capitalization" means the sum of (a) total funded debt plus (b) "consolidated net worth," which is equal to consolidated total equity of each respective company and their consolidated subsidiaries (excluding pension effects under certain FASB statements), as determined in accordance with accounting principles generally accepted in the United States of America. At June 30, 2017, the total funded debt to total capitalization ratios for DTE Energy, DTE Electric, and DTE Gas were 0.54 to 1, 0.51 to 1, and 0.47 to 1, respectively, and were in compliance with this financial covenant.

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

	DTE Energy	DTE Electric	DTE Gas	Total
	(In millions)			
Unsecured letter of credit facility, expiring in February 2019	$150	$ —	$—	$150
Unsecured letter of credit facility, expiring in September 2017	70	—	—	70
Unsecured revolving credit facility, expiring April 2022	1,200	400	300	1,900
	1,420	400	300	2,120
Amounts outstanding at June 30, 2017				
Commercial paper issuances	—	326	94	420
Letters of credit	102	—	—	102
	102	326	94	522
Net availability at June 30, 2017	$1,318	$ 74	$206	$1,598

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

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

NOTE 11 — COMMITMENTS AND CONTINGENCIES

Environmental

DTE Electric

Air — DTE Electric is subject to the EPA ozone and fine particulate transport and acid rain regulations that limit power plant emissions of SO_2 and NOx. The EPA and the State of Michigan have also issued emission reduction regulations relating to ozone, fine particulate, regional haze, mercury, and other air pollution. These rules have led to controls on fossil-fueled power plants to reduce NOx, SO_2, mercury, and other emissions. Additional rulemakings may occur over the next few years which could require additional controls for SO_2, NOx, and other hazardous air pollutants.

The Cross State Air Pollution Rule (CSAPR), required further reductions of SO_2 and NOx emissions beginning in January 2015. On September 7, 2016, the EPA finalized an update to the CSAPR ozone season program by issuing the CSAPR Update Rule. This rule is expected to reduce summertime (May-September) NOx emissions from power plants in 22 states in the eastern half of the U.S., including DTE Electric facilities. The CSAPR Update Rule is intended to reduce air quality impacts of the interstate transport of air pollution on downwind areas' ability to meet the 2008 ozone National Ambient Air Quality Standards implementing power sector emission budgets and NOx allowance trading programs. DTE Electric expects to meet its obligations under CSAPR. DTE Electric does not expect this rule to have a material effect on its compliance program.

The EPA proposed revised air quality standards for ground level ozone in November 2014 and specifically requested comments on the form and level of the ozone standards. The standards were finalized in October 2015. The State of Michigan recommended to the EPA in October 2016 which areas of the state are not attaining the new standard. In June 2017, the EPA extended its deadline to designate areas as either attainment or non-attainment with ozone standards from October 2017 to October 2018. DTE Electric cannot predict the financial impact of the revised ozone standards at this time.

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

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Combined Notes to Consolidated Financial Statements (Unaudited) — (Continued)

In August 2010, the U.S. Department of Justice, at the request of the EPA, brought a civil suit in the U.S. District Court for the Eastern District of Michigan against DTE Energy and DTE Electric, related to the June 2010 NOV/FOV and the outage work performed at Unit 2 of the Monroe Power Plant. In August 2011, the U.S. District Court judge granted DTE Energy's motion for summary judgment in the civil case, dismissing the case and entering judgment in favor of DTE Energy and DTE Electric. In October 2011, the EPA filed a Notice of Appeal to the Court of Appeals for the Sixth Circuit. In March 2013, the Court of Appeals remanded the case to the U.S. District Court for review of the procedural component of the New Source Review notification requirements. In September 2013, the EPA filed a motion seeking leave to amend their complaint regarding the June 2010 NOV/FOV adding additional claims related to outage work performed at the Trenton Channel and Belle River Power Plants as well as additional claims related to work performed at the Monroe Power Plant. In March 2014, the U.S. District Court judge again granted DTE Energy's motion for summary judgment dismissing the civil case related to Monroe Unit 2. In April 2014, the U.S. District Court judge granted motions filed by the EPA and the Sierra Club to amend their New Source Review complaint adding additional claims for Monroe Units 1, 2, and 3, Belle River Units 1 and 2, and Trenton Channel Unit 9. In October 2014, the EPA and the U.S. Department of Justice filed a notice of appeal of the U.S. District Court judge's dismissal of the Monroe Unit 2 case. The amended New Source Review claims were all stayed pending resolution of the appeal by the Court of Appeals for the Sixth Circuit. Oral arguments before the Sixth Circuit occurred in December 2015. On January 10, 2017, a divided panel of the Court reversed the decision of the U.S. District Court. On February 24, 2017, DTE Energy and DTE Electric filed a petition with the Sixth Circuit Court for a rehearing and a rehearing en banc, which was denied on May 1, 2017. On May 8, 2017, DTE Energy and DTE Electric filed a motion to stay the mandate pending filing of a petition for writ of certiorari with the U.S. Supreme Court. The Sixth Circuit granted the motion on May 16, 2017, staying the claims in district court until the U.S. Supreme Court disposes of the case. DTE Electric and DTE Energy have until July 31, 2017 to file a petition for writ of certiorari, or the stay will be lifted.

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

The EPA has implemented regulatory actions under the Clean Air Act to address emissions of GHGs from the utility sector and other sectors of the economy. Among these actions, the EPA finalized performance standards for emissions of carbon dioxide from new and existing EGUs. The carbon standards for new sources are not expected to have a material impact on DTE Electric, since DTE Electric has no plans to build new coal-fired generation and any potential new gas generation will be able to comply with the standards. In February 2016, the U.S. Supreme Court granted petitioners' requests for a stay of the carbon rules for existing EGUs (also known as the EPA Clean Power Plan) pending final review by the courts. The Clean Power Plan has no legal effect while the stay is in place. On March 28, 2017, a presidential executive order was issued on "Promoting Energy Independence and Economic Growth." The order instructs the EPA to review, and if appropriate, suspend, revise or rescind the Clean Power Plan rule. Additionally, federal agencies have been directed to conduct a review of all existing regulations that potentially burden the development and use of domestically produced energy resources. Following the issuance of this order, the federal government requested the U.S. Court of Appeals for the D.C. Circuit to hold all legal challenges in abeyance until the review of these regulations is completed. It is not possible to determine the potential impact of this order on existing sources at this time.

Pending or future legislation or other regulatory actions could have a material impact on DTE Electric's operations and financial position and the rates charged to its customers. Impacts include expenditures for environmental equipment beyond what is currently planned, financing costs related to additional capital expenditures, the purchase of emission credits from market sources, higher costs of purchased power, and the retirement of facilities where control equipment

is not economical. DTE Electric would seek to recover these incremental costs through increased rates charged to its utility customers, as authorized by the MPSC.
To comply with air pollution requirements, DTE Electric spent approximately $2.4 billion through 2016. DTE Electric does not anticipate additional capital expenditures through 2023.

Water — In response to an EPA regulation, DTE Electric was required to examine alternatives for reducing the environmental impacts of the cooling water intake structures at several of its facilities. Based on the results of completed studies and expected future studies, DTE Electric may be required to install technologies to reduce the impacts of the water intake structures. A final rule became effective in October 2015. The final rule requires studies to be completed by April 2018 to determine the type of technology needed to reduce impacts to fish. DTE Electric has initiated the process of completing the required studies. Final compliance for the installation of any required technology will be determined by each state on a case by case, site specific basis. DTE Electric is currently evaluating the compliance options and working with the State of Michigan on evaluating whether any controls are needed. These evaluations/studies may require modifications to some existing intake structures. It is not possible to quantify the impact of this rulemaking at this time.

Contaminated and Other Sites — Prior to the construction of major interstate natural gas pipelines, gas for heating and other uses was manufactured locally from processes involving coal, coke, or oil. The facilities, which produced gas, have been designated as MGP sites. DTE Electric conducted remedial investigations at contaminated sites, including three former MGP sites. The investigations have revealed contamination related to the by-products of gas manufacturing at each MGP site. In addition to the MGP sites, DTE Electric is also in the process of cleaning up other contaminated sites, including the area surrounding an ash landfill, electrical distribution substations, electric generating power plants, and underground and aboveground storage tank locations. The findings of these investigations indicated that the estimated cost to remediate these sites is expected to be incurred over the next several years. At June 30, 2017 and December 31, 2016, DTE Electric had $8 million accrued for remediation. Any change in assumptions, such as remediation techniques, nature and extent of contamination, and regulatory requirements, could impact the estimate of remedial action costs for the sites and affect DTE Electric’s financial position and cash flows. DTE Electric believes the likelihood of a material change to the accrued amount is remote based on current knowledge of the conditions at each site.

Coal Combustion Residuals and Effluent Limitations Guidelines — A final EPA rule for the disposal of CCR, commonly known as coal ash, became effective in October 2015, and was revised in October 2016. DTE Electric owns and operates three permitted engineered coal ash storage facilities to dispose of coal ash from coal-fired power plants and operates a number of smaller impoundments at its power plants. CCR obligations vary based on plant life, but include the installation of monitoring wells, compliance with groundwater standards, and the closure of landfills and basins at the end of the useful life of the associated power plant or as a basin becomes inactive.

In November 2015, the EPA finalized the ELG Rule for the steam electric power generating industry which may require additional controls to be installed between 2018 and 2023. Compliance schedules for individual facilities and individual waste streams are determined through issuance of new wastewater permits by the State of Michigan. The State of Michigan has issued a National Pollutant Discharge Elimination System permit for the Belle River Power Plant establishing a compliance deadline of December 31, 2021. No new permits have been issued for other facilities, consequently no compliance timelines have been established. Under the current rule, certain ELG requirements would be required to be performed in conjunction with the CCR. Over the next six years, to comply with the ELG requirements of the November 2015 rules and for CCR requirements, costs associated with the building of new facilities or installation of controls are estimated to be approximately $313 million.

On April 12, 2017, the EPA granted a petition for reconsideration of the ELG Rule. The EPA also signed an administrative stay of the ELG Rule’s compliance deadlines for fly ash transport water, bottom ash transport water, and flue gas desulfurization wastewater, among others. On June 6, 2017, the EPA published in the Federal Register a proposed rule to postpone certain applicable deadlines within the ELG rule, with comments due by July 6, 2017. The ELG compliance requirements, deadlines, and compliance costs will not be known until the EPA completes its reconsideration of the ELG Rule.

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DTE Gas
Contaminated and Other Sites — DTE Gas owns or previously owned, 14 former MGP sites. Investigations have revealed contamination related to the by-products of gas manufacturing at each site. Cleanup of six of the MGP sites is complete, and the sites are closed. DTE Gas has also completed partial closure of five additional sites. Cleanup activities associated with the remaining sites will continue over the next several years. The MPSC has established a cost deferral and rate recovery mechanism for investigation and remediation costs incurred at former MGP sites. In addition to the MGP sites, DTE Gas is also in the process of cleaning up other contaminated sites, including gate stations, gas pipeline releases, and underground storage tank locations. As of June 30, 2017 and December 31, 2016, DTE Gas had $41 million and $43 million accrued for remediation, respectively. Any change in assumptions, such as remediation techniques, nature and extent of contamination, and regulatory requirements, could impact the estimate of remedial action costs for the sites and affect DTE Gas' financial position and cash flows. DTE Gas anticipates the cost amortization methodology approved by the MPSC, which allows for amortization of the MGP costs over a ten-year period beginning with the year subsequent to the year the MGP costs were incurred, will prevent environmental costs from having a material adverse impact on DTE Gas' results of operations.
Non-utility
DTE Energy's non-utility businesses are subject to a number of environmental laws and regulations dealing with the protection of the environment from various pollutants.
The District Attorney's office of Yolo County, California has been investigating the ash management and disposition practices of Woodland Biomass Power, Ltd., and DTE Woodland, LLC, wholly-owned subsidiaries of DTE Energy (the Woodland Companies), a renewable wood-fired power generation facility. The District Attorney alleged that some of the ash generated at the Woodland Companies' generating facility should have been characterized and handled as hazardous waste under California regulation. In the second quarter of 2017, DTE Energy reached a final settlement of approximately $4 million, which includes reimbursement of the District Attorney's investigation costs.
Other
In 2010, the EPA finalized a new one-hour SO_2 ambient air quality standard that requires states to submit plans and associated timelines for non-attainment areas that demonstrate attainment with the new SO_2 standard in phases. Phase 1 addresses non-attainment areas designated based on ambient monitoring data. Phase 2 addresses non-attainment areas with large sources of SO_2 and modeled concentrations exceeding the National Ambient Air Quality Standards for SO_2. Phase 3 addresses smaller sources of SO_2 with modeled or monitored exceedances of the new SO_2 standard.
Michigan's Phase 1 non-attainment area includes DTE Energy facilities in southwest Detroit and areas of Wayne County. Modeling runs by the MDEQ suggest that emission reductions may be required by significant sources of SO_2 emissions in these areas, including DTE Electric power plants and DTE Energy's Michigan coke battery facility. As part of the state implementation plan process, DTE Energy has worked with the MDEQ to develop air permits reflecting significant SO_2 emission reductions that, in combination with other non-DTE Energy sources' emission reduction strategies, will help the state attain the standard and sustain its attainment. Since several non-DTE Energy sources are also part of the proposed compliance plan, DTE Energy is unable to determine the full impact of the final required emissions reductions at this time.
Michigan's Phase 2 non-attainment area includes DTE Electric facilities in St. Clair County. State implementation plans (SIPs) for Phase 2 areas describing the control strategy and timeline for demonstrating compliance with the new SO_2 standard are due to the EPA by mid-2018. DTE Energy is currently working with the MDEQ to develop the required SIP. DTE Energy is unable to determine the full impact of the SIP strategy, as it is currently under development.
Synthetic Fuel Guarantees
DTE Energy discontinued the operations of its synthetic fuel production facilities throughout the United States as of December 31, 2007. DTE Energy provided certain guarantees and indemnities in conjunction with the sales of interests in its synfuel facilities. The guarantees cover potential commercial, environmental, oil price, and tax-related obligations that will survive until 90 days after expiration of all applicable statutes of limitations. DTE Energy

estimates that its maximum potential liability under these guarantees at June 30, 2017 was approximately $620 million. Payment under these guarantees is considered remote.

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Combined Notes to Consolidated Financial Statements (Unaudited) — (Continued)

REF Guarantees

DTE Energy has provided certain guarantees and indemnities in conjunction with the sales of interests in or lease of its REF facilities. The guarantees cover potential commercial, environmental, and tax-related obligations that will survive until 90 days after expiration of all applicable statutes of limitations. DTE Energy estimates that its maximum potential liability under these guarantees at June 30, 2017 was approximately $340 million. Payment under these guarantees is considered remote.

NEXUS Guarantees

NEXUS entered into certain 15-year capacity lease agreements for the transportation of natural gas with DTE Gas and Texas Eastern Transmission, LP, an unrelated third party. Pursuant to the terms of those agreements, in December 2016, DTE Energy executed separate guarantee agreements with DTE Gas and Texas Eastern Transmission, LP, with maximum potential payments totaling $64 million and $9 million at June 30, 2017, respectively; each representing 50% of all payment obligations due and payable by NEXUS. Should NEXUS fail to perform under the terms of those agreements, DTE Energy is required to perform on its behalf. Each guarantee terminates at the earlier of (i) such time as all of the guaranteed obligations have been fully performed, or (ii) two months following the end of the primary term of the capacity lease agreements. Subsequent to the NEXUS in-service date, the amount of each guarantee decreases annually as payments are made by NEXUS to each of the aforementioned counterparties. Payments under these guarantees are considered remote.

Other Guarantees

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

DTE Energy is periodically required to obtain performance surety bonds in support of obligations to various governmental entities and other companies in connection with its operations. As of June 30, 2017, DTE Energy had approximately $56 million of performance bonds outstanding. In the event that such bonds are called for nonperformance, DTE Energy would be obligated to reimburse the issuer of the performance bond. DTE Energy is released from the performance bonds as the contractual performance is completed and does not believe that a material amount of any currently outstanding performance bonds will be called.

Labor Contracts

There are several bargaining units for DTE Energy's approximately 4,800 represented employees, including DTE Electric's approximately 2,600 represented employees. The majority of the represented employees are under contracts that expire in 2017 and 2020.

Purchase Commitments

DTE Energy and DTE Electric expect that 2017 annual capital expenditures and contributions to equity method investees will be approximately $3.0 billion and $1.5 billion, respectively. The Registrants have made certain commitments in connection with the estimated 2017 annual capital expenditures and contributions to equity method investees.

Other Contingencies

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

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

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

NOTE 12 — RETIREMENT BENEFITS AND TRUSTEED ASSETS
The following tables detail the components of net periodic benefit costs (credits) for pension benefits and other postretirement benefits for DTE Energy:

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Three Months Ended June 30,	(In millions)			
Service cost	$23	$23	$ 6	$ 7
Interest cost	53	55	19	20
Expected return on plan assets	(77)	(78)	(32)	(32)
Amortization of:				
Net actuarial loss	43	41	4	8
Prior service credit	—	—	(4)	(29)
Net periodic benefit cost (credit)	$42	$41	$ (7)	$ (26)

Pension Benefits	Other Postretirement Benefits
2017	