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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the transition period from ______ to ______.

Commission file number: 001-14057

KINDRED HEALTHCARE, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**61-1323993** **(I.R.S. Employer Identification No.)**
680 South Fourth Street	
Louisville, KY **(Address of principal executive offices)**	**40202-2412** **(Zip Code)**

(502) 596-7300

(Registrant s telephone number, including area code)

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. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class of Common Stock	**Outstanding at April 30, 2009**
Common stock, $0.25 par value	39,005,825 shares

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KINDRED HEALTHCARE, INC.

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Three months ended March 31, 2009	Three months ended March 31, 2008
Revenues	$ 1,083,312	$ 1,048,523
Salaries, wages and benefits	624,173	601,251
Supplies	81,159	78,632
Rent	86,779	85,180
Other operating expenses	224,179	227,303
Other income	(2,872)	(4,717)
Depreciation and amortization	30,805	31,055
Interest expense	2,478	4,921
Investment income	(1,476)	(3,248)
	1,045,225	1,020,377
Income from continuing operations before income taxes	38,087	28,146
Provision for income taxes	15,734	11,639
Income from continuing operations	22,353	16,507
Income (loss) from discontinued operations, net of income taxes	407	(1,817)
Net income	$ 22,760	$ 14,690
Earnings per common share:		
Basic:		
Income from continuing operations	$ 0.57	$ 0.43
Income (loss) from discontinued operations	0.01	(0.05)
Net income	$ 0.58	$ 0.38
Diluted:		
Income from continuing operations	$ 0.57	$ 0.42
Income (loss) from discontinued operations	0.01	(0.05)
Net income	$ 0.58	$ 0.37
Shares used in computing earnings per common share:		
Basic	38,184	37,444
Diluted	38,315	38,061

See accompanying notes.

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KINDRED HEALTHCARE, INC.

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

(In thousands, except per share amounts)

	March 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 143,450	$ 140,795
Cash restricted	5,502	5,104
Insurance subsidiary investments	159,041	196,983
Accounts receivable less allowance for loss of $25,809 March 31, 2009 and $27,548 December 31, 2008	690,431	611,032
Inventories	22,531	22,325
Deferred tax assets	57,777	58,296
Income taxes	3,827	47,257
Other	30,080	20,843
	1,112,639	1,102,635
Property and equipment	1,433,630	1,392,636
Accumulated depreciation	(687,101)	(656,676)
	746,529	735,960
Goodwill	72,806	72,244
Intangible assets less accumulated amortization of $2,006 March 31, 2009 and $1,817 December 31, 2008	64,177	64,367
Assets held for sale	7,790	7,786
Insurance subsidiary investments	46,927	48,610
Deferred tax assets	103,910	100,751
Other	50,126	49,408
	$ 2,204,904	$ 2,181,761
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 154,078	$ 178,246
Salaries, wages and other compensation	265,282	281,542
Due to third party payors	42,523	33,122
Professional liability risks	53,204	55,447
Other accrued liabilities	76,910	76,832
Long-term debt due within one year	82	81
	592,079	625,270
Long-term debt	368,612	349,433
Professional liability risks	199,823	187,804
Deferred credits and other liabilities	105,519	104,279
Commitments and contingencies		
Stockholders equity:		
	9,763	9,727

Common stock, $0.25 par value; authorized 175,000 shares; issued 39,053 shares March 31, 2009 and 38,909 shares December 31, 2008		
Capital in excess of par value	814,095	812,141
Accumulated other comprehensive loss	(4,473)	(3,619)
Retained earnings	119,486	96,726
	938,871	914,975
	$ 2,204,904	$ 2,181,761

See accompanying notes.

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KINDRED HEALTHCARE, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(In thousands)

	Three months ended March 31, 2009	2008
Cash flows from operating activities:		
Net income	$ 22,760	$ 14,690
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	30,805	31,405
Amortization of stock-based compensation costs	2,439	3,769
Provision for doubtful accounts	7,016	8,372
Deferred income taxes	(2,179)	(4,718)
Other	204	(576)
Change in operating assets and liabilities:		
Accounts receivable	(86,415)	(102,143)
Inventories and other assets	(7,535)	(7,172)
Accounts payable	(7,885)	352
Income taxes	43,223	41,596
Due to third party payors	9,401	(3,491)
Other accrued liabilities	(8,070)	8,122
Net cash provided by (used in) operating activities	3,764	(9,794)
Cash flows from investing activities:		
Purchase of property and equipment	(39,986)	(24,940)
Acquisitions	(15,604)	(2,080)
Sale of assets		6,479
Purchase of insurance subsidiary investments	(36,257)	(35,233)
Sale of insurance subsidiary investments	54,092	38,899
Net change in insurance subsidiary cash and cash equivalents	20,458	39,953
Other	(953)	1,094
Net cash provided by (used in) investing activities	(18,250)	24,172
Cash flows from financing activities:		
Proceeds from borrowings under revolving credit	390,800	375,000
Repayment of borrowings under revolving credit	(371,600)	(394,200)
Repayment of long-term debt	(20)	(294)
Payment of deferred financing costs	(309)	(131)
Issuance of common stock		722
Other	(1,730)	(11,460)
Net cash provided by (used in) financing activities	17,141	(30,363)
Change in cash and cash equivalents	2,655	(15,985)
Cash and cash equivalents at beginning of period	140,795	32,877

Cash and cash equivalents at end of period	$ 143,450	$ 16,892
Supplemental information:		
Interest payments	$ 2,070	$ 5,087
Income tax refunds	25,170	26,331

See accompanying notes.

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KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

Business

Kindred Healthcare, Inc. is a healthcare services company that through its subsidiaries operates hospitals, nursing centers and a contract rehabilitation services business across the United States (collectively, the Company). At March 31, 2009, the Company s hospital division operated 82 long-term acute care (LTAC) hospitals in 24 states. The Company s health services division operated 228 nursing centers in 27 states. The Company also operated a contract rehabilitation services business that provides rehabilitative services primarily in long-term care settings.

In recent years, the Company has completed several transactions related to the divestiture of unprofitable hospitals and nursing centers to improve its future operating results. For accounting purposes, the operating results of these businesses and the gains, losses or impairments associated with these transactions have been classified as discontinued operations in the accompanying unaudited condensed consolidated statement of operations for all periods presented. Assets not sold at March 31, 2009 have been measured at the lower of carrying value or estimated fair value less costs of disposal and have been classified as held for sale in the accompanying unaudited condensed consolidated balance sheet. See Note 2 for a summary of discontinued operations.

Impact of recent accounting pronouncements

In April 2009, the Financial Accounting Standards Board (the FASB) issued the following guidance related to fair value measurements and disclosures and the recognition of other-than-temporary impairments of financial instruments:

FASB Staff Position (FSP) Statement of Financial Accounting Standards (SFAS) No. 157-4 (SFAS 157-4), Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, which provides additional guidance for determining whether the market for a security is inactive and whether transactions in inactive markets are distressed.

FSP SFAS No. 115-2 (SFAS 115-2) and SFAS No. 124-2 (SFAS 124-2), Recognition and Presentation of Other-Than-Temporary Impairments, which clarify the recognition and measurement of other-than-temporary impairments of debt and equity securities.

FSP SFAS No. 107-1 (SFAS 107-1) and Accounting Principles Board (APB) No. 28-1 (APB 28-1), Interim Disclosures about Fair Value of Financial Instruments, which require an entity to provide disclosures about fair value of financial instruments in both interim and annual financial statements.

The provisions above will be effective for all interim and annual reporting periods beginning after June 15, 2009 and early adoption is permitted only if all pronouncements above are adopted at the same time. The adoption of these provisions is not expected to have a material impact on the Company s business, financial position, results of operations or liquidity.

On January 1, 2009, the Company adopted FASB Staff Position Emerging Issues Task Force 03-6-1 (EITF 03-6-1), Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, which requires that unvested restricted stock that entitles the holder to receive nonforfeitable dividends before vesting be included as a participating security in the basic and diluted earnings per common share calculation pursuant to the two-class method which allocates earnings to the participating securities in the calculation. The adoption of EITF 03-6-1 has been applied retrospectively in the accompanying unaudited condensed consolidated financial statements and did not have a material impact on the Company s earnings per common share calculation. See Note 4.

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KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 1 BASIS OF PRESENTATION (Continued)

Impact of recent accounting pronouncements (Continued)

In December 2007, the FASB issued SFAS No. 141 (revised 2007) (SFAS 141R), Business Combinations, which significantly changes the accounting for business combinations, including, among other changes, new accounting concepts in determining the fair value of assets and liabilities acquired, recording the fair value of contingent considerations and contingencies at the acquisition date and expensing acquisition and restructuring costs. SFAS 141R is applied prospectively and is effective for business combinations which occur during fiscal years beginning after December 15, 2008. The Company s adoption of SFAS 141R on January 1, 2009 did not have a material impact on the Company s business, financial position, results of operations or liquidity at March 31, 2009 or for the three months ended March 31, 2009. However, any future business combination may significantly impact the Company s financial position and results of operations when compared to acquisitions accounted for under the previous generally accepted accounting principles and may result in more earnings volatility and generally lower earnings due to the expensing of acquisition costs and restructuring costs.

In April 2009, the FASB issued FSP SFAS No. 141(R)-1 (SFAS 141(R)-1), Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, which will amend the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination under SFAS 141R. SFAS 141(R)-1 is effective for all business combinations which occur during fiscal years beginning after December 15, 2008. The Company s adoption of SFAS 141(R)-1 retroactive to January 1, 2009 did not have a material impact on the Company s business, financial position, results of operations or liquidity.

Comprehensive income

The following table sets forth the computation of comprehensive income (in thousands):

	Three months ended March 31,	
	2009	**2008**
Net income	$ 22,760	$ 14,690
Net unrealized investment losses, net of income taxes	(854)	(717)
Comprehensive income	$ 21,906	$ 13,973

Other information

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with the instructions for Form 10-Q of Regulation S-X and do not include all of the disclosures normally required by generally accepted accounting principles or those normally required in annual reports on Form 10-K. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2008 filed with the Securities and Exchange Commission (the SEC) on Form 10-K. The accompanying condensed consolidated balance sheet at December 31, 2008 was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the Company s customary accounting practices. Management believes that financial information

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KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 1 BASIS OF PRESENTATION (Continued)

Other information (Continued)

included herein reflects all adjustments necessary for a fair presentation of interim results and, except as otherwise disclosed, all such adjustments are of a normal and recurring nature.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include amounts based upon the estimates and judgments of management. Actual amounts may differ from those estimates.

Reclassifications

Certain prior period amounts have been reclassified to conform with the current period presentation. These changes did not have any impact on the Company s business, financial position, results of operations or liquidity.

NOTE 2 DISCONTINUED OPERATIONS

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the divestiture of unprofitable businesses discussed in Note 1 have been accounted for as discontinued operations. Accordingly, the results of operations of these businesses for all periods presented and the gains, losses or impairments related to these divestitures have been classified as discontinued operations, net of income taxes, in the accompanying unaudited condensed consolidated statement of operations.

At March 31, 2009, the Company held for sale two hospitals. The Company expects to generate approximately $7.8 million in proceeds from the sales of these two hospitals.

A summary of discontinued operations follows (in thousands):

	Three months ended March 31,	
	2009	2008
Revenues	$ 1,115	$ 22,780
Salaries, wages and benefits	155	13,731
Supplies	170	2,113
Rent	91	977
Other operating expenses	38	8,584
Depreciation		350
Interest expense		2
Investment income		(24)
	454	25,733
Income (loss) from operations before income taxes	661	(2,953)
Provision (benefit) for income taxes	254	(1,136)

Income (loss) from operations	$ 407	$ (1,817)

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KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 2 DISCONTINUED OPERATIONS (Continued)

The following table sets forth certain discontinued operating data by business segment (in thousands):

	Three months ended March 31,	
	2009	2008
Revenues:		
Hospital division	$ 1,063	$ 15,580
Health services division	52	7,200
	$ 1,115	$ 22,780
Operating income (loss):		
Hospital division	$ (850)	$ (1,089)
Health services division	1,602	(559)
	$ 752	$ (1,648)
Rent:		
Hospital division	$ 90	$ 959
Health services division	1	18
	$ 91	$ 977
Depreciation:		
Hospital division	$	$ 350
Health services division		
	$	$ 350

A summary of the net assets held for sale follows (in thousands):

	March 31, 2009	December 31, 2008
Long-term assets:		
Property and equipment, net	$ 7,734	$ 7,730
Other	56	56
	7,790	7,786
Current liabilities (included in other accrued liabilities)	(101)	(111)

	$ 7,689	$ 7,675

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KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 3 REVENUES

Revenues are recorded based upon estimated amounts due from patients and third party payors for healthcare services provided, including anticipated settlements under reimbursement agreements with Medicare, Medicaid, Medicare Advantage and other third party payors.

A summary of revenues by payor type follows (in thousands):

	Three months ended March 31, 2009	2008
Medicare	$ 466,259	$ 459,306
Medicaid	274,082	266,221
Medicare Advantage	80,714	62,093
Other	334,041	327,839
	1,155,096	1,115,459
Eliminations	(71,784)	(66,936)
	$ 1,083,312	$ 1,048,523

NOTE 4 EARNINGS PER SHARE

Earnings per common share are based upon the weighted average number of common shares outstanding during the respective periods. The diluted calculation of earnings per common share includes the dilutive effect of stock options. On January 1, 2009, the Company adopted EITF 03-6-1, which requires that unvested restricted stock that entitles the holder to receive nonforfeitable dividends before vesting be included as a participating security in the basic and diluted earnings per common share calculation pursuant to the two-class method which allocates earnings to the participating securities in the calculation.

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KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 4 EARNINGS PER SHARE (Continued)

A computation of earnings per common share follows (in thousands, except per share amounts):

	Three months ended March 31,			
	2009		2008	
	Basic	Diluted	Basic	Diluted
Earnings:				
Income from continuing operations:				
As reported in Statement of Operations	$ 22,353	$ 22,353	$ 16,507	$ 16,507
Allocation to participating unvested restricted stockholders	(422)	(421)	(421)	(415)
Available to common stockholders	$ 21,931	$ 21,932	$ 16,086	$ 16,092
Income (loss) from discontinued operations, net of income taxes:				
As reported in Statement of Operations	$ 407	$ 407	$ (1,817)	$ (1,817)
Allocation to participating unvested restricted stockholders	(8)	(8)		
Available to common stockholders	$ 399	$ 399	$ (1,817)	$ (1,817)
Net income:				
As reported in Statement of Operations	$ 22,760	$ 22,760	$ 14,690	$ 14,690
Allocation to participating unvested restricted stockholders	(430)	(429)	(421)	(415)
Available to common stockholders	$ 22,330	$ 22,331	$ 14,269	$ 14,275
Shares used in the computation:				
Weighted average shares outstanding basic computation	38,184	38,184	37,444	37,444
Dilutive effect of employee stock options		131		617
Adjusted weighted average shares outstanding diluted computation		38,315		38,061
Earnings per common share:				
Income from continuing operations	$ 0.57	$ 0.57	$ 0.43	$ 0.42
Income (loss) from discontinued operations	0.01	0.01	(0.05)	(0.05)
Net income	$ 0.58	$ 0.58	$ 0.38	$ 0.37
Number of antidilutive stock options excluded from shares used in the diluted earnings per share computation		3,031		557

NOTE 5 BUSINESS SEGMENT DATA

At March 31, 2009, the Company operated three business segments: the hospital division, the health services division and the rehabilitation division. The hospital division operates LTAC hospitals. The health services division operates nursing centers. The rehabilitation division provides rehabilitation services primarily in long-term care settings. For segment purposes, the Company defines operating income as earnings before interest, income taxes, depreciation, amortization and rent. Operating income reported for each of the Company s business segments excludes the allocation of corporate overhead.

The Company identifies its segments in accordance with the aggregation provisions of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. This information is consistent with information used by the Company in managing its businesses and aggregates businesses with similar economic characteristics.

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KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 5 BUSINESS SEGMENT DATA (Continued)

The following table sets forth certain data by business segment (in thousands):

	Three months ended March 31, 2009	Three months ended March 31, 2008
Revenues:		
Hospital division	$ 492,509	$ 476,167
Health services division	544,940	534,793
Rehabilitation division	117,647	104,499
	1,155,096	1,115,459
Eliminations	(71,784)	(66,936)
	$ 1,083,312	$ 1,048,523
Income from continuing operations:		
Operating income (loss):		
Hospital division	$ 100,899	$ 96,802
Health services division	75,860	74,200
Rehabilitation division	15,453	11,486
Corporate:		
Overhead	(34,087)	(34,931)
Insurance subsidiary	(1,452)	(1,503)
	(35,539)	(36,434)
Operating income	156,673	146,054
Rent	(86,779)	(85,180)
Depreciation and amortization	(30,805)	(31,055)
Interest, net	(1,002)	(1,673)
Income from continuing operations before income taxes	38,087	28,146
Provision for income taxes	15,734	11,639
	$ 22,353	$ 16,507

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KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 5 BUSINESS SEGMENT DATA (Continued)

	Three months ended March 31, 2009	Three months ended March 31, 2008
Rent:		
Hospital division	$ 36,445	$ 35,907
Health services division	48,852	47,883
Rehabilitation division	1,451	1,358
Corporate	31	32
	$ 86,779	$ 85,180
Depreciation and amortization:		
Hospital division	$ 12,512	$ 11,303
Health services division	12,000	14,389
Rehabilitation division	547	387
Corporate	5,746	4,976
	$ 30,805	$ 31,055
Capital expenditures, excluding acquisitions (including discontinued operations):		
Hospital division	$ 14,330	$ 13,556
Health services division	21,840	7,135
Rehabilitation division	190	282
Corporate:		
Information systems	3,453	3,832
Other	173	135
	$ 39,986	$ 24,940

	March 31, 2009	December 31, 2008
Assets at end of period:		
Hospital division	$ 898,944	$ 847,394
Health services division	611,176	574,710
Rehabilitation division	45,709	45,733
Corporate	649,075	713,924
	$ 2,204,904	$ 2,181,761
Goodwill:		
Hospital division	$ 68,577	$ 68,577
Health services division	889	639
Rehabilitation division	3,340	3,028

	$	72,806	$	72,244

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KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 6 INSURANCE RISKS

The Company insures a substantial portion of its professional liability risks and workers compensation risks through a wholly owned limited purpose insurance subsidiary. Provisions for loss for these risks are based upon management s best available information including actuarially determined estimates.

The allowance for professional liability risks includes an estimate of the expected cost to settle reported claims and an amount, based upon past experiences, for losses incurred but not reported. These liabilities are necessarily based upon estimates and, while management believes that the provision for loss is adequate, the ultimate liability may be in excess of, or less than, the amounts recorded. To the extent that expected ultimate claims costs vary from historical provisions for loss, future earnings will be charged or credited.

The provision for loss for insurance risks, including the cost of coverage maintained with unaffiliated commercial insurance carriers, follows (in thousands):

	Three months ended March 31, 2009	Three months ended March 31, 2008
Professional liability:		
Continuing operations	$ 15,405	$ 15,922
Discontinued operations	(647)	282
Workers compensation:		
Continuing operations	$ 10,043	$ 10,338
Discontinued operations	(1,044)	268

A summary of the assets and liabilities related to insurance risks included in the accompanying unaudited condensed consolidated balance sheet follows (in thousands):

	March 31, 2009 Professional liability	March 31, 2009 Workers compensation	March 31, 2009 Total	December 31, 2008 Professional liability	December 31, 2008 Workers compensation	December 31, 2008 Total
Assets:						
Current:						
Insurance subsidiary investments	$ 77,767	$ 81,274	$ 159,041	$ 109,494	$ 87,489	$ 196,983
Reinsurance recoverables	89		89	89		89
	77,856	81,274	159,130	109,583	87,489	197,072
Non-current:						
Insurance subsidiary investments	46,927		46,927	48,610		48,610
Reinsurance recoverables	20,826	507	21,333	17,167		17,167
Deposits	2,000	1,469	3,469	2,000	1,466	3,466
Other		131	131		142	142
	69,753	2,107	71,860	67,777	1,608	69,385

	$ 147,609	$ 83,381	$ 230,990	$ 177,360	$ 89,097	$ 266,457
Liabilities:						
Allowance for insurance risks:						
Current	$ 53,204	$ 24,286	$ 77,490	$ 55,447	$ 25,348	$ 80,795
Non-current	199,823	59,678	259,501	187,804	57,993	245,797
	$ 253,027	$ 83,964	$ 336,991	$ 243,251	$ 83,341	$ 326,592

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KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 6 INSURANCE RISKS (Continued)

Provisions for loss for professional liability risks retained by the Company s limited purpose insurance subsidiary have been discounted based upon actuarial estimates of claim payment patterns using a discount rate of 3% for the 2009 and 2008 policy years and 5% for all prior policy years. Amounts equal to the discounted loss provision are funded annually. The Company does not fund the portion of professional liability risks related to estimated claims that have been incurred but not reported. Accordingly, these liabilities are not discounted. If the Company did not discount any of the allowances for professional liability risks, these balances would have approximated $261.0 million at March 31, 2009 and $251.8 million at December 31, 2008.

Provisions for loss for workers compensation risks retained by the Company s limited purpose insurance subsidiary are not discounted and amounts equal to the loss provision are funded annually.

NOTE 7 INSURANCE SUBSIDIARY INVESTMENTS

The Company maintains investments, consisting principally of cash and cash equivalents, corporate bonds, asset backed securities, equities, commercial paper and U.S. Treasury notes for the payment of claims and expenses related to professional liability and workers compensation risks. These investments have been categorized as available-for-sale and are reported at fair value.

The amortized cost and estimated fair value of the Company s insurance subsidiary investments follow (in thousands):

	March 31, 2009				December 31, 2008			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Cash and cash equivalents (a)	$ 97,690	$	$	$ 97,690	$ 118,148	$	$	$ 118,148
Corporate bonds	45,227	440	(499)	45,168	35,110	314	(698)	34,726
Asset backed securities	41,305	564	(198)	41,671	59,509	886	(292)	60,103
Equities	13,986	272	(4,496)	9,762	13,750	402	(3,307)	10,845
Commercial paper	7,199	8		7,207	9,825	34		9,859
U.S. Treasury notes	4,385	85		4,470	11,760	152		11,912
	$ 209,792	$ 1,369	$ (5,193)	$ 205,968	$ 248,102	$ 1,788	$ (4,297)	$ 245,593

(a) Includes $4.3 million and $13.2 million of money market funds at March 31, 2009 and December 31, 2008, respectively.

The Company s investment policy governing insurance subsidiary investments precludes the investment portfolio managers from selling any security at a loss without prior authorization from the Company. The investment managers also limit the exposure to any one issue, issuer or type of investment. The Company intends, and has the ability, to hold insurance subsidiary investments for a long duration without the necessity of selling securities to fund the underwriting needs of its insurance subsidiary. This ability to hold securities allows sufficient time for recovery of temporary declines in the market value of equity securities and the par value of debt securities as of their stated maturity date.

The Company considered the unrealized losses at March 31, 2009 to be temporary and did not record any impairment losses related to these securities in the first quarter of 2009.

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 7 INSURANCE SUBSIDIARY INVESTMENTS (Continued)

The decrease in total fair value of insurance subsidiary investments at March 31, 2009 from December 31, 2008 was primarily attributable to a $34 million distribution from the insurance subsidiary to the Company during the first quarter of 2009. This distribution was the result of improved professional liability underwriting results of the Company s limited purpose insurance subsidiary.

NOTE 8 CONTINGENCIES

Management continually evaluates contingencies based upon the best available information. In addition, allowances for losses are provided currently for disputed items that have continuing significance, such as certain third party reimbursements and deductions that continue to be claims in current cost reports and tax returns.

Management believes that allowances for losses have been provided to the extent necessary and that its assessment of contingencies is reasonable.

Principal contingencies are described below:

Revenues Certain third party payments are subject to examination by agencies administering the various reimbursement programs. The Company is contesting certain issues raised in audits of prior year cost reports.

Professional liability risks The Company has provided for loss for professional liability risks based upon management s best available information including actuarially determined estimates. Ultimate claims costs may differ from the provisions for loss. See Note 6.

Income taxes The Company is subject to various federal and state income tax audits in the ordinary course of business. Such audits could result in increased tax payments, interest and penalties. In addition, the Company is a party to a tax matters agreement with PharMerica Corporation which sets forth the Company s rights and obligations related to taxes for periods before and after the Company s spin-off of its former institutional pharmacy business in 2007 and the related merger transaction which created PharMerica Corporation.

Litigation The Company is a party to various legal actions (some of which are not insured), and regulatory and other government investigations and sanctions in the ordinary course of business. The Company is unable to predict the ultimate outcome of pending litigation and regulatory and other government investigations. The U.S. Department of Justice (the DOJ), the Centers for Medicare and Medicaid Services (CMS) or other federal and state enforcement and regulatory agencies may conduct additional investigations related to the Company s businesses in the future which may, either individually or in the aggregate, have a material adverse effect on the Company s business, financial position, results of operations and liquidity.

Other indemnifications In the ordinary course of business, the Company enters into contracts containing standard indemnification provisions and indemnifications specific to a transaction such as a disposal of an operating facility. These indemnifications may cover claims related to employment-related matters, governmental regulations, environmental issues and tax matters, as well as patient, third party payor, supplier and contractual relationships. Obligations under these indemnities generally are initiated by a breach of the terms of a contract or by a third party claim or event.

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 9 FAIR VALUE OF ASSETS AND LIABILITIES

On January 1, 2008, the Company adopted SFAS No. 157 (SFAS 157), Fair Value Measurements, which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency asset backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 9 FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

The Company s assets and liabilities measured at fair value on a recurring and non-recurring basis are summarized below (in thousands):

	Fair value measurements			Assets/liabilities
	Level 1	Level 2	Level 3	at fair value
March 31, 2009:				
Recurring:				
Assets:				
Available-for-sale securities	$ 18,579	$ 94,046	$	$ 112,625
Deposits held in money market funds	124,154			124,154
	$ 142,733	$ 94,046	$	$ 236,779
Liabilities	$	$	$	$
Non-recurring:				
Assets:				
Acquired previously leased hospital	$	$ 18,000	$	$ 18,000
Liabilities	$	$	$	$
December 31, 2008:				
Recurring:				
Assets:				
Available-for-sale securities	$ 35,960	$ 104,688	$	$ 140,648
Deposits held in money market funds	124,539			124,539
	$ 160,499	$ 104,688	$	$ 265,187
Liabilities	$	$	$	$

Recurring measurements

The Company s available-for-sale securities are held by its wholly owned limited purpose insurance subsidiary and are comprised of money market funds, corporate bonds, asset backed securities, equities, commercial paper and U.S. Treasury notes. These available-for-sale securities and the insurance subsidiary s cash and cash equivalents of $93.4 million, classified as insurance subsidiary investments, are maintained for the payment of claims and expenses related to professional liability and workers compensation risks.

The Company s deposits held in money market funds consist primarily of cash and cash equivalents held for general corporate purposes.

The fair value of actively traded debt and equity securities and money market funds are based upon quoted market prices and are generally classified as Level 1. The fair value of inactively traded debt securities are based upon either quoted market prices of similar securities or observable inputs such as interest rates using either a market or income valuation approach and are generally classified as Level 2.

The estimated fair value of the Company s long-term debt at March 31, 2009 and December 31, 2008 approximated the respective carrying amounts.

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KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 9 FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Non-recurring measurements

In March 2009, the Company acquired a previously leased hospital for approximately $16 million in cash and approximately $2 million in unamortized prepaid rent. The fair value of the assets was measured using Level 2 observable inputs, including replacement costs and direct sales comparisons of similar properties in the same geographic market or region.

NOTE 10 SUBSEQUENT EVENTS

On April 30, 2009, the Company entered into agreements with Ventas, Inc. (Ventas) to renew the master lease agreements for an additional five years for 87 nursing centers and 22 LTAC hospitals (collectively, the Renewal Facilities). The initial lease term for the Renewal Facilities was scheduled to expire in April 2010. In addition, the Company entered into definitive agreements with Ventas to purchase for resale six under-performing nursing centers currently leased from Ventas.

Facility renewals

The Renewal Facilities contain 10,745 licensed nursing center beds and 1,754 licensed hospital beds. The Company s option to renew the leases on the Renewal Facilities would have expired on April 30, 2009. No additional rent or other consideration was paid in connection with these renewals. The effectiveness of the renewals is contingent upon there being no events of default under the master lease agreements upon the renewal effective date in April 2010.

Facility acquisitions

The Company agreed to acquire the real estate related to six nursing centers currently leased from Ventas (the Nursing Centers) for $55.7 million. In addition, the Company will pay a lease termination fee of $2.3 million. The current aggregate annual rent for the Nursing Centers is approximately $6 million.

The Nursing Centers, which contain 777 licensed beds, generated pretax losses of approximately

$3 million for the year ended December 31, 2008 and approximately $2 million for the three months ended March 31, 2009. Upon the purchase of the Nursing Centers, the Company expects to account for the operations of the Nursing Centers and the loss on these transactions as discontinued operations.

Following the transactions with Ventas, the Company intends to dispose of the Nursing Centers as soon as practicable. The Company expects to generate approximately $10 million to $15 million in proceeds from the sale of the Nursing Centers and the related operations. The Company expects to record a net loss of approximately $30 million to $35 million in the second quarter of 2009 relating to these divestitures.

The closing of the facility acquisitions is subject to the satisfaction of customary conditions to closing.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement

This Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements regarding the Company s expected future financial position, results of operations, cash flows, financing plans, business strategy, budgets, capital expenditures, competitive positions, growth opportunities, plans and objectives of management and statements containing the words such as anticipate, approximate, believe, plan, estimate, expect, project, could, should, will, intend, may and other similar expressions, are forward-looking statements.

Such forward-looking statements are inherently uncertain, and stockholders and other potential investors must recognize that actual results may differ materially from the Company s expectations as a result of a variety of factors, including, without limitation, those discussed below. Such forward-looking statements are based upon management s current expectations and include known and unknown risks, uncertainties and other factors, many of which the Company is unable to predict or control, that may cause the Company s actual results or performance to differ materially from any future results or performance expressed or implied by such forward-looking statements. These statements involve risks, uncertainties and other factors discussed below and detailed from time to time in the Company s filings with the SEC. Factors that may affect the Company s plans or results include, without limitation:

changes in the reimbursement rates or the methods or timing of payment from third party payors, including the Medicare and Medicaid programs, changes arising from and related to the Medicare prospective payment system for LTAC hospitals (LTAC PPS), including potential changes in the Medicare payment rules, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, and changes in Medicare and Medicaid reimbursements for the Company s nursing centers,

the impact of the Medicare, Medicaid and SCHIP Extension Act of 2007 (the SCHIP Extension Act), including the ability of the Company s hospitals to adjust to potential LTAC certification, medical necessity reviews and the three-year moratorium on future hospital development,

the effects of healthcare reform and government regulations, interpretation of regulations and changes in the nature and enforcement of regulations governing the healthcare industry,

failure of the Company s facilities to meet applicable licensure and certification requirements,

the further consolidation of managed care organizations and other third party payors,

the Company s ability to meet its rental and debt service obligations,

the Company s ability to operate pursuant to the terms of its debt obligations and its master lease agreements with Ventas,

the condition of the financial markets, including volatility and deterioration in the equity, capital and credit markets, which could limit the availability and terms of debt and equity financing sources to fund the requirements of the Company s businesses, or which could negatively impact the Company s investment portfolio, national and regional economic, financial, business and political conditions, including their effect on the availability and cost of labor, credit, materials and other services,

the Company s ability to control costs, particularly labor and employee benefit costs,

increased operating costs due to shortages in qualified nurses, therapists and other healthcare personnel,

the Company s ability to attract and retain key executives and other healthcare personnel,

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Cautionary Statement (Continued)

the increase in the costs of defending and insuring against alleged professional liability claims and the Company s ability to predict the estimated costs related to such claims, including the impact of differences in actuarial assumptions and estimates compared to eventual outcomes,

the Company s ability to successfully reduce (by divestiture of operations or otherwise) its exposure to professional liability claims,

the Company s ability to successfully pursue its development activities and successfully integrate new operations, including the realization of anticipated revenues, economies of scale, cost savings and productivity gains associated with such operations,

the Company s ability to successfully dispose of unprofitable facilities,

events or circumstances which could result in impairment of an asset or other charges,

changes in generally accepted accounting principles or practices, and

the Company s ability to maintain an effective system of internal control over financial reporting.

Many of these factors are beyond the Company s control. The Company cautions investors that any forward-looking statements made by the Company are not guarantees of future performance. The Company disclaims any obligation to update any such factors or to announce publicly the results of any revisions to any of the forward-looking statements to reflect future events or developments.

General

The accompanying unaudited condensed consolidated financial statements, including the notes thereto, should be read in conjunction with the following discussion and analysis.

The Company is a healthcare services company that through its subsidiaries operates hospitals, nursing centers and a contract rehabilitation services business across the United States. At March 31, 2009, the Company s hospital division operated 82 LTAC hospitals (6,520 licensed beds) in 24 states. The Company s health services division operated 228 nursing centers (28,400 licensed beds) in 27 states. The Company also operated a contract rehabilitation services business that provides rehabilitative services primarily in long-term care settings.

In recent years, the Company has completed several strategic divestitures to improve its future operating results. For accounting purposes, the operating results of these businesses and the gains, losses or impairments associated with these transactions have been classified as discontinued operations in the accompanying unaudited condensed consolidated statement of operations for all periods presented. Assets not sold at March 31, 2009 have been measured at the lower of carrying value or estimated fair value less costs of disposal and have been classified as held for sale in the accompanying unaudited condensed consolidated balance sheet.

Critical Accounting Policies

Management s discussion and analysis of financial condition and results of operations are based upon the Company s consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the use of estimates and judgments that affect the reported amounts and related disclosures of commitments and contingencies. The Company relies on historical experience and on various other assumptions that management believes to be reasonable under the circumstances to make judgments about the carrying values of assets and

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Critical Accounting Policies (Continued)

liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates.

The Company believes the following critical accounting policies, among others, affect the more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue recognition

The Company has agreements with third party payors that provide for payments to each of its operating divisions. These payment arrangements may be based upon prospective rates, reimbursable costs, established charges, discounted charges or per diem payments. Net patient service revenue is recorded at the estimated net realizable amounts from Medicare, Medicaid, Medicare Advantage, other third party payors and individual patients for services rendered. Retroactive adjustments that are likely to result from future examinations by third party payors are accrued on an estimated basis in the period the related services are rendered and adjusted as necessary in future periods based upon new information or final settlements.

Collectibility of accounts receivable

Accounts receivable consist primarily of amounts due from the Medicare and Medicaid programs, other government programs, managed care health plans, commercial insurance companies and individual patients and customers. Estimated provisions for doubtful accounts are recorded to the extent it is probable that a portion or all of a particular account will not be collected.

In evaluating the collectibility of accounts receivable, the Company considers a number of factors, including the age of the accounts, changes in collection patterns, the composition of patient accounts by payor type, the status of ongoing disputes with third party payors and general industry conditions. Actual collections of accounts receivable in subsequent periods may require changes in the estimated provision for loss. Changes in these estimates are charged or credited to the results of operations in the period of the change.

The provision for doubtful accounts totaled $7 million in the first quarter of both 2009 and 2008.

Allowances for insurance risks

The Company insures a substantial portion of its professional liability risks and workers compensation risks through a wholly owned limited purpose insurance subsidiary. Provisions for loss for these risks are based upon management s best available information including actuarially determined estimates.

The allowance for professional liability risks includes an estimate of the expected cost to settle reported claims and an amount, based upon past experiences, for losses incurred but not reported. These liabilities are necessarily based upon estimates and, while management believes that the provision for loss is adequate, the ultimate liability may be in excess of, or less than, the amounts recorded. To the extent that expected ultimate claims costs vary from historical provisions for loss, future earnings will be charged or credited.

Provisions for loss for professional liability risks retained by the Company s limited purpose insurance subsidiary have been discounted based upon actuarial estimates of claim payment patterns using a discount rate of 3% for the 2009 and 2008 policy years and 5% for all prior policy years. Amounts equal to the discounted loss provision are funded annually. The Company does not fund the portion of professional liability risks related to estimated claims that have been incurred but not reported. Accordingly, these liabilities are not discounted. The

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Critical Accounting Policies (Continued)

Allowances for insurance risks (Continued)

allowance for professional liability risks aggregated $253 million at March 31, 2009 and $243 million at December 31, 2008. If the Company did not discount any of the allowances for professional liability risks, these balances would have approximated $261 million at March 31, 2009 and $252 million at December 31, 2008.

As a result of improved professional liability underwriting results of the Company s limited purpose insurance subsidiary, the Company received distributions of $34 million and $39 million during the first quarter of 2009 and 2008, respectively, from its limited purpose insurance subsidiary. These proceeds were used to repay borrowings under the Company s revolving credit facility and had no impact on earnings.

Changes in the number of professional liability claims and the cost to settle these claims significantly impact the allowance for professional liability risks. A relatively small variance between the Company s estimated and actual number of claims or average cost per claim could have a material impact, either favorable or unfavorable, on the adequacy of the allowance for professional liability risks. For example, a 1% variance in the allowance for professional liability risks at March 31, 2009 would impact the Company s operating income by approximately $3 million.

The provision for professional liability risks (continuing operations), including the cost of coverage maintained with unaffiliated commercial insurance carriers, aggregated $15 million and $16 million in the first quarter of 2009 and 2008, respectively.

Provisions for loss for workers compensation risks retained by the Company s limited purpose insurance subsidiary are not discounted and amounts equal to the loss provision are funded annually. The allowance for workers compensation risks aggregated $84 million at March 31, 2009 and $83 million at December 31, 2008. The provision for workers compensation risks (continuing operations), including the cost of coverage maintained with unaffiliated commercial insurance carriers, aggregated $10 million in the first quarter of both 2009 and 2008.

Accounting for income taxes

The provision for income taxes is based upon the Company s estimate of annual taxable income or loss for each respective accounting period. The Company recognizes an asset or liability for the deferred tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. These temporary differences will result in taxable or deductible amounts in future years when the reported amounts of the assets are recovered or liabilities are settled. The Company also recognizes as deferred tax assets the future tax benefits from net operating and capital loss carryforwards. A valuation allowance is provided for these deferred tax assets if it is more likely than not that some portion or all of the net deferred tax assets will not be realized.

The Company s effective income tax rate was 41.3% and 41.4% in the first quarter of 2009 and 2008, respectively.

There are significant uncertainties with respect to capital loss carryforwards that could affect materially the realization of certain deferred tax assets. Accordingly, the Company has recognized deferred tax assets to the extent it is more likely than not they will be realized and a valuation allowance is provided for deferred tax assets to the extent that it is uncertain that the deferred tax asset will be realized. The Company recognized net deferred tax assets totaling $162 million at March 31, 2009 and $159 million at December 31, 2008.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Critical Accounting Policies (Continued)

Accounting for income taxes (Continued)

The Company is subject to various federal and state income tax audits in the ordinary course of business. Such audits could result in increased tax payments, interest and penalties. While the Company believes its tax positions are appropriate, there can be no assurance that the various authorities engaged in the examination of its income tax returns will not challenge the Company s positions.

Valuation of long-lived assets and goodwill

The Company regularly reviews the carrying value of certain long-lived assets and identifiable intangible assets with respect to any events or circumstances that indicate an impairment or an adjustment to the amortization period is necessary. If circumstances suggest the recorded amounts cannot be recovered based upon estimated future undiscounted cash flows, the carrying values of such assets are reduced to fair value.

In assessing the carrying values of long-lived assets, the Company estimates future cash flows at the lowest level for which there are independent, identifiable cash flows. For this purpose, these cash flows are aggregated based upon the contractual agreements underlying the operation of the facility or group of facilities. Generally, an individual facility is considered the lowest level for which there are independent, identifiable cash flows. However, to the extent that groups of facilities are leased under a master lease agreement in which the operations of a facility and compliance with the lease terms are interdependent upon other facilities in the agreement (including the Company s ability to renew the lease or divest a particular property), the Company defines the group of facilities under a master lease agreement as the lowest level for which there are independent, identifiable cash flows. Accordingly, the estimated cash flows of all facilities within a master lease agreement are aggregated for purposes of evaluating the carrying values of long-lived assets.

The Company s other intangible assets with finite lives are amortized under SFAS No. 142 (SFAS 142), Goodwill and Other Intangible Assets, using the straight-line method over their estimated useful lives ranging from one to five years.

In accordance with SFAS 142, the Company is required to perform an impairment test for goodwill and indefinite lived intangible assets at least annually or more frequently if adverse events or changes in circumstances indicate that the asset may be impaired. The Company performs its annual goodwill impairment test at the end of each fiscal year for each of its reporting units. A reporting unit is either an operating segment or one level below the operating segment, referred to as a component. Because the components within the Company s operating segments have similar economic characteristics, the Company aggregates the components of its operating segments into one reporting unit. Accordingly, the Company has determined that its reporting units are hospitals, nursing centers, and rehabilitation services.

The goodwill impairment test involves a two-step process. The first step is a comparison of each reporting unit s fair value to its carrying value. If the carrying value of the reporting unit is greater than its fair value, there is an indication that impairment may exist and the second step must be performed to measure the amount of impairment loss. Based upon the results of the step one impairment test for goodwill and the impairment test of indefinite lived intangible assets, no impairment charges were recorded in connection with the Company s annual impairment tests at December 31, 2008.

Since quoted market prices for the Company s reporting units are not available, the Company applies judgment in determining the fair value of these reporting units for purposes of performing the goodwill

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Critical Accounting Policies (Continued)

Valuation of long-lived assets and goodwill (Continued)

impairment test. The Company relies on widely accepted valuation techniques, including equally weighted discounted cash flow and market multiple analyses approaches, which capture both the future income potential of the reporting unit and the market behaviors and actions of market participants in the industry that includes the reporting unit. These types of analyses require the Company to make assumptions and estimates regarding future cash flows, industry-specific economic factors and the profitability of future business strategies. The discounted cash flow approach uses a projection of estimated operating results and cash flows that are discounted using a weighted average cost of capital. Under the discounted cash flow approach, the projection uses management s best estimates of economic and market conditions over the projected period including growth rates in the number of admissions, patient days, reimbursement rates, operating costs, rent expense and capital expenditures. Other significant estimates and assumptions include terminal value growth rates, changes in working capital requirements and weighted average cost of capital. The market multiple analysis estimates fair value by applying cash flow multiples to the reporting unit s operating results. The multiples are derived from comparable publicly traded companies with similar operating and investment characteristics to the reporting units.

The fair values of the Company s indefinite lived intangible assets, primarily hospital certificates of need, are estimated using an excess earnings method, a form of discounted cash flow, which is based upon the concept that net after-tax cash flows provide a return supporting all of the assets of a business operation. The fair values of the Company s indefinite lived intangible assets are derived from projections which include management s best estimates of economic and market conditions over the projected period including growth rates in the number of admissions, patient days, reimbursement rates, operating costs, rent expense and capital expenditures. Other significant estimates and assumptions include terminal value growth rates, changes in working capital requirements and weighted average cost of capital.

The Company has determined that during the first quarter of 2009 there were no events or changes in circumstances since December 31, 2008 requiring an interim impairment test. Although the Company has determined that there was no goodwill or other indefinite lived intangible asset impairments as of March 31, 2009 and December 31, 2008, continued declines in the value of the Company s common stock or adverse changes in the operating environment and related key assumptions used to determine the fair value of the Company s reporting units and indefinite lived intangible assets may result in future impairment charges for a portion or all of these assets. An impairment charge could have a material adverse effect on the Company s business, financial position and results of operations, but would not be expected to have an impact on the Company s cash flows or liquidity.

Recently Issued Accounting Pronouncements

In April 2009, the FASB issued the following guidance related to fair value measurements and disclosures and the recognition of other-than-temporary impairments of financial instruments:

- SFAS 157-4, which provides additional guidance for determining whether the market for a security is inactive and whether transactions in inactive markets are distressed.

- SFAS 115-2 and SFAS 124-2, which clarify the recognition and measurement of other-than-temporary impairments of debt and equity securities.

- SFAS 107-1 and APB 28-1, which require an entity to provide disclosures about fair value of financial instruments in both interim and annual financial statements.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Recently Issued Accounting Pronouncements (Continued)

The provisions above will be effective for all interim and annual reporting periods beginning after June 15, 2009 and early adoption is permitted only if all pronouncements above are adopted at the same time. The adoption of these provisions is not expected to have a material impact on the Company s business, financial position, results of operations or liquidity.

On January 1, 2009, the Company adopted EITF 03-6-1, which requires that unvested restricted stock that entitles the holder to receive nonforfeitable dividends before vesting be included as a participating security in the basic and diluted earnings per common share calculation pursuant to the two-class method which allocates earnings to the participating securities in the calculation. The adoption of EITF 03-6-1 has been applied retrospectively in the accompanying unaudited condensed consolidated financial statements and did not have a material impact on the Company s earnings per common share calculation.

In December 2007, the FASB issued SFAS 141R, which significantly changes the accounting for business combinations, including, among other changes, new accounting concepts in determining the fair value of assets and liabilities acquired, recording the fair value of contingent considerations and contingencies at the acquisition date and expensing acquisition and restructuring costs. SFAS 141R is applied prospectively and is effective for business combinations which occur during fiscal years beginning after December 15, 2008. The Company s adoption of SFAS 141R on January 1, 2009 did not have a material impact on the Company s business, financial position, results of operations or liquidity at March 31, 2009 or for the three months ended March 31, 2009. However, any future business combination may significantly impact the Company s financial position and results of operations when compared to acquisitions accounted for under the previous generally accepted accounting principles and may result in more earnings volatility and generally lower earnings due to the expensing of acquisition costs and restructuring costs.

In April 2009, the FASB issued SFAS 141(R)-1, which will amend the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination under SFAS 141R. SFAS 141(R)-1 is effective for all business combinations which occur during fiscal years beginning after December 15, 2008. The Company s adoption of SFAS 141(R)-1 retroactive to January 1, 2009 did not have a material impact on the Company s business, financial position, results of operations or liquidity.

Results of Operations Continuing Operations

Hospital division

Revenues increased 3% in the first quarter of 2009 to $493 million compared to $476 million in the first quarter of 2008, primarily from reimbursement rate increases resulting from higher average patient acuity levels, increases in non-government same-store volumes and ongoing development of new hospitals. Reported total admissions declined 2% from last year partly resulting from leap year in 2008. On a same-store basis, aggregate admissions declined 1% in the first quarter of 2009 compared to the first quarter of 2008, while non-government same-store admissions increased 12% in the first quarter of 2009 compared to the first quarter of 2008.

Hospital operating margins improved in the first quarter of 2009 primarily because increases in reimbursement rates exceeded growth in wage, benefit and other operating expenses. Hospital wage and benefit costs increased 2% to $218 million in the first quarter of 2009 compared to $214 million in the first quarter of 2008. Average hourly wage rate increases moderated to 2% in the first quarter of 2009 compared to the first quarter of 2008, while employee benefit costs increased 3% in the first quarter of 2009 compared to the first quarter of 2008.

Professional liability costs were $6 million in the first quarter of both 2009 and 2008.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations Continuing Operations (Continued)

Health services division

Revenues increased 2% in the first quarter of 2009 to $545 million compared to $535 million in the first quarter of 2008. Revenue growth in the first quarter of 2009 was primarily attributable to reimbursement rate increases that reflected both inflationary adjustments and higher average patient acuity. On a same-store basis, aggregate patient days declined 3% in the first quarter of 2009 compared to the first quarter of 2008. Medicare same-store patient days declined 7% and non-government same-store patient days were relatively unchanged in the first quarter of 2009 compared to the first quarter of 2008.

Nursing center operating margins in the first quarter of 2009 were the same as last year since revenue and operating expenses each grew approximately 2% in the first quarter of 2009 compared to the same period in 2008. Nursing center wage and benefit costs increased 2% to $282 million in the first quarter of 2009 compared to $275 million in the first quarter of 2008. Average hourly wage rate increases moderated to 3% in the first quarter of 2009 compared to the first quarter of 2008, while employee benefit costs increased 5% in the first quarter of 2009 compared to the first quarter of 2008.

Professional liability costs were $9 million and $10 million in the first quarter of 2009 and 2008, respectively.

Rehabilitation division

Revenues increased 13% to $117 million in the first quarter of 2009 compared to $105 million in the first quarter of 2008. The increase in revenues in the first quarter of 2009 was primarily attributable to growth in both new contracts and the volume of services provided to existing customers. Revenues derived from unaffiliated customers aggregated $45 million in the first quarter of 2009 compared to $38 million in the first quarter of 2008.

Operating margins in the first quarter of 2009 increased primarily due to growth in new contracts, the volume of services provided to existing customers and improvements in therapist productivity levels.

Corporate overhead

Operating income for the Company s operating divisions excludes allocations of corporate overhead. These costs aggregated $34 million in the first quarter of 2009 compared to $35 million in the first quarter of 2008. As a percentage of consolidated revenues, corporate overhead totaled 3.1% in the first quarter of 2009 compared to 3.3% in the first quarter of 2008.

Corporate expenses included the operating losses from the Company s limited purpose insurance subsidiary of $1 million in the first quarter of both 2009 and 2008.

Capital costs

Rent expense increased 2% to $87 million in the first quarter of 2009 compared to $85 million in the first quarter of 2008. The increase resulted primarily from contractual inflation and contingent rent increases.

Depreciation and amortization expense was relatively unchanged at $31 million in the first quarter of 2009 compared to the first quarter of 2008.

Interest expense aggregated $2 million in the first quarter of 2009 compared to $5 million in the first quarter of 2008. The decline was primarily attributable to lower interest rates under the Company s revolving credit facility compared to the same period last year.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations Continuing Operations (Continued)

Capital costs (Continued)

Investment income related primarily to the Company s insurance subsidiary investments totaled $1 million in the first quarter of 2009 compared to $3 million in the first quarter of 2008. The decline was primarily attributable to lower investment yields in the Company s insurance subsidiary s investment portfolio compared to the same period last year.

Consolidated results

Income from continuing operations before income taxes increased 35% to $38 million in the first quarter of 2009 compared to $28 million in the first quarter of 2008. Income from continuing operations increased 35% to $22 million in the first quarter of 2009 compared to $17 million in the first quarter of 2008.

Results of Operations Discontinued Operations

Income from discontinued operations aggregated $0.4 million in the first quarter of 2009 compared to a loss of $2 million in the first quarter of 2008.

Liquidity

Operating cash flows and financing activities

Cash flows provided by operations (including discontinued operations) aggregated $4 million in the first quarter of 2009 compared to cash flows used in operations of $10 million in the first quarter of 2008. Operating cash flows in both periods were negatively impacted by the growth in accounts receivable. Operating cash flows in both periods were favorably impacted by federal income tax refunds of $25 million for each of the three months ended March 31, 2009 and 2008. During both periods, the Company maintained sufficient liquidity to fund its ongoing capital expenditure program and finance ongoing hospital development expenditures, as well as its acquisition and strategic divestiture activities.

Cash and cash equivalents totaled $144 million at March 31, 2009 compared to $141 million at December 31, 2008. The Company s long-term debt at March 31, 2009 aggregated $369 million (substantially all of which related to borrowings under the Company s revolving credit facility). Based upon the Company s existing cash levels, expected operating cash flows and capital spending (including planned acquisition and development activities), and the availability of borrowings under the Company s revolving credit facility, management believes that the Company has the necessary financial resources to satisfy its expected short-term and foreseeable long-term liquidity needs.

On April 30, 2009, the Company entered into agreements with Ventas to renew the master lease agreements for the Renewal Facilities. The initial lease term for the Renewal Facilities was scheduled to expire in April 2010. In addition, the Company entered into definitive agreements with Ventas to purchase for resale the Nursing Centers.

The Renewal Facilities contain 10,745 licensed nursing center beds and 1,754 licensed hospital beds. The Company s option to renew the leases on the Renewal Facilities would have expired on April 30, 2009. No additional rent or other consideration was paid in connection with these renewals. The effectiveness of the renewals is contingent upon there being no events of default under the master lease agreements upon the renewal effective date in April 2010.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Liquidity (Continued)

Operating cash flows and financing activities (Continued)

The Company agreed to acquire the real estate related to the Nursing Centers for approximately $56 million. In addition, the Company will pay a lease termination fee of approximately $2 million. The current aggregate annual rent for the Nursing Centers is approximately $6 million.

The Nursing Centers, which contain 777 licensed beds, generated pretax losses of approximately $3 million for the year ended December 31, 2008 and approximately $2 million for the three months ended March 31, 2009. Upon the purchase of the Nursing Centers, the Company expects to account for the operations of the Nursing Centers and the loss on these transactions as discontinued operations.

Following the transactions with Ventas, the Company intends to dispose of the Nursing Centers as soon as practicable. The Company expects to generate approximately $10 million to $15 million in proceeds from the sale of the Nursing Centers and the related operations. The Company expects to record a net loss of approximately $30 million to $35 million in the second quarter of 2009 relating to these divestitures.

As a result of improved professional liability underwriting results of the Company s limited purpose insurance subsidiary, the Company received distributions of $34 million and $39 million during the first quarter of 2009 and 2008, respectively, from its limited purpose insurance subsidiary. These proceeds were used to repay borrowings under the Company s revolving credit facility and had no impact on earnings.

Under the terms of the Company s $500 million revolving credit facility, the aggregate amount of the credit may be increased to $600 million at the Company s option subject to lender approval and certain other conditions. The term of the Company s revolving credit facility expires in July 2012.

Interest rates under the Company s revolving credit facility are based, at the Company s option, upon (a) the London Interbank Offered Rate (LIBOR) plus the applicable margin or (b) the applicable margin plus the higher of the prime rate or 0.5% over the federal funds rate. The Company s revolving credit facility is collateralized by substantially all of the Company s assets including certain owned real property and is guaranteed by substantially all of the Company s subsidiaries. The terms of the Company s revolving credit facility include a certain defined fixed payment ratio covenant and covenants which limit acquisitions and annual capital expenditures. The Company was in compliance with the terms of its revolving credit facility at March 31, 2009.

Despite the recent turmoil within the financial markets both nationally and globally, the Company is not aware of any individual lender limitations to extend credit under its revolving credit facility. However, the obligations of each of the lending institutions in the Company s revolving credit facility are separate and the availability of future borrowings under the Company s revolving credit facility could be impacted by the ongoing volatility and disruptions in the financial credit markets or other events.

Strategic divestitures

The Company expects to dispose of two hospitals in 2009 and generate approximately $8 million in proceeds from the sales.

During the first quarter of 2008, the Company sold two nursing centers for approximately $6 million.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Capital Resources

Excluding acquisitions, capital expenditures totaled $40 million in the first quarter of 2009 compared to $25 million in the first quarter of 2008. Excluding acquisitions, routine capital expenditures could approximate $100 million to $110 million in 2009, while hospital development could approximate $50 million to $60 million in 2009. Management believes that its capital expenditure program is adequate to improve and equip existing facilities. The Company s capital expenditure program is financed generally through the use of internally generated funds. At March 31, 2009, the estimated cost to complete and equip construction in progress approximated $48 million.

At March 31, 2009, the Company s remaining permitted acquisition amount under its revolving credit facility aggregated $284 million.

In March 2009, the Company acquired a previously leased hospital for approximately $16 million in cash and approximately $2 million in unamortized prepaid rent. Annual rent associated with this facility approximated $2 million.

Other Information

Effects of inflation and changing prices

The Company derives a substantial portion of its revenues from the Medicare and Medicaid programs. Congress and certain state legislatures have enacted or may enact additional significant cost containment measures limiting the Company s ability to recover its cost increases through increased pricing of its healthcare services. Medicare revenues in LTAC hospitals and nursing centers are subject to fixed payments under the Medicare prospective payment systems.

Medicaid reimbursement rates in many states in which the Company operates nursing centers also are based upon fixed payment systems. Generally, these rates are adjusted annually for inflation. However, these adjustments may not reflect the actual increase in the costs of providing healthcare services.

LTAC PPS maintains LTAC hospitals as a distinct provider type, separate from short-term acute care hospitals. Only providers certified as LTAC hospitals may be paid under this system. To maintain certification under LTAC PPS, a hospital s average length of stay for Medicare patients must be at least 25 days.

CMS is currently evaluating various certification criteria for designating a hospital as a LTAC hospital. If such certification criteria were developed and enacted into legislation, the Company s hospitals may not be able to maintain their status as LTAC hospitals or may need to adjust their operations.

The SCHIP Extension Act became law on December 29, 2007. This legislation provides for, among other things:

(1) a mandated study by the Secretary of Health and Human Services on the establishment of LTAC hospital certification criteria;

(2) enhanced medical necessity review of LTAC hospital cases;

(3) a three-year moratorium on the establishment of a LTAC hospital or satellite facility, subject to exceptions for facilities under development;

(4)

a three-year moratorium on an increase in the number of licensed beds at a LTAC hospital or satellite facility, subject to exceptions for states where there is only one other LTAC hospital and upon request following the closure or decrease in the number of licensed beds at a LTAC hospital within the state;

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Other Information (Continued)

Effects of inflation and changing prices (Continued)

(5) a three-year moratorium on the application of a one-time budget neutrality adjustment to payment rates to LTAC hospitals under LTAC PPS;

(6) a three-year moratorium on very short-stay outlier payment reductions to LTAC hospitals initially implemented on May 1, 2007;

(7) a three-year moratorium on the application of the so-called 25 Percent Rule to freestanding LTAC hospitals;

(8) a three-year period during which LTAC hospitals that are co-located with another hospital may admit up to 50% of their patients from their host hospitals and still be paid according to LTAC PPS;

(9) a three-year period during which LTAC hospitals that are co-located with an urban single hospital or a hospital that generates more than 25% of the Medicare discharges in a metropolitan statistical area (MSA Dominant hospital) may admit up to 75% of their patients from such urban single hospital or MSA Dominant hospital and still be paid according to LTAC PPS; and

(10) the elimination of the July 1, 2007 market basket increase in the standard federal payment rate of 0.71%, effective for discharges occurring on or after April 1, 2008.

On May 1, 2007, CMS issued regulatory changes regarding Medicare reimbursement for LTAC hospitals (the 2007 Final Rule) that became effective for discharges occurring on or after July 1, 2007. The 2007 Final Rule was amended on June 29, 2007 by revising the high cost outlier threshold. The 2007 Final Rule projected an overall decrease in payments to all Medicare certified LTAC hospitals of approximately 1.2%. Included in the 2007 Final Rule were (1) an increase to the standard federal payment rate of 0.71% (which was eliminated for discharges occurring on or after April 1, 2008 by the SCHIP Extension Act); (2) revisions to payment methodologies impacting short-stay outliers, which reduce payments by 0.9% (currently subject to a three-year moratorium pursuant to the SCHIP Extension Act); (3) adjustments to the wage index component of the federal payment resulting in projected reductions in payments of 0.5%; (4) an increase in the high cost outlier threshold per discharge to $20,707, resulting in projected reductions of 0.4%; and (5) an extension of the policy known as the 25 Percent Rule to all LTAC hospitals, with a three-year phase-in, which CMS projected would not result in payment reductions for the first year of implementation (also currently subject to a three-year moratorium pursuant to the SCHIP Extension Act).

In the 2007 Final Rule, the so-called 25 Percent Rule was expanded to all LTAC hospitals, regardless of whether they are co-located with another hospital. Under the 2007 Final Rule, all LTAC hospitals were to be paid the LTAC PPS rates for admissions from a single referral source up to 25% of aggregate Medicare admissions. Patients reaching high cost outlier status in the short-term hospital were not to be counted when computing the 25% limit. Admissions beyond the 25% threshold were to be paid at a lower amount based upon short-term acute care hospital rates. However, as set forth above, the SCHIP Extension Act has placed a three-year moratorium on the expansion of the 25 Percent Rule to freestanding hospitals. In addition, the SCHIP Extension Act provides for a three-year period during which (1) LTAC hospitals that are co-located with another hospital may admit up to 50% of their patients from their host hospitals and still be paid according to LTAC PPS, and (2) LTAC hospitals that are co-located with an urban single hospital or a MSA Dominant hospital may admit up to 75% of their patients from such urban single or MSA Dominant hospital and still be paid according to LTAC PPS.

On May 2, 2008, CMS issued regulatory changes regarding Medicare reimbursement for LTAC hospitals (the 2008 Final Rule) that became effective for discharges occurring on or after July 1, 2008. The 2008 Final

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Other Information (Continued)

Effects of inflation and changing prices (Continued)

Rule projected an overall increase in payments to all Medicare certified LTAC hospitals of approximately 2.5%. Included in the 2008 Final Rule were (1) an increase to the standard federal payment rate of 2.7% (as compared to the adjusted federal rate for discharges occurring on or after April 1, 2008 by the SCHIP Extension Act); (2) adjustments to the wage index component of the federal payment resulting in projected reductions in payments of 0.1%; (3) an increase in the high cost outlier threshold per discharge to $22,960; and (4) an extension of the rate year cycle for one year to September 30, 2009, in order to be consistent thereafter with the federal fiscal year that begins October 1 of each year.

CMS has regulations governing payments to LTAC hospitals that are co-located with another hospital, such as a hospital-in-hospital (HIH). The rules generally limit Medicare payments to the HIH if the Medicare admissions to the HIH from the host hospital exceed 25% of the total Medicare discharges for the HIH s cost reporting period. There are limited exceptions for admissions from rural, urban single and MSA Dominant hospitals. Admissions that exceed this 25 Percent Rule are paid using the short-term acute care inpatient payment system (IPPS). Patients transferred after they have reached the short-term acute care outlier payment status are not counted toward the admission threshold. Patients admitted prior to meeting the admission threshold, as well as Medicare patients admitted from a non-host hospital, are eligible for the full payment under LTAC PPS. If the HIH s admissions from the host hospital exceed the limit in a cost reporting period, Medicare will pay the lesser of (1) the amount payable under LTAC PPS or (2) the amount payable under IPPS. At March 31, 2009, the Company operated 16 HIHs with 692 licensed beds.

On August 1, 2007, CMS issued final regulations regarding Medicare hospital inpatient payments to short-term acute care hospitals as well as certain provisions affecting LTAC hospitals. These regulations adopt a new system for classifying patients into diagnostic categories called Medicare Severity Diagnosis Related Groups or more specifically, for LTAC hospitals, MS-LTC-DRGs. LTAC PPS is based upon discharged-based MS-LTC-DRGs similar to the system used to pay short-term acute care hospitals. This new MS-LTC-DRG system replaces the previous diagnostic related group system for LTAC hospitals and became effective for discharges occurring on or after October 1, 2007. The MS-LTC-DRG system creates additional severity-adjusted categories for most diagnoses, resulting in an expansion of the aggregate number of diagnostic groups from 538 to 745. CMS stated that MS-LTC-DRG weights were developed in a budget neutral manner and as such, the estimated aggregate payments under LTAC PPS would be unaffected by the annual recalibration of MS-LTC-DRG payment weights.

On July 31, 2008, CMS issued final regulations regarding the re-weighting of MS-LTC-DRGs for discharges occurring on or after October 1, 2008. CMS announced that this update was made in a budget neutral manner, and that estimated aggregate LTAC Medicare payments would be unaffected by these regulations. Based upon the Company s experience under these final regulations, it appears that the re-weighting increased payments for the care of higher acuity patients.

On May 1, 2009, CMS issued proposed regulations regarding Medicare reimbursement for LTAC hospitals for the fiscal year beginning October 1, 2009. These proposed regulations include a recalibration of the MS-LTC-DRG payment weights as well as updates to the payment rates. CMS indicated that these proposed changes will result in a 2.8% increase to average Medicare payments to LTAC hospitals. These proposed regulations are expected to be finalized in the third quarter of 2009.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Other Information (Continued)

Effects of inflation and changing prices (Continued)

The Company cannot predict the ultimate long-term impact of LTAC PPS. This payment system is subject to significant change. Slight variations in patient acuity or length of stay could significantly change Medicare revenues generated under LTAC PPS. In addition, the Company s hospitals may not be able to appropriately adjust their operating costs to changes in patient acuity and length of stay or to changes in reimbursement rates. In addition, there can be no assurance that LTAC PPS will not have a material adverse effect on revenues from non-government third party payors. Various factors, including a reduction in average length of stay, have negatively impacted revenues from non-government third party payors in recent years.

On July 31, 2008, CMS issued final regulations regarding Medicare reimbursement for nursing centers for the fiscal year beginning October 1, 2008. These regulations included, among other things, a market basket increase to the federal payment rates of 3.4% and updates to the wage indexes which adjust the federal payment. CMS estimates that the overall impact of these proposed changes will be a net increase in payments of 3.4%.

On May 1, 2009, CMS issued proposed regulations regarding Medicare reimbursement for nursing centers for the fiscal year beginning October 1, 2009. Included in these proposed regulations is (1) a market basket increase to the resource utilization grouping (RUG) payment rates of 2.1% and (2) a reduction in the RUG indexes attributed to a CMS forecast error in a prior year, resulting in a 3.3% reduction in payments. CMS estimated that these proposed changes will result in a net decrease in Medicare payments to nursing centers of 1.2%. These proposed regulations are expected to be finalized in the third quarter of 2009.

In addition, for the fiscal year beginning October 1, 2010, CMS proposed increasing the number of RUG categories for nursing centers from 53 to 66 and amending the criteria, including the provision of therapy services, currently used to classify patients into these categories. CMS has indicated that these changes will be enacted in a budget neutral manner.

On February 1, 2006, Congress passed the Deficit Reduction Act of 2005. This legislation provided for, among other things, an annual $1,740 Medicare Part B outpatient therapy cap that was effective on January 1, 2006. CMS subsequently increased the therapy cap to $1,780 on January 1, 2007, to $1,810 on January 1, 2008 and to $1,840 on January 1, 2009. The legislation also required CMS to implement a broad process for reviewing medically necessary therapy claims, creating an exception to the cap. The exception process, which was set to expire on January 1, 2007, was included in the Tax Relief and Health Care Act of 2006 and continued to function as an exception to the Medicare Part B outpatient therapy cap until January 1, 2008. The SCHIP Extension Act further extended the Medicare Part B outpatient therapy cap until June 30, 2008. The Medicare Improvements for Patients and Providers Act of 2008, enacted on July 15, 2008, extended the therapy cap exception process from July 1, 2008 to December 31, 2009.

The Company believes that its operating margins may continue to be under pressure because of deterioration in pricing flexibility, changes in payor mix, changes in length of stay and growth in operating expenses in excess of increases in payments by third party payors. In addition, as a result of competitive pressures, the Company s ability to maintain operating margins through price increases to private patients is limited.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Condensed Consolidated Statement of Operations

(Unaudited)

(In thousands, except per share amounts)

	2008 Quarters					First Quarter
	First	Second	Third	Fourth	Year	2009
Revenues	$ 1,048,523	$ 1,041,911	$ 1,010,680	$ 1,050,282	$ 4,151,396	$ 1,083,312
Salaries, wages and benefits	601,251	596,161	606,468	605,793	2,409,673	624,173
Supplies	78,632	81,567	78,586	81,625	320,410	81,159
Rent	85,180	87,424	86,444	85,904	344,952	86,779
Other operating expenses	227,303	217,387	211,584	211,752	868,026	224,179
Other income	(4,717)	(5,167)	(4,313)	(3,210)	(17,407)	(2,872)
Depreciation and amortization	31,055	30,930	29,432	29,996	121,413	30,805
Interest expense	4,921	2,907	3,710	3,835	15,373	2,478
Investment income	(3,248)	(2,337)	(672)	(844)	(7,101)	(1,476)
	1,020,377	1,008,872	1,011,239	1,014,851	4,055,339	1,045,225
Income (loss) from continuing operations before income taxes	28,146	33,039	(559)	35,431	96,057	38,087
Provision (benefit) for income taxes	11,639	13,232	(1,345)	13,638	37,164	15,734
Income from continuing operations	16,507	19,807	786	21,793	58,893	22,353
Discontinued operations, net of income taxes:						
Income (loss) from operations	(1,817)	(858)	12	831	(1,832)	407
Gain (loss) on divestiture of operations		2,712	(22,058)	(1,430)	(20,776)	
Net income (loss)	$ 14,690	$ 21,661	$ (21,260)	$ 21,194	$ 36,285	$ 22,760
Earnings (loss) per common share:						
Basic:						
Income from continuing operations	$ 0.43	$ 0.51	$ 0.02	$ 0.56	$ 1.52	$ 0.57
Discontinued operations:						
Income (loss) from operations	(0.05)	(0.02)		0.02	(0.05)	0.01
Gain (loss) on divestiture of operations		0.07	(0.58)	(0.04)	(0.55)	
Net income (loss)	$ 0.38	$ 0.56	$ (0.56)	$ 0.54	$ 0.92	$ 0.58
Diluted:						
Income from continuing operations	$ 0.42	$ 0.50	$ 0.02	$ 0.56	$ 1.50	$ 0.57
Discontinued operations:						
Income (loss) from operations	(0.05)	(0.02)		0.02	(0.05)	0.01
Gain (loss) on divestiture of operations		0.07	(0.57)	(0.04)	(0.54)	

Net income (loss)	$	0.37	$	0.55	$	(0.55)	$	0.54	$	0.91	$	0.58
Shares used in computing earnings (loss) per common share:												
Basic		37,444		37,714		38,034		38,123		37,830		38,184
Diluted		38,061		38,474		38,894		38,265		38,397		38,315

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Operating Data

(Unaudited)

(In thousands)

	2008 Quarters					First Quarter 2009
	First	Second	Third	Fourth	Year	
Revenues:						
Hospital division	$ 476,167	$ 461,064	$ 434,774	$ 465,317	$ 1,837,322	$ 492,509
Health services division	534,793	542,207	535,737	542,680	2,155,417	544,940
Rehabilitation division	104,499	106,318	106,796	109,707	427,320	117,647
	1,115,459	1,109,589	1,077,307	1,117,704	4,420,059	1,155,096
Eliminations	(66,936)	(67,678)	(66,627)	(67,422)	(268,663)	(71,784)
	$ 1,048,523	$ 1,041,911	$ 1,010,680	$ 1,050,282	$ 4,151,396	$ 1,083,312
Income from continuing operations:						
Operating income (loss):						
Hospital division	$ 96,802	$ 85,886	$ 64,818	$ 97,861	$ 345,367	$ 100,899
Health services division	74,200	90,446	78,801	83,485	326,932	75,860
Rehabilitation division	11,486	10,178	7,448	8,959	38,071	15,453
Corporate:						
Overhead	(34,931)	(33,200)	(30,937)	(33,951)	(133,019)	(34,087)
Insurance subsidiary	(1,503)	(1,347)	(1,775)	(2,032)	(6,657)	(1,452)
	(36,434)	(34,547)	(32,712)	(35,983)	(139,676)	(35,539)
Operating income	146,054	151,963	118,355	154,322	570,694	156,673
Rent	(85,180)	(87,424)	(86,444)	(85,904)	(344,952)	(86,779)
Depreciation and amortization	(31,055)	(30,930)	(29,432)	(29,996)	(121,413)	(30,805)
Interest, net	(1,673)	(570)	(3,038)	(2,991)	(8,272)	(1,002)
Income (loss) from continuing operations before income taxes	28,146	33,039	(559)	35,431	96,057	38,087
Provision (benefit) for income taxes	11,639	13,232	(1,345)	13,638	37,164	15,734
	$ 16,507	$ 19,807	$ 786	$ 21,793	$ 58,893	$ 22,353

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Operating Data (Continued)

(Unaudited)

(In thousands)

	2008 Quarters					First Quarter 2009
	First	Second	Third	Fourth	Year	
Rent:						
Hospital division	$ 35,907	$ 37,750	$ 36,461	$ 36,198	$ 146,316	$ 36,445
Health services division	47,883	48,175	48,551	48,282	192,891	48,852
Rehabilitation division	1,358	1,393	1,405	1,399	5,555	1,451
Corporate	32	106	27	25	190	31
	$ 85,180	$ 87,424	$ 86,444	$ 85,904	$ 344,952	$ 86,779
Depreciation and amortization:						
Hospital division	$ 11,303	$ 11,455	$ 11,719	$ 13,673	$ 48,150	$ 12,512
Health services division	14,389	13,677	11,794	10,176	50,036	12,000
Rehabilitation division	387	485	547	546	1,965	547
Corporate	4,976	5,313	5,372	5,601	21,262	5,746
	$ 31,055	$ 30,930	$ 29,432	$ 29,996	$ 121,413	$ 30,805
Capital expenditures, excluding acquisitions (including discontinued operations):						
Hospital division	$ 13,556	$ 20,022	$ 19,736	$ 15,903	$ 69,217	$ 14,330
Health services division	7,135	10,744	19,746	12,468	50,093	21,840
Rehabilitation division	282	280	271	329	1,162	190
Corporate:						
Information systems	3,832	8,616	7,051	6,864	26,363	3,453
Other	135	258	489	960	1,842	173
	$ 24,940	$ 39,920	$ 47,293	$ 36,524	$ 148,677	$ 39,986

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Operating Data (Continued)

(Unaudited)

	2008 Quarters					First Quarter 2009
	First	Second	Third	Fourth	Year	
Hospital data:						
End of period data:						
Number of hospitals	81	81	82	82		82
Number of licensed beds	6,358	6,358	6,428	6,482		6,520
Revenue mix %:						
Medicare	57	56	54	55	55	56
Medicaid	9	9	11	11	10	10
Medicare Advantage	8	9	9	10	9	10
Commercial insurance and other	26	26	26	24	26	24
Admissions:						
Medicare	7,920	7,268	6,786	7,054	29,028	7,421
Medicaid	1,034	1,008	1,148	1,043	4,233	1,052
Medicare Advantage	901	849	869	968	3,587	1,094
Commercial insurance and other	1,814	1,799	1,748	1,727	7,088	1,921
	11,669	10,924	10,551	10,792	43,936	11,488
Admissions mix %:						
Medicare	68	67	64	65	66	65
Medicaid	9	9	11	10	10	9
Medicare Advantage	8	8	8	9	8	9
Commercial insurance and other	15	16	17	16	16	17
Patient days:						
Medicare	216,737	210,064	188,832	190,794	806,427	197,377
Medicaid	50,335	50,676	54,108	53,304	208,423	50,868
Medicare Advantage	28,453	29,219	28,529	31,744	117,945	35,229
Commercial insurance and other	66,270	67,847	64,449	63,688	262,254	65,509
	361,795	357,806	335,918	339,530	1,395,049	348,983
Average length of stay:						
Medicare	27.4	28.9	27.8	27.0	27.8	26.6
Medicaid	48.7	50.3	47.1	51.1	49.2	48.4
Medicare Advantage	31.6	34.4	32.8	32.8	32.9	32.2
Commercial insurance and other	36.5	37.7	36.9	36.9	37.0	34.1
Weighted average	31.0	32.8	31.8	31.5	31.8	30.4
Revenues per admission:						
Medicare	$ 34,128	$ 35,717	$ 34,721	$ 36,029	$ 35,127	$ 37,262
Medicaid	41,853	42,271	40,798	50,577	43,816	45,160
Medicare Advantage	42,167	46,448	45,679	46,305	45,148	46,387
Commercial insurance and other	68,691	66,385	64,431	65,774	66,345	61,286
Weighted average	40,806	42,206	41,207	43,117	41,818	42,872

Revenues per patient day:						
Medicare	$ 1,247	$ 1,236	$ 1,248	$ 1,332	$ 1,264	$ 1,401
Medicaid	860	841	866	990	890	934
Medicare Advantage	1,335	1,350	1,391	1,412	1,373	1,440
Commercial insurance and other	1,880	1,760	1,748	1,784	1,793	1,797
Weighted average	1,316	1,289	1,294	1,370	1,317	1,411
Medicare case mix index (discharged patients only)	1.12	1.16	1.14	1.17	1.15	1.22
Average daily census	3,976	3,932	3,651	3,691	3,812	3,878
Occupancy %	67.9	67.1	62.2	62.1	64.8	66.0
Annualized employee turnover %	25.0	25.9	25.7	25.2		21.3

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Operating Data (Continued)

(Unaudited)

	2008 Quarters					First Quarter
	First	Second	Third	Fourth	Year	2009
Nursing center data:						
End of period data:						
Number of nursing centers:						
Owned or leased	224	224	224	224		224
Managed	4	4	4	4		4
	228	228	228	228		228
Number of licensed beds:						
Owned or leased	28,371	28,251	28,210	28,040		27,915
Managed	485	485	485	485		485
	28,856	28,736	28,695	28,525		28,400
Revenue mix %:						
Medicare	35	35	33	34	34	35
Medicaid	42	43	44	43	43	42
Medicare Advantage	5	4	5	4	5	5
Private and other	18	18	18	19	18	18
Patient days (excludes managed facilities):						
Medicare	409,902	402,269	370,782	367,775	1,550,728	381,463
Medicaid	1,394,925	1,387,374	1,430,461	1,417,661	5,630,421	1,368,286
Medicare Advantage	61,724	65,258	64,616	61,737	253,335	74,368
Private and other	432,787	424,769	438,056	441,008	1,736,620	421,756
	2,299,338	2,279,670	2,303,915	2,288,181	9,171,104	2,245,873
Patient day mix %:						
Medicare	18	18	16	16	17	17
Medicaid	61	61	62	62	61	61
Medicare Advantage	3	3	3	3	3	3
Private and other	18	18	19	19	19	19
Revenues per patient day:						
Medicare Part A	$ 429	$ 431	$ 434	$ 456	$ 437	$ 457
Total Medicare (including Part B)	461	466	475	498	474	497
Medicaid	160	168	163	164	164	166
Medicare Advantage	390	394	395	413	398	403
Private and other	228	227	229	230	229	234
Weighted average	232	238	232	237	235	243
Average daily census	25,267	25,051	25,043	24,872	25,058	24,954
Admissions	18,987	18,288	17,583	17,821	72,679	18,845

Occupancy %	89.2	89.0	89.1	88.9	89.0	89.3
Medicare average length of stay	35.1	35.8	36.5	34.7	35.5	34.8
Annualized employee turnover %	48.2	50.2	51.0	48.9		37.9
Rehabilitation data:						
Revenue mix %:						
Company-operated	65	64	62	61	63	61
Non-affiliated	35	36	38	39	37	39
Sites of service (at end of period)	650	658	659	655		661
Revenue per site	$ 160,767	$ 161,578	$ 162,058	$ 167,492		$ 177,984
Therapist productivity %	81.9	81.3	80.1	82.3	81.4	84.8
Annualized employee turnover %	13.1	13.5	13.2	13.3		10.9

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion of the Company s exposure to market risk contains forward-looking statements that involve risks and uncertainties. Given the unpredictability of interest rates as well as other factors, actual results could differ materially from those projected in such forward-looking information.

The Company s exposure to market risk relates to changes in the prime rate, federal funds rate and LIBOR which affect the interest paid on certain borrowings.

The following table provides information about the Company s financial instruments that are sensitive to changes in interest rates. The table presents principal cash flows and related weighted average interest rates by expected maturity date.

Interest Rate Sensitivity

Principal (Notional) Amount by Expected Maturity

Average Interest Rate

(Dollars in thousands)

	Expected maturities							
	2009	2010	2011	2012	2013	Thereafter	Total	Fair value 3/31/09
Liabilities:								
Long-term debt, including amounts due within one year:								
Fixed rate	$ 61	$ 86	$ 91	$ 96	$ 102	$ 358	$ 794	$ 773(a)
Average interest rate	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%		
Variable rate (b)	$	$	$					

Operation and maintenance expense increased $44 million in 2013 and decreased $9 million in 2012. The increase in 2013 is primarily due to higher gas operations expenses of $24 million, higher maintenance and repair costs of $14 million, higher transmission costs of $14 million, higher corporate administrative expenses of $8 million and increased uncollectible expenses of $5 million, partially offset by lower employee benefit expenses of $19 million and reduced energy optimization expenses of $3 million. The decrease in 2012 is primarily due to reduced uncollectible expenses of $9 million, lower legal liability expenses of $4 million and lower customer service expenses of $3 million, partially offset by increased energy optimization expenses of $6 million and higher employee benefit expenses of $3 million.

Other (income) and deductions were lower by $19 million in 2013 and higher by $15 million in 2012. The decrease in 2013 is due to lack of a contribution to the DTE Energy Foundation in 2013, partially offset by a $5 million contribution to low income energy assistance funds. The increase in 2012 was due primarily to the contribution to the DTE Energy Foundation of $21 million, partially offset by lower interest expenses of $5 million.

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

GAS STORAGE AND PIPELINES

Our Gas Storage and Pipelines segment consists of our non-utility gas pipelines and storage businesses.

Gas Storage and Pipelines results are discussed below:

	2013	2012	2011
	(In millions)		
Operating Revenues	$132	$96	$91
Operation and Maintenance	25	19	16
Depreciation and Amortization	23	8	6
Taxes Other Than Income	3	3	3
Asset (Gains) and Losses and Reserves, Net	—	3	—
Operating Income	81	63	66
Other (Income) and Deductions	(36)	(40)	(28)
Income Tax Expense	45	39	35
Net Income	72	64	59
Noncontrolling interest	2	3	2
Net Income Attributable to DTE Energy	$70	$61	$57

Net income attributable to DTE Energy increased $9 million and $4 million in 2013 and 2012, respectively. Operating revenues increased $36 million and Depreciation expense increased $15 million in 2013 due to the operation of the Bluestone and Susquehanna projects. The 2013 increase in Operating revenues was partially offset by lower storage revenue due to lower market rates. The 2012 increase in Net income was primarily driven by higher earnings from our pipeline equity investments.

Outlook — Our Gas Storage and Pipelines business expects to maintain its steady growth by developing an asset portfolio with multiple growth platforms through investment in new projects and expansions. Millennium Pipeline completed its Phase One expansion in 2013, and its Phase Two expansion is scheduled to be in service in 2014. Additionally, Bluestone, a 44-mile lateral pipeline in Susquehanna County, Pennsylvania and Broome County, New York is in service and volumes are increasing. We plan to expand the capacity of the Bluestone lateral by constructing additional compression facilities, meter upgrades, and other initiatives to accommodate increased shipper demand. Through our agreement with Southwestern Energy Services Company and affiliates, we believe Bluestone lateral and Susquehanna gathering system are strategically positioned for future growth of the Marcellus shale.

POWER AND INDUSTRIAL PROJECTS

Power and Industrial Projects is comprised primarily of projects that deliver energy and utility-type products and services to industrial, commercial and institutional customers; produce reduced emissions fuel (REF) and sell electricity from biomass-fired energy projects.

Power and Industrial Projects results are discussed below:

	2013	2012	2011
	(In millions)		
Operating Revenues	$1,950	$1,823	$1,129
Operation and Maintenance	1,914	1,788	1,025
Depreciation and Amortization	72	65	60
Taxes other than Income	15	16	10
Asset (Gains) and Losses, Reserves and Impairments, Net	(4)	(5)	(12)
Operating Income (Loss)	(47)	(41)	46
Other (Income) and Deductions	(73)	(44)	(10)
Income Taxes			
Expense	8	—	17
Production Tax Credits	(53)	(44)	(6)
	(45)	(44)	11
Net Income	71	47	45
Noncontrolling interest	5	5	7
Net Income Attributable to DTE Energy Company	$66	$42	$38

Operating revenues increased $127 million in 2013 and increased $694 million in 2012. The 2013 increase is primarily due to a $161 million increase associated with higher volumes from REF projects, of which $25 million represents affiliate transactions, and a $102 million increase due to the on-site energy projects acquired in the 2012 fourth quarter, partially offset by a $75 million decrease from exiting the coal transportation and marketing business, and a $63 million decrease due primarily to lower coal prices associated with the steel business. The 2012 increase is primarily due to a $740 million increase associated with higher volumes from REF projects, of which $554 million represents affiliate transactions, and a $30 million increase due to the on-site energy projects acquired in the 2012 fourth quarter, partially offset by a $44 million decrease primarily due to lower volumes associated with the steel business, and a $28 million decrease in coal transportation and marketing services business.

Operation and maintenance expense increased $126 million in 2013 and increased $763 million in 2012. The 2013 increase is primarily due to a $173 million increase associated with higher volumes from REF projects, of which $25 million represents affiliate transactions and an $84 million increase due to the on-site energy projects acquired in the 2012 fourth quarter, partially offset by a $67 million decrease from exiting the coal transportation and marketing business, and a $67 million decrease due primarily to lower coal prices associated with the steel business. The 2012 increase is primarily due to a $770 million increase associated with higher volumes from REF projects, of which $562 million represents affiliate transactions, a $25 million increase due to the on-site energy projects acquired in the 2012 fourth quarter and an $11 million customer settlement, partially offset by a $20 million decrease primarily due to lower volumes associated with the steel business and a $26 million decrease in coal transportation and marketing services business.

Depreciation and amortization expense increased by $7 million in 2013 and increased by $5 million in 2012. The 2013 increase is primarily due to $10 million associated with the on-site energy projects acquired in the 2012 fourth quarter, partially offset by a $3 million decrease from exiting the coal transportation and marketing business. The 2012 increase was primarily due to $4 million associated with the on-site energy projects acquired in the 2012 fourth quarter.

Asset (gains) and losses, reserves and impairments, net decreased by $1 million in 2013 and decreased by $7 million in 2012. The 2012 decrease was due primarily to a $3 million loss on the sale of assets associated with our coal transloading terminal and $3 million of impairments related to non-strategic assets.

Other (income) and deductions were higher by $29 million in 2013 and $34 million in 2012 due primarily to income that is recognized when refined coal is produced and tax credits are generated.

Production tax credits increased by $9 million in 2013 and $38 million in 2012 primarily due to tax credits earned from REF projects.

Outlook — The Company has constructed and placed in service nine REF facilities including four facilities located at third party owned coal-fired power plants. The Company has sold membership interests in four of the facilities. We continue to optimize these facilities by seeking investors for facilities operating at DTE Electric and other utility sites. Additionally, we intend to relocate two underutilized facilities, located at DTE Electric sites, to alternative coal-fired power plants which may provide increased production and emission reduction opportunities in 2014 and future years.

We expect sustained production levels of metallurgical coke and pulverized coal supplied to steel industry customers for 2014. Substantially all of the metallurgical coke margin is maintained under long-term contracts. We have four biomass-fired power generation facilities in operation, and we are converting an additional facility to be placed in service in 2014. Our on-site energy services will continue to be delivered in accordance with the terms of long-term contracts. We will begin construction on a new natural gas-fired cogeneration facility and two landfill gas to energy projects during the year which are expected to be completed in 2014. We will continue to look for additional investment opportunities and other energy projects at favorable prices.

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

ENERGY TRADING

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

Energy Trading results are discussed below:

	2013	2012	2011
	(In millions)		
Operating Revenues	$1,771	$1,109	$1,276
Fuel, Purchased Power and Gas	1,782	1,011	1,112
Gross Margin	(11)	98	164
Operation and Maintenance	72	66	63
Depreciation and Amortization	1	2	3
Taxes Other Than Income	4	3	3
Operating Income (Loss)	(88)	27	95
Other (Income) and Deductions	8	8	9
Income Tax Expense (Benefit)	(38)	7	34
Net Income (Loss) Attributable to DTE Energy Company	$(58)	$12	$52

Gross margin decreased $109 million in 2013 and decreased $66 million in 2012. The overall decrease in gross margin in 2013 was primarily due to timing from mark-to-market adjustments on certain transactions in our gas structured strategy.

Natural gas structured transactions typically involve a physical purchase or sale of natural gas in the future and/or natural gas basis financial instruments which are derivatives and a related non-derivative pipeline transportation contract. These gas structured transactions can result in significant earnings volatility as the derivative components are marked-to-market without revaluing the related non-derivative contracts. During the fourth quarter of 2013, we saw significant increases in gas prices which led to the volatility in the accounting earnings due to the physical component being marked-to-market without an offsetting mark on the transportation component. Unrealized losses from gas structured transactions were $89 million in 2013. We anticipate that approximately 65% of the financial impact of this timing difference will reverse during the first quarter of 2014 as the underlying contracts are settled.

The decrease in gross margin in 2013 represents a $1 million decrease in realized margins and a $108 million decrease in unrealized margins. The $1 million decrease in realized margins is due to $40 million of unfavorable results, primarily in our power trading, power full requirements, and gas transportation strategies, offset by $39 million of favorable results, primarily in our gas and coal trading, and gas structured strategies. The $108 million decrease in unrealized margins is due to $123 million of unfavorable results, primarily in our gas structured, gas trading and gas transportation strategies, offset by $15 million of favorable results, primarily in our power full requirements strategy.

The decrease in gross margin in 2012 represents a $28 million decrease in realized margins and a $38 million decrease in unrealized margins. The $28 million decrease in realized margins is due to $74 million of unfavorable results, primarily in our power and gas trading and power full requirements services strategies, offset by $46 million of favorable results, primarily in our gas full requirements services, gas structured, and gas transportation strategies. The $38 million decrease in unrealized margins is due to $58 million of unfavorable results, primarily in our power and gas full requirements services, power trading, and gas structured and storage strategies, offset by $20 million of favorable results, primarily in our gas trading strategy.

Outlook — In the near term, we expect market conditions to remain challenging and the profitability of this segment may be impacted by the volatility in commodity prices in the markets we participate in and the uncertainty of impacts associated with financial reform, regulatory changes and changes in operating rules of regional transmission organizations.

The Energy Trading portfolio includes financial instruments, physical commodity contracts and natural gas inventory, as well as contracted natural gas pipeline transportation and storage, and generation capacity positions. Energy Trading also provides natural gas, power and related services, which may include the management of associated storage and transportation contracts on the customers' behalf under FERC Asset Management Arrangements, and the supply or purchase of renewable energy credits to various customers. Significant portions of the Energy Trading portfolio are economically hedged. Most financial instruments and physical power and natural gas contracts are deemed derivatives, whereas natural gas inventory, pipeline transportation, renewable energy credits, and storage assets are not derivatives. As a result, we will experience earnings volatility as derivatives are marked-to-market without revaluing the underlying non-derivative contracts and assets. Our strategy is to economically manage the price risk of these underlying non-derivative contracts and assets with futures, forwards, swaps and options. This results in gains and losses that are recognized in different interim and annual accounting periods.

See also the “Fair Value” section that follows.

CORPORATE AND OTHER

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

The 2013 net loss of $44 million represented an improvement of $3 million from the 2012 net loss of $47 million due primarily to lower impairments of investments.

The 2012 net loss of $47 million represented a decrease of $70 million from the 2011 net income of $23 million. The decrease resulted primarily from a income tax benefit of $87 million related to the enactment of the MCIT in the second quarter of 2011 and lower interest costs.

See Note 12 of the Notes to Consolidated Financial Statements in Item 8 of this report.

DISCONTINUED OPERATIONS

Unconventional Gas Production

In December 2012, the Company sold its 100% equity interest in its Unconventional Gas Production business which consisted of gas and oil production assets in the western Barnett and Marble Falls shale areas of Texas. See Note 7 of the Notes to Consolidated Financial Statements.

CAPITAL RESOURCES AND LIQUIDITY

Cash Requirements

We use cash to maintain and expand our electric and natural gas utilities and to grow our non-utility businesses, retire and pay interest on long-term debt and pay dividends. We believe that we will have sufficient internal and external capital resources to fund anticipated capital and operating requirements. In 2014, we expect that cash from operations will be $1.6 billion due to lower surcharge collections and higher cash contributions to employee benefit plans. We anticipate base level utility capital investments, environmental, renewable and energy optimization expenditures and expenditures for non-utility businesses in 2014 of approximately $2.3 billion. We plan to seek regulatory approval to include utility capital expenditures in our regulatory rate base consistent with prior treatment. Capital spending for growth of existing or new non-utility businesses will depend on the existence of opportunities that meet our strict risk-return and value creation criteria.

	2013	2012	2011
	(In millions)		
Cash and Cash Equivalents			
Cash Flow From (Used For)			
Operating activities:			
Net income	$668	$618	$720
Depreciation, depletion and amortization	1,094	1,018	995
Nuclear fuel amortization	38	29	46
Allowance for equity funds used during construction	(15)	(13)	(6)
Deferred income taxes	164	47	220
Loss on sale of non-utility business	—	83	—
Asset (gains) and losses, reserves and impairments, net	(8)	1	(21)
Working capital and other	213	426	54
	2,154	2,209	2,008
Investing activities:			
Plant and equipment expenditures — utility	(1,534)	(1,451)	(1,382)
Plant and equipment expenditures — non-utility	(342)	(369)	(102)
Proceeds from sale of non-utility business	—	255	—
Proceeds from sale of assets	36	38	18
Acquisition, net of cash acquired	—	(198)	—
Other	(66)	(44)	(94)
	(1,906)	(1,769)	(1,560)
Financing activities:			
Issuance of long-term debt	1,234	759	1,179
Redemption of long-term debt	(961)	(639)	(1,455)
Short-term borrowings, net	(109)	(179)	269
Issuance of common stock	39	39	—
Repurchase of common stock	—	—	(18)

Dividends on common stock	(445)	(407)	(389)
Other	(19)	(16)	(31)
	(261)	(443)	(445)
Net Increase (Decrease) in Cash and Cash Equivalents	$(13)	$(3)	$3

Cash from Operating Activities

A majority of our operating cash flow is provided by our electric and natural gas utilities, which are significantly influenced by factors such as weather, electric Customer Choice, regulatory deferrals, regulatory outcomes, economic conditions and operating costs.

Cash from operations was lower by $55 million in 2013. The reduction in operating cash flow reflects lower cash generated from working capital items, partially offset by higher net income after adjusting for non-cash and non-operating items (primarily depreciation, depletion and amortization and deferred income taxes).

Cash from operations was $201 million higher in 2012. The improvement in operating cash flow reflects higher cash generated from working capital items, partially offset by lower net income after adjusting for non-cash and non-operating items (primarily depreciation, depletion and amortization, deferred income taxes, loss on sale of non-utility business and asset (gains) and losses, reserves and impairments, net).

The change in working capital items in 2013 primarily related to fuel inventories, derivative assets and liabilities and pension and other postretirement liabilities, partially offset by the change in accounts receivable, net. The change in working capital items in 2012 primarily related to pension and other postretirement obligations and income taxes.

Cash used for Investing Activities

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

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

Capital spending within our non-utility businesses is primarily for ongoing maintenance, expansion and growth. We look to make growth investments that meet strict criteria in terms of strategy, management skills, risks and returns. All new investments are analyzed for their rates of return and cash payback on a risk adjusted basis. We have been disciplined in how we deploy capital and will not make investments unless they meet our criteria. For new business lines, we initially invest based on research and analysis. We start with a limited investment, we evaluate results and either expand or exit the business based on those results. In any given year, the amount of growth capital will be determined by the underlying cash flows of the Company with a clear understanding of any potential impact on our credit ratings.

Net cash used for investing activities was higher by $137 million in 2013 due primarily to increased capital expenditures by our utility businesses.

Net cash used for investing activities was higher by $209 million in 2012 due primarily to increased capital expenditures by our utility and non-utility businesses. The 2012 increase includes higher capital expenditures for the Bluestone Pipeline project and the Power and Industrial Projects acquisition of fourteen on-site energy projects, partially offset by the proceeds from the sale of the Unconventional Gas Production business.

Cash used for Financing Activities

We rely on both short-term borrowing and long-term financing as a source of funding for our capital requirements not satisfied by our operations.

Our strategy is to have a targeted debt portfolio blend of fixed and variable interest rates and maturity. We continually evaluate our leverage target, which is currently 50% to 52%, to ensure it is consistent with our objective to have a strong investment grade debt rating.

Net cash used for financing activities was $182 million lower in 2013. The decrease was primarily attributable to higher issuances of long-term debt, partially offset by higher redemptions of long-term debt.

Net cash used for financing activities was $2 million lower in 2012. The decrease was primarily attributable to lower redemptions of long-term debt, offset by a reduction in short-term borrowings.

Outlook

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

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

We have approximately $900 million in long-term debt maturing in the next twelve months. The repayment of the principal amount of the Securitization debt is funded through a surcharge payable by DTE Electric’s customers. The repayment of the other debt is expected to be paid through internally generated funds or the issuance of long-term debt.

DTE Energy has approximately $1.6 billion of available liquidity at December 31, 2013, consisting of cash and amounts available under unsecured revolving credit agreements.

At the discretion of management, and depending upon financial market conditions, we anticipate making 2014 contributions to the pension plans of up to $345 million and up to $145 million to the other postretirement benefit plans.

Various subsidiaries of the Company have entered into contracts which contain ratings triggers and are guaranteed by DTE Energy. These contracts contain provisions which allow the counterparties to request that the Company post cash or letters of credit as collateral in the event that DTE Energy’s credit rating is downgraded below investment grade. As of December 31, 2013, the value of the transactions for which the Company would have been exposed to collateral requests had DTE Energy’s credit rating been below investment grade on such date was approximately $406 million. In circumstances where an entity is downgraded below investment grade and collateral requests are made as a result, the requesting parties often agree to accept less than the full amount of their exposure to the downgraded entity. In addition, the Company maintains adequate credit facilities to meet this obligation should such an occurrence arise.

We believe we have sufficient operating flexibility, cash resources and funding sources to maintain adequate amounts of liquidity and to meet our future operating cash and capital expenditure needs. However, virtually all of our businesses are capital intensive or require access to capital, and the inability to access adequate capital could adversely impact earnings and cash flows.

See Notes 11, 12, 15, 17, and 20 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

Contractual Obligations

The following table details our contractual obligations for debt redemptions, leases, purchase obligations and other long-term obligations as of December 31, 2013:

	Total	2014	2015-2016	2017-2018	2019 and Beyond
	(In millions)				
Long-term debt:					
Mortgage bonds, notes and other (a)	$7,326	$695	$836	$416	$5,379
Securitization bonds	302	197	105	—	—
Junior subordinated debentures	480	—	—	—	480
Capital lease obligations	19	8	11	—	—
Interest	6,091	429	670	631	4,361
Operating leases	230	35	58	45	92
Electric, gas, fuel, transportation and storage purchase obligations (b)	8,499	2,577	1,802	645	3,475
Other long-term obligations (c)(d)(e)	99	40	36	11	12
Total obligations	$23,046	$3,981	$3,518	$1,748	$13,799

(a) Excludes $14 million of unamortized discount on debt.

(b) Excludes amounts associated with full requirements contracts where no stated minimum purchase volume is required.

(c) Includes liabilities for unrecognized tax benefits of $10 million.

(d) Excludes other long-term liabilities of $193 million not directly derived from contracts or other agreements.

(e) At December 31, 2013, we met the minimum pension funding levels required under the Employee Retirement Income Security Act of 1974 (ERISA) and the Pension Protection Act of 2006 for our defined benefit pension plans. We may contribute more than the minimum funding requirements for our pension plans and may also make contributions to our other postretirement benefit plans; however, these amounts are not included in the table above as such amounts are discretionary. Planned funding levels are disclosed in the Capital Resources and Liquidity and Critical Accounting Estimates sections herein and in Note 20 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

Credit Ratings

Credit ratings are intended to provide banks and capital market participants with a framework for comparing the credit quality of securities and are not a recommendation to buy, sell or hold securities. The Company's credit ratings affect our cost of capital and other terms of financing as well as our ability to access the credit and commercial paper markets. Management believes that our current credit ratings provide sufficient access to the capital markets. However, disruptions in the banking and capital markets not specifically related to us may affect our ability to access these funding sources or cause an increase in the return required by investors.

As part of the normal course of business, DTE Electric, DTE Gas and various non-utility subsidiaries of the Company routinely enter into physical or financially settled contracts for the purchase and sale of electricity, natural gas, coal, capacity, storage and other energy-related products and services. Certain of these contracts contain provisions which allow the counterparties to request that the Company post cash or letters of credit in the event that the senior unsecured debt rating of DTE Energy is downgraded below investment grade. Certain of these contracts for DTE Electric and DTE Gas contain similar provisions in the event that the senior unsecured debt rating of the particular utility is downgraded below investment grade. The amount of such collateral which could be requested fluctuates based upon commodity prices and the provisions and maturities of the underlying transactions and could be substantial. Also, upon a downgrade below investment grade, we could have restricted access to the commercial paper market and if DTE Energy is downgraded below investment grade our non-utility businesses, especially the Energy Trading and Power and Industrial Projects segments, could be required to restrict operations due to a lack of available liquidity. A downgrade below investment grade could potentially increase the borrowing costs of DTE Energy and its subsidiaries and may limit access to the capital markets. The impact of a downgrade will not affect our ability to comply with our existing debt covenants. While we currently do not anticipate such a downgrade, we cannot predict the outcome of current or future credit rating agency reviews.

In January 2013, Fitch raised the senior secured debt rating for DTE Gas from 'A-' to 'A' and affirmed the senior unsecured debt rating for DTE Energy at 'BBB' and senior secured debt rating for DTE Electric at 'A'. The upgrade reflects improved earnings and cash flows following recent rate case orders, a constructive regulatory environment, and strong credit metrics. In February 2013, based on steady improvement in the financial profiles due in large part to a constructive legislative and regulatory environment, Moody's upgraded DTE Energy's unsecured debt rating from 'Baa2' to 'Baa1' and upgraded the secured debt rating of DTE Electric and DTE Gas from 'A2' to 'A1'. In August 2013, S&P raised the credit outlook from 'stable' to 'positive' for DTE Energy, DTE Electric, and DTE Gas pointing to the Company's improving business risk profile. S&P also revised its business risk profile to 'excellent'. In January 2014, based on a favorable view of the U.S. regulatory environment, Moody's upgraded DTE Energy's unsecured debt rating from 'Baa1' to 'A3' and upgraded the secured debt rating of DTE Electric and DTE Gas from 'A1' to 'Aa3'.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles require that management apply accounting policies and make estimates and assumptions that affect results of operations and the amounts of assets and liabilities reported in the financial statements. Management believes that the areas described below require significant judgment in the application of accounting policy or in making estimates and assumptions in matters that are inherently uncertain and that may change in subsequent periods. Additional discussion of these accounting policies can be found in the Notes to Consolidated Financial Statements in Item 8 of this Report.

Regulation

A significant portion of our business is subject to regulation. This results in differences in the application of generally accepted accounting principles between regulated and non-regulated businesses. DTE Electric and DTE Gas are required to record regulatory assets and liabilities for certain transactions that would have been treated as revenue or expense in non-regulated businesses. Future regulatory changes or changes in the competitive environment could result in the discontinuance of this accounting treatment for regulatory assets and liabilities for some or all of our businesses. Management believes that currently available facts support the continued use of regulatory assets and liabilities and that all regulatory assets and liabilities are recoverable or refundable in the current rate environment.

See Note 11 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

Derivatives and Hedging Activities

Derivatives are generally recorded at fair value and shown as Derivative Assets or Liabilities. Changes in the fair value of the derivative instruments are recognized in earnings in the period of change, unless the derivative meets certain defined conditions and qualifies as an effective hedge. The normal purchases and normal sales exception requires, among other things, physical delivery in quantities expected to be used or sold over a reasonable period in the normal course of business. Contracts that are designated as normal purchases and normal sales are not recorded at fair value. Substantially all of the commodity contracts entered into by DTE Electric and DTE Gas meet the criteria specified for this exception.

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 and liabilities. These inputs can be readily observable, market corroborated or generally unobservable inputs. Management makes certain assumptions it believes that market participants would use in pricing assets and liabilities, including assumptions about risk, and the risks inherent in the inputs to valuation techniques. Credit risk of the Company and our counterparties is incorporated in the valuation of the assets and liabilities through the use of credit reserves, the impact of which was immaterial at December 31, 2013 and 2012. Management believes it uses valuation techniques that maximize the use of observable market-based inputs and minimize the use of unobservable inputs.

The fair values we calculate for our derivatives may change significantly as inputs and assumptions are updated for new information. Actual cash returns realized on our derivatives may be different from the results we estimate using models. As fair value calculations are estimates based largely on commodity prices, we perform sensitivity analyses on the fair values of our forward contracts. See sensitivity analysis in Item 7A. Quantitative and Qualitative Disclosures About Market Risk. See also the Fair Value section, herein. See Notes 3 and 4 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

Allowance for Doubtful Accounts

We establish an allowance for doubtful accounts based on historical losses and management's assessment of existing economic conditions, customer trends, and other factors. The allowance for doubtful accounts for our two utilities is calculated using the aging approach that utilizes rates developed in reserve studies and applies these factors to past due receivable balances. We believe the allowance for doubtful accounts is based on reasonable estimates.

Asset Impairments
Goodwill

Certain of our reporting units have goodwill or allocated goodwill resulting from purchase business combinations. We perform an impairment test for each of our reporting units with goodwill annually or whenever events or circumstances indicate that the value of goodwill may be impaired.

In performing Step 1 of the impairment test, we compare the fair value of the reporting unit to its carrying value including goodwill. If the carrying value including goodwill were to exceed the fair value of a reporting unit, Step 2 of the test would be performed. Step 2 of the impairment test requires the carrying value of goodwill to be reduced to its fair value, if lower, as of the test date.

For Step 1 of the test, we estimate the reporting unit's fair value using standard valuation techniques, including techniques which use estimates of projected future results and cash flows to be generated by the reporting unit. Such techniques generally include a terminal value that utilizes an earnings multiple approach, which incorporates the current market values of comparable entities. These cash flow valuations involve a number of estimates that require broad assumptions and significant judgment by management regarding future performance. We also employ market-based valuation techniques to test the reasonableness of the indications of value for the reporting units determined under the cash flow technique.

We performed our annual impairment test as of October 1, 2013 and determined that the estimated fair value of each reporting unit exceeded its carrying value, and no impairment existed. As part of the annual impairment test, we also compared the aggregate fair value of our reporting units to our overall market capitalization. The implied premium of the aggregate fair value over market capitalization is likely attributable to an acquisition control premium (the price in excess of a stock's market price that investors typically pay to gain control of an entity). The results of the test and key estimates that were incorporated are as follows.

As of October 1, 2013 Valuation Date:

Reporting Unit	Goodwill	Fair Value Reduction % (a)		Discount Rate		Terminal Multiple (b)	Valuation Methodology (c)
	(In millions)						
Electric	$1,208	37	%	7	%	9.0x	DCF, assuming stock sale
Gas	743	29	%	6	%	10.5x	DCF, assuming stock sale
Power and Industrial Projects (d)	26	65	%	9	%	10.0x	DCF, assuming asset sale (e)
Gas Storage and Pipelines	24	84	%	8	%	11.0x	DCF, assuming asset sale
Energy Trading	17	15	%	11	%	n/a	DCF, assuming asset sale
	$2,018						

(a) Percentage by which the fair value of equity of the reporting unit would need to decline to equal its carrying value, including goodwill.

(b) Multiple of enterprise value (sum of debt plus equity value) to earnings before interest, taxes, depreciation and amortization (EBITDA).
(c) Discounted cash flows (DCF) incorporated 2014-2018 projected cash flows plus a calculated terminal value.
(d) Power and Industrial Projects excludes the Biomass reporting unit as this unit has no allocated goodwill.
(e) Asset sales were assumed except for Power and Industrial Projects' reduced emissions fuels projects, which assumed stock sales.

The Energy Trading reporting unit passed Step 1 of the impairment test by a 15% margin. A substantive increase in the market interest rate or disruptions in cash flows for the Energy Trading reporting unit could result in an impairment charge in the foreseeable future. For example, holding all other variables constant, a 2% increase in the discount rate would lower the fair value by approximately $49 million. At the lower fair value, the Energy Trading reporting unit would likely fail Step 1 of the test, potentially resulting in a charge for impairment of goodwill following the completion of the Step 2 analysis.

We perform an annual impairment test each October. In between annual tests, we monitor our estimates and assumptions regarding estimated future cash flows, including the impact of movements in market indicators in future quarters and will update our impairment analyses if a triggering event occurs. While we believe our assumptions are reasonable, actual results may differ from our projections. To the extent projected results or cash flows are revised downward, the reporting unit may be required to write down all or a portion of its goodwill, which would adversely impact our earnings.

Long-Lived Assets

We evaluate the carrying value of our long-lived assets, excluding goodwill, when circumstances indicate that the carrying value of those assets may not be recoverable. Conditions that could have an adverse impact on the cash flows and fair value of the long-lived assets are deteriorating business climate, condition of the asset, or plans to dispose of the asset before the end of its useful life. The review of long-lived assets for impairment requires significant assumptions about operating strategies and estimates of future cash flows, which require assessments of current and projected market conditions. An impairment evaluation is based on an undiscounted cash flow analysis at the lowest level for which independent cash flows of long-lived assets can be identified from other groups of assets and liabilities. Impairment may occur when the carrying value of the asset exceeds the future undiscounted cash flows. When the undiscounted cash flow analysis indicates a long-lived asset is not recoverable, the amount of the impairment loss is determined by measuring the excess of the long-lived asset over its fair value. An impairment would require us to reduce both the long-lived asset and current period earnings by the amount of the impairment, which would adversely impact our earnings.

Pension and Other Postretirement Costs

We sponsor defined benefit pension plans and other postretirement benefit plans for eligible employees of the Company. The measurement of the plan obligations and cost of providing benefits under these plans involve various factors, including numerous assumptions and accounting elections. When determining the various assumptions that are required, we consider historical information as well as future expectations. The benefit costs are affected by, among other things, the actual rate of return on plan assets, the long-term expected return on plan assets, the discount rate applied to benefit obligations, the incidence of mortality, the expected remaining service period of plan participants, level of compensation and rate of compensation increases, employee age, length of service, the anticipated rate of increase of health care costs, benefit plan design changes and the level of benefits provided to employees and retirees. Pension and other postretirement benefit costs attributed to the segments are included with labor costs and ultimately allocated to projects within the segments, some of which are capitalized.

We had pension costs of $228 million in 2013, $220 million in 2012, and $172 million in 2011. Other postretirement benefits costs (credit) were $(42) million in 2013, $151 million in 2012 and $122 million in 2011. Pension and other postretirement benefits costs for 2013 are calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on our plan assets of 8.25%. In developing our expected long-term rate of return assumptions, we evaluated asset class risk and return expectations, as well as inflation assumptions. Projected returns are based on broad equity, bond and other markets. Our 2014 expected long-term rate of return on pension plan assets is based on an asset allocation assumption utilizing active investment management of 47% in equity markets, 25% in fixed income markets, and 28% invested in other assets. Because of market volatility, we periodically review our asset allocation and rebalance our portfolio when considered appropriate. Given market conditions and financial market risk considerations, we are changing our long-term rate of return assumptions for our pension plans and our other postretirement health and life plans from 8.25% for 2013 to 7.75% for our pension plans and to 8% for our other postretirement health and life plans for 2014. We believe these rates are reasonable assumptions for the long-term rate of return on our plan assets for 2014 given our investment strategy. We will continue to evaluate our actuarial assumptions, including our expected rate of return, at least annually.

We calculate the expected return on pension and other postretirement benefit plan assets by multiplying the expected return on plan assets by the market-related value (MRV) of plan assets at the beginning of the year, taking into consideration anticipated contributions and benefit payments that are to be made during the year. Current accounting rules provide that the MRV of plan assets can be either fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years. For our pension plans, we use a calculated value when determining the MRV of the pension plan assets and recognize changes in fair value over a three-year period. Accordingly, the future value of assets will be impacted as previously deferred gains or losses are recognized. Financial markets in 2013 contributed to our investment performance resulting in unrecognized net gains. As of December 31, 2013, we had $150 million of cumulative gains that remain to be recognized in the calculation of the MRV of pension assets related to investment performance in 2013, 2012 and 2011. For our other postretirement benefit plans, we use fair value when determining the MRV of other postretirement benefit plan assets, therefore all investment gains and losses have been recognized in the calculation of MRV for these plans.

The discount rate that we utilize for determining future pension and other postretirement benefit obligations is based on a yield curve approach and a review of bonds that receive one of the two highest ratings given by a recognized rating agency. The yield curve approach matches projected pension plan and other postretirement benefit payment streams with bond portfolios reflecting actual liability duration unique to our plans. The discount rate determined on this basis increased to 4.95% at December 31, 2013 from 4.15% at December 31, 2012. We estimate that our 2014 total pension costs will approximate $175 million compared to $228 million in 2013 primarily due to greater than expected 2013 returns, a higher discount rate, lower amortization of net actuarial losses and 2014 contributions. Our 2014 other postretirement benefit credit will approximate $(120) million compared to $(42) million in 2013 due to the continued impact of plan design changes, favorable retiree medical utilization trends, greater than expected returns, a higher discount rate, lower amortization of net actuarial losses and modestly lower assumed long-term retiree medical inflation. Our health care trend rate for pre-65 participants assumes 7.5% for 2014 and 2015, 7% for 2016 and 2017, 6.5% in 2018, 6% in 2019, 5.75% in 2020, 5.5% in 2021, 5.25% in 2022, 5% in 2023, 4.75% in 2024 and 4.5% in 2025 and beyond. Our health care trend rate for post-65 participants assumes 6.5% for 2014 and 2015, 6.25% for 2016 and 2017, 6% in 2018, 5.75% in 2019, 5.5% in 2020, 5.25% in 2021, 5% in 2022, 4.75% in 2023, 4.5% in 2024 and beyond. Future actual pension and other postretirement benefit costs will depend on future investment performance, changes in future discount rates and various other factors related to plan design.

Lowering the expected long-term rate of return on our plan assets by one percentage point would have increased our 2013 pension costs by approximately $32 million. Lowering the discount rate and the salary increase assumptions by one percentage point would have increased our 2013 pension costs by approximately $16 million. Lowering the expected long-term rate of return on our plan assets by one percentage point would have increased our 2013 other postretirement costs by approximately $13 million. Lowering the discount rate assumption by one percentage point would have decreased our 2013 other postretirement credit by approximately $27 million. Lowering the health care cost trend assumptions by one percentage point would have increased our other postretirement credit for 2013 by approximately $8 million.

The value of our qualified pension and other postretirement benefit plan assets was $5.2 billion at December 31, 2013 and $4.4 billion at December 31, 2012. At December 31, 2013, our qualified pension plans were underfunded by $565 million and our other postretirement benefit plans were underfunded by $351 million. The 2013 funding levels generally improved due to increased discount rates, investment returns in excess of expected returns, plan sponsor contributions and plan design changes for our other postretirement benefits plans in 2013 and 2012.

Pension and other postretirement costs and pension cash funding requirements may increase in future years without typical returns in the financial markets. We made contributions to our qualified pension plans of $277 million in 2013 and $229 million in 2012. At the discretion of management, consistent with the Pension Protection Act of 2006, and depending upon financial market conditions, we anticipate making contributions to our qualified pension plans of up to $345 million in 2014 and up to $1.0 billion over the next five years. We made other postretirement benefit plan contributions of $264 million and $140 million in 2013 and 2012, respectively. We are required by orders issued by the MPSC to make other postretirement benefit contributions at least equal to the amounts included in our utilities' base rates. As a result, we anticipate making up to a $145 million contribution to our other postretirement plans in 2014 and, subject to MPSC funding requirements, up to $165 million over the next five years. The planned contributions will be made in cash, DTE Energy common stock or a combination of cash and stock.

See Note 20 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

Legal Reserves

We are involved in various legal proceedings, claims and litigation arising in the ordinary course of business. We regularly assess our liabilities and contingencies in connection with asserted or potential matters, and establish reserves when appropriate. Legal reserves are based upon management's assessment of pending and threatened legal proceedings and claims against us.

Insured and Uninsured Risks

Our comprehensive insurance program provides coverage for various types of risks. Our insurance policies cover risk of loss including property damage, general liability, workers' compensation, auto liability, and directors' and officers' liability. Under our risk management policy, we self-insure portions of certain risks up to specified limits, depending on the type of exposure. The maximum self-insured retention for various risks is as follows: property damage - $10 million, general liability - $7 million, workers' compensation - $9 million, and auto liability - $7 million. We have an actuarially determined estimate of our incurred but not reported (IBNR) liability prepared annually and we adjust our reserves for self-insured risks as appropriate. As of December 31, 2013, this IBNR liability was approximately $36 million.

Accounting for Tax Obligations

We are required to make judgments regarding the potential tax effects of various financial transactions and results of operations in order to estimate our obligations to taxing authorities. We account for uncertain income tax positions using a benefit recognition model with a two-step approach, a more-likely-than-not recognition criterion and a measurement attribute that measures the position as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. If the benefit does not meet the more likely than not criteria for being sustained on its technical merits, no benefit will be recorded. Uncertain tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold. We also have non-income tax obligations related to property, sales and use and employment-related taxes and ongoing appeals related to these tax matters.

Accounting for tax obligations requires judgments, including assessing whether tax benefits are more likely than not to be sustained, and estimating reserves for potential adverse outcomes regarding tax positions that have been taken. We also assess our ability to utilize tax attributes, including those in the form of carry-forwards, for which the benefits have already been reflected in the financial statements. We believe the resulting tax reserve balances as of December 31, 2013 and 2012 are appropriate. The ultimate outcome of such matters could result in favorable or unfavorable adjustments to our consolidated financial statements and such adjustments could be material.

See Note 12 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

FAIR VALUE

Derivatives are generally recorded at fair value and shown as Derivative Assets or Liabilities. Contracts we typically classify as derivative instruments include power, natural gas, oil and certain coal forwards, futures, options and swaps, and foreign currency exchange contracts. Items we do not generally account for as derivatives include natural gas inventory, pipeline transportation, renewable energy credits and storage assets. See Notes 3 and 4 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

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

The Company manages its mark-to-market (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, the Company 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 Company has established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). For further discussion of the fair value hierarchy, see Note 3 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

The following tables provide details on changes in our MTM net asset (or liability) position during 2013:

Total

	(In millions)
MTM at December 31, 2012	$(4)
Reclassify to realized upon settlement	(89)
Changes in fair value recorded to income	(11)
Amounts recorded to unrealized income	(100)
Changes in fair value recorded in regulatory liabilities	5
Change in collateral held by (for) others	(9)
Option premiums received and other	(5)
Amounts recorded in other comprehensive income	1
MTM at December 31, 2013	$(112)

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The table below shows the maturity of our MTM positions:

Source of Fair Value	2014	2015	2016	2017 and Beyond	Total Fair Value
	(In millions)				
Level 1	$(3)	$—	$—	$—	$(3)
Level 2	(42)	(20)	(2)	—	(64)
Level 3	(37)	(2)	2	1	(36)
MTM before collateral adjustments	$(82)	$(22)	$—	$1	(103)
Collateral adjustments					(9)
MTM at December 31, 2013					$(112)

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Price Risk

DTE Energy has commodity price risk in both utility and non-utility businesses arising from market price fluctuations.

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

Our Gas Storage and Pipelines business segment has exposure to natural gas price fluctuations which impact the pricing for natural gas storage and transportation. The Company manages its exposure through the use of short, medium and long-term storage and transportation contracts.

Our Power and Industrial Projects business segment is subject to electricity and natural gas product price risk. The Company manages its exposures to commodity price risk through the use of long-term contracts.

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

Credit Risk

Bankruptcies

The Company purchases and sells electricity, natural gas, coal, coke and other energy products from and to governmental entities and numerous companies operating in the steel, automotive, energy, retail, financial and other industries. Certain of its customers have filed for bankruptcy protection under the U.S. Bankruptcy Code. The Company regularly reviews contingent matters relating to these customers and its purchase and sale contracts and records provisions for amounts considered at risk of probable loss. The Company believes its accrued amounts are adequate for probable loss.

The Company's utilities provide services to the city of Detroit, Michigan (Detroit). Detroit filed for Chapter 9 bankruptcy protection on July 18, 2013. The Company had pre-petition accounts receivable of approximately $20 million outstanding as of the bankruptcy filing date. Detroit has been paying amounts owed in a timely manner and its account is substantially current. The Company does not expect Detroit's bankruptcy filing to have a material impact on its financial results.

Other

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

Trading Activities

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

The following table displays the credit quality of our trading counterparties as of December 31, 2013:

	Credit Exposure Before Cash Collateral	Cash Collateral	Net Credit Exposure
	(In millions)		
Investment Grade (a)			
A− and Greater	$154	$(33)	$121
BBB+ and BBB	240	—	240
BBB−	108	—	108
Total Investment Grade	502	(33)	469
Non-investment grade (b)	1	—	1
Internally Rated — investment grade (c)	173	—	173
Internally Rated — non-investment grade (d)	21	(6)	15
Total	$697	$(39)	$658

(a) This category includes counterparties with minimum credit ratings of Baa3 assigned by Moody's Investors Service (Moody's) and BBB- assigned by Standard & Poor's Rating Group (Standard & Poor's). The five largest counterparty exposures combined for this category represented approximately 31% of the total gross credit exposure.

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

(c) This category includes counterparties that have not been rated by Moody's or Standard & Poor's, but are considered investment grade based on DTE Energy's evaluation of the counterparty's creditworthiness. The five largest counterparty exposures combined for this category represented approximately 18% of the total gross credit exposure.

(d) This category includes counterparties that have not been rated by Moody's or Standard & Poor's, and are considered non-investment grade based on DTE Energy's evaluation of the counterparty's creditworthiness. The five largest counterparty exposures combined for this category represented approximately 2% of the total gross credit exposure.

Interest Rate Risk

We are subject to interest rate risk in connection with the issuance of debt. In order to manage interest costs, we may use treasury locks and interest rate swap agreements. Our exposure to interest rate risk arises primarily from changes in U.S. Treasury rates, commercial paper rates and London Inter-Bank Offered Rates (LIBOR). As of December 31, 2013, we had a floating rate debt-to-total debt ratio of approximately 2% (excluding securitized debt).

Foreign Currency Exchange Risk

We have foreign currency exchange risk arising from market price fluctuations associated with fixed priced contracts. These contracts are denominated in Canadian dollars and are primarily for the purchase and sale of natural gas and power as well as for long-term transportation capacity. To limit our exposure to foreign currency exchange fluctuations, we have entered into a series of foreign currency exchange forward contracts through July 2016.

Summary of Sensitivity Analysis

We performed a sensitivity analysis on the fair values of our commodity contracts, long-term debt obligations and foreign currency exchange forward contracts. The commodity contracts and foreign currency exchange risk listed below principally relate to our energy marketing and trading activities. The sensitivity analysis involved increasing and decreasing forward rates at December 31, 2013 and 2012 by a hypothetical 10% and calculating the resulting change in the fair values.

The results of the sensitivity analysis calculations as of December 31, 2013 and 2012:

Activity	Assuming a 10% Increase in Rates As of December 31, 2013	2012	Assuming a 10% Decrease in Rates As of December 31, 2013	2012	Change in the Fair Value of
	(In millions)				
Coal contracts	$—	$2	$—	$(1)	Commodity contracts
Gas contracts	$(21)	$(4)	$21	$3	Commodity contracts
Power contracts	$14	$4	$(13)	$(5)	Commodity contracts
Interest rate risk	$(291)	$(247)	$309	$260	Long-term debt
Foreign currency exchange risk	$—	$—	$—	$—	Forward contracts
Discount rates	$—	$—	$—	$—	Commodity contracts

For further discussion of market risk, see Note 4 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

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Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements and financial statement schedule are included herein.

Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Management of the Company carried out an evaluation, under the supervision and with the participation of DTE Energy's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2013, which is the end of the period covered by this report. Based on this evaluation, the Company's CEO and CFO have concluded that such disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to the Company's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Due to the inherent limitations in the effectiveness of any disclosure controls and procedures, management cannot provide absolute assurance that the objectives of its disclosure controls and procedures will be attained.

(b) Management's report on internal control over financial reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting is a process designed by, or under the supervision of, our CEO and CFO, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (1992 COSO) in Internal Control - Integrated Framework. Based on this assessment, management concluded that, as of December 31, 2013, the Company's internal control over financial reporting was effective based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm who also audited the Company's financial statements, as stated in their report which appears herein.

(c) Changes in internal control over financial reporting

There have been no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
DTE Energy Company

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of DTE Energy Company and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s report on internal control over financial reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Detroit, Michigan
February 14, 2014

DTE Energy Company

Consolidated Statements of Operations

	Year Ended December 31		
	2013	2012	2011
	(In millions, except per share amounts)		
Operating Revenues	$9,661	$8,791	$8,858
Operating Expenses			
Fuel, purchased power and gas	4,055	3,296	3,537
Operation and maintenance	2,978	2,892	2,612
Depreciation, depletion and amortization	1,094	995	977
Taxes other than income	340	332	310
Asset (gains) and losses, reserves and impairments, net	(9)	(3)	1
	8,458	7,512	7,437
Operating Income	1,203	1,279	1,421
Other (Income) and Deductions			
Interest expense	436	440	488
Interest income	(9)	(10)	(10)
Other income	(201)	(173)	(117)
Other expenses	55	62	69
	281	319	430
Income Before Income Taxes	922	960	991
Income Tax Expense	254	286	268
Income from Continuing Operations	668	674	723
Loss from Discontinued Operations, net of tax	—	(56)	(3)
Net Income	668	618	720
Less: Net Income Attributable to Noncontrolling Interest	7	8	9
Net Income Attributable to DTE Energy Company	$661	$610	$711
Basic Earnings per Common Share			
Income from continuing operations	$3.76	$3.89	$4.21
Loss from discontinued operations, net of tax	—	(0.33)	(0.02)
Total	$3.76	$3.56	$4.19
Diluted Earnings per Common Share			
Income from continuing operations	$3.76	$3.88	$4.20
Loss from discontinued operations, net of tax	—	(0.33)	(0.02)
Total	$3.76	$3.55	$4.18
Weighted Average Common Shares Outstanding			
Basic	175	171	169
Diluted	175	172	170
Dividends Declared per Common Share	$2.59	$2.42	$2.32

See Notes to Consolidated Financial Statements

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DTE Energy Company

Consolidated Statements of Comprehensive Income

	Year Ended December 31,		
	2013	2012	2011
	(In millions)		
Net income	$668	$618	$720
Other comprehensive income (loss), net of tax:			
Benefit obligations, net of taxes of $13, $(1) and $(5)	22	(2)	(9)
Net unrealized gains on investments during the period, net of taxes of $1, $1 and $—	2	1	—
Foreign currency translation, net of taxes of $(1), $— and $—	(2)	1	—
Other comprehensive income (loss)	22	—	(9)
Comprehensive income	690	618	711
Less comprehensive income attributable to noncontrolling interests	7	8	9
Comprehensive income attributable to DTE Energy Company	$683	$610	$702

See Notes to Consolidated Financial Statements

DTE Energy Company

Consolidated Statements of Cash Flows

	Year Ended December 31		
	2013	2012	2011
	(In millions)		
Operating Activities			
Net income	$668	$618	$720
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation, depletion and amortization	1,094	1,018	995
Nuclear fuel amortization	38	29	46
Allowance for equity funds used during construction	(15)	(13)	(6)
Deferred income taxes	164	47	220
Loss on sale of non-utility business	—	83	—
Asset (gains) and losses, reserves and impairments, net	(8)	1	(21)
Changes in assets and liabilities:			
Accounts receivable, net	(154)	52	71
Inventories	123	35	(129)
Accounts payable	14	40	(23)
Derivative assets and liabilities	107	53	(94)
Accrued pension obligation	(644)	280	432
Accrued postretirement obligation	(526)	(323)	209
Regulatory assets and liabilities	1,269	278	(662)
Other assets	(24)	55	44
Other liabilities	48	(44)	206
Net cash from operating activities	2,154	2,209	2,008
Investing Activities			
Plant and equipment expenditures — utility	(1,534)	(1,451)	(1,382)
Plant and equipment expenditures — non-utility	(342)	(369)	(102)
Proceeds from sale of non-utility business	—	255	—
Proceeds from sale of assets	36	38	18
Restricted cash for debt redemption, principally Securitization	(1)	2	(5)
Acquisition, net of cash acquired	—	(198)	—
Proceeds from sale of nuclear decommissioning trust fund assets	1,118	759	833
Investment in nuclear decommissioning trust funds	(1,134)	(764)	(850)
Other	(49)	(41)	(72)
Net cash used for investing activities	(1,906)	(1,769)	(1,560)
Financing Activities			
Issuance of long-term debt, net of issuance costs	1,234	759	1,179
Redemption of long-term debt	(961)	(639)	(1,455)
Short-term borrowings, net	(109)	(179)	269
Issuance of common stock	39	39	—
Repurchase of common stock	—	—	(18)
Dividends on common stock	(445)	(407)	(389)
Other	(19)	(16)	(31)
Net cash used for financing activities	(261)	(443)	(445)
Net Increase (Decrease) in Cash and Cash Equivalents	(13)	(3)	3
Cash and Cash Equivalents at Beginning of Period	65	68	65
Cash and Cash Equivalents at End of Period	$52	$65	$68

Supplemental disclosure of cash information			
Cash paid (received) for:			
Interest (net of interest capitalized)	$418	$438	$485
Income taxes	$121	$173	$(205)
Supplemental disclosure of non-cash information			
Common stock issued for employee benefit and compensation plans	$293	$155	$15
Plant and equipment expenditures in accounts payable	$329	$235	$212

See Notes to Consolidated Financial Statements

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DTE Energy Company

Consolidated Statements of Financial Position

	December 31 2013	2012
	(In millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	$52	$65
Restricted cash, principally Securitization	123	122
Accounts receivable (less allowance for doubtful accounts of $55 and $62, respectively)		
Customer	1,542	1,336
Other	127	126
Inventories		
Fuel and gas	363	527
Materials and supplies	265	234
Derivative assets	99	108
Regulatory assets	26	182
Other	209	215
	2,806	2,915
Investments		
Nuclear decommissioning trust funds	1,191	1,037
Other	603	554
	1,794	1,591
Property		
Property, plant and equipment	25,123	23,631
Less accumulated depreciation, depletion and amortization	(9,323)	(8,947)
	15,800	14,684
Other Assets		
Goodwill	2,018	2,018
Regulatory assets	2,837	4,235
Securitized regulatory assets	231	413
Intangible assets	122	135
Notes receivable	102	112
Derivative assets	27	39
Other	198	197
	5,535	7,149
Total Assets	$25,935	$26,339

See Notes to Consolidated Financial Statements

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DTE Energy Company

Consolidated Statements of Financial Position — (Continued)

	December 31	
	2013	2012
	(In millions, except shares)	
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$962	$848
Accrued interest	90	93
Dividends payable	116	107
Short-term borrowings	131	240
Current portion long-term debt, including capital leases	898	817
Derivative liabilities	195	125
Regulatory liabilities	302	89
Other	495	449
	3,189	2,768
Long-Term Debt (net of current portion)		
Mortgage bonds, notes and other	6,618	6,220
Securitization bonds	105	302
Junior subordinated debentures	480	480
Capital lease obligations	11	12
	7,214	7,014
Other Liabilities		
Deferred income taxes	3,321	3,191
Regulatory liabilities	862	1,031
Asset retirement obligations	1,827	1,719
Unamortized investment tax credit	47	56
Derivative liabilities	43	26
Accrued pension liability	653	1,498
Accrued postretirement liability	350	1,160
Nuclear decommissioning	178	159
Other	297	306
	7,578	9,146
Commitments and Contingencies (Notes 11 and 19)		
Equity		
Common stock, without par value, 400,000,000 shares authorized, 177,087,230 and 172,351,680 shares issued and outstanding, respectively	3,907	3,587
Retained earnings	4,150	3,944
Accumulated other comprehensive loss	(136)	(158)
Total DTE Energy Company Equity	7,921	7,373
Noncontrolling interests	33	38
Total Equity	7,954	7,411
Total Liabilities and Equity	$25,935	$26,339

See Notes to Consolidated Financial Statements

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DTE Energy Company

Consolidated Statements of Changes in Equity

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Non-Controlling Interests	Total
	Shares	Amount				
	(Dollars in millions, shares in thousands)					
Balance, December 31, 2010	169,428	$3,440	$3,431	$ (149)	$ 45	$6,767
Net income	—	—	711	—	9	720
Dividends declared on common stock	—	—	(392)	—	—	(392)
Repurchase of common stock	(1,184)	(58)	—	—	—	(58)
Benefit obligations, net of tax	—	—	—	(9)	—	(9)
Stock-based compensation, distributions to noncontrolling interests and other	1,003	35	—	—	(10)	25
Balance, December 31, 2011	169,247	$3,417	$3,750	$ (158)	$ 44	$7,053
Net Income	—	—	610	—	8	618
Dividends declared on common stock	—	—	(414)	—	—	(414)
Issuance of common stock	684	39	—	—	—	39
Contribution of common stock to pension plan	1,335	80	—	—	—	80
Foreign currency translation, net of tax	—	—	—	1	—	1
Benefit obligations, net of tax	—	—	—	(2)	—	(2)
Net change in unrealized losses on investments, net of tax	—	—	—	1	—	1
Stock-based compensation, distributions to noncontrolling interests and other	1,086	51	(2)	—	(14)	35
Balance, December 31, 2012	172,352	$3,587	$3,944	$ (158)	$ 38	$7,411
Net Income	—	—	661	—	7	668
Dividends declared on common stock	—	—	(454)	—	—	(454)
Issuance of common stock	589	39	—	—	—	39
Contribution of common stock to pension plan	3,026	200	—	—	—	200
Foreign currency translation, net of tax	—	—	—	(2)	—	(2)
Benefit obligations, net of tax	—	—	—	22	—	22
Net change in unrealized losses on investments, net of tax	—	—	—	2	—	2
Stock-based compensation, distributions to noncontrolling interests and other	1,120	81	(1)	—	(12)	68
Balance, December 31, 2013	177,087	$3,907	$4,150	$ (136)	$ 33	$7,954

See Notes to Consolidated Financial Statements

DTE Energy Company

Notes to Consolidated Financial Statements

NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION

Corporate Structure

DTE Energy owns the following businesses:

- DTE Electric, an electric utility engaged in the generation, purchase, distribution and sale of electricity to approximately 2.1 million customers in southeastern Michigan;
- DTE Gas, a natural gas utility engaged in the purchase, storage, transportation, distribution and sale of natural gas to approximately 1.2 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 Company is regulated by other federal and state regulatory agencies including the NRC, the EPA, the MDEQ and CFTC.

References in this Report to “Company” or “DTE” are to DTE Energy and its subsidiaries, collectively.

Basis of Presentation

The accompanying Consolidated Financial Statements 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 Company’s estimates.

Certain prior year balances were reclassified to match the current year’s financial statement presentation. Such revisions included an increase in the Consolidated Statements of Cash Flows line items for (i) Proceeds from sale of nuclear decommissioning trust funds, and (ii) Investment in nuclear decommissioning trust funds by $662 million and $753 million for the years ended December 31, 2012 and 2011, respectively. These revisions were needed to properly state the gross purchases and sales activity in the nuclear decommissioning trust fund for the respective years. The totals of Net cash used in investing activities for both 2012 and 2011 were unchanged by these revisions. The revisions noted above are not deemed material, individually or in the aggregate, to the prior period consolidated financial statements.

Principles of Consolidation

The Company consolidates all majority-owned subsidiaries and investments in entities in which it has controlling influence. Non-majority owned investments are accounted for using the equity method when the Company is able to influence the operating policies of the investee. When the Company does not influence the operating policies of an investee, the cost method is used. These consolidated financial statements also reflect the Company's proportionate interests in certain jointly owned utility plant. The Company eliminates all intercompany balances and transactions.

The Company evaluates whether an entity is a VIE whenever reconsideration events occur. The Company consolidates VIEs for which it is the primary beneficiary. If the Company 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, the Company 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 Company performs ongoing reassessments of all VIEs to determine if the primary beneficiary status has changed.

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

Legal entities within the Company'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 the Company retaining operational and customer default risk. These entities generally are VIEs and are consolidated when the Company is the primary beneficiary. In addition, we have interests in certain VIEs that we share control of all significant activities for those entities with our partners, and therefore are accounted for under the equity method.

The Company has variable interests in VIEs through certain of its long-term purchase contracts. As of December 31, 2013, the carrying amount of assets and liabilities in the Consolidated Statements of Financial Position that relate to its variable interests under long-term purchase contracts are predominately related to working capital accounts and generally represent the amounts owed by the Company for the deliveries associated with the current billing cycle under the contracts. The Company has not provided any form of financial support associated with these long-term contracts. There is no significant potential exposure to loss as a result of its variable interests through these long-term purchase contracts.

In 2001, DTE Electric financed a regulatory asset related to Fermi 2 and certain other regulatory assets through the sale of rate reduction bonds by a wholly-owned special purpose entity, Securitization. DTE Electric performs servicing activities including billing and collecting surcharge revenue for Securitization. This entity is a VIE and is consolidated by the Company.

The maximum risk exposure for consolidated VIEs is reflected on the Company's Consolidated Statements of Financial Position. For non-consolidated VIEs, the maximum risk exposure is generally limited to its investment and amounts which it has guaranteed.

The following table summarizes the major balance sheet items for consolidated VIEs as of December 31, 2013 and 2012. 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 the Company 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.

	December 31, 2013			December 31, 2012		
	Securitization	Other	Total	Securitization	Other	Total
	(In millions)					
ASSETS						
Cash and cash equivalents	$—	$12	$12	$—	$10	$10
Restricted cash	100	8	108	102	7	109
Accounts receivable	34	16	50	34	7	41
Inventories	—	118	118	—	141	141
Other current assets	—	1	1	—	1	1
Property, plant and equipment	—	99	99	—	93	93
Securitized regulatory assets	231	—	231	413	—	413
Other assets	4	8	12	7	11	18
	$369	$262	$631	$556	$270	$826
LIABILITIES						
Accounts payable and accrued current liabilities	$7	$23	$30	$11	$14	$25
	196	9	205	177	8	185

Current portion long-term debt, including capital leases						
Current regulatory liabilities	43	—	43	50	—	50
Other current liabilities	—	4	4	—	4	4
Mortgage bonds, notes and other	—	21	21	—	25	25
Securitization bonds	105	—	105	302	—	302
Capital lease obligations	—	7	7	—	11	11
Other long-term liabilities	8	2	10	7	2	9
	$359	$66	$425	$547	$64	$611

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

Amounts for non-consolidated VIEs as of December 31, 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
	(In millions)	
Other investments	$141	$130
Notes receivable	$8	$6

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

Revenues

Revenues from the sale and delivery of electricity, and the sale, delivery and storage of natural gas are recognized as services are provided. DTE Electric and DTE Gas record revenues for electricity and gas provided but unbilled at the end of each month. Rates for DTE Electric and DTE Gas include provisions to adjust billings for fluctuations in fuel and purchased power costs, cost of natural gas and certain other costs. Revenues are adjusted for differences between actual costs subject to reconciliation and the amounts billed in current rates. Under or over recovered revenues related to these cost recovery mechanisms are recorded on the Consolidated Statements of Financial Position and are recovered or returned to customers through adjustments to the billing factors.

See Note 11 for further discussion of recovery mechanisms authorized by the MPSC.

Non-utility businesses recognize revenues as services are provided and products are delivered. See Note 4 for discussion of derivative contracts.

Other Income

Other income is recognized for non-operating income such as equity earnings, interest and dividends, allowance for funds using during construction and contract services. Power & Industrial Projects also recognizes Other income in connection with the sale of membership interests in reduced emissions fuel facilities to investors. In exchange for the cash received, the investors will receive a portion of the economic attributes of the facilities, including income tax attributes. The transactions are not treated as a sale of membership interests for financial reporting purposes. Other income is considered earned when refined coal is produced and tax credits are generated. Power & Industrial Projects recognized approximately $81 million, $63 million, and $15 million of Other income for the years ended December 31, 2013, 2012, and 2011, respectively.

Accounting for ISO Transactions

DTE Electric participates in the energy market through MISO. MISO requires that we submit hourly day-ahead, real-time and FTR bids and offers for energy at locations across the MISO region. DTE Electric accounts for MISO transactions on a net hourly basis in each of the day-ahead, real-time and FTR markets and net transactions across all MISO energy market locations. In any single hour DTE Electric records net purchases in Fuel, purchased power and gas and net sales in Operating revenues on the Consolidated Statements of Operations.

Energy Trading participates in the energy markets through various independent system operators and regional transmission organizations (ISOs and RTOs). These markets require that Energy Trading submits hourly day-ahead, real-time bids and offers for energy at locations across each region. Energy Trading submits bids in the annual and monthly auction revenue rights and FTR auctions to the regional transmission organizations. Energy Trading accounts for these transactions on a net hourly basis for the day-ahead, real-time and FTR markets. These transactions are related to trading contracts which are presented on a net basis in Operating Revenues in the Consolidated Statements of Operations.

DTE Electric and Energy Trading record accruals for future net purchases adjustments based on historical experience, and reconcile accruals to actual costs when invoices are received from MISO, and other ISOs and RTOs.

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

Comprehensive Income (Loss)

Comprehensive income (loss) is the change in common shareholders' equity during a period from transactions and events from non-owner sources, including net income. As shown in the following tables, amounts recorded to accumulated other comprehensive loss for the year ended December 31, 2013 include unrealized gains and losses from derivatives accounted for as cash flow hedges, unrealized gains and losses on available-for-sale securities, the Company's interest in other comprehensive income of equity investees, which comprise the net unrealized gains and losses on investments, changes in benefit obligations, consisting of deferred actuarial losses, prior service costs and transition amounts related to pension and other postretirement benefit plans, and foreign currency translation adjustments.

	Changes in Accumulated Other Comprehensive Loss by Component (a)				
	For The Year Ended December 31, 2013				
	Net Unrealized Gain/(Loss) on Derivatives	Net Unrealized Gain/(Loss) on Investments	Benefit Obligations (b)	Foreign Currency Translation	Total
	(In millions)				
Beginning balances December 31, 2012	$(4)	$(8)	$(148)	$2	$(158)
Other comprehensive income (loss) before reclassifications	—	2	13	(2)	13
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	9	—	9
Net current-period other comprehensive income (loss)	—	2	22	(2)	22
Ending balances December 31, 2013	$(4)	$(6)	$(126)	$—	$(136)

(a) All amounts are net of tax.
(b) The amounts reclassified from accumulated other comprehensive income (loss) are included in the computation of the net periodic pension and other postretirement benefit costs (see Note 20).

Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash on hand, cash in banks and temporary investments purchased with remaining maturities of three months or less. Restricted cash consists of funds held to satisfy requirements of certain debt, primarily Securitization bonds, and partnership operating agreements. Restricted cash designated for interest and principal payments within one year is classified as a current asset.

Receivables

Accounts receivable are primarily composed of trade receivables and unbilled revenue. Our accounts receivable are stated at net realizable value.

The allowance for doubtful accounts for DTE Electric and DTE Gas is generally calculated using the aging approach that utilizes rates developed in reserve studies. We establish an allowance for uncollectible accounts based on historical losses and management’s assessment of existing economic conditions, customer trends, and other factors. Customer accounts are generally considered delinquent if the amount billed is not received by the due date, which is typically in 21 days, however, factors such as assistance programs may delay aggressive action. We assess late payment fees on trade receivables based on past-due terms with customers. Customer accounts are written off when collection efforts have been exhausted. The time period for write-off is 150 days after service has been terminated.

The customer allowance for doubtful accounts for our other businesses is calculated based on specific review of probable future collections based on receivable balances in excess of 30 days.

Unbilled revenues of $815 million and $686 million are included in customer accounts receivable at December 31, 2013 and 2012, respectively.

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

Notes Receivable

Notes receivable, or financing receivables, are primarily comprised of capital lease receivables and loans and are included in Notes receivable and Other current assets on the Company's Consolidated Statements of Financial Position.

Notes receivable are typically considered delinquent when payment is not received for periods ranging from 60 to 120 days. The Company ceases accruing interest (nonaccrual status), considers a note receivable impaired, and establishes an allowance for credit loss when it is probable that all principal and interest amounts due will not be collected in accordance with the contractual terms of the note receivable. Cash payments received on nonaccrual status notes receivable, that do not bring the account contractually current, are first applied to contractually owed past due interest, with any remainder applied to principal. Accrual of interest is generally resumed when the note receivable becomes contractually current.

In determining the allowance for credit losses for notes receivable, we consider the historical payment experience and other factors that are expected to have a specific impact on the counterparty's ability to pay. In addition, the Company monitors the credit ratings of the counterparties from which we have notes receivable.

Inventories

The Company generally values inventory at average cost.

Natural gas inventory of $4 million and $37 million as of December 31, 2013 and 2012, respectively, at DTE Gas is determined using the last-in, first-out (LIFO) method. At December 31, 2013, the replacement cost of gas remaining in storage exceeded the LIFO cost by $170 million. At December 31, 2012, the replacement cost of gas remaining in storage exceeded the LIFO cost by $113 million.

Property, Retirement and Maintenance, and Depreciation, Depletion and Amortization

Property is stated at cost and includes construction-related labor, materials, overheads and, for utility property, an allowance for funds used during construction (AFUDC). The cost of utility properties retired is charged to accumulated depreciation. Expenditures for maintenance and repairs are charged to expense when incurred, except for Fermi 2.

Utility property at DTE Electric and DTE Gas is depreciated over its estimated useful life using straight-line rates approved by the MPSC.

Non-utility property is depreciated over its estimated useful life using the straight-line and units of production methods.

Depreciation, depletion and amortization expense also includes the amortization of certain regulatory assets.

Approximately $26 million and $12 million of expenses related to Fermi 2 refueling outages were accrued at December 31, 2013 and 2012, respectively. Amounts are accrued on a pro-rata basis, generally over an 18-month period, that coincides with scheduled refueling outages at Fermi 2. This accrual of outage costs matches the regulatory recovery of these costs in rates set by the MPSC. See Note 11.

The cost of nuclear fuel is capitalized. The amortization of nuclear fuel is included within Fuel, purchased power, and gas in the Consolidated Statements of Operations and is recorded using the units-of-production method.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If the carrying amount of the asset exceeds the expected discounted future cash flows generated by the asset, an impairment loss is recognized resulting in the asset being written down to its estimated fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

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

Intangible Assets

The Company has certain intangible assets relating to emission allowances, renewable energy credits and non-utility contracts as shown below:

	December 31, 2013	December 31, 2012
	(In millions)	
Emission allowances	$2	$6
Renewable energy credits	51	44
Contract intangible assets	126	139
	179	189
Less accumulated amortization	45	34
Intangible assets, net	134	155
Less current intangible assets	12	20
	$122	$135

Emission allowances and renewable energy credits are charged to expense, using average cost, as the allowances and credits are consumed in the operation of the business. The Company amortizes contract intangible assets on a straight-line basis over the expected period of benefit, ranging from 1 to 28 years. Intangible assets amortization expense was $14 million in 2013, $6 million in 2012 and $5 million in 2011.

The following table summarizes the estimated amortization expense expected to be recognized during each year through 2018:

Estimated amortization expense	(In millions)
2014	$13
2015	$12
2016	$11
2017	$8
2018	$8

Excise and Sales Taxes

The Company records the billing of excise and sales taxes as a receivable with an offsetting payable to the applicable taxing authority, with no net impact on the Consolidated Statements of Operations.

Deferred Debt Costs

The costs related to the issuance of long-term debt are deferred and amortized over the life of each debt issue. In accordance with MPSC regulations applicable to the Company’s electric and gas utilities, the unamortized discount, premium and expense related to utility debt redeemed with a refinancing are amortized over the life of the replacement issue. Discount, premium and expense on early redemptions of debt associated with non-utility operations are charged to earnings.

Investments in Debt and Equity Securities

The Company generally classifies investments in debt and equity securities as either trading or available-for-sale and has recorded such investments at market value with unrealized gains or losses included in earnings or in other comprehensive income or loss, respectively. Changes in the fair value of Fermi 2 nuclear decommissioning investments are recorded as adjustments to regulatory assets or liabilities, due to a recovery mechanism from customers. The Company's equity investments are reviewed for impairment each reporting period. If the assessment indicates that the impairment is other than temporary, a loss is recognized resulting in the equity investment being written down to its estimated fair value. See Note 3.

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

Government Grants

Grants are recognized when there is reasonable assurance that the grant will be received and that any conditions associated with the grant will be met. When grants are received related to Property, Plant and Equipment, the Company reduces the cost of the assets on the Consolidated Statements of Financial Position, resulting in lower depreciation expense over the life of the associated asset. Grants received related to expenses are reflected as a reduction of the associated expense in the period in which the expense is incurred.

DTE Energy Foundation

Charitable contributions to the DTE Energy Foundation were $18 million, $21 million, and $21 million for the years ended December 31, 2013, 2012 and 2011, respectively. The DTE Energy Foundation is a non-consolidated not-for-profit private foundation, the purpose of which is to contribute to and assist charitable organizations and does not serve a direct business or political purpose of DTE.

Other Accounting Policies

See the following notes for other accounting policies impacting the Company's consolidated financial statements:

Note	Title
3	Fair Value
4	Financial and Other Derivative Instruments
10	Asset Retirement Obligations
11	Regulatory Matters
12	Income Taxes
21	Stock-based Compensation

NOTE 3 — 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 Company makes certain assumptions it believes 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 Company and its counterparties is incorporated in the valuation of assets and liabilities through the use of credit reserves, the impact of which was immaterial at December 31, 2013 and 2012. The Company believes it uses 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 Company classifies 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 Company has 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.

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

- 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.

The following table presents assets and liabilities measured and recorded at fair value on a recurring basis as of December 31, 2013 and 2012:

	December 31, 2013					December 31, 2012				
	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)	$10	$115	$—	$—	$125	$—	$123	$—	$—	$123
Nuclear decommissioning trusts	779	412	—	—	1,191	694	343	—	—	1,037
Other investments (c) (d)	92	44	—	—	136	66	44	—	—	110
Derivative assets:										
Commodity Contracts:										
Natural Gas	273	89	34	(382)	14	555	66	24	(605)	40
Electricity	—	261	139	(291)	109	—	226	134	(258)	102
Other	33	1	3	(34)	3	6	3	2	(6)	5
Total derivative assets	306	351	176	(707)	126	561	295	160	(869)	147
Total	$1,187	$922	$176	$(707)	$1,578	$1,321	$805	$160	$(869)	$1,417
Liabilities:										
Derivative liabilities:										
Commodity Contracts:										
Natural Gas	$(277)	$(140)	$(86)	$395	$(108)	$(526)	$(73)	$(62)	$605	$(56)
Electricity	—	(272)	(126)	269	(129)	—	(240)	(111)	258	(93)
Other	(32)	(2)	—	34	—	(6)	(1)	—	6	(1)
Other derivative contracts (f)	—	(1)	—	—	(1)	—	(1)	—	—	(1)
Total derivative liabilities	(309)	(415)	(212)	698	(238)	(532)	(315)	(173)	869	(151)
Total	$(309)	$(415)	$(212)	$698	$(238)	$(532)	$(315)	$(173)	$869	$(151)
Net Assets (liabilities) at the end of the period	$878	$507	$(36)	$(9)	$1,340	$789	$490	$(13)	$—	$1,266
Assets:										
Current	$277	$400	$139	$(592)	$224	$493	$372	$120	$(754)	$231
Noncurrent (e)	910	522	37	(115)	1,354	828	433	40	(115)	1,186
Total Assets	$1,187	$922	$176	$(707)	$1,578	$1,321	$805	$160	$(869)	$1,417
Liabilities:										
Current	$(268)	$(328)	$(177)	$578	$(195)	$(466)	$(269)	$(144)	$754	$(125)
Noncurrent	(41)	(87)	(35)	120	(43)	(66)	(46)	(29)	115	(26)
Total Liabilities	$(309)	$(415)	$(212)	$698	$(238)	$(532)	$(315)	$(173)	$869	$(151)
Net Assets (liabilities) at the end of the period	$878	$507	$(36)	$(9)	$1,340	$789	$490	$(13)	$—	$1,266

(a)

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

(b) At December 31, 2013, available-for-sale securities of $125 million included $109 million and $16 million of cash equivalents included in Restricted cash and Other investments on the Consolidated Statements of Financial Position, respectively. At December 31, 2012, available-for-sale securities of $123 million, included $109 million and $14 million of cash equivalents included in Restricted cash and Other investments on the Consolidated Statements of Financial Position, respectively.

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

(d) Available-for-sale equity securities of $7 million at December 31, 2013 and $5 million at December 31, 2012 are included in Other investments on the Consolidated Statements of Financial Position.

(e) Includes $136 million and $110 million of Other investments that are included in the Consolidated Statements of Financial Position in Other investments at December 31, 2013 and 2012, respectively.

(f) Includes Interest rate contracts and Foreign currency exchange contracts.

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

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. The fair values of the shares in these investments are based upon observable market prices for similar securities and, therefore, have been categorized as Level 2 in the fair value hierarchy.

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. Exchange-traded debt and equity securities held directly are valued using quoted market prices in actively traded markets. The institutional mutual funds which hold exchange-traded equity or debt securities are valued based on the underlying securities, using quoted prices in actively traded markets. Non-exchange-traded fixed income securities are valued based upon quotations available from brokers or pricing services. 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. DTE Energy has obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. Additionally, DTE Energy selectively corroborates the fair value of securities by comparison of market-based price sources. Investment policies and procedures are determined by the Company's Trust Investments Department which reports to the Company's Vice President and Treasurer.

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. DTE Energy considers 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. DTE Energy monitors 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. DTE Energy has obtained an understanding of how these prices are derived. Additionally, DTE Energy selectively corroborates the fair value of its 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 Company has 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 our forward price curves has been assigned to our Risk Management Department, which is separate and distinct from the trading functions within the Company.

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

The following tables present the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended December 31, 2013 and 2012:

	Year Ended December 31, 2013				Year Ended December 31, 2012			
	Natural Gas	Electricity	Other	Total	Natural Gas	Electricity	Other	Total
	(In millions)							
Net Assets (Liabilities) as of December 31	$(38)	$ 23	$2	$(13)	$6	$ 32	$6	$44
Transfers into Level 3	1	—	—	1	1	—	—	1
Total gains (losses):								
Included in earnings	(32)	75	—	43	(41)	101	—	60
Recorded in regulatory assets/liabilities	—	—	5	5	—	—	15	15
Purchases, issuances and settlements:								
Purchases	(8)	1	—	(7)	—	2	—	2
Issuances	—	(1)	—	(1)	—	—	—	—
Settlements	25	(85)	(4)	(64)	(4)	(112)	(19)	(135)
Net Assets (Liabilities) as of December 31	$(52)	$ 13	$3	$(36)	$(38)	$ 23	$2	$(13)
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 December 31, 2013 and 2012 and reflected in Operating revenues and Fuel, purchased power and gas in the Consolidated Statements of Operations	$(49)	$ 48	$—	$(1)	$(33)	$ 91	$—	$58

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. The following table shows transfers between the levels of the fair value hierarchy for the years ended December 31, 2013 and 2012:

	Year Ended December 31, 2013			Year Ended December 31, 2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(In millions)					
Transfers into Level 1 from	$ N/A	$—	$—	$ N/A	$—	$—
Transfers into Level 2 from	—	N/A	—	—	N/A	—
Transfers into Level 3 from	—	1	N/A	—	1	N/A

The following table presents the unobservable inputs related to Level 3 assets and liabilities as of December 31, 2013 and 2012:

	December 31, 2013					
Commodity Contracts	Derivative Assets	Derivative Liabilities	Valuation Techniques	Unobservable Input	Range	Weighted Average
	(In millions)					
	$34	$ (86)			$(0.88)—$5.07 /MMBtu	$(0.16)/MMBtu

Natural Gas			Discounted Cash Flow	Forward basis price (per MMBtu)				
Electricity	$139	$(126)	Discounted Cash Flow	Forward basis price (per MWh)	$(7)—$15	/MWh	$3	/MWh

Commodity Contracts	December 31, 2012 Derivative Assets (In millions)	Derivative Liabilities	Valuation Techniques	Unobservable Input	Range		Weighted Average	
Natural Gas	$24	$(62)	Discounted Cash Flow	Forward basis price (per MMBtu)	$(0.63)—$1.95	/MMBtu	$0.03	/MMBtu
Electricity	$134	$(111)	Discounted Cash Flow	Forward basis price (per MWh)	$(2)—$16	/MWh	$3	/MWh

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

The unobservable inputs used in the fair value measurement of the electricity and natural gas commodity types consists 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. DTE Energy has obtained an understanding of how the fair values are derived. DTE Energy also selectively corroborates the fair value of its 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, are estimated using discounted cash flow techniques that incorporate market interest rates as well 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 are determined by DTE Energy's Treasury Department which reports to the Company's Vice President and Treasurer.

The following table presents the carrying amount and fair value of financial instruments as of December 31, 2013 and 2012:

	December 31, 2013				December 31, 2012			
	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	$41	$—	$—	$41	$39	$—	$—	$39
Dividends payable	$116	$116	$—	$—	$107	$107	$—	$—
Short-term borrowings	$131	$—	$131	$—	$240	$—	$240	$—
Long-term debt	$8,094	$425	$7,551	$499	$7,813	$507	$7,453	$933

See Note 4 for further fair value information on financial and derivative instruments.

Nuclear Decommissioning Trust Funds

DTE Electric has a legal obligation to decommission its nuclear power plants following the expiration of their operating licenses. This obligation is reflected as an asset retirement obligation on the 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. DTE Electric is continuing to fund FERC jurisdictional amounts for decommissioning even though explicit provisions are not included in FERC rates. See Note 10.

The following table summarizes the fair value of the nuclear decommissioning trust fund assets:

	December 31,	December 31,

	2013	2012
	(In millions)	
Fermi 2	$1,172	$1,021
Fermi 1	3	3
Low level radioactive waste	16	13
Total	$1,191	$1,037

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

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

	Year Ended December 31		
	2013	2012	2011
	(In millions)		
Realized gains	$83	$37	$46
Realized losses	$(41)	$(31)	$(38)
Proceeds from sales of securities	$1,118	$759	$833

Realized gains and losses from the sale of securities for the Fermi 2 and the low level radioactive waste funds are recorded to the Regulatory asset and Nuclear decommissioning liability. The following table sets forth the fair value and unrealized gains for the nuclear decommissioning trust funds:

	December 31, 2013		December 31, 2012	
	Fair Value	Unrealized Gains	Fair Value	Unrealized Gains
	(In millions)			
Equity securities	$730	$201	$631	$122
Debt securities	442	12	399	27
Cash and cash equivalents	19	—	7	—
	$1,191	$213	$1,037	$149

At December 31, 2013, investments in the nuclear decommissioning trust funds consisted of approximately 61% in publicly traded equity securities, 37% in fixed debt instruments and 2% in cash equivalents. At December 31, 2012, investments in the nuclear decommissioning trust funds consisted of approximately 61% in publicly traded equity securities, 38% in fixed debt instruments and 1% in cash equivalents.

The debt securities at December 31, 2013 and 2012 had an average maturity of approximately 7 and 6 years, respectively. 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. DTE Electric recognized $31 million and $44 million of unrealized losses as Regulatory assets at December 31, 2013 and 2012, respectively. Since the decommissioning of Fermi 1 is funded by DTE Electric rather than through a regulatory recovery mechanism, there is no corresponding regulatory asset treatment. Therefore, unrealized losses incurred by the Fermi 1 trust are recognized in earnings immediately. There were no unrealized losses recognized in 2013, 2012 and 2011 for Fermi 1.

Other Securities

At December 31, 2013 and 2012, the securities were comprised primarily of money-market and equity securities. During the years ended December 31, 2013 and 2012, no amounts of unrealized losses on available-for-sale securities were reclassified out of other comprehensive income and realized into net income for the periods. Gains related to trading securities held at December 31, 2013, 2012, and 2011 were $22 million, $11 million and $4 million, respectively.

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

NOTE 4 — FINANCIAL AND OTHER DERIVATIVE INSTRUMENTS

The Company recognizes all derivatives at their fair value as Derivative assets or liabilities on the 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 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 the fair value are recognized in earnings each period.

The Company's primary market risk exposure is associated with commodity prices, credit and interest rates. The Company has risk management policies to monitor and manage market risks. The Company uses derivative instruments to manage some of the exposure. The Company uses derivative instruments for trading purposes in its Energy Trading segment. Contracts classified as derivative instruments include power, natural gas, oil and certain coal forwards, futures, options and 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.

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 sales exemption and are therefore accounted for under the accrual method. Other derivative contracts are recoverable through the PSCR mechanism when settled. This results in the deferral of unrealized gains and losses as Regulatory assets or liabilities until realized.

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 gas supply requirements through 2016. Substantially all of these contracts meet the normal purchases and sales exemption 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 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, coke batteries, 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, coal, 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. The Company 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.

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

Corporate and Other — Interest Rate Risk — The Company uses interest rate swaps, treasury locks and other derivatives to hedge the risk associated with interest rate market volatility. In 2004 and 2000, the Company entered into a series of interest rate derivatives to limit its sensitivity to market interest rate risk associated with the issuance of long-term debt. Such instruments were designated as cash flow hedges. The Company subsequently issued long-term debt and terminated these hedges at a cost that is included in Other comprehensive loss. Amounts recorded in Other comprehensive loss will be reclassified to interest expense through 2033. In 2014, the Company estimates reclassifying less than $1 million of losses to earnings.

Credit Risk — The utility and non-utility businesses are exposed to credit risk if customers or counterparties do not comply with their contractual obligations. The Company maintains credit policies that significantly minimize overall credit risk. These policies include an evaluation of potential customers' and counterparties' financial condition, credit rating, collateral requirements or other credit enhancements such as letters of credit or guarantees. The Company generally uses standardized agreements that allow the netting of positive and negative transactions associated with a single counterparty. The Company maintains a provision for credit losses based on factors surrounding the credit risk of its customers, historical trends, and other information. Based on the Company's credit policies and its December 31, 2013 and 2012 provision for credit losses, the Company's exposure to counterparty nonperformance is not expected to have a material adverse effect on the Company's financial statements.

Derivative Activities

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

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

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

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

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

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

The following tables present the fair value of derivative instruments as of December 31, 2013 and 2012:

	December 31, 2013		December 31, 2012	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
	(In millions)			
Derivatives designated as hedging instruments:				
Interest rate contracts	$—	$—	$—	$(1)
Derivatives not designated as hedging instruments:				
Foreign currency exchange contracts	$—	$(1)	$—	$—
Commodity Contracts:				
Natural Gas	396	(503)	645	(661)
Electricity	400	(398)	360	(351)
Other	37	(34)	11	(7)
Total derivatives not designated as hedging instruments:	$833	$(936)	$1,016	$(1,019)
Total derivatives:				
Current	$691	$(773)	$862	$(879)
Noncurrent	142	(163)	154	(141)
Total derivatives	$833	$(936)	$1,016	$(1,020)

Certain of the Company'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, the Company offsets the fair value of derivative instruments with cash collateral received or paid for those contracts executed with the same counterparty, which reduces the Company'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.

The Company 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. The Company had issued letters of credit of approximately $19 million and $63 million at December 31, 2013 and 2012, respectively, which could be used to offset our net derivative liabilities. Letters of credit received from third parties which could be used to offset our net derivative assets were not material for the periods presented. Such balances of letters of credit are excluded from the tables below and are not netted with the recognized assets and liabilities in the 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. Certain contracts that have netting arrangements have not been offset in the Consolidated Statements of Financial Position. The impact of netting these derivative instruments and cash collateral related to such contracts is not material. Only the gross amounts for these derivative instruments are included in the table below.

As of December 31, 2013, the total cash collateral posted, net of cash collateral received, was $12 million. As of December 31, 2012, the total cash collateral received, net of cash collateral posted, was $20 million. As of December 31, 2013, derivative assets and derivative liabilities are shown net of cash collateral of $26 million and $17 million, respectively. There was no cash collateral related to unrealized positions to net against derivative assets and liabilities as of December 31, 2012. The Company recorded cash collateral paid of $34 million and cash collateral received of $13 million not related to unrealized derivative positions as of December 31, 2013. The Company recorded cash collateral paid of $4 million and cash collateral received of $24 million not related to unrealized derivative positions as of December 31, 2012. These amounts are included in accounts receivable and accounts payable and are recorded net by counterparty.

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

The following table presents the netting offsets of derivative assets and liabilities at December 31, 2013 and 2012:

	December 31, 2013			December 31, 2012		
	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	$396	$(382)	$14	$645	$(605)	$40
Electricity	400	(291)	109	360	(258)	102
Other	37	(34)	3	11	(6)	5
Total derivative assets	$833	$(707)	$126	$1,016	$(869)	$147
Derivative liabilities:						
Commodity Contracts:						
Natural Gas	$(503)	$395	$(108)	$(661)	$605	$(56)
Electricity	(398)	269	(129)	(351)	258	(93)
Other	(34)	34	—	(7)	6	(1)
Other derivative liabilities	(1)	—	(1)	(1)	—	(1)
Total derivative liabilities	$(936)	$698	$(238)	$(1,020)	$869	$(151)

The following table presents the netting offsets of derivative assets and liabilities at December 31, 2013 and 2012:

	December 31, 2013				December 31, 2012			
	Derivative Assets		Derivative Liabilities		Derivative Assets		Derivative Liabilities	
	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent
	(In millions)							
Reconciliation of derivative instruments to Consolidated Statements of Financial Position:								
Total fair value of derivatives	$691	$142	$(773)	$(163)	$862	$154	$(879)	$(141)
Counterparty netting	(566)	(115)	566	115	(754)	(115)	754	115
Collateral adjustment	(26)	—	12	5	—	—	—	—
Total derivatives as reported	$99	$27	$(195)	$(43)	$108	$39	$(125)	$(26)

The effect of derivatives not designated as hedging instruments on the Consolidated Statements of Operations for years ended December 31, 2013 and 2012 is as follows:

Location of Gain Gain (Loss)

Derivatives not Designated as Hedging Instruments	(Loss) Recognized in Income on Derivatives	Recognized in Income on Derivatives for Years Ended December 31 2013	2012
		(In millions)	
Foreign currency exchange contracts	Operating Revenue	$(1)	$—
Commodity Contracts:			
Natural Gas	Operating Revenue	(48)	(29)
Natural Gas	Fuel, purchased power and gas	(44)	25
Electricity	Operating Revenue	82	64
Other	Operating Revenue	—	5
Total		$(11)	$65

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

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

The effects of derivative instruments recoverable through the PSCR mechanism when realized on the Consolidated Statements of Financial Position were $5 million in unrealized gains related to FTRs recognized in Regulatory liabilities for the year ended December 31, 2013, and $15 million in unrealized gains related to FTRs recognized in Regulatory liabilities, for the year ended December 31, 2012.

The following represents the cumulative gross volume of derivative contracts outstanding as of December 31, 2013:

Commodity	Number of Units
Natural Gas (MMBtu)	795,553,773
Electricity (MWh)	55,658,483
Foreign Currency Exchange ($ CAD)	65,074,206
FTR (MWh)	10,485,618

Various subsidiaries of the Company have entered into contracts which contain ratings triggers and are guaranteed by DTE Energy. These contracts contain provisions which allow the counterparties to request that the Company 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 the Company can be asked 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 the Company 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 December 31, 2013, DTE Energy's contractual obligation in the form of cash or letter of credit in the event of a downgrade to below investment grade, under both hard trigger and soft trigger provisions, was approximately $406 million.

As of December 31, 2013, the Company had approximately $1,176 million of derivatives in net liability positions, for which hard triggers exist. Collateral of approximately $25 million has been posted against such liabilities, including cash and letters of credit. Associated derivative net asset positions for which contractual offset exists were approximately $902 million. The net remaining amount of approximately $249 million is derived from the $406 million noted above.

NOTE 5 — GOODWILL

The Company has goodwill resulting from purchase business combinations.

The change in the carrying amount of goodwill for the fiscal years ended December 31, 2013 and 2012 is as follows:

	2013	2012
	(In millions)	
Balance as of January 1	$2,018	$2,020
Goodwill attributable to sale of Unconventional Gas Production business	—	(2)

Balance at December 31	$2,018	$2,018

NOTE 6 — ACQUISITION

In the fourth quarter of 2012, the Company closed on the purchase of a portfolio of fourteen on-site energy projects from subsidiaries of Duke Energy Corporation and GDF Suez Energy North America, Inc. This acquisition provided a growth opportunity for the Company's Power and Industrial Projects segment that leverages its extensive energy-related operating experience and project management capabilities.

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

The purchase of equity interests ranged from 46 percent to 100 percent of the project companies for a total purchase price of approximately $294 million, which consisted of $220 million paid in cash and assumption of approximately $74 million of debt. The debt assumed related to two project companies which have been deemed variable interest entities. DTE, however, was determined not to be the primary beneficiary and thus the VIEs' assets and liabilities are not included in the Company's Consolidated Statements of Financial Position. Therefore, the assumed debt was not included in the purchase price allocation table below. There was no exposure to loss related to the debt assumed as the customer of the project companies is obligated to pay the loans in the event of default or termination. The following table summarizes the fair value of the assets acquired and liabilities assumed as of the closing date:

	(In millions)
Cash	$22
Accounts receivable	14
Other current assets	8
Property, plant and equipment	100
Intangible assets	75
Other noncurrent assets	9
Current liabilities	(7)
Non-controlling interest	(1)
Total purchase price	$220

The intangible assets recorded as a result of the acquisition pertained to existing contracts and agreements, which were valued at approximately $75 million as of the closing date. The intangible assets are amortized on a straight line basis over a weighted-average amortization period of approximately eight years. The Company did not record any goodwill due to the acquisition.

The Company's 2012 results of operations included revenue of $30 million and net income of $2 million associated with the acquired project companies for the approximate three-month period following the closing date. The pro forma results of operations have not been presented for DTE Energy because the effects of the acquisition were not material to our consolidated results of operations.

NOTE 7 — DISCONTINUED OPERATIONS

Sale of Unconventional Gas Production Business

In December 2012, the Company sold its 100% equity interest in its Unconventional Gas Production business which consisted of gas and oil production assets in the western Barnett and Marble Falls shale areas of Texas. The sale resulted in gross proceeds of approximately $255 million, which resulted in a pre-tax loss of approximately $83 million ($55 million after tax). The activity of the discontinued business is shown below. The amounts exclude general corporate overhead costs, and related tax effects, and no portion of corporate interest costs were allocated to discontinued operations.

	2012	2011
	(In millions)	
Operating Revenues	$55	$39
Operation and Maintenance	24	16
Depreciation, Depletion and Amortization	23	18

Taxes Other Than Income	4	3
Asset (Gains) and Losses, Net	83	—
	134	37
Operating Income (Loss)	(79)	2
Other (Income) and Deductions	6	6
Loss Before Income Taxes	(85)	(4)
Income Tax Expense (Benefit)	(29)	(1)
Net Loss Attributable to DTE Energy Company	$(56)	$(3)

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

NOTE 8 — PROPERTY, PLANT AND EQUIPMENT

Summary of property by classification as of December 31:

	2013	2012
Property, Plant and Equipment	(In millions)	
DTE Electric		
Generation	$11,127	$10,383
Distribution	7,603	7,306
Total DTE Electric	18,730	17,689
DTE Gas		
Distribution	2,834	2,704
Storage	431	426
Other	836	852
Total DTE Gas	4,101	3,982
Non-utility and other	2,292	1,960
Total	25,123	23,631
Less Accumulated Depreciation, Depletion and Amortization		
DTE Electric		
Generation	(4,004)	(3,880)
Distribution	(2,947)	(2,837)
Total DTE Electric	(6,951)	(6,717)
DTE Gas		
Distribution	(1,129)	(1,057)
Storage	(138)	(132)
Other	(338)	(365)
Total DTE Gas	(1,605)	(1,554)
Non-utility and other	(767)	(676)
Total	(9,323)	(8,947)
Net Property, Plant and Equipment	$15,800	$14,684

The Allowance for Funds used During Construction (AFUDC) capitalized was approximately $23 million and $20 million during 2013 and 2012, respectively.

The composite depreciation rate for DTE Electric was approximately 3.4% in 2013 and 3.3% in 2012 and 2011. The composite depreciation rate for DTE Gas was 2.4% in 2013 and 2012, and 2.3% in 2011.

The average estimated useful life for each major class of utility property, plant and equipment as of December 31, 2013 follows:

	Estimated Useful Lives in Years		
Utility	Generation	Distribution	Storage
Electric	40	41	N/A
Gas	N/A	50	53

The estimated useful lives for major classes of non-utility assets and facilities ranges from 3 to 55 years.

Capitalized software costs are classified as Property, plant and equipment and the related amortization is included in Accumulated depreciation, depletion and amortization on the Consolidated Statements of Financial Position. The

Company capitalizes the costs associated with computer software it develops or obtains for use in its business. The Company amortizes capitalized software costs on a straight-line basis over the expected period of benefit, ranging from 3 to 15 years.

Capitalized software costs amortization expense was $71 million in 2013, $68 million in 2012 and $65 million in 2011. The gross carrying amount and accumulated amortization of capitalized software costs at December 31, 2013 were $668 million and $384 million, respectively. The gross carrying amount and accumulated amortization of capitalized software costs at December 31, 2012 were $608 million and $313 million, respectively.

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

Gross property under capital leases was $35 million and $32 million at December 31, 2013 and 2012, respectively. Accumulated amortization of property under capital leases was $21 million and $20 million at December 31, 2013 and 2012, respectively.

NOTE 9 — JOINTLY OWNED UTILITY PLANT

DTE Electric has joint ownership interest in two power plants, Belle River and Ludington Hydroelectric Pumped Storage. DTE Electric's share of direct expenses of the jointly owned plants are included in Fuel, purchased power and gas and Operation and maintenance expenses in the Consolidated Statements of Operations. Ownership information of the two utility plants as of December 31, 2013 was as follows:

	Belle River		Ludington Hydroelectric Pumped Storage	
In-service date	1984-1985		1973	
Total plant capacity	1,270	MW	1,872	MW
Ownership interest	(a)		49	%
Investment in property, plant and equipment (in millions)	$1,702		$354	
Accumulated depreciation (in millions)	$969		$170	

(a) DTE Electric's ownership interest is 63% in Unit No. 1, 81% of the facilities applicable to Belle River used jointly by the Belle River and St. Clair Power Plants and 75% in common facilities used at Unit No. 2.

Belle River

The Michigan Public Power Agency (MPPA) has an ownership interest in Belle River Unit No. 1 and other related facilities. The MPPA is entitled to 19% of the total capacity and energy of the plant and is responsible for the same percentage of the plant's operation, maintenance and capital improvement costs.

Ludington Hydroelectric Pumped Storage

Consumers Energy Company has an ownership interest in the Ludington Hydroelectric Pumped Storage Plant. Consumers Energy is entitled to 51% of the total capacity and energy of the plant and is responsible for the same percentage of the plant's operation, maintenance and capital improvement costs.

NOTE 10 — ASSET RETIREMENT OBLIGATIONS

The Company has a legal retirement obligation for the decommissioning costs for its Fermi 1 and Fermi 2 nuclear plants, dismantlement of facilities located on leased property and various other operations. The Company has conditional retirement obligations for gas pipelines, asbestos and PCB removal at certain of its power plants and various distribution equipment. The Company recognizes such obligations as liabilities at fair market value when they are incurred, which generally is at the time the associated assets are placed in service. Fair value is measured using expected future cash outflows discounted at our credit-adjusted risk-free rate. In its regulated operations, the Company recognizes regulatory assets or liabilities for timing differences in expense recognition for legal asset retirement costs that are currently recovered in rates.

If a reasonable estimate of fair value cannot be made in the period in which the retirement obligation is incurred, such as for assets with indeterminate lives, the liability is recognized when a reasonable estimate of fair value can be made.

Natural gas storage system assets, substations, manholes and certain other distribution assets have an indeterminate life. Therefore, no liability has been recorded for these assets.

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

A reconciliation of the asset retirement obligations for 2013 follows:

	(In millions)
Asset retirement obligations at December 31, 2012	$1,719
Accretion	106
Liabilities incurred	5
Liabilities settled	(13)
Revision in estimated cash flows	10
Asset retirement obligations at December 31, 2013	$1,827

In 2001, DTE Electric began the final decommissioning of Fermi 1, with the goal of removing the remaining radioactive material and terminating the Fermi 1 license. In 2011, based on management decisions revising the timing and estimate of cash flows, DTE Electric accrued an additional $19 million with respect to the decommissioning of Fermi 1. Management has suspended decommissioning activities and placed the facility in safe storage status. The expense amount has been recorded in Asset (gains) and losses, reserves and impairments, net on the Consolidated Statements of Operations. In addition, in 2011, based on updated studies revising the timing and estimate of cash flows, a reduction of approximately $20 million was made to the DTE Electric asset retirement obligation for asbestos removal with approximately $6 million of the decrease associated with Fermi 1 recorded in Asset (gains) and losses, reserves and impairments, net on the Consolidated Statements of Operations.

In October 2011, the MPSC approved DTE Electric's request for a reduction to the nuclear decommissioning surcharge under the assumption that it would request an extension of the Fermi 2 license for an additional 20 years beyond the term of the existing license which expires in 2025. DTE Electric expects to request the license extension in 2014. This proposed extension of the license, including the associated impact on spent nuclear fuel, resulted in a revision in estimated cash flows for the Fermi 2 asset retirement obligation of approximately $22 million in 2011. It is estimated that the cost of decommissioning Fermi 2 is $1.6 billion in 2013 dollars and $10 billion in 2045 dollars, using a 6% inflation rate. Approximately $1.6 billion of the asset retirement obligations represent nuclear decommissioning liabilities that are funded through a surcharge to electric customers over the life of the Fermi 2 nuclear plant.

The NRC has jurisdiction over the decommissioning of nuclear power plants and requires minimum decommissioning funding based upon a formula. The MPSC and FERC regulate the recovery of costs of decommissioning nuclear power plants and both require the use of external trust funds to finance the decommissioning of Fermi 2. Rates approved by the MPSC provide for the recovery of decommissioning costs of Fermi 2 and the disposal of low-level radioactive waste. DTE Electric is continuing to fund FERC jurisdictional amounts for decommissioning even though explicit provisions are not included in FERC rates. The Company believes the MPSC and FERC collections will be adequate to fund the estimated cost of decommissioning. The decommissioning assets, anticipated earnings thereon and future revenues from decommissioning collections will be used to decommission Fermi 2. The Company expects the liabilities to be reduced to zero at the conclusion of the decommissioning activities. If amounts remain in the trust funds for Fermi 2 following the completion of the decommissioning activities, those amounts will be disbursed based on rulings by the MPSC and FERC.

A portion of the funds recovered through the Fermi 2 decommissioning surcharge and deposited in external trust accounts is designated for the removal of non-radioactive assets and returning the site to greenfield. This removal and greenfielding is not considered a legal liability. Therefore, it is not included in the asset retirement obligation, but is reflected as the nuclear decommissioning liability. The decommissioning of Fermi 1 is funded by DTE Electric. Contributions to the Fermi 1 trust are discretionary. See Note 3 for additional discussion of Nuclear decommissioning trust fund assets.

NOTE 11 — REGULATORY MATTERS

Regulation

DTE Electric and DTE Gas are subject to the regulatory jurisdiction of the MPSC, which issues orders pertaining to rates, recovery of certain costs, including the costs of generating facilities and regulatory assets, conditions of service, accounting and operating-related matters. DTE Electric is also regulated by the FERC with respect to financing authorization and wholesale electric activities. Regulation results in differences in the application of generally accepted accounting principles between regulated and non-regulated businesses.

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

The Company is unable to predict the outcome of the unresolved regulatory matters discussed herein. Resolution of these matters is dependent upon future MPSC orders and appeals, which may materially impact the financial position, results of operations and cash flows of the Company.

Regulatory Assets and Liabilities

DTE Electric and DTE Gas are required to record regulatory assets and liabilities for certain transactions that would have been treated as revenue or expense in non-regulated businesses. Continued applicability of regulatory accounting treatment requires that rates be designed to recover specific costs of providing regulated services and be charged to and collected from customers. Future regulatory changes or changes in the competitive environment could result in the discontinuance of this accounting treatment for regulatory assets and liabilities for some or all of our businesses and may require the write-off of the portion of any regulatory asset or liability that was no longer probable of recovery through regulated rates. Management believes that currently available facts support the continued use of regulatory assets and liabilities and that all regulatory assets and liabilities are recoverable or refundable in the current regulatory environment.

The following are balances and a brief description of the regulatory assets and liabilities at December 31:

	2013	2012
	(In millions)	
Assets		
Recoverable pension and other postretirement costs:		
Pension	$1,660	$2,420
Other postretirement costs	—	426
Asset retirement obligation	394	424
Recoverable Michigan income taxes	286	304
Recoverable income taxes related to securitized regulatory assets	126	226
Cost to achieve Performance Excellence Process	75	96
Other recoverable income taxes	71	76
Unamortized loss on reacquired debt	63	63
Deferred environmental costs	59	58
Enterprise Business Systems costs	13	16
Recoverable revenue decoupling	9	28
Choice incentive mechanism	3	66
Accrued PSCR/GCR revenue	—	87
Recoverable restoration expense	—	49
Other	104	78
	2,863	4,417
Less amount included in current assets	(26)	(182)
	$2,837	$4,235
Securitized regulatory assets	$231	$413

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

	2013	2012
	(In millions)	
Liabilities		
Asset removal costs	$351	$439
Renewable energy	277	230
Refundable revenue decoupling/deferred gain	127	127
Negative pension offset	84	105
Over recovery of Securitization	72	54
Refundable other postretirement costs	72	—
Accrued PSCR/GCR	65	16
Refundable income taxes	45	56
Energy optimization	31	34
Fermi 2 refueling outage	26	12
Refundable uncollectible expense	12	37
Other	2	10
	$1,164	$1,120
Less amount included current liabilities	(302)	(89)
	$862	$1,031

As noted below, certain regulatory assets for which costs have been incurred have been included (or are expected to be included, for costs incurred subsequent to the most recently approved rate case) in DTE Electric or DTE Gas's rate base, thereby providing a return on invested costs (except as noted). Certain other regulatory assets are not included in rate base but accrue recoverable carrying charges until surcharges to collect the assets are billed. Certain regulatory assets do not result from cash expenditures and therefore do not represent investments included in rate base or have offsetting liabilities that reduce rate base.

ASSETS

- Recoverable pension and other postretirement costs — Accounting rules for pension and other postretirement benefit costs require, among other things, the recognition in other comprehensive income of the actuarial gains or losses and the prior service costs that arise during the period but that are not immediately recognized as components of net periodic benefit costs. DTE Electric and DTE Gas record the impact of actuarial gains or losses and prior services costs as a regulatory asset since the traditional rate setting process allows for the recovery of pension and other postretirement costs. The asset will reverse as the deferred items are amortized and recognized as components of net periodic benefit costs. (a)

- Asset retirement obligation — This obligation is primarily for Fermi 2 decommissioning costs. The asset captures the timing differences between expense recognition and current recovery in rates and will reverse over the remaining life of the related plant. (a)

- Recoverable Michigan income taxes — In July 2007, the Michigan Business Tax (MBT) was enacted by the State of Michigan. State deferred tax liabilities were established for the Company's utilities, and offsetting regulatory assets were recorded as the impacts of the deferred tax liabilities will be reflected in rates as the related taxable temporary differences reverse and flow through current income tax expense. In May 2011, the MBT was repealed and the Michigan Corporate Income Tax (MCIT) was enacted. The regulatory asset was remeasured to reflect the impact of the MCIT tax rate. (a)

- Recoverable income taxes related to securitized regulatory assets — Receivable for the recovery of income taxes to be paid on the non-bypassable securitization bond surcharge. A non-bypassable securitization tax surcharge recovers the income tax over a fourteen-year period ending 2015. (a)

- Cost to achieve Performance Excellence Process (PEP) — The MPSC authorized the deferral of costs to implement the PEP. These costs consist of employee severance, project management and consultant support. These costs are amortized over a ten-year period beginning with the year subsequent to the year the costs were deferred.

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

- Other recoverable income taxes — Income taxes receivable from DTE Electric's customers representing the difference in property-related deferred income taxes and amounts previously reflected in DTE Electric's rates. This asset will reverse over the remaining life of the related plant. (a)

- Unamortized loss on reacquired debt — The unamortized discount, premium and expense related to debt redeemed with a refinancing are deferred, amortized and recovered over the life of the replacement issue.

- Deferred environmental costs — The MPSC approved the deferral of investigation and remediation costs associated with DTE Gas's former MGP sites. Amortization of deferred costs is over a ten-year period beginning in the year after costs were incurred, with recovery (net of any insurance proceeds) through base rate filings. (a)

- Enterprise Business Systems (EBS) costs — The MPSC approved the deferral and amortization over ten years beginning in January 2009 of EBS costs that would otherwise be expensed.

- Recoverable revenue decoupling — Amounts recoverable from DTE Gas customers for the change in revenue resulting from the difference in weather-adjusted average sales per customer compared to the base level of average sales per customer established by the MPSC. The December 2012 order in DTE Gas's rate case required the RDM be discontinued effective November 1, 2012. The order provided for a new RDM, which began in November 2013.

- Choice incentive mechanism (CIM) — DTE Electric receivable for non-fuel revenues lost as a result of fluctuations in electric Customer Choice sales. The CIM was terminated in the October 20, 2011 MPSC order issued to DTE Electric.

- Accrued PSCR/GCR revenue — Receivable for the temporary under-recovery of and carrying costs on fuel and purchased power costs incurred by DTE Electric which are recoverable through the PSCR mechanism and temporary under-recovery of and carrying costs on gas costs incurred by DTE Gas which are recoverable through the GCR mechanism.

- Recoverable restoration expense — Receivable for the MPSC approved restoration expense tracking mechanism that tracked the difference between actual restoration expense and the amount provided for in base rates, recognized pursuant to the MPSC authorization. The restoration expense tracking mechanism was terminated in the October 20, 2011 MPSC order issued to DTE Electric.

- Securitized regulatory assets — The net book balance of the Fermi 2 nuclear plant was written off in 1998 and an equivalent regulatory asset was established. In 2001, the Fermi 2 regulatory asset and certain other regulatory assets were securitized pursuant to PA 142 and an MPSC order. A non-bypassable securitization bond surcharge recovers the securitized regulatory asset over a fourteen-year period ending in 2015.

(a) Regulatory assets not earning a return or accruing carrying charges.

LIABILITIES

- Asset removal costs — The amount collected from customers for the funding of future asset removal activities.

- Renewable energy — Amounts collected in rates in excess of renewable energy expenditures.

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Refundable revenue decoupling / deferred gain — Amounts were originally accrued as refundable to DTE Electric customers for the change in revenue resulting from the difference between actual average sales per customer compared to the base level of average sales per customer established by the MPSC. In 2012, the Michigan Court of Appeals issued a decision reversing the MPSC's decision to authorize a RDM for DTE Electric. The revenue decoupling liability was reversed and, after receiving an order from the MPSC to defer the resulting gain for future amortization, DTE Electric created a regulatory liability representing its obligation to refund the gain. The deferred gain will be amortized into earnings in 2014.

- Negative pension offset — DTE Gas's negative pension costs are not included as a reduction to its authorized rates; therefore, the Company is accruing a regulatory liability to eliminate the impact on earnings of the negative pension expense accrued. This regulatory liability will reverse to the extent DTE Gas’s pension expense is positive in future years.

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

- Over recovery of Securitization — Over recovery of securitization bond expenses.
- Refundable other postretirement costs — Accounting rules for other postretirement benefit costs require, among other things, the recognition in other comprehensive income of the actuarial gains or losses and the prior service costs or credits that arise during the period but that are not immediately recognized as components of net periodic benefit costs. DTE Electric and DTE Gas record the favorable impact of actuarial gains or losses and prior service credits as a regulatory liability since the impact will reduce expense in a future rate setting process as the deferred items are recognized as a component of net periodic benefit costs.
- Accrued PSCR/GCR refund — Liability for the temporary over-recovery of and a return on power supply costs and transmission costs incurred by DTE Electric which are recoverable through the PSCR mechanism and temporary over-recovery of and a return on gas costs incurred by DTE Gas which are recoverable through the GCR mechanism.
- Refundable income taxes — Income taxes refundable to DTE Gas's customers representing the difference in property-related deferred income taxes payable and amounts recognized pursuant to MPSC authorization.
- Energy optimization (EO) — Amounts collected in rates in excess of energy optimization expenditures.
- Fermi 2 refueling outage — Accrued liability for refueling outage at Fermi 2 pursuant to MPSC authorization.
- Refundable uncollectible expense (UETM) — DTE Electric and DTE Gas liability for the MPSC approved uncollectible expense tracking mechanism that tracks the difference in the fluctuation in uncollectible accounts and amounts recognized pursuant to the MPSC authorization. The UETM was terminated for DTE Electric in the October 20, 2011 MPSC rate case order and terminated for DTE Gas in the December 20, 2012 MPSC approval of the partial settlement agreement.

2009 Electric Rate Case Filing - Court of Appeals Decision

In April 2012, the Michigan Court of Appeals (COA) issued a decision relating to an appeal of the January 2010 MPSC rate order in DTE Electric's January 2009 rate case filing. The COA found that the record of evidence in the January 2010 rate order was insufficient to support the MPSC's authorization to recover costs for the advanced metering infrastructure (AMI) program and remanded this matter to the MPSC. On October 17, 2013, the MPSC issued an order affirming the approximately $8 million rate increase authorized in the MPSC's January 2010 rate order for the AMI program and further concluded that the evidence presented after remand supports the authorized cost recovery.

2010 Electric Rate Case Filing - Court of Appeals Decision

In July 2013, the COA issued a decision relating to an appeal of the October 2011 MPSC order in DTE Electric's October 2010 rate case filing. The COA found that the record of evidence in the 2010 rate case order was insufficient to support the MPSC's authorization to recover costs for the AMI program and remanded this matter to the MPSC. The MPSC had approved an approximately $11 million rate increase related to the AMI program in the October 2011 order. DTE Electric is currently operating its AMI program pursuant to the MPSC's approval set forth in the October 2011 order. On August 29, 2013, the MPSC reopened the 2010 electric rate case for the limited purpose of addressing the COA's opinion on AMI. The Company is unable to predict the outcome of this matter or the timing of its resolution.

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

Transition of the City of Detroit's Public Lighting Department's (PLD) Customers to DTE Electric's Distribution System

Accounting Authority
On June 28, 2013, DTE Electric filed an application for accounting authority to defer certain costs associated with the transition of the City of Detroit's PLD customers to the DTE Electric distribution system over a five to seven year system conversion period. The Company requested authority to defer as a regulatory asset, all net incremental revenue requirement associated with the transition. The net incremental revenue requirement includes costs to install meters and attach customers; system and customer facility upgrades and repairs; and the difference between DTE Electric's tariff rates and any transitional rates approved in the future. On July 11, 2013, the MPSC approved DTE Electric's request to defer, for accounting purposes, the net incremental revenue requirement.

The approval excludes the request to defer the difference between DTE Electric's tariff rates and any transitional rates that might be approved by the MPSC in the future. The MPSC will address proposed rates and recovery matters in a future contested proceeding. As the accounting order did not provide a regulatory recovery mechanism, a regulatory asset will not be recognized until a regulatory recovery mechanism is put into place and the recovery of the regulatory asset becomes probable.

Transitional Reconciliation Mechanism (TRM)
On July 19, 2013, DTE Electric filed its TRM application proposing a transitional tariff option for certain former PLD customers and a modified line extension provision. The application also proposed a recovery mechanism for the deferred net incremental revenue requirement described above. The application further discussed that DTE Electric will be requesting recovery, in subsequent PSCR cases, of PLD transmission delivery service costs incurred while DTE Electric is temporarily relying upon PLD to operate and maintain PLD's system during the system conversion period. If the MPSC determines that the transmission costs are not recoverable in the PSCR, the Company requested recovery as part of the TRM.

Energy Optimization (EO) Plans

The EO plan is designed to help customers reduce their electric usage by: 1) building customer awareness of energy efficiency options and 2) offering a diverse set of programs and participation options that result in energy savings for each customer class.

In May 2013, DTE Electric and DTE Gas filed separate applications for approval of their respective reconciliations of their 2012 EO plan expenses. DTE Electric’s EO reconciliation included a cumulative $26 million net over-recovery and DTE Gas’s EO reconciliation included a cumulative $7 million net over-recovery for their 2012 EO plans. DTE Electric and DTE Gas proposed that the calculated over-recoveries for 2012 be carried forward into 2013 and used as beginning balances for the 2013 reconciliations. On December 6, 2013, the MPSC approved settlement agreements of the DTE Electric and DTE Gas 2012 EO reconciliations that carried forward to 2013 the 2012 over-recoveries. In addition, the MPSC authorized performance incentive surcharges, over a 12-month period effective January 1, 2014, of approximately $10 million and $4 million for DTE Electric and DTE Gas, respectively.

In July 2013, DTE Electric and DTE Gas filed separate applications with the MPSC for the biennial review of their EO plans. On December 19, 2013, the MPSC approved settlement agreements for the EO plans of DTE Electric and DTE Gas.

DTE Electric Restoration Expense Tracker Mechanism (RETM) and Line Clearance Tracker (LCT) Reconciliation

In January 2012, DTE Electric filed an application with the MPSC for approval of the reconciliation of its 2011 RETM and LCT. The Company's 2011 restoration expenses were higher than the amount provided in rates. Accordingly, DTE Electric requested net recovery of approximately $44 million. On February 28, 2013, the MPSC approved a settlement agreement and authorized a $44 million net surcharge to recover the costs over a three-month period beginning April 1, 2013.

DTE Electric Uncollectible Expense True-Up Mechanism (UETM)

In February 2012, DTE Electric filed an application with the MPSC for approval of its UETM for 2011 requesting authority to refund approximately $9 million consisting of costs related to 2011 uncollectible expense. On February 28, 2013, the MPSC approved a settlement agreement and authorized a $9 million credit to refund the over-recovery over a one month period beginning April 1, 2013.

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

Low Income Energy Assistance Fund (LIEAF)

On July 1, 2013, Michigan Public Act 95 was signed into law and created the LIEAF. The legislation allows the use of a LIEAF funding factor to be determined by the MPSC and assessed on all customer classes of Michigan electric utilities to fund the LIEAF. On July 29, 2013, the MPSC adopted a funding factor of $0.99 per meter per month for all Michigan electric utilities that are participating in the program, including DTE Electric, effective with the September 2013 billing month. The surcharge billed by DTE Electric is remitted to the State of Michigan for subsequent distribution through a grant process to social service agencies and utilities to assist low income customers.

Renewable Energy Plan (REP)

In June 2013, DTE Electric filed an application for the biennial review and approval of its amended REP with the MPSC requesting authority to reduce its annual surcharge revenue recovery from approximately $100 million to $15 million. The proposed level is appropriate to continue to properly implement DTE Electric’s 20-year REP, designed to deliver cleaner, renewable electric generation to its customers, to further diversify DTE Electric’s and the State of Michigan’s sources of electric supply, and to address the state and national goals of increasing energy independence. On December 19, 2013, the MPSC approved DTE Electric’s amended REP.

Power Supply Cost Recovery 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, nitrogen oxide and sulfur dioxide emission allowances costs, urea costs, transmission costs and MISO costs. The MPSC reviews these costs, policies and practices for prudence in annual plan and reconciliation filings.

2010 PSCR Year - On April 25, 2013, the MPSC approved the 2010 PSCR net under-recovery of $52.6 million and the recovery of this amount as part of the 2011 PSCR reconciliation. The order also approved DTE Electric's Pension Equalization Mechanism reconciliation and authorized a one month surcharge in June 2013 and approved the recovery of the over-refund of the self-implemented rate increase related to the 2009 electric rate case filing as part of the 2011 PSCR reconciliation.

2012 PSCR Year - In March 2013, DTE Electric filed the 2012 PSCR reconciliation calculating a net under-recovery of approximately $87 million that includes an under-recovery of approximately $148 million for the 2011 PSCR year. The reconciliation includes purchased power costs related to the manual shutdown of our Fermi 2 nuclear power plant in June 2012 caused by the failure of one of the plant's two non-safety related feed-water pumps. The plant was restarted on July 30, 2012, which restored production to nominal 68% of full capacity. In September 2013, the repair to the plant was completed and production was returned to full capacity. DTE Electric was able to purchase sufficient power from MISO to continue to provide uninterrupted service to our customers. Certain intervenors in the reconciliation case have challenged the recovery of up to $32 million of the Fermi-related purchased power costs. Resolution of this matter is expected in 2014.

2012 Gas Rate Case Filing

DTE Gas filed a rate case on April 20, 2012 based on a projected test year for the twelve-month period ending October 31, 2013. On December 20, 2012, the MPSC approved a partial settlement agreement and authorized the Company to increase its annual gas revenues by $19.9 million for service rendered on and after January 1, 2013. The partial settlement agreement did not resolve the proposal for an infrastructure recovery mechanism (IRM) designed to recover DTE Gas' projected costs over a five-year period related to its gas main renewal, pipeline integrity and meter move out programs. On April 16, 2013, the MPSC issued an order approving the IRM and authorized the recovery of the cost of service related to $77 million of annual investment in the programs beginning in May 2013. The IRM will adjust annually in July for the incremental investment each year, after a limited hearing on the reconciliation of the prior year capital expenditures. When DTE Gas files a rate case, all capital invested as part of the IRM will be rolled into rate base and recovery would continue through base rates as part of a base rate case filing. As part of any future rate case, DTE Gas may propose to implement an updated IRM to address the recovery of future infrastructure investments.

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

DTE Gas UETM

In March 2013, DTE Gas filed an application with the MPSC for approval of its UETM reconciliation for 2012 requesting authority to refund approximately $20 million. On September 10, 2013, the MPSC approved a settlement agreement approving the requested 2012 UETM refund over a twelve-month period beginning in October 2013.

DTE Gas Revenue Decoupling Mechanism (RDM)

In October 2012, DTE Gas filed an application with the MPSC for approval of its RDM reconciliation for the period July 1, 2011 through June 30, 2012. The application requests authority to adjust existing retail gas rates so as to collect a net amount of approximately $9 million, plus interest. On March 15, 2013, the MPSC approved a settlement agreement and authorized the implementation of surcharges during the billing months of April 2013 through March 2014.

In May 2013, DTE Gas filed an application with the MPSC for approval of its RDM reconciliation for the period July 1, 2012 through October 31, 2012. DTE Gas's RDM application proposed the recovery of a net under-recovery of approximately $5.2 million. On November 14, 2013, the MPSC approved a settlement agreement and authorized the implementation of surcharges during the billing months of December 2013 through March 2014.

The December 2012 order in DTE Gas's rate case required the RDM be discontinued effective November 1, 2012. The order also provided for a new RDM for the period November 1, 2013 through October 31, 2014. The new RDM decouples weather normalized distribution revenue inside caps. The caps are tied to expected conservation targets: 1.125% in the first reconciliation period and 2.25% for the second and future periods.

DTE Gas Depreciation Filing

In compliance with an MPSC order, DTE Gas filed a depreciation case in June 2012. On May 15, 2013, the MPSC approved a settlement agreement increasing DTE Gas’s composite depreciation rates from 2.29% to 2.51%, effective on the same date as the MPSC-approved rates are effective in DTE Gas’s next general rate case. The Company cannot predict when DTE Gas will file its next rate case.

NOTE 12 — INCOME TAXES

Income Tax Summary

The Company files a consolidated federal income tax return. Total income tax expense varied from the statutory federal income tax rate for the following reasons:

	2013		2012		2011	
	(In millions)					
Income before income taxes	$922		$960		$991	
Income tax expense at 35% statutory rate	$323		$336		$347	
Production tax credits	(68	)	(49	)	(6	)
Investment tax credits	(6	)	(6	)	(6	)
Depreciation	(4	)	(4	)	(4	)
AFUDC - Equity	(5	)	(4	)	(1	)
Employee Stock Ownership Plan dividends	(4	)	(4	)	(4	)
Domestic production activities deduction	(14	)	(14	)	(7	)

State and local income taxes, net of federal benefit	37	37	37
Enactment of Michigan Corporate Income Tax, net of federal expense	—	—	(87)
Other, net	(5)	(6)	(1)
Income tax expense	$254	$286	$268
Effective income tax rate	27.5%	29.8%	27.0%

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

Components of income tax expense were as follows:

	2013	2012	2011
	(In millions)		
Current income tax expense (benefit)			
Federal	$74	$190	$27
State and other income tax	16	49	21
Total current income taxes	90	239	48
Deferred income tax expense (benefit)			
Federal	122	39	318
State and other income tax	42	8	(98)
Total deferred income taxes	164	47	220
Total income taxes from continuing operations	254	286	268
Discontinued operations	—	(29)	(1)
Total	$254	$257	$267

Deferred tax assets and liabilities are recognized for the estimated future tax effect of temporary differences between the tax basis of assets or liabilities and the reported amounts in the financial statements. Deferred tax assets and liabilities are classified as current or noncurrent according to the classification of the related assets or liabilities. Deferred tax assets and liabilities not related to assets or liabilities are classified according to the expected reversal date of the temporary differences. Consistent with rate making treatment, deferred taxes are offset in the table below for temporary differences which have related regulatory assets and liabilities.

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

	2013	2012
	(In millions)	
Property, plant and equipment	$(3,372)	$(3,389)
Securitized regulatory assets	(127)	(256)
Alternative minimum tax credit carry-forwards	266	254
Merger basis differences	18	42
Pension and benefits	(30)	(33)
Other comprehensive loss	—	101
Derivative assets and liabilities	—	66
State net operating loss and credit carry-forwards	43	37
Other	(110)	41
	(3,312)	(3,137)
Less valuation allowance	(37)	(33)
	$(3,349)	$(3,170)
Current deferred income tax assets (liabilities)	$(28)	$21
Long-term deferred income tax liabilities	(3,321)	(3,191)
	$(3,349)	$(3,170)
Deferred income tax assets	$1,808	$1,038
Deferred income tax liabilities	(5,157)	(4,208)
	$(3,349)	$(3,170)

Production tax credits earned in prior years but not utilized totaled $266 million and are carried forward indefinitely as alternative minimum tax credits. The majority of the production tax credits earned in prior years but not utilized, including all of those from our synfuel projects, were generated from projects that had received a private letter ruling

(PLR) from the Internal Revenue Service (IRS). These PLRs provide assurance as to the appropriateness of using these credits to offset taxable income, however, these tax credits are subject to IRS audit and adjustment.

The above table excludes deferred tax liabilities associated with unamortized investment tax credits that are shown separately on the Consolidated Statements of Financial Position. Investment tax credits are deferred and amortized to income over the average life of the related property.

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

The Company has state deferred tax assets related to net operating loss and credit carry-forwards of $43 million and $37 million at December 31, 2013 and 2012, respectively. The state net operating loss and credit carry-forwards expire from 2014 through 2033. The Company has recorded valuation allowances at December 31, 2013 and 2012 of approximately $37 million and $33 million, respectively, with respect to these deferred tax assets. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Uncertain Tax Positions

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2013	2012	2011
	(In millions)		
Balance at January 1	$11	$48	$28
Additions for tax positions of prior years	—	—	27
Reductions for tax positions of prior years	—	(2)	(4)
Additions for tax positions of current year	—	1	1
Settlements	—	(30)	(3)
Lapse of statute of limitations	(1)	(6)	(1)
Balance at December 31	$10	$11	$48

The Company had $2 million and $3 million of unrecognized tax benefits at December 31, 2013 and at 2012, respectively, that, if recognized, would favorably impact its effective tax rate. During the next twelve months, it is reasonably possible that the statute of limitation will expire on various state tax returns. As a result, the Company believes that it is possible that there will be a decrease in unrecognized tax benefits of up to $1 million within the next twelve months.

The Company recognizes interest and penalties pertaining to income taxes in Interest expense and Other expenses, respectively, on its Consolidated Statements of Operations. Accrued interest pertaining to income taxes totaled $1 million and $1 million at December 31, 2013 and 2012, respectively. The Company had no accrued penalties pertaining to income taxes. The Company recognized interest expense (income) related to income taxes of a nominal amount, $(1) million and $(2) million in 2013, 2012 and 2011, respectively.

In 2013, the Company settled a federal tax audit for the 2011 tax year, which resulted in the recognition of a nominal amount of unrecognized tax benefits. The Company's federal income tax returns for 2012 and subsequent years remain subject to examination by the IRS. The Company's Michigan Business Tax and Michigan Corporate Income Tax returns for the year 2008 and subsequent years remain subject to examination by the State of Michigan. The Company also files tax returns in numerous state and local jurisdictions with varying statutes of limitation.

Michigan Corporate Income Tax (MCIT)

In May 2011, the Michigan Business Tax (MBT) was repealed and the MCIT was enacted and became effective January 1, 2012. The MCIT subjects corporations with business activity in Michigan to a 6% tax rate on an apportioned income tax base and eliminates the modified gross receipts tax and nearly all credits available under the MBT. The MCIT also eliminated the future deductions allowed under MBT that enabled companies to establish a one-time deferred tax asset upon enactment of the MBT to offset deferred tax liabilities that resulted from enactment of the MBT.

As a result of the enactment of the MCIT, the net state deferred tax liability was remeasured to reflect the impact of the MCIT tax rate on cumulative temporary differences expected to reverse after the effective date. The net impact of this remeasurement was a reduction of the net deferred tax assets attributable to our regulated utilities, partially offset by a decrease in deferred tax liabilities attributable to our non-utilities of $87 million primarily due to a lower apportionment factor from inclusion of non-utility entities in DTE Energy's unitary Michigan tax return and was recognized as a reduction to income tax expense in 2011.

No recognition of these non-cash transactions have been reflected in the Consolidated Statements of Cash Flows.

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

NOTE 13 — COMMON STOCK

Common Stock

During 2013 and 2012, the Company contributed the following amounts of DTE Energy Common stock to the DTE Energy Company Affiliates Employee Benefit Plans Master Trust:

Date	Number of Shares	Price Per Share	Amount (In millions)
March 12, 2013	750,075	$66.66	$50
June 12, 2013	753,579	$66.35	50
September 12, 2013	1,522,301	$65.69	100
			$200
June 18, 2012	1,334,668	$59.94	$80

The shares for all the contributions were valued at the closing market price of DTE Energy common stock on the contribution dates in accordance with fair value measurement and accounting requirements.

Under the DTE Energy Company Long-Term Incentive Plan, the Company grants non-vested stock awards to key employees, primarily management. As a result of a stock award, a settlement of an award of performance shares, or by exercise of a participant's stock option, the Company may deliver common stock from the Company's authorized but unissued common stock and/or from outstanding common stock acquired by or on behalf of the Company in the name of the participant.

Dividends

Certain of the Company's credit facilities contain a provision requiring the Company to maintain a total funded debt to capitalization ratio, as defined in the agreements, of no more than 0.65 to 1, which has the effect of limiting the amount of dividends the Company can pay in order to maintain compliance with this provision. See Note 17 for a definition of this ratio. The effect of this provision was to restrict the payment of approximately $166 million at December 31, 2013 of total retained earnings of approximately $4 billion. There are no other effective limitations with respect to the Company's ability to pay dividends.

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

NOTE 14 — EARNINGS PER SHARE

The Company reports both basic and diluted earnings per share. The calculation of diluted earnings per share assumes the issuance of potentially dilutive common shares outstanding during the period from the exercise of stock options. A reconciliation of both calculations is presented in the following table as of December 31:

	2013	2012	2011
	(In millions, expect per share amounts)		
Basic Earnings per Share			
Net income attributable to DTE Energy Company	$661	$610	$711
Average number of common shares outstanding	175	171	169
Weighted average net restricted shares outstanding	1	1	1
Dividends declared — common shares	$453	$413	$392
Dividends declared — net restricted shares	1	1	1
Total distributed earnings	$454	$414	$393
Net income less distributed earnings	$207	$196	$318
Distributed (dividends per common share)	$2.59	$2.42	$2.32
Undistributed	1.17	1.14	1.87
Total Basic Earnings per Common Share	$3.76	$3.56	$4.19
Diluted Earnings per Share			
Net income attributable to DTE Energy Company	$661	$610	$711
Average number of common shares outstanding	175	171	169
Average incremental shares from assumed exercise of options	—	1	1
Common shares for dilutive calculation	175	172	170
Weighted average net restricted shares outstanding	1	1	1
Dividends declared — common shares	$453	$413	$392
Dividends declared — net restricted shares	1	1	1
Total distributed earnings	$454	$414	$393
Net income less distributed earnings	$207	$196	$318
Distributed (dividends per common share)	$2.59	$2.42	$2.32
Undistributed	1.17	1.13	1.86
Total Diluted Earnings per Common Share	$3.76	$3.55	$4.18

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

NOTE 15 — LONG-TERM DEBT

Long-Term Debt

The Company’s long-term debt outstanding and weighted average interest rates (a) of debt outstanding at December 31 were:

	2013	2012
	(In millions)	
Mortgage bonds, notes, and other		
DTE Energy Debt, Unsecured		
6.1% due 2014 to 2033	$1,297	$1,298
DTE Electric Taxable Debt, Principally Secured		
4.7% due 2014 to 2043	4,286	3,777
DTE Electric Tax-Exempt Revenue Bonds (b)		
5.1% due 2014 to 2036	558	707
DTE Gas Taxable Debt, Principally Secured		
5.6% due 2014 to 2042	1,029	919
Other Long-Term Debt, Including Non-Recourse Debt	142	153
	7,312	6,854
Less amount due within one year	(694)	(634)
	$6,618	$6,220
Securitization bonds		
6.6% due 2015	$302	$479
Less amount due within one year	(197)	(177)
	$105	$302
Junior Subordinated Debentures		
6.5% due 2061	$280	$280
5.25% due 2062	200	200
	$480	$480

(a) Weighted average interest rates as of December 31, 2013 are shown below the description of each category of debt.
(b) DTE Electric Tax-Exempt Revenue Bonds are issued by a public body that loans the proceeds to DTE Electric on terms substantially mirroring the Revenue Bonds.

Debt Issuances

In 2013, the following debt was issued:

Company	Month Issued	Type	Interest Rate	Maturity	Amount
					(In millions)
DTE Electric	March	Mortgage Bonds (a)	4.00 %	2043	$375
DTE Electric	August	Mortgage Bonds (a)	3.65 %	2024	400
DTE Energy	November	Senior Notes (a)	3.85 %	2023	300
DTE Gas	December	Mortgage Bonds (a)	3.64 %	2023	50
DTE Gas	December	Mortgage Bonds (a)	3.74 %	2025	70
DTE Gas	December	Mortgage Bonds (a)	3.94 %	2028	50

$1,245

(a) Proceeds were used for the redemption of long-term debt, repayment of short-term borrowings and general corporate purposes.

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Notes to Consolidated Financial Statements — (Continued)

Debt Redemptions

In 2013, the following debt was redeemed:

Company	Month	Type	Interest Rate		Maturity	Amount
						(In millions)
DTE Electric	March	Securitization Bonds	6.42	%	2013	$88
DTE Electric	March	Tax Exempt Revenue Bonds (a)	5.30	%	2030	51
DTE Electric	April	Other Long-Term Debt	Various		2013	13
DTE Gas	April	Senior Notes	5.26	%	2013	60
DTE Energy	June	Senior Notes	Variable		2013	300
DTE Electric	September	Securitization Bonds	6.62	%	2013	89
DTE Electric	September	Senior Notes	6.40	%	2013	250
DTE Electric	December	Tax Exempt Revenue Bonds (a)	5.50	%	2030	49
DTE Electric	December	Tax Exempt Revenue Bonds (a)	6.75	%	2038	50
DTE Energy	Various	Other Long-Term Debt	Various		2013	11
						$961

(a) DTE Electric Tax Exempt Revenue Bonds are issued by a public body that loans the proceeds to DTE Electric on terms substantially mirroring the Revenue Bonds.

The following table shows the scheduled debt maturities:

	2014	2015	2016	2017	2018	2019 and Thereafter	Total
	(In millions)						
Amount to mature	$891	$476	$465	$9	$407	$5,846	$8,094

Junior Subordinated Debentures

At December 31, 2013, the Company had $280 million of 6.5% Junior Subordinated Debentures due 2061 and $200 million of 5.25% Junior Subordinated Debentures due 2062. The Company has the right to defer interest payments on the debt securities. Should the Company exercise this right, it cannot declare or pay dividends on, or redeem, purchase or acquire, any of its capital stock during the deferral period. Any deferred interest payments will bear additional interest at the rate associated with the related debt issue.

Cross Default Provisions

Substantially all of the net utility properties of DTE Electric and DTE Gas are subject to the lien of mortgages. Should DTE Electric or DTE Gas fail to timely pay their indebtedness under these mortgages, such failure may create cross defaults in the indebtedness of DTE Energy.

NOTE 16 — PREFERRED AND PREFERENCE SECURITIES

As of December 31, 2013, the amount of authorized and unissued stock is as follows:

Company	Type of Stock

		Par Value	Shares Authorized
DTE Energy	Preferred	$—	5,000,000
DTE Electric	Preferred	$100	6,747,484
DTE Electric	Preference	$1	30,000,000
DTE Gas	Preferred	$1	7,000,000
DTE Gas	Preference	$1	4,000,000

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

NOTE 17 — SHORT-TERM CREDIT ARRANGEMENTS AND BORROWINGS

DTE Energy and its wholly owned subsidiaries, DTE Electric and DTE Gas, have unsecured revolving credit agreements with a syndicate of 19 banks that can be used for general corporate borrowings, but are intended to provide liquidity support for each of the companies' commercial paper programs. No one bank provides more than 8.7% of the commitment in any facility. Borrowings under the facilities are available at prevailing short-term interest rates. Additionally, DTE Energy has other facilities to support letter of credit issuance.

The agreements require the Company 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 the Company and its 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 stockholders' equity of the Company and its 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 December 31, 2013, the total funded debt to total capitalization ratios for DTE Energy, DTE Electric and DTE Gas are 0.48 to 1, 0.50 to 1 and 0.48 to 1, respectively, and are in compliance with this financial covenant. The availability under the facilities in place at December 31, 2013 is shown in the following table:

	DTE Energy	DTE Electric	DTE Gas	Total
	(In millions)			
Unsecured letter of credit facility, expiring in May 2014	$50	$—	$—	$50
Unsecured letter of credit facility, expiring in August 2015	125	—	—	125
Unsecured revolving credit facility, expiring April 2018	1,200	300	300	1,800
	1,375	300	300	1,975
Amounts outstanding at December 31, 2013:				
Commercial paper issuances	35	—	96	131
Letters of credit	244	—	—	244
	279	—	96	375
Net availability at December 31, 2013	$1,096	$300	$204	$1,600

The Company has other outstanding letters of credit which are not included in the above described facilities totaling approximately $53 million which are used for various corporate purposes.

The weighted average interest rate for short-term borrowings was 0.2% and 0.4% at December 31, 2013 and 2012, respectively.

In conjunction with maintaining certain exchange traded risk management positions, the Company may be required to post cash collateral with its clearing agent. The Company 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 the Company posts a letter of credit for the incremental amount. At December 31, 2013, a $50 million letter of credit was in place, raising the capacity under this facility to $150 million. The $50 million letter of credit is included in the table above. The amount outstanding under this agreement was $138 million and $65 million at December 31, 2013 and 2012, respectively.

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Notes to Consolidated Financial Statements — (Continued)

NOTE 18 — CAPITAL AND OPERATING LEASES

Lessee — The Company leases various assets under capital and operating leases, including coal railcars, office buildings, a warehouse, computers, vehicles and other equipment. The lease arrangements expire at various dates through 2046.

Future minimum lease payments under non-cancelable leases at December 31, 2013 were:

	Capital Leases	Operating Leases
	(In millions)	
2014	$8	$35
2015	8	31
2016	3	27
2017	—	25
2018	—	20
Thereafter	—	92
Total minimum lease payments	$19	$230
Less imputed interest	1	
Present value of net minimum lease payments	18	
Less current portion	7	
Non-current portion	$11	

Rental expense for operating leases was $34 million in 2013, $36 million in 2012, and $40 million in 2011.

Lessor - Capital Lease — The Company leases a portion of its pipeline system to the Vector Pipeline through a capital lease contract that expires in 2020, with renewal options extending for five years. The Company owns a 40% interest in the Vector Pipeline. In addition, the Company has an energy services agreement, a portion of which is accounted for as a capital lease. The agreement expires in 2019, with a three or five year renewal option. The components of the net investment in the capital leases at December 31, 2013, were as follows:

	(In millions)
2014	$12
2015	12
2016	12
2017	12
2018	12
Thereafter	19
Total minimum future lease receipts	79
Residual value of leased pipeline	40
Less unearned income	(40)
Net investment in capital lease	79
Less current portion	(5)
	$74

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

NOTE 19 — COMMITMENTS AND CONTINGENCIES

Environmental

Electric

Air - DTE Electric is subject to the EPA ozone and fine particulate transport and acid rain regulations that limit power plant emissions of sulfur dioxide and nitrogen oxides. Since 2005, the EPA and the State of Michigan have issued additional emission reduction regulations relating to ozone, fine particulate, regional haze, mercury, and other air pollution. These rules have led to additional controls on fossil-fueled power plants to reduce nitrogen oxide, sulfur dioxide, mercury and other emissions. To comply with these requirements, DTE Electric has spent approximately $2 billion through 2013. The Company estimates DTE Electric will make capital expenditures of approximately $280 million in 2014 and up to approximately $1.2 billion of additional capital expenditures through 2021 based on current regulations. Further, additional rulemakings are expected over the next few years which could require additional controls for sulfur dioxide, nitrogen oxides and other hazardous air pollutants. The Cross State Air Pollution Rule (CSAPR), finalized in July 2011, requires further reductions of sulfur dioxide and nitrogen oxides emissions beginning in 2012. On December 30, 2011, the U.S. Court of Appeals for the District of Columbia (D.C.) Circuit granted the motions to stay the rule, leaving DTE Electric temporarily subject to the previously existing Clean Air Interstate Rule (CAIR). On August 21, 2012, the Court issued its decision, vacating CSAPR and leaving CAIR in place. The EPA's petition seeking a rehearing of the U.S. Court of Appeals' decision regarding the CSAPR was denied on January 24, 2013. On June 24, 2013, the U.S. Supreme Court granted the EPA's petition asking the Court to review the D.C. Circuit Court's decision on CSAPR. A ruling by the Supreme Court is expected in 2014. Notwithstanding the appeal filed with the Supreme Court, the EPA and a number of states have started working on the framework of revised CSAPR regulations which we anticipate to be proposed in the next few years.

The Mercury and Air Toxics Standard (MATS) rule, formerly known as the Electric Generating Unit Maximum Achievable Control Technology (EGU MACT) Rule, was finalized on December 16, 2011. The MATS rule requires reductions of mercury and other hazardous air pollutants beginning in April 2015, with a potential extension to April 2016. DTE Electric has requested and been granted compliance date extensions for some units to April 2016. DTE Electric has tested technologies to determine technological and economic feasibility as MATS compliance alternatives to Flue Gas Desulfurization (FGD) systems. Implementation of Dry Sorbent Injection (DSI) and Activated Carbon Injection (ACI) technologies will allow several units that would not have been economical for FGD installations to continue operation in compliance with MATS.

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

In August 2010, the U.S. Department of Justice, at the request of the EPA, brought a civil suit in the U.S. District Court for the Eastern District of Michigan against DTE Energy and DTE Electric, related to the June 2010 NOV/FOV and the outage work performed at Unit 2 of the Monroe Power Plant, but not relating to the July 2009 NOV/FOV. Among other relief, the EPA requested the court to require DTE Electric to install and operate the best available control technology at Unit 2 of the Monroe Power Plant. Further, the EPA requested the court to issue a preliminary injunction to require DTE Electric to (i) begin the process of obtaining the necessary permits for the Monroe Unit 2 modification and (ii) offset the pollution from Monroe Unit 2 through emissions reductions from DTE Electric's fleet of coal-fired power plants until the new control equipment is operating. On August 23, 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. On October 20, 2011, the EPA caused to be filed a Notice of Appeal to the U.S. Court of Appeals for the Sixth Circuit. On March 28, 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. On September 3, 2013, the EPA caused to be 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 addition, the Sierra Club caused to be filed a motion to add a claim regarding the River Rouge Power Plant. The EPA and Sierra Club motions are currently pending with the U.S. District Court Judge.

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

DTE Energy and DTE Electric believe that the plants identified by the EPA, including Unit 2 of the Monroe Power Plant, have complied with all applicable federal environmental regulations. Depending upon the outcome of 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 Company cannot predict the financial impact or outcome of this matter, or the timing of its resolution.

On March 13, 2013, the Sierra Club filed suit against DTE Energy and DTE Electric alleging violations of the Clean Air Act at four of DTE Electric's coal-fired power plants. The plaintiffs allege 1,499 6-minute periods of excess opacity of air emissions from 2007-2012 at those facilities. The suit asks that the court enjoin DTE Energy and DTE Electric from operating the power plants except in complete compliance with applicable laws and permit requirements, pay civil penalties, conduct beneficial environmental mitigation projects, pay attorney fees and require the installation of any necessary pollution controls or to convert and/or operate the plants' boilers on natural gas to avoid additional violations and to off-set historic unlawful emissions. In December 2013, a U.S. District Court judge issued an order dismissing, without prejudice, the plaintiff's complaint allowing them to file an amended complaint by January 17, 2014. The order dismissing the complaint resulted from a considerable number of plaintiff's claims being time barred based on the statute of limitations. On January 17, 2014, the plaintiffs filed an amended complaint for the period January 13, 2008 - June 30, 2012, reducing the total number of 6-minute periods from 1,499 to 1,139. DTE Energy and DTE Electric plan to file an answer to the amended complaint in the first quarter of 2014. The resolution of this matter is not expected to have a material effect on the Company's operations or financial statements.

Water - In response to an EPA regulation, DTE Electric would be 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. The initial rule published in 2004 was subsequently remanded and a proposed rule published in 2011. The proposed rule specified an eight year compliance timeline. Final action on this rule has been delayed and is expected in 2014. Depending on final regulations, its requirements may require modifications to some existing intake structures and could impact the rates we charge our customers. It is not possible to quantify the impact of those expected rulemakings at this time.

On April 19, 2013, the EPA proposed revised steam electric effluent guidelines regulating wastewater streams from coal-fired power plants including multiple possible options for compliance. The rules are expected to be finalized by May 2014. DTE Electric has provided comments to the EPA. However, it is not possible at this time to quantify the impacts of these developing requirements.

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 manufactured gas plant (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 site. In addition to the MGP sites, the Company 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 December 31, 2013 and 2012, the Company had $8 million and $9 million, respectively, accrued for remediation. Any change in assumptions, such as remediation techniques, nature and extent of contamination and regulatory requirements, could impact the estimate of remedial action costs for the sites and affect the Company’s financial position and cash flows. The Company believes that the likelihood of a materially greater liability than the accrued amount is remote based on current knowledge of the conditions at each site.

DTE Electric owns and operates three permitted engineered ash storage facilities to dispose of fly ash from coal fired power plants. The EPA has published proposed rules to regulate coal ash under the authority of the Resources Conservation and Recovery Act (RCRA). The proposed rule published in June 2010 contains two primary regulatory options to regulate coal ash residue. The EPA is currently considering either designating coal ash as a “Hazardous Waste” as defined by RCRA or regulating coal ash as non-hazardous waste under RCRA. Agencies and legislatures have urged the EPA to regulate coal ash as a non-hazardous waste. If the EPA designates coal ash as a hazardous waste, the agency could apply some, or all, of the disposal and reuse standards that have been applied to other existing hazardous wastes to disposal and reuse of coal ash. Some of the regulatory actions currently being contemplated could have a significant impact on our operations and financial position and the rates we charge our customers. It is not possible to quantify the impact of those expected rulemakings at this time.

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

Gas

Contaminated Sites — Gas segment, owned or previously owned, 15 former MGP sites. Investigations have revealed contamination related to the by-products of gas manufacturing at each site. In addition to the MGP sites, the Company is also in the process of cleaning up other contaminated sites. Cleanup activities associated with these sites will be conducted 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. As of December 31, 2013 and 2012, the Company had $28 million and $29 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 the Company's financial position and cash flows. The Company anticipates the cost amortization methodology approved by the MPSC for DTE Gas, which allows DTE Gas to amortize the MGP costs over a ten-year period beginning with the year subsequent to the year the MGP costs were incurred and the cost deferral and rate recovery mechanism for Citizens approved by the City of Adrian, will prevent environmental costs from having a material adverse impact on the Company's results of operations.

Non-utility

The Company'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 Michigan coke battery facility received and responded to information requests from the EPA that resulted in the issuance of a NOV in June 2007 alleging potential maximum achievable control technologies and new source review violations. The EPA is in the process of reviewing the Company's position of demonstrated compliance and has not initiated escalated enforcement. At this time, the Company cannot predict the impact of this issue. Furthermore, the Michigan coke battery facility is the subject of an investigation by the MDEQ concerning visible emissions readings that resulted from the Company self reporting to MDEQ questionable activities by an employee of a contractor hired by the Company to perform the visible emissions readings. At this time, the Company cannot predict the impact of this investigation.

The Company received two NOVs from the Pennsylvania Department of Environmental Protection (PADEP) in 2010 alleging violations of the permit for the Pennsylvania coke battery facility in connection with coal pile storm water runoff. The Company has implemented best management practices to address this issue. The Company recently received a permit to upgrade its existing waste water treatment system and is currently seeking a permit from the PADEP to upgrade its wastewater treatment technology to a biological treatment facility. The Company expects to spend less than $3 million on the existing waste water treatment system to comply with existing water discharge requirements and to upgrade its coal pile storm water runoff management program.

The Company believes that its non-utility businesses are substantially in compliance with all environmental requirements, other than as noted above.

Other

In March 2011, the EPA finalized a new set of regulations regarding the identification of non-hazardous secondary materials that are considered solid waste, industrial boiler and process heater maximum achievable control technologies (IBMACT) for major and area sources, and commercial/industrial solid waste incinerator new source performance standard and emission guidelines (CISWI). The effective dates of the major source IBMACT and CISWI regulations were stayed and a re-proposal was issued by the EPA in December 2011. Final IBMACT and CISWI were issued by the EPA in December 2012. The Company is developing compliance plans to upgrade or convert existing industrial boilers to natural gas and to perform required energy assessments in compliance with the applicable new standards. Capital costs for the boiler conversions and the expenses for the one-time energy assessments are not expected to be material.

In 2010, the EPA finalized a new 1-hour sulfur dioxide ambient air quality standard that requires states to submit plans for non-attainment areas to be in compliance by 2017. Michigan's non-attainment area includes DTE Energy facilities in southwest Detroit and areas of Wayne County. Preliminary modeling runs by the MDEQ suggest that emission reductions may be required by significant sources of sulfur dioxide emissions in these areas, including DTE Electric power plants and our Michigan coke battery. The state implementation plan process is in the gathering stage and any required emission reductions for DTE Energy sources to meet the standard cannot be estimated currently.

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

Nuclear Operations

Property Insurance

DTE Electric maintains property insurance policies specifically for the Fermi 2 plant. These policies cover such items as replacement power and property damage. The Nuclear Electric Insurance Limited (NEIL) is the primary supplier of the insurance policies.

DTE Electric maintains a policy for extra expenses, including replacement power costs necessitated by Fermi 2's unavailability due to an insured event. This policy has a 12-week waiting period and provides an aggregate $490 million of coverage over a three-year period.

DTE Electric has $500 million in primary coverage and $2.25 billion of excess coverage for stabilization, decontamination, debris removal, repair and/or replacement of property and decommissioning. The combined coverage limit for total property damage is $2.75 billion, subject to a $1 million deductible. As of April 1, 2013, the total limit for property damage for non-nuclear events is $1.8 billion and an aggregate of $327 million of coverage for extra expenses over a two-year period.

In 2007, the Terrorism Risk Insurance Extension Act of 2005 (TRIA) was extended through December 31, 2014. A major change in the extension is the inclusion of "domestic" acts of terrorism in the definition of covered or "certified" acts. For multiple terrorism losses caused by acts of terrorism not covered under the TRIA occurring within one year after the first loss from terrorism, the NEIL policies would make available to all insured entities up to $3.2 billion, plus any amounts recovered from reinsurance, government indemnity, or other sources to cover losses.

Under the NEIL policies, DTE Electric could be liable for maximum assessments of up to approximately $34 million per event if the loss associated with any one event at any nuclear plant should exceed the accumulated funds available to NEIL.

Public Liability Insurance

As required by federal law, DTE Electric maintains $375 million of public liability insurance for a nuclear incident. For liabilities arising from a terrorist act outside the scope of TRIA, the policy is subject to one industry aggregate limit of $300 million. Further, under the Price-Anderson Amendments Act of 2005, deferred premium charges up to $127.3 million could be levied against each licensed nuclear facility, but not more than $19 million per year per facility. Thus, deferred premium charges could be levied against all owners of licensed nuclear facilities in the event of a nuclear incident at any of these facilities.

Nuclear Fuel Disposal Costs

In accordance with the Federal Nuclear Waste Policy Act of 1982, DTE Electric has a contract with the U.S. Department of Energy (DOE) for the future storage and disposal of spent nuclear fuel from Fermi 2. DTE Electric is obligated to pay the DOE a fee of 1 mill per kWh of Fermi 2 electricity generated and sold. The fee is a component of nuclear fuel expense. The DOE's Yucca Mountain Nuclear Waste Repository program for the acceptance and disposal of spent nuclear fuel was terminated in 2011. DTE Electric currently employs a spent nuclear fuel storage strategy utilizing a fuel pool. The Company continues to develop its on-site dry cask storage facility and has scheduled the initial offload from the spent fuel pool in 2014. The dry cask storage facility is expected to provide sufficient spent fuel storage capability for the life of the plant as defined by the original operating license.

DTE Electric is a party in the litigation against the DOE for both past and future costs associated with the DOE's failure to accept spent nuclear fuel under the timetable set forth in the Federal Nuclear Waste Policy Act of 1982. In July 2012, DTE Electric executed a settlement agreement with the federal government for costs associated with the DOE's delay in acceptance of spent nuclear fuel from Fermi 2 for permanent storage. The settlement provided for a payment of approximately $48 million, received in August 2012, for delay-related costs experienced by DTE Electric through 2010, and a claims process for submittal of delay-related costs from 2011 through 2013. DTE Electric has begun the claims process and claims are being settled on a timely basis. The settlement proceeds reduced the cost of the dry cask storage facility assets. In January 2014, the settlement agreement was extended through 2016. The federal government continues to maintain its legal obligation to accept spent nuclear fuel from Fermi 2 for permanent storage. Issues relating to long-term waste disposal policy and to the disposition of funds contributed by DTE Electric ratepayers to the federal waste fund await future governmental action.

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

In February 2013, the U.S. Court of Appeals for the District of Columbia (COA) granted a motion to reopen the fee adequacy litigation to review the DOE's latest fee adequacy report which was released in January 2013. In November 2013, the COA issued a decision ordering the DOE to submit a proposal to Congress to reduce the nuclear waste fee to zero until the DOE enacts an alternative nuclear waste management plan. In January 2014, the DOE submitted such a proposal to Congress that will take effect in 90 legislative calendar days, absent legislative action to the contrary. Simultaneously, the DOE filed a petition for rehearing of the November 2013 decision with the COA. DTE Electric continues to pay fees to the U.S. government's nuclear waste fund pending further developments in this proceeding.

Synthetic Fuel Guarantees

The Company discontinued the operations of its synthetic fuel production facilities throughout the United States as of December 31, 2007. The Company 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 and will survive until 90 days after expiration of all applicable statutes of limitations. The Company estimates that its maximum potential liability under these guarantees at December 31, 2013 is approximately $1.1 billion. Payment under these guarantees is considered remote.

Reduced Emissions Fuel Guarantees

The Company has provided certain guarantees and indemnities in conjunction with the sales of interests in its reduced emissions fuel facilities. The guarantees cover potential commercial, environmental, and tax-related obligations and will survive until 90 days after expiration of all applicable statutes of limitations. The Company estimates that its maximum potential liability under these guarantees at December 31, 2013 is approximately $144 million. Payment under these guarantees is considered remote.

Other Guarantees

In certain limited circumstances, the Company enters into contractual guarantees. The Company may guarantee another entity’s obligation in the event it fails to perform. The Company may provide guarantees in certain indemnification agreements. Finally, the Company may provide indirect guarantees for the indebtedness of others. The Company’s guarantees are not individually material with maximum potential payments totaling $60 million at December 31, 2013. Payment under these guarantees is considered remote.

The Company 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 December 31, 2013, the Company had approximately $41 million of performance bonds outstanding. In the event that such bonds are called for nonperformance, the Company would be obligated to reimburse the issuer of the performance bond. The Company 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 the Company's approximately 4,900 represented employees. The majority of the represented employees are under contracts that expire in 2016 and 2017.

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

Purchase Commitments

As of December 31, 2013, the Company was party to numerous long-term purchase commitments relating to a variety of goods and services required for the Company's business. These agreements primarily consist of fuel supply commitments, renewable energy contracts and energy trading contracts. The Company estimates that these commitments will be approximately $8.6 billion from 2014 through 2051 as detailed in the following table:

	(In millions)
2014	$2,617
2015	1,195
2016	643
2017	345
2018	311
2019 — 2051	3,487
	$8,598

The Company also estimates that 2014 capital expenditures will be approximately $2.3 billion. The Company has made certain commitments in connection with expected capital expenditures.

Bankruptcies

The Company purchases and sells electricity, natural gas, coal, coke and other energy products from and to governmental entities and numerous companies operating in the steel, automotive, energy, retail, financial and other industries. Certain of its customers have filed for bankruptcy protection under the U.S. Bankruptcy Code. The Company regularly reviews contingent matters relating to these customers and its purchase and sale contracts and records provisions for amounts considered at risk of probable loss. The Company believes its accrued amounts are adequate for probable loss.

The Company's utilities provide services to the city of Detroit, Michigan (Detroit). Detroit filed for Chapter 9 bankruptcy protection on July 18, 2013. The Company had pre-petition accounts receivable of approximately $20 million outstanding as of the bankruptcy filing date. Detroit has been paying amounts owed in a timely manner and its accounts are substantially current. The Company does not expect Detroit's bankruptcy filing to have a material impact on its financial results.

Other Contingencies

The Company is 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 Company cannot predict the final disposition of such proceedings. The Company regularly reviews legal matters and records provisions for claims that it can estimate and are considered probable of loss. The resolution of these pending proceedings is not expected to have a material effect on the Company's operations or financial statements in the periods they are resolved.

See Notes 4 and 11 for a discussion of contingencies related to derivatives and regulatory matters.

NOTE 20 — RETIREMENT BENEFITS AND TRUSTEED ASSETS

Pension Plan Benefits

The Company has qualified defined benefit retirement plans for eligible represented and non-represented employees. The plans are noncontributory and cover most employees. The plans provide traditional retirement benefits based on the employees’ years of benefit service, average final compensation and age at retirement. In addition, certain represented and non-represented employees are covered under cash balance provisions that determine benefits on annual employer contributions and interest credits. The Company also maintains supplemental nonqualified, noncontributory, retirement benefit plans for selected management employees. These plans provide for benefits that supplement those provided by DTE Energy’s other retirement plans.

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

Effective January 1, 2012 for non-represented employees, and in June 2011 and March 2013 for the majority of represented employees, the Company discontinued offering a defined benefit retirement plan. In its place, the Company will annually contribute an amount equivalent to 4% (8% for certain DTE Gas represented employees) of an employee's eligible pay to the employee's defined contribution retirement savings plan.

The Company’s policy is to fund pension costs by contributing amounts consistent with the provisions of the Pension Protection Act of 2006 and additional amounts when it deems appropriate. The Company contributed $277 million to its qualified pension plans in 2013. At the discretion of management, and depending upon financial market conditions, we anticipate making up to $345 million in contributions to the pension plans in 2014.

Net pension cost includes the following components:

	2013	2012	2011
	(In millions)		
Service cost	$94	$82	$69
Interest cost	192	204	202
Expected return on plan assets	(266)	(244)	(246)
Amortization of:			
Net loss	208	176	142
Prior service cost	—	—	3
Special termination benefits	—	2	2
Net pension cost	$228	$220	$172

	2013	2012
	(In millions)	
Other changes in plan assets and benefit obligations recognized in Regulatory assets and Other comprehensive income		
Net actuarial (gain) loss	$(581)	$395
Amortization of net actuarial loss	(208)	(178)
Total recognized Regulatory assets and Other comprehensive income	$(789)	$217
Total recognized in net periodic pension cost, Regulatory assets and Other comprehensive income	$(561)	$437
Estimated amounts to be amortized from Regulatory assets and Accumulated other comprehensive income into net periodic benefit cost during next fiscal year		
Net actuarial loss	$151	$202

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

The following table reconciles the obligations, assets and funded status of the plans as well as the amounts recognized as prepaid pension cost or pension liability in the Consolidated Statements of Financial Position at December 31:

	2013	2012
	(In millions)	
Accumulated benefit obligation, end of year	$4,068	$4,349
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	$4,729	$4,195
Service cost	94	82
Interest cost	192	204
Plan amendments	(3)	—
Actuarial (gain) loss	(400)	474
Special termination benefits	—	2
Benefits paid	(232)	(228)
Projected benefit obligation, end of year	$4,380	$4,729
Change in plan assets		
Plan assets at fair value, beginning of year	$3,223	$2,886
Actual return on plan assets	445	325
Company contributions	284	240
Benefits paid	(232)	(228)
Plan assets at fair value, end of year	$3,720	$3,223
Funded status of the plans	$(660)	$(1,506)
Amount recorded as:		
Current liabilities	$(7)	$(8)
Noncurrent liabilities	(653)	(1,498)
	$(660)	$(1,506)
Amounts recognized in Accumulated other comprehensive loss, pre-tax		
Net actuarial loss	$174	$205
Prior service (credit)	(1)	(2)
	$173	$203
Amounts recognized in Regulatory assets (see Note 11)		
Net actuarial loss	$1,654	$2,413
Prior service cost	6	7
	$1,660	$2,420

At December 31, 2013, the benefits related to the Company's qualified and nonqualified pension plans expected to be paid in each of the next five years and in the aggregate for the five fiscal years thereafter are as follows:

	(In millions)
2014	$242
2015	250
2016	258
2017	268
2018	280
2019-2023	1,529
	$2,827

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

Assumptions used in determining the projected benefit obligation and net pension costs are listed below:

	2013		2012		2011	
Projected benefit obligation						
Discount rate	4.95	%	4.15	%	5.00	%
Rate of compensation increase	4.20	%	4.20	%	4.20	%
Net pension costs						
Discount rate	4.15	%	5.00	%	5.50	%
Rate of compensation increase	4.20	%	4.20	%	4.00	%
Expected long-term rate of return on plan assets	8.25	%	8.25	%	8.50	%

The Company employs a formal process in determining the long-term rate of return for various asset classes. Management reviews historic financial market risks and returns and long-term historic relationships between the asset classes of equities, fixed income and other assets, consistent with the widely accepted capital market principle that asset classes with higher volatility generate a greater return over the long-term. Current market factors such as inflation, interest rates, asset class risks and asset class returns are evaluated and considered before long-term capital market assumptions are determined. The long-term portfolio return is also established employing a consistent formal process, with due consideration of diversification, active investment management and rebalancing. Peer data is reviewed to check for reasonableness. As a result of this process, the Company has long-term rate of return assumptions for its pension plans of 7.75% and other postretirement benefit plans of 8.00%, for 2014. The Company believes these rates are a reasonable assumption for the long-term rate of return on its plan assets for 2014 given its investment strategy.

The Company employs a total return investment approach whereby a mix of equities, fixed income and other investments are used to maximize the long-term return on plan assets consistent with prudent levels of risk, with consideration given to the liquidity needs of the plan. Risk tolerance is established through consideration of future plan cash flows, plan funded status, and corporate financial considerations. The investment portfolio contains a diversified blend of equity, fixed income and other investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, growth and value stocks, and large and small market capitalizations. Fixed income securities generally include market and long duration bonds of companies from diversified industries, mortgage-backed securities, non-US securities, bank loans and U.S. Treasuries. Other assets such as private markets and hedge funds are used to enhance long-term returns while improving portfolio diversification. Derivatives may be utilized in a risk controlled manner, to potentially increase the portfolio beyond the market value of invested assets and/or reduce portfolio investment risk. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies, and quarterly investment portfolio reviews.

Target allocations for pension plan assets as of December 31, 2013 are listed below:

U.S. Large Cap Equity Securities	22	%
U.S. Small Cap and Mid Cap Equity Securities	5	
Non U.S. Equity Securities	20	
Fixed Income Securities	25	
Hedge Funds and Similar Investments	20	
Private Equity and Other	8	
	100	%

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

Fair Value Measurements for pension plan assets at December 31, 2013 and 2012 (a):

	December 31, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(In millions)							
Asset Category:								
Short-term investments (b)	$22	$—	$—	$22	$—	$24	$—	$24
Equity securities								
U.S. Large Cap (c)	896	—	—	896	688	44	—	732
U.S. Small/Mid Cap (d)	221	—	—	221	153	5	—	158
Non U.S. (e)	611	130	—	741	530	120	—	650
Fixed income securities (f)	16	921	—	937	87	765	—	852
Hedge Funds and Similar Investments (g)	268	70	395	733	209	80	339	628
Private Equity and Other (h)	—	—	170	170	—	—	179	179
Total	$2,034	$1,121	$565	$3,720	$1,667	$1,038	$518	$3,223

(a) See Note 3 — Fair Value for a description of levels within the fair value hierarchy.

(b) This category predominantly represents certain short-term fixed income securities and money market investments that are managed in separate accounts or commingled funds. Pricing for investments in this category are obtained from quoted prices in actively traded markets or valuations from brokers or pricing services.

(c) This category comprises both actively and not actively managed portfolios that track the S&P 500 low cost equity index funds. Investments in this category are exchange-traded securities whereby unadjusted quote prices can be obtained. Exchange-traded securities held in a commingled fund are classified as Level 2 assets.

(d) This category represents portfolios of small and medium capitalization domestic equities. Investments in this category are exchange-traded securities whereby unadjusted quote prices can be obtained. Exchange-traded securities held in a commingled fund are classified as Level 2 assets.

(e) This category primarily consists of portfolios of non-U.S. developed and emerging market equities. Investments in this category are exchange-traded securities whereby unadjusted quote prices can be obtained. Exchange-traded securities held in a commingled fund are classified as Level 2 assets.

(f) This category includes corporate bonds from diversified industries, U.S. Treasuries, and mortgage-backed securities. Pricing for investments in this category is obtained from quoted prices in actively traded markets and quotations from broker or pricing services. Non-exchange traded securities and exchange-traded securities held in commingled funds are classified as Level 2 assets.

(g) This category utilizes a diversified group of strategies that attempt to capture financial market inefficiencies and includes publicly traded debt and equity, publicly traded mutual funds, commingled and limited partnership funds and non-exchange traded securities. Pricing for Level 1 and Level 2 assets in this category is obtained from quoted prices in actively traded markets and quoted prices from broker or pricing services. Non-exchange traded securities held in commingled funds are classified as Level 2 assets. Valuations for some Level 3 assets in this category may be based on limited observable inputs as there may be little, if any, publicly available pricing.

(h) This category includes a diversified group of funds and strategies that primarily invests in private equity partnerships. This category also includes investments in timber and private mezzanine debt. Pricing for investments in this category is based on limited observable inputs as there is little, if any, publicly available pricing. Valuations for assets in this category may be based on discounted cash flow analyses, relevant publicly-traded comparables and comparable transactions.

The pension trust holds debt and equity securities directly and indirectly through commingled funds and institutional mutual funds. Exchange-traded debt and equity securities held directly are valued using quoted market prices in actively traded markets. The commingled funds and institutional mutual funds hold exchange-traded equity or debt securities and are valued based on stated net asset values (NAV). Non-exchange traded fixed income securities are valued by the trustee based upon quotations available from brokers or pricing services. 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 trustees challenge an assigned price and determine that another price source is considered to be preferable. DTE Energy has obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. Additionally, DTE Energy selectively corroborates the fair values of securities by comparison of market-based price sources.

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

Fair Value Measurements Using Significant Unobservable Inputs (Level 3):

	Year Ended December 31, 2013			Year Ended December 31, 2012		
	Hedge Funds and Similar Investments	Private Equity and Other	Total	Hedge Funds and Similar Investments	Private Equity and Other	Total
	(In millions)					
Beginning Balance at January 1	$339	$179	$518	$296	$168	$464
Total realized/unrealized gains (losses):						
Realized gains (losses)	—	18	18	18	(6)	12
Unrealized gains (losses)	40	(14)	26	(5)	12	7
Purchases, sales and settlements:						
Purchases	16	15	31	250	33	283
Sales	—	(28)	(28)	(220)	(28)	(248)
Ending Balance at December 31	$395	$170	$565	$339	$179	$518
The amount of total gains for the period attributable to the change in unrealized gains or losses related to assets still held at the end of the period	$38	$3	$41	$16	$6	$22

There were no transfers between Level 3 and Level 2 and there were no significant transfers between Level 2 and Level 1 in the years ended December 31, 2013 and 2012.

Other Postretirement Benefits

The Company provides certain other postretirement health care and life insurance benefits for employees who are eligible for these benefits. The Company’s policy is to fund certain trusts to meet its other postretirement benefit obligations. Separate qualified Voluntary Employees Beneficiary Association (VEBA) and 401(h) trusts exist for represented and non-represented employees. The Company contributed $264 million to its other postretirement medical and life insurance benefit plans during 2013. At the discretion of management, we anticipate making up to $145 million of contributions to the VEBA trusts in 2014.

Starting in 2012, in lieu of offering future employees post-employment health care and life insurance benefits, the Company allocates a fixed amount per year to an account in a tax-exempt trust for each employee. These trusts are managed either by the Company (for non-represented and certain represented groups), or by the Utility Workers of America (UWUA) for Local 223 employees. The cost of these plans was $2 million in 2013 and less than $1 million in 2012.

Beginning in 2013, the Company replaced sponsored retiree medical, prescription drug and dental coverage with a Retiree Health Care Allowance (RHCA). This change applies to both current and future Medicare eligible non-represented retirees, spouses, surviving spouses or same sex domestic partners; as well as future Medicare eligible represented retirees, spouses, surviving spouses or same sex domestic partners. The 2013 RHCA allowance ranged between $3,250 and $3,500 depending on an employee’s date of hire and will increase each year at the lower of the rate of medical inflation or 2%.

Net other postretirement cost includes the following components:

	2013	2012	2011
	(In millions)		
Service cost	$47	$68	$64
Interest cost	88	120	121
Expected return on plan assets	(110)	(92)	(94)
Amortization of:			
Net loss	64	80	55
Prior service credit	(131)	(27)	(26)
Net transition asset	—	2	2
Net other postretirement cost (benefit)	$(42)	$151	$122

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Notes to Consolidated Financial Statements — (Continued)

	2013	2012
	(In millions)	
Other changes in plan assets and APBO recognized in Regulatory assets (liabilities) and Other comprehensive income		
Net actuarial gain	$(353)	$(34)
Amortization of net actuarial loss	(64)	(80)
Prior service credit	(218)	(264)
Amortization of prior service credit	131	27
Amortization of transition asset	—	(2)
Total recognized in Regulatory assets (liabilities) and Other comprehensive income	$(504)	$(353)
Total recognized in net periodic benefit cost, Regulatory assets (liabilities) and Other comprehensive income	$(546)	$(202)
Estimated amounts to be amortized from Regulatory assets (liabilities) and Accumulated other comprehensive income into net periodic benefit cost during next fiscal year		
Net actuarial loss	$21	$69
Prior service credit	$(144)	$(91)

The following table reconciles the obligations, assets and funded status of the plans including amounts recorded as Accrued postretirement liability in the Consolidated Statements of Financial Position at December 31:

	2013	2012
	(In millions)	
Change in accumulated postretirement benefit obligation		
Accumulated postretirement benefit obligation, beginning of year	$2,315	$2,470
Service cost	47	68
Interest cost	88	120
Plan amendments	(218)	(264)
Actuarial (gain) loss	(267)	5
Medicare Part D subsidy	1	6
Benefits paid	(88)	(90)
Accumulated postretirement benefit obligation, end of year	$1,878	$2,315
Change in plan assets		
Plan assets at fair value, beginning of year	$1,153	$985
Actual return on plan assets	196	131
Company contributions	264	140
Benefits paid	(86)	(103)
Plan assets at fair value, end of year	$1,527	$1,153
Funded status, end of year	$(351)	$(1,162)
Amount recorded as:		
Current liabilities	$(1)	$(2)
Noncurrent liabilities	(350)	(1,160)
	$(351)	$(1,162)
Amounts recognized in Accumulated other comprehensive loss, pre-tax		
Net actuarial loss	$29	$40
Prior service credit	(10)	(14)
Net transition asset	—	(1)
	$19	$25

Amounts recognized in Regulatory assets (liabilities) (See Note 11)		
Net actuarial loss	$321	$727
Prior service credit	(393)	(302)
Net transition obligation	—	1
	$(72)	$426

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Notes to Consolidated Financial Statements — (Continued)

At December 31, 2013, the benefits expected to be paid, including prescription drug benefits, in each of the next five years and in the aggregate for the five fiscal years thereafter are as follows:

	(In millions)
2014	$103
2015	110
2016	115
2017	123
2018	130
2019 — 2023	724
	$1,305

Assumptions used in determining the accumulated postretirement benefit obligation and net other postretirement benefit costs are listed below:

	2013		2012		2011	
Accumulated postretirement benefit obligation						
Discount rate	4.95	%	4.15	%	5.00	%
Health care trend rate pre- and post- 65	7.50	/ 6.50%	7.00	%	7.00	%
Ultimate health care trend rate	4.50	%	5.00	%	5.00	%
Year in which ultimate reached pre- and post- 65	2025 / 2024		2021		2020	
Other postretirement benefit costs						
Discount rate (prior to interim remeasurement)	4.15	%	5.00	%	5.50	%
Discount rate (post interim remeasurement)	4.30	%	N/A		N/A	
Expected long-term rate of return on plan assets	8.25	%	8.25	%	8.75	%
Health care trend rate pre- and post- 65	7.00	%	7.00	%	7.00	%
Ultimate health care trend rate	5.00	%	5.00	%	5.00	%
Year in which ultimate reached	2021		2020		2019	

A one percentage point increase in health care cost trend rates would have increased the total service cost and interest cost components of benefit costs by $9 million in 2013 and increased the accumulated benefit obligation by $124 million at December 31, 2013. A one percentage point decrease in the health care cost trend rates would have decreased the total service and interest cost components of benefit costs by $8 million in 2013 and would have decreased the accumulated benefit obligation by $108 million at December 31, 2013.

The process used in determining the long-term rate of return for assets and the investment approach for the Company's other postretirement benefits plans is similar to those previously described for its pension plans.

Target allocations for other postretirement benefit plan assets as of December 31, 2013 are listed below:

U.S. Large Cap Equity Securities	17	%
U.S. Small Cap and Mid Cap Equity Securities	4	
Non U.S. Equity Securities	20	
Fixed Income Securities	25	
Hedge Funds and Similar Investments	20	
Private Equity and Other	14	
	100	%

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Notes to Consolidated Financial Statements — (Continued)

Fair Value Measurements for other postretirement benefit plan assets at December 31, 2013 and 2012 (a):

	December 31, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Category:	(In millions)							
Short-term investments (b)	$5	$—	$—	$5	$1	$2	$—	$3
Equity securities:								
U.S. Large Cap (c)	302	—	—	302	189	3	—	192
U.S. Small/Mid Cap (d)	147	—	—	147	105	—	—	105
Non U.S. (e)	282	9	—	291	230	7	—	237
Fixed income securities (f)	17	350	—	367	38	247	—	285
Hedge Funds and Similar Investments (g)	130	25	159	314	102	24	119	245
Private Equity and Other (h)	—	—	101	101	—	—	86	86
Total	$883	$384	$260	$1,527	$665	$283	$205	$1,153

(a) See Note 3 — Fair Value for a description of levels within the fair value hierarchy.

(b) This category predominantly represents certain short-term fixed income securities and money market investments that are managed in separate accounts or commingled funds. Pricing for investments in this category are obtained from quoted prices in actively traded markets or valuations from brokers or pricing services.

(c) This category comprises both actively and not actively managed portfolios that track the S&P 500 low cost equity index funds. Investments in this category are exchange-traded securities whereby unadjusted quote prices can be obtained. Exchange-traded securities held in a commingled fund are classified as Level 2 assets.

(d) This category represents portfolios of small and medium capitalization domestic equities. Investments in this category are exchange-traded securities whereby unadjusted quote prices can be obtained. Exchange-traded securities held in a commingled fund are classified as Level 2 assets.

(e) This category primarily consists of portfolios of non-U.S. developed and emerging market equities. Investments in this category are exchange-traded securities whereby unadjusted quote prices can be obtained. Exchange-traded securities held in a commingled fund are classified as Level 2 assets.

(f) This category includes corporate bonds from diversified industries, U.S. Treasuries, bank loans and mortgage backed securities. Pricing for investments in this category is obtained from quoted prices in actively traded markets and quotations from broker or pricing services. Non-exchange traded securities and exchange-traded securities held in commingled funds are classified as Level 2 assets.

(g) This category utilizes a diversified group of strategies that attempt to capture financial market inefficiencies and includes publicly traded debt and equity, publicly traded mutual funds, commingled and limited partnership funds and non-exchange traded securities. Pricing for Level 1 and Level 2 assets in this category is obtained from quoted prices in actively traded markets and quoted prices from broker or pricing services. Non-exchange traded securities held in commingled funds are classified as Level 2 assets. Valuations for some Level 3 assets in this category may be based on limited observable inputs as there may be little, if any, publicly available pricing.

(h) This category includes a diversified group of funds and strategies that primarily invests in private equity partnerships. This category also includes investments in timber and private mezzanine debt. Pricing for investments in this category is based on limited observable inputs as there is little, if any, publicly available pricing. Valuations for assets in this category may be based on discounted cash flow analyses, relevant publicly-traded comparables and comparable transactions.

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Notes to Consolidated Financial Statements — (Continued)

The VEBA trusts hold debt and equity securities directly and indirectly through commingled funds and institutional mutual funds. Exchange-traded debt and equity securities held directly are valued using quoted market prices in actively traded markets. The commingled funds and institutional mutual funds hold exchange-traded equity or debt securities and are valued based on net asset values (NAV). Non-exchange traded fixed income securities are valued by the trustee based upon quotations available from brokers or pricing services. A primary price source is identified by asset type, class or issue for each security. The trustees monitor prices supplied by pricing services and may use a supplemental price source or change the primary price source of a given security if the trustees challenge an assigned price and determine that another price source is considered to be preferable. DTE Energy has obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. Additionally, DTE Energy selectively corroborates the fair values of securities by comparison of market-based price sources.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3):

	Year Ended December 31, 2013			Year Ended December 31, 2012		
	Hedge Funds and Similar Investments	Private Equity and Other	Total	Hedge Funds and Similar Investments	Private Equity and Other	Total
	(In millions)					
Beginning Balance at January 1	$119	$86	$205	$95	$60	$155
Total realized/unrealized gains (losses):						
Realized gains (losses)	—	2	2	6	(11)	(5)
Unrealized gains	14	7	21	—	14	14
Purchases, sales and settlements:						
Purchases	26	15	41	86	36	122
Sales	—	(9)	(9)	(68)	(13)	(81)
Ending Balance at December 31	$159	$101	$260	$119	$86	$205
The amount of total gains for the period attributable to the change in unrealized gains or losses related to assets still held at the end of the period	$14	$9	$23	$6	$2	$8

There were no transfers between Level 3 and Level 2 and there were no significant transfers between Level 2 and Level 1 in the years ended December 31, 2013 and 2012.

Interim Re-Measurement of Other Postretirement Benefit Obligation

In March 2013, the Company reached agreements on new four-year labor contracts with certain represented employees under several bargaining units. As a term of the agreements, the Company replaced sponsored retiree medical, prescription drug and dental coverage for future Medicare eligible retirees with a Retiree Health Care Allowance (RHCA) account of $3,250 per year. The modification in retiree health coverage will reduce future other postretirement benefit costs.

Based on the impact of such benefit cost savings on the consolidated financial statements, the Company re-measured its retiree health plan as of March 31, 2013. In performing the re-measurement, the Company updated its significant actuarial assumptions, including an adjustment to the discount rate from 4.15% at December 31, 2012 to 4.30% at March 31, 2013. Plan assets were also updated to reflect fair value as of the re-measurement date. Beginning April

2013, net other postretirement benefit costs were recorded based on the updated actuarial assumptions and benefit changes resulting from the new labor contracts.

Healthcare Legislation

In December 2003, the Medicare Act was signed into law which provides for a non-taxable federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least "actuarially equivalent" to the benefit established by law. The effects of the subsidy reduced net periodic other postretirement benefit costs by $1 million in 2013, $6 million in 2012 and $6 million in 2011.

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

Grantor Trust

DTE Gas maintains a Grantor Trust to fund other postretirement benefit obligations that invests in life insurance contracts and income securities. Employees and retirees have no right, title or interest in the assets of the Grantor Trust, and DTE Gas can revoke the trust subject to providing the MPSC with prior notification. The Company accounts for its investment at fair value, approximately $17 million and $14 million at December 31, 2013 and 2012, respectively, with unrealized gains and losses recorded to earnings. The Grantor Trust investment is included in Other investments on the Consolidated Statements of Financial Position.

Defined Contribution Plans

The Company also sponsors defined contribution retirement savings plans. Participation in one of these plans is available to substantially all represented and non-represented employees. The Company matches employee contributions up to certain predefined limits based upon eligible compensation, the employee's contribution rate and, in some cases, years of credited service. The cost of these plans was $41 million, $37 million, and $35 million in each of the years 2013, 2012, and 2011, respectively.

NOTE 21 — STOCK-BASED COMPENSATION

The Company's stock incentive program permits the grant of incentive stock options, non-qualifying stock options, stock awards, performance shares and performance units to employees and members of its Board of Directors. Key provisions of the stock incentive program are:

- Authorized limit is 11,500,000 shares of common stock;

- Prohibits the grant of a stock option with an exercise price that is less than the fair market value of the Company's stock on the date of the grant; and

- Imposes the following award limits to a single participant in a single calendar year, (1) options for more than 500,000 shares of common stock; (2) stock awards for more than 150,000 shares of common stock; (3) performance share awards for more than 300,000 shares of common stock (based on the maximum payout under the award); or (4) more than 1,000,000 performance units, which have a face amount of $1.00 each.

The Company records compensation expense at fair value over the vesting period for all awards it grants.

Stock-based compensation for the reporting periods is as follows:

	2013	2012	2011
	(In millions)		
Stock-based compensation expense	$99	$83	$66
Tax benefit	38	33	25
Stock-based compensation cost capitalized in property, plant and equipment	15	5	4

Stock Options

Options are exercisable according to the terms of the individual stock option award agreements and expire 10 years after the date of the grant. The option exercise price equals the fair value of the stock on the date that the option was granted. Stock options vest ratably over a 3-year period.

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Notes to Consolidated Financial Statements — (Continued)

Stock option activity was as follows:

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (In millions)
Options outstanding at December 31, 2012	1,192,670	$41.86	
Granted	—	$—	
Exercised	(458,603)	$40.71	
Forfeited or expired	(10,370)	$41.46	
Options outstanding and exercisable at December 31, 2013	723,697	$42.60	$18

As of December 31, 2013, the weighted average remaining contractual life for the exercisable shares is 3.83 years. As of December 31, 2013, all options were vested. During 2013, 200,844 options vested.

There were no options granted during 2013, 2012 or 2011. The intrinsic value of options exercised for the years ended December 31, 2013, 2012 and 2011 was $12 million, $25 million, and $20 million, respectively. Total option expense recognized during 2013, 2012 and 2011 was zero, $0.7 million and $2 million, respectively.

The number, weighted average exercise price and weighted average remaining contractual life of options outstanding were as follows:

Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
$27.00 — $38.00	67,257	$28.30	5.15
$38.01 — $42.00	167,447	$41.23	3.21
$42.01 — $45.00	351,893	$44.02	4.16
$45.01 — $50.00	137,100	$47.67	3.08
	723,697	$42.60	3.83

Restricted Stock Awards

Stock awards granted under the plan are restricted for varying periods, generally for three years. Participants have all rights of a shareholder with respect to a stock award, including the right to receive dividends and vote the shares. Prior to vesting in stock awards, the participant: (i) may not sell, transfer, pledge, exchange or otherwise dispose of shares; (ii) shall not retain custody of the share certificates; and (iii) will deliver to the Company a stock power with respect to each stock award upon request.

The stock awards are recorded at cost that approximates fair value on the date of grant. The cost is amortized to compensation expense over the vesting period.

Stock award activity for the years ended December 31 was:

	2013	2012	2011
Fair value of awards vested (in millions)	$8	$9	$13
Restricted common shares awarded	127,785	167,320	381,840
Weighted average market price of shares awarded	$64.72	$53.71	$47.98
Compensation cost charged against income (in millions)	$23	$12	$12

The following table summarizes the Company’s stock awards activity for the period ended December 31, 2013:

	Restricted Stock	Weighted Average Grant Date Fair Value
Balance at December 31, 2012	597,648	$48.33
Grants	127,785	$64.72
Forfeitures	(7,155)	$54.61
Vested and issued	(225,949)	$45.54
Balance at December 31, 2013	492,329	$53.76

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Notes to Consolidated Financial Statements — (Continued)

Performance Share Awards

Performance shares awarded under the plan are for a specified number of shares of common stock that entitle the holder to receive a cash payment, shares of common stock or a combination thereof. The final value of the award is determined by the achievement of certain performance objectives and market conditions. The awards vest at the end of a specified period, usually three years. The Company accounts for performance share awards by accruing compensation expense over the vesting period based on: (i) the number of shares expected to be paid which is based on the probable achievement of performance objectives; and (ii) the closing stock price market value. The settlement of the award is based on the closing price at the settlement date.

The Company recorded compensation expense for performance share awards as follows:

	2013	2012	2011
	(In millions)		
Compensation expense	$77	$71	$53
Cash settlements (a)	$9	$4	$3
Stock settlements (a)	$56	$41	$25

(a) Sum of cash and stock settlements approximates the intrinsic value of the liability.

During the vesting period, the recipient of a performance share award has no shareholder rights. During the period beginning on the date the performance shares are awarded and ending on the certification date of the performance objectives, the number of performance shares awarded will be increased, assuming full dividend reinvestment at the fair market value on the dividend payment date. The cumulative number of performance shares will be adjusted to determine the final payment based on the performance objectives achieved. Performance share awards are nontransferable and are subject to risk of forfeiture.

The following table summarizes the Company’s performance share activity for the period ended December 31, 2013:

	Performance Shares
Balance at December 31, 2012	1,634,364
Grants	564,561
Forfeitures	(41,512)
Payouts	(548,624)
Balance at December 31, 2013	1,608,789

Unrecognized Compensation Costs

As of December 31, 2013, there was $55 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 0.93 years.

	Unrecognized Compensation Cost	Weighted Average to be Recognized
	(In millions)	(In years)
Stock awards	$10	0.93
Performance shares	45	0.93

	$55	0.93

NOTE 22 — SEGMENT AND RELATED INFORMATION

The Company sets strategic goals, allocates resources and evaluates performance based on the following structure:

Electric segment consists principally of DTE Electric, which is engaged in the generation, purchase, distribution and sale of electricity to approximately 2.1 million residential, commercial and industrial customers in southeastern Michigan.

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Notes to Consolidated Financial Statements — (Continued)

Gas segment consists of DTE Gas and Citizens. DTE Gas is engaged in the purchase, storage, transportation, distribution and sale of natural gas to approximately 1.2 million residential, commercial and industrial customers throughout Michigan and the sale of storage and transportation capacity. Citizens distributes natural gas in Adrian, Michigan to approximately 17,000 customers.

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

Power and Industrial Projects is comprised primarily of projects that deliver energy and utility-type products and services to industrial, commercial and institutional customers; produce reduced emissions fuel (REF) and sell electricity from biomass-fired energy projects.

Energy Trading consists of energy marketing and trading operations.

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

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

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

	2013	2012	2011
	(In millions)		
Electric	$26	$29	$33
Gas	4	4	2
Gas Storage and Pipelines	3	6	8
Power and Industrial Projects	816	801	238
Energy Trading	43	43	70
Corporate and Other	(24)	(37)	(50)
Discontinued Operations	—	2	—
	$868	$848	$301

Financial data of the business segments follows:

	Operating Revenue	Depreciation, Depletion & Amortization	Interest Income	Interest Expense	Income Taxes	Net Income (Loss) Attributable to DTE Energy Company	Total Assets	Goodwill	Capital Expenditures
	(In millions)								
2013									

Electric	$5,199	$ 902	$(1)	$268	$252	$ 484	$17,508	$ 1,208	$ 1,325
Gas	1,474	95	(7)	58	77	143	3,938	743	209
Gas Storage and Pipelines	132	23	(7)	18	45	70	824	24	245
Power and Industrial Projects	1,950	72	(6)	27	(45)	66	1,067	26	93
Energy Trading	1,771	1	—	8	(38)	(58)	623	17	3
Corporate and Other	3	1	(51)	120	(37)	(44)	2,945	—	1
Reclassifications and Eliminations	(868)	—	63	(63)	—	—	(970)	—	—
Total	$9,661	$ 1,094	$(9)	$436	$254	$ 661	$25,935	$ 2,018	$ 1,876

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

	Operating Revenue	Depreciation, Depletion & Amortization	Interest Income	Interest Expense	Income Taxes	Net Income (Loss) Attributable to DTE Energy Company	Total Assets	Goodwill	Capital Expenditures
	(In millions)								
2012									
Electric	$5,293	$ 827	$(1)	$272	$280	$ 483	$17,755	$ 1,208	$ 1,230
Gas	1,315	92	(7)	59	50	115	4,059	745	221
Gas Storage and Pipelines	96	8	(8)	8	39	61	668	22	233
Power and Industrial Projects	1,823	65	(7)	37	(44)	42	991	26	83
Energy Trading	1,109	2	—	8	7	12	629	17	1
Corporate and Other	3	1	(52)	121	(46)	(47)	3,074	—	3
Reclassifications and Eliminations	(848)	—	65	(65)	—	—	(837)	—	—
Total from Continuing Operations	$8,791	$ 995	$(10)	$440	$286	$ 666	$26,339	$ 2,018	$ 1,771
Discontinued Operations (Note 7)						(56)	—	—	49
Total						$ 610	$26,339	$ 2,018	$ 1,820

	Operating Revenue	Depreciation, Depletion & Amortization	Interest Income	Interest Expense	Income Taxes	Net Income (Loss) Attributable to DTE Energy Company	Total Assets	Goodwill	Capital Expenditures
	(In millions)								
2011									
Electric	$5,154	$ 818	$(1)	$ 289	$265	$ 434	$17,567	$ 1,208	$ 1,203
Gas	1,505	89	(7)	64	60	110	4,065	745	179
Gas Storage and Pipelines	91	6	(5)	7	35	57	538	22	16
Power and Industrial Projects	1,129	60	(8)	32	11	38	789	26	56
Energy Trading	1,276	3	—	9	34	52	612	17	1
Corporate & Other	4	1	(47)	145	(136)	23	2,605	—	—
Reclassifications and Eliminations	(301)	—	58	(58)	(1)	—	(485)	—	—
Total from Continuing Operations	$8,858	$ 977	$(10)	$ 488	$268	$ 714	$25,691	$ 2,018	$ 1,455
Discontinued Operations (Note 7)						(3)	318	2	29

Total	$ 711	$26,009	$ 2,020	$ 1,484

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

NOTE 23 — SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly earnings per share may not equal full year totals, since quarterly computations are based on weighted average common shares outstanding during each quarter.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
	(In millions, except per share amounts)				
2013					
Operating Revenues	$2,516	$2,225	$2,387	$2,533	$9,661
Operating Income	$410	$223	$329	$241	$1,203
Net Income Attributable to DTE Energy Company	$234	$105	$198	$124	$661
Basic Earnings per Share	$1.35	$0.60	$1.13	$0.70	$3.76
Diluted Earnings per Share	$1.34	$0.60	$1.13	$0.70	$3.76
2012					
Operating Revenues	$2,239	$2,013	$2,190	$2,349	$8,791
Operating Income	$312	$294	$406	$267	$1,279
Net Income Attributable to DTE Energy Company					
Continuing Operations	$156	$147	$226	$137	$666
Discontinued Operations	—	(1)	1	(56)	(56)
Net Income Attributable to DTE Energy Company	$156	$146	$227	$81	$610
Basic Earnings per Share					
Continuing Operations	$0.91	$0.87	$1.31	$0.79	$3.89
Discontinued Operations	—	(0.01)	0.01	(0.32)	(0.33)
Total	$0.91	$0.86	$1.32	$0.47	$3.56
Diluted Earnings per Share					
Continuing Operations	$0.91	$0.87	$1.30	$0.79	$3.88
Discontinued Operations	—	(0.01)	0.01	(0.32)	(0.33)
Total	$0.91	$0.86	$1.31	$0.47	$3.55

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

See Item 8. Financial Statements and Supplementary Data for management's evaluation of disclosure controls and procedures, its report on internal control over financial reporting, and its conclusion on changes in internal control over financial reporting.

Item 9B. Other Information

None.

Part III
Item 10. Directors, Executive Officers and Corporate Governance

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Item 13. Certain Relationships and Related Transactions, and Director Independence

Item 14. Principal Accountant Fees and Services

Information required by Part III (Items 10, 11, 12, 13 and 14) of this Form 10-K is incorporated by reference from DTE Energy's definitive Proxy Statement for its 2014 Annual Meeting of Shareholders to be held May 1, 2014. The Proxy Statement will be filed with the Securities and Exchange Commission, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year covered by this report on Form 10-K, all of which information is hereby incorporated by reference in, and made part of, this Form 10-K.

Part IV
Item 15. Exhibits and Financial Statement Schedules
(a) The following documents are filed as part of this Annual Report on Form 10-K.
(1) Consolidated financial statements. See “Item 8 — Financial Statements and Supplementary Data.”
(2) Financial statement schedule. See “Item 8 — Financial Statements and Supplementary Data.”
(3) Exhibits.

	(i) Exhibits filed herewith:
4-282	Supplemental Indenture, dated as of December 1, 2013, between DTE Energy Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee. (2013 Series F Senior Notes due 2023)
4-283	Forty-Fourth Supplemental Indenture, dated as of December 1, 2013 to Indenture of Mortgage and Deed of Trust dated as of March 1, 1944 between DTE Gas Company and Citibank, N.A. (2013 Series C, D, and E)
12-56	Computation of Ratio of Earnings to Fixed Charges
21-9	Subsidiaries of the Company
23-27	Consent of PricewaterhouseCoopers LLP
31-87	Chief Executive Officer Section 302 Form 10-K Certification of Periodic Report
31-88	Chief Financial Officer Section 302 Form 10-K Certification of Periodic Report
99-55	First Amendment to the Amendment and Restatement of Master Trust Agreement for the DTE Energy Company Master Plan Trust between DTE Energy Corporate Services, LLC and DTE Energy Investment Committee and JP Morgan Chase Bank, N.A., dated as of March 13, 2013.
99-56	Second Amendment to the Amendment and Restatement of Master Trust Agreement for the DTE Energy Company Master Plan Trust between DTE Energy Corporate Services, LLC and DTE Energy Investment Committee and JP Morgan Chase Bank, N.A., dated as of September 30, 2013.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Database
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
	(ii) Exhibits incorporated herein by reference: Certain exhibits listed below refer to "The Detroit Edison Company" and "Michigan Consolidated Gas Company" and were effective prior to the change to DTE Electric Company and DTE Gas Company, respectively, effective January 1, 2013.

3(a)	Amended and Restated Articles of Incorporation of DTE Energy Company, dated December 13, 1995 and as amended from time to time (Exhibit 3-1 to Form 8-K dated May 6, 2010).
3(b)	Amended Bylaws of DTE Energy Company, as amended through May 5, 2011 (Exhibit 3-11 to Form 10-Q for the quarter ended September 30, 2011).
4(a)	Amended and Restated Indenture, dated as of April 9, 2001, between DTE Energy Company and The Bank of New York, as trustee (Exhibit 4.1 to Registration Statement on Form S-3 (File No. 333-58834)) and indentures supplemental thereto, dated as of dates indicated below, and filed as exhibits to the filings set forth below:
	Supplemental Indenture, dated as of April 1, 2003, between DTE Energy Company and The Bank of New York, as trustee (Exhibit 4(o) to Form 10-Q for the quarter ended March 31, 2003). (2003 Series A $6^{3}/8$% Senior Notes due 2033)

Supplemental Indenture, dated as of May 15, 2006, between DTE Energy Company and The Bank of New York, as trustee (Exhibit 4-239 to Form 10-Q for the quarter ended June 30, 2006). (2006 Series B 6.35% Senior Notes due 2016)

Supplemental Indenture, dated as of May 1, 2009, between DTE Energy Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-1 to Form 8-K dated May 13, 2009). (2009 Series A 7.625% Senior Notes due 2014)

Supplemental Indenture, dated as of December 1, 2011, between DTE Energy Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-274 to Form 8-K dated December 7, 2011). (2011 Series I 6.50% Junior Subordinated Debentures due 2061)

Supplemental Indenture, dated as of September 1, 2012, between DTE Energy Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-275 to Form 8-K dated October 1, 2012) (2012 Series C 5.25% Junior Subordinated Debentures due 2062)

4(b) Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit B-1 to Detroit Edison's Registration Statement on Form A-2 (File No. 2-1630)) and indentures supplemental thereto, dated as of dates indicated below, and filed as exhibits to the filings set forth below:

Supplemental Indenture, dated as of December 1, 1940, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit B-14 to Detroit Edison's Registration Statement on Form A-2 (File No. 2-4609)). (amendment)

Supplemental Indenture, dated as of September 1, 1947, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit B-20 to Detroit Edison's Registration Statement on Form S-1 (File No. 2-7136)). (amendment)

Supplemental Indenture, dated as of March 1, 1950, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit B-22 to Detroit Edison's Registration Statement on Form S-1 (File No. 2-8290)). (amendment)

Supplemental Indenture, dated as of November 15, 1951, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit B-23 to Detroit Edison's Registration Statement on Form S-1 (File No. 2-9226)). (amendment)

Supplemental Indenture, dated as of August 15, 1957, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 3-B-30 to Detroit Edison's Form 8-K dated September 11, 1957). (amendment)

Supplemental Indenture, dated as of December 1, 1966, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 2-B-32 to Detroit Edison's Registration Statement on Form S-9 (File No. 2-25664)). (amendment)

Supplemental Indenture, dated as of February 15, 1990, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-212 to Detroit Edison's Form 10-K for the year ended December 31, 2000). (1990 Series B and C)

Supplemental Indenture, dated as of May 1, 1991, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-178 to Detroit Edison's Form 10-K for the year ended December 31, 1996). (1991 Series CP)

Supplemental Indenture, dated as of May 15, 1991, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-179 to Detroit Edison's Form 10-K for the year ended December 31, 1996). (1991 Series DP)

Supplemental Indenture, dated as of February 29, 1992, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-187 to Detroit Edison's Form 10-Q for the quarter ended March 31, 1998). (1992 Series AP)

Supplemental Indenture, dated as of April 26, 1993, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-215 to Detroit Edison's Form 10-K for the year ended December 31, 2000). (amendment)

Supplemental Indenture, dated as of August 1, 2000, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-210 to Detroit Edison's Form 10-Q for the quarter ended September 30, 2000). (2000 Series BP)

Supplemental Indenture, dated as of September 17, 2002, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4.1 to Detroit Edison's Registration Statement on Form S-3 (File No. 333-100000)). (amendment and successor trustee)

Supplemental Indenture, dated as of October 15, 2002, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-230 to Detroit Edison's Form 10-Q for the quarter ended September 30, 2002). (2002 Series B)

Supplemental Indenture, dated as of March 15, 2004, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-238 to Detroit Edison's Form 10-Q for the quarter ended March 31, 2004). (2004 Series A and B)

Supplemental Indenture, dated as of July 1, 2004, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-240 to Detroit Edison's Form 10-Q for the quarter ended June 30, 2004). (2004 Series D)

Supplemental Indenture, dated as of April 1, 2005, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between Detroit Edison and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4.3 to Detroit Edison's Registration Statement on Form S-4 (File No. 333-123926)). (2005 Series AR and BR)

Supplemental Indenture, dated as of September 15, 2005, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4.2 to Detroit Edison's Form 8-K dated September 29, 2005). (2005 Series C)

Supplemental Indenture, dated as of September 30, 2005, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between Detroit Edison and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-248 to Detroit Edison's Form 10-Q for the quarter ended September 30, 2005). (2005 Series E)

Supplemental Indenture, dated as of May 15, 2006, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-250 to Detroit Edison's Form 10-Q for the quarter ended June 30, 2006). (2006 Series A)

Supplemental Indenture, dated as of May 1, 2008 to Mortgage and Deed of Trust, dated as of October 1, 1924 between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-253 to Detroit Edison's Form 10-Q for the quarter ended June 30, 2008). (2008 Series ET)

Supplemental Indenture, dated as of June 1, 2008 to Mortgage and Deed of Trust, dated as of October 1, 1924 between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-255 to Detroit Edison's Form 10-Q for the quarter ended June 30, 2008). (2008 Series G)

Supplemental Indenture, dated as of July 1, 2008 to Mortgage and Deed of Trust, dated as of October 1, 1924 between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-257 to Detroit Edison's Form 10-Q for the quarter ended June 30, 2008). (2008 Series KT)

Supplemental Indenture, dated as of March 15, 2009 to Mortgage and Deed of Trust, dated as of October 1, 1924 between The Detroit Edison Company and The Bank of New York Mellon Trust Company N.A., as successor trustee (Exhibit 4-263 to Detroit Edison's Form 10-Q for the quarter ended March 31, 2009). (2009 Series BT)

Supplemental Indenture, dated as of August 1, 2010, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-269 to Detroit Edison's Form 10-Q for the quarter ended September 30, 2010). (2010 Series B)

Supplemental Indenture, dated as of September 1, 2010, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-271 to Detroit Edison's Form 10-Q for the quarter ended September 30, 2010). (2010 Series A)

Supplemental Indenture, dated as of December 1, 2010, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-273 to Detroit Edison's Form 10-K for the year ended December 31, 2010). (2010 Series CT)

Supplemental Indenture, dated as of March 1, 2011, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A. as successor trustee (Exhibit 4-274 to Detroit Edison's Form 10-Q for the quarter ended March 31, 2011). (2011 Series AT)

Supplemental Indenture, dated as of May 15, 2011, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A. as successor trustee (Exhibit 4-275 to Detroit Edison's Form 10-Q for the quarter ended June 30, 2011). (2011 Series B)

Supplemental Indenture, dated as of August 1, 2011, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A. as successor trustee (Exhibit 4-276 to Detroit Edison's Form 10-Q for the quarter ended September 30, 2011). (2011 Series GT)

Supplemental Indenture, dated as of August 15, 2011, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A. as successor trustee (Exhibit 4-277 to Detroit Edison's Form 10-Q for the quarter ended September 30, 2011). (2011 Series D, 2011 Series E, 2011 Series F)

Supplemental Indenture, dated as of September 1, 2011, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A. as successor trustee (Exhibit 4-278 to Detroit Edison's Form 10-Q for the quarter ended September 30, 2011). (2011 Series H)

Supplemental Indenture dated as of June 20, 2012, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-279 to Detroit Edison's Form 10-Q for the quarter ended June 30, 2012). (2012 Series A and B)

Supplemental Indenture, dated as of March 15, 2013, to the Mortgage and Deed of Trust dated as of October 1, 1924, between DTE Electric Company and The Bank of New York Mellon, N.A., as successor trustee (Exhibit 4-280 to DTE Electric Form 10-Q for the quarter ended March 31, 2013). (2013 Series A)

	Supplemental Indenture, dated as of August 1, 2013, to the Mortgage and Deed of Trust, dated as of October 1, 1924, between DTE Electric Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-281 to DTE Electric Form 10-Q for the quarter ended September 30, 2013). (2013 Series B)
4(c)	Collateral Trust Indenture, dated as of June 30, 1993, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-152 to Detroit Edison's Registration Statement (File No. 33-50325)) and indentures supplemental thereto, dated as of dates indicated below, and filed as exhibits to the filings set forth below:
	Tenth Supplemental Indenture, dated as of October 23, 2002, to the Collateral Trust Indenture, dated as of June 30, 1993, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-231 to Detroit Edison's Form 10-Q for the quarter ended September 30, 2002). (6.35% Senior Notes due 2032)
	Thirteenth Supplemental Indenture, dated as of April 1, 2004, to the Collateral Trust Indenture, dated as of June 30, 1993, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-237 to Detroit Edison's Form 10-Q for the quarter ended March 31, 2004). (4.875% Senior Notes Due 2029 and 4.65% Senior Notes due 2028)
	Fourteenth Supplemental Indenture, dated as of July 15, 2004, to the Collateral Trust Indenture, dated as of June 30, 1993, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-239 to Detroit Edison's Form 10-Q for the quarter ended June 30, 2004). (2004 Series D 5.40% Senior Notes due 2014)

Sixteenth Supplemental Indenture, dated as of April 1, 2005, to the Collateral Trust Indenture, dated as of June 30, 1993, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4.1 to Detroit Edison's Registration Statement on Form S-4 (File No. 333-123926)). (2005 Series AR 4.80% Senior Notes due 2015 and 2005 Series BR 5.45% Senior Notes due 2035)

Eighteenth Supplemental Indenture, dated as of September 15, 2005, to the Collateral Trust Indenture, dated as of June 30, 1993, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4.1 to Detroit Edison's Form 8-K dated September 29, 2005). (2005 Series C 5.19% Senior Notes due October 1, 2023)

Nineteenth Supplemental Indenture, dated as of September 30, 2005, to the Collateral Trust Indenture, dated as of June 30, 1993, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-247 to Detroit Edison's Form 10-Q for the quarter ended September 30, 2005). (2005 Series E 5.70% Senior Notes due 2037)

Twentieth Supplemental Indenture, dated as of May 15, 2006, to the Collateral Trust Indenture dated as of June 30, 1993, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-249 to Detroit Edison's Form 10-Q for the quarter ended June 30, 2006). (2006 Series A Senior Notes due 2036)

Twenty-second Supplemental Indenture, dated as of December 1, 2007, to the Collateral Trust Indenture, dated as of June 30, 1993, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4.1 to Detroit Edison's Form 8-K dated December 18, 2007). (2007 Series A Senior Notes due 2038)

Twenty-fourth Supplemental Indenture, dated as of May 1, 2008 to the Collateral Trust Indenture, dated as of June 30, 1993 between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A. as successor trustee (Exhibit 4-254 to Detroit Edison's Form 10-Q for the quarter ended June 30, 2008). (2008 Series ET Variable Rate Senior Notes due 2029)

Amendment dated June 1, 2009 to the Twenty-fourth Supplemental Indenture, dated as of May 1, 2008 to the Collateral Trust Indenture, dated as of June 30, 1993 between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A. as successor trustee (Exhibit 4-265 to Detroit Edison's Form 10-Q for the quarter ended June 30, 2009) (2008 Series ET Variable Rate Senior Notes due 2029)

Twenty-fifth Supplemental Indenture, dated as of June 1, 2008 to the Collateral Trust Indenture, dated as of June 30, 1993 between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-256 to Detroit Edison's Form 10-Q for the quarter ended June 30, 2008). (2008 Series G 5.60% Senior Notes due 2018)

Twenty-sixth Supplemental Indenture, dated as of July 1, 2008 to the Collateral Trust Indenture, dated as of June 30, 1993 between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-258 to Detroit Edison's Form 10-Q for the quarter ended June 30, 2008). (2008 Series KT Variable Rate Senior Notes due 2020)

Amendment dated June 1, 2009 to the Twenty-sixth Supplemental Indenture, dated as of July 1, 2008 to the Collateral Trust Indenture, dated as of June 30, 1993 between The Detroit Edison Company and The

Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-266 to Detroit Edison's Form 10-Q for the quarter ended June 30, 2009) (2008 Series KT Variable Rate Senior Notes due 2020)

Twenty-ninth Supplemental Indenture, dated as of March 15, 2009, to the Collateral Trust Indenture, dated as of June 30, 1993 between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-264 to Detroit Edison's Form 10-Q for the quarter ended March 31, 2009). (2009 Series BT 6.00% Senior Notes due 2036)

Thirty-first Supplemental Indenture, dated as of August 1, 2010 to the Collateral Trust Indenture, dated as of June 1, 1993 between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-270 to Detroit Edison's Form 10-Q for the quarter ended September 30, 2010). (2010 Series B 3.45% Senior Notes due 2020)

Thirty-second Supplemental Indenture, dated as of September 1, 2010, between The Detroit Edison Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee (Exhibit 4-272 to Detroit Edison's Form 10-Q for the quarter ended September 30, 2010). (2010 Series A 4.89% Senior Notes due 2020)

4(d)	Indenture dated as of June 1, 1998 between Michigan Consolidated Gas Company and Citibank, N.A., as trustee, related to Senior Debt Securities (Exhibit 4-1 to Michigan Consolidated Gas Company Registration Statement on Form S-3 (File No. 333-63370)) and indentures supplemental thereto, dated as of dates indicated below, and filed as exhibits to the filings set forth below:

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Fourth Supplemental Indenture dated as of February 15, 2003, to the Indenture dated as of June 1, 1998 between Michigan Consolidated Gas Company and Citibank, N.A., trustee (Exhibit 4-3 to Michigan Consolidated Gas Company Form 10-Q for the quarter ended March 31, 2003). (5.70% Senior Notes, 2003 Series A due 2033)

Fifth Supplemental Indenture dated as of October 1, 2004, to the Indenture dated as of June 1, 1998 between Michigan Consolidated Gas Company and Citibank, N.A., trustee (Exhibit 4-6 to Michigan Consolidated Gas Company Form 10-Q for the quarter ended September 31, 2004). (5.00% Senior Notes, 2004 Series E due 2019)

Sixth Supplemental Indenture dated as of April 1, 2008, to the Indenture dated as of June 1, 1998 between Michigan Consolidated Gas Company and Citibank, N.A., trustee (Exhibit 4-241 to Form 10-Q for the quarter ended March 31, 2008). (5.26% Senior Notes, 2008 Series A due 2013, 6.04% Senior Notes, 2008 Series B due 2018 and 6.44% Senior Notes, 2008 Series C due 2023)

Seventh Supplemental Indenture, dated as of June 1, 2008 to Indenture dated as of June 1, 1998 between Michigan Consolidated Gas Company and Citibank, N.A., trustee (Exhibit 4-243 to Form 10-Q for the quarter ended June 30, 2008). (6.78% Senior Notes, 2008 Series F due 2028)

Eighth Supplemental Indenture, dated as of August 1, 2008 to Indenture dated as of June 1, 1998 between Michigan Consolidated Gas Company and Citibank, N.A., trustee (Exhibit 4-251 to Form 10-Q for the quarter ended September 30, 2008). (5.94% Senior Notes, 2008 Series H due 2015 and 6.36% Senior Notes, 2008 Series I due 2020)

4(e) Indenture of Mortgage and Deed of Trust dated as of March 1, 1944 (Exhibit 7-D to Michigan Consolidated Gas Company Registration Statement No. 2-5252) and indentures supplemental thereto, dated as of dates indicated below, and filed as exhibits to the filings set forth below:

Thirty-second Supplemental Indenture dated as of January 5, 1993 to Indenture of Mortgage and Deed of Trust dated as of March 1, 1944 between Michigan Consolidated Gas Company and Citibank, N.A., trustee (Exhibit 4-1 to Michigan Consolidated Gas Company Form 10-K for the year ended December 31, 1992). (First Mortgage Bonds Designated Secured Term Notes, Series B)

Thirty-seventh Supplemental Indenture dated as of February 15, 2003 to Indenture of Mortgage and Deed of Trust dated as of March 1, 1944 between Michigan Consolidated Gas Company and Citibank, N.A., trustee (Exhibit 4-4 to Michigan Consolidated Gas Company Form 10-Q for the quarter ended March 31, 2003). (5.70% collateral bonds due 2033)

Thirty-eighth Supplemental Indenture dated as of October 1, 2004 to Indenture of Mortgage and Deed of Trust dated as of March 1, 1944 between Michigan Consolidated Gas Company and Citibank, N.A., trustee (Exhibit 4-5 to Michigan Consolidated Gas Company Form 10-Q for the quarter ended September 31, 2004). (2004 Series E collateral bonds)

Thirty-ninth Supplemental Indenture, dated as of April 1, 2008 to Indenture of Mortgage and Deed of Trust dated as of March 1, 1944 between Michigan Consolidated Gas Company and Citibank, N.A., trustee (Exhibit 4-240 to Form 10-Q for the quarter ended March 31, 2008). (2008 Series B and C Collateral Bonds)

	Fortieth Supplemental Indenture, dated as of June 1, 2008 to Indenture of Mortgage and Deed of Trust dated as of March 1, 1944 between Michigan Consolidated Gas Company and Citibank, N.A., trustee (Exhibit 4-242 to Form 10-Q for the quarter ended June 30, 2008). (2008 Series F Collateral Bonds)
	Forty-first Supplemental Indenture, dated as of August 1, 2008 to Indenture of Mortgage and Deed of Trust dated as of March 1, 1944 between Michigan Consolidated Gas Company and Citibank, N.A., trustee (Exhibit 4-250 to Form 10-Q for the quarter ended September 30, 2008). (2008 Series H and I Collateral Bonds)
	Forty-third Supplemental Indenture, dated as of December 1, 2012 to Indenture of Mortgage and Deed of Trust dated as of March 1, 1944 between Michigan Consolidated Gas Company and Citibank, N.A., trustee (Exhibit 4-279 to Form 10-K for the year ended December 31, 2012). (2012 Series D Collateral Bonds)
10(a)	Form of Indemnification Agreement between DTE Energy Company and each of Gerard M. Anderson, Steven E. Kurmas, David E. Meador, Gerardo Norcia, Peter B. Oleksiak, Bruce D. Peterson, and non-employee Directors (Exhibit 10-1 to Form 8-K dated December 6, 2007).
10(b)	Certain arrangements pertaining to the employment of Gerard M. Anderson with The Detroit Edison Company, dated October 6, 1993 (Exhibit 10-48 to The Detroit Edison Company's Form 10-K for the year ended December 31, 1993).
10(c)	Certain arrangements pertaining to the employment of David E. Meador with The Detroit Edison Company, dated January 14, 1997 (Exhibit 10-5 to Form 10-K for the year ended December 31, 1996).

10(d)	Certain arrangements pertaining to the employment of Bruce D. Peterson, dated May 22, 2002 (Exhibit 10-48 to Form 10-Q for the quarter ended June 30, 2002).
10(e)	DTE Energy Company Annual Incentive Plan (Exhibit 10-44 to Form 10-Q for the quarter ended March 31, 2001).
10(f)	Amended and Restated DTE Energy Company 2006 Long-Term Incentive Plan (as Amended and Restated effective as of May 6, 2010 and as Amended May 3, 2012) (Exhibit A to DTE Energy's Definitive Proxy Statement dated March 15, 2012).
10(g)	DTE Energy Company Retirement Plan for Non-Employee Directors' Fees (as Amended and Restated effective as of December 31, 1998) (Exhibit 10-31 to Form 10-K for the year ended December 31, 1998).
10(h)	The Detroit Edison Company Supplemental Long-Term Disability Plan, dated January 27, 1997 (Exhibit 10-4 to Form 10-K for the year ended December 31, 1996).
10(i)	Description of Executive Life Insurance Plan (Exhibit 10-47 to Form 10-Q for the quarter ended June 30, 2002).
10(j)	DTE Energy Affiliates Nonqualified Plans Master Trust, effective as of August 15, 2013 (Exhibit 10-87 to Form 10-Q for the quarter ended September 30, 2013).
10(k)	Form of Director Restricted Stock Agreement (Exhibit 10.1 to Form 8-K dated June 23, 2005).
10(l)	Form of Director Restricted Stock Agreement pursuant to the DTE Energy Company Long-Term Incentive Plan (Exhibit 10.1 to Form 8-K dated June 29, 2006).
10(m)	DTE Energy Company Executive Supplemental Retirement Plan as Amended and Restated, effective as of January 1, 2005 (Exhibit 10.75 to Form 10-K for the year ended December 31, 2008).
	First Amendment to the DTE Energy Company Executive Supplemental Retirement Plan (Amended and Restated Effective January 1, 2005) dated as of December 2, 2009 (Exhibit 10.1 to Form 8-K dated December 8, 2009).
	Second Amendment to the DTE Energy Company Executive Supplemental Retirement Plan (Amended and Restated Effective January 1, 2005) dated as of May 5, 2011 (Exhibit 10.80 to Form 10-Q for the quarter ended March 31, 2012).
10(n)	DTE Energy Company Supplemental Retirement Plan as Amended and Restated, effective as of January 1, 2005 (Exhibit 10.76 to Form 10-K for the year ended December 31, 2008).
10(o)	DTE Energy Company Supplemental Savings Plan as Amended and Restated, effective as of January 1, 2005 (Exhibit 10.77 to Form 10-K for the year ended December 31, 2008).
	Second Amendment to the DTE Energy Supplemental Savings Plan dated as of November 13, 2012 (Exhibit 10.81 to the Form 10-K for the year ended December 31, 2012).
10(p)	

	DTE Energy Company Executive Deferred Compensation Plan as Amended and Restated, effective as of January 1, 2005 (Exhibit 10.78 to Form 10-K for the year ended December 31, 2008).
10(q)	DTE Energy Company Plan for Deferring the Payment of Directors' Fees as Amended and Restated, effective as of January 1, 2005 (Exhibit 10.79 to Form 10-K for the year ended December 31, 2008).
10(r)	DTE Energy Company Deferred Stock Compensation Plan for Non-Employee Directors as Amended and Restated, effective January 1, 2005 (Exhibit 10.80 to Form 10-K for the year ended December 31, 2008).
10(s)	Form of Second Amended and Restated DTE Energy Company Five-Year Credit Agreement, dated as of October 21, 2011 and amended and restated as of April 5, 2013, by and among DTE Energy Company, the lenders party thereto, Citibank, N.A., as Administrative Agent, and Barclays Bank PLC, The Bank of Nova Scotia and JPMorgan Chase Bank, N.A. as Co-Syndication Agents (Exhibit 10.01 to Form 8-K filed on April 9, 2013).
10(t)	Form of Second Amended and Restated DTE Gas Company Five-Year Credit Agreement, dated as of October 21, 2011 and amended and restated as of April 5, 2013, by and among DTE Gas Company, the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and Barclays Bank PLC, Citibank, N.A., and Bank of America, N.A., as Co-Syndication Agents (Exhibit 10.02 to Form 8-K filed on April 9, 2013).
10(u)	Form of Second Amended and Restated DTE Electric Company Five-Year Credit Agreement, dated as of October 21, 2011 and amended and restated as of April 5, 2013, by and among DTE Electric Company, the lenders party thereto, Barclays Bank PLC, as Administrative Agent, and Citibank, N.A., JPMorgan Chase Bank, N.A., and The Royal Bank of Scotland plc as Co-Syndication Agents (Exhibit 10.01 to DTE Energy Company's and DTE Electric Company's Form 8-K filed on April 9, 2013).
10(v)	Form of Change-in-Control Agreement, dated as of November 8, 2007, between DTE Energy Company and each of Gerard M. Anderson, Steven E. Kurmas, David E. Meador, Gerardo Norcia and Bruce D. Peterson (Exhibit 10-71 to Form 10-Q for the quarter ended September 30, 2007).

99(a)	Amendment and Restatement of Master Trust Agreement for the DTE Energy Company Master Plan Trust between DTE Energy Corporate Services, LLC and DTE Energy Investment Committee and JP Morgan Chase Bank, N.A., dated as of October 15, 2010.
	(iii) Exhibits furnished herewith:
32-87	Chief Executive Officer Section 906 Form 10-K Certification of Periodic Report
32-88	Chief Financial Officer Section 906 Form 10-K Certification of Periodic Report

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DTE Energy Company

Schedule II — Valuation and Qualifying Accounts

	Year Ending December 31,		
	2013	2012	2011
	(In millions)		
Allowance for Doubtful Accounts (shown as deduction from Accounts Receivable in the Consolidated Statements of Financial Position)			
Balance at Beginning of Period	$62	$162	$196
Additions:			
Charged to costs and expenses	94	79	94
Charged to other accounts (a)	23	16	18
Deductions (b)	(124)	(195)	(146)
Balance at End of Period	$55	$62	$162

(a) Collection of accounts previously written off.
(b) Uncollectible accounts written off.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DTE ENERGY COMPANY
(Registrant)

By /s/ GERARD M. ANDERSON
Gerard M. Anderson
Chairman of the Board and
Chief Executive Officer

Date: February 14, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

By	/s/ GERARD M. ANDERSON Gerard M. Anderson Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	By	/s/ PETER B. OLEKSIAK Peter B. Oleksiak Senior Vice President and Chief Financial Officer (Principal Financial Officer)
By	/s/ DONNA M. ENGLAND Donna M. England Chief Accounting Officer (Principal Accounting Officer)	By	/s/ JAMES B. NICHOLSON James B. Nicholson, Director
By	/s/ LILLIAN BAUDER Lillian Bauder, Director	By	/s/ CHARLES W. PRYOR, JR. Charles W. Pryor, Jr., Director
By	/s/ DAVID A. BRANDON David A. Brandon, Director	By	/s/ JOSUE ROBLES, JR. Josue Robles, Jr., Director
By	/s/ W. FRANK FOUNTAIN, JR. W. Frank Fountain, Jr., Director	By	/s/ RUTH G. SHAW Ruth G. Shaw, Director
By	/s/ CHARLES G. MCCLURE JR. Charles G. McClure Jr., Director	By	/s/ DAVID A. THOMAS David A. Thomas, Director
By	/s/ GAIL J. MCGOVERN Gail J. McGovern, Director	By	/s/ JAMES H. VANDENBERGHE James H. Vandenberghe, Director
By	/s/ MARK A. MURRAY Mark A. Murray, Director		

Date: February 14, 2014

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