DTE ENERGY CO
Form 10-Q
November 04, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended September 30, 2011
Commission file number 1-11607
DTE ENERGY COMPANY
(Exact name of registrant as specified in its charter)

Michigan	38-3217752
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Energy Plaza, Detroit, Michigan	48226-1279
(Address of principal executive offices)	(Zip Code)

313-235-4000
(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 o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o
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. (Check one):

Large accelerated filerþ	Accelerated filero	Non-accelerated filero (Do not check if a smaller reporting company)	Smaller reporting companyo

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ
At September 30, 2011, 169,250,934 shares of DTE Energy’s common stock were outstanding, substantially all of which were held by non-affiliates.

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DEFINITIONS

ASC	Accounting Standards Codification
ASU	Accounting Standards Update
CIM	A Choice Incentive Mechanism authorized by the MPSC that allows Detroit Edison to recover or refund non-fuel revenues lost or gained as a result of fluctuations in electric Customer Choice sales.
Citizens	Citizens Fuel Gas Company distributes natural gas in Adrian, Michigan
Company	DTE Energy Company and any subsidiary companies
CTA	Costs to achieve, consisting of project management, consultant support and employee severance, related to the Performance Excellence Process
Customer Choice	Michigan legislation giving customers the option to choose alternative suppliers for electricity and gas.
Detroit Edison	The Detroit Edison Company (a direct wholly owned subsidiary of DTE Energy Company) and subsidiary companies
DTE Energy	DTE Energy Company, directly or indirectly the parent of Detroit Edison, MichCon and numerous non-utility subsidiaries
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FTRs	Financial transmission rights are financial instruments that entitle the holder to receive payments related to costs incurred for congestion on the transmission grid.
GCR	A Gas Cost Recovery mechanism authorized by the MPSC that allows MichCon to recover through rates its natural gas costs.
MCIT	Michigan Corporate Income Tax
MDEQ	Michigan Department of Environmental Quality
MichCon	Michigan Consolidated Gas Company (an indirect wholly owned subsidiary of DTE Energy) and subsidiary companies
MISO	Midwest Independent System Operator is an Independent System Operator and the Regional Transmission Organization serving the Midwest United States and Manitoba, Canada.
MPSC	Michigan Public Service Commission

Non-utility	An entity that is not a public utility. Its conditions of service, prices of goods and services and other operating related matters are not directly regulated by the MPSC.
NRC	United States Nuclear Regulatory Commission
Production tax credits	Tax credits as authorized under Sections 45K and 45 of the Internal Revenue Code that are designed to stimulate investment in and development of alternate fuel sources. The amount of a production tax credit can vary each year as determined by the Internal Revenue Service.

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Proved reserves	Estimated quantities of natural gas, natural gas liquids and crude oil which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reserves under existing economic and operating conditions.
PSCR	A Power Supply Cost Recovery mechanism authorized by the MPSC that allows Detroit Edison to recover through rates its fuel, fuel-related and purchased power costs.
RDM	A Revenue Decoupling Mechanism authorized by the MPSC that is designed to minimize the impact on revenues of changes in average customer usage of electricity and natural gas.
Securitization	Detroit Edison financed specific stranded costs at lower interest rates through the sale of rate reduction bonds by a wholly owned special purpose entity, The Detroit Edison Securitization Funding LLC.
Subsidiaries	The direct and indirect subsidiaries of DTE Energy Company
Unconventional Gas	Includes those gas and oil deposits that originated and are stored in coal bed, tight sandstone and shale formations
VIE	Variable Interest Entity
Units of Measurement	
Bcf	Billion cubic feet of gas
Bcfe	Conversion metric of natural gas, the ratio of 6 Mcf of gas to 1 barrel of oil
BTU	Heat value (energy content) of fuel
dth/d	Decatherms per day
kWh	Kilowatthour of electricity
Mcf	Thousand cubic feet of gas
MMcf	Million cubic feet of gas
MW	Megawatt of electricity
MWh	Megawatthour of electricity

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FORWARD-LOOKING STATEMENTS

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

- economic conditions and population changes in our geographic area resulting in changes in demand, customer conservation, increased thefts of electricity and gas and high levels of uncollectible accounts receivable;
- changes in the economic and financial viability of suppliers and trading counterparties, and the continued ability of such parties to perform their obligations to the Company;
- access to capital markets and the results of other financing efforts which can be affected by credit agency ratings;
- instability in capital markets which could impact availability of short and long-term financing;
- the timing and extent of changes in interest rates;
- the level of borrowings;
- the potential for losses on investments, including nuclear decommissioning and benefit plan assets and the related increases in future expense and contributions;
- impact of regulation by the FERC, MPSC, NRC and other applicable governmental proceedings and regulations, including any associated impact on rate structures;
- the amount and timing of cost recovery allowed as a result of regulatory proceedings, related appeals or new legislation;
- the potential for increased costs or delays in completion of significant construction projects;
- the effects of weather and other natural phenomena on operations and sales to customers, and purchases from suppliers;
- environmental issues, laws, regulations, and the increasing costs of remediation and compliance, including actual and potential new federal and state requirements;
- health, safety, financial, environmental and regulatory risks associated with ownership and operation of nuclear facilities;
- impact of electric and gas utility restructuring in Michigan, including legislative amendments and Customer Choice programs;
- employee relations and the impact of collective bargaining agreements;
- unplanned outages;
- changes in the cost and availability of coal and other raw materials, purchased power and natural gas;
- volatility in the short-term natural gas storage markets impacting third-party storage revenues;
- cost reduction efforts and the maximization of plant and distribution system performance;
- the effects of competition;
- the uncertainties of successful exploration of unconventional gas resources and challenges in estimating gas and oil reserves with certainty;
- changes in and application of federal, state and local tax laws and their interpretations, including the Internal Revenue Code, regulations, rulings, court proceedings and audits;
- the cost of protecting assets against, or damage due to, terrorism or cyber attacks;
- the availability, cost, coverage and terms of insurance and stability of insurance providers;
- changes in and application of accounting standards and financial reporting regulations;
- changes in federal or state laws and their interpretation with respect to regulation, energy policy and other

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business issues;
- binding arbitration, litigation and related appeals; and
- the risks discussed in our public filings with the Securities and Exchange Commission.

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

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Part I — Item 1.

DTE ENERGY COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30		Nine Months Ended September 30	
(in Millions, Except per Share Amounts)	2011	2010	2011	2010
Operating Revenues	$2,265	$2,139	$6,724	$6,384
Operating Expenses				
Fuel, purchased power and gas	866	763	2,708	2,366
Operation and maintenance	670	649	1,948	1,898
Depreciation, depletion and amortization	259	271	752	775
Taxes other than income	79	69	239	231
Asset (gains) and losses, reserves and impairments, net	(8)	1	—	—
	1,866	1,753	5,647	5,270
Operating Income	399	386	1,077	1,114
Other (Income) and Deductions				
Interest expense	120	142	370	418
Interest income	(3)	(3)	(8)	(9)
Other income	(20)	(20)	(59)	(62)
Other expenses	16	9	31	32
	113	128	334	379
Income Before Income Taxes	286	258	743	735
Income Tax Expense	101	92	180	252
Net Income	185	166	563	483
Less: Net Income Attributable to Noncontrolling Interests	2	3	2	5
Net Income Attributable to DTE Energy Company	$183	$163	$561	$478
Basic Earnings per Common Share				
Net Income Attributable to DTE Energy Company	$1.08	$0.97	$3.31	$2.85
Diluted Earnings per Common Share				
Net Income Attributable to DTE Energy Company	$1.07	$0.96	$3.30	$2.84
Weighted Average Common Shares Outstanding				
Basic	169	169	169	168
Diluted	170	170	170	168
Dividends Declared per Common Share	$0.59	$0.56	$1.74	$1.62

See Notes to Consolidated Financial Statements (Unaudited)

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DTE ENERGY COMPANY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in Millions)	September 30, 2011	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$46	$65
Restricted cash, principally Securitization	73	120
Accounts receivable (less allowance for doubtful accounts of $168 and $196, respectively)		
Customer	1,206	1,393
Other	121	402
Inventories		
Fuel and gas	567	460
Materials and supplies	209	202
Deferred income taxes	130	139
Derivative assets	109	131
Regulatory assets	201	58
Other	249	197
	2,911	3,167
Investments		
Nuclear decommissioning trust funds	893	939
Other	527	518
	1,420	1,457
Property		
Property, plant and equipment	22,312	21,574
Less accumulated depreciation, depletion and amortization	(8,890)	(8,582)
	13,422	12,992
Other Assets		
Goodwill	2,020	2,020
Regulatory assets	3,940	4,058
Securitized regulatory assets	618	729
Intangible assets	74	67
Notes receivable	124	123
Derivative assets	59	77
Other	192	206
	7,027	7,280
Total Assets	$24,780	$24,896

See Notes to Consolidated Financial Statements (Unaudited)

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DTE ENERGY COMPANY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in Millions, Except Shares)	September 30, 2011	December 31, 2010
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$708	$729
Accrued interest	121	111
Dividends payable	99	95
Short-term borrowings	275	150
Current portion long-term debt, including capital leases	247	925
Derivative liabilities	114	142
Other	536	597
	2,100	2,749
Long-Term Debt (net of current portion)		
Mortgage bonds, notes and other	6,702	6,114
Securitization bonds	479	643
Trust preferred-linked securities	289	289
Capital lease obligations	27	43
	7,497	7,089
Other Liabilities		
Deferred income taxes	3,076	2,632
Regulatory liabilities	1,040	1,328
Asset retirement obligations	1,560	1,498
Unamortized investment tax credit	68	75
Derivative liabilities	62	110
Liabilities from transportation and storage contracts	73	83
Accrued pension liability	680	866
Accrued postretirement liability	1,216	1,275
Nuclear decommissioning	141	149
Other	258	275
	8,174	8,291
Commitments and Contingencies (Notes 6 and 10)		
Equity		
Common stock, without par value, 400,000,000 shares authorized, 169,250,934 and 169,428,406 shares issued and outstanding, respectively	3,418	3,440
Retained earnings	3,698	3,431
Accumulated other comprehensive loss	(146)	(149)
Total DTE Energy Company Equity	6,970	6,722
Noncontrolling interests	39	45
Total Equity	7,009	6,767
Total Liabilities and Equity	$24,780	$24,896

See Notes to Consolidated Financial Statements (Unaudited)

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DTE ENERGY COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30	
(in Millions)	2011	2010
Operating Activities		
Net income	$563	$483
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, depletion and amortization	752	775
Deferred income taxes	123	173
Asset losses, reserves and impairments, net	—	5
Changes in assets and liabilities, exclusive of changes shown separately (Note 13)	48	73
Net cash from operating activities	1,486	1,509
Investing Activities		
Plant and equipment expenditures — utility	(968)	(743)
Plant and equipment expenditures — non-utility	(61)	(75)
Proceeds from sale of assets	13	28
Restricted cash for debt redemption, principally Securitization	47	33
Proceeds from sale of nuclear decommissioning trust fund assets	69	179
Investment in nuclear decommissioning trust funds	(97)	(204)
Consolidation of VIEs	—	19
Investment in Millennium Pipeline Project	—	(49)
Other	(55)	(22)
Net cash used for investing activities	(1,052)	(834)
Financing Activities		
Issuance of long-term debt, net	908	595
Redemption of long-term debt	(1,161)	(660)
Short-term borrowings	126	(307)
Issuance of common stock	—	26
Repurchase of common stock	(18)	—
Dividends on common stock	(289)	(265)
Other	(19)	(32)
Net cash used for financing activities	(453)	(643)
Net Increase (Decrease) in Cash and Cash Equivalents	(19)	32
Cash and Cash Equivalents at Beginning of Period	65	52
Cash and Cash Equivalents at End of Period	$46	$84

See Notes to Consolidated Financial Statements (Unaudited)

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DTE ENERGY COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY AND
COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in Millions, Shares in Thousands)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
Balance, December 31, 2010	169,428	$3,440	$3,431	$(149)	$45	$6,767
Net income			561		2	563
Dividends declared on common stock			(294)			(294)
Repurchase of common stock	(928)	(45)				(45)
Benefit obligations, net of tax				5		5
Foreign currency translation, net of tax				(1)		(1)
Net change in unrealized losses on investments, net of taxes				(1)		(1)
Stock-based compensation, distributions to noncontrolling interests and other	751	23			(8)	15
Balance, September 30, 2011	169,251	$3,418	$3,698	$(146)	$39	$7,009

The following table displays comprehensive income for the nine-month periods ended September 30:

(in Millions)	2011	2010
Net income	$563	$483
Other comprehensive income (loss), net of tax:		
Benefit obligations:		
Benefit obligation, net of taxes of $2 and $3	5	6
Amounts reclassified to benefit obligations related to consolidation of VIEs (Note 1), net of taxes of $— and $5	—	10
	5	16
Net unrealized gains (losses) on derivatives:		
Gains (losses) during the period, net of taxes of $— and $1	—	1
Amounts reclassified to income, net of taxes of $— and $1	—	1
	—	2
Net unrealized gains (losses) on investments:		
Gains (losses) during the period, net of taxes of $— and $(6)	(1)	(11)
Amounts reclassified to benefit obligations related to consolidation of VIEs (Note 1), net of taxes of $— and $(5)	—	(10)
	(1)	(21)
Foreign currency translation, net of taxes of $— and $—	(1)	—
Comprehensive income	566	480
Less: Comprehensive income attributable to noncontrolling interests	2	5
Comprehensive income attributable to DTE Energy Company	$564	$475

See Notes to Consolidated Financial Statements (Unaudited)

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DTE ENERGY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITIED)

NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION

Corporate Structure

DTE Energy owns the following businesses:

- Detroit Edison, an electric utility engaged in the generation, purchase, distribution and sale of electricity to approximately 2.1 million customers in southeastern Michigan;
- MichCon, 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) unconventional gas and oil project development and production; (3) power and industrial projects and coal transportation and marketing; and (4) energy marketing and trading operations.

Detroit Edison and MichCon are regulated by the MPSC. Certain activities of Detroit Edison and MichCon, 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 and the MDEQ.

References in this report to “we,” “us,” “our,” “Company” or “DTE” are to DTE Energy and its subsidiaries, collectively.

Basis of Presentation

These Consolidated Financial Statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the 2010 Annual Report on Form 10-K.

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.

The Consolidated Financial Statements are unaudited, but in the Company’s opinion include all adjustments necessary to a fair statement of the results for the interim periods. All adjustments are of a normal recurring nature, except as otherwise disclosed in these Consolidated Financial Statements and Notes to Consolidated Financial Statements. Financial results for this interim period are not necessarily indicative of results that may be expected for any other interim period or for the fiscal year ending December 31, 2011.

Certain prior year balances were reclassified to match the current year's financial statement presentation.

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. Non-majority owned investments include investments in limited liability companies, partnerships or joint ventures. 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.

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. In addition, the Company has 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.

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The Company has variable interests in VIEs through certain of its long-term purchase contracts. As of September 30, 2011, the carrying amount of assets and liabilities in the Consolidated Statement 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, Detroit Edison 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. Detroit Edison performs servicing activities including billing and collecting surcharge revenue for Securitization. This entity is a VIE, and is consolidated as the Company is the primary beneficiary.

DTE Energy has interests in two unconsolidated trusts that were formed for the purpose of issuing preferred securities and lending the gross proceeds to the Company. The assets of the trusts are debt securities of DTE Energy with terms similar to those of the related preferred securities. Payments the Company makes are used by the trusts to make cash distributions on the preferred securities it has issued. DTE Energy has reviewed these trusts and has determined they are VIEs, but the Company is not the primary beneficiary as it does not have variable interests in the trusts and therefore, the trusts are not 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 September 30, 2011 and December 31, 2010. Amounts at September 30, 2011 for consolidated VIEs that are 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 are segregated in the restricted amounts column. 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.

	September 30, 2011			
(in Millions)	Securitization	Other	Total	Restricted Amounts
ASSETS				
Cash and cash equivalents	$—	$8	$8	$—
Restricted cash	58	7	65	64
Accounts receivable	38	14	52	40
Inventories	—	145	145	—
Other current assets	—	1	1	—
Property, plant and equipment	—	58	58	25
Securitized regulatory assets	618	—	618	618
Other assets	10	6	16	18
	$724	$239	$963	$765
LIABILITIES				
Accounts payable and accrued current liabilities	$4	$38	$42	$4
Current portion long-term debt, including capital leases	164	7	171	171
Other current liabilities	62	1	63	64
Mortgage bonds, notes and other	—	31	31	31
Securitization bonds	479	—	479	479
Capital lease obligations	—	20	20	20

Other long term liabilities	6	2	8	7
	$715	$99	$814	$776

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	December 31, 2010			
(in Millions)	Securitization	Other	Total	Restricted Amounts
ASSETS				
Cash and cash equivalents	$—	$4	$4	$—
Restricted cash	104	8	112	112
Accounts receivable	42	8	50	44
Inventories	—	99	99	—
Other current assets	—	1	1	—
Property, plant and equipment	—	54	54	38
Securitized regulatory assets	729	—	729	729
Other assets	13	9	22	21
	$888	$183	$1,071	$944
LIABILITIES				
Accounts payable and accrued current liabilities	$17	$27	$44	$18
Current portion long-term debt, including capital leases	150	7	157	157
Other current liabilities	62	6	68	66
Mortgage bonds, notes and other	—	35	35	35
Securitization bonds	643	—	643	643
Capital lease obligations	—	23	23	23
Other long term liabilities	6	7	13	12
	$878	$105	$983	$954

Amounts for non-consolidated VIEs as September 30, 2011 and December 31, 2010 were as follows:

(in Millions)	September 30, 2011	December 31, 2010
Other investments	$121	$98
Note receivable	5	6
Trust preferred — linked securities	289	289

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

Intangible Assets

The Company has certain intangible assets relating to emission allowances, renewable energy credits and non-utility contracts. Emission allowances and renewable energy credits are charged to expense as the allowances and credits are consumed in the operation of the business. The Company’s intangible assets related to emission allowances were $9 million at September 30, 2011 and December 31, 2010. The Company’s intangible assets related to renewable energy credits were $26 million and $17 million at September 30, 2011 and December 31, 2010, respectively. The gross carrying amount and accumulated amortization of contract intangible assets at September 30, 2011were $65 million and $26 million, respectively. The gross carrying amount and accumulated amortization of contract intangible assets at December 31, 2010 were $63 million and $22 million, respectively. The Company amortizes contract intangible assets on a straight-line basis over the expected period of benefit, ranging from 4 to 30 years.

Income Taxes

The Company’s effective tax rate for the three months ended September 30, 2011was 35 percent as compared to 36 percent for the three months ended September 30, 2010. The Company’s effective tax rate for the nine months ended September 30, 2011 was 24 percent as compared to 34 percent for the nine months ended September 30, 2010. The decrease in the effective tax rate in 2011 is due primarily to the recognition of an $88 million income tax benefit due to the enactment of the Michigan Corporate Income Tax which is discussed below.

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The Company had $4 million of unrecognized tax benefits at September 30, 2011 and $5 million at December 31, 2010, that, if recognized, would favorably impact its effective tax rate. The Company has increased its unrecognized tax benefit by $40 million in the nine months ended September 30, 2011, as a result of a change in a tax position taken during a prior period. During the next twelve months, it is reasonably possible that the Company will settle certain federal tax audits. As a result, the Company believes that it is possible that there will be a decrease in unrecognized tax benefits of up to $49 million.

Michigan Corporate Income Tax (MCIT)

On May 25, 2011, the Michigan Business Tax (MBT) was repealed and the MCIT was enacted and will become effective January 1, 2012. The MCIT subjects corporations with business activity in Michigan to a 6 percent 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.

Effective with the enactment of the MCIT in the second quarter of 2011, 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 decrease in deferred income tax liabilities of $41 million attributable to our regulated utilities that was offset against the regulatory asset established upon the enactment of the MBT.

Due to the elimination of the future tax deductions allowed under the MBT, the one-time MBT deferred tax asset that was established upon the enactment of the MBT has been remeasured to zero. The net impact of this remeasurement is a reduction of net deferred tax assets of $307 million, with $395 million of this decrease in deferred tax assets attributable to our regulated utilities, partially offset by an $88 million decrease in deferred tax liabilities attributable to our non-utility entities. The $395 million decrease in deferred tax assets at our regulated utilities was offset against the regulatory liabilities established upon enactment of the MBT. The $88 million is primarily due to a lower apportionment factor from inclusion of non-utility entities in DTE Energy’s unitary Michigan tax return. The $88 million was recognized as a reduction to income tax expense in the second quarter of 2011.

Consistent with the original establishment of these deferred tax liabilities (assets), no recognition of these non-cash transactions have been reflected in the Consolidated Statements of Cash Flows.

Offsetting Amounts Related to Certain Contracts

The Company offsets the fair value of derivative instruments with cash collateral received or paid for those derivative instruments executed with the same counterparty under a master netting agreement, which reduces both the Company’s total assets and total liabilities. As of September 30, 2011, the total cash collateral posted, net of cash collateral received, was $66 million. Derivative liabilities are shown net of collateral of $3 million. At September 30, 2011, the Company recorded cash collateral received of $1 million and cash collateral paid of $64 million not related to derivative positions. These amounts are included in accounts receivable and accounts payable and are recorded net by counterparty.

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 September 30, 2011 and December 31, 2010. 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:

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- 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.

- 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 September 30, 2011:

(in Millions)	Level 1	Level 2	Level 3	Netting Adjustments(2)	Net Balance at September 30, 2011
Assets:					
Nuclear decommissioning trusts	$532	$361	$—	$ —	$893
Other investments(1)	48	56	—	—	104
Derivative assets:					
Foreign currency exchange contracts	—	6	—	(6)	—
Commodity Contracts:					
Natural Gas	1,650	79	17	(1,698)	48
Electricity	—	326	67	(282)	111
Other	22	—	7	(20)	9
Total derivative assets	1,672	411	91	(2,006)	168
Total	$2,252	$828	$91	$ (2,006)	$1,165
Liabilities:					
Derivative liabilities:					
Foreign currency exchange contracts	$—	$(9)	$—	$ 6	$(3)
Interest rate contracts	—	(1)	—	—	(1)
Commodity Contracts:					
Natural Gas	(1,616)	(167)	(12)	1,698	(97)
Electricity	—	(295)	(70)	285	(80)
Other	(14)	(1)	—	20	5
Total derivative liabilities	(1,630)				