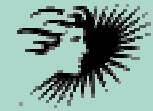


# Cash Redeployment

Gerard Anderson  
December 17, 2004  
New York, NY

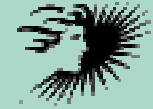
**DTE Energy**



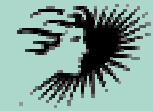


# Safe Harbor Statement

The information contained in this document is as of the date of this presentation. DTE Energy expressly disclaims any current intention to update any forward-looking statements contained in this document as a result of new information or future events or developments. 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 various assumptions, risks and uncertainties. This presentation contains forward-looking statements about DTE Energy’s financial results and estimates of future prospects, and actual results may differ materially. Factors that may impact forward-looking statements include, but are not limited to: the effects of weather and other natural phenomena on operations and sales to customers, and purchases from suppliers; economic climate and growth or decline in the geographic areas where we do business; environmental issues, laws and regulations, and the cost of remediation and compliance associated therewith; nuclear regulations and operations associated with nuclear facilities; the higher price of oil and its impact on the value of section 29 tax credits, and the ability to utilize and/or sell interests in facilities producing such credits; implementation of electric and gas Customer Choice programs; impact of electric and gas utility restructuring in Michigan, including legislative amendments; employee relations and the impact of collective bargaining agreements; unplanned outages; access to capital markets and capital market conditions and the results of other financing efforts which can be affected by credit agency ratings; the timing and extent of changes in interest rates; the level of borrowings; changes in the cost and availability of coal and other raw materials, purchased power and natural gas; effects of competition; impacts of FERC, MPSC, NRC and other applicable governmental proceedings and regulations; contributions to earnings by non-regulated businesses; changes in federal, state and local tax laws and their interpretations, including the Internal Revenue code, regulations, rulings, court proceedings and audits; the ability to recover costs through rate increases; the availability, cost, coverage and terms of insurance; the cost of protecting assets against, or damage due to, terrorism; changes in accounting standards and financial reporting regulations; changes in federal or state laws and their interpretation with respect to regulation, energy policy and other business issues; and changes in the economic and financial viability of our suppliers, customers and trading counter parties, and the continued ability of such parties to perform their obligations to the company. This presentation should be read in conjunction with the forward-looking statements in each of DTE Energy’s, MichCon’s and Detroit Edison’s 2003 Form 10-K, and in conjunction with other SEC reports filed by DTE Energy, MichCon and Detroit Edison.

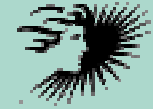


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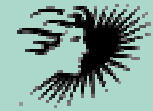


# Overview

- **Primarily due to synfuels, we expect to have approximately \$1.65B of cash available for redeployment between 2005 – 2008**
- **The redeployment of this cash represents a unique opportunity to increase shareholder value and strengthen the balance sheet**
- **When calculated on an NPV basis, projected synfuel cash currently represents ~\$7.50 per DTE common share**
- **Our objectives for cash redeployment are:**
  - **Strengthen the balance sheet and coverage ratios in order to improve our current credit ratings and outlook**
  - **Replace and exceed the value of synfuel that is currently inherent in the share price**

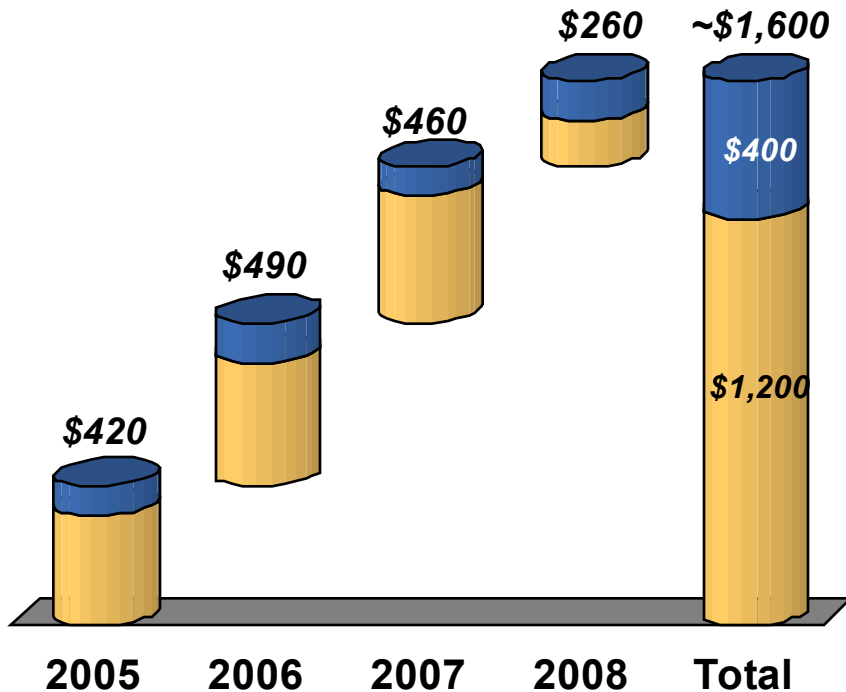


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# Synfuel Cash Flows 2005-2008

Synfuel Cash Flow  
2005-2008  
(\$ millions)



- Cash from Operations
- AMT Carryforward Utilization

- Synfuel will be the primary source of cash available for redeployment
- This cash flow is composed of two components:
  - Cash from operations, generated primarily from per ton production payments
  - Utilization of credits carried forward from production in 1999-2003



# The Risks Associated With Our Synfuel Cash Flows Are Low

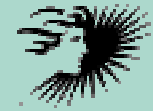
<u>Facility</u>	<u>Ownership Interest as of 9/30/2004</u>	<u>Determination Letter</u>	<u>Completed Field Audit</u>	<u>Yearly Production Capacity (000 tons)</u>
Belews Creek	1%	Yes	No	3,080
Buckeye (2)	1%	Yes	No	6,080
Clover	5%	Yes	Yes	2,640
Smith Branch	1%	Yes	Yes	2,750
Indy Coke	11%	Yes	No	2,640
Utah*	100%	No	Yes	2,000
River Hill**	100%	No	Yes	1,576
Red Mountain	1%	No	No	1,800
				22,566

- Interest sold in 80% of capacity – additional 9% sale expected by year end
- 92% of capacity covered by Determination Letter or successful audit for in-service date
- Oil price unlikely to be an issue in 2005
  - Current price substantially below expected threshold for 2004
  - 2005 forward average price ~\$15 below threshold price
  - ~<sup>2</sup>/<sub>3</sub> of expected 2005 synfuel cash flow now hedged

\* Expect to complete Utah transaction in December 2004

\*\* Expect to sell River Hill interest in Q1 2005

# Non-Utility Cash Flow – Excluding Synfuel – Is Also Strong 2005-2008



## 2005-2008 Non-Utility Free Cash Excluding Synfuel (\$ millions)

Power and Industrial Projects

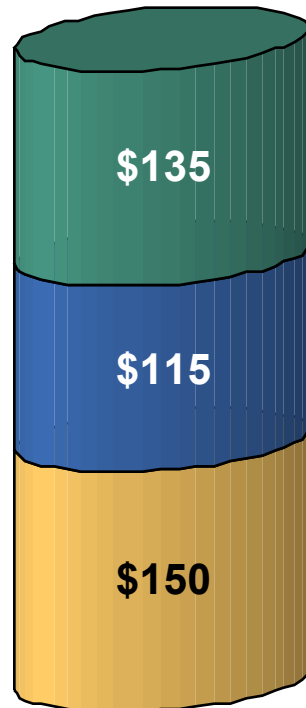
\$135

Unconventional Gas Production

\$115

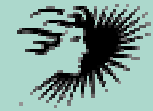
Fuel Transportation and Marketing

\$150



- Between 2005 and 2008 our non-utility businesses (excluding synfuel) are expected to generate about \$400M in free cash flow
- These cash flows are derived primarily from assets with stable revenue streams, such as on-site energy projects and pipeline and storage assets, that are already in place
- These assets generally have only modest ongoing capital requirements



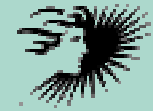


# **Approach to Utility Funding Needs**

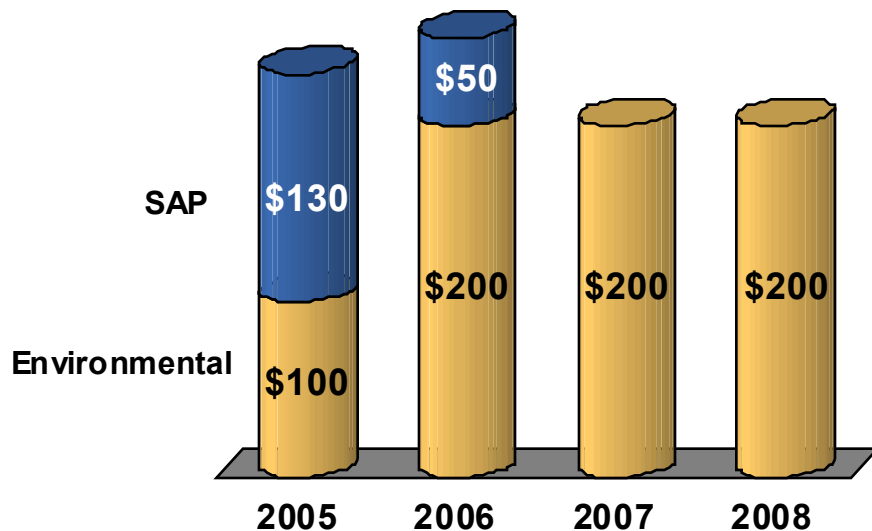
- **Our utilities (Detroit Edison and MichCon) target funding their base capital expenditures plus their portion of the corporate dividend**
- **Detroit Edison will also invest in both a significant SAP implementation and required environmental infrastructure over the next four years**
- **Detroit Edison and MichCon cash flows expected to improve over the 2005-2008 time period, but we expect utility free cash flow to be negative in 2005, with improvement in 2006**
  - **Timing of MichCon rate case**
  - **Detroit Edison residential rate cap**
  - **Investments in SAP implementation and environmental infrastructure**
- **Utility investments and capital requirements will be funded with a combination of debt and equity, consistent with MPSC capital structure mandates and our targets**
- **Some non-utility cash will be used to invest equity into Detroit Edison to maintain its balance sheet metrics**

# Detroit Edison Environmental and SAP Implementation Assumptions 2005-2008

DTE Energy



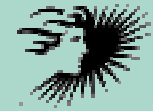
## Estimated Environmental & SAP Capital Investments 2005-2008 (\$ millions)



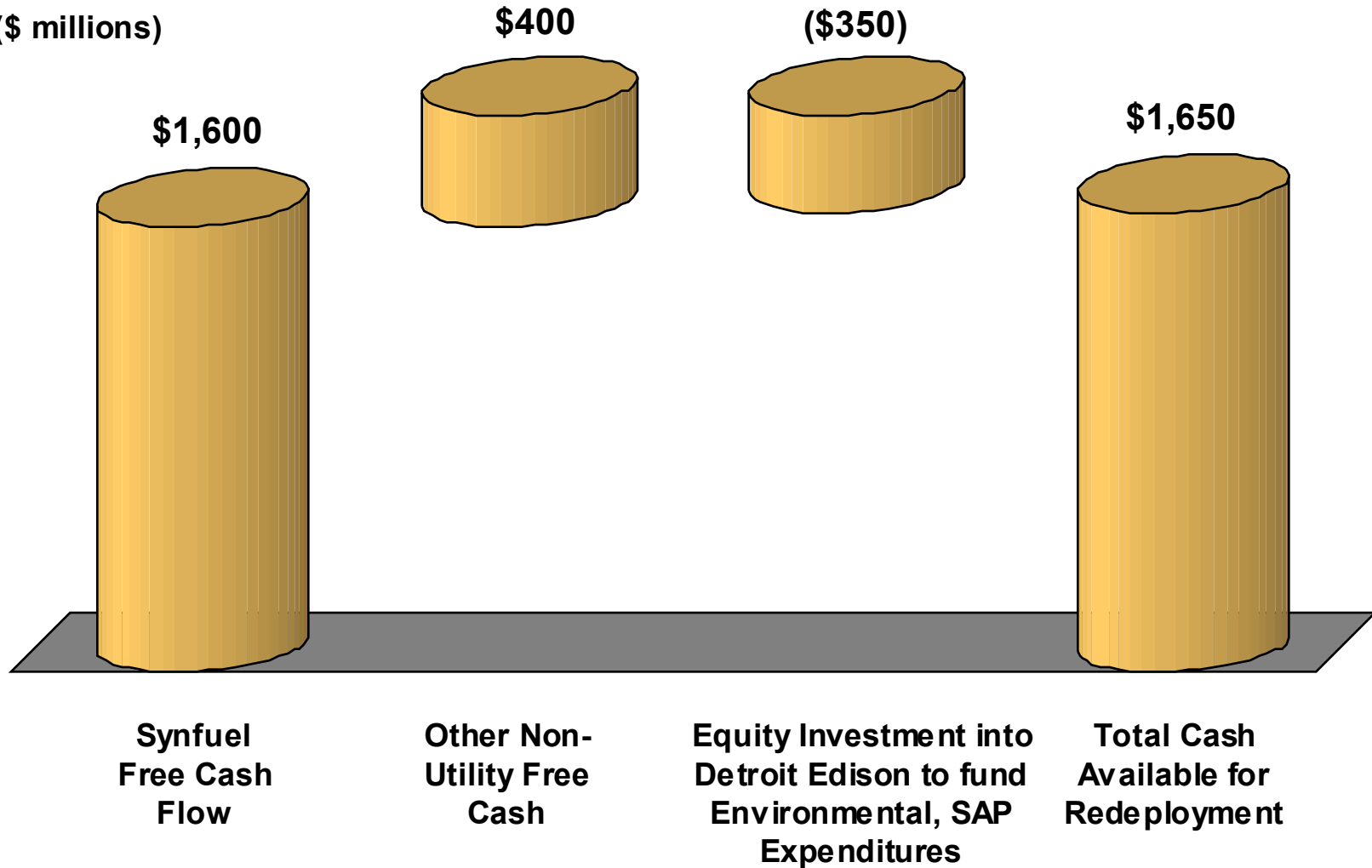
- Environmental investments planned to total ~\$700M from 2005-2008
- MPSC stated that Michigan law requires that Clean Air Act (CAA) costs be passed on to customers
  - Provided for full recovery of recent NOx investments
  - Expect same treatment for future investments
- In addition, over the next two years, we expect to spend \$180M on SAP implementation
- Equity infusion of \$350M expected over next four years to help fund these investments
- These investments will be recovered through base rates

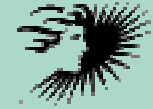
# From 2005 to 2008, We Expect to Generate \$1.65B in Cash Available for Redeployment

DTE Energy



(\$ millions)

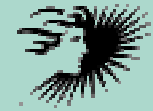




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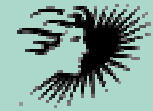
# Objectives for Cash Redeployment

**DTE Energy**



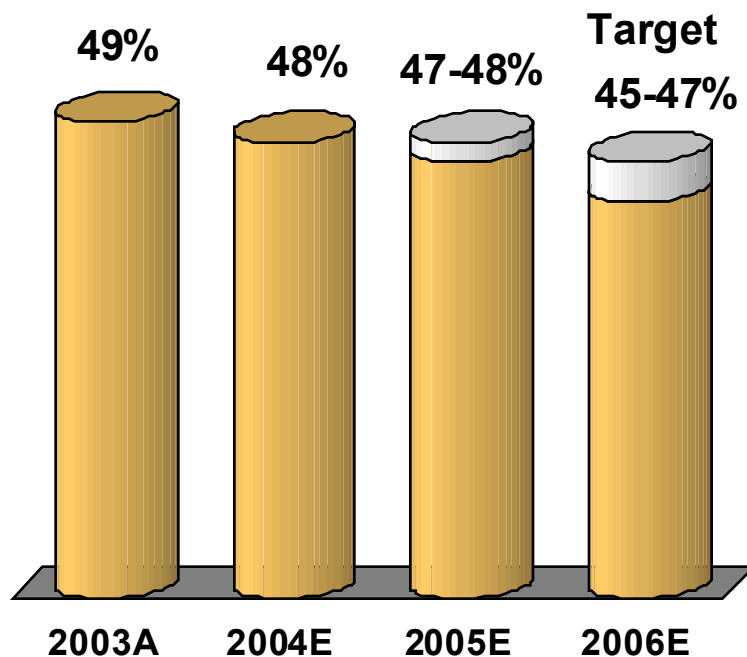
**We have two primary objectives for cash redeployment:**

- **Shape the balance sheet both to meet near-term credit objectives and to prepare for the end of synfuel cash flow post-2008**
- **Replace and exceed the value of synfuel that is currently inherent in our stock price**

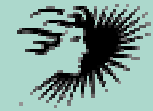


# Our Leverage Ratio Is – And Will Remain – Strong

## DTE Energy Leverage\*

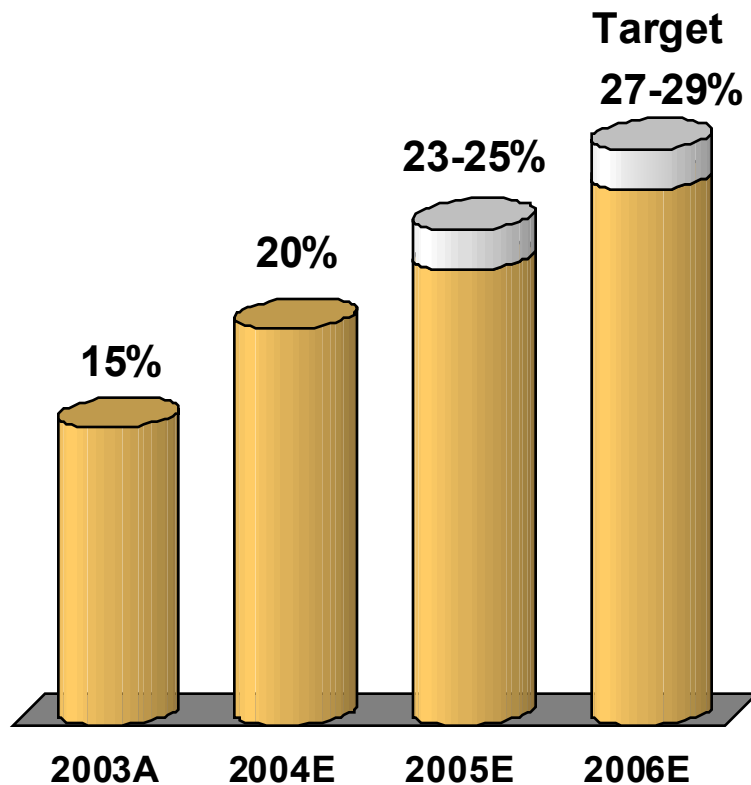


- Leverage has remained strong in recent years
- Leverage is expected to continue to decline
  - Debt at the utilities will be managed to achieve targeted balance sheet metrics
  - Parent debt will be reduced, consistent with projected cash flows in 2008 and beyond



# Debt Reductions Are Needed to Strengthen Coverage Ratios

## Funds From Operation/Debt\*



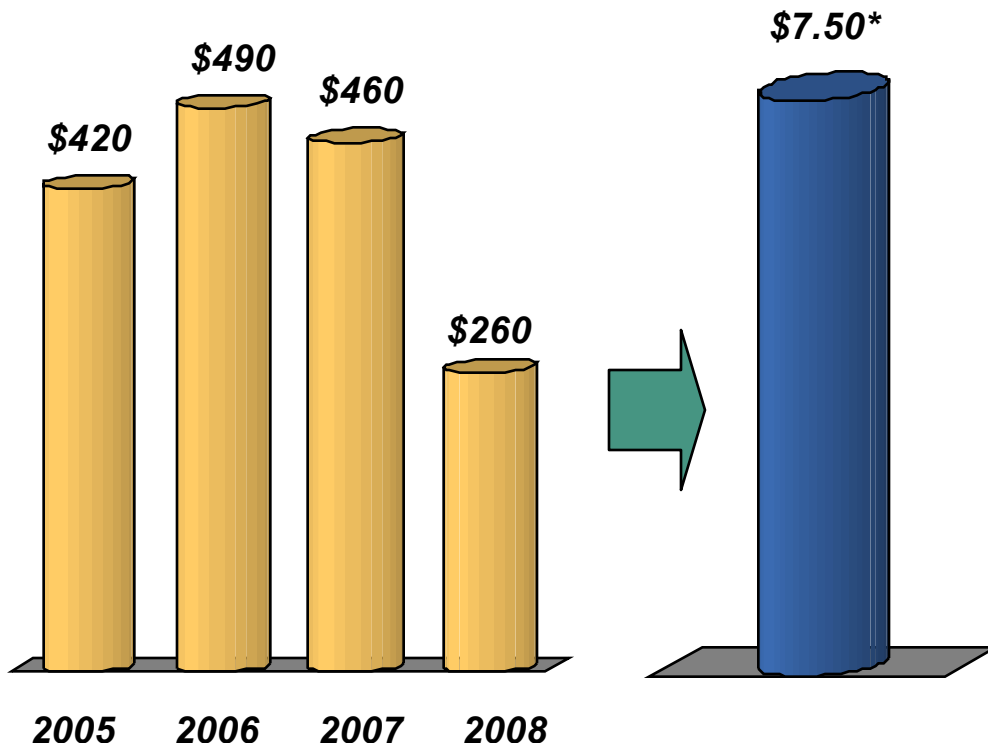
- FFO/debt coverage currently below our target of being in the top third of S&P BBB range (targeting BBB+)
- Rate relief at utilities and strong synfuel cash flows will significantly strengthen ratio
- Will likely exceed our targets in 2007/2008
- However, debt reduction required as well to:
  - Meet short-term targets
  - Position company for loss of synfuel cash flows post-2008



# Implied Value of Synfuels

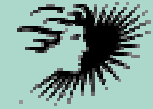
*Expected Synfuel  
Cash Flows  
(\$ millions)*

*Implied per  
Share NPV  
Value of Synfuel  
Cash Flows*

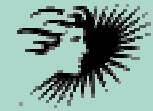


- Synfuel is valued using NPV of cash flows, not a P/E multiple
- Given this, our cash redeployment is focused on
  - Replacing and exceeding ~\$7.50 synfuel value inherent in share price
  - Not replacing synfuel net income
- Objective can be accomplished through combination of debt reduction, investments and share repurchases

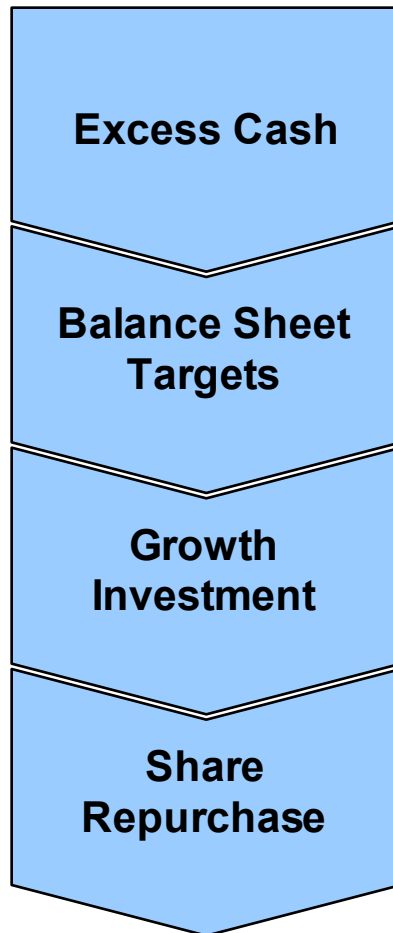




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# 2005-2008 Cash Redeployment Framework



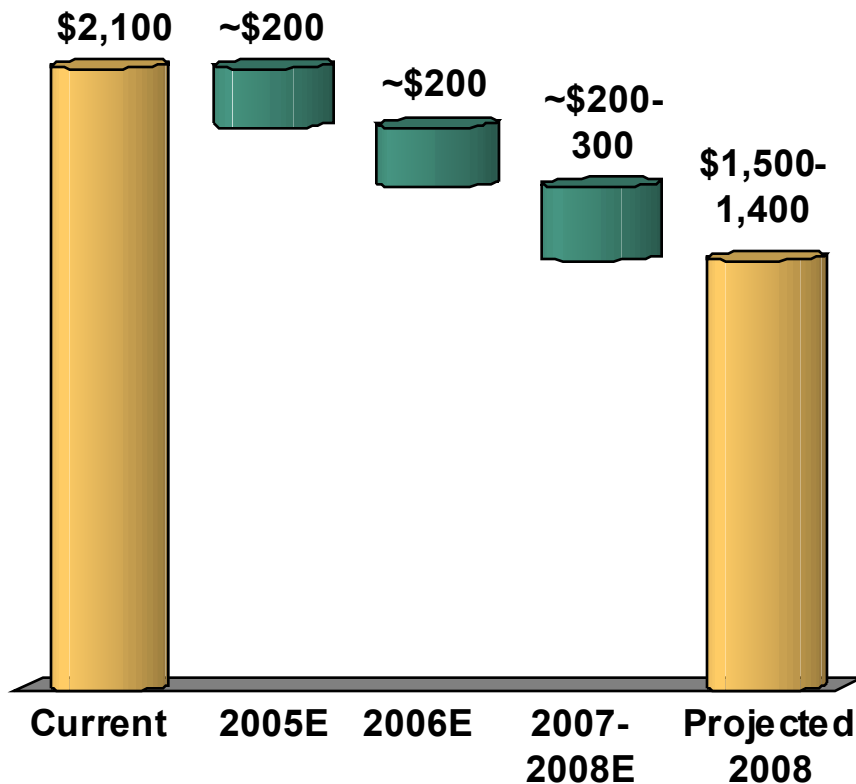
- **Cash available for redeployment is expected to total \$1.65B from 2005 to 2008**
- **Our first use of this cash will be to reduce parent debt**
- **We will continue to pursue growth investments that meet our strict risk-return and value creation criteria**
- **Share repurchases will be used to build share value if adequate investment opportunities are not available**

# To Achieve Our Credit Metrics, We Will Reduce Parent Company Debt

DTE Energy



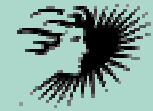
Parent Company Debt  
(\$ millions)



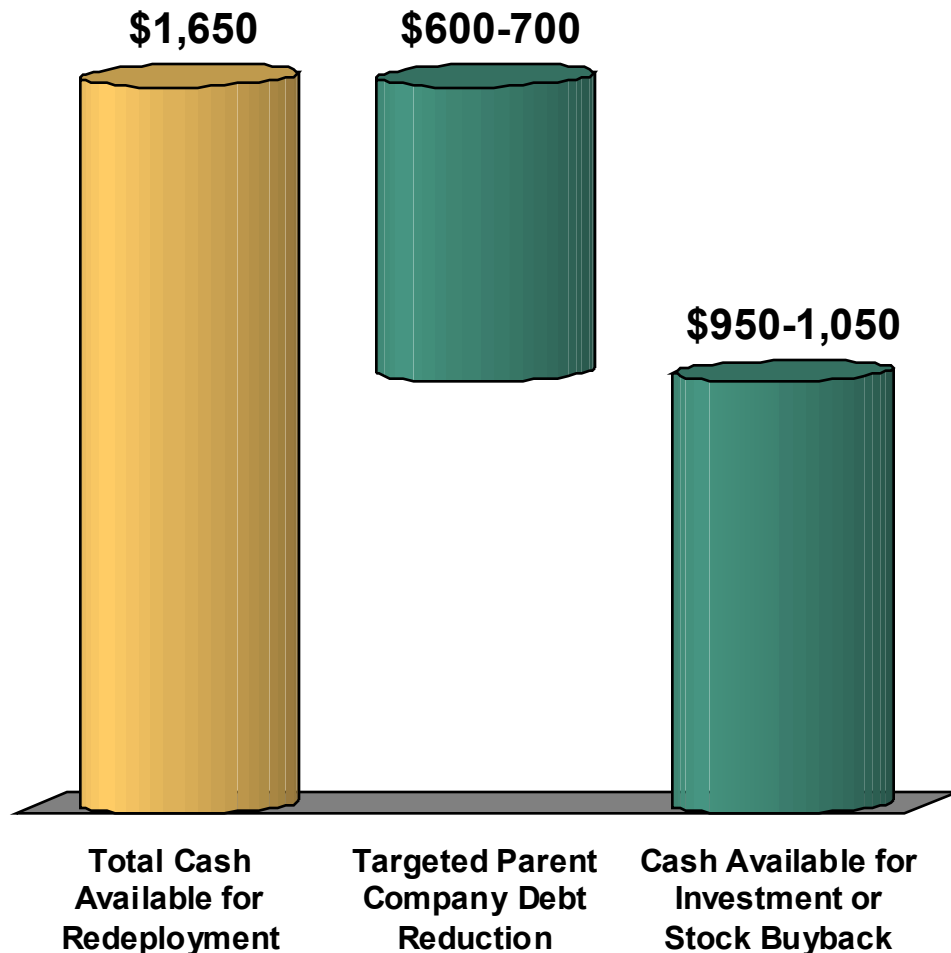
- From 2005-2008 we intend to paydown \$600-700M of parent company debt
- This will align the parent company's ability to service debt with underlying cash flows, post-2008
- In the near-term, there is sufficient callable or maturing debt to achieve our objective

# Cash Available for Redeployment After Parent Company Debt Reduction 2005-2008

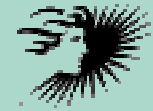
**DTE Energy**



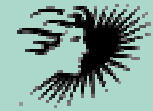
(\$ millions)



After our targeted parent company debt reduction, we expect ~\$1 billion available for investments and stock buyback



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# Our Investment Philosophy Will Remain Unchanged

## Approach 1: Niche businesses / organic growth

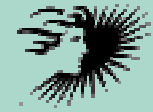
- Focus: Build profitable inter-related niche businesses that provide inherent returns well above our cost of capital
  - “Niche” implies specialized plays, with fewer competitors, or
  - New business lines altogether (e.g., waste coal recovery)
- Niches are not necessarily small and can have a significant impact on DTE Energy’s valuation

## Approach 2: Lower-risk businesses with DTE “adders”

- Focus: Invest in fundamentally sound, lower-risk businesses that afford us opportunities to create additional value
  - Seek lower-risk, contracted assets that earn their cost of capital
  - Augment returns by providing fuel supply, O&M and trading services
  - Utilize financial partners and non-recourse financing, where appropriate, to further reduce risk or improve results



**By applying this value-focused approach in a disciplined way, we believe we can earn premium returns on our investments**



# **Our Potential Investments Will Focus in Three Key Areas**

## **Power and Industrial Projects**

- On-site energy projects
- Steel-related projects
- Power generation with services
- Waste coal recovery

## **Unconventional Gas Production**

- Michigan gas production
- Shale and coal bed methane
- Landfill gas

## **Fuel Transportation and Marketing**

- Coal transportation and marketing
- Gas pipelines and storage
- Energy marketing and trading

# Our Non-Utility Businesses Have Produced Strong Returns on Investment

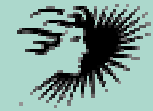
**DTE Energy**



	Capital Invested Through 2003 (\$M)	Average 2001 - 2003	
		Unlevered After-Tax Return on Capital	After-Tax ROE
Energy Services	\$810	21%	28%
Coal Services	\$60	23%	>30%
Biomass Energy	\$40	14%	16%
Gas Production & Midstream Gas	\$440	8%*	8%*
Energy Trading	\$10	Energy Trading provides solid annual returns - \$30M of net income and \$36M of cash in 2003	

\* Negatively impacted by pre-merger invested capital and below market gas supply contracts





# On-Site Energy Has Emerged as a Substantial Business Line



**Renaissance Center  
Detroit, Michigan**



**DaimlerChrysler Jeep Plant  
Toledo, Ohio**

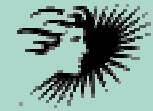


**Pulverized Coal Injection (PCI)  
Sparrows Point, Maryland**



**The Energy Center at McNamara Terminal  
Detroit, Michigan**

- **19 major sites**
- **9 new sites added in 2004**
- **Industries served: auto, steel, pulp & paper and large commercial/industrial facilities**
- **2004 estimated net income of \$20-25M**



# On-Site Energy Project Investment Opportunities



**Kimberly-Clark Tissue Mill  
Mobile, Alabama**

- **Recently closed DaimlerChrysler transaction produced significant follow-on interest**
  - **Large, visible transaction**
  - **In active discussions with other auto manufacturers**
- **Entered pulp & paper industry in 2004**
  - **Closed Kimberly-Clark Project (Mobile, AL)**
  - **Currently constructing facility to supply multiple mills with solid fuel**
  - **Pursuing 2 similar projects**

**Anticipate opportunity to invest ~\$100-150M of additional DTE Energy capital\* from 2005-2008**



# Steel-Related Projects

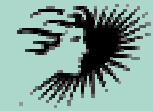


Indiana Harbor Coke Battery  
East Chicago, Indiana



DTE Burns Harbor  
Burns Harbor, Indiana

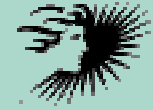
- **Currently have ownership interests in three coke batteries (~15% of US and Canadian production) and two pulverized coal injection (PCI) projects**
- **Restructuring of steel industry, global coke shortage and DTE's reputation and expertise in the industry have:**
  - **Provided new lease on life to existing projects**
  - **Created new potential investment opportunities**



# **Steel-Related Projects Opportunity Pipeline**

- **The worldwide coke shortage is providing opportunities for us to consider participation in additional projects**
  - **Several greenfield and brownfield coke battery projects in the Midwest under discussion**
  - **DTE Energy would partner with industry (and, potentially financial) players and take 30-40% equity stake in projects**
  - **Two of these projects include power plants**
  - **DTE Energy would likely provide operations and asset management services**
- **Several pulverized coal projects are in early development stages**

**Anticipate potential to invest \$50-75M of DTE Energy capital\* in this business line from 2005-2008**



# Power Generation With Services Distressed Assets - Example

*We are providing services to banks that control distressed generation assets*

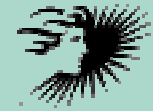


**Lake Road Power Plant  
Dayville, Connecticut  
750 MW**

- **Distressed power generation marketplace has placed assets, especially merchant combined cycle gas plants, in the hands of banks**
- **We are currently providing asset management and O&M services to two projects, totaling 1,800 MW, on behalf of a bank syndicate**
- **We have no equity in these projects, but earn a fee for services**
- **Banks' exit is likely to be a sale to financial investors who will continue to need asset management services, and may provide an opportunity to take on minority equity positions**

# Power Generation With Services Small Power Projects - Example

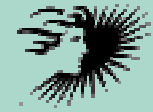
**DTE Energy**



*Our recent effort with a major industrial host is a good example of our approach to smaller power projects*

- **Recently signed agreement with industrial host to develop 200 MW coal-fired power plant, with 90% of output committed to support its operations**
- **Plant located in a region where gas sets the price of power, thus yielding attractive economics**
- **Industrial host came to DTE Energy to develop the project because of the reputation and contacts of our Coal Services and Energy Services groups**
- **Project provides opportunity for DTE to earn fees for project development, asset management and O&M services**
- **Potential (but no obligation) for DTE to take an equity position in the project**

**We could invest ~\$100-150M of DTE Energy capital\* in this business line from 2005-2008**



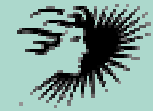
# Waste Coal Recovery Status Update

*Our first PepTec facility is operational and is now focused on expanding output*



**Dickerson Plant  
Cadiz, Ohio**

- **First plant in Ohio producing at 250,000 tons per year**
- **Recovery process works very well, producing high quality coal**
- **Throughput needs to increase to ~400,000 tons per year**
- **Constraint has been material handling – new process has shown promise**
- **“In line” projects at operating mines bypass material handling issue**
- **Continued strong interest from coal companies in projects**



# Waste Coal Recovery Opportunity Pipeline

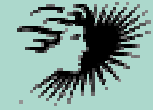


Waste Coal Pond  
at Dickerson Site  
Cadiz, Ohio

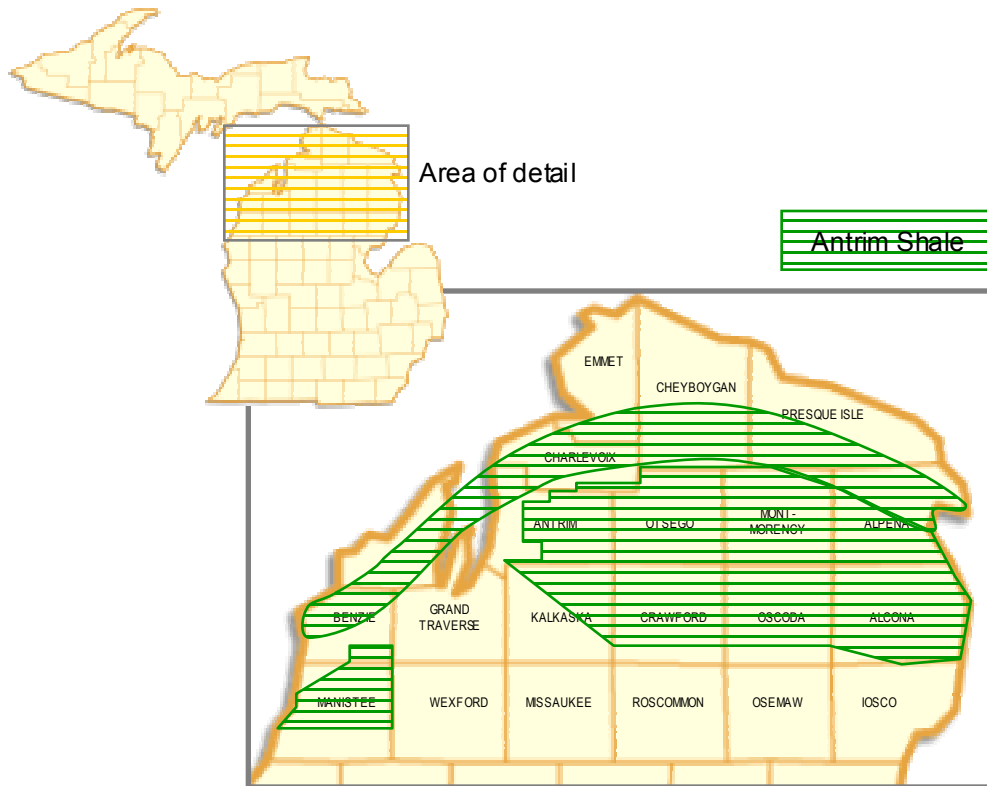
- Focus in 2005
  - Pursue “in line” projects
  - Resolve material handling issue
- Currently negotiating several “in line” projects
- Recently passed tax bill has tax credit for refined coal (~\$4.50/ton) if 20% reduction in NOx and SO2 or mercury achieved
- Our process has fair chance of qualifying

If process proves out, could invest \$50-100M of DTE Energy capital from 2005-2008

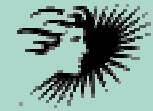




# Michigan Gas Production

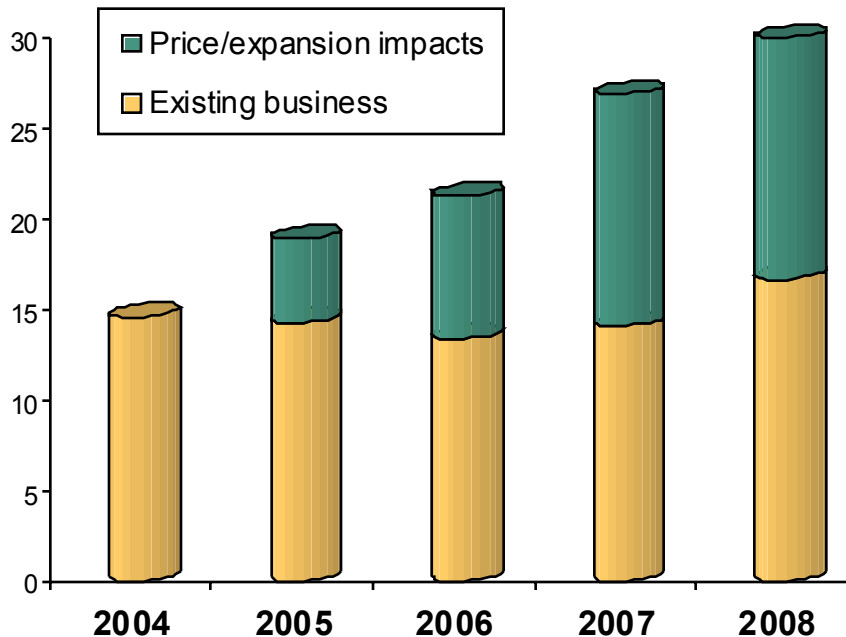


- **DTE is the second largest producer in Michigan**
  - Operate 1,400 wells
  - Drill 80 – 100 wells per year
  - Produce 23 Bcf/year
  - Own 350 Bcf of proven reserves
  
- **Strong technical and operating expertise**
  - Expenses down 40% since 2000
  - Low cost operator in state



# Michigan Gas Production A Solid Growth Business

## Projected Net Income\* (\$ millions)



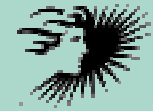
- Earnings projected to roughly double, driven by two factors:
  - Currently 100% of volumes under fixed price legacy contracts (~\$3 per Mcf), will drop to 60% in 2008
  - Growth projects: drilling in several low risk, expansion areas at an assumed \$5/Mcf price

**We could invest \$80-120M of DTE Energy capital from 2005-2008**

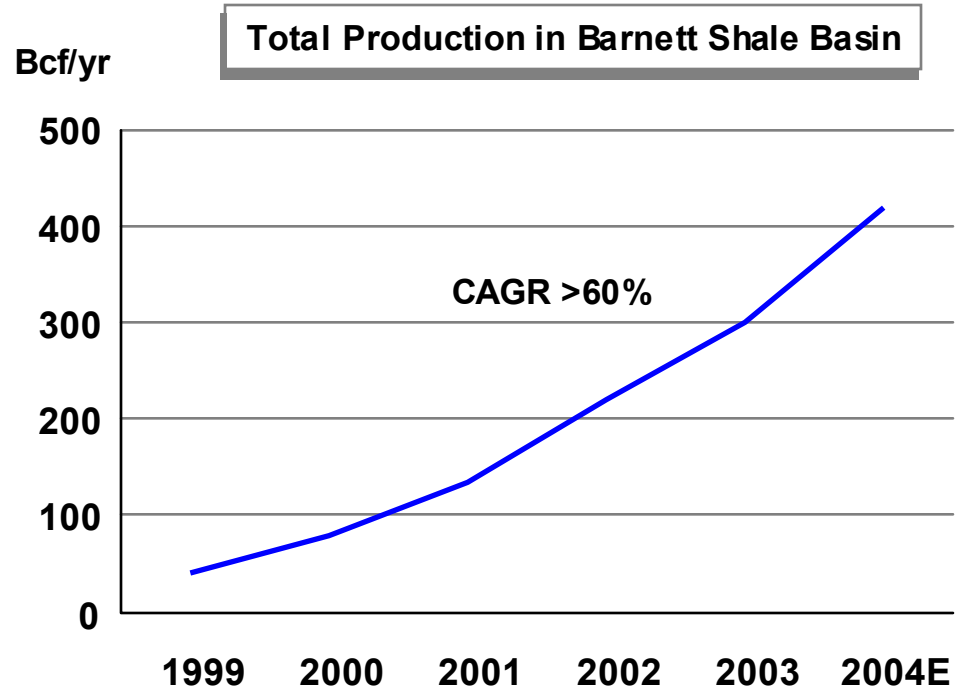
\* Assumes \$5 /Mcf on new growth

# Building on Our Michigan Shale Expertise, DTE Energy Has Taken a Position in the Barnett Shale

**DTE Energy**

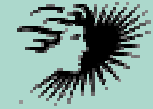


*The Barnett Shale basin is quickly becoming the leading U.S. unconventional gas field – and a critical new source of North American supply*



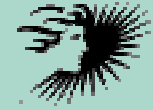
# **The Barnett Shale Has the Potential to Become a Significant Growth Area for DTE Energy**

**DTE Energy**

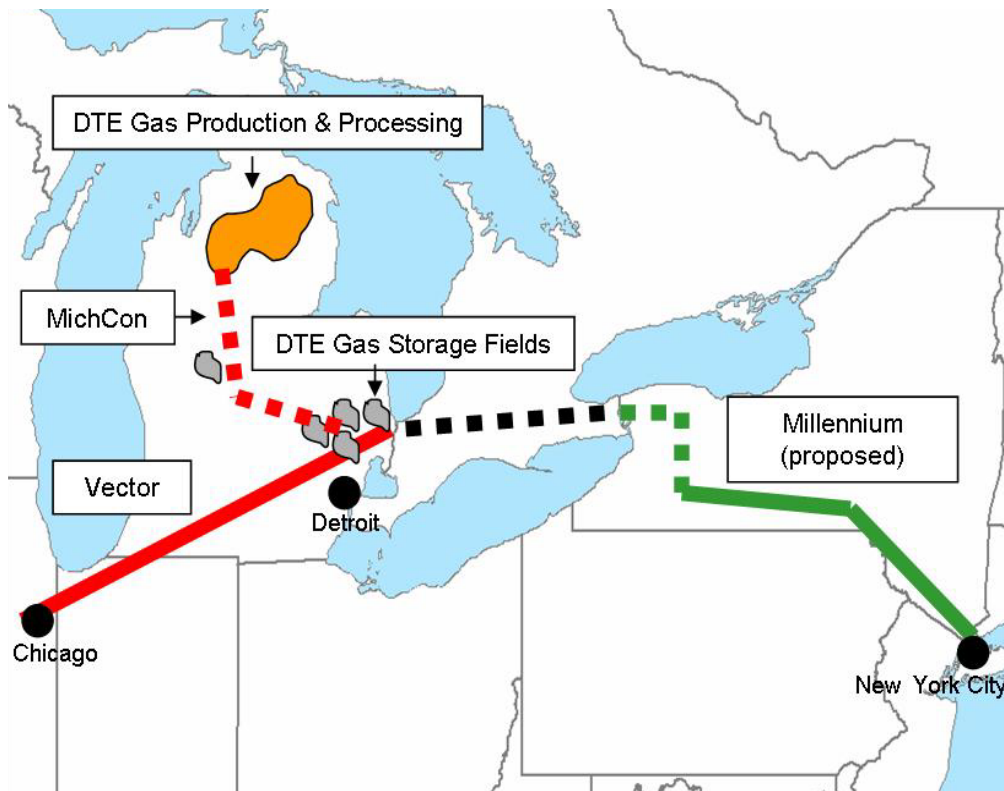


- **Have gained ownership of 50,000 acres in Barnett Shale, and continue to develop additional opportunities**
- **Drilling now underway**
  - **Drilling of first wells began this month**
  - **Significant number of test wells in first half of 2005**
  - **Nearby wells very encouraging**
  - **Should be able to scale the opportunity by summer 2006**

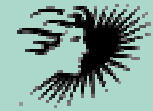
**If development drilling is successful, anticipate investing \$150-200M, yielding \$25-35M net income by 2008**



# Gas Pipelines and Storage



- **40% ownership interest in the Vector pipeline - 1 Bcf/d pipeline from Chicago to Dawn**
- **10.5% ownership interest in Millennium pipeline – a proposed 0.5 Bcf/d pipeline from Western New York to New York City**
- **60 Bcf of non-utility storage assets and 120 Bcf of utility storage in Michigan**
- **Returns on pipeline and storage assets are enhanced via:**
  - **Economic expansions**
  - **Marketing / trading opportunities**
  - **Structuring / partnership opportunities**



## **Gas Pipelines and Storage Opportunity Pipeline**

- **Likely expansion of Vector pipeline from 1 Bcfd to 1.2 Bcfd by 2006, and possibly to 1.5 Bcfd by 2008**
  - Pipe currently running full, demand is growing
  - Low-cost expansion capability exists
- **Economic expansions of our Michigan storage fields**
- **Potential development of the Millennium pipeline, which will add additional value to our Michigan storage and Vector pipeline**

**Anticipate potential to invest ~\$50-\$100M in this business from 2005-2008**

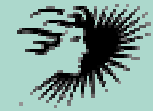


# Summary of Potential Investment Opportunities

	Cumulative 2005-2008 Capital (\$M)	Range of Expected Investment Returns*
<b>Power and Industrial Projects</b>	<b>\$300-450</b>	<b>10-20%</b>
<b>Unconventional Gas Production</b>	<b>\$250-350</b>	<b>15-20%</b>
<b>Fuel Transportation and Marketing</b>	<b>\$50-100</b>	<b>10-15%</b>
<b>Total</b>	<b>\$600-900</b>	

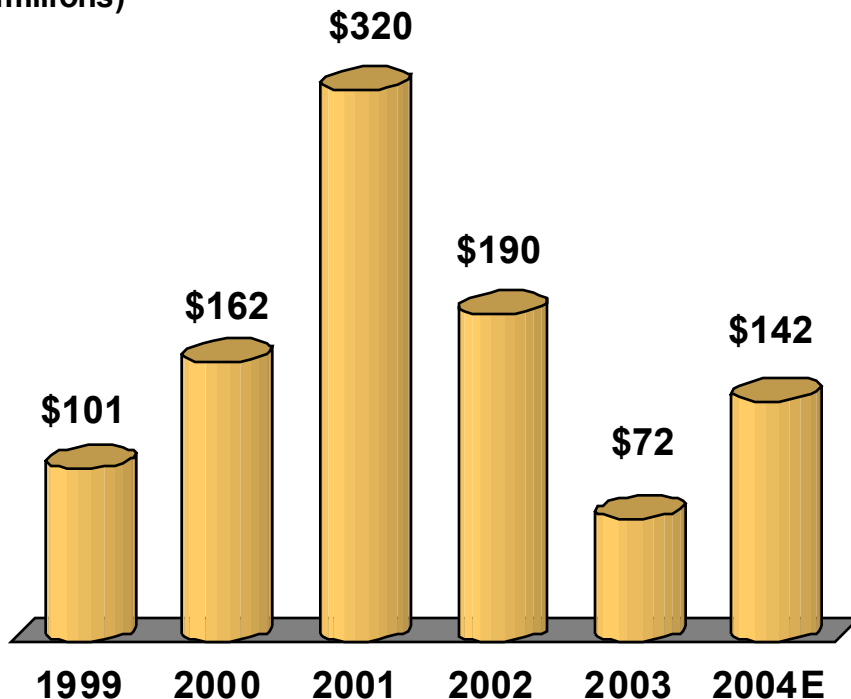
- **We believe we can successfully deploy \$600-900M of capital in our non-utility businesses from 2005-2008 at attractive returns**

\* After-tax return on DTE Energy capital



# Historical Non-Utility Investment

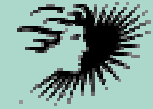
## Non-Utility Capital Expenditures\* (\$ millions)



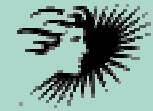
- Historical non-utility investment level has varied considerably, driven by nature and quality of opportunities
- Investment has averaged \$165M over past six years
- Adopted conservative posture in 2003 as need for utility rate relief emerged
- Investment averages \$183M excluding 2003

**Non-utility investment has been \$150-\$200M per year in recent years**



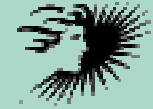


- **Overview**
- **Cash Available for Redeployment**
- **Objectives for Cash Redeployment**
- **Redeployment Game Plan**
  - **Debt retirement**
  - **Re-investment**
  - **Stock repurchase**
- **Summary**

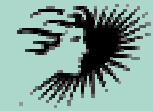


# **Share Repurchase as an Option for Cash Redeployment**

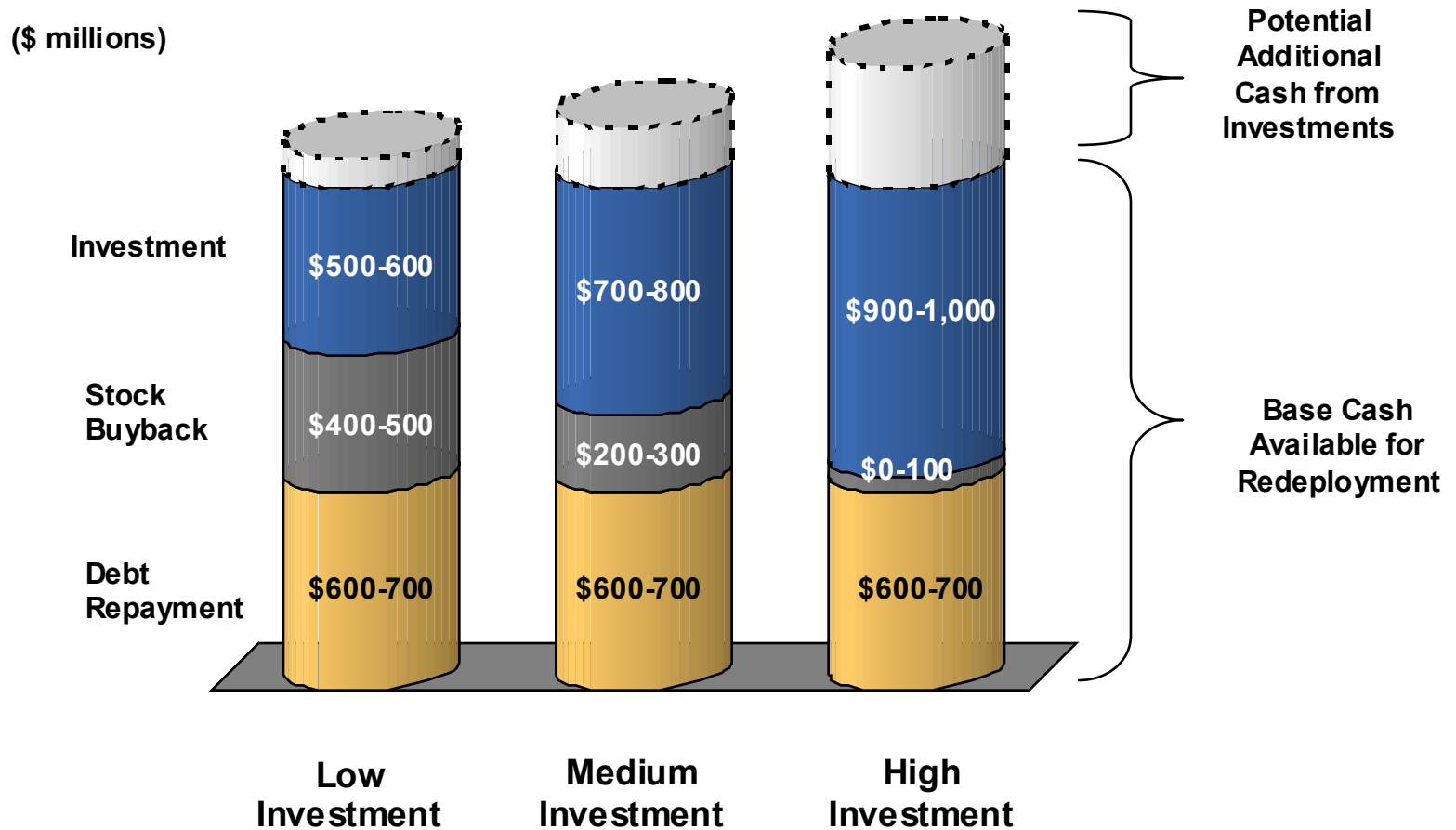
- **Our priorities for cash redeployment are**
  - **First, debt repayment**
  - **Second, investment opportunities**
- **Investments will only be made if they meet our risk adjusted return requirements**
- **Given the project nature of many investment opportunities, their level and timing is difficult to predict**
- **If we cannot find adequate level of attractive investments, we may actively pursue share repurchase when their returns are above our cost of capital**



- **Overview**
  - **Cash Available for Redeployment**
  - **Objectives for Cash Redeployment**
  - **Redeployment Game Plan**
    - **Debt retirement**
    - **Re-investment**
    - **Stock repurchase**
- **Summary**

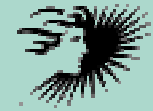


# Potential Cash Redeployment Scenarios 2005-2008



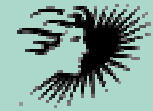
# Estimated Earnings and Share Price Impact under Potential Cash Redeployment Scenarios 2005-2008

**DTE Energy**



	Amount (\$ millions)	Assumptions	2008 EPS Impact	P/E Multiple	Estimated Share Impact
Investment	100	15% return	8.4 ¢	13.5	\$1.13
Stock Buyback	100	\$44 stock price	4.0 ¢	13.5	\$0.54
Parent Debt Repayment	100	7% debt interest rate, 35% tax rate	2.6 ¢	13.5	\$0.35

- \$950M of investments and \$700M of parent company debt repayment achieves approximately \$13.20 of share value
- \$950M of share repurchase and \$700M of parent debt repayment achieves approximately \$7.60 of share value



## **Summary**

- **We have a unique opportunity to redeploy significant cash flow over the next few years**
- **We will do this in a disciplined fashion, staying focused on value creation**
- **We have considerable flexibility across debt reduction, investments and share repurchases**
- **We will update you regularly on the projected mix of these vehicles, defined by emerging opportunities and conditions**