



a legacy of excellence

Maintaining a strong utility base is at the heart of our business strategy. Our regulated utilities – Detroit Edison and MichCon – form the core of DTE Energy. Our expertise comes from serving Michigan’s electric and natural gas customers for more than 150 years. We never lose sight of their importance to our success.

The world of competition has reminded us of the importance of serving our customers well. Our goal is to understand and anticipate their needs and continue to meet and exceed their expectations.

At the same time we grow our customer base, we must shrink costs. The DTE Energy Operating System is a powerful tool we’re using to do just that. It’s a standardized approach to business, focused on reducing waste, improving processes and cutting costs.

Little improvements can make a big difference, according to Bob Blumer, an electrician who fixes transformers at the Warren Service Center electrical shop. “Because of the changes we’ve made through the Operating System,” he says, “I control my own destiny.”

Fixing these transformers used to take more than a month when they arrived at the 51-acre service center. Recognizing that was unacceptable, a team of union and management employees used Operating System tools to study the repair process. They discovered each transformer traveled five miles within the facility during repair and, once fixed, took an additional 10 days for painting and drying.

We were tested in 2004 when regulatory challenges hampered our growth. But we remained focused on regaining the health of our utilities, and made good progress. In 2005, we anticipate that Detroit Edison and MichCon will continue to recover their financial strength and position themselves for future growth. Long term, we expect to generate 70 percent of DTE Energy earnings from regulated operations.

To make this happen we must:

- Aggressively pursue the business we’ve lost to Michigan’s Electric Choice program and seek new business.
- Continue to reduce costs through operating efficiencies.
- Be proactive in managing the regulatory process.

From top: Detroit Edison substation; Marcia Jackson, DTE Energy Operating System expert; MichCon’s Petosky gate station; Brian Dantas, environmental engineer.



utility
businesses



real
people

Warren Service Center Pipe Bending Shop
From left, Robert Swain and Greg Langley



Fermi 2 Nuclear Power Plant
Joe Simone (sitting) and Dave K. Hemmele

Armed with this knowledge, the team created standard work instructions for repairs, including the use of quick-drying paint. These changes eliminated four miles of travel and saved the company an estimated \$500,000 in the transformer area alone. Best of all, repairs are now completed in just eight hours. Combined with other Operating System initiatives, the Warren Service Center identified savings exceeding \$1.3 million in 2004.

The ultimate goal of the DTE Energy Operating System is to raise performance to a new level and foster a culture of change as a way to improve and learn. Les Click, electrical shop leader says, "The union saw that the Operating System was a business opportunity and took the risk, and you know what? Most people are happier now because they know what's expected; they aren't as stressed out."

Carrying off a complicated refueling outage safely was a team effort at our Fermi 2 nuclear power plant. Thanks to the Operating System, the plant completed its last outage in 27 days, beating its previous record by an impressive six days. "Clearly, using tools of the Operating System helped us complete the outage safely, cost effectively and in record time," says Bill O'Connor, vice president of nuclear generation. In 2004, Fermi 2 was awarded the state's highest safety recognition, the Michigan Voluntary Protection Program Star Award.

Employees at the Broadway Station, a MichCon facility, used the Operating System to substantially increase their productivity. With the lowest field service productivity of all our Detroit area service centers, the Broadway Station assessed, analyzed and improved the situation by implementing tools of the Operating System. Going from worst to first in performance, today the Broadway Station is number one in productivity.

Our goal is to establish a multi-year regulatory strategy that addresses current and future concerns.

Cost savings and increased productivity are just two of the benefits of the Operating System.

It's also helping us:

- Reduce injuries.
- Reduce absenteeism.
- Reduce power plant emissions.
- Speed up the hiring process.
- Improve customer restoration times.
- Reduce customer complaints.

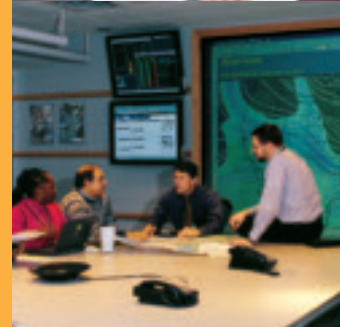
We're proud of our successes, but recognize there are still many opportunities to improve. In 2005, we'll drive the Operating System even deeper into our organization with a goal to identify savings of at least \$125 million.

While the DTE Energy Operating System is focused internally, we're focused externally on improving the regulatory environment for our utilities. Our goal is to establish a multi-year regulatory strategy that addresses current concerns and anticipates future needs based on the changing marketplace.

In the long term, we'll continue to build stable structures in the regulatory arena, and develop understanding and support for key energy policy issues before they reach the crisis stage. In the short term, we'll tackle several issues that will significantly impact the performance of our utilities, such as:

- Reform of Electric Choice.
- Low income energy assistance.
- Unbundling and restructuring electric rates.
- Environmental controls and cost recovery.

In the last few years, rising health care costs, infrastructure costs, bad debt expense and margin loss from Electric Choice outstripped productivity savings at our utilities. But with the resolution of our electric and natural gas rate cases, our goal is to move both Detroit Edison and MichCon to their authorized 11 percent rate of return. We view 2005 as a year of rebuilding for our utilities, with a return to traditional performance levels in 2006.



From top: Linemen Catherine Zitzelberger and Vern Aitson; Don Stanczak and Jim Padgett, Regulatory Affairs; DTE Energy Emergency Headquarters; Sabrina Wilson, pipeline integrity project; MichCon compressor station.