

Detroit
Edison

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Nuclear
Operations

April 19, 1991
NRC-91-0034

U. S. Nuclear Regulatory Commission
Attention: Document Control Desk
Washington, D. C. 20555

Reference: Fermi 2
NRC Docket No. 50-341
NRC License No. NPF-43

Subject: Annual Financial Report

Pursuant to 10CFR50.71(b), please find attached one copy of
the 1990 annual financial report for the Detroit Edison
Company.

If you should have any questions regarding this report,
please contact Barbara Siemasz at (313) 586-1683.

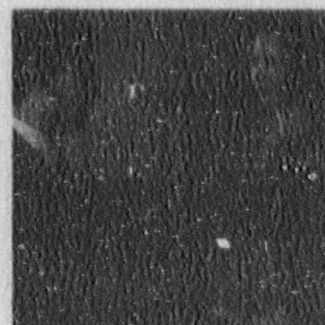
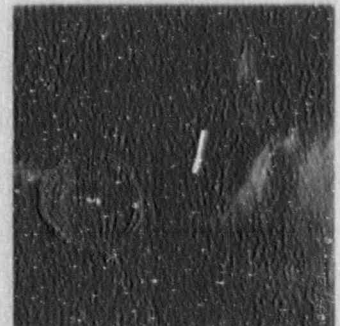
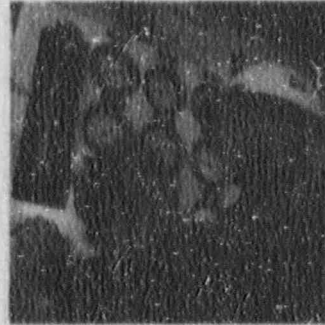
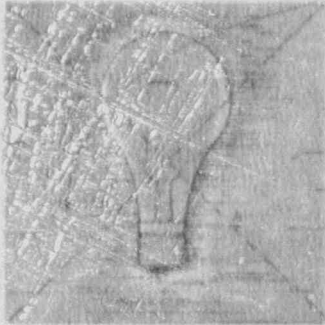
Sincerely,

cc: A. B. Davis w/enc.
R. W. DeFayette w/enc.
W. G. Rogers w/enc.
J. F. Stang w/enc.
Region III

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DELIVERING ON OUR COMMITMENTS



Financial Highlights

To our shareholders:

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he year 1990 was an outstanding one for Detroit Edison.

Record revenues, near-record sales, record earnings for common stock, a 23-percent increase in earnings per share, common stock reaching a 23-year high of \$30.25 and closing at \$28.25 — up 11 percent from the 1989 close — and a market price-to-book value ratio rising to a level among the highest in the industry.

Clearly we are proud of these results and of the people who worked extremely hard to achieve them. Following are some of their accomplishments:

Compared with 1989, they produced more with less —

- Setting a kilowatthour sales mark second only to the record hot year of 1988, despite a significant downturn late in the year as the national recession took hold. Of particular note is that while sales to the automotive and steel industries dropped significantly, sales to the commercial segment increased, setting records in nine of the 12 months and all four quarters, as well as for the year as a whole.
- Reducing fuel and other power supply costs.
- Keeping the growth of other operation and maintenance expenses well below the general level of inflation.
- Improving the efficiency of our fossil fuel power plants, placing us for the second consecutive year in the top 10 among the 100 largest U.S. utilities.
- Setting new operating records for our Fermi 2 nuclear power plant, with capacity factor and availability surpassing industry averages for the first time.
- Making effective use of company assets by selling electricity outside our service area when capacity was available and transmitting, for a fee, electricity produced by neighboring utilities and sold to Canada.
- Producing and delivering more electricity to more customers with 14 percent fewer employees than we had three years ago.

On the financial side:

- We reduced costs by refinancing older, higher-cost debt with lower-cost debt.
- We increased our common stock dividend to an indicated annual rate of \$1.78 per share from \$1.68 per share in 1990 and again — to an indicated annual rate of \$1.88 — in February 1991.
- We issued mortgage bonds for \$537.1 million to purchase the remaining 11 percent share of our Fermi 2 nuclear plant held by the Wolverine Power Supply Cooperative, Inc., and still maintained the common equity portion of our capital structure at 32.8 percent. With no major construction under way we anticipate that internal cash generation will enable us to repay additional debt, thereby increasing the equity share in the coming years.
- And finally, with no plans to stray from the energy business, we are using our resources to strengthen our core business, to become a “best-in-class” electric utility.

While these results are impressive, one outstanding year does not represent — or ensure — long-term sustainable success. That will come only as we are able to make more basic changes in the way we go about our business. But we are working

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hard at those changes — to learn more about our business environment and our customers, to give greater focus to our goals, to transform our commitment to continuous improvement from words to across-the-board action, and to change that elusive concept called corporate culture — expecting more of employees and giving them, in turn, the opportunity to share in the increased value resulting from their increased contributions.

These changes represent a long-term process, made necessary because the competitive pressures that have challenged major segments of American industry in an increasingly global economy are now extending to the electric utility industry as well. The protection once afforded by regulation is being eroded by the demands of industry, on the one hand, and increasing regulatory reliance on market forces on the other hand.

For Detroit Edison, the need to change has been particularly critical. Construction of new state-of-the-art power plants, the need to import all of our fuel from other states, and Michigan's high business costs and stringent environmental regulation all raised our costs.

Our goal had to be to overcome these and other factors to enable us to provide superior value to our customers — competitive prices and better service — in order to provide increased shareholder value.

For several years now we have been involved in a series of initiatives to help us change into the kind of company we believe we must become. We are pleased with the significant progress made to date — thanks largely to efforts by employees to change systems, work methods, policies and practices after generations of what had become standard and comfortable ways of doing things.

We have swallowed our traditional pride — and have become better listeners — with a massive effort to find out how the “best-in-class” among utilities and other industrial and service companies do things, then adapting the most successful practices to our own operations.

As part of our effort to change the culture of our company we are empowering employees further down the line to make more decisions and accept greater accountability. A new compensation plan, which rewards employees for the achievement of important shareholder value goals, establishes a framework for this change.

One other major obstacle that lay in the way of our efforts to become a lower-cost company was the threat of new clean air legislation that would require massive new expenditures. Michigan utilities — and their customers — already had spent far more on environmental protection than utilities in most other states — and achieved far greater results. Fairness demanded that we and they not pay the price again.

We delivered that message in Washington; the Michigan congressional delegation understood it and agreed with it, and worked hard to include in the new act provisions that would ensure equity.

As a result, Detroit Edison already is in compliance with the first phase of the new requirements, which take effect in 1995, and therefore will not require new expenditures by that date. Moreover, we estimate capital expenditures of about \$170 million to comply with phase two, which begins in 2000, while utilities in other states will be spending hundreds of millions and even billions of dollars to comply with both phases.

Our improved financial results during the last two years have been dramatic. Still, it would be unrealistic to expect such improvement in financial results every year. The

Executive Vice President and Chief Financial Officer Larry G. Garberding, left, and Chairman of the Board, President and Chief Executive Officer John E. Lobbia at the Coal Handling Control Room at Monroe Power Plant near Monroe, Mich. Through effective fuel blending, the plant used more low-sulfur coal in 1990 than ever before, contributing to the company's already meeting federal clean air requirements mandated for 1995.



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national economy is uncertain. Only time will tell whether our own reduced dependence on industrial sales represents positive results from efforts to diversify Michigan's economy. The Middle East situation remains uncertain. With a new governor, the shape and direction of state policy and utility regulation still are to be established. The exact nature of our industry's structural changes also is uncertain. And Michigan's basic industries still are struggling to gain competitive parity with foreign manufacturers.

But however these uncertainties are ultimately resolved, we believe we will be positioned to deal with them. As we are able to continue on our course of change and improvement in the way we do business, we will be better able to deal with external events and uncertainties and assume greater control over our operations and our results.

We thank you for your patience and support in the past, and pledge our continued best efforts on your behalf in the future.

Larry G. Garberding
Executive Vice President and
Chief Financial Officer

John E. Lobbia
Chairman of the Board, President and
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February 26, 1991

Executive Vice President and Chief Financial Officer Larry G. Garberding, left, and Chairman of the Board, President and Chief Executive Officer John E. Lobbie at the Coal Handling Control Room at Monroe Power Plant near Monroe, Mich. Through effective fuel blending, the plant used more low-sulfur coal in 1990 than ever before, contributing to the company's already meeting federal clean air requirements mandated for 1995.



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Sue Rogers, fuel supply foreman; Dennis Bergmooser, systems engineer; Terri Rouse-Shelton, buyer, and Ted Krupa, principal engineer, are among some 9,600 Detroit Edison employees who share a common vision: providing superior customer value to build shareholder value, and making their company "best in class" among the nation's electric utilities.

Making commitments is easy. Delivering is the challenge.

Meeting commitments takes leadership and direction, but most of all it takes people. Detroit Edison's employees showed in 1990 why customers hold the company in such high regard: Employees care about what they do, look for opportunities to serve customers better and, each in his or her own way, contribute to enhancing the company's ability to perform well in an environment of constant change.

Fully comprehending what the people of Detroit Edison accomplished in changing and bettering the company in 1990 is made easier by examining the accomplishments within the primary areas of the company — Power Supply, Energy Marketing and Distribution, Nuclear Generation, and the Corporate and Community Support organizations. The employees of each area have stories to tell about the parts they have played in 1990. Each story is a new chapter in the books of shareholder and customer value at Detroit Edison.

Power Supply

Sue Rogers and her work shift handle one of Detroit

Edison's most valuable resources. They help direct low-sulfur, low-cost Western coal into the boilers of the company's St. Clair and Belle River power plants on the St. Clair River.

As a fuel supply foreman, Rogers and her shift team play an important role in a process critical to both Detroit Edison's and Southeastern Michigan's economic and environmental progress.

"Our St. Clair plant originally was designed to burn higher-sulfur Eastern coal back in the 1950s and '60s — before society became concerned with sulfur emissions and the environment," Rogers said.

As environmental awareness grew, the company first began using low-sulfur Western coal at the St. Clair plant. The lessons learned at St. Clair made the transition to Western coal easier for the company's other plants.

Rogers and her shift team are part of Detroit Edison's Power Supply organization, which produces the fossil-fuel-generated electric and industrial steam power with which the company meets its commitments to its customers, its shareholders and the environment.

"We have a job to get done — to keep the St. Clair and Belle River power plants fueled," Rogers said. "I feel particularly good about the positive environmental aspects of our plants — I have small children and I have to worry about the environment they'll have to deal with in the future. I'm proud of our efforts and the part I play in them."

The tie between environmental and financial progress is vital to Detroit Edison. Encouraged by Michigan's stringent clean-air regulations and federal air quality rules, the company pioneered the use of Western coal by non-Western electric utilities and remains a leader in the use of Western coal and the blending of that fuel with other varieties of coal.

The company's Venture Fuels partnership sells Western coal to other utilities and coal users in North America, and sells expertise in coal-blending to help others realize the financial and environmental gains already accruing to Detroit Edison.

Results of using more Western coal include a 63-percent reduction in sulfur-dioxide emissions since 1974 — while increasing electricity production 17 percent — and full compliance today with sulfur-dioxide standards mandated for 1995 by the tough new Clean Air Act Amendments of 1990.

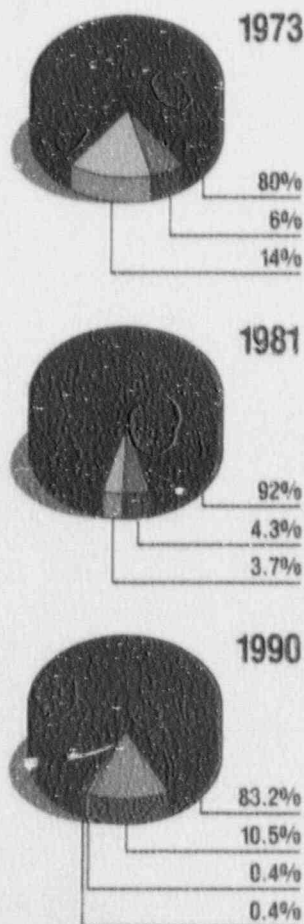
Burning Western coal also makes Detroit Edison more competitive in sales to other utilities — another way of turning off-peak capacity into additional income. In fact, net bulk power sales increased by \$36 million in 1990, due in part to operating efficiencies.

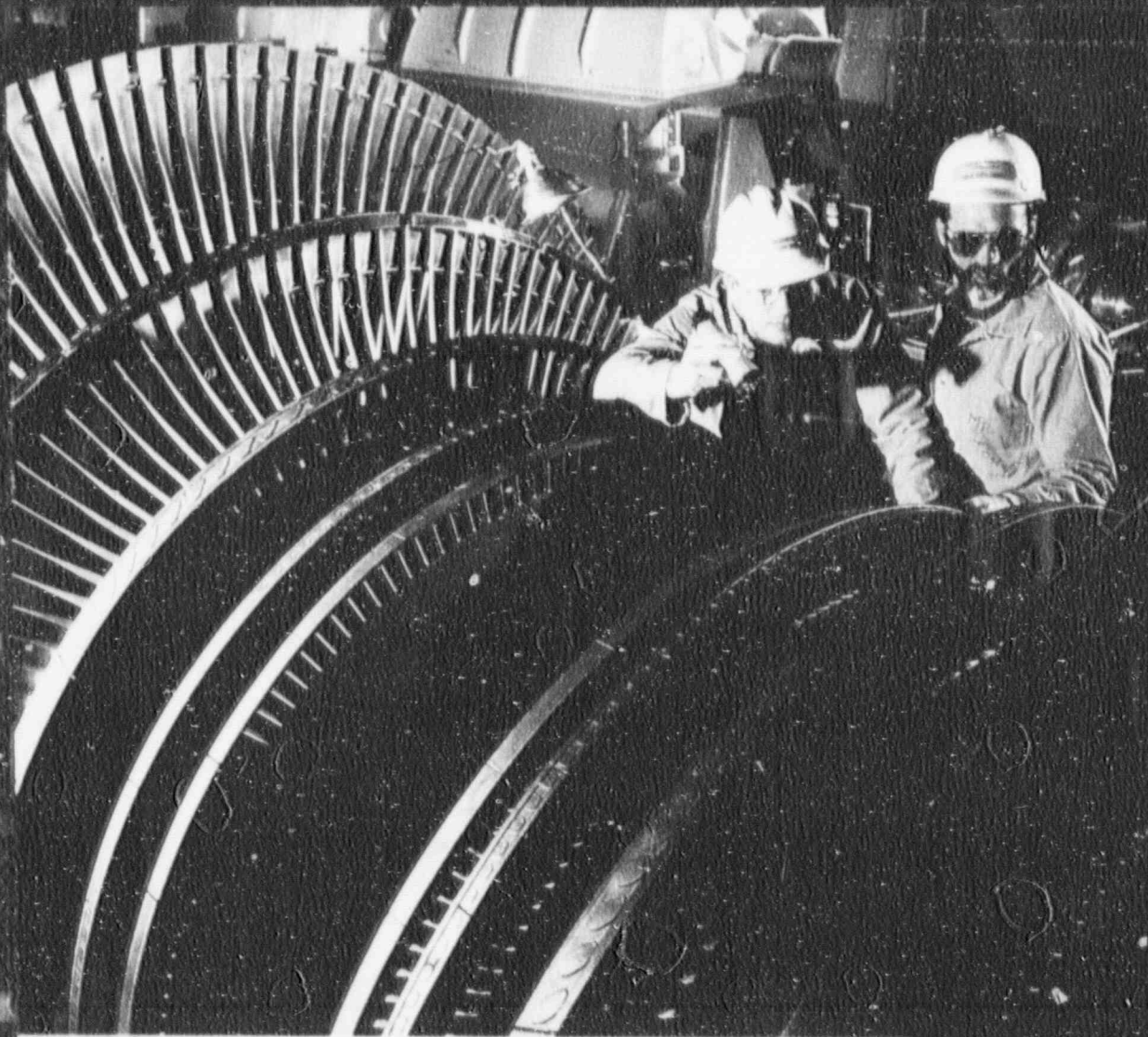
The most important development in use of Western coal by Detroit Edison in 1990 took place at the company's 3,000-megawatt Monroe Power Plant — the company's largest and the second-largest coal-fired plant in the United States. By 1989, Monroe had increased its use of Western coal to 25 percent — representing a steady increase during the last few years. Yet, thanks to still further advances by Detroit Edison Power Generation engineers and Fuel Supply personnel, 1990 Western coal use at the plant rose to 40 percent of the 8 million tons burned by the huge facility — representing a cost savings of \$11 million. Companywide, Detroit Edison fossil-fuel plants burned 63 percent Western coal in 1990.

In operating its fossil-fuel generating plants, Power Supply uses about 99 percent coal, which is abundantly available in the United States. Oil and natural gas together represent less than 1 percent, compared with an average of about 20 percent for all U.S.

Fuel-Mix Trend

- Coal
- Oil
- Gas
- Nuclear





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— Susan Rogers
Fuel Supply Foreman,
St. Clair Power Plant

electric utilities. Reducing the company's dependence on oil and gas through the use of coal and nuclear fuels has helped ensure the dependability of Detroit Edison's electric generating system and reasonably electricity prices for its customers.

Further reducing operation and maintenance costs and improving efficiencies are keys to the company's continuing success. The following are contributing to this effort:

- A Management Control System, designed to better identify and focus attention on the real costs of doing business. The results are lower generating costs, making Detroit Edison more competitive in the bulk power market.
- A new maintenance management program, featuring a sophisticated computer system installed at the Belle River Power Plant in 1990 and scheduled for extension to four other plants later in 1991. When fully installed, the program is expected to save \$15 million a year in power plant maintenance.
- Continuation of an organizational restructuring to increase efficiency and accountability.
- Advances in fuel procurement. Through renegotiations, buyouts and buydowns of existing

contracts, and the selection of new suppliers and services

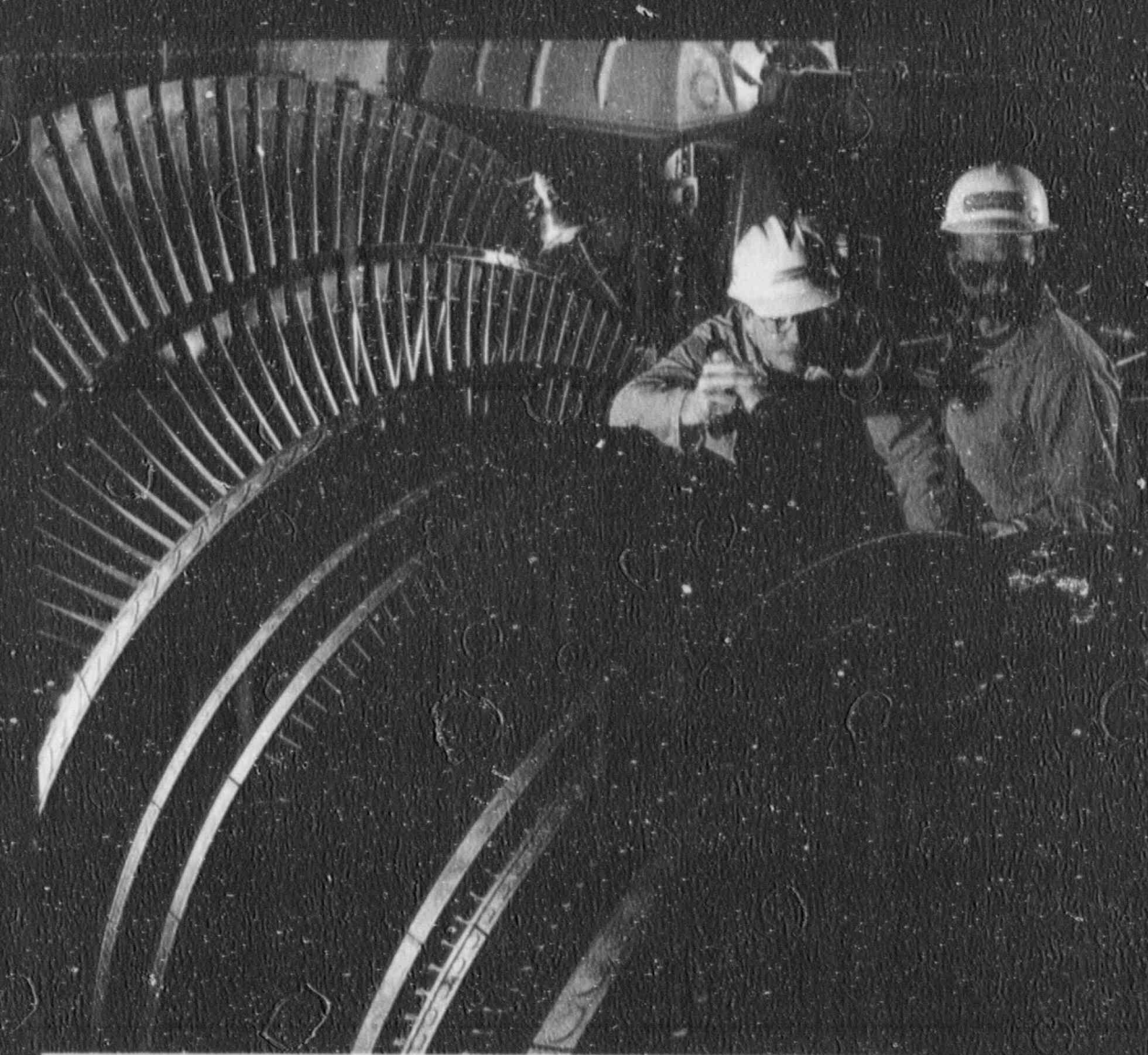
as well as blending of coals and improved plant performance. 1990 fuel expenses were \$44 million less than budgeted.

- Improvements in two key measures of operating efficiency:

- 1 Fossil fuel heat rate, which measures the amount of energy required to produce a unit of electricity, improved slightly over 1989 to the best level in three decades. Detroit Edison ranked fifth best in 1989 in fossil fuel heat rate among the country's 100 largest electric utilities.
- 2 Fossil fuel plant availability — the percentage of time a plant is available to generate electricity — rose from 86.4 percent in 1989 to 87.5 percent in 1990.



Inspecting low-pressure turbine blades during a maintenance outage at one of the Monroe Power Plant's four generating units are Thomas Wefczyk, maintenance supervisor, and Norman Parkowitz, turbine supervisor. The plant, fueled with a mix of low-sulfur Western coal and other coals delivered by ship, as shown, and rail, helped place the company among the leaders nationwide in coal-blending technology.



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Dennis Bergmooser and a crew of general maintenance journeymen take care of Fermi 2's four huge emergency diesel generators as if they owned them. "If the plant ever loses power, the diesels have to start," said Bergmooser, a systems engineer in Technical Engineering who is in charge of maintaining the generators. Fermi 2 has four large diesel-powered generators which provide power to safety systems if electrical circuits providing regular power fail.

"Our engines always are ready to start," said Bergmooser, who proudly pointed out that the generators' availability of 99.3 percent over the past year is among the country's best.

"As long as we keep them in the proper condition, I know we've kept up our corner of Fermi 2," Bergmooser said.

Bergmooser — who was named Fermi 2's 1989 Employee of the Year — and his fellow crew members know their machinery so well that outside technical support — once relied on to help improve operation and availability — is virtually a thing of the past, as the near-perfect availability record would suggest.

The crew members have worked together to tighten operating and maintenance procedures and eliminate costly, time-consuming and operator-challenging requirements which no longer are needed. Many of the changes resulted from suggestions made by the crew.

"I listen to my maintenance crew's suggestions," Bergmooser said. "They know the machines better than anybody." The diesel crew members also work closely with other personnel assigned to different systems so their efforts complement each other, rather than complicate and confound.

A sense of ownership and attention to detail add up to professionalism, nuclear-industry style — a way of life at Fermi 2. It's the kind of commitment Fermi 2 people have to the operation of the plant and to supplying electricity to Detroit Edison's customers.

The year 1990 proved to be one of transition at Fermi 2, with improvements in Nuclear Generation's ability to produce electricity safely, reliably and efficiently.

On Feb. 21, 1990, Detroit Edison took complete ownership of the Fermi 2 plant, acquiring the final 11-percent share from Wolverine Power Cooperative, Inc., which serves more than 140,000 customers in rural northern Michigan. Wolverine initially assumed 20 percent of the plant's ownership in 1977 when construction was resumed after a two-and-a-half-year suspension because of a Detroit Edison capital shortage. Wolverine's infusion of capital in 1977 allowed Fermi 2 construction to resume.

A sense of plant ownership by the people who know it best — the employees — can be seen in the plant's improved performance as measured by both federal regulators and industry oversight organizations.

Both the Nuclear Regulatory Commission (NRC) and the Institute for Nuclear Power Operations (INPO) — in their regular reviews of Fermi 2's operational and organizational performance — have noted continued significant improvement.

The NRC's Systematic Assessment of Licensee Performance, published in March 1990 but covering 1989, cited improvement in maintenance and engineering and gave the plant top marks on emergency preparedness, nuclear security and radiological controls.

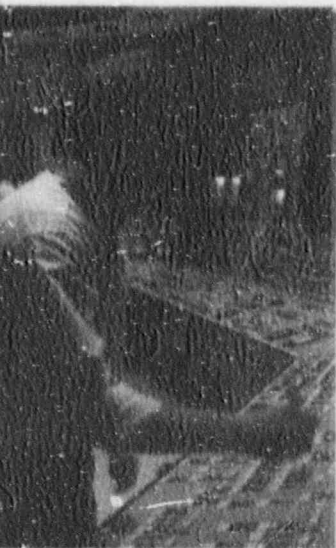
A summer INPO review found improved overall performance. But even more importantly, INPO found "significant progress in many areas," and showed where further improvements could be made, concluding that the plant and its people are moving in the right direction.

The "right direction" included a net capacity factor of 77 percent for 1990, the plant's best yet, despite a five-week outage late in the year to repair one of the plant's three low-pressure turbines. Until then, the plant had maintained a capacity factor of 85 percent. Still, planned outages for equipment repair were fewer, shorter and less costly in 1990 than in past years, reflecting better planning and resource utilization. Other indications of improvement in 1990 included reductions in outstanding maintenance, radiation exposure and the plant's forced-outage rate.

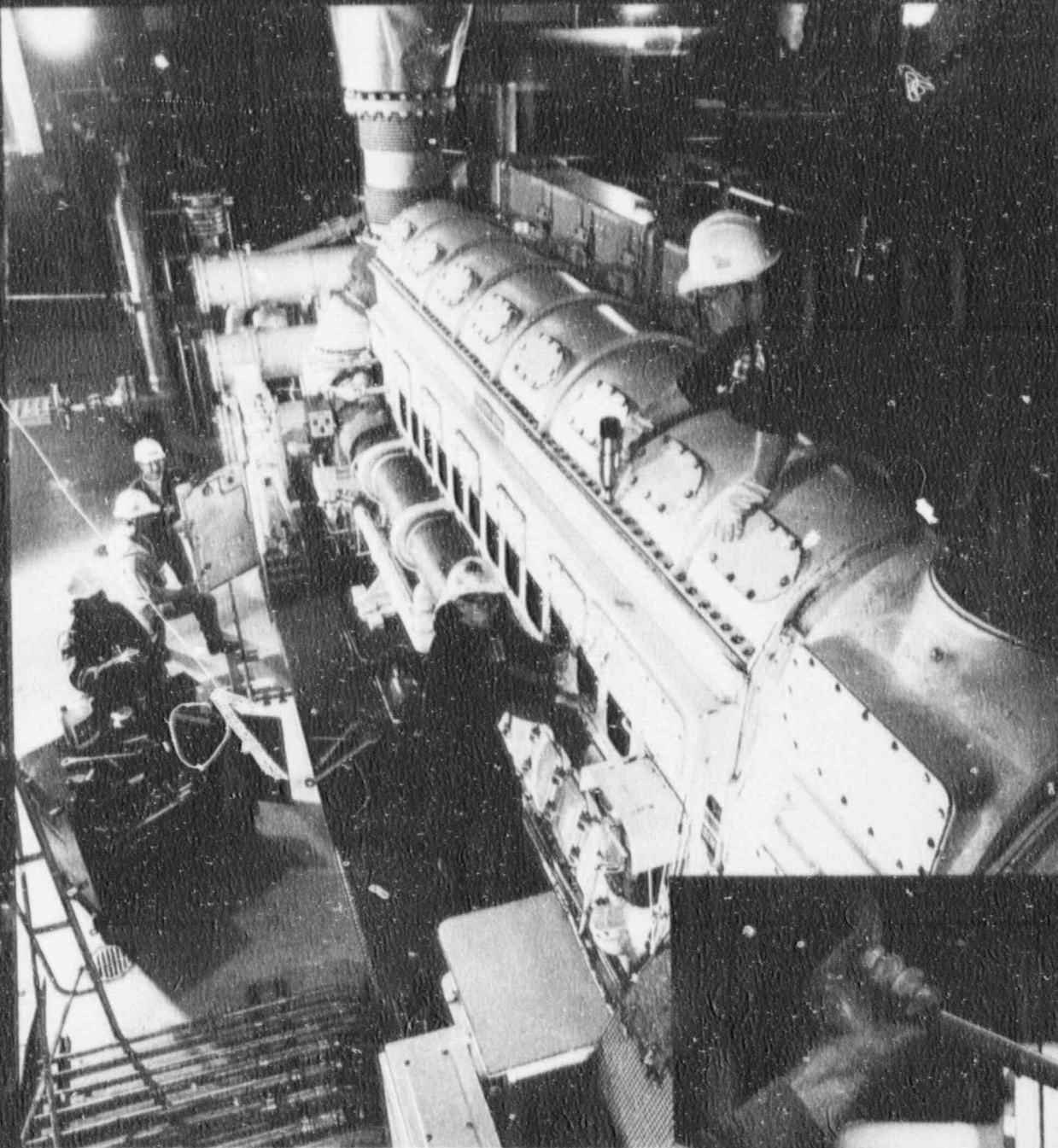
Many changes have played integral parts in what has been one of the most dramatic turnarounds in the nuclear industry. They include improved training; a deficiency tracking system, which allows important issues to be identified and addressed; increased attention to accountability and teamwork throughout the organization; a dedication to self-improvement programs; an employee recognition program; and the Nuclear Generation Business Plan, which charts the entire organization's direction.

Late in the year, Fermi 2 had to begin storing its own low-level radioactive waste as the three states that had traditionally accepted waste from Michigan generators — Nevada, South Carolina and Washington — halted access from Michigan in response to what they felt was a lack of progress by Michigan in siting and constructing a low-level repository on behalf of the seven-state Midwest Compact.

The cutoff should have little immediate effect on Fermi 2 since the plant has enough storage space for five years' worth of low-level waste.



Improved performance at Fermi 2 was cited in 1990 by federal regulators and industry oversight organizations, reflecting the commitment of Fermi 2 people such as Sean Farrell, nuclear supervisor, operating.



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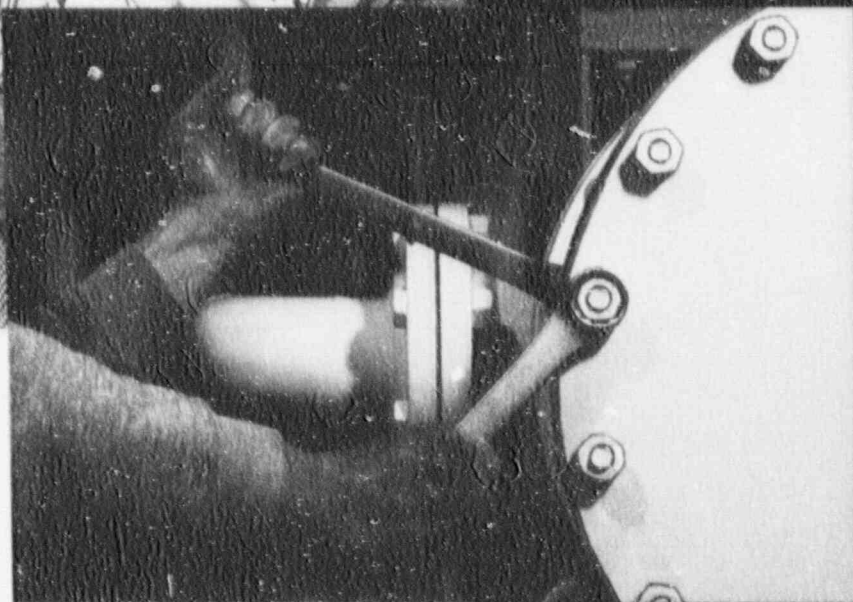
—Dennis Bergmooser
Systems Engineer,
Fermi 2

One new environmental challenge in 1990 turned out to be an operational challenge as well. The zebra mussel arrived via a European freighter dumping ballast water into the Great Lakes several years ago. The tiny mollusks quickly made their way by the millions into cooling systems in the non-nuclear portion of Fermi 2, as well as at the Monroe Power Plant. The quick and innovative response by Detroit Edison personnel demonstrated leadership, as attested to by such diverse publications as *The New York Times*, *Time* magazine and *Sports Illustrated*.

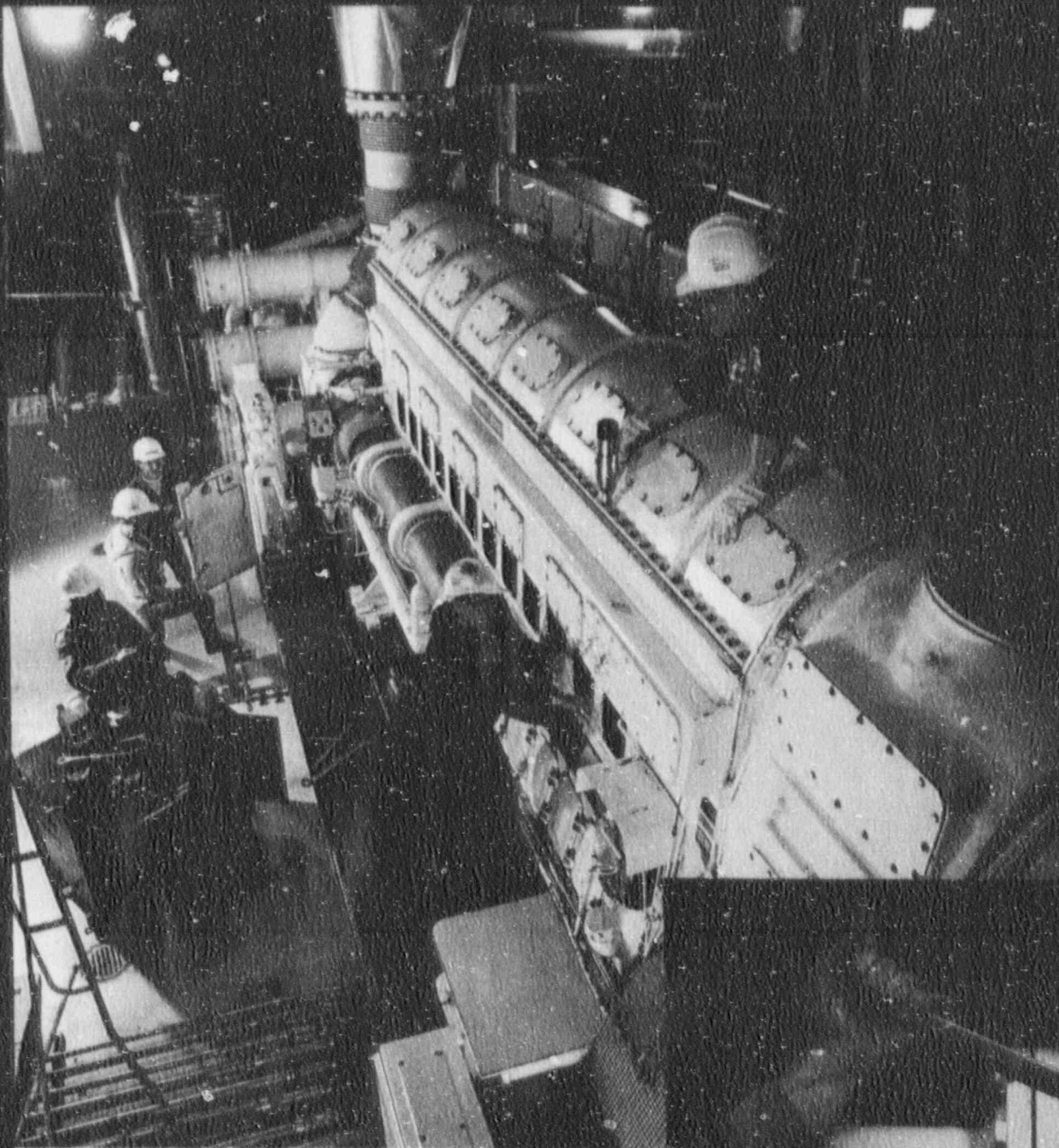
The bottom line of Fermi 2's commitment to the environment is that again in 1990, radiological and non-radiological surveys and reportings showed that the operation of Fermi 2 had no discernible impact on the plant's surroundings. Moreover, the highly rated performance of the plant's Emergency Response Organization demonstrated that in the unlikely event of a serious emergency at Fermi 2, sufficient actions

would be taken — inside and outside the plant — to protect the public's health and safety.

The decade of the '90s opened well for Fermi 2, but the challenge ahead is for Nuclear Generation to continue to deliver on its commitments by building still further on its improvements and forging ahead toward the ultimate goal — to establish Fermi 2 among the "best in class" for nuclear power plants.

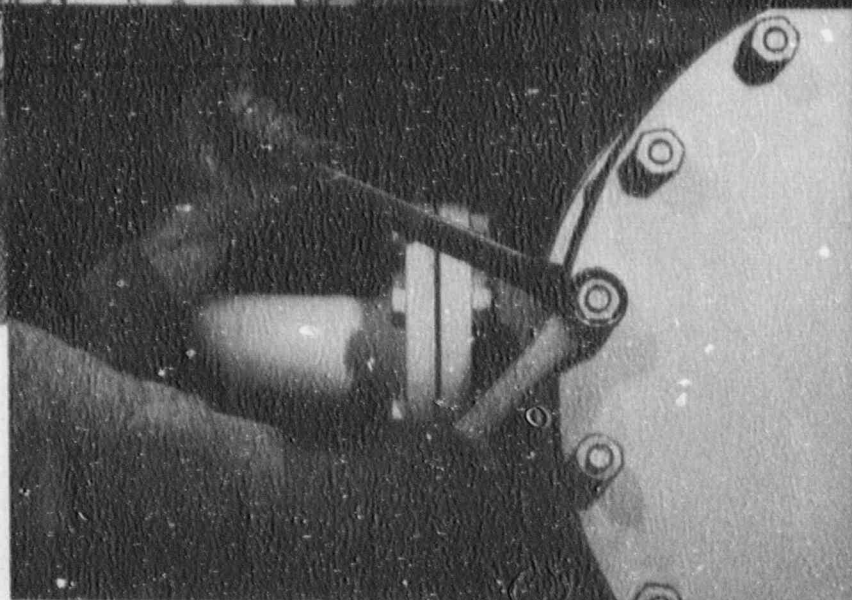


Careful and dedicated maintenance of emergency diesel generators at the Fermi 2 plant is helping move the plant toward its ultimate goal — to be a "best-in-class" facility. Shown are Dennis Bergmooser, systems engineer, third from left, and his crew of nuclear journeymen, from left, Brian Sizemore, James Harbo, Michael Wuebben and Timothy Bolger.



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Energy Marketing and Distribution

Except for a wood pole mounted with antennas, Theodore J. Krupa's efforts at Detroit Edison's Golf Substation in Macomb Township in Detroit's northeastern suburbs remain largely unseen. But the 4,000 customers currently served by the substation will reap the benefits of those efforts — improved reliability of their electricity supply.

Krupa is a principal engineer with Overhead Lines Engineering in Detroit Edison's Energy Marketing and Distribution (EM&D) organization, the link between the company's power generation facilities and its customers. He is part of a project team — including employees representing Engineering, System Technical Services, Energy Management Systems, Telecommunications and Macomb Division — that has been involved since early 1990 in the design and installation of a state-of-the-art automated distribution system at Golf and a neighboring substation.

The system, which will be activated in late 1991 to start a two-year-long pilot project, will allow company employees to perform maintenance inspections and circuit switching from remote facilities with the help of computers receiving data via radio signals. Hence the need for the antennas. Employees will be freed from following time-consuming and costly switching and manual inspection procedures.

In addition to saving time, work and money, the automated distribution system will result in more efficient use of existing substations as well as faster power restoration to customers through remote alarms that permit earlier detection of problems such as power interruptions.

"Both customers and shareholders will benefit," Krupa said. "Customers will gain improved reliability, while we anticipate that shareholders will need to invest in fewer substations in the future."

The substation project is just one of a broad array of new initiatives and improved methods being instituted throughout EM&D and Detroit Edison, many of which use "benchmarking."

Through this process, the company compares its own methods, function by function, with the methods used by other utilities and industrial and service companies considered "best in class."

"In the case of substation monitoring, maintenance and trouble-shooting," Krupa said, "we found that, while our capital investment was competitive with others', our operation and maintenance expenses were higher. This new automated system is designed to reduce our operating costs."

The substation project also is one of a series of new programs that reflect Detroit Edison's renewed commitment to improving customer reliability, a goal evident in the company's tough outage-duration targets. As it turned out, due partly to Mother Nature, the company fell short of its reliability target in 1990 as the fifth and sixth worst storms in history helped make it the wettest year of the 20th century in Southeastern Michigan.

But the future looks brighter, regardless of the weather. A new computerized outage-analysis system was implemented in all six regional divisions in 1990. The system rapidly analyzes customer power-loss reports and automatically identifies the equipment most likely to be responsible. This enables work crews to locate trouble spots more quickly, reducing outage durations, and provides customer representatives with better restoration-time estimates to pass along to customers.

A new central work group, System Optimization, also is working with the regional divisions to identify the characteristics of electric distribution circuits that fail to meet stringent performance criteria. The group then develops new design and operating concepts to correct the problems identified. As a result of this group effort, 50 new circuits are being identified for installation by 1994 to improve reliability. These efforts also will reduce outage durations and storm-related costs.

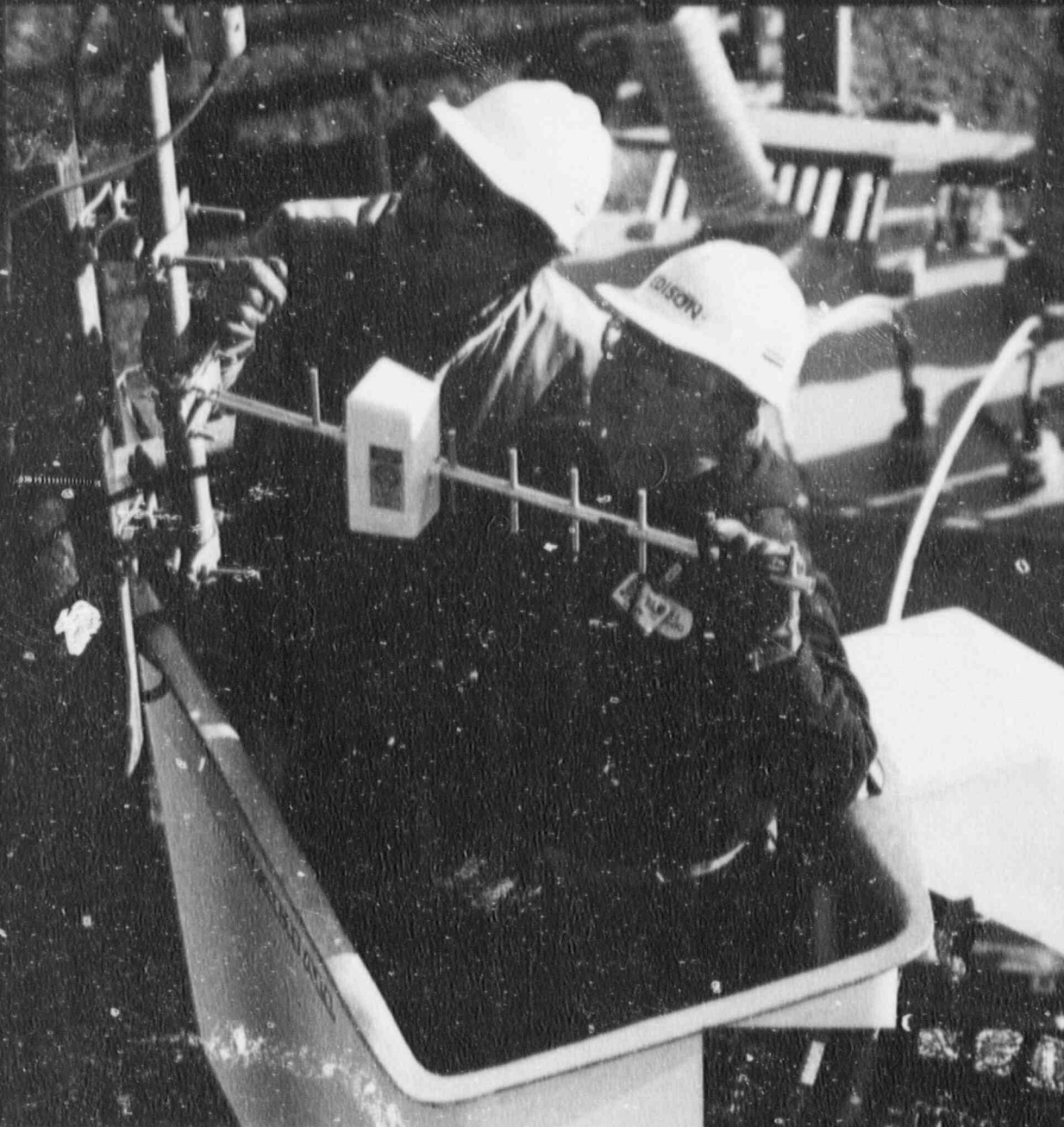
At the same time, the company introduced a new customer communications network that enables representatives to answer customer calls more promptly. By integrating the six previously distinct division telephone centers into a single customer-contact system, the network directs customers' calls to the first available customer representative anywhere in the company if all the local division customer representatives are busy.

Ultimately, providing the right mix of customer service, quality, reliability and price depends on knowing the needs and desires of customers. The key, increasingly, is recognizing that different segments of customers have different needs — a concept that is particularly critical if Detroit Edison's business customers are to remain competitive.

Accordingly, the company's Marketing group restructured in 1990 along segments, by customer size and type, changing from an organization previously focused on the company's products and electrical applications. The group initiated a major research project in mid-1990 that involved face-to-face discussions — both individual and group — with thousands of customers. The research findings, expected in mid-1991, will be used to design the company's programs, providing the proper mix of services and prices customers are willing to pay.



Richard Betts, relay technician, operates a new automated distribution system at Golf Substation in Macomb Township. The new system, a pilot project, will permit remote maintenance inspections and circuit switching, saving time and improving customer service.



"Customers will gain improved reliability, while we anticipate that we will need to invest in fewer substations in the future."

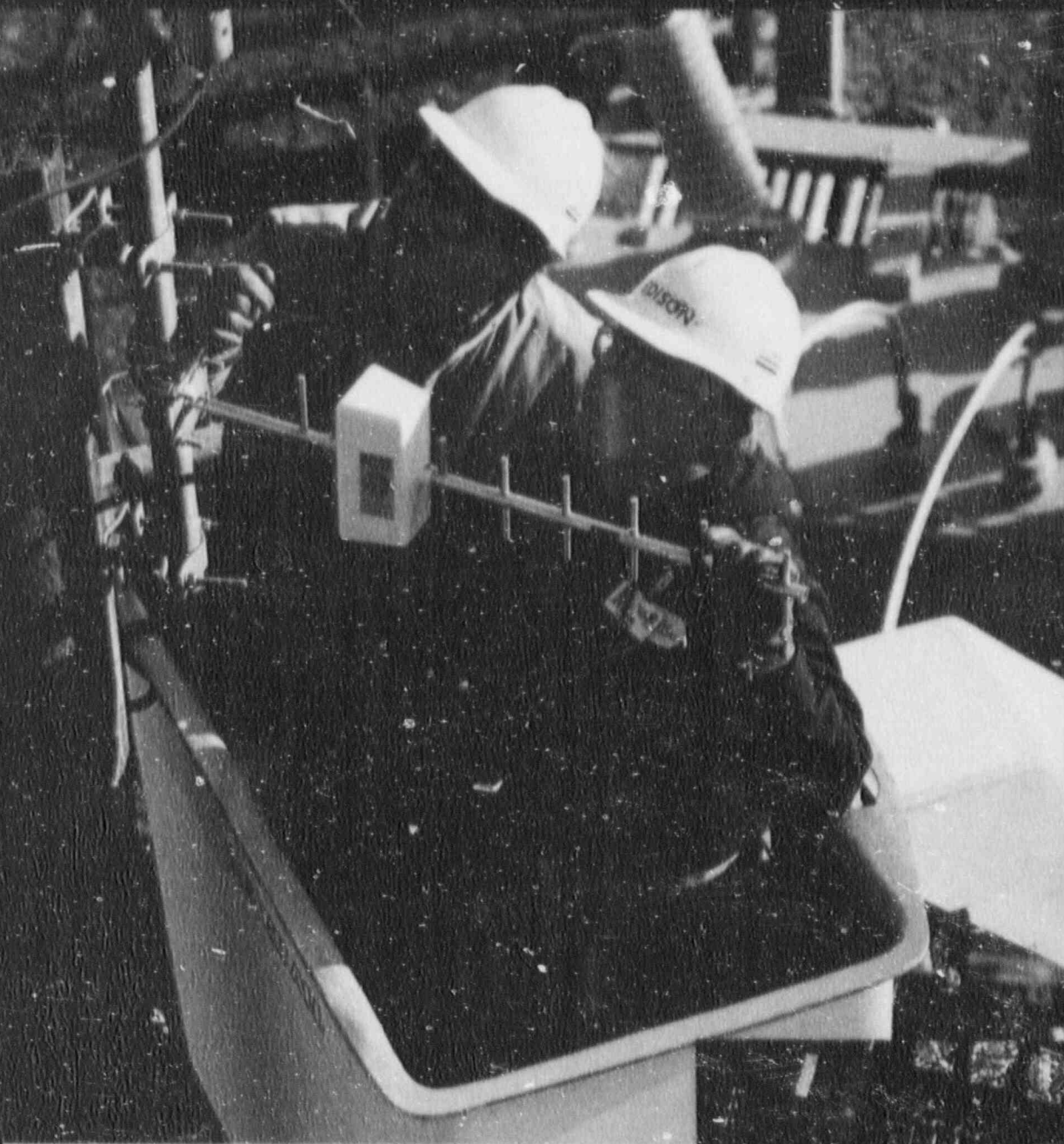
Theodore Krupa
Principal Engineer,
Energy Marketing and Distribution

In the meantime, the company continued to work closely with customers such as Ford Motor Co., Detroit Edison's second largest customer with 37 facilities in Southeastern Michigan. Ford was the central focus for a record-breaking substation construction project completed in 1990. Detroit Edison's EM&D organization, recognizing and responding to the competitive pressures facing Ford, built the substation to serve Ford's Wixom Assembly Plant and its expanded power needs in about four months, one quarter the usual construction time. The project also was completed under budget.

EM&D also launched 13 new demand-side management and energy conservation programs that help customers use energy more efficiently — saving customers money, minimizing shareholder investment in new power plants and providing environmental benefits. One is a unique pilot project undertaken with Eastern Michigan University that is testing the

feasibility of ice storage as a possible alternative to air conditioning in large buildings. The project involves making ice during off-peak hours, then using the ice for cooling during peak periods. This enables customers to lower their energy costs for cooling while helping defer Detroit Edison's need to build new power plants by reducing peak electricity demand.

Engineering technicians Benedict Letizio, left, and Craig Adams install an antenna at Golt Substation which will facilitate operation of the new computerized automated distribution system. The system is expected to result in faster power restoration for customers.



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T

Terri Rouse-Shelton is one of hundreds of players involved in a revolution that is changing the way Detroit Edison buys the equipment and services critical to its successful operation. Rouse-Shelton comes to work each day knowing that new partnerships she has helped form with users of those services are making a positive difference to the company.

As a buyer of contract personnel services — sometimes called “temporary help” — Rouse-Shelton carries out a new game plan that she helped formulate in 1990 as part of a Material Management Initiative.

Through the initiative, Rouse-Shelton said, a task force of employees from Purchasing and user groups jointly reviews procedures for buying materials and services. The cooperative effort is a fluid and constant one as buying procedures continue to improve and are melded with the needs of supervisors and employees who use the services every day in the field.

“We started re-thinking the way we were doing things,” Rouse-Shelton said. “It’s great to get the best price from a supplier, but with price as the primary focus you don’t always get quality — and that’s a major concern of buyers and users alike. My responsibility is to put in place the best contract I can — one that fulfills the corporate and users’ interests of reducing costs and getting the job done.

“In a way, the users of services are playing a key role in their own buying decisions, with the support of buyers like me. And it’s a win-win situation.”

Savings from the Material Management Initiative reached nearly \$20 million in 1990 — sustained, not one-time, savings.

The contributions of Rouse-Shelton and her associates are helping increase the productivity and cost effectiveness of line organizations, and provide better value for Detroit Edison customers. Their efforts are representative of the gentle revolutions being

created by support groups throughout Detroit Edison.

One key to the creation of such revolutions is a greater emphasis on teamwork between line and support groups — arriving at common goals and working together to meet them.

- Another key is the Shareholder Value Improvement Plan — an incentive pay plan, based on such common goals, that in 1990 covered the company’s entire 5,675-person non-represented work force.
- Another key is a shift in orientation that has support groups viewing line organizations as

Delivering On Our Commitments

Corporate and Community Support

customers, and subject to the same kinds of competitive pressures and options as in the external marketplace.

The company’s Human Resources organization is creating revolutions in the way it provides recruiting, hiring, training and retraining, and compensation systems that will enable the company to perform better with a more diverse work force in a more competitive environment. And as the work force becomes more diverse, in terms of race, ethnic background and life experiences, programs such as Seeking to Understand the Different — designed to sensitize employees to ethnic and cultural differences — further aid the development and performance of people.

Faced with changing industry structures and practices and a company changing rapidly to prosper in the new environment, Community and Governmental Affairs ensures that the complex process is understood by legislative and regulatory bodies.

The Legal organization maintains an intensified preventive law program and unique litigation management measures to help ensure the company’s success.

And Public Affairs has to generate both public and employee understanding and approval of changing company practices and directions. That process can be difficult, because the public’s definition of expected behavior — especially with emotionally charged issues such as the environment and education — changes today as never before due to the speed and volume of communication.

Is so-called “acid rain” an environmental hazard? Does the burning of fossil fuels cause global warming? Are energy fields emitted by electric wires and appliances a health hazard? Does local control of schools improve education?

For these and many similar matters, the answer too often is, it depends on which report you read and when. At the same time, companies such as Detroit Edison must take the long-range approach, rather than the day’s popular view, if they are to operate consistent with the public interest. Detroit Edison made such long-range decisions — including protection of the environment — many decades ago.

In the 1920s Detroit Edison became the first electric utility in the country to install an electrostatic precipitator on a power plant to reduce fly ash emissions. To date the company’s environmental commitment — some actions to comply with regulations, some to go beyond them — totals more than \$2.5 billion.

In the past, ridding power plant emissions of potentially harmful substances has been effected by reducing the amount of those substances, such as the sulfur content of fuel. Increasingly Detroit Edison is turning to incentives to reduce the amount of electricity used. The first such energy conservation programs were begun in the 1970s. Current energy conservation



Jane Snake, a substation operator, Detroit Division, conducts a class on Native American heritage for students in the Huron Valley School District. Snake was among 22 employees to be first recipients of the Walter J. McCarthy, Jr., Voluntary Service Award, honoring the company’s retired Chairman of the Board and Chief Executive Officer.



*"We started
rethinking the way
we were doing
things...And it's
a win-win situation."*

— Terri Rouse-Shallon
Buyer,
General Purchasing

programs are expected to add the company's \$1.1 million through 1997, with expanded programs proposed for 1997-98.

Other activities undertaken in 1996 to help the environment and encourage others to do the same included planting thousands of trees, supporting other tree-planting organizations such as the Greening of Detroit and Global ReLeaf of Michigan, taking the company's "Eco-Mage" show to thousands of children in schools, and supporting civic work and organizations such as the Purple Heart Rising Service series "Race to Save the Planet."

Detroit Edison has become a part of other activities in the community, too. Through the Detroit Edison Foundation, the company became the first corporate "partner" of a Detroit school under the new Detroit Compact, designed to improve the city's schools. Through the Compact, the company provides technical and financial help to the schools and guarantees qualifying students either jobs or college education. The company, through its organization, has partnerships with 25 area schools. Detroit Edison

Foundation contributions to education totaled nearly \$800,000 in 1996 and are expected to approach \$1 million in 1997, with growing emphasis on programs at lower grade levels.

The Foundation — and individual employees — also support many other activities in Southeastern Michigan that affect the long-term health of our communities, such as strategic planning and problem-solving efforts, United Way, cultural institutions, and local civic organizations.

Whatever the environment, whatever the resources, Detroit Edison and its people continue to demonstrate responsibility, caring and action as they respond to, support and lead the revolutions that make a difference in their business and in their communities. The people of Detroit Edison are committed to deliver on their commitments.



Buyers and users of products and services working closely together on buying decisions through the Materials Management Initiative saved nearly \$20 million in 1996. Above, tool and warehousemen Gerald Jascholski and Lyman Gell, Jr., handle receiving duties for arriving equipment, while Gail McKinney, administrative coordinator, oversees Byong Lee, a contract personnel programmer/analyst, representing one of the many services purchased by the company.



*"We started
rethinking the way
we were doing
things. And it's
a win-win situation."*

*— Geoff Rouse, Chairman
Detroit
General Broadcasting*

programs are expected to cost the company \$13 million through 1991, with expanded programs proposed for 1992-94.

Other activities undertaken in 1990 to help the environment, and encourage others to do the same, included planting thousands of trees, supporting other tree-planting organizations such as the Greening of Detroit and Global ReLeaf of Michigan, taking the company's Enviro-Magic show to thousands of children in schools, and supporting environmental communications, such as the Public Broadcasting Service series "Race to Save the Planet."

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D

Detroit Edison delivered on its commitments to increase shareholder value and strengthen its financial base during 1990. Earnings for common stock of \$479.3 million set an all-time record, with per-share earnings of \$3.26, up 23 percent from the previous year. Operating revenues rose 3.2 percent from 1989 to a record \$3.3 billion, while Operation and Maintenance (O&M) expenses actually dropped by \$161 million, or 9.1 percent, to \$1.6 billion. Despite a slowing local economy, commercial sales set a record for the year, while total kilowatthour sales were virtually unchanged from a year earlier.

Common stock reached a high in 1990 of \$30.25 per share, up from a low of \$12 in 1988. The stock outperformed the Dow Jones 15 Utilities Average throughout the year and was up 11.3 percent by year-end, while the Dow Jones 15 average was down 10.8 percent.

The dividend was increased in 1990 to an indicated annual rate of \$1.78 per share, compared with \$1.68 per share for the previous eight years, and again — to an indicated annual rate of \$1.88 — in February 1991.

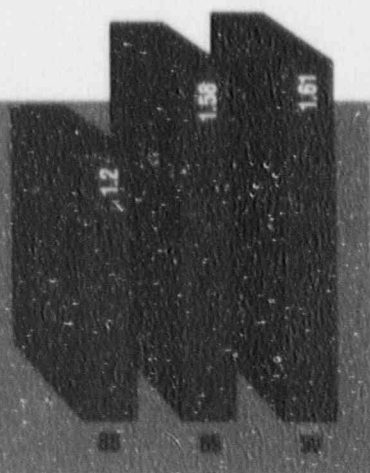
Common shareholders' equity in 1990 rose to 32.8 percent of total capitalization, up slightly from 32.3 percent in 1989. The increase in common shareholders' equity occurred despite the issuance of new debt

of \$537.1 million to buy back the remaining 11 percent share of Fermi 2 held by the Wolverine Power Supply Cooperative, Inc. Overall, the increase is attributed to improved earnings and the continuing goal of reducing debt obligations through retirement of maturing debt and early retirement of other debt. Redemptions of maturing debt and preferred and preference stock totaled \$199.4 million, while early or optional redemptions totaled \$152.4 million.

Particularly significant in 1990:

■ Earnings improved in both dollar amount and quality, with non-cash earnings of about 32 percent compared with about 90 percent non-cash earnings recorded for much of the last decade. Internal cash generation is about 250 percent of capital expenditures, thus permitting repayment of some higher-cost debt. Operation and maintenance expenses dropped by more than 9 percent — a significant achievement considering that kilowatthour sales were essentially unchanged from a year earlier and only slightly below the all-time sales record. Key shareholder value measures were tied — for the first time — to incentive compensation for management and all non-represented employees.

Market-to-Book Ratio



Delivering On Our Commitments Financial Review

■ Under the December 1988 rate case settlement, a rate increase of \$76.8 million, or 2.5 percent, went into effect in January 1990, an increase less than the rate of inflation (see graph on opposite page). The fourth step of the rate order, an increase of \$81.9 million, or 2.6 percent, went into effect in January 1991. Additionally, an expense stabilization surcharge of \$27.6 million — to help offset cost increases resulting from inflation — went into effect in January 1990, replaced by a similar surcharge of about \$55 million in January 1991.

1990 Financing

Type of Security and Month Sold	Gross Amount (Millions)	Interest Rate
<i>Pollution Control Bonds</i>		
April	\$ 7.3	7½%
July	32.4	Adjustable rate
August	2.2	7%
November	50.7	7.65
	<u>\$ 92.6</u>	
<i>Mortgage Bonds</i>		
February*	537.1	8%
Total Financing	<u>\$ 629.7</u>	

*Purchase of Wolverine Cooperative's Interest in Fermi 2

Securities Redeemed during 1990

Description	Principal Amount (Millions)	Interest Rate
<i>Early Redemptions</i>		
<i>General & Refunding Mortgage Bonds</i>		
Series EE	\$ 2.5	11½%
Series SS	10.0	10½
Series UU	100.0	10½
	<u>\$ 112.5</u>	
<i>Pollution Control Bonds</i>		
Series P	\$ 22.1	9.8%
Series Q	9.6	9.9
	<u>\$ 31.7</u>	
<i>Preferred & Preference Stock</i>		
9.60%	\$ 3.2	
\$2.75 Series B	2.5	11%
\$2.75 Series	2.5	11
	<u>\$ 8.2</u>	
Total Early Redemptions	<u>\$ 152.4</u>	
<i>Mandatory Redemptions</i>		
	199.4	
Total Redemptions	<u>\$ 351.8</u>	

■ Kilowatt-hour sales reached near-record levels despite generally slower economic activity in the area, particularly among the company's key customer segments — automotive and steel producers. The continued strength is a reflection of the increasing number of customers in the service area, and growth in the commercial and non-automotive manufacturing sectors. Sales totaled 40.596 billion kilowatt-hours (kWh), virtually unchanged from the 40.585 billion kWh sold in 1989. A 1.6-percent increase in commercial sales was offset by slight decreases in residential and industrial sales.

■ The number of customers served increased 1.2 percent, while the number of company employees decreased by about 6 percent. The number of customers rose from 1,905,000 in 1989 to a record 1,927,000 in 1990, while the number of employees dropped from 10,254 in 1989 — the lowest level in 12 years — to 9,669 in 1990.

■ The company's year-end market price-to-book value ratio increased slightly to 1.61 in 1990 from 1.58 in 1989. This ratio was 1.2 at year-end 1988. The year-end level of this key measure of shareholder value places Detroit Edison among the top four investor-owned utilities in the country.

Debt financing issued in 1990 totaled \$629.7 million — \$537.1 million for the purchase of Wolverine's remaining interest in Fermi 2, \$41.9 million to refund securities at lower interest rates, and \$50.7 million to continue a strategy of maximizing lower-cost tax-exempt capital. Following this strategy, the company for the first time completed an early redemption of two series of outstanding pollution control revenue bonds — more than \$32 million worth — refunded through an adjustable interest rate issue.

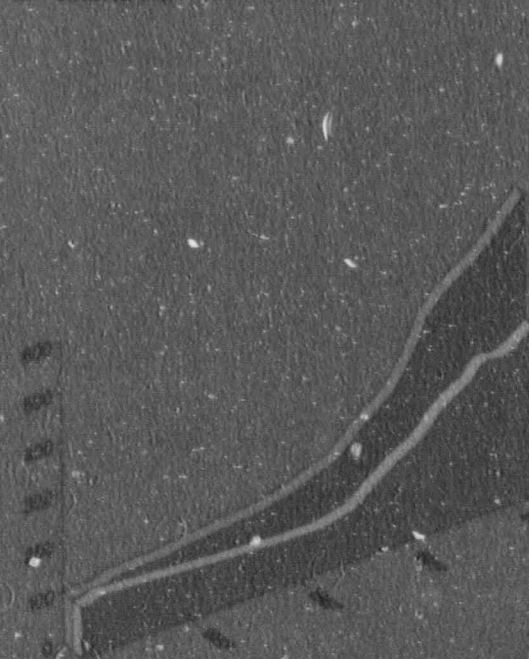
In the first quarter of 1990, ratings on Detroit Edison's securities were raised by two major ratings services. Ratings on general and refunding mortgage bonds, secured and unsecured pollution control bonds, and preferred and preference stock were raised by both Moody's Investors Service, Inc., and Standard and Poor's, Inc.

The year 1990 was a good one for Detroit Edison — its shareholders, customers and employees. The company continues on its present course — to perform as necessary to meet the needs of its customers and, in so doing, to improve shareholder value.

*Earnings improved
in both dollar
amount and
quality, as sales
remained at
high levels, and
Operation and
Maintenance
expenses decreased*

Consumer Price Index (CPI) vs.
Residential Price per kWh of Electricity
(1947=100)

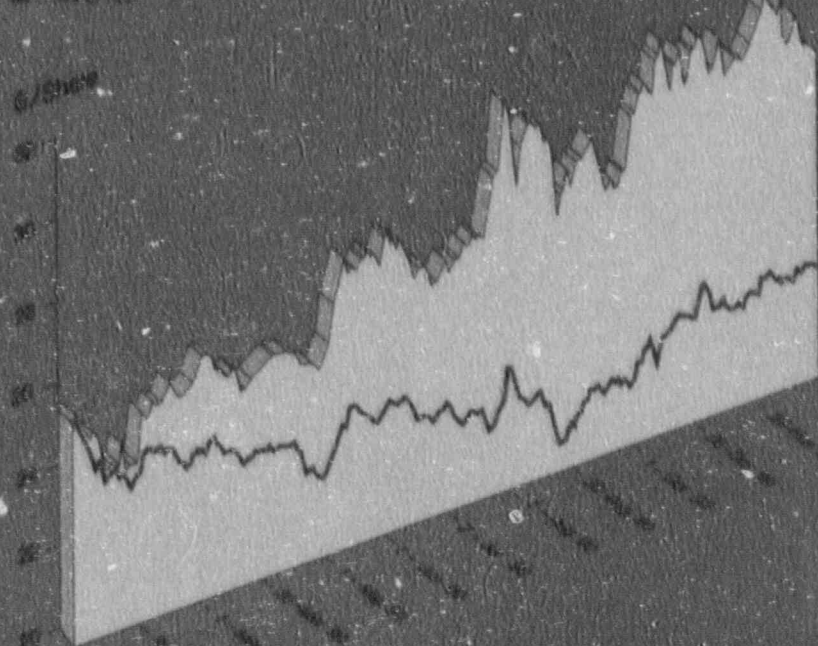
● CPI
■ Price/kWh



1990 Market Price per Share

Detroit Edison and Dow Jones Industrial
(Average of 10 Utilities weighted
in current per-share price)

■ DTE
■ DJI-15



Report of Management's Responsibility for Financial Statements

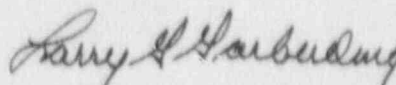
The consolidated financial statements of The Detroit Edison Company and subsidiary companies have been prepared by management in conformity with generally accepted accounting principles, based upon currently available facts and circumstances and management's best estimates and judgments of known conditions. It is the responsibility of management to assure the integrity and objectivity of such financial statements and to assure that these statements fairly report the Company's financial position and the results of its operations.

To meet this responsibility, management maintains a high standard of record keeping and an effective system of internal controls, including an extensive program of internal audits, written administrative policies and procedures, and programs to assure the selection and training of qualified personnel.

These financial statements have been audited by the Company's independent accountants, Price Waterhouse, whose report appears on this page. Their audit was conducted in accordance with generally accepted auditing standards. Such standards include the evaluation of internal accounting controls to establish a basis for developing the scope of the audit, as well as such other procedures they deem necessary

for expressing an opinion as to whether the financial statements are presented fairly.

The Board of Directors, through its Audit Committee consisting solely of outside directors, meets with Price Waterhouse, representatives of management and the internal auditors to review the activities of each and to discuss accounting, auditing and financial matters and the carrying out of responsibilities and duties of each group. Price Waterhouse has full and free access to meet with the Audit Committee to discuss its audit results and opinions, without management representatives present, to allow for complete independence.



Larry G. Garberding
Executive Vice President
and Chief Financial Officer



John E. Lobbia
Chairman of the Board, President
and Chief Executive Officer

Report of Independent Accountants

Price Waterhouse



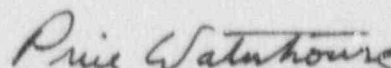
200 RENAISSANCE CENTER
DETROIT, MICHIGAN 48243
February 8, 1991

To the Board of Directors and Shareholders of
The Detroit Edison Company

In our opinion, the consolidated financial statements appearing on pages 15 through 30 of this report present fairly, in all material respects, the financial position of The Detroit Edison Company and its subsidiary companies at December 31, 1990 and 1989, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are

free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Notes 4 and 5 to the consolidated financial statements, the Company changed its methods of accounting for disallowed plant costs and abandonments, unbilled revenues and property taxes in 1988.



Consolidated Statement of Income (Dollars in Thousands)

	Year Ended December 31		
	1990	1989	1988
Operating Revenues			
Electric	\$3,279,248	\$3,171,456	\$3,070,724
Steam	27,491	31,575	31,448
Total Operating Revenues	\$3,306,739	\$3,203,031	\$3,102,172
Operating Expenses			
Operation			
Fuel	\$ 788,355	\$ 820,765	\$ 846,678
Other power supply	(13,142)	142,240	146,773
Other operation	545,476	506,889	514,024
Maintenance	279,528	291,365	275,610
Depreciation and amortization	406,330	371,682	332,551
Deferred Fermi 2 depreciation and amortization	(39,208)	(35,234)	(44,143)
Taxes other than income	250,459	225,763	212,656
Income taxes	209,931	129,626	89,944
Total Operating Expenses	\$2,427,729	\$2,453,096	\$2,374,093
Operating Income	\$ 879,010	\$ 749,935	\$ 728,079
Other Income and Deductions			
Allowance for other funds used during construction	\$ —	\$ —	\$ 1,663
Deferred Fermi 2 return	78,379	107,169	134,264
Other income and deductions	(7,320)	675	(789)
Income taxes	2,304	843	(769)
Disallowed plant costs	—	—	(875,372)
Accretion income	48,794	50,188	25,866
Income taxes on disallowed plant costs and accretion income	(8,198)	(17,047)	225,171
Net Other Income and Deductions	\$ 113,950	\$ 141,828	\$ (489,966)
Income Before Interest Charges	\$ 992,960	\$ 891,763	\$ 238,113
Interest Charges			
Long-term debt	\$ 472,369	\$ 444,204	\$ 451,415
Amortization of debt discount, premium and expense	4,539	4,368	4,593
Other	4,853	20,980	20,663
Allowance for borrowed funds used during construction (credit)	(3,260)	(3,740)	(3,224)
Net Interest Charges	\$ 478,501	\$ 465,812	\$ 473,447
Income (Loss) Before Cumulative Effect of Accounting Changes	\$ 514,459	\$ 425,951	\$ (235,334)
Cumulative Effect for Years Prior to 1988 of Accounting Changes for (Notes 4 and 5):			
Disallowed plant costs and abandonments (net of income taxes of \$111,257)	—	—	(344,147)
Unbilled revenues (net of income taxes of \$40,912)	—	—	61,367
Property taxes (net of income taxes of \$101,306)	—	—	139,288
Net Income (Loss)	\$ 514,459	\$ 425,951	\$ (378,826)
Preferred and Preference Stock Dividend Requirements	35,179	37,018	49,757
Earnings (Loss) for Common Stock (Note 5)	\$ 479,280	\$ 388,933	\$ (428,583)
Common Shares Outstanding - Average	146,888,809	146,816,363	146,761,458
Earnings (Loss) Per Share			
Before cumulative effect of accounting changes	\$3.26	\$2.65	\$(1.95)
Cumulative effect for years prior to 1988 of accounting changes for:			
Disallowed plant costs and abandonments	—	—	(2.34)
Unbilled revenues	—	—	0.42
Property taxes	—	—	0.95
Earnings (Loss) Per Share (Note 5)	\$3.26	\$2.65	\$(2.92)

(See accompanying Notes to Consolidated Financial Statements.)

Consolidated Balance Sheet (Dollars in Thousands)

	December 31	
	1990	1989
ASSETS		
Utility Properties		
Plant in service		
Electric	\$ 1,621,335	\$10,893,234
Steam	61,773	59,456
	\$1,683,108	\$10,952,690
Less: Accumulated depreciation and amortization	(824,219)	(2,787,815)
	\$ 868,889	\$ 8,164,875
Construction work in progress	66,034	63,046
Nuclear fuel	—	8,632
Net utility properties	\$ 8,624,923	\$ 8,236,553
Property under capital leases (less accumulated amortization of \$127,372 and \$121,465, respectively)	\$ 143,596	\$ 149,593
Nuclear fuel under capital lease (less accumulated amortization of \$182,254 and \$112,872, respectively)	284,224	291,935
Net property under capital leases	\$ 427,820	\$ 441,528
Total owned and leased properties	\$ 9,052,743	\$ 8,678,081
Other Property and Investments		
Non-utility property	\$ 9,663	\$ 9,739
Investments and special funds	45,558	41,092
Nuclear decommissioning trust funds	15,689	5,825
	\$ 70,910	\$ 56,656
Current Assets		
Cash and temporary cash investments (at cost, approximating market value)	\$ 145,946	\$ 15,664
Customer accounts receivable and unbilled revenues (less allowance for uncollectible accounts of \$10,000 and \$19,000, respectively)	185,934	197,139
Other accounts receivable	33,396	58,629
Inventories (at average cost)		
Fuel	176,494	176,201
Materials and supplies	161,959	147,553
Prepayments and other	8,221	7,279
	\$ 711,950	\$ 602,465
Deferred Debits		
Unamortized debt expense	\$ 49,094	\$ 50,913
Accumulated deferred income taxes	208,184	196,399
Unrecovered plant costs	14,561	20,183
Fermi 2 phase-in plan	424,959	320,810
Fermi 2 deferred amortization	13,438	—
Other	27,486	24,092
	\$ 737,722	\$ 612,397
Total	\$10,573,325	\$ 9,949,599

(See accompanying Notes to Consolidated Financial Statements.)

Consolidated Balance Sheet (Dollars in Thousands)

	December 31	
	1990	1989
LIABILITIES		
Capitalization		
Common stock - \$10 par value, 160,000,000 shares authorized; 146,921,695 and 146,859,569 shares outstanding, respectively (460,354 and 522,524 shares, respectively, reserved for conversion of preferred stock)	\$ 1,469,217	\$1,468,596
Premium on common stock	552,985	552,501
Common stock expense	(47,766)	(47,742)
Retained earnings used in the business	614,016	396,705
Total common shareholders' equity	\$ 2,588,452	\$2,370,060
Cumulative preferred stock - \$100 par value, 9,000,000 shares authorized; 3,273,477 and 3,379,537 shares outstanding, respectively (3,539,827 shares unissued)		
Non-redeemable preferred stock	238,414	239,495
Redeemable preferred stock	74,073	86,484
Cumulative preference stock - \$1 par value, 30,000,000 shares authorized; 2,980,180 and 3,380,180 shares outstanding, respectively (27,019,820 and 26,619,820 shares unissued, respectively)		
Non-redeemable preference stock	47,891	47,891
Redeemable preference stock	15,805	25,318
Long-term debt	4,923,999	4,561,005
Total Capitalization	\$ 7,888,634	\$7,330,253
Other Non-Current Liabilities		
Obligations under capital leases	\$ 126,202	\$ 131,358
Accumulated rate refunds, with interest	4,707	2,627
	\$ 130,909	\$ 133,985
Current Liabilities		
Amounts due within one year		
Long-term debt	\$ 110,474	\$ 168,789
Preferred and preference stock	16,750	13,750
Obligations under capital leases	301,618	310,170
Accounts payable	149,449	229,604
Property and general taxes	56,101	41,512
Income taxes	15,570	8,328
Interest	108,926	105,975
Dividends payable	73,962	70,782
Payrolls	61,018	59,332
Fermi 2 refueling outage	20,000	—
Other	74,364	40,183
	\$ 988,232	\$1,048,425
Deferred Credits		
Accumulated deferred income taxes	\$ 1,133,869	\$1,065,329
Accumulated deferred investment tax credits	376,743	333,003
Other	54,938	38,604
	\$ 1,565,550	\$1,436,936
Commitments and Contingencies (Notes 2, 6, 12 and 14)		
Total	\$10,573,325	\$9,949,599

(See accompanying Notes to Consolidated Financial Statements.)

Consolidated Statement of Cash Flows (Dollars in Thousands)

	Year Ended December 31		
	1990	1989	1988
Operating Activities			
Net Income (Loss)	\$ 514,459	\$ 425,951	\$(378,826)
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Cumulative effect of accounting changes:			
Disallowed plant costs and abandonments - net	—	—	344,147
Unbilled revenues and property taxes - net	—	—	(200,655)
Disallowed plant costs	—	—	875,372
Accretion income	(48,794)	(50,188)	(25,866)
Depreciation and amortization	406,330	371,682	332,551
Deferred Fermi 2 depreciation, amortization and return	(117,587)	(142,403)	(178,407)
Deferred income taxes and investment tax credit - net	100,453	86,516	(137,522)
Provision for Fermi 2 refueling outage	20,000	—	—
Sale of accounts receivable and unbilled revenues	—	200,000	—
Other	29,538	(713)	(28,452)
Changes in current assets and liabilities: (a)			
Customer accounts receivable and unbilled revenues	11,205	(30,457)	(60,687)
Other accounts receivable	25,233	(27,103)	11,054
Inventories	(4,004)	59,003	386
MPSC-ordered refunds, with interest	—	(10,239)	(23,080)
Accounts payable	(73,014)	34,829	3,659
Taxes payable	21,972	489	(251)
Interest payable	2,951	3,597	2,469
Other	34,676	(4,829)	12,091
Net cash from operating activities	\$ 923,418	\$ 916,135	\$ 547,983
Investing Activities			
Plant and equipment expenditures	\$(230,261)	\$(242,973)	\$(235,127)
Purchase from Cooperative - Fermi 2 (b)	(2,507)	—	(4,121)
Sale of nuclear fuel	31,846	—	—
Changes in current assets and liabilities (a)	(15,522)	3,093	(8,890)
Other	(20,735)	(18,836)	(14,876)
Net cash used for investing activities	\$(237,119)	\$(258,716)	\$(263,014)
Financing Activities			
Issuance of unsecured promissory notes	\$ —	\$ 50,046	\$ 201,924
Sale of general and refunding mortgage bonds (b)	—	296,460	—
Funds received from Trustees: Installment sales contracts and loan agreements	98,679	228,265	7,300
Increase (decrease) in short-term borrowings	—	(229,325)	229,325
Repayment of long-term debt	(332,203)	(679,965)	(247,975)
Redemption of preferred and preference stock	(19,500)	(16,250)	(283,250)
Dividends on common, preferred and preference stock	(293,391)	(284,024)	(304,106)
Other	(9,602)	(10,609)	(24,001)
Net cash used for financing activities	\$(556,017)	\$(645,402)	\$(420,783)
Net Increase (Decrease) in Cash and Temporary Cash Investments	\$ 130,282	\$ 12,017	\$(135,814)
Cash and Temporary Cash Investments at Beginning of the Period	15,664	3,647	139,461
Cash and Temporary Cash Investments at End of the Period	\$ 145,946	\$ 15,664	\$ 3,647
Supplementary Cash Flow Information			
Interest paid (excluding interest capitalized)	\$ 469,372	\$ 453,739	\$ 466,721
Income taxes paid	110,359	59,541	10,813
New capital lease obligations	75,055	36,459	5,638

For purposes of the consolidated financial statements, the Company considers investments purchased with a maturity of three months or less to be temporary cash investments.

(a) Excludes cumulative effect for years prior to 1988 of accounting changes.

(b) Excludes the non-cash investing and financing effects of the Company's February 1990 purchase of the Fermi 2 ownership interest of Wolverine Power Supply Cooperative, Inc. through the issuance of \$537.1 million of its General and Refunding Mortgage Bonds.

(See accompanying Notes to Consolidated Financial Statements.)

Consolidated Statement of Common Shareholders' Equity (Dollars in Thousands)

	Common Stock		Premium on Common Stock	Common Stock Expense	Retained Earnings Used in the Business
	Shares	\$10 Par Value			
Balance at December 31, 1987	146,751,865	\$1,467,519	\$551,662	\$(47,700)	\$948,504
Issuance of common stock on conversion of convertible cumulative preferred stock, 5½% series	31,347	313	245	(12)	
Premium and expense associated with preferred and preference stock redeemed					(19,905)
Net loss					(378,826)
Cash dividends declared					
Common stock – \$1.68 per share					(246,564)
Cumulative preferred and preference stock*					(48,287)
Balance at December 31, 1988	146,783,212	\$1,467,832	\$551,907	\$(47,712)	\$254,922
Issuance of common stock on conversion of convertible cumulative preferred stock, 5½% series	76,357	764	594	(30)	
Expense associated with preferred and preference stock redeemed					(556)
Net income					425,951
Cash dividends declared					
Common stock – \$1.68 per share					(246,667)
Cumulative preferred and preference stock*					(36,945)
Balance at December 31, 1989	146,859,569	\$1,468,596	\$552,501	\$(47,742)	\$396,705
Issuance of common stock on conversion of convertible cumulative preferred stock, 5½% series	62,126	621	484	(24)	
Expense associated with preferred and preference stock redeemed					(577)
Net income					514,459
Cash dividends declared					
Common stock – \$1.78 per share					(261,478)
Cumulative preferred and preference stock*					(35,093)
Balance at December 31, 1990	146,921,695	\$1,469,217	\$552,985	\$(47,766)	\$614,016

*At established rate for each series.

(See accompanying Notes to Consolidated Financial Statements.)

Notes to Consolidated Financial Statements

Note 1

Significant Accounting Policies

Industry Segment – The Detroit Edison Company ("Company") is a regulated public utility engaged in the generation, purchase, transmission, distribution and sale of electric energy.

Regulation – The Company is subject to regulation by the Michigan Public Service Commission ("MPSC") and the Federal Energy Regulatory Commission ("FERC") with respect to accounting matters and maintains its accounts in accordance with Uniform Systems of Accounts prescribed by these agencies. As a regulated entity, the Company meets the criteria of Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation." This accounting standard recognizes the ratemaking process which results in differences in the application of generally accepted accounting principles between regulated and non-regulated businesses. Such differences concern mainly the time at which various items enter into the determination of net income in order to follow the principle of matching costs and revenues. See Note 3.

Principles Applied in Consolidation – The Consolidated Financial Statements include the accounts of all subsidiary companies, all of which are wholly-owned.

Revenues – Effective January 1, 1988, the Company changed its method of accounting to record unbilled revenues for electric and steam heating services provided after cycle billings through month-end in order to better match revenues with expenses. See Note 5. Revenues for 1988 also included the recovery of fuel and purchased power costs, subject to annual Power Supply Cost Recovery ("PSCR") reconciliation hearings conducted by the MPSC. Any over or under recovery of these costs was recorded in the Consolidated Balance Sheet pending the results of such hearings. The MPSC's order of December 27, 1988 temporarily suspended the PSCR Clause effective January 1, 1989 through December 31, 1992. See Note 3.

Property Taxes – Effective January 1, 1988, the Company changed its method of accounting for property taxes so that such taxes are accrued monthly during the fiscal period of the applicable taxing authority. This is considered the most acceptable basis of providing for property taxes. See Note 5.

Property, Depreciation and Amortization, Retirement and Maintenance – Utility properties are recorded at original cost. The annual provision for depreciation is calculated on the straight-line remaining life method by applying annual rates approved by the MPSC to the average of year-beginning and year-ending balances of depreciable property by primary plant accounts. For major generating units, the first year's depreciation expense is calculated on a monthly basis commencing with the month in which the unit is placed into commercial operation. Provision for depreciation of Fermi 2 was 2.63% of average depreciable property for 1990, 1989 and 1988, except for \$300 million being amortized over 10 years commencing in 1989 and \$513 million being amortized over 19 years commencing in 1990. See Note 3. Provision for depreciation of all other utility plant, as a percent of average depreciable property, was 3.3% for 1990, 1989 and 1988. In general, the cost of properties retired in the normal course of business is charged to accumulated depreciation. Expenditures for

maintenance and repairs are charged to expense, and the cost of new property installed, which replaces property retired, is charged to property accounts.

Deferred Fermi 2 Depreciation and Return – An MPSC-authorized phase-in plan for Fermi 2, which was effective on January 24, 1988, provides for gradual rate increases in the early years of plant operation rather than a one-time substantial rate increase which would be provided by conventional ratemaking. SFAS No. 92, "Regulated Enterprises – Accounting for Phase-in Plans," permits the capitalization of costs deferred for future recovery under a phase-in plan. In accordance with the Fermi 2 rate phase-in plan, the Company recorded non-cash income items of deferred depreciation (\$25.8 million, \$35.2 million and \$44.1 million in 1990, 1989 and 1988, respectively) and deferred return (\$78.4 million, \$107.2 million and \$134.3 million in 1990, 1989 and 1988, respectively). Deferred depreciation is that portion of depreciation expense not covered in current rates. Deferred return is the accrual of carrying charges on Fermi 2 costs not covered in current rates. See Note 3.

Deferred Fermi 2 Amortization – The December 1988 MPSC rate order provides for the Company's February 1990 purchase of Wolverine Power Supply Cooperative, Inc.'s ("Cooperative") ownership interest in Fermi 2 for \$513 million to be treated as a regulatory asset with a 19-year principal amortization and associated interest of 8%. Since the straight-line amortization of the regulatory asset exceeds the revenues provided for such amortization during the first ten years of the recovery period, the difference is being deferred on the balance sheet. The Company recorded deferred amortization, a non-cash item of income, of \$13.4 million in 1990. See Note 3.

Income Taxes – Deferred income taxes are provided for timing differences between book and taxable income to the extent authorized by the MPSC. For federal income tax purposes, the Company computes depreciation using accelerated methods and shorter depreciable lives. Investment tax credits utilized which relate to utility property are deferred and amortized over the estimated composite service life of the related property. Investment tax credits related to disallowed Fermi 2 plant costs are recorded in other income and deductions under the flow-through method when utilized. See Note 8.

Allowance for Funds Used During Construction ("AFUDC") – AFUDC, a non-operating non-cash item, is defined in the FERC Uniform System of Accounts to include "the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used." AFUDC involves an accounting procedure whereby the approximate interest expense and the cost of other (common, preferred and preference shareholders' equity) funds applicable to the cost of construction are transferred from the income statement to construction work in progress in the balance sheet. The cash recovery of AFUDC, as well as other costs of construction, occurs only when completed projects are placed in service and related depreciation is authorized to be recovered through customer rates. See Note 4. The Company capitalized AFUDC at 9.65% in both 1990 and 1989 and 10.18% in 1988.

Accretion Income – In accordance with SFAS No. 90, "Regulated Enterprises – Accounting for Abandonments and Disallowances of Plant Costs," the Company records a non-cash return (accretion income) on certain plant costs which have been discounted to recognize an MPSC disallowance of a return on the investment. The Company recorded \$32.2 million, \$33.1 million and \$16.8 million of net after-tax accretion income in 1990, 1989 and 1988, respectively. See Note 4.

Capitalization—Discount, Premium and Expense – The discount, premium and expense related to the issuance of long-term debt are amortized over the life of each issue. The discount, premium and expense related to debt redeemed without refunding are written off to expense in accordance with MPSC regulations. Capital stock premium and expense related to redeemed preferred and preference stock are written off against retained earnings used in the business.

Unrecovered Plant Costs – Amortization of unrecovered plant costs commences when recovery of such costs is authorized by accounting and ratemaking orders of the MPSC. No return on investment is provided for unrecovered plant costs. See Note 4. The Company is amortizing costs of \$71.3 million associated with the abandoned Greenwood Unit Nos. 2 and 3 over the period 1983-1993. The unamortized balances at December 31, 1990 and 1989 were \$14.6 million and \$20.2 million, respectively. In the Consolidated Statement of Income, amortization of unrecovered plant costs of \$7.1 million in both 1988 and 1989 was reclassified from other operation expense to depreciation and amortization expense in order to conform with the 1990 presentation.

Fermi 2 Refueling Outages – The Company recognizes the cost of Fermi 2 refueling outages over periods in which related revenues are recognized. Under this procedure, the Company records a provision for incremental costs anticipated to be incurred during the next scheduled Fermi 2 refueling outage.

Leases – See Note 12.

Employees' Retirement Plan and Other Postretirement

Benefits – See Note 15.

Note 2

Fermi 2

General – Fermi 2, a nuclear generating unit having a design electrical rating of 1,093 megawatts, began commercial operation on January 23, 1988. This unit represents approximately 33% of the Company's total assets, 12% of total operation and maintenance expenses and 11% of the Company's summer net rated capability.

In February 1990, the Company purchased the Cooperative's 11.198% Fermi 2 ownership interest for \$539.6 million (\$513 million for plant, \$23.2 million for nuclear fuel and \$3.4 million for materials and supplies and other). As payment of the purchase price, the Company made a cash payment of \$2.5 million and issued \$537.1 million of its General and Refunding Mortgage Bonds, which are held by the United States of America, Rural

Electrification Administration, and bear interest at the rate of 8%. Prior to 1990, the Company purchased 100% of the Cooperative's Fermi 2 capacity and energy entitlement. Buyback payments to the Cooperative were \$88.8 million and \$102.4 million in 1988 and 1989, respectively.

See Notes 3 and 4 for a discussion of the MPSC's treatment of Fermi 2 project costs of \$4.858 billion (including the purchase of the Cooperative's interest in 1990).

Licensing, Operation and Decommissioning – The Nuclear Regulatory Commission ("NRC") maintains jurisdiction over the licensing, operation and decommissioning of Fermi 2. From time to time the NRC considers taking enforcement or other action against the Company as a result of alleged technical and procedural violations at the plant. Enforcement action has resulted in fines levied against the Company of \$250,000 in 1988. No fines were levied against the Company by the NRC in 1989 and 1990.

During 1990, 1989 and the period from January 23, 1988 through December 31, 1988, Fermi 2 has been available for system power generation 82.9%, 63.7% and 57.2% of the time, respectively. The plant's capacity factor (measured by the amount of power produced as compared to full power capability) was 77.2%, 54.6% and 45.2%, respectively, during these same periods. Fermi 2 plant availability and capacity factors have been adversely affected by both scheduled shutdowns (8, 15 and 7 weeks in 1990, 1989 and 1988, respectively) and forced shutdowns (1, 4, and 14 weeks in 1990, 1989 and 1988, respectively) as well as power level restrictions necessitated by mechanical difficulties. These power level restrictions will continue through the refueling outage scheduled for March 1991.

The MPSC regulates the recovery of costs of decommissioning nuclear power plants. A January 1987 MPSC order authorized the establishment of a \$100 million External Trust Fund (in 1987 dollars) to finance the decommissioning of Fermi 2. The order approves a decommissioning surcharge on customer bills under which the Company is collecting approximately \$3 million annually. Effective in July 1990, an NRC rule requires decommissioning funding based upon a site-specific estimate or a predetermined NRC formula. Using the NRC's formula, the Company estimates that the cost of decommissioning Fermi 2 is \$171 million (in 1990 dollars). Although the currently authorized surcharge does not provide adequate funding under the new NRC rule, the Company believes increases in decommissioning costs will eventually be substantially recovered in rates charged to customers.

Nuclear Fuel Disposal Costs – The Company has a contract with the United States Department of Energy ("DOE") for the future storage and disposal of spent nuclear fuel from Fermi 2. Under the terms of the contract, the Company makes quarterly payments to the DOE based upon a current fee of 1 mill per kilowatthour applied to the Fermi 2 net generation. The spent nuclear fuel disposal cost is included as a component of the Company's nuclear fuel expense. The DOE has publicly stated that it will be unable to store spent nuclear fuel at a permanent repository until 2010. However, the DOE is pursuing interim storage options. The Company estimates that existing temporary storage capacity at Fermi 2 will be sufficient until the year 2000.

Notes to Consolidated Financial Statements

Insurance - The Company insures Fermi 2 with property damage insurance provided by Nuclear Mutual Limited ("NML"), Nuclear Electric Insurance Limited ("NEIL") and American Nuclear Insurers ("ANI"). The NML and NEIL insurance policies provide \$500 million of composite primary coverage and \$1.125 billion of excess coverage, respectively, for decontamination costs, debris removal and repair and/or replacement of property. Under the NML and NEIL policies, the Company could be liable for maximum retrospective assessments of up to approximately \$21 million per loss, if any one loss should exceed the accumulated funds available to NML or NEIL. An additional \$560 million of excess coverage is provided by ANI for which the Company pays an annual premium and is not liable for retrospective assessments. Accordingly, the combined limits provide total property damage insurance of \$2.185 billion. The Company is also insured by NEIL for replacement power costs associated with accidental plant outages.

As required by federal law, the Company maintains \$200 million of public liability insurance for a nuclear incident. Further, under the Price-Anderson Amendments Act of 1988, deferred premium charges of \$63 million may be levied against each licensed nuclear facility, but not more than \$10 million per year per facility. On December 31, 1990, there were 115 licensed nuclear facilities in the United States. Thus, deferred premium charges in the aggregate amount of approximately \$7.2 billion could be levied against all owners of licensed nuclear facilities in the event of a nuclear incident. Accordingly, public liability for a single nuclear incident is currently limited to approximately \$7.4 billion.

Note 3

Rate Matters

General - The Company is subject to the general regulatory jurisdiction of the MPSC, which, from time to time, issues its orders pertaining to the Company's conditions of service, rates and recovery of certain costs including the costs of generating facilities.

During the 1980's, the Company completed a major power plant construction program with the commercial operation of Greenwood, Belle River and Fermi 2 Power Plants. A series of rate proceedings were conducted by the MPSC in response to Company requests for increased revenues to reflect the additional plants in service. These proceedings were concluded by the December 27, 1988 issuance of an MPSC order approving a settlement agreement among the Company, MPSC Staff, Michigan Attorney General ("AG") and other intervenors.

The December 1988 MPSC order together with a previous April 1986 MPSC order established a seven-year rate phase-in plan for Fermi 2, provided for both direct and indirect disallowances of Fermi 2 plant costs, and excluded the Company's investment in its 795 megawatt Greenwood oil-fired unit from rate base through December 31, 1993. See Note 4.

Also, the December 1988 MPSC order (1) increased the Company's base rates by \$29.5 million annually effective January 1, 1989, (2) provided for an overall rate of return of 9.65%, which reflects a return on common equity of 13%, (3) transferred the collection of \$159 million of revenues (\$151.7 million MPSC jurisdictional) from the PSCR Clause to base rates, effective

January 1, 1989, (4) transferred a court-ordered \$12.1 million annual surcharge to base rates effective January 1, 1989 and (5) suspended the PSCR Clause for the four-year period January 1, 1989 through December 31, 1992.

The order provides for a five-year moratorium on base rate changes, through December 31, 1993, with exceptions for previously authorized rate increases (the Fermi 2 phase-in plan) and for federal income tax law or regulation changes, new acid rain legislation and new cogeneration legislation that would increase or decrease costs by \$5 million (1988 dollars adjusted by the Consumer Price Index, "CPI") or more annually. However, an expense stabilization procedure, applicable to approximately \$750 million of Company operation and maintenance expenses, permits rates to be adjusted for the effects of inflation on January 1, 1990, 1991 and 1992. A surcharge or credit under this procedure is based on the annual change in the CPI for the preceding 12-month period October 1 through September 30, as follows:

CPI Change	Adjustment to Base
0% - 2%	None
2% - 8%	80% of change in excess of 2%
More than 8%	100% of change in excess of 8% plus 4.8%

An expense stabilization procedure surcharge was implemented on January 1, 1990, which provided for annual revenues of approximately \$27 million for 1990. This surcharge was superseded by a similar surcharge implemented on January 1, 1991, which provides for annual revenues of approximately \$55 million for 1991.

Set forth below is a summary of the Company's scheduled rate increases and other rate changes for the period 1988-1994, excluding surcharges. This summary includes the increases authorized as part of the Fermi 2 phase-in plan.

Year	Authorized Base Rate Increases	Other Rate Changes	Total	
			Annual Amounts	Cumulative Amounts
(Millions)				
1988	\$ 68.4	\$ —	\$ 68.4	\$ 68.4
1989	104.2	0.5	104.7	173.1
1990	76.8	13.4	90.2	263.3
1991	81.9	7.7	89.6	352.9
1992	102.5	7.6	110.1	463.0
1993	—	39.1	39.1	502.1
1994	(a)	6.7	(a)	(a)

(a) \$70.8 million required under the Fermi 2 phase-in plan will, under the MPSC's December 1988 order, be included as a cost of service component in the determination of the rate adjustment in 1994 and beyond, so that all amounts deferred are recovered during the period ending no later than December 31, 1998.

During the Fermi 2 phase-in period, the Company is recording related non-cash items of income consisting of deferred depreciation and deferred return totaling \$506.5 million (annual deferrals for the first five years of commercial operation of Fermi 2 as follows: \$178.4 million in 1988, \$142.4 million in 1989, \$104.2 million in 1990, \$63.2 million in 1991 and \$18.3 million in 1992), with these deferred amounts amortized to operating expense as the cash recovery of the deferred amounts is realized through revenues during the years 1993-1998.

The February 1990 purchase by the Company of the Cooperative's ownership interest in Fermi 2 (\$513 million) is treated as a regulatory asset with a 19-year principal amortization

and associated interest at 8%. The debt incurred in connection with this purchase and the associated interest are to be excluded from the calculation of the Company's overall return on investment. Since the straight-line amortization of the regulatory asset exceeds the revenues provided for such amortization during the first ten years of the recovery period, the Company is recording deferred amortization, a non-cash item of income, totaling \$67.2 million (\$13.4 million in 1990, \$11.9 million in 1991, \$10.4 million in 1992, \$9.0 million in 1993, \$7.5 million in 1994, \$6.0 million in 1995, \$4.5 million in 1996, \$3.0 million in 1997 and \$1.5 million in 1998). The accumulated deferral will be amortized to operating expense as the cash recovery of the deferred amounts is realized through revenues during the years 2000 - 2008.

During the period January 1, 1989 through December 31, 2003, the order established a cap on Fermi 2 capital additions of \$25 million per year cumulative, adjusted by the CPI, a cap on Fermi 2 non-fuel operation and maintenance expenses at the level presented by the Company in its economic study provided in the rate case, adjusted by the CPI, and a capacity factor performance standard based on a three-year rolling average commencing in 1991. For a major capital investment of \$200 million or more, the Company shall apply to the MPSC for prior approval. If approved, and if found to be reasonable and prudent, the major investment will be included in rate base. Under the performance standard, effective January 1, 1993, a disallowance of net incremental replacement power cost will be imposed for the amount by which the Fermi 2 three-year rolling average capacity factor is less than the greater of either the average of the top 50% of U.S. boiling water reactors or 50%.

The Company has and believes it will continue to operate under the terms of the order with no significant adverse effects as a result of any cost recovery restrictions contained therein.

The order also provides that if nuclear operations at Fermi 2 permanently cease, the remaining net rate base investment amount shall be removed from rate base and amortized in rates, without return, over ten years with such amortization not to exceed \$290 million per year. In this event, unamortized amounts of deferred depreciation and deferred return, recorded in the balance sheet under the phase-in plan prior to the removal of Fermi 2 from rate base, will continue to be amortized, with a full return on such unamortized balances, so that all amounts deferred are recovered during the period ending no later than December 31, 1998. Also, amortization in rates of the \$300 million and \$513 million investments in Fermi 2, shown in the table below, would continue.

A summary of the ratemaking treatment of the Company's Fermi 2 project costs (including the purchase of the Cooperative's interest in 1990) is as follows:

Fermi 2 Project Costs	
	(Millions)
In rate base, with recovery and return:	\$3,018
Amortized over 10 years with no return	300
Amortized over 19 years, with associated interest	513
Writter off by the Company (\$327 million disallowed in MPSC order of April 1986 and \$700 million disallowed in MPSC order of December 1988)	1,027
Total	\$4,858

See Note 4 for a summary of the manner in which the Company accounted for the disallowances shown above.

Note 4

Accounting for Disallowances of Plant Costs

In December 1986, the Financial Accounting Standards Board ("FASB") issued SFAS No. 90 which, among other things, requires any disallowed costs of a recently completed plant to be recognized as a loss when such a disallowance becomes probable and a reasonable estimate of the disallowance can be made. If part of the cost is disallowed indirectly (such as a disallowance of return on investment on a portion of the plant), an equivalent amount of cost shall be deducted from the reported cost of the plant and recognized as a loss.

In 1988, the Company adopted SFAS No. 90 and recorded net after-tax losses totaling \$968 million, or \$6.60 per share (\$344 million, or \$2.34 per share, cumulative effect at January 1, 1988 for years prior to 1988 and a \$624 million, or \$4.26 per share, charge to income in 1988 which is net of accretion income of \$17 million, or \$0.11 per share). These losses reflect the MPSC's ratemaking treatment for costs incurred in the construction of the Fermi 2 and Belle River Power Plants and the removal of Greenwood Unit No. 1 from rate base, as shown below.

	Disallowed Costs	Income Taxes	Net Loss
	(Millions)		
Fermi 2 - No recovery or return, per April 1986 (\$327 million) and December 1988 (\$700 million) MPSC orders	\$(1,027)	\$242	\$(785)
Fermi 2 - Recovery (\$300 million) over 10 years beginning January 1, 1989 with no return, per December 1988 MPSC order	(141)	48	(93)
Greenwood Unit No. 1 - Removed from rate base (\$280 million) from January 1988 through December 31, 1993 with no return, per April 1986 and December 1988 MPSC orders	(153)	52	(101)
Other - Belle River Power Plant costs disallowed in 1985, the abandonment of Greenwood Unit Nos. 2 and 3 in 1980 (see Note 1), and other - net	(9)	3	(6)
Total	\$(1,330)	\$345	\$(985)
Less: Accretion income resulting from losses due to discounting	26	(9)	17
Net Total	\$(1,304)	\$336	\$(968)
Allocated to:			
Income in 1988			
Disallowed plant costs	\$ (875)	\$234	\$(641)
Accretion income	26	(9)	17
	\$ (849)	\$225	\$(624)
Cumulative effect for years prior to 1988	(455)	111	(344)
Net Total	\$(1,304)	\$336	\$(968)

The losses for Greenwood Unit No. 1, the abandoned Greenwood Unit Nos. 2 and 3, and for a portion of Fermi 2 are recorded as a discount (reduction) of the Company's investment in these units. These net after-tax losses, due to discounting, total \$198 million and such amount will be restored to net income over the period 1988-1998 as the Company records a non-cash return (accretion income) on its investments in these units.

Notes to Consolidated Financial Statements

Note 5

Accounting Changes in 1988

SFAS No. 90 - See Note 4.

Unbilled Revenues - As discussed in Note 1, effective January 1, 1988, the Company changed its method of accounting for revenues to record an estimate of revenues for electric and steam heating service rendered and unbilled at the end of each month. The effect of the change in accounting was to increase earnings for common stock by \$82.4 million (\$0.56 per share) of which an increase of \$61.4 million (\$0.42 per share) represents the cumulative effect of the change at January 1, 1988, and an increase of \$21.0 million (\$0.14 per share) represents an increase in earnings for the year 1988.

Property Taxes - As discussed in Note 1, effective January 1, 1988, the Company changed its method of accounting for property taxes so that such taxes are accrued monthly during the fiscal period of the applicable taxing authority. The effect of the change in accounting was to increase earnings for common stock by \$165.6 million (\$1.13 per share) of which an increase of \$139.3 million (\$0.95 per share) represents the cumulative effect of the change at January 1, 1988, and an increase of \$26.3 million (\$0.18 per share) represents an increase in earnings for the year 1988.

Pro Forma Amounts - Assuming that the Company had applied accounting changes for SFAS No. 90, unbilled revenues and property taxes retroactively, total and per share loss for common stock would be \$285.1 million and \$1.95, respectively, on a pro forma basis for the year 1988.

Note 6

Jointly-Owned Utility Plant

The Company's portion of jointly-owned utility plant is as follows:

	Belle River	Ludington Pumped Storage
In-service date	1984-1985	1973
Undivided ownership interest	*	49%
Investment (millions)	\$1,022.6	\$168.9
Accumulated depreciation (millions)	\$ 191.1	\$ 57.7

* The Company's undivided ownership interest is 62.78% in Unit No. 1, 81.39% of the portion of the facilities applicable to Belle River used jointly by the Belle River and St. Clair Power Plants, 49.59% in certain transmission lines and at least 70% in facilities used in common with Unit No. 2.

Belle River - The Michigan Public Power Agency ("MPPA") has an undivided ownership interest in Belle River Unit No. 1 and certain other related facilities. MPPA is entitled to 18.61% of the capacity and energy of the entire plant and is responsible for the same percentage of the plant's operation and maintenance expenses and capital improvements. The Company is obligated to provide MPPA with backup power when either unit is out of service.

In 1984, following commercial operation of Belle River Unit No. 1, the Company began contractual purchases of 100% of MPPA's capacity and energy entitlement. Such purchases continued at 100% through 1990, with the amounts declining thereafter through 1994. The cost for the buyback of power is based on MPPA's plant-related investment, interest costs incurred by MPPA on their original project financing plus 2.5%, and certain other costs such as depreciation and operation and maintenance expenses. Buyback payments to MPPA were \$72.6 million, \$71.3 million and \$70.3 million for 1988, 1989 and 1990, respectively, and are currently estimated at \$58.2 million, \$51.1 million, \$12.6 million and \$6.2 million for 1991, 1992, 1993 and 1994, respectively.

Ludington Pumped Storage - Operation, maintenance and other expenses of the Ludington Pumped Storage Plant are shared by the Company and Consumers Power Company ("Consumers") in proportion to their respective interests in the plant. See Note 14.

Note 7

Sale of Accounts Receivable and Unbilled Revenues

In February 1989, the Company entered into a five year program for the sale of \$200 million of the Company's accounts receivable and unbilled revenues. The sale was accomplished by an assignment of an undivided ownership interest in the Company's customer accounts receivable and unbilled revenues. At December 31, 1990 and 1989, customer accounts receivable and unbilled revenues on the Consolidated Balance Sheet have been reduced by \$200 million reflecting the sale. All costs associated with the program are being charged to other operation expense in the Consolidated Statement of Income.

Note 8

Income Taxes

Total income tax expense as a percent of income (loss) before tax was less than the statutory federal income tax rate for the following reasons:

	Percent of Income (Loss) Before Tax		
	1990	1989	1988
Statutory income tax rate	34.0%	34.0%	(34.0)%
Disallowed plant costs and abandonments	—	—	27.2
Deferred Femi 2 depreciation and return	(4.0)	(6.8)	(10.1)
AFUDC	(1.7)	(4.2)	(5.1)
Investment tax credit	(2.8)	(1.8)	(5.0)
Depreciation	4.4	5.9	5.6
Other - net	(0.3)	(1.6)	(0.1)
Effective income tax rate	29.6%	25.5%	(21.5)%

Components of income taxes were applicable to the following:

	1990	1989	1988
	(Thousands)		
Operating expenses			
Current	\$137,020	\$ 61,811	\$ 39,199
Deferred - net			
Borrowed funds component of AFUDC	(12,611)	(24,181)	(23,868)
Depreciation and amortization	76,261	90,456	114,434
Property taxes	(5,308)	3,851	(14,686)
Unbilled revenues	(10,922)	(10,922)	(12,269)
Alternative minimum tax	419	10,832	567
Fermi 2 capitalized labor and expenses	(1,692)	(1,943)	2,575
Indirect construction costs	(1,864)	(1,977)	1,333
Uncollectible accounts	1,084	(3,422)	3,679
Contributions in aid of construction	(4,952)	(4,115)	(3,392)
Fermi 2 refueling outage	(6,800)	—	—
Michigan Single Business Tax	(6,324)	—	—
Shareholder value improvement plan	(2,232)	—	—
PSCR property tax refund	(5,563)	—	—
Coal contract buyouts	4,996	—	—
Other	(3,721)	(5,093)	(857)
	20,771	53,486	67,516
Investment tax credit - net			
Utilized	64,468	24,892	(7,140)
Amortized	(12,328)	(10,563)	(9,631)
	52,140	14,329	(16,771)
Total	209,931	129,626	89,944
Other income and deductions			
Current	(1,566)	(460)	1,081
Deferred - net	(738)	(383)	(312)
Total	(2,304)	(843)	769
Disallowed plant costs and accretion income			
Current	(20,081)	(2,036)	(37,216)
Deferred - net			
Disallowed plant costs	20,088	23,971	(182,717)
Accretion income	16,591	17,064	9,086
Alternative minimum tax	—	(21,952)	—
Investment tax credit	(8,400)	—	(14,324)
Total	8,198	17,047	(225,171)
Cumulative effect of accounting changes			
Deferred - net			
Disallowed plant costs and abandonments	—	—	(11,257)
Unbilled revenues	—	—	40,912
Property taxes	—	—	101,306
Total	—	—	30,961
Total income taxes	\$215,825	\$145,830	\$(103,497)

In accordance with MPSC requirements, deferred income tax accounting was not followed for the borrowed funds component of AFUDC and indirect construction costs relating to Fermi 2, nor is it followed for interest on nuclear fuel financing (see Note 12) and certain other current income tax deductions.

In 1985, the MPSC ordered that, for accounting and ratemaking purposes, the accumulated deferred income taxes related to indirect construction costs and the borrowed funds component of AFUDC for Belle River Unit No. 1 and common plant be amortized to

income over a five-year period rather than over the life of the plant. Such credits to income amounted to \$12 million for 1990 and \$24 million for each of the years 1989 and 1988.

The Fermi 2 phase-in plan requires the Company to record additional deferred income tax expense related to deferred depreciation totaling \$33.5 million (\$11.8 million in 1988, \$9.4 million in 1989, \$6.9 million in 1990, \$4.2 million in 1991 and \$1.2 million in 1992), with these amounts amortized to income over the period ending December 31, 1998.

The cumulative net amounts of income tax timing differences for which deferred taxes have not been provided at December 31, 1990 and 1989 are \$2.1 billion and \$2.3 billion, respectively. The tax effect of these amounts not provided for currently will be recorded when such taxes become payable and are recovered from customers.

Investment tax credit carryforwards of approximately \$36 million are available to offset future years' tax liabilities as permitted by law. Such credits, if unused, expire over the period 2000 through 2005.

As authorized by the MPSC, deferred income taxes are recorded for tax credits generated under the Alternative Minimum Tax ("AMT") system created by the federal Tax Reform Act of 1986. The Company has an AMT credit carryforward of approximately \$79 million at December 31, 1990. After all investment tax credit carryforwards are used, the AMT credits, which can be carried forward indefinitely, can be used to reduce regular tax liabilities whenever such liabilities exceed AMT liabilities.

In December 1987, the FASB issued SFAS No. 96, "Accounting for Income Taxes," however, the effective date was deferred to 1992. SFAS No. 96 requires an asset and liability approach for financial accounting and reporting for income taxes. It requires the Company to recompute its tax liability at the then current tax rate and adjust the Accumulated Deferred Income Tax asset and liability amounts in the Consolidated Balance Sheet. In addition, it requires the Company to record additional deferred income taxes for temporary differences not previously recognized (including the \$2.1 billion discussed above) and all other existing differences that will result in taxable or deductible amounts in future years. SFAS No. 96 requires the recognition of an asset to the extent that such additional deferred income taxes are associated with probable future revenue from customers. In late 1990, the FASB approved a package of tentative revisions to SFAS No. 96. It is anticipated that the FASB will issue a new statement on income taxes by the end of 1991 which would supersede SFAS No. 96 and require adoption no later than 1993. The Company expects that when SFAS No. 96 or a new statement on income taxes is adopted, it will not have a material effect on net income.

Notes to Consolidated Financial Statements

Note 9

Short-Term Credit Arrangements and Borrowings

As described below, at December 31, 1990, the Company had total short-term credit arrangements of \$301.1 million under which no borrowings were outstanding.

The Company had bank lines of credit of \$200 million all of which had commitment fees in lieu of compensating balances. Commitment fees incurred in 1990 for bank lines of credit were approximately \$0.3 million. The Company uses bank lines of credit to support the issuance of commercial paper, eurocommercial paper, bankers' acceptances and bank loans. All borrowings are at prevailing money market rates which are below the banks' prime lending rates.

The Company has a nuclear fuel financing arrangement with Renaissance Energy Company ("Renaissance"), an unaffiliated company. Renaissance may issue commercial paper or borrow from participating banks on the basis of promissory notes. To the extent the maximum amount of funds available to Renaissance (currently \$400 million) is not needed by Renaissance to purchase nuclear fuel, such funds may be loaned to the Company for general corporate purposes pursuant to a separate Loan Agreement. At December 31, 1990, \$101.1 million was available to the Company under such Loan Agreement. See Note 12.

Note 10

Common Stock and Non-Redeemable Cumulative Preferred and Preference Stock

Non-redeemable Cumulative Preferred and Preference Stock outstanding at December 31 was:

	Date of Issuance	1990	1989
		(Thousands)	
Non-Redeemable Preferred Stock			
5½% convertible series, 81,897 and 92,937 shares, respectively	October 1967	\$ 8,190	\$ 9,296
9.32% series, 499,080 shares	October 1970	49,908	49,908
7.68% series, 500,000 shares	March 1971	50,000	50,000
7.45% series, 600,000 shares	November 1971	60,000	60,000
7.36% series, 750,000 shares	December 1972	75,000	75,000
Non-redeemable preferred stock expense		(4,684)	(4,709)
Total Non-Redeemable Preferred Stock		\$238,414	\$239,495
Non-Redeemable Preference Stock			
\$2.28 series, 2,000,000 shares	December 1977	\$ 2,000	\$ 2,000
Premium on non-redeemable preference stock		48,000	48,000
Non-redeemable preference stock expense		(2,109)	(2,109)
Total Non-Redeemable Preference Stock		\$ 47,891	\$ 47,891

The Convertible Cumulative Preferred Stock, 5½% Series, is convertible into Common Stock. The conversion price was \$17.79 per share at December 31, 1990. The numbers of shares converted during 1990, 1989 and 1988 were 11,060, 13,592 and 5,581, respectively. The number of shares of Common Stock reserved for issuance upon conversion and the conversion price are subject to further adjustment in certain events. The Convertible Cumulative

Preferred Stock, 5½% Series, may be redeemed at any time in whole or in part at the option of the Company at \$100 per share, plus accrued dividends.

The Company's 9.32% Series, 7.68% Series, 7.45% Series and 7.36% Series Preferred Stock are redeemable solely at the option of the Company at a per share redemption price of \$101, plus accrued dividends.

On January 15, 1988, the Company redeemed all of the outstanding shares of certain series of its \$1 par value Preference Stock, as follows: 3,000,000 shares of \$3.42 Series at \$27.35 per share, 2,250,000 shares of \$3.40 Series at \$27.35 per share and 750,000 shares of \$3.12 Series at \$27.00 per share.

On October 15, 1988, the Company redeemed 2,600,000 shares of \$3.13 Series and 1,400,000 shares of \$3.24 Series, \$1 par value Preference Stock, constituting all of the outstanding shares of both issues, at a price of \$27.17 and \$27.25 per share, respectively.

The Company's \$2.28 Series Preference Stock is redeemable solely at the option of the Company at the stated per share redemption price of \$25.75, plus accrued dividends, prior to January 15, 1993 and \$25.25 per share, plus accrued dividends, on and after January 15, 1993.

Apart from MPSC approval and the requirement that Common, Preferred and Preference Stock be sold for at least par value, there are no legal restrictions on the issuance of additional authorized shares of such stock.

Note 11

Redeemable Cumulative Preferred and Preference Stock

Redeemable Cumulative Preferred and Preference Stock outstanding at December 31 was:

	Date of Issuance	1990	1989
		(Thousands)	
Redeemable Preferred Stock			
9.72% series, 350,000 and 375,000 shares, respectively	December 1978	\$35,000	\$37,500
9.72% series, 70,000 and 75,000 shares, respectively	January 1979	7,000	7,500
9.60% series, 230,750 and 266,250 shares, respectively	October 1979	23,075	26,625
9.60% series, 191,750 and 221,250 shares, respectively	January 1980	19,175	22,125
Redeemable preferred stock due within one year		(9,250)	(6,250)
Redeemable preferred stock expense		(927)	(1,016)
Total Redeemable Preferred Stock		\$74,073	\$86,484
Redeemable Preference Stock			
\$2.75 series, 380,180 and 580,180 shares, respectively	July 1975	\$ 380	\$ 580
\$2.75 series B, 600,000 and 800,000 shares, respectively	December 1975	600	800
Premium on redeemable preference stock		23,524	33,124
Redeemable preference stock due within one year		(7,500)	(7,500)
Redeemable preference stock expense		(1,199)	(1,686)
Total Redeemable Preference Stock		\$15,805	\$25,318

The following redeemable series of Preferred and Preference Stock are entitled to the benefit of sinking funds (provided that no dividend arrearages exist) providing for the annual redemption of shares at stated per share prices, plus accrued dividends:

Redeemable Series	Annual Number of Shares	Price Per Share	Non-Cumulative Option to Redeem Additional Shares in Any Year
Preferred Stock			
9.72%	30,000	\$100	30,000
9.60%	32,500	100	32,500*
Preference Stock			
\$2.75	100,000	25	100,000
\$2.75 Series B	100,000	25	100,000

*Not to exceed 220,000 cumulative additional shares.

The following numbers of shares were purchased for application to sinking fund requirements:

	1990	1989	1988
Preferred Stock, 9.72% Series	30,000	30,000	—
Preferred Stock, 9.60% Series	65,000	32,500	32,500
Preference Stock, \$2.75 Series	200,000	200,000	200,000
Preference Stock, \$2.75 Series B	200,000	200,000	200,000

In the event that a payment due under requirements of a sinking fund for any series of redeemable Preferred or Preference Stock is not made, no dividend shall be paid (other than a dividend paid in junior stock) or declared or other distribution made upon any junior stock (Common and Preference Stock in the case of Preferred Stock, and Common Stock in the case of Preference Stock) until such payment is made.

The following series of Preferred and Preference Stock, which are redeemable pursuant to sinking fund requirements, may also be redeemed at the option of the Company at stated per share redemption prices, plus accrued dividends:

Redeemable Series	Decreasing From	Prior To	To	On and After
Preferred Stock				
9.72%	\$102.90	1-15-94	\$101.00	1-15-94
9.60%	104.00	10-15-94	101.00	10-15-94
Preference Stock				
\$2.75	—	—	25.25	7-15-90
\$2.75 Series B	26.10	1-15-91	25.25	1-15-91

On January 15, 1988, the Company redeemed 200,000 shares of 13.50% Series, \$100 par value Preferred Stock, constituting all of the outstanding shares, at a composite price of \$104.05 per share.

The combined aggregate annual amounts of redemption requirements at December 31, 1990 for all series of redeemable Preferred and Preference Stock are \$17 million for 1991, \$11 million for each of the years 1992 through 1994 and \$9 million for 1995.

Note 12

Leases

Future minimum lease payments under long-term noncancellable leases, consisting of nuclear fuel (\$386 million computed on a projected units of production basis), lake vessels (\$72 million), locomotives and coal cars (\$79 million), office space (\$41 million) and computers, vehicles and other equipment (\$56 million) at December 31, 1990 are as follows:

	(Millions)		(Millions)
1991	\$104	1994	\$ 80
1992	100	1995	68
1993	100	Remaining years	182
		Total	\$634

The Company has a heat purchase contract with Renaissance which provides for the purchase by Renaissance for the Company of up to \$400 million of nuclear fuel, subject to the continued availability of funds to Renaissance to purchase such fuel. Title to the nuclear fuel is held by Renaissance. The Company makes quarterly payments under the heat purchase contract based on the consumption of nuclear fuel for the generation of electricity. Renaissance's investment in nuclear fuel was \$284 million and \$292 million at December 31, 1990 and 1989, respectively. The decrease in 1990 from 1989 of \$8 million includes additions of \$59 million (purchases of \$45 million and capitalized interest of \$14 million) less \$67 million for the amortization of nuclear fuel consumed in 1990.

Under SFAS No. 71, amortization of leased assets is modified so that the total of interest on the obligation and amortization of the leased asset is equal to the rental expense allowed for ratemaking purposes. For ratemaking purposes, the MPSC has treated all leases as operating leases. Net income is not affected by capitalization of leases.

Rental expenses for both capital and operating leases were \$124 million (including \$80 million for nuclear fuel), \$106 million (including \$58 million for nuclear fuel) and \$103 million (including \$57 million for nuclear fuel) for 1990, 1989 and 1988, respectively.

Notes to Consolidated Financial Statements

Note 13

Long-Term Debt

The Company's 1924 Mortgage and Deed of Trust ("Mortgage"), the lien of which covers substantially all of the Company's properties, provides for the issuance of additional bonds (1) based upon property additions, combined with an earnings test provision, or (2) based upon retirements of previously issued bonds. At December 31, 1990, approximately \$2.3 billion principal amount of additional Mortgage Bonds could have been issued on the basis of (1) above, assuming an interest rate of 9.875% on any such additional Mortgage Bonds. At December 31, 1990, approximately \$286.7 million of additional bonds could have been issued on the basis of bond retirements.

Long-term debt outstanding at December 31 was:

	Interest Rate*	1990	1989
(Thousands)			
General and Refunding Mortgage Bonds			
Series R, due 12/1/96	6%	\$ 100,000	\$ 100,000
Series S, due 10/1/98	6.4	150,000	150,000
Series T, due 1/21/99	9	75,000	75,000
Series U, due 7/1/00	9.15	75,000	75,000
Series V, due 7/15/00	6.15	100,000	100,000
Series X, due 6/15/01	8%	100,000	100,000
Series Y, due 11/15/01	7%	60,000	60,000
Series Z, due 1/15/03	7%	100,000	100,000
Series AA, due 5/1/04	9%	100,000	100,000
Series EE, due 11/1/96	11%	15,000	20,000
Series HH, due 7/15/06	10%	50,000	50,000
Series PP, due 6/1/08	9%	70,000	70,000
Series RR, due 10/15/08	9.8	70,000	70,000
Series SS, due 3/15/98	10%	80,000	100,000
Series UU, due 9/15/09	10%	—	100,000
1980 Series B, due 4/1/97	12%	40,150	46,800
1983 Series A, due 5/1/92	11.9	35,000	35,000
1985 Series B, due 6/1/92	11.25	50,000	50,000
1986 Series A, due 4/15/16	9%	200,000	200,000
1986 Series B, due 8/15/16	9%	100,000	100,000
1986 Series C, due 12/15/16	9%	200,000	200,000
1987 Series A, due 2/15/17	9	300,000	300,000
1987 Series B, due 4/15/97	8%	175,000	175,000
1987 Series C, due 4/15/14	9%	225,000	225,000
1987 Series D, due 8/15/92	9%	250,000	250,000
1987 Series E, due 8/15/96	10%	150,000	150,000
1987 Series F, due 6/15/93	9%	200,000	200,000
1989 Series A, due 7/1/19	9%	300,000	300,000
1990 Series A, due 3/31/20	7.904	188,370	—
1990 Series B, due 3/31/16	7.904	247,416	—
1990 Series C, due 3/31/14	8.357	82,056	—
Less: Unamortized net discount		(13,269)	(14,418)
Amount due within one year		(38,364)	(19,150)
		<u>\$3,836,359</u>	<u>\$3,468,232</u>

	Interest Rate*	1990	1989
(Thousands)			
Tax Exempt Revenue Bond Obligations			
Installment Sales Contracts (Secured by corresponding amounts of General and Refunding Mortgage Bonds)			
City of Detroit, due 3/1/91 - 6/1/94	7.58%	\$ 4,375	\$ 8,130
City of Harbor Beach, due 3/1/91 - 3/1/05	6.99	3,115	3,190
City of River Rouge, due 2/15/91 - 10/1/02	6.96	43,620	45,090
City of Superior, due 2/1/91 - 2/1/01	8.11	39,100	39,800
City of Trenton, due 3/1/91 - 3/1/05	7.04	5,675	5,810
County of Monroe, due 3/1/91 - 9/1/20	7.91	202,605	162,780
County of St. Clair, due 6/15/91 - 5/1/22	10.35	178,745	203,920
Less: Unamortized net discount		(416)	(425)
Funds on deposit with Trustee		(454)	(4,353)
Amount due within one year		(9,970)	(10,530)
		<u>\$ 466,395</u>	<u>\$ 453,412</u>
Installment Sales Contracts			
County of Monroe, due 5/1/91 - 12/1/19	9.91	\$ 428,460	\$ 430,600
Less: Funds on deposit with Trustee		—	(2,124)
Amount due within one year		(2,140)	(2,140)
		<u>\$ 426,320</u>	<u>\$ 426,336</u>
Loan Agreements			
Pollution Bond Refunding Projects, due 2/15/94 - 8/15/10	7.67	\$ 94,925	\$ 53,025
		<u>\$ 987,640</u>	<u>\$ 932,773</u>
Unsecured Promissory Notes			
Variable interest rates, due 4/15/91	8.50%	\$ 45,000	\$ 171,969
Fixed interest rates, due 4/25/91 - 1/13/93	10.01	115,000	125,000
Less: Amount due within one year		(60,000)	(136,969)
		<u>\$ 100,000</u>	<u>\$ 160,000</u>
Total Long-Term Debt		<u>\$4,923,999</u>	<u>\$4,561,005</u>

* Weighted average interest rate at December 31, 1990 for Tax Exempt Revenue Bond Obligations and Unsecured Promissory Notes.

Long-Term Debt Maturities - In 1991, 1992, 1993, 1994 and 1995, long-term debt maturities consist of \$110 million, \$421 million, \$327 million, \$62 million and \$64 million, respectively.

Note 14

Commitments and Contingencies

Commitments – The Company has entered into purchase commitments of approximately \$421 million at December 31, 1990. The Company has also entered into substantial long-term fuel supply commitments.

Combustion Engineering, Inc. ("Combustion") has constructed the Detroit Resource Recovery Facility ("Facility") in the City of Detroit. The Facility, which began commercial operation in 1989, is fueled by municipal solid waste, and is producing steam and electricity. The Company has entered into a 20-year Energy Purchase Agreement with Combustion for the purchase of steam and electricity from the Facility. The Company believes that a default has occurred under the agreement and, accordingly, on July 2, 1990, the Company canceled its agreement to purchase steam from the Facility. Combustion has notified the Company that it does not believe a default has occurred and, further, it will continue to bill the Company for steam. The Company and Combustion are participating in ongoing discussions to resolve this matter. The Company is continuing the purchase of electricity under the agreement.

See Note 6.

Contingencies – In September 1986, the AG and the Michigan Natural Resources Commission filed a lawsuit against the Company and Consumers as co-owners of the Ludington Pumped Storage Plant ("Ludington"). The Company is a 49% co-owner of Ludington. The suit, which alleges violations of the Michigan Environmental Protection Act and the common law for claimed aquatic losses, seeks past damages (including interest) of approximately \$148 million and future damages (from the time of the filing of the lawsuit) in the amount of approximately \$89,500 per day (of which 49% would be applicable to the Company). On November 9, 1990, the Court granted the Company's motion seeking dismissal of the case. The Court found that all claims by the AG were pre-empted by the Federal Power Act; that FERC was the appropriate forum; and, in the alternative, that a three year statute of limitations applied barring recovery before September 3, 1983. On November 28, 1990, a claim of appeal was filed by the AG.

In 1986, two environmental organizations requested FERC to withdraw the Ludington license or provide some mitigation for fish mortality. In April 1989, Consumers and the Company first installed a temporary barrier net around the plant to protect fish on an interim basis until permanent measures could be developed. A second temporary barrier net was installed in 1990, and a third will be installed in 1991. At this time, the Company is unable to determine what the total costs will be to maintain temporary barrier nets and develop permanent measures.

In January 1989, the Environmental Protection Agency ("EPA") issued an administrative order under the Comprehensive Environmental Response, Compensation and Liability Act ordering the Company and 23 other potentially responsible parties to begin

removal activities at the Carter Industrials superfund site. An administrative order was issued in May 1989 requiring the potentially responsible parties to give notice of intent to comply with a provision to undertake interim site security and stabilization measures. The order also provides that the EPA will release for public comment its engineering evaluation cost analysis and its proposed selection of a removal alternative. Following this release, there will be a 30-day period for public comment during which time the potentially responsible parties can offer alternative remedial proposals. The engineering report has not been released.

The Company believes that the outcome of the matters discussed above will not have a material effect on its financial position or results of operations. In addition to the matters reported herein, the Company is involved in litigation dealing with the numerous aspects of its business operations and such litigation is not expected to have a material effect on the Company's financial position or results of operations.

See Note 2 for a discussion of contingencies related to Fermi 2.

Note 15

Employees' Retirement Plan and Other Postretirement Benefits

Employees' Retirement Plan – The Company has a trustee and noncontributory defined benefit retirement plan ("Plan") covering all eligible employees who have completed six months of service. The Plan provides retirement benefits based on the employee's years of benefit service, average final compensation and age at retirement. The Company's policy is to fund pension cost calculated under the projected unit credit actuarial cost method, provided that this amount is at least equal to the minimum funding requirement of the Employee Retirement Income Security Act of 1974, as amended, and is not greater than the maximum amount deductible for federal income tax purposes. The Company is operating under the IRS full funding limitation and, therefore, did not make a contribution to the Plan in 1988, 1989 and 1990 and does not expect to make a contribution to the Plan in 1991.

Net pension cost included the following components:

	1990	1989	1988
	(Thousands)		
Service cost – benefits earned during the period	\$17,886	\$ 15,142	\$ 16,032
Interest cost on projected benefit obligation	61,950	59,561	57,254
Actual return on Plan assets	(18,150)	(150,708)	(52,264)
Net deferral and amortization:			
Deferral of net gain (loss) during current period	(54,949)	81,387	(14,597)
Amortization of unrecognized prior service cost	838	174	65
Amortization of unrecognized net asset resulting from initial application	(4,507)	(4,507)	(4,507)
Net pension cost	\$ 3,068	\$ 1,049	\$ 1,983

Notes to Consolidated Financial Statements

Assumptions used in determining net pension cost are as follows:

	1990	1989	1988
Discount rate	8.5%	9.5%	9.5%
Increase in future compensation levels	5.0	5.5	6.0
Expected long-term rate of return on Plan Assets	9.5	9.5	9.5

The following table reconciles the funded status of the Plan to the liability recorded in the Company's Consolidated Balance Sheet:

	December 31	
	1990	1989
	(Thousands)	
Plan assets at fair value, primarily equity securities	\$835,000	\$867,176
Less actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$664,810,000 and \$616,800,000	680,520	643,566
Increase in future compensation levels	108,564	102,568
Projected benefit obligation	789,084	746,134
Plan assets in excess of projected benefit obligation	45,916	121,042
Unrecognized net asset resulting from initial application	(51,316)	(55,823)
Unrecognized net gain	(22,162)	(81,167)
Unrecognized prior service cost	15,646	7,100
Liability recorded as Other Deferred Credits in the Consolidated Balance Sheet	\$ (11,916)	\$ (8,848)

Assumptions used in determining the projected benefit obligations are as follows:

	December 31	
	1990	1989
Discount rate	8.5%	8.5%
Increase in future compensation levels	5.0	5.0

The unrecognized net asset at date of initial application is being amortized over approximately 15.4 years, which is the average remaining service period of employees at January 1, 1987.

In addition to the Plan, the Company has several supplemental non-qualified, non-contributory, unfunded retirement benefit plans for certain management employees.

Other Postretirement Benefits - The Company provides certain postretirement health care and life insurance benefits for retired employees. Substantially all of the Company's employees will become eligible for such benefits if they reach retirement age while still working for the Company. These benefits, as well as similar benefits for active employees, are provided principally through insurance companies and other organizations whose premiums are based on the benefits paid during the year. The Company recognizes the cost of providing these benefits as the premiums are paid.

	1990	1989	1988
	(Thousands)		
Cost to the Company of providing health care and life insurance benefits to employees			
Active employees	\$38,620	\$41,323	\$38,891
Retired employees	19,066	15,694	13,090
Total	\$57,686	\$57,017	\$51,981

In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Company is currently reviewing the statement and, as permitted, anticipates adopting the provisions of SFAS No. 106 in 1993. SFAS No. 106 establishes financial accounting and reporting standards for employers that offer postretirement benefits other than pensions. Most employers, including the Company, have accounted for such benefits to both active and retired employees on a pay-as-you-go (cash) basis. SFAS No. 106 requires the accrual of postretirement benefits during the active service periods of employees to the date they attain full eligibility for benefits. The Company anticipates amortizing the obligation, which has not yet been determined but which could be significant, over 20 years as permitted by SFAS No. 106. The Company expects to continue to recover the costs of providing such benefits through the ratemaking process and, therefore, the adoption of SFAS No. 106 is not expected to have a material effect on net income.

Note 16

Supplementary Quarterly Financial Information (Unaudited)

	1990 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(Thousands, except per share amounts)			
Operating Revenues	\$815,561	\$796,256	\$893,424	\$801,498
Operating Income	233,964	210,099	234,634	200,313
Net Income	136,548	117,763	149,145	111,003
Earnings for Common Stock	127,624	108,879	140,381	102,396
Earnings Per Share	0.87	0.74	0.96	0.70

	1989 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(Thousands, except per share amounts)			
Operating Revenues	\$790,121	\$758,445	\$861,752	\$792,713
Operating Income	187,531	178,679	218,330	165,395
Net Income	102,748	96,133	139,494	87,576
Earnings for Common Stock	93,379	86,806	130,286	78,462
Earnings Per Share	0.64	0.59	0.89	0.53

Earnings per share amounts for each quarter are required to be computed independently and, therefore, may not equal the amount computed for the total year.

Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and accompanying Notes thereto, contained herein.

Results of Operations

In 1990, the Company achieved earnings for common stock of \$479.3 million, or \$3.26 per share, an increase of 23.2% from the \$388.9 million, or \$2.65 per share in 1989. Contributing to this increase were higher operating revenues and continuing reductions in fuel and other power supply expenses. The increase in operating revenues resulted from scheduled rate increases in accordance with the Company's 1988 rate case settlement and energy transmission services. At December 31, 1990, the book value of the Company's common stock was \$17.56 per share, an increase of 9.3% since December 31, 1989.

Total and per share earnings for common stock increased in 1989, as compared to a loss for 1988. The loss for 1988 resulted from an accounting change and the write-off of certain plant costs disallowed by the Michigan Public Service Commission ("MPSC"). Also contributing to higher earnings in 1989 were increased rates implemented as part of the Fermi 2 phase-in plan, higher accretion income, lower operation expenses, lower interest charges and lower preferred and preference stock dividend requirements.

In 1988, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 90, "Regulated Enterprises - Accounting for Abandonments and Disallowances of Plant Costs," and recorded net after-tax losses totaling \$968 million, or \$6.60 per share. These losses reflect the MPSC's ratemaking treatment for costs incurred in the construction of the Fermi 2 and Belle River Power Plants and the removal of Greenwood Unit No. 1 from rate base. In addition, the Company adopted changes in accounting for unbilled revenues and property taxes which increased total and per share earnings for common stock by \$201 million and \$1.37, respectively, and partially offset the losses recorded.

As a result of the above factors, return on average total common shareholders' equity was 19.1% in 1990, 16.8% in 1989 and (15.9)% in 1988. The returns in 1990 and 1989 were higher than the return of 13% provided for in a December 1988 MPSC rate order primarily because total common shareholders' equity was reduced significantly by the write-offs of plant costs recorded in 1988 and because of improved operating performance, control of operation and maintenance expenses and energy transmission service revenues.

The ratio of earnings to fixed charges for 1990, 1989 and 1988 was 2.42, 2.14 and 0.05, respectively. The ratio of earnings to fixed charges and preferred and preference stock dividend requirements for 1990, 1989 and 1988 was 2.21, 1.95 and 0.04, respectively. These ratios increased due to an increase in earnings before taxes based on income and to the write-off of disallowed plant costs in 1988.

Operating Revenues

Total operating revenues increased (decreased) due to the following factors:

	1990	1989
	(Millions)	
Rate Changes		
Fermi 2 phase-in plan	\$ 79	\$109
Expense stabilization procedure	26	—
	105	109
Kilowatthour sales volume and mix	11	(1)
Unbilled revenues	(5)	(23)
Energy transmission services	22	—
Provision for refund to customers	(12)	—
Other - net	(17)	16
Total	\$104	\$101

Rate Changes

A December 1988 MPSC rate order provided for a Fermi 2 phase-in plan and granted \$527.1 million of rate increases and other rate changes for Fermi 2 to be phased in over the seven-year period 1988-1994. The order also provides for a moratorium on other base rate changes for the five-year period 1989-1993, an expense stabilization procedure which permits rates to be adjusted annually for the years 1990-1992 for the effects of inflation and a suspension of the Power Supply Cost Recovery ("PSCR") Clause for the four-year period 1989-1992. The Company expects the PSCR Clause to be reinstated beginning January 1, 1993.

Kilowatthour Sales

Kilowatthour sales increased (decreased) as follows:

	1990	1989
Residential	(0.1)%	(1.7)%
Commercial	1.6	2.9
Industrial	(0.3)	(1.7)
Total	—	(0.9)

1990

Kilowatthour sales were virtually the same as a year ago. The decrease in residential sales was due to reduced air conditioning use during the summer months and reduced heating loads during milder winter weather, partially offset by the effect of continued growth in the number of customers. The increase in commercial sales was due primarily to continued growth in the number of customers. The decrease in industrial sales was due to lower sales to automotive and steel customers.

1989

Kilowatthour sales decreased 0.9%. Residential sales decreased due primarily to cooler summer weather. Commercial sales increased due to continued growth in the number of customers. The decrease in industrial sales was due primarily to lower sales to automotive, automotive-related and steel customers, partially offset by higher sales to other industrial customers. Business expansion slowed in the fourth quarter as automobile and steel production declined toward year-end, reflecting plant shutdowns and weak automotive sales.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Energy Transmission Services

Energy transmission service revenues represent fees for the transmission of electricity of other utilities over the Company's transmission lines. Revenues will continue to be generated from these services in the future but at a substantially lower level.

Provision for Refund to Customers

The Company established a provision for refund to customers of prior years' PSCR costs due to a refund to the Company of property taxes on the Michigan Public Power Agency's ("MPPA") ownership interest in the Belle River Power Plant. This decrease in operating revenues was offset by a decrease in other power supply expenses.

Operating Expenses

Fuel and Other Power Supply

Fuel and other power supply expense decreased due to the following factors:

	1990	1989
	(Millions)	
Net system output	\$ (5)	\$(12)
Average unit cost	(182)	(21)
Other	(1)	3
Total	\$(188)	\$(30)

Net system output and average unit costs were as follows:

	1990	1989	1988
	(Thousands of Megawatthours)		
Power plant generation			
Fossil	40,442	41,181	41,925
Nuclear	7,090	4,612	3,756
Purchased and net interchange power	(4,065)	(2,089)	(1,430)
Net system output	43,467	43,704	44,251
Average unit cost (\$/Megawatthour)	\$16.51	\$20.72	\$21.19

The decrease in average unit cost for 1990 and 1989 reflects declining fuel prices due to greater use of lower cost Western low-sulfur coal, improved operating performance of the Company's generating units and higher net sales of energy to other utilities. The decrease in 1990 also reflects lower buyback expense as a result of the Company's purchase, effective January 1, 1990, of the Wolverine Power Supply Cooperative, Inc.'s ("Cooperative") ownership interest in Fermi 2 and as a result of a refund of property taxes on the MPPA's ownership interest in the Belle River Power Plant. Because market conditions have changed and the Company is able to purchase coal at prices lower than some existing long-term contracts, the Company is buying out fuel supply contracts whenever it is prudent and economic.

Other Operation

1990

Other operation expense increased due primarily to employee incentive award expenses related to a shareholder value improvement plan, higher expenses related to an arrangement which

provides for the voluntary separation from service of certain employees, higher uncollectible, consultant and employee pension and benefit expenses and an accrual for the 1991 refueling outage at Fermi 2, which recognizes the cost of the refueling outage over periods in which related revenues are recognized. These increases were partially offset by the expenditures incurred in the prior year for the first scheduled refueling and maintenance outage at Fermi 2.

1989

Other operation expense decreased due primarily to lower expenses related to an arrangement which provides for the voluntary separation from service of certain employees and the lower cost of operating Fermi 2. These decreases were partially offset by service fees and expenses associated with the sale of \$200 million of accounts receivable and unbilled revenues.

Maintenance

1990

Maintenance expense decreased due primarily to lower nuclear plant maintenance expense and to the expenditures incurred in the prior year for the first scheduled refueling and maintenance outage at Fermi 2. Partially offsetting these decreases was an accrual for the 1991 refueling outage at Fermi 2.

1989

Maintenance expense increased due primarily to higher fossil fuel plant maintenance (primarily at Monroe Power Plant) and the first scheduled refueling and maintenance outage at Fermi 2.

Depreciation and Amortization

1990 and 1989

Depreciation and amortization expense increased due to increases in plant in service, including the Company's purchase of the Cooperative's ownership interest in Fermi 2 in February 1990, and the ten-year amortization of \$300 million of Fermi 2 costs beginning in 1989.

Deferred Fermi 2 Depreciation and Amortization

1990 and 1989

Deferred Fermi 2 depreciation, a non-cash item of income, was recorded beginning with the implementation of the Fermi 2 rate phase-in plan on January 24, 1988. The annual amount deferred decreases each year through 1992. Deferred Fermi 2 amortization, also a non-cash item of income, was recorded beginning with the Company's purchase of the Cooperative's ownership interest in Fermi 2 in February 1990. The annual amount deferred will decrease each year through 1999.

Taxes Other Than Income Taxes

1990

Taxes other than income taxes increased due primarily to higher Michigan Single Business Tax and higher property taxes.

1989

Taxes other than income taxes increased due primarily to higher property taxes resulting from the commercial operation of Fermi 2, higher Michigan Single Business Tax and higher payroll taxes.

Income Taxes

1990 and 1989

Income taxes increased due primarily to higher pretax income. The effective income tax rate increased to 29.6% in 1990 from 25.5% in 1989 and 21.5% in 1988.

Deferred Fermi 2 Return

1990 and 1989

Deferred Fermi 2 return, a non-cash item of income, was recorded beginning with the implementation of the Fermi 2 rate phase-in plan on January 24, 1988. The annual amount deferred will decrease each year through 1992.

Other Income and Deductions

1990

Other income and deductions decreased due primarily to premium and expenses associated with the early redemption of Series UU Mortgage Bonds, 10%, and the cost of establishing a decommissioning fund for Fermi 1, an experimental nuclear unit that has been shut down since 1972, partially offset by higher interest income on temporary cash investments.

Accretion Income

1990 and 1989

Accretion income, a non-cash item of income, was recorded beginning in January 1988 in order to restore to income, over the period 1988-1998, losses recorded due to discounting indirect disallowances of plant costs. The level of accretion income recorded increased in 1989 as a result of additional Fermi 2 losses recorded in December 1988.

Interest Charges

1990

Interest expense on long-term debt increased due primarily to the issuance of \$537.1 million of Mortgage Bonds to purchase the Cooperative's ownership interest in Fermi 2, partially offset by the refunding of maturing securities and the early repayment of certain securities. Other interest expense decreased due primarily to lower levels of short-term borrowings.

1989

Interest expense on long-term debt decreased due to the early repayment of certain securities and the refunding of maturing securities, partially offset by the issuance of new securities.

Preferred and Preference Stock Dividend Requirements

1990 and 1989

Preferred and preference stock dividend requirements decreased due to optional and mandatory redemptions of outstanding shares.

Liquidity and Capital Resources

The Company's liquidity has improved since the 1988 commercial operation of Fermi 2, a nuclear generating unit comprising 33% of the Company's assets, as a result of scheduled rate increases in accordance with the Company's 1988 rate case settlement and lower levels of capital expenditures.

The commercial operation of Fermi 2 completed the Company's power plant construction program. The Company has no current plans for additional generating plants. As a result, the Company

expects that its liquidity will continue to improve. However, ownership of an operating nuclear generating unit such as Fermi 2 subjects the Company to significant additional risks. Nuclear plants are highly regulated by a number of governmental agencies concerned with public health and safety as well as the environment, and consequently, are subject to greater risks and scrutiny than conventional fossil-fueled plants.

At December 31, 1990, Fermi 2 was insured for property damage in the amount of \$2.185 billion and the Company had available \$7.4 billion in public liability insurance. To the extent that insurable claims for replacement power, property damage, decontamination, repair and replacement and other costs and expenses arising from a nuclear incident at Fermi 2 exceed the policy limits of insurance, or to the extent that such insurance becomes unavailable in the future, the Company will retain the risk of loss. Although the Company has no reason to anticipate a serious nuclear incident at Fermi 2, if such an incident did happen it could have a material but presently undeterminable adverse impact on the Company's liquidity and financial position.

The Company generates substantial cash flows from operating activities as shown in the Consolidated Statement of Cash Flows. Net cash from operating activities, which is the Company's primary source of liquidity, was \$548 million in 1988, \$916 million in 1989 and \$923 million in 1990. Net cash from operating activities has increased due to higher net income, higher non-cash charges (depreciation, amortization and deferred income taxes) to income and, in 1989, the sale of accounts receivable and unbilled revenues.

In February 1990, the Company purchased the Cooperative's 11.198% Fermi 2 ownership interest for \$539.6 million (\$513 million for plant, \$23.2 million for nuclear fuel and \$3.4 million for materials and supplies and other). As payment of the purchase price, the Company made a cash payment of \$2.5 million and issued \$537.1 million of its 1990 Series A, B and C Mortgage Bonds.

Net cash used for investing activities decreased in 1990 due to the February 1990 sale to Renaissance Energy Company of nuclear fuel acquired in connection with the purchase of the Cooperative's ownership interest in Fermi 2.

Net cash used for financing activities has increased following completion of the Company's power plant construction program. Debt financing in 1988 through 1990 was used for optional and mandatory redemption of higher cost long-term debt and preferred and preference stock.

Effective April 15, 1990, the quarterly common stock dividend was increased from \$0.42 per share to \$0.445 per share.

Cash requirements for capital expenditures were \$227 million in 1990 and are expected to be approximately \$1.5 billion from 1991-1995. In 1991, cash requirements for capital expenditures are estimated at \$277 million.

Cash requirements to meet optional and mandatory long-term debt and preferred and preference stock redemptions were \$352 million during 1990. Cash requirements for scheduled long-term debt and preferred and preference stock redemptions are expected

Management's Discussion and Analysis of Financial Condition and Results of Operations

to be \$127 million, \$432 million and \$338 million for 1991, 1992 and 1993, respectively, and \$73 million for each of the years 1994 and 1995.

The Company's internal cash generation is expected to be sufficient to meet cash requirements for capital expenditures as well as scheduled long-term debt and preferred and preference stock redemption requirements.

At December 31, 1990, cash and temporary cash investments totaled \$146 million. The Company had short-term credit arrangements of \$301.1 million at December 31, 1990, under which no borrowings were outstanding.

Capitalization

The Company's objective is to achieve a capital structure of approximately 40% common shareholders' equity, 5-10% preferred and preference stock and 50-55% long-term debt. The Company's capital structure ratios (excluding amounts of long-term debt and preferred and preference stock due within one year) were as follows:

	December 31		
	1990	1989	1988
Common Shareholders' Equity	32.8%	32.3%	32.4%
Preferred and Preference Stock	4.8	5.5	6.0
Long-Term Debt	62.4	62.2	61.6
	100.0%	100.0%	100.0%

The ratio of preferred and preference stock to total capitalization has decreased due to optional and mandatory redemptions of outstanding shares. The Company expects to attain its capital structure objectives with future earnings and the redemption of certain debt securities prior to scheduled maturity when economic.

Competition

An electric public utility must compete with other energy suppliers to meet its customers' energy needs. Serious issues facing the entire electric utility industry include deregulation, competition, municipalization, cogeneration, independent power production and open access to transmission. Utility customers have the option of self-generation or cogeneration and, depending on the extent of future deregulation, may be able to enter into contracts with other power suppliers. In the future, rather than being solely a supplier of electricity, electric utilities may be required to offer a combination of products and services to meet the needs of customers.

Meeting Energy Demands

Sales and demand are expected to grow at an average rate of 1.5 percent per year for the next 15 years. This compares with an average growth of 1.3 percent during the past 15 years.

Due to current recessionary conditions, sales for 1991 are anticipated to increase by only 0.4 percent from 1990. Higher residential and commercial sales in 1991 are expected to offset the decline in industrial sales which began in 1989 and is expected to continue into 1991.

Sales to the non-manufacturing segment, which include customers such as agribusiness, grocery stores, restaurants and government, are projected to grow at the strongest pace in that 15-year period—an average increase of 1.9 percent per year—despite

a moderate rise of 0.4 percent projected for 1991. This projected increase indicates the Company is becoming less dependent on its larger manufacturing customers.

The Company's peak load in 1991 is expected to be 9,002 megawatts and is projected to increase at an average rate of 1.5 percent per year over the next 15 years. The forecasted 1991 peak load is 131 megawatts lower than the Company's all-time peak of 9,133 megawatts in August 1988.

The Company expects to meet near-term demand for energy by the return to service, subject to environmental regulations, of plants currently in extended cold standby and economy reserve units when energy demand and consumption requirements provide economic justification. However, there is continuing interest in cogeneration and independent power production from customers and regulatory agencies. Current laws require the Company, as a public utility, to purchase the electrical output of certain non-utilities at the Company's avoided cost. Current and proposed Federal Energy Regulatory Commission and legislative activities would further encourage the development of generating facilities by independent power producers. While electric energy produced by these other sources could result in displacement or loss of sales made by the Company, this energy may provide needed future capacity.

Environmental Matters

Protecting the environment from damage, as well as correcting past environmental damage, continues to be the focus of state and federal regulators. The Environmental Protection Agency ("EPA") and the Michigan Department of Natural Resources have aggressive programs regarding the cleanup of property containing chemicals not disposed of in accordance with current regulations. The Company anticipates that it will be periodically included in these types of environmental proceedings. Further, additional environmental expenditures will be necessary as the Company prepares to comply with the 1990 Amendments to the federal Clean Air Act.

Of eleven titles in the Clean Air Act amendments, Titles III, IV and V on Air Toxics, Acid Rain and Operating Permits, respectively, will have the most direct impact on the Company.

Title III, Air Toxics, requires the EPA to conduct a three-year study on toxic air emissions from utility boilers, as well as a four-year study of mercury emissions from fossil fuel-fired boilers, to determine whether regulations are required. Until such studies are completed and resulting regulations, if any, are promulgated, the impact on the Company is indeterminate.

Title IV, Acid Rain, requires a two-phased reduction in sulfur dioxide ("SO₂") emissions and nitrogen oxides ("NO_x") emissions from 1980 levels by the year 2000. The Company already meets Phase I SO₂ emission requirements. Phase II begins in the year 2000 and provides that electric utility units greater than 25 megawatts will be held to total annual SO₂ emissions based on a formula. The Company currently burns low sulfur coal (less than one percent sulfur) at all of its coal-fired units and believes it can meet the Phase II SO₂ emission requirements through additional blending of coals. The additional blending could result in increased annual fuel costs of \$40 million per year. Additional capital expenditures are expected to be minimal.

The amendments provide for the purchase and sale of emission credits under certain circumstances. It is therefore possible that the Company may be able to buy or sell emission credits which could offset the costs of compliance. However, it is still unknown how and to what extent the emission credits system will be included in the regulations implementing the amendments.

The Company is not affected by Phase I NO_x emissions requirements. Compliance with Phase II NO_x emissions reductions will require the installation of low-NO_x burners on most Company units by the year 2000. Capital expenditures, estimated at \$160 million, may be incurred to comply with these requirements.

These estimates are based upon the language of the amendments and are subject to change as regulations are developed and implemented.

Title V, Operating Permits, established an operating permit program commencing in 1996. The permits will be valid for a period of up to five years, and are then subject to reissuance.

The Company believes that substantially all of the costs of compliance will be recovered through the ratemaking process.

Inflation

The regulatory process limits the recovery of capital investment to the historical cost of the Company's investment in utility plant. This produces cash flows which are inadequate to replace such property in future years, but the Company believes that it will be allowed to recover the increased cost of replacement facilities when, and if, replacement occurs.

The cost of fuel used in the generation of electricity, the Company's single largest expense, is subject to increase due to price escalation provisions in long-term coal contracts. The MPSC's December 1988 order suspends, for the four-year period January 1, 1989 through December 31, 1992, the PSCR Clause which provided for the current recovery of fuel and purchased and net interchange power expense. However, it is expected that such expenses will be relatively stable during the four-year period.

Pursuant to the MPSC's December 1988 order, a new expense stabilization procedure applicable to approximately \$750 million of Company operation and maintenance expenses, permits rates to be adjusted for the effects of inflation. Under this procedure, a surcharge or credit is implemented on January 1 of each of the years 1990 through 1992 to offset annual increases or decreases in operation and maintenance expenses.

Accounting Issues

In December 1987, the Financial Accounting Standards Board ("FASB") issued SFAS No. 96, "Accounting for Income Taxes," however, the effective date was deferred to 1992. SFAS No. 96 requires an asset and liability approach for financial accounting and reporting for income taxes. It requires the Company to recompute its tax liability at the then current tax rate and adjust the Accumulated Deferred Income Tax asset and liability amounts in the Consolidated Balance Sheet. In addition, it requires the Company to record additional deferred income taxes for temporary differences not previously recognized and all other existing differences that will result in taxable or deductible amounts in future years. SFAS No. 96 requires the recognition of an asset to the extent that such additional deferred income taxes are associated

with probable future revenue from customers. In late 1990, the FASB approved a package of tentative revisions to SFAS No. 96. It is anticipated that the FASB will issue a new statement on income taxes by the end of 1991 which would supersede SFAS No. 96 and require adoption no later than 1993. The Company expects that when SFAS No. 96 or a new statement on income taxes is adopted, it will not have a material effect on net income.

In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Company is currently reviewing the statement and, as permitted, anticipates adopting the provisions of SFAS No. 106 in 1993. Most employers, including the Company, have accounted for postretirement benefits other than pensions on a pay-as-you-go (cash) basis. SFAS No. 106 requires the accrual of postretirement benefits during the active service periods of employees to the date they attain full eligibility for benefits. The Company anticipates amortizing the obligation, which has not yet been determined but which could be significant, over 20 years as permitted by SFAS No. 106. The Company expects to continue to recover the costs of providing such benefits through the ratemaking process and, therefore, the adoption of SFAS No. 106 is not expected to have a material effect on net income.

Comparative Results of Operations (Dollars in Thousands)

	1990	1989	1988	1987
Operating Revenues				
Electric	\$3,279,248	\$3,171,456	\$3,070,724	\$2,825,910
Steam	27,491	31,575	31,488	30,821
Total Operating Revenues	\$3,306,739	\$3,203,031	\$3,102,172	\$2,856,731
Operating Expenses				
Operation				
Fuel	\$ 788,355	\$ 820,765	\$ 846,678	\$ 813,376
Other power supply	(13,142)	142,240	146,773	47,814
Other operation	545,476	514,017	521,152	441,046
Maintenance	279,528	291,365	275,610	245,736
Depreciation and amortization	406,330	364,554	325,423	237,325
Deferred Fermi 2 depreciation and amortization	(39,208)	(35,234)	(44,143)	—
Taxes other than income	250,459	225,763	212,656	179,308
Income taxes	209,931	129,626	89,944	159,488
Total Operating Expenses	\$2,427,729	\$2,453,096	\$2,374,693	\$2,124,093
Operating income	\$ 879,010	\$ 749,935	728,079	\$ 732,638
Other Income and Deductions				
Allowance for other funds used during construction	\$ —	\$ —	1,663	\$ 136,452
Deferred Fermi 2 return	78,379	107,169	134,264	—
Other income and deductions	(7,329)	675	(789)	(3,435)
Income taxes	2,304	843	(769)	663
Disallowed plant costs	—	—	(875,372)	—
Accretion income	48,794	50,188	25,866	—
Income taxes - disallowed plant costs and accretion income	(8,198)	(17,047)	225,171	—
Net Other Income and Deductions	\$ 113,950	\$ 141,828	\$ (489,966)	\$ 133,680
Income Before Interest Charges	\$ 992,960	\$ 891,763	\$ 238,113	\$ 866,318
Interest Charges				
Long-term debt	\$ 472,369	\$ 444,204	\$ 451,415	\$ 417,474
Amortization of debt discount, premium and expense	4,539	4,368	4,593	3,626
Other	4,853	20,980	20,663	23,459
Allowance for borrowed funds used during construction (credit)	(3,260)	(3,740)	(3,224)	(133,215)
Net Interest Charges	\$ 478,501	\$ 465,812	\$ 473,447	\$ 311,344
Income (Loss) Before Cumulative Effect of Accounting Changes	\$ 514,459	\$ 425,951	\$ (235,334)	\$ 554,974
Cumulative Effect for Years Prior to 1988 of Accounting Changes for:				
Disallowed plant costs and abandonments (net of income taxes of \$111,257)	—	—	(344,147)	—
Unbilled revenues (net of income taxes of \$40,912)	—	—	61,367	—
Property taxes (net of income taxes of \$101,306)	—	—	139,288	—
Net Income (Loss)	\$ 514,459	\$ 425,951	\$ (378,826)	\$ 554,974
Preferred and Preference Stock Dividend Requirements	35,179	37,018	49,757	78,240
Earnings (Loss) for Common Stock	\$ 479,280	\$ 388,933	\$ (428,583)	\$ 476,734
Common Shares Outstanding - Average	146,888,809	146,816,363	146,761,458	146,729,292
Earnings (Loss) Per Share				
Before cumulative effect of accounting changes	\$3.26	\$2.65	\$(1.95)	\$3.25
Cumulative effect for years prior to 1988 of accounting changes for:				
Disallowed plant costs and abandonments	\$ —	\$ —	\$(2.34)	\$ —
Unbilled revenues	\$ —	\$ —	\$ 0.42	\$ —
Property taxes	\$ —	\$ —	\$ 0.95	\$ —
Earnings (Loss) Per Share	\$3.26	\$2.65	\$(2.92)	\$3.25
Dividends Declared Per Share of Common Stock	\$1.78	\$1.68	\$ 1.68	\$1.68
Ratio of Earnings to Fixed Charges (SEC Basis)	2.42	2.14	0.05	2.54
Ratio of Earnings to Fixed Charges and Preferred and Preference Stock Dividend Requirements (SEC Basis)	2.21	1.95	0.04	2.09

1986	1985	1984	1983	1982	1981	1980
\$2,832,945	\$2,738,356	\$2,439,835	\$2,260,021	\$2,078,965	\$2,011,217	\$1,776,364
36,339	49,801	58,370	49,637	44,289	42,840	36,150
\$2,869,284	\$2,788,157	\$2,498,205	\$2,309,658	\$2,123,254	\$2,054,057	\$1,812,514
\$ 741,206	\$ 785,110	\$ 700,789	\$ 676,409	\$ 718,421	\$ 689,165	\$ 670,116
191,126	196,918	184,740	128,921	74,654	139,981	107,767
459,534	422,133	403,616	374,164	372,767	333,440	290,566
258,655	250,798	203,945	187,769	170,974	164,978	133,270
232,240	218,502	190,420	171,940	161,430	150,240	141,948
—	—	—	—	—	—	—
177,381	175,556	144,471	142,743	118,537	117,224	115,523
126,596	124,939	131,459	145,559	96,912	64,388	37,012
\$2,186,738	\$2,173,951	\$1,959,440	\$1,827,505	\$1,713,705	\$1,659,416	\$1,496,199
\$ 682,546	\$ 614,201	\$ 538,765	\$ 482,153	\$ 409,549	\$ 394,641	\$ 316,315
\$ 117,062	\$ 113,223	\$ 130,350	\$ 92,750	\$ 47,995	\$ 39,398	\$ 38,815
—	—	—	—	—	—	—
(16,869)	(5,240)	1,829	7,877	(4,820)	(9,501)	692
8,827	1,642	(112)	(5,487)	1,155	4,771	(669)
—	—	—	—	—	—	—
—	—	—	—	—	—	—
\$ 109,027	\$ 109,627	\$ 132,067	\$ 95,140	\$ 44,330	\$ 34,668	\$ 38,838
\$ 791,573	\$ 723,828	\$ 670,832	\$ 577,293	\$ 453,879	\$ 429,309	\$ 355,153
\$ 399,429	\$ 401,272	\$ 399,448	\$ 351,854	\$ 331,469	\$ 290,045	\$ 211,857
2,721	2,502	2,191	2,131	2,006	1,853	1,776
41,410	15,642	30,592	53,088	59,779	37,025	19,662
(129,082)	(133,103)	(163,336)	(194,402)	(194,076)	(133,967)	(66,708)
\$ 314,478	\$ 286,313	\$ 268,895	\$ 212,671	\$ 199,178	\$ 194,956	\$ 166,587
\$ 477,095	\$ 437,515	\$ 401,937	\$ 364,622	\$ 254,701	\$ 234,353	\$ 188,566
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
\$ 477,095	\$ 437,515	\$ 401,937	\$ 364,622	\$ 254,701	\$ 234,353	\$ 188,566
98,803	103,264	104,159	98,614	73,245	57,566	51,037
\$ 378,292	\$ 334,251	\$ 297,778	\$ 266,008	\$ 181,456	\$ 176,787	\$ 137,529
146,643,377	143,183,133	135,230,827	120,274,269	103,585,915	87,473,581	78,780,863
\$2.58	\$2.33	\$2.20	\$2.21	\$1.75	\$2.01	\$1.75
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
\$2.58	\$2.33	\$2.20	\$2.21	\$1.75	\$2.02	\$1.75
\$1.68	\$1.68	\$1.68	\$1.68	\$1.68	\$1.64	\$1.60
2.29	2.28	2.19	2.22	1.85	1.84	1.90
1.81	1.75	1.67	1.67	1.49	1.53	1.53

Statistical Review

	1990	1989	1988	1987
Operating Revenues (Thousands)				
Residential - Electric	\$ 1,045,081	\$ 1,013,677	\$ 984,689	\$ 905,208
Commercial - Electric	867,317	828,106	760,040	701,275
Industrial - Electric	1,201,254	1,171,389	1,139,778	1,056,906
Other	193,087	189,859	217,665	193,342
Total	\$ 3,306,739	\$ 3,203,031	\$ 3,102,172	\$ 2,856,731
Sales (Millions of kWh)				
Residential	11,513	11,524	11,723	11,134
Commercial	8,688	8,552	8,310	7,873
Industrial	18,707	18,762	19,080	18,225
Other	1,688	1,747	1,845	2,260
Total	40,596	40,585	40,958	39,492
Electric Customers (Year End)				
Residential	1,757,878	1,738,494	1,718,835	1,691,166
Commercial	164,919	162,255	158,850	156,116
Industrial	2,739	2,671	2,592	2,307
Other	1,930	1,925	1,917	1,919
Total	1,927,466	1,905,345	1,882,194	1,856,968
Average Annual Use Per Residential Customer (kWh)				
	6,583	6,668	6,866	6,635
Average Annual Bill Per Residential Customer				
	\$597.51	\$586.50	\$576.70	\$539.44
Average Revenue Per kWh				
Residential	9.08¢	8.80¢	8.40¢	8.13¢
Commercial	9.98	9.68	9.15	8.91
Industrial	6.42	6.24	5.97	5.80
Capitalization (Thousands)				
Long-Term Debt	\$ 4,923,999	\$ 4,561,005	\$ 4,238,536	\$ 4,693,687
Preferred/Preference Stock	376,183	399,188	416,212	521,894
Common Shareholders' Equity	2,588,451	2,370,060	2,226,949	2,919,985
Total	\$ 7,888,634	\$ 7,330,253	\$ 6,881,697	\$ 8,135,566
Capitalization (Percent)				
Long-Term Debt	62.4	62.2	61.6	57.7
Preferred/Preference Stock	4.8	5.5	6.0	6.4
Common Shareholders' Equity	32.8	32.3	32.4	35.9
Total	100.0	100.0	100.0	100.0
Common Stock Data				
Earnings (Loss) Per Share	\$3.26	\$2.65	\$(2.92)	\$1.25
Dividend Paid Per Share	\$1.755	\$1.68	\$1.68	\$1.68
Payout	54%	63%	—%	57%
Shares Outstanding - Average	146,888,809	146,816,363	146,761,458	146,729,292
Return on Average Common Equity	19.11%	16.75%	(15.91)%	16.69%
Book Value Per Share	\$17.56	\$16.07	\$15.10	\$19.75
Market Price				
High	\$30¼	\$25¼	\$17½	\$19
Low	\$23½	\$17¼	\$12	\$12½
Miscellaneous Financial Data				
Average Interest Rate on Long-Term Debt	9.2%	9.5%	9.6%	9.5%
Average Dividend Rate on Preferred/Preference Stock	8.7%	8.8%	8.9%	10.7%
Long-Term Debt Obligations and Redeemable Preferred and Preference Stock Outstanding (Thousands)				
Total Assets (Thousands)	\$ 5,300,962	\$ 5,028,961	\$ 5,148,498	\$ 5,232,662
Gross Utility Plant (Thousands)	\$10,573,325	\$ 9,949,599	\$10,060,293	\$11,158,214
Net Utility Plant (Thousands)	\$11,749,142	\$11,024,368	\$10,766,755	\$11,893,418
Capital Expenditures (Thousands)	\$ 8,624,923	\$ 8,236,553	\$ 8,303,644	\$ 9,682,875
	\$ 230,201	\$ 242,973	\$ 235,127	\$ 709,084
Miscellaneous Operating Data				
System Capability at Year End - MW	10,130	10,081	10,004	9,164
System Capability at Time of Peak - MW	9,953	9,942	10,038	9,020
System Peak Demand - MW	9,032	8,704	9,133	8,427
Reserve Margin at Time of Peak	10.2%	14.2%	9.9%	7.0%
System Load Factor	54.9%	57.3%	55.2%	57.4%
Heat Rate - Btu Per kWh	9,940	9,940	9,990	10,060
Fuel Cost - ¢ Per Million Btu	155.8¢	169.2¢	173.8¢	172.9¢
Number of Employees at Year End	9,669	10,254	10,614	11,221

1986	1985	1984	1983	1982	1981	1980
\$ 880,205	\$ 827,210	\$ 758,124	\$ 741,399	\$ 676,370	\$ 642,301	\$ 583,701
693,071	651,559	570,082	513,292	473,498	436,868	382,018
1,063,551	1,034,374	919,490	818,660	754,238	763,167	658,051
232,457	275,014	250,509	236,307	219,148	211,721	188,744
\$ 2,869,284	\$ 2,788,157	\$2,498,205	\$2,309,658	\$2,123,254	\$2,054,057	\$1,812,514
10,492	10,077	10,150	10,256	9,940	10,134	10,394
7,501	7,130	6,850	6,479	6,252	6,310	6,265
17,240	16,613	16,324	15,162	13,751	15,471	15,472
2,807	2,875	2,563	2,402	2,052	2,107	2,104
38,040	36,695	35,887	34,299	31,995	34,022	34,235
1,664,226	1,642,981	1,629,668	1,621,172	1,619,369	1,624,161	1,623,162
148,987	144,942	142,395	140,403	139,376	138,830	136,983
2,384	2,314	2,246	2,253	2,239	2,305	2,293
1,896	1,883	1,885	1,878	1,827	1,821	1,750
1,817,493	1,792,120	1,776,194	1,765,706	1,762,811	1,767,117	1,764,188
6,350	6,165	6,253	6,332	6,133	6,243	6,408
\$532.74	\$506.06	\$467.03	\$457.74	\$417.33	\$395.66	\$359.86
8.39¢	8.21¢	7.47¢	7.23¢	6.80¢	6.34¢	5.62¢
9.24	9.14	8.32	7.92	7.57	6.92	6.10
6.17	6.23	5.63	5.40	5.49	4.93	4.25
\$ 3,656,569	\$ 3,770,863	\$3,845,272	\$3,542,438	\$3,218,649	\$2,753,978	\$2,450,457
742,273	879,497	894,168	907,505	802,423	603,161	591,346
2,716,403	2,588,025	2,379,998	2,195,361	1,872,181	1,675,385	1,514,169
\$ 7,115,245	\$ 7,238,385	\$7,119,438	\$6,645,304	\$5,893,253	\$5,032,524	\$4,555,972
51.4	52.1	54.0	53.3	54.6	54.7	53.8
10.4	12.1	12.6	13.7	13.6	12.0	13.0
38.2	35.8	33.4	33.0	31.8	33.3	33.2
100.0	100.0	100.0	100.0	100.0	100.0	100.0
\$2.58	\$2.33	\$2.20	\$2.21	\$1.75	\$2.02	\$1.75
\$1.68	\$1.68	\$1.68	\$1.68	\$1.68	\$1.62	\$1.60
65%	72%	76%	76%	96%	80%	91%
146,643,377	143,183,133	135,230,827	120,274,269	103,585,915	87,473,581	78,780,863
14.09%	13.31%	12.87%	13.03%	10.14%	11.12%	9.47%
\$18.34	\$17.47	\$16.91	\$16.63	\$16.60	\$17.47	\$17.85
\$19%	\$17%	\$16%	\$16	\$13%	\$12%	\$13%
\$15%	\$14	\$11%	\$13	\$11	\$10%	\$10
9.2%	9.9%	9.9%	9.5%	9.5%	9.4%	9.0%
11.5%	11.6%	11.6%	11.6%	11.3%	9.8%	9.5%
\$ 4,774,495	\$ 4,731,589	\$4,460,381	\$4,155,329	\$3,792,982	\$3,182,033	\$2,809,976
\$10,377,125	\$ 9,863,760	\$9,276,614	\$8,477,218	\$7,645,856	\$6,617,903	\$5,751,801
\$11,062,449	\$10,466,039	\$9,752,346	\$8,845,779	\$8,252,570	\$7,139,790	\$6,213,495
\$ 9,034,716	\$ 8,612,890	\$8,076,168	\$7,320,570	\$6,824,058	\$5,842,997	\$5,026,245
\$ 645,196	\$ 710,699	\$ 938,004	\$1,014,568	\$1,135,045	\$ 964,261	\$ 644,540
9,070	9,296	8,898	8,162	7,762	8,221	8,234
9,199	9,367	9,271	7,810	8,569	8,458	8,531
8,050	7,172	7,350	7,063	6,394	7,171	6,703
14.3%	30.6%	26.1%	10.6%	34.0%	17.9%	27.2%
57.9%	63.3%	60.2%	60.2%	61.7%	58.4%	63.1%
10,090	9,990	9,990	10,040	10,060	10,060	10,140
189.2¢	202.0¢	190.6¢	190.2¢	193.8¢	190.5¢	178.3¢
10.967	11.086	11.136	11.152	11.208	11.024	10.789

Miscellaneous Corporate Data

Market for the Company's Common Equity and Related Shareholder Matters

The Company's Common Stock is listed on the New York Stock Exchange, which is the principal market for such stock, and the Midwest Stock Exchange. The following table indicates the reported high and low sales prices of the Company's Common Stock on the Composite Tape of the New York Stock Exchange and dividends paid per share for each quarterly period during the past two years:

Calendar Quarter		Price Range		Dividends Paid Per Share
		High	Low	
1989	First	\$18 1/4	\$17 1/4	\$0.42
	Second	21 1/4	17 1/4	0.42
	Third	22 1/4	20 1/4	0.42
	Fourth	25 1/4	22 1/4	0.42
1990	First	26 1/4	23 1/4	0.42
	Second	27 1/4	24 1/4	0.445
	Third	29 1/4	25 1/4	0.445
	Fourth	30 1/4	24 1/4	0.445

At December 31, 1990, 146,921,695 shares of the Company's Common Stock were outstanding. These shares were held by a total of 175,588 shareholders.

The amount of future dividends will depend upon the Company's earnings, financial condition and other factors.

Distribution of Ownership of Detroit Edison Common Stock

(December 31, 1990)

Type of Owner:

	Owners	Shares
Individuals	86,420	21,834,232
Joint Accounts	79,769	27,614,870
Trust Accounts	7,552	4,512,801
Nominees	106	79,763,551
Institutions and Foundations	214	102,405
Brokers and Security Dealers	18	11,005
Others	1,109	13,082,831
Total	175,588	146,921,695

State and Country:

	Owners	Shares
Michigan	83,354	38,783,391
Florida	12,344	4,869,941
California	10,380	3,297,489
New York	8,864	81,037,110
Illinois	7,871	2,753,460
Ohio	6,038	1,666,801
44 Other States	46,072	14,321,848
Foreign Countries	665	191,655
Total	175,588	146,921,695

Annual Meeting of Shareholders

The 1991 Annual Meeting of Shareholders will be held at 10 a.m. Detroit time Monday, April 22, at The Detroit Edison Company General Offices, 2000 Second Avenue, Detroit. Shareholders will be asked to (1) elect members of the Board of Directors, (2) ratify the appointment of Price Waterhouse as independent accountants, (3) amend the Company's By-Laws to classify the terms of the members of the Board and (4) amend the Company's Articles of Incorporation to increase the number of authorized shares of Common Stock, and to limit the liability of and provide indemnification for officers and directors of the Company.

At the April 23, 1990 Annual Meeting of Shareholders, 12 members were re-elected to the Board of Directors. In addition, Theodore S. Leipprandt and William Wegner were elected to the Board. All directors were elected to one-year terms.

Officer Retirements

Walter J. McCarthy, Jr., Chairman of the Board and Chief Executive Officer, retired on May 1, 1990. He was re-elected as a director at the 1990 Annual Meeting.

M. Jane Kay, Vice President-Administration, retired on September 1, 1990, after more than 47 years of Company service.

Officer Changes

John E. Lobbia was elected by the Board of Directors to the position of Chairman, President, and Chief Executive Officer effective May 1, 1990.

Larry G. Garberding was elected by the Board of Directors to the position of Executive Vice President, Chief Financial Officer, and member of the Board effective August 1, 1990.

In addition, the following officers have been elected since the 1990 Annual Meeting: Robert J. Buckler, Vice President-Divisions; and William S. Orser, Senior Vice President.

Corporate Address

The Detroit Edison Company
2000 Second Avenue, Detroit, Michigan 48226
Telephone: (313) 237-8000

Independent Accountants

Price Waterhouse
200 Renaissance Center, Detroit, Michigan 48243

Form 10-K

Copies of Form 10-K, Securities and Exchange Commission Annual Report, are available.

Requests should be directed to:

Susan M. Beale

Secretary

The Detroit Edison Company
2000 Second Avenue, Detroit, Michigan 48226

Transfer Agents

The Detroit Edison Company
2000 Second Avenue, Detroit, Michigan 48226

Susan M. Beale

Polly K. Brown

Ronald J. Gdowski

Elaine M. Godfrey

Sophie J. Koziatsek

Vianessa Y. Lurry

Janet A. Scullen

Jack L. Somers

Gloria A. Williams

Registrar of Stock

The Detroit Edison Company
2000 Second Avenue, Detroit, Michigan 48226
(Preferred, Preference and Common Stock)

Common Stock

Listed on the New York Stock Exchange and the Midwest Stock Exchange. Symbol - DTE

Directors and Officers

Board of Directors

Terence E. Adderley	President and Chief Executive Officer, Kelly Services, Inc. (A provider of temporary help, business services and home care services)
Wendell W. Anderson, Jr.	Retired Chairman of the Board and Chief Executive Officer, Bundy Corporation (Manufacturer of steel tubing, flexible hose and engineered plastic products)
Lillian Bauder	President, Cranbrook Educational Community
David Bing	Chairman, Bing Steel, Inc. (A steel service center)
Larry G. Garberding	Executive Vice President and Chief Financial Officer, The Detroit Edison Company
David M. Gates	Professor of Botany, University of Michigan
Theodore S. Leipprandt	Marketing Specialist, Cooperative Elevator Company
John E. Lobbia	Chairman, President and Chief Executive Officer, The Detroit Edison Company
Patricia Shontz Longe	Economist; Senior Partner, The Longe Company (An economic consulting and investment firm)
Walter J. McCarthy, Jr.	Retired Chairman of the Board and Chief Executive Officer, The Detroit Edison Company
Eugene A. Miller	Chairman, President and Chief Executive Officer of Comerica, Inc., and Chairman and Chief Executive Officer of Comerica Bank-Detroit and Comerica Bank National Association
Dean E. Richardson	Retired Chairman of the Board, Manufacturers National Corporation and retired Chairman of the Executive Committee of Manufacturers National Bank of Detroit
Alan E. Schwartz	Partner, Honigman Miller Schwartz and Cohn (attorneys at law)
Otis M. Smith	Of Counsel to Lewis, White and Clay (attorneys at law) and retired Vice President, General Motors Corporation
William Wegner	Consultant; Owner of W-Squared, Inc. (A consulting firm engaged in providing services to nuclear utility companies and to the U.S. government)

Committees

Audit	Nominating
Otis M. Smith*	Alan E. Schwartz*
Lillian Bauder	Wendell W. Anderson, Jr.
David Bing	David M. Gates
Theodore S. Leipprandt	Patricia Shontz Longe
Patricia Shontz Longe	Walter J. McCarthy, Jr.
Dean E. Richardson	Otis M. Smith
Energy Resources Planning	Nuclear Review
David M. Gates*	William Wegner*
Wendell W. Anderson, Jr.**	David M. Gates**
David Bing	Patricia Shontz Longe
Theodore S. Leipprandt	Walter J. McCarthy, Jr.
Walter J. McCarthy, Jr.	Organization and Compensation
William Wegner	Wendell W. Anderson, Jr.*
Executive	Terence E. Adderley**
John E. Lobbia*	Eugene A. Miller
Terence E. Adderley	Dean E. Richardson
Lillian Bauder	Alan E. Schwartz
Larry G. Garberding	Retirement Fund Review
Dean E. Richardson	Patricia Shontz Longe*
Alan E. Schwartz	Wendell W. Anderson, Jr.**
Finance	Larry G. Garberding
Dean E. Richardson*	David M. Gates
Patricia Shontz Longe**	Otis M. Smith
Terence E. Adderley	
Lillian Bauder	* Chairman
Larry G. Garberding	** Vice Chairman
Eugene A. Miller	
Alan E. Schwartz	

Officers

John E. Lobbia	Chairman of the Board, President and Chief Executive Officer	Stanley G. Catola	Vice President-Nuclear Engineering and Services
Larry G. Garberding	Executive Vice President and Chief Financial Officer	Malcolm G. Dade, Jr.	Vice President-Human Relations
Leon S. Cohan	Senior Vice President and General Counsel	Ronald W. Gresens	Vice President and Controller
Frank E. Agosti	Senior Vice President	Leslie L. Loomans	Vice President and Treasurer
Willard R. Holland	Senior Vice President	Robert V. Nicolson	Vice President-Fuel Supply
William S. Orser	Senior Vice President	S. Martin Taylor	Vice President-Community and Governmental Affairs
Robert J. Buckler	Vice President-Divisions	Saul J. Waldman	Vice President-Public Affairs
		Susan M. Beale	Secretary
		Frederick S. Karwacki	General Auditor

Detroit

Edison

2700 Second Avenue
Detroit, Michigan 48226

A good part of your life.