Douglas R. Gipson
Senior Vice President
Nuclear Generation

Detroit Edison

Fermi 2
6400 North Dixie Highway
Newport, Michigan 48166
(313) 586-5249

May 1, 1995
NRC-95-0036

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

References: 1) Fermi 2
NRC Docket No. 50-341
NRC License No. NPF-43

Subject: Annual Financial Report

Pursuant to 10 CRF 50.71(b), please find attached one copy of the 1994 Annual Financial Report for the Detroit Edison Company.

If you should have any questions regarding this report, please contact Elizabeth A. Hare, Compliance Engineer, at (313) 586-1427.

Sincerely,

DRGipson

Enclosure

cc: T. G. Colburn w/enclosure
J. B. Martin w/enclosure
M. P. Phillips w/enclosure
T. Vegel w/enclosure
Region III

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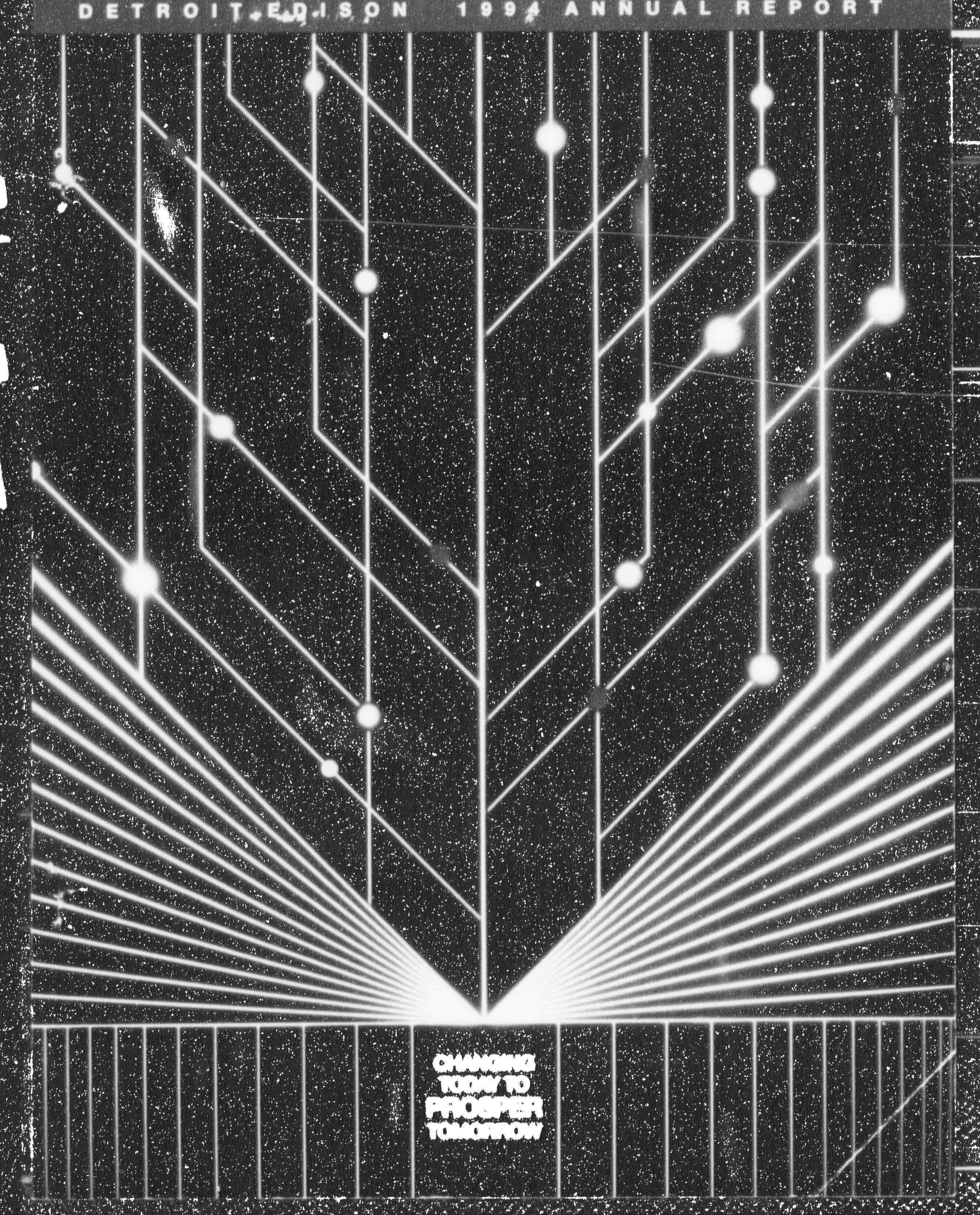
DETROIT EDISON 1994 ANNUAL REPORT



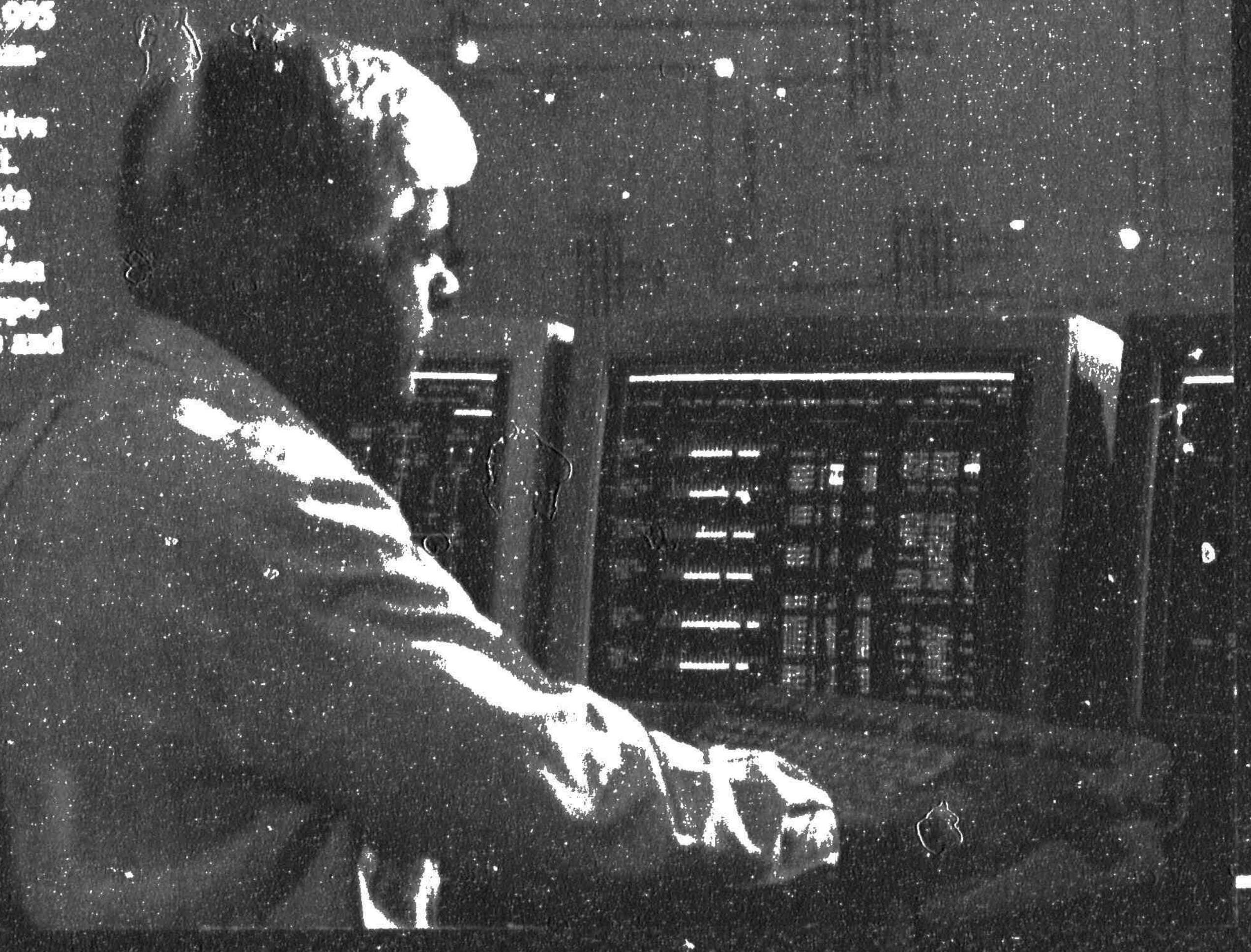
HIGHLIGHTS

One of the largest electric utilities in the United States, Detroit Edison serves nearly 2 million customers in 7,600 square miles of Southeastern Michigan. During the past several years the company substantially strengthened the reliability of its generation, transmission and distribution system to improve service to customers.

The company's strategy for future growth is consistent with its successful actions over the last five years to move the company from a traditional regulated utility to a more diversified energy company that will prosper in competitive markets. Detroit Edison plans to form a holding company in 1995 to provide greater financial flexibility in this increasingly competitive business environment. Although the corporate structure will change, Detroit Edison's mission remains to provide superior customer service and a reliable source of electrical power at competitive prices.

				Percent Change	
	1994	1993	1992	94 vs 93	93 vs 92
Operating Revenues *(Thousands)*	$3,519,341	$3,555,211	$3,558,143	(1.0)	(0.1)
Earnings for Common Stock *(Thousands)*	[illegible]	$491,066	[illegible]	[illegible]	[illegible]
Earnings per Common Share	$2.67	$3.34	[illegible]	[illegible]	[illegible]
Common Shares Outstanding *(Average)*	[illegible]	147,031,446	[illegible]	[illegible]	–
Dividends Declared per Share	$2.06	$2.06	[illegible]	–	[illegible]
Gross Utility Plant *(Thousands)*	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Capitalization *(Thousands)*	[illegible]	[illegible]	[illegible]	[illegible]	1.2
System Sales of Electricity *(kWh-Millions)*	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
System Capability at Time of Peak *(MW)*	[illegible]	[illegible]	[illegible]	1.5	[illegible]
System Peak Demand *(MW)*	[illegible]	9,362	[illegible]	[illegible]	[illegible]
Electric Customers at Year End	[illegible]	[illegible]	[illegible]	0.6	0.7

CONTENTS



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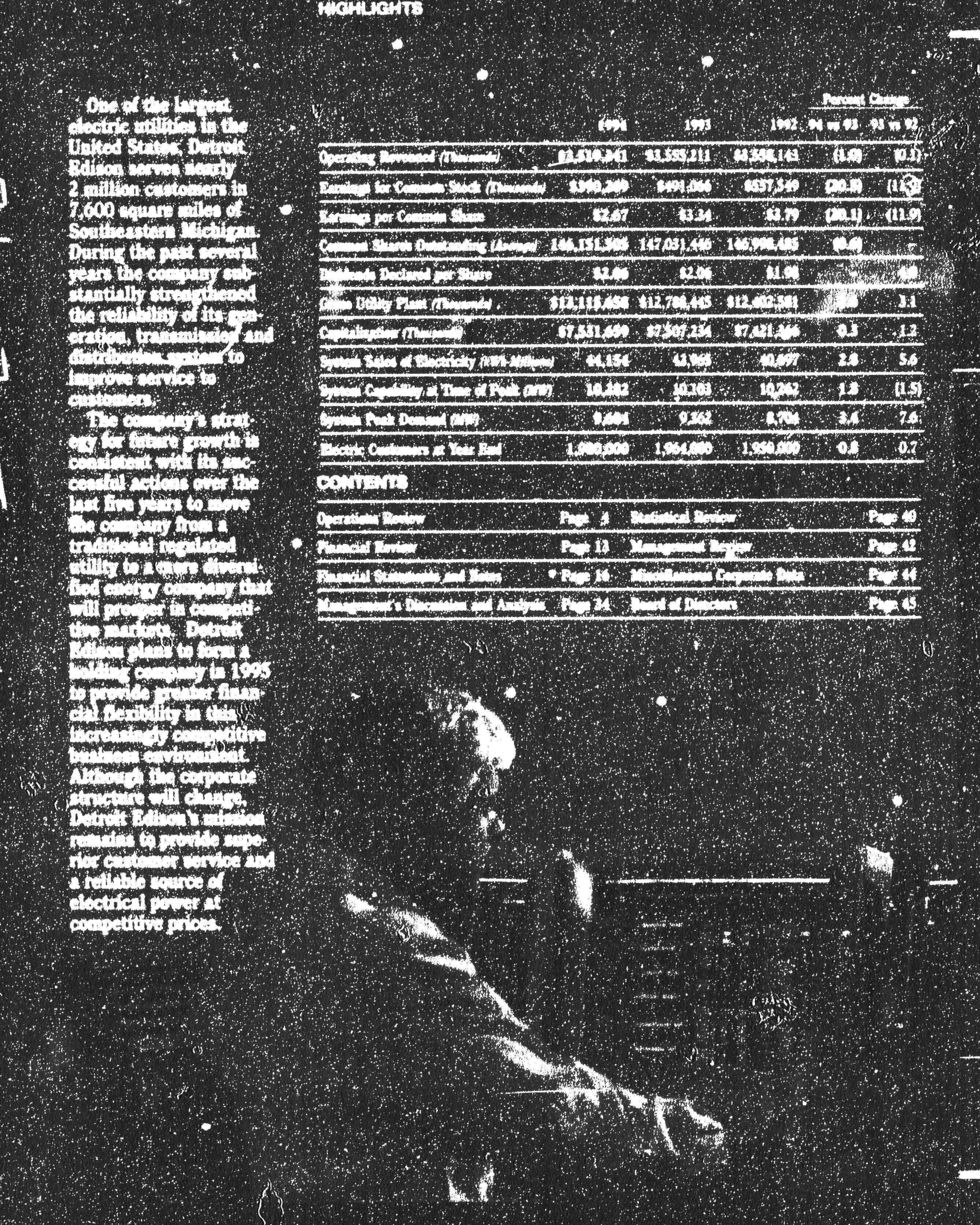
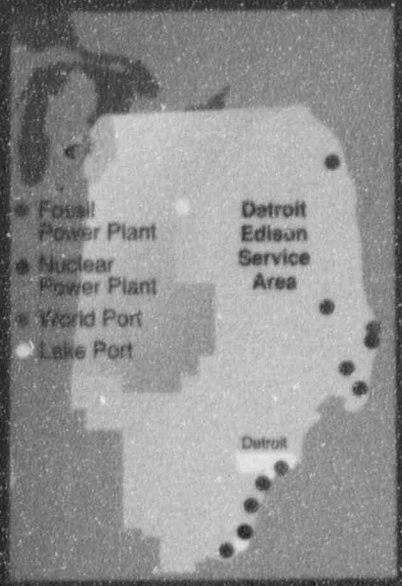
	1994	1993	1992	Percent Change 94 vs 93	93 vs 92
Operating Revenues (Thousands)	$3,510,341	$3,555,211	$3,598,143	(1.3)	(1.2)
Earnings for Common Stock (Thousands)	$590,209	$591,086	$657,549	(0.1)	(10.1)
Earnings per Common Share	$2.67	$3.34	$3.79	(20.1)	(11.9)
Common Shares Outstanding (Average)	146,151,308	147,031,440	146,998,485	(0.6)	0.0
Dividends Declared per Share	$2.06	$2.06	$2.06	0.0	0.0
Gross Utility Plant (Thousands)	$13,116,656	$12,708,445	$12,405,581	3.2	2.4
Capitalization (Thousands)	$7,531,659	$7,507,234	$7,421,866	0.3	1.2
System Sales of Electricity (kWh Millions)	44,154	43,968	40,697	2.8	5.6
System Capability at Time of Peak (MW)	10,382	10,368	10,262	1.3	(1.5)
System Peak Demand (MW)	9,694	9,362	8,704	3.4	7.6
Electric Customers at Year End	1,968,000	1,964,000	1,950,000	0.2	0.7

CONTENTS





At your service

For investment professionals:
Investor Relations
(313) 237-8030

For shareholders:
Shareholder Services
Toll-free (800) 551-5009

Detroit Edison
2000 2nd Ave.
Detroit, MI 48226-1279

Central System Supervisor Thomas P. Koscinski works at the System Operations Center, the nerve center for Detroit Edison's electrical generation, transmission and distribution system. The cover design depicts an abstract view of the best-in-class system which will enable the company to serve customers and grow in the 21st century.

We will remember 1994 as a year of significant gains and disappointing setbacks; but, most of all, it was a year of choices and changes. Maybe that is how 1994 is best remembered . . . as a time of positioning Detroit Edison for the future.

As most of the electric utility industry continued to debate the possibilities of deregulation, your company completed its first main rate case in five years, ending a period of virtual deregulation under what is now viewed as a highly successful settlement agreement with the Michigan Public Service Commission (MPSC). As we forecast in last year's annual report, earnings fell in 1994, largely because of the $78-million rate reduction effective Jan. 22, 1994. The price cut, the second in as many years, was due in part to the MPSC's decision to reduce Detroit Edison's allowed rate of return on common equity to 11 percent, close to the industry average.

With insurance expected to cover most of the 1994 expenses associated with the outage at our Fermi 2 nuclear power plant, the company earned $390.3 million compared with $491.1 million in 1993. Earnings per share were $2.67 in 1994, down from $3.34 in 1993. The return on common equity of 11.6 percent in 1994 was slightly above the allowed rate of return, and was better than expected because it included a $31 million reserve for the additional Fermi 2 expenses discussed later in this report.

The economic growth experienced by both the nation and Southeastern Michigan in 1994 induced the Federal Reserve Bank to increase interest rates. With new choices, some investors sold utility stocks to buy other securities and the Dow Jones electric utility average fell 18 percent, a major disappointment. It seems little consolation that the 13-percent price decline in Detroit Edison common stock was smaller than those of most other utilities.

Despite the ups and downs of the stock market, good earnings and a solid cash flow, coupled with an understanding of the importance of dividend income, led our Board to maintain dividends at $2.06 per share -- a rate we believe is sustainable in today's markets. Our tradition of uninterrupted dividends spans 85 years, and in 1994 paid you 77 percent of earnings.

While the interest-rate increases negatively impacted our stock price, operations profited from industrial customers' record demand for electricity. And we delivered, including an all-time peak demand June 16 of 9.68-million kilowatts and monthly peak records in nine of 1994's 12 months. While our Fermi 2 plant remained out of service during the year, our fossil-fueled plants operated with exemplary efficiency. Most of these facilities set or reached existing generating records delivering 44-billion kilowatthours of electricity, a sales record in itself. The people operating these plants deserve special recognition.

Incidentally, when we say delivered, we mean it literally. Last year a record-setting 58,000 lightning strikes occurred during 16 storms in our service territory and tested the value of our recent investments in storm communications, system reliability and service restoration. These investments paid off for our customers as the company attained the second-best record for service reliability in the nation.

We announced our intention to form a new holding company in 1995, primarily to provide greater financial flexibility in an increasingly competitive environment and to protect our utility business and customers from the risks involved with non-utility ventures.

Customer satisfaction is a key element to the future value of your investment. Like you, customers wanted choices and again we delivered.

In 1994 we offered alternatives to the Big Three automakers, our largest customers, by negotiating long-term energy contracts which await approval of the MPSC. Detroit Edison is the first utility in the country to secure contracts with an entire basic industry within a service area. These automotive contracts will lower electricity prices for the Big Three by between 10 percent and 15 percent. While this reduces our revenues, at least in the short term, it reduces our exposure to the growing competitive options in our industry and helps us stabilize our future earnings by ensuring that we retain these major industrial customers for as long as 10 years.

These contracts also will help us further improve our relationships with the Big Three by stationing Detroit Edison engineers in customer facilities to assist in lowering energy costs and improving quality and efficiency. Detroit Edison will therefore be a key player in helping automakers sustain their record-setting sales performance of 1994. These "value-creating" partnerships also can lead to further business opportunities for our company. These long-term, multi-purpose contracts typify a new, more-flexible pricing and service structure for industrial customers that ultimately will sustain and grow shareholder value.

Even greater competition looms in the future. In 1994, the MPSC established the framework for a mandatory retail wheeling program for Detroit Edison and Consumers Power, allowing our major industrial customers to buy up to 10 megawatts (MW) of electricity from alternate suppliers and requiring us to transmit the power on our lines. As proposed, the experimental five-year program – limited to 90 MW for Detroit Edison – would begin only when we need additional generating capacity. We oppose this order and on Aug. 26, 1994 appealed to the Federal District Court for the Western District of Michigan because the present MPSC proposal would shift costs from wheeling customers to other customers or to you, our shareholders.

Choice and change go hand-in-hand. Just as we provide flexible alternatives for customers, we also have moved to reorganize the company. Late in 1994, we announced our intention to form a new holding company in 1995, primarily to provide greater financial flexibility in an increasingly competitive environment and to protect our utility business and customers from the risks involved with non-utility ventures. Although these new, energy-related businesses are small compared with the investments and strength of our core business, we hope to add to your return the advantages of selling energy-related products and services in Michigan and nationwide. (See more information on these ventures on page 9 of this report.)

Detroit Edison shareholders will vote on the new holding-company structure at their annual meeting April 24, 1995. Proxy materials fully describing the transaction will be sent to all holders of common stock. The change also requires approval by the Federal Energy Regulatory Commission and the Nuclear Regulatory Commission (NRC). We hope to have the necessary approvals and put the organizational structure in place before the end of 1995. When that happens, Detroit Edison common stock will be exchanged share-for-share for the common stock of the holding company.

We are proud of our employees' many accomplishments during 1994 – especially their recognition by the National Safety Council as the safest utility work force in the country. Significant safety milestones were reached at our Fermi 2, River Rouge and St. Clair power plants. Employees at our Greenwood Energy Center and Design Engineering group have not had a lost-time accident in the past 11 years. People working on Power Supply's Unit Trains have gone 18 years without a lost-time injury and employees in our Primary Services and Engineering Relay groups have worked safely for more than 25 years. We remain committed to

Changing Today to Prosper Tomorrow

One of the largest electric utilities in the United States, Detroit Edison has the flexibility needed to prosper in a changing industry. The ability to respond to changes in the energy marketplace will make Detroit Edison an even stronger company tomorrow.

Detroit Edison's strategy for future growth is clear. The company must remain competitive in an industry becoming more diversified, cost-conscious and market-driven. This report provides an overview of steps the company has taken to provide its shareholders with value in an increasingly dynamic electric utility industry.

Cost Reduction Continues

Detroit Edison aims to give its customers lower electricity prices and its shareholders greater long-term value. Since 1987 the company has trimmed its work force by 24 percent and successfully minimized increases in its operating expenses. For example, Detroit Edison has reduced its production costs at its coal-fired plants to the lowest levels ever, and continues to use environmentally preferred low-sulfur Western coal, with significant savings in fuel costs. In addition, union and management jointly have developed a strategy to reduce production costs further and minimize expensive forced outages with a goal of best-in-class performance by 1997.

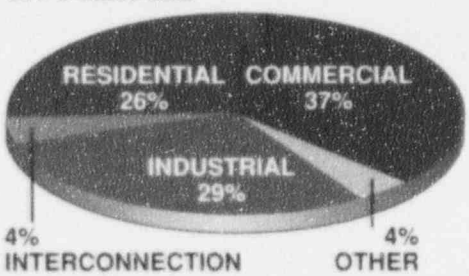
However, in today's competitive environment, it is not enough for utilities simply to meet customers' needs and look for means to cut costs. Besides traditional efficiency-improvement actions, Detroit Edison has found ways to provide superior customer value at lower prices by implementing employee ideas. The company's new Innovations employee-suggestion program generated in its first year more than $18 million in productivity improvements and cost savings, with more than 1,400 employees contributing 3,300 ideas.

As an example of employee idea power, Detroit Edison expects to save about $1.5 million annually because of one recent suggestion. A new voltage regulator designed by company employees and a supplier provides more reliable service and eliminates the need for expensive line construction. The company also reduced its inventory requirements by eliminating the need to stock 10 different types of regulators. The standardized regulator offers additional features to help improve the company's field operations and increase productivity. The new design permits quicker restoration of service during emergencies and allows the company to switch load between circuits without the voltage problems associated with earlier designs. The supplier, Cooper Power Systems of Waukesha, Wis., gave Detroit Edison an "Industry Achievement Award" for its part in developing the new regulators. The regulators cost less to make and show how a utility can save money by rethinking how it provides service.

Lower-cost electric utilities will be more attractive when customers begin shopping for better deals in a competitive environment. Detroit Edison reduced its rates by $169 million in 1993 and by $78 million in 1994. This 7-percent reduction in the total price of electricity in the past two years helps explain why the company's 1994 earnings decreased despite record sales. Much of the sales growth can be attributed to Southeastern Michigan's improving economy, with steel and other manufacturing companies benefiting from a strong 1994 auto market.

To retain these manufacturing customers, Detroit Edison offers them competitive prices and additional products and services. For example, the company is helping U.S. auto manufacturers cut their costs to become more competitive in the global vehicle marketplace. In 1994, Detroit Edison became the first utility in the country to negotiate innovative sole-supplier contracts for an entire basic industry within its service area. If the Michigan Public Service Commission (MPSC) approves these special contracts in 1995, the auto companies will receive rate discounts of 10 percent to 15 percent, while Detroit Edison will secure the automakers' business – roughly 15 percent of its system sales – until the end of the century. These contracts represent about $2 billion in revenues over 10 years and include interruptible features which will reduce Detroit Edison's generation requirements. The contracts have clearly strengthened the company's relationships with these major customers.

1994 Sales Mix



Detroit Edison's Craig L. Smith, engineering technican, shows Wayne State University engineering student Patricia A. Kohlman a voltage regulator designed by company employees and Cooper Power Systems of Waukesha, Wis. The new standardized regulator improves service reliability and is less expensive to produce.

The company also provides its four large steel customers – representing 5 percent of system sales – with hour-by-hour pricing. This allows the steelmakers to receive quality service at the lowest possible price. About 85 percent of Detroit Edison's sales to its large manufacturing customers are covered by either long-term contracts or competitive pricing options. The stability of Detroit Edison's large-customer base benefits smaller customers and shareholders alike by enabling the company to spread its fixed costs over a larger sales volume.

Another 10-year energy contract with Henry Ford Hospital helped stabilize both steam and electricity prices and provided this customer with an economical solution

for its energy requirements. Detroit Edison's steam sales rose 3.5 percent in 1994, and are projected to continue increasing as the company's Thermal Energy Division finds better and more innovative ways to meet customer needs.

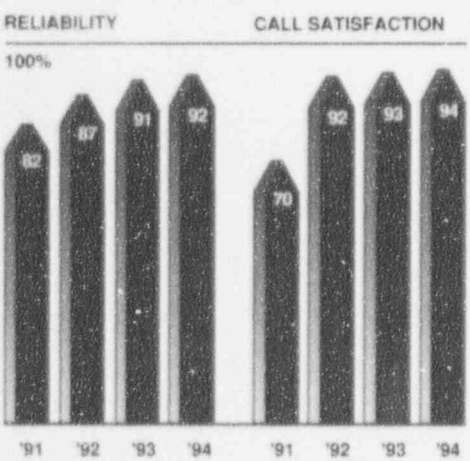
Customer Value Increases

Detroit Edison's strategy goes beyond simply reducing rates to reflect marketplace conditions and minimizing the need for future rate increases. The company's approach will deliver the types of services that prompt current electricity customers to choose Detroit Edison for their non-energy purchases as well.

In one recent example, Wal-Mart Stores, Inc. selected Detroit Edison to maintain and repair transformers and other high-voltage equipment at its 16 stores in Southeastern Michigan. This allowed Wal-Mart to focus on its core business and take advantage of Detroit Edison's lower primary voltage-supply rate, which led to a 10-year contract worth several million dollars annually in utility revenues.

Early in 1995 Detroit Edison announced another 10-year sole-supplier electricity contract with Blue Cross and Blue Shield of Michigan. The health care provider will replace the 20-year-old cooling unit at its downtown Detroit headquarters with new electric chillers instead of an alternate system using natural gas. Detroit Edison worked with the health care insurer to develop a rate package making the electric chillers the preferred choice. As a side benefit, use of the electric chillers will eliminate the environmental concerns of using ozone-depleting freon gas in the cooling process.

Customer Satisfaction



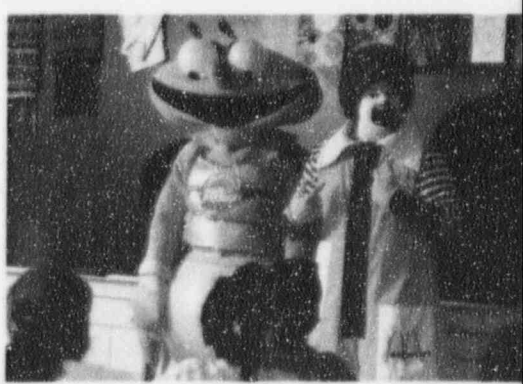
Penelope Redd-Myles discusses the Kids Voting-Michigan program with Detroit Edison Regional Manager Michael A. Palchesko as her daughter Asia Lauren Myles votes in a mock election. About 12,000 Michigan students participated in the company-sponsored program that encourages students and their parents to become more involved in the electoral process.

Detroit Edison pursues service quality as part of its approach to winning customers. The company's recently completed three-year, $229-million commitment to improved service reliability included overhead-line improvements and tree trimming to prevent storm-related power interruptions and to protect the public from the potential danger of downed electrical wires. It also installed more than 132,000 lightning-protection devices in the past two years, which allowed the company to weather a record-setting 58,000 lightning strikes in its service area in 1994.

These actions have had positive results. A recent survey of the 25 largest U.S. electric utilities found Detroit Edison in second place with the fewest number of customer outages. Customers polled said they are pleased with Detroit Edison's improved service reliability, its prompt actions to correct service interruptions and its improved telephone communications system.

In addition to quarterly customer surveys, the company used consumer advisory panels during 1994 to gather information from residential and business customers. Employees listened to customers' concerns and problems, and obtained their viewpoints on services offered or being considered by the company. At the suggestion of the panel of business customers, Detroit Edison changed the way it communicates with customers in preparation for planned temporary service interruptions to minimize any impact on customers' businesses.

Because of continuing actions to expand and improve customer service programs, consumers now may select a variety of new products and services as well as options for paying their bills. The company also offers a lower time-of-day rate to customers with electric heating and cooling systems, and provides promotions for new-home builders and remodelers who install energy-efficient wall and ceiling insulation, windows, lighting and major electrical appliances.



Detroit Edison mascot Louie the Lightning Bug and McDonald's® Ronald McDonald teamed up in 1994 to tell some 30,000 elementary school students about electrical safety. The successful program will be repeated in 1995, with joint advertising featuring Detroit Pistons Captain Joe Dumars.

In addition, Detroit Edison has continued a pilot program for customers who turn in older, less-efficient refrigerators and freezers. The program not only saves the customers the expense of disposing of unneeded equipment, but also ensures that the refrigerator and freezer components containing ozone-depleting freon are disposed of in an environmentally safe manner. Since older refrigerators do not include the increased safety features of newer models, this program also helps eliminate the danger of small children's getting trapped inside old refrigerators.

Already a leader in recycling paper and cardboard, the company also increased its

Shown at the Michigan Electric Power Coordination Center in Ann Arbor, Mich., are from left, John E. Lobbia, chairman of the board and chief executive officer; Anthony F. Earley, Jr., president and chief operating officer; and Larry G. Garberding, executive vice president and chief financial officer. The center celebrated its 25th anniversary in 1994.

maintaining our high standards in the vital safety area and to our many programs to protect the public as well as employees.

Other developments in 1994 involved our Fermi 2 power plant. First, the NRC gave the plant an overall "good" performance rating in its periodic Systematic Assessment of Licensee Performance report. Second, we began a restart and testing process after an extended outage. Fermi 2's turbine-generator underwent a reconfiguration and overhaul to repair damage from a December 1993 turbine-generator failure. More than 8,000 separate work projects, including reactor refueling, and nearly 200 engineering modifications were completed during the year-long outage. That work will help enhance plant performance.

Fermi 2's largest low-pressure turbine blades have been removed and its maximum generating capacity will be temporarily limited to between 800 MW and 900 MW. We plan to install new low-pressure turbines in 1996 to increase plant capacity to about 1,160 MW. The prior top capacity was about 1,140 MW.

We expect that most of the repair costs to return Fermi 2 to service will be covered by insurance. (For greater detail on the Fermi 2 outage, please see Note 2 of this report.)

Our emphasis has been to get Fermi 2 back in service and to take other steps to ensure that our customers and shareholders were not negatively affected by the outage at the plant.

Because we are determined to provide our shareholders with the best possible service, we are proud that Detroit Edison Shareholder Services was rated "best in class" in a recent study of the 11 top-performing U.S. utilities conducted by the Utility Management Service. We plan further improvements to our Dividend Reinvestment Plan later this year that will offer you, our shareholders, greater convenience and value than ever.

As we reflect on 1994 and look ahead to the rest of 1995, we have shareholder value foremost in mind. Your investment is helping Detroit Edison to position itself to grow in the 21st century.

Sincerely,

Larry G. Garberding
Executive Vice President and
Chief Financial Officer

Anthony F. Earley, Jr.
President and
Chief Operating Officer

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

February 27, 1995

Shown at the Michigan Electric Power Coordination Center in Ann Arbor, Mich., are from left, John E. Lobbia, chairman of the board and chief executive officer; Anthony F. Earley, Jr., president and chief operating officer; and Larry G. Garberding, executive vice president and chief financial officer. The center celebrated its 25th anniversary in 1994.

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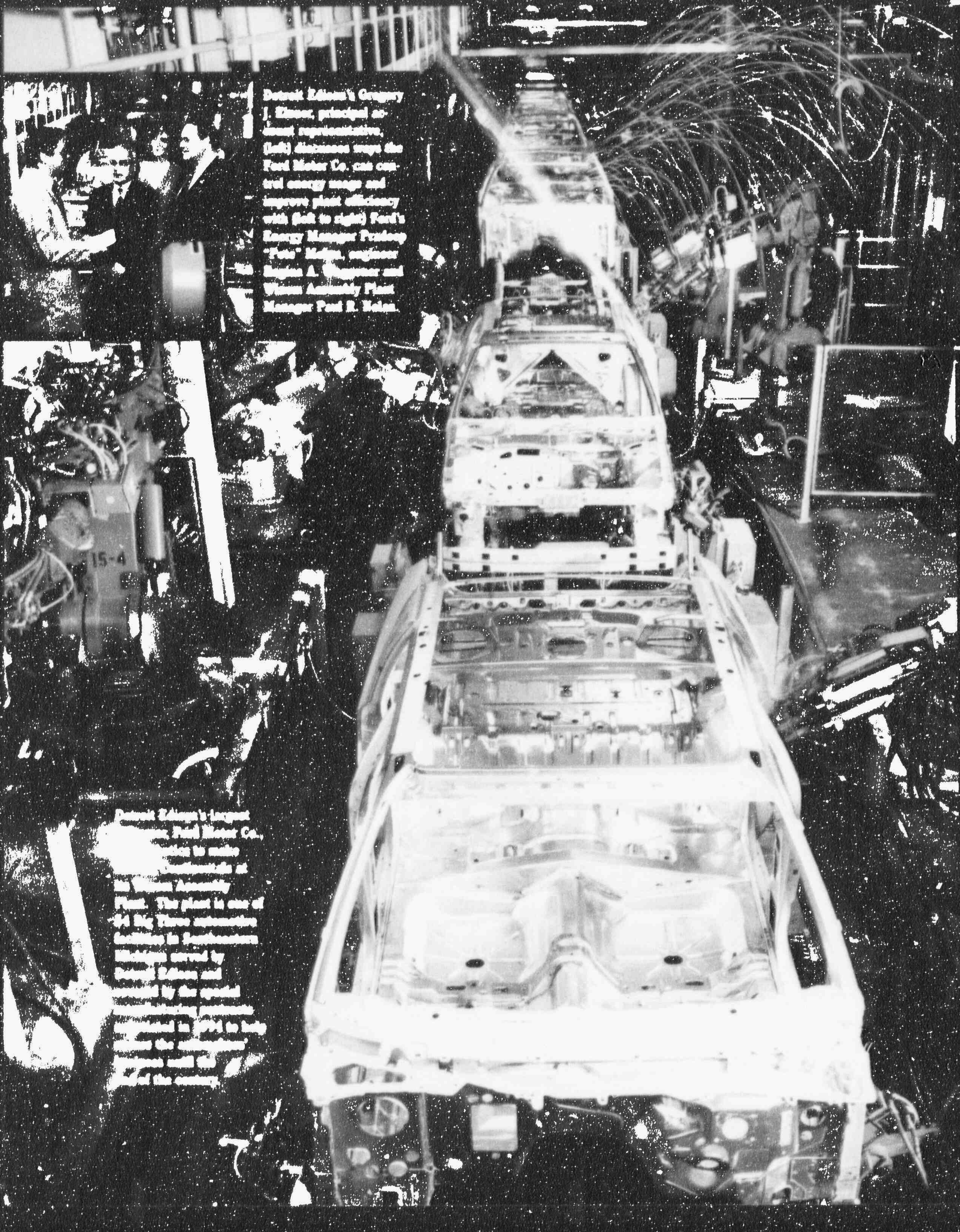
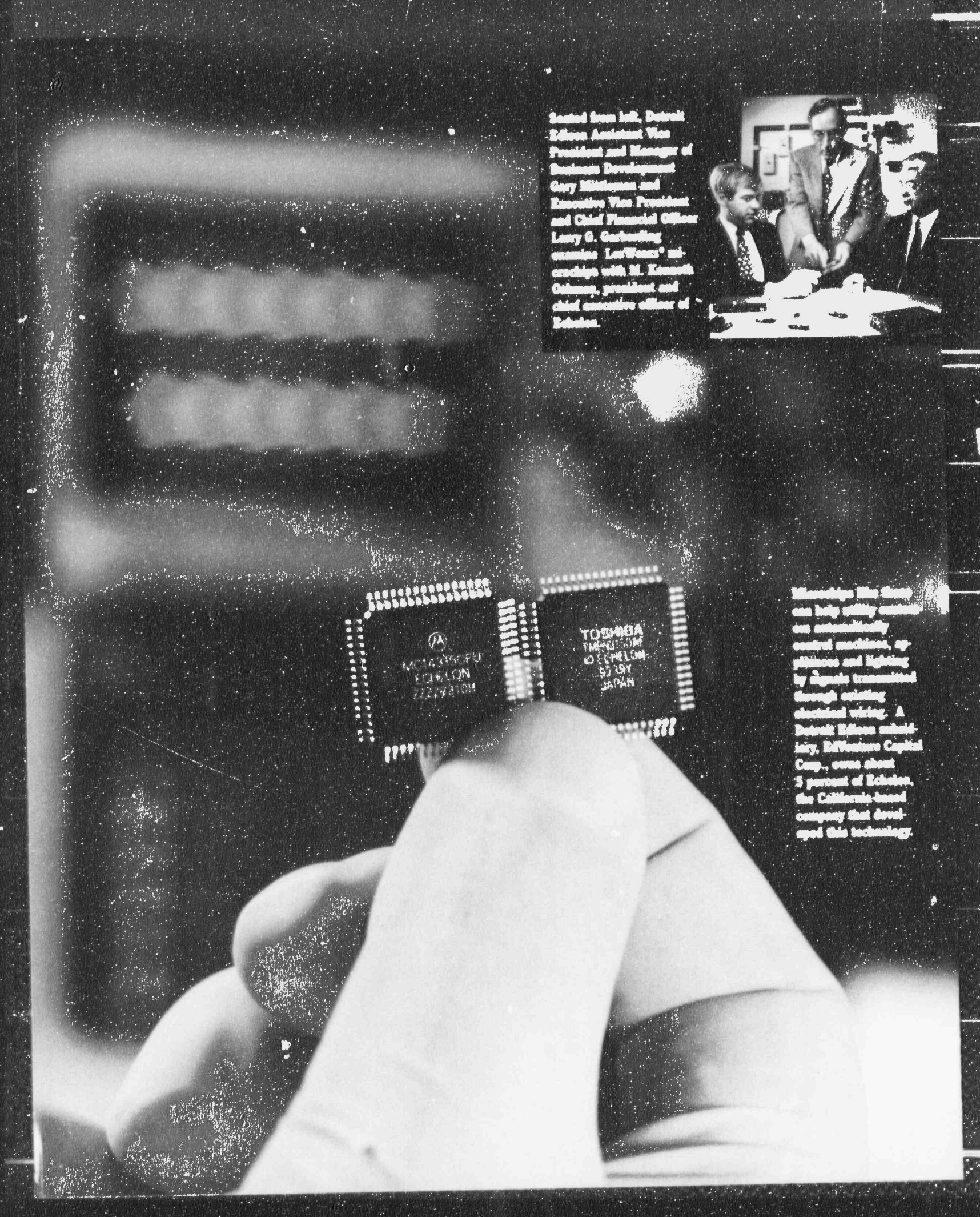


Detroit Edison's Gregory J. Elmer, principal account representative, (left) discusses ways the Ford Motor Co. can control energy usage and improve plant efficiency with (left to right) Ford's Energy Manager Pradeep "Pete" Mehta, engineer Stephen A. Wagner and Wixom Assembly Plant Manager Paul R. Nolan.

Detroit Edison's largest customer, Ford Motor Co., [illegible] at its Wixom Assembly Plant. The plant is one of 64 Big Three automotive facilities in Southeastern Michigan served by Detroit Edison and covered by the special [illegible] in 1994 to help [illegible] until the end of the century.


TOSHIBA
JAPAN

use of electronic mail in 1994 and thus decreased its use of paper. The Environmental Protection Agency (EPA) has recognized Detroit Edison as a charter member of its WasteWi$e program for reducing office solid waste.

In addition, the company recycles its used oil, tires, batteries, transformers, electric cables and utility poles. Wood chips from the company's tree-trimming program are donated to schools, nature preserves and park systems for use in landscaping. Since 1991, the company has recycled more than 300,000 cubic yards of wood chips, the equivalent of a 10-foot-wide nature trail from Detroit to New York City.

Fly ash, a by-product of the company's coal-fired plants, is used to build roads as well as make cement products. Recycling this ash in 1994 saved hundreds of thousands of dollars in disposal costs, plus landfill space the size of a football field filled to a height of more than 110 feet. The company began recycling fly ash in 1938 and since has recycled enough fly ash to fill the Empire State Building nearly four times.

The Investment Recovery group at the company's Warren Service Center works with Goodwill Industries of Greater Detroit to refurbish transformers and meters, and sells other used equipment and scrap metals. This operation not only benefits the environment and provides jobs for people with disabilities, but also generates several million dollars in revenue and avoids significant disposal costs.

Detroit Edison also has a program to decrease the amount of hazardous waste generated at its facilities. Its Waste Reduction Task Force has increased employee awareness of the need to consider disposal costs in purchasing decisions. The company's waste-reduction activities include improved handling of cleaning materials and using non-chlorinated solvents. Since 1989 the volume of waste generated has decreased by more than 80 percent and by 1999 the company plans to reduce the remainder by another 50 percent.

As part of the company's continuing actions to satisfy the requirements of the federal Clean Air Act Amendments of 1990, Detroit Edison power plants now have a sophisticated system to continuously monitor their sulfur dioxide and nitrogen oxide emissions. In addition, the company has a $25-million project under way at its Monroe Power Plant to install new coal burners which will reduce nitrogen oxide emissions by about 44 percent.

The company also helped form the Clean Air Coalition of Southeast Michigan, a group of businesses, governments and organizations supporting voluntary activities to reduce smog during "Ozone Action!" days when the weather is hot and muggy. Detroit Edison advertising encouraged drivers to use car pools or public transportation whenever possible. As a result of voluntary actions, Southeastern Michigan decreased its ozone emissions and now meets federal air quality standards; Detroit Edison and other companies thus will not have to adopt stricter and more expensive controls. The EPA recently classified Metro Detroit as an attainment area under the Clean Air Act, enhancing the area's viability as a place to do business.

Detroit Edison reached out to the people it serves in a variety of other ways during 1994. The company and its Detroit Edison Foundation gave more than $3.7 million to help support educational, health and human services, civic, community and cultural organizations and institutions in 1994. The company and the Foundation promoted Michigan economic development nationally and internationally through sponsorship of the 1994 World Cup Soccer matches in Southeastern Michigan which were broadcast to television viewers worldwide. Other community involvement programs included the company's and Foundation's sponsorship of Sesame Street on public broadcasting and the company's Eyes and Ears program which trains employees to provide safe havens for people and to contact public safety authorities in the event of crimes, accidents and other emergencies. Both sponsorships celebrated their 10th anniversaries in 1994.

Also during 1994, Detroit Edison stepped up actions to deliver important safety messages to its customers. About 30,000 elementary school students pledged to "Play it Safe Around Electricity" as part of the company's electrical safety campaign, cosponsored by 228 McDonald's® restaurants in Southeastern Michigan. In addition, more than 5,000 adults supported the program by redeeming coupons in Detroit Edison's *BRIGHT IDEAS* customer newsletter. This highly successful program will be continued in 1995.

Detroit Edison successfully piloted a new "Kids Voting-Michigan" program in four school districts during 1994, and will take it to additional districts in the future. The company sponsors this program to help educate young people about the electoral process. The program also encourages parents to vote and to spend time with their children educating themselves on candidates and issues.

Brian D. Hawthorne, field supply supervisor for Biomass Energy Systems, Inc., is shown at the Riverview landfill gas-to-energy project while skiers enjoy the site's adjoining recreational facility. Detroit Edison is a charter member of the U.S. Environmental Protection Agency's Methane Outreach Program to reduce global warming emissions by turning landfill gas into energy.

New Businesses Grow

The electric utility industry projects only modest opportunities for growth in its core business over the next few years. Consequently, Detroit Edison has broadened its business horizon in areas where it can capitalize on its ability to provide customers with advanced energy services with ever-greater efficiency. The Board of Directors announced plans in December to form a new holding company in 1995 to provide an organizational structure to facilitate operation of new businesses in these areas.

An example of how the company leverages its strengths is its investment in an exciting new technology to control electrical power use. A Detroit Edison subsidiary, EdVenture Capital Corporation, invested $10 million in Echelon Corporation, which has developed and commercialized LonWorks® technology. This innovative technology is bringing about the long-awaited "smart house" or "smart building," where machines, appliances and lighting are controlled automatically. No new wires need to be installed. The system operates by using LonWorks® microchips in power outlets, switches, appliances and other products. In 1995, Detroit Edison will use the chips in a test program designed to enable customers to reduce their utility bills through better management of their energy usage. The company also will test a new, two-way communications link enabling it to better tailor new products and services to customers' needs.

The company's Monroe Power Plant and its other coal-fired plants reduced production costs to their lowest levels ever in 1994, enabling Detroit Edison to meet new customer demand peaks in nine of 12 months in 1994.

Another subsidiary, Edison Energy Services, offers energy cost-reduction services for large industrial and institutional customers on a nationwide basis. Edison Energy Services also can provide on-site energy management for these customers; procure, install, operate and maintain new energy systems; and supply customers with steam, compressed air, heat, light and chilled water.

Detroit Edison's Lonny L. Seres was one of several employees who volunteered for a joint Detroit Edison and Michigan Department of Natural Resources program to increase the pheasant population in Michigan. During the past five years, Seres has helped raise more than 1,500 Sichuan ringneck pheasants on company property near the Fermi 2 power plant.

For the past seven years, the company has been involved in a landfill gas generation business in Riverview, Mich., that produces 6.6 megawatts (MW) of electricity. The facility burns methane, thus helping protect the environment by reducing the volume of greenhouse gases. Biomass Energy Systems, a company subsidiary, started three similar projects in Michigan, California and North Carolina in 1994, and has targeted 15 other possible sites in eight states. Active in reducing greenhouse gases, Detroit Edison is a member of the U.S. Department of Energy's Climate Challenge program to prevent global warming.

Midwest Energy Resources Co., another company subsidiary, delivers lower-cost, low-sulfur coal mined in the western United States to Detroit Edison and other utility and industrial customers. Midwest Energy's Superior, Wis., facility transfers the low-sulfur Western coal from rail cars to Great Lakes vessels that carry the coal to Michigan and other destinations in the United States and abroad. More than 13.5-million tons of coal were transshipped in 1994, when Midwest Energy set a record for the annual gross coal tonnage passing through the Duluth/Superior harbor.

Prior Investments Provide Value

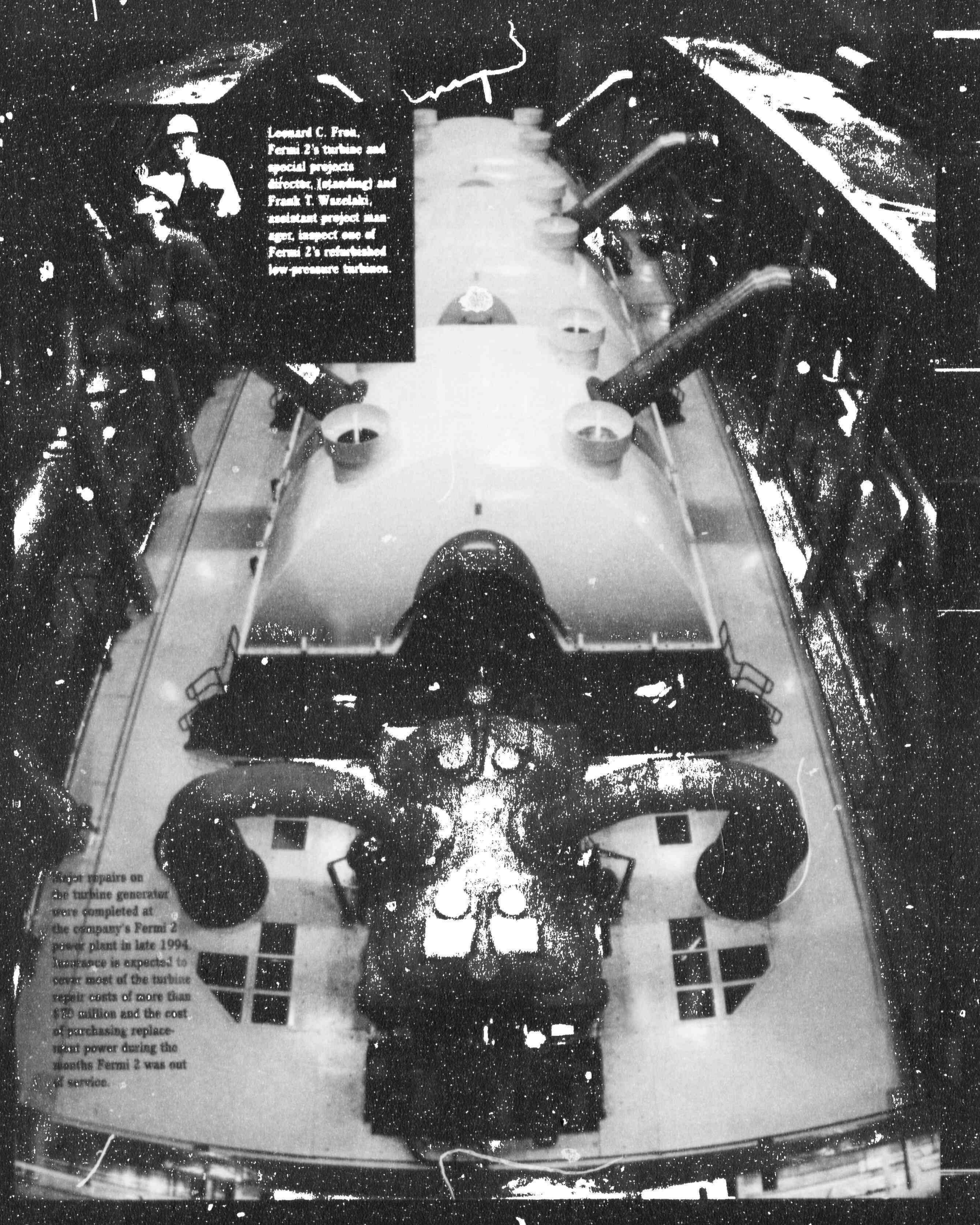
While the company adds new products and services, it also maintains its prior investments in facilities serving customers in Southeastern Michigan.

Repairing the Fermi 2 nuclear power plant was a major challenge in 1994. The plant represents about 11 percent of the company's generating capacity and 28 percent of its total assets. Keeping Fermi 2 operating efficiently and safely will pay off for Detroit Edison customers and shareholders in both the short and long runs by holding down costs and helping to meet environmental regulations in the years ahead. Fermi 2 in a typical year can conserve fossil fuels and reduce power plant emissions by up to 9-million tons of carbon dioxide, 44,000 tons of sulfur dioxide and 34,000 tons of nitrogen oxide.

Major repairs were completed in late 1994 on the turbine generator and testing commenced in early 1995. Insurance is expected to cover most of the turbine repair costs of more than $70 million and the cost of purchasing replacement power during the months Fermi 2 was out of service.

In a recently approved settlement, the company agreed that replacement power costs will not be passed on to customers and that additional power supply costs collected in 1994 from some large industrial customers will be refunded. This agreement will help stabilize electricity prices over the next few years.

Once testing is completed, Fermi 2 will operate until its next refueling outage in 1996 without its two largest rows of low-pressure turbine blades, decreasing its operating capacity from 1,140 MW to between 800 MW and 900 MW. After new low-pressure turbines are installed during the 1996 refueling outage, the plant's capacity will be increased to 1,160 MW. General Electric will manufacture and install the new equipment for an estimated $30 million to $40 million, and will receive incentives tied to operation of the new turbines and Fermi 2's capacity factor.



Leonard C. Frost, Fermi 2's turbine and special projects director, (standing) and Frank T. Wszelaki, assistant project manager, inspect one of Fermi 2's refurbished low-pressure turbines.

Major repairs on the turbine generator were completed at the company's Fermi 2 power plant in late 1994. Insurance is expected to cover most of the turbine repair costs of more than $70 million and the cost of purchasing replacement power during the months Fermi 2 was out of service.

The company and Consumers Power recently reached a tentative agreement with the Michigan attorney general, the Michigan Department of Natural Resources and other interested parties ending a controversy about fish mortality at the jointly owned Ludington Pumped Storage Power Plant. The plant operates essentially as a storage battery by pumping water from Lake Michigan to fill a 27-billion-gallon reservoir at night and other times of low electrical demand. The water is released

Detroit Edison's Valerie L. Klobuchar uses an upgraded computer system to assist shareholders with their account transactions.

to turn turbines and generate lower-cost electricity during the day, when electricity demand and cost are greater. The settlement recommends that the barrier net installed in 1989 to minimize fish losses be considered a permanent solution. Both companies agreed to develop additional fish-protection measures, to provide annual compensation for unavoidable future fish losses and to provide cash, land and enhanced fishing, parking and boat-launch facilities. These costs may be recoverable in rates after approval by the Federal Energy Regulatory Commission and the MPSC. Continued operation of the low-cost 1,872-MW plant will save Michigan utility customers about $2.7 billion over its lifetime.

Two high-pressure boilers were upgraded at the company's Trenton Channel Power Plant in 1994 to add 110 MW of coal-fired capacity to help meet customers' peak demands. The undertaking concluded an environmental project designed to limit emissions from the plant.

Detroit Edison currently maintains 685 MW of capacity in economy reserve and does not expect to need additional generating capability for at least another five years. The MPSC is considering a mandatory wheeling program requiring Detroit Edison to deliver up to 90 MW of electricity generated by third parties to some of its large customers, who may choose to switch to other suppliers when the company needs additional capacity. The amount of electricity covered by this experimental program equals about 1 percent of the company's generating capacity. In 1994, the MPSC issued an interim order establishing the framework for this five-year retail wheeling program, which also involves Consumers Power. Detroit Edison appealed the order and the utility trade organization, the Edison Electric Institute, supported the company's suit asking the court to clarify the MPSC's jurisdiction over retail wheeling. The MPSC is expected to issue its final order in the case early in 1995.

Improving Organizational Capability and Efficiency

More than $118 million will have been invested by 1998 to improve Detroit Edison computer-based information systems. New computer systems are being put in place to improve efficiency companywide.

Detroit Edison's actions to provide better Shareholder Services reflect some of the company's continuous-improvement activities. The company's Shareholder Services operation was ranked "best in class" in a recent benchmarking study of top-performing U.S. utilities. Computer hardware and software have been upgraded to improve productivity, benefiting shareholders in many ways such as the direct deposit of dividends to their accounts through electronic funds transfer. A special toll-free telephone number for shareholders (800-551-5009) also makes it easier for them to communicate with Detroit Edison.

The company's improved Customer Communications automated phone system is another new tool at the company's disposal. The system eliminates busy signals and can handle up to 40,000 calls per hour. The Customer 2000 System is being developed to provide additional services for customers as well as more information about their energy usage.

In 1994 Detroit Edison reorganized its Energy Marketing and Distribution organization to better serve customers. For example, the company strengthened its Service Center Operations and dedicated case managers to handle customers' concerns. The company's new centralized customer service organization provides for more uniform credit policies and practices, and also facilitates communications between office and field personnel so employees can better respond to customers' needs. The reorganized Power Delivery Operations enables employees to respond better and faster to storms and restoring customer service.

The strategy for making Detroit Edison a more performance-driven company includes a computerized Human Resources Management system and new programs to help supervisors evaluate performance and provide more competitive, market- and performance-driven compensation. The strategy also includes a commitment to employee development and building a more flexible and higher-skilled organization.

Perhaps the company's most significant achievement is the many positive steps it took in 1994 to respond to change. The planned formation of a new holding company in 1995 will provide Detroit Edison with the increased financial flexibility to meet industry deregulation. It provides a vehicle for developing and operating new businesses, and offers a mechanism by which Detroit Edison can define and separate its regulated and unregulated businesses in 1995 and the years ahead.

While in recent years the company has earned returns on equity substantially better than the utility industry averages, Detroit Edison's 1994 return on equity of 11.6 percent was closer to the industry average of 11.7 percent (see chart below). During the rate moratorium that followed its landmark 1988 Settlement Agreement with the Michigan Public Service Commission (MPSC), Detroit Edison generated cost savings that increased cash flow and enabled the company to improve its financial position and prepare for the future. In 1994, the MPSC authorized a rate of return of 11 percent and future returns on common equity are expected to remain in line with industry averages.

System sales climb to a record 44-billion kWh

The Southeastern Michigan economy improved in 1994, boosted in part by record automotive industry sales. Detroit Edison's electricity customers used a record 44-billion kilowatthours (kWh) and system sales hit a new high. Industrial sales were up 5.9 percent, commercial sales 3.5 percent and residential sales 1.1 percent.

Detroit Edison added nearly 17,000 customers in 1994 and now serves a record 1.98-million electricity customers in Southeastern Michigan. Company productivity continued to improve; each employee served an average of 235 customers in 1994, compared with 220 in 1993 and 165 in 1987.

Insurance covers most costs of Fermi 2 shutdown

The company's Fermi 2 power plant was out of service during 1994 following a December 1993 turbine-generator failure. The company estimates that $70 million to $80 million will be spent to repair the damage. Most of the cost of returning the plant to service is expected to be covered under the company's $2.75-billion property damage insurance policies. The company received an interim $25 million in 1994 under this coverage.

The company also received $66 million in 1994 from its excess and business interruption insurance. This coverage paid $2.2 million per week beginning in May 1994 – 21 weeks after the start of the Fermi 2 outage.

Reserve covers expected capacity factor performance disallowances

Detroit Edison will have funds disallowed under its 1988 settlement agreement with the MPSC which required that Fermi 2 operate at the greater of either a capacity factor of 50 percent or the three-year rolling average for the nation's top 50 percent of boiling water reactor (BWR) plants. Since Fermi 2 did not operate during 1994, and will operate at reduced power until 1996, the company expects a capacity factor performance disallowance. The company has reserved $31 million in 1994 earnings in anticipation of the expected disallowance if Fermi 2 does not exceed the three-year BWR averages in 1995, 1996 and 1997.

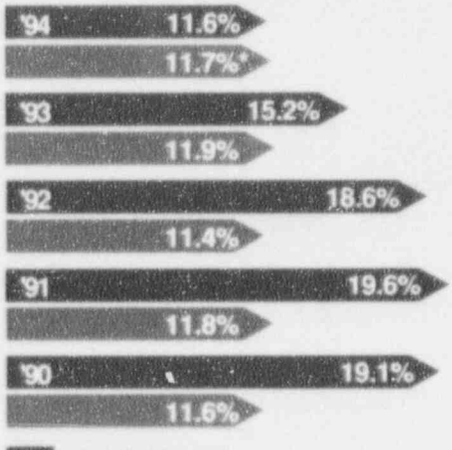
The MPSC's power supply cost-recovery provision makes it possible to recover excess fuel and purchased power costs from customers. However, Detroit Edison did not bill most customers for the higher fuel and purchased power costs related to the Fermi 2 outage. Business interruption insurance covered $66 million of the costs and the company made sure that customers were not adversely impacted by the lost Fermi 2 generation. Industrial customers on the company's R-10 rate were automatically billed for the excess costs, but Detroit Edison refunded those payments under an agreement it sought with the MPSC, the Michigan attorney general and other interested parties. The agreement also requires that insurance proceeds in excess of the company's outage-related costs be credited to customers.

Revenues down slightly

Detroit Edison's total 1994 revenues of $3.52 billion were down 1 percent from 1993 revenues of $3.56 billion. Sales growth helped offset the drop in revenues, which resulted largely because customers paid 7 percent less in 1994 than in 1992. This resulted from a MPSC order to the

Return on Average Common Equity

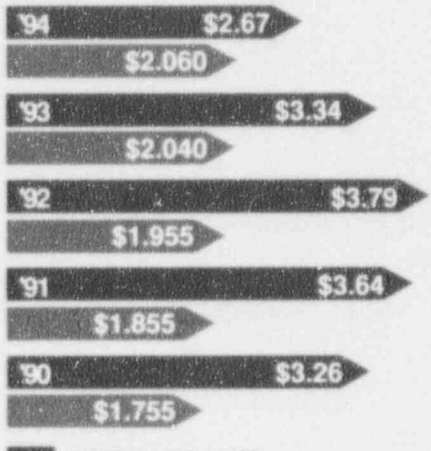
**(12 MONTHS ENDED SEPTEMBER 1994)*



DETROIT EDISON

REGULATORY RESEARCH ASSOCIATES, INC. 80-COMPANY ELECTRIC UTILITY AVERAGE

Earnings Per Share vs. Dividends Paid Per Share



EARNINGS PER SHARE

DIVIDENDS PAID PER SHARE

company to reduce its rates by $78 million effective Jan. 22, 1994, following a $169-million rate decrease in 1993. In addition, 1994 revenues were reduced by $31 million to reflect one-time charges related to the Fermi 2 outage and the company's projected capacity factor performance disallowances for 1995, 1996 and 1997.

Earnings decline

Earnings declined by 20.5 percent in 1994, again due in part to the company's lower rates. Total earnings for common stock dropped from $491.1 million in 1993 to $390.3 million in 1994. Earnings per share fell from $3.34 in 1993 to $2.67 in 1994. The earnings decline also reflected the higher depreciation and operating expenses which, following the 1994 rate order, increased by $84 million annually. Lower accretion income and increased amortization expenses – non-cash charges against income related to the 1988 Fermi 2 phase-in plan – also contributed to the drop in earnings.

Detroit Edison has no current plans for a general rate case proceeding. For a complete analysis, see pages 25 and 34.

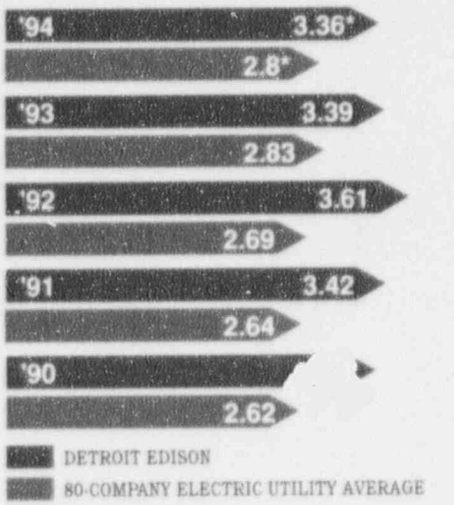
Strong cash flow enables company to strengthen balance sheet and support dividend

The increased cash flow which the company generated after its 1988 settlement agreement has enabled Detroit Edison to strengthen its balance sheet. Common shareholders' equity increased by more than $1 billion, or 49 percent, between 1988 and 1994. Long-term debt decreased by $413 million, or nearly 10 percent, in the same period, and the average cost of debt dropped from 9.6 percent to 7.2 percent, or 25 percent. In addition, interest expense declined by $180 million, or 38 percent.

Detroit Edison's common stock dividend increased from $1.68 per share in 1988 to $2.06 per share in 1994. Supported by earnings per share of $2.67, the company's 1994 dividend-to-earnings ratio – or payout ratio – of 77 percent compared favorably with the industry average of slightly more than 80 percent. The company's cash-flow coverage of dividends remained better than the industry average. Detroit Edison shareholders have received uninterrupted dividends in all of the 85 years since the company was listed on the New York Stock Exchange in 1909.

Cash Flow Coverage of Dividends

(TIMES COVERED)
**(12 MONTHS ENDED SEPTEMBER 1994)*



Source: Regulatory Research Associates, Inc.

Average number of common shares drops

The average number of common shares outstanding dropped from 147 million in 1993 to 146.2 million in 1994. The number of shares decreased when Detroit Edison repurchased 2.2 million shares of common stock from its Employee Savings Plan in August 1994 after it restructured the plan to offer participants more investment options. Company employees retain some 5.1 million shares in the restructured Employee Savings Plan.

Shareholder equity increases

Common shareholder's equity as a percentage of total capitalization was 44.2 percent in 1994, up from 43.9 percent in 1993. The company retired $258 million in outstanding debt in 1994; it saved money by the early redemption of bonds with high interest rates and the issuance of $250 million in new securities with lower interest rates. Interest expense on long-term debt dropped nearly 16 percent to $274 million in 1994, from $325 million in 1993.

Detroit Edison's bond ratings remain unchanged with ratings as follows at year-end 1994:

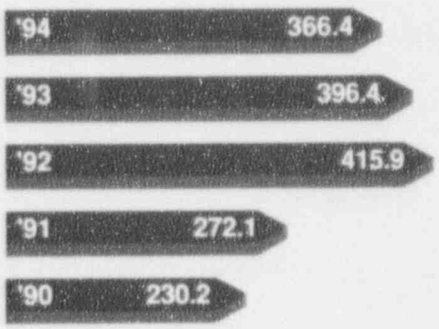
Duff & Phelps Corp.: BBB+
Fitch Investors Service: A-
Moody's Investors Service: A3
Standard & Poor's Corp.: BBB+

Common stock price closes year at $26.125

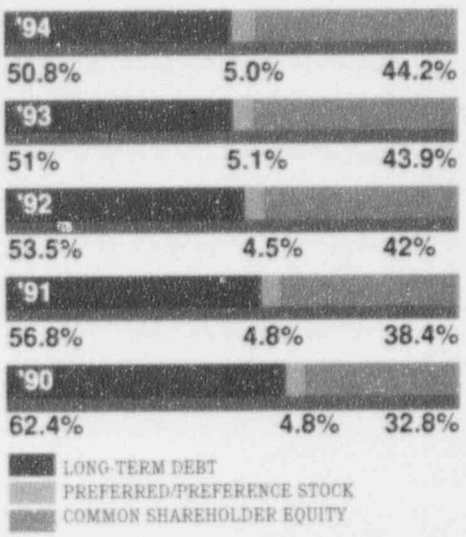
Most electric utility stock prices fell during 1994 as the Federal Reserve Bank tried to control inflation and repeatedly raised the discount rate it charged banks for short-term loans. Besides the substantial increases in long-term interest rates, electric utility stock prices were hit hard by security analysts' evaluations of risk in the electric utility industry in light of increased discussion of deregulation for the produc-

Capital Expenditures

(MILLIONS OF DOLLARS)



Capitalization



Securities Issued During 1994

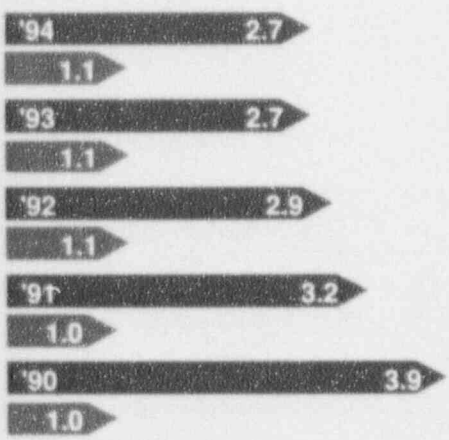
Type of Security Sold	Month Sold	Gross Amount ($ Millions)	Interest Rate (Percent)
General & Refunding Mortgage Bonds			
1994 Series C	August-September	$200.000	6.708[1]
Pollution Control Bonds			
Series 1994 AA	March	7.535	5.875
Series 1994 BB	June	12.935	6.450
Series A 1994	December	23.700	6.350
Series I 1994	December	6.300	6.350
		$ 50.470	
Total Financing		$250.470	

(1) Variable Rate at December 31, 1994

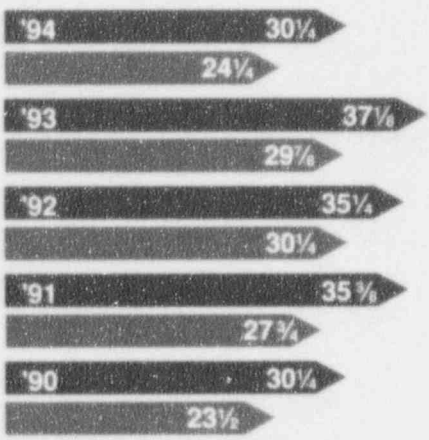
Securities Redeemed During 1994

	Month Redeemed	Principal Amount ($ Millions)	Interest Rate (Percent)
Early Redemptions			
General & Refunding Mortgage Bonds			
1989 Series A	July	$168.285	9.875
1992 Series D	September	10.000	8.300
1993 Series E	September	10.000	7.770
1993 Series J	September	30.000	7.740
		$218.285	
Pollution Control Bonds			
Series 1989 AA	April	$ 7.100	7.750
Series 1989 BB	August	2.850	7.000
Series Y 1984	October	2.400	10.625
Series Z 1984	October	7.750	10.750
		$ 20.100	
Total Early Redemptions		$238.385	
Mandatory Redemptions		19.649	
Total Redemptions		$258.034	

Outstanding Long-Term Debt
(BILLIONS OF DOLLARS)



High/Low Market Price
(DOLLARS PER SHARE)



tion of electrical energy. While the Dow Jones electric utility average declined by 18 percent during 1994, Detroit Edison's common stock closed the year at $26.125 per share, or nearly 13 percent below its 1993 closing price of $30. Detroit Edison performed better than two-thirds of the 48 electric utilities in the index. The market-to-book ratio at year-end 1994 was 114 percent, down from 134 percent a year ago.

Securing business for the future

Detroit Edison is committed to providing both customer value and shareholder value. The company negotiated 10-year sole-supplier contracts in 1994 with Chrysler Corp., Ford Motor Co. and General Motors Corp. Detroit Edison awaits MPSC approval of these contracts under which the company will provide lower rates and increased service reliability for these important industrial customers in return for securing their business for as long as 10 years. For a detailed analysis of these contracts, see page 38.

Holding company proposed

Detroit Edison plans to form a new holding company in 1995 to provide the flexibility the company needs to develop and operate its new energy-related businesses. See page 38. Common shareholders will vote on the new holding-company structure at their annual meeting April 24, 1995. The change also requires approval by the Federal Energy Regulatory Commission and the Nuclear Regulatory Commission. When the necessary approvals are obtained, Detroit Edison common stock will be exchanged share-for-share for the common stock of the holding company.

In addition, improvements later this year to Detroit Edison's Dividend Reinvestment Plan will offer shareholders greater flexibility and make it easier for them to buy and sell company stock. The revised plan will offer a partial-reinvestment-of-dividends option as well as the ability to use electronic funds transfer to buy shares. In addition, it will allow shareholders to increase the maximum amount they contribute and to sell all or part of the shares they purchase through the plan.

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 LLP, whose report appears on this page. Its 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 LLP, representatives of management and the Company's 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 LLP 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
and Chief Executive Officer

REPORT OF INDEPENDENT ACCOUNTANTS

Price Waterhouse LLP

200 RENAISSANCE CENTER
DETROIT, MICHIGAN 48243
January 23, 1995

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

In our opinion, the consolidated financial statements appearing on pages 17 through 33 of this report present fairly, in all material respects, the financial position of The Detroit Edison Company and its subsidiary companies at December 31, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994, 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.

Price Waterhouse LLP

	Year Ended December 31		
	1994	1993	1992
Operating Revenues			
Electric – System	$3,448,351	$3,467,357	$3,472,583
Electric – Interconnection	43,141	60,363	58,447
Steam	27,849	27,491	27,113
Total Operating Revenues	$3,519,341	$3,555,211	$3,558,143
Operating Expenses			
Operation			
Fuel	$ 719,215	$ 750,127	$ 704,371
Purchased power	116,947	91,747	126,101
Other operation	621,066	604,882	548,520
Maintenance	262,409	251,149	262,803
Depreciation and amortization	476,415	432,512	423,407
Deferred Fermi 2 depreciation and amortization	(7,465)	(8,959)	(14,984)
Amortization of deferred Fermi 2 depreciation and return	84,828	30,888	–
Taxes other than income	255,874	261,449	252,011
Income taxes	270,657	297,469	302,758
Total Operating Expenses	$2,799,946	$2,711,264	$2,604,987
Operating Income	$ 719,395	$ 843,947	$ 953,156
Other Income and Deductions			
Allowance for other funds used during construction	$ 1,684	$ 2,055	$ 1,363
Deferred Fermi 2 return	–	–	13,785
Other income and deductions	(24,973)	(24,961)	(21,179)
Income taxes	8,111	8,594	7,108
Accretion income	13,644	44,130	45,695
Income taxes – disallowed plant costs and accretion income	(4,252)	(14,062)	(15,576)
Net Other Income and Deductions	$ (5,786)	$ 15,756	$ 31,196
Income Before Interest Charges	$ 713,609	$ 859,703	$ 984,352
Interest Charges			
Long-term debt	$ 273,763	$ 325,194	$ 388,580
Amortization of debt discount, premium and expense	10,832	9,114	3,952
Other	11,170	4,928	5,169
Allowance for borrowed funds used during construction (credit)	(2,065)	(1,436)	(1,396)
Net Interest Charges	$ 293,700	$ 337,800	$ 396,305
Net Income	$ 419,909	$ 521,903	$ 588,047
Preferred and Preference Stock Dividend Requirements	29,640	30,837	30,498
Earnings for Common Stock	$ 390,269	$ 491,066	$ 557,549
Common Shares Outstanding – Average	146,151,505	147,031,446	146,998,485
Earnings Per Share	$2.67	$3.34	$3.79

(See accompanying Notes to Consolidated Financial Statements.)

CONSOLIDATED BALANCE SHEET *(DOLLARS IN THOUSANDS)*

THE DETROIT EDISON COMPANY AND SUBSIDIARY COMPANIES

ASSETS	December 31 1994	1993
Utility Properties		
Plant in service		
Electric	$12,941,414	$12,557,267
Steam	69,813	70,948
	$13,011,227	$12,628,215
Less: Accumulated depreciation and amortization	(4,529,692)	(4,137,881)
	$ 8,481,535	$ 8,490,334
Construction work in progress	104,431	160,230
Net utility properties	$ 8,585,966	$ 8,650,564
Property under capital leases (less accumulated amortization of $94,678 and $101,381, respectively)	$ 134,542	$ 154,837
Nuclear fuel under capital lease (less accumulated amortization of $374,405)	193,411	184,083
Net property under capital leases	$ 327,953	$ 338,920
Total owned and leased properties	$ 8,913,919	$ 8,989,484
Other Property and Investments		
Non-utility property	$ 11,281	$ 10,053
Investments and special funds	18,722	15,914
Nuclear decommissioning trust funds	76,492	29,929
	$ 106,495	$ 55,896
Current Assets		
Cash and temporary cash investments	$ 8,122	$ 11,071
Customer accounts receivable and unbilled revenues (less allowance for uncollectible accounts of $30,000 and $34,000, respectively)	195,824	195,319
Other accounts receivable	34,212	26,619
Inventories (at average cost)		
Fuel	136,331	129,024
Materials and supplies	155,921	165,187
Prepayments	10,516	10,914
	$ 540,926	$ 538,134
Deferred Debits		
Unamortized debt expense	$ 42,876	$ 45,396
Unamortized loss on reacquired debt	123,996	124,567
Recoverable income taxes	663,101	771,277
Other postretirement benefits	36,562	48,568
Fermi 2 phase-in plan	390,764	475,592
Fermi 2 deferred amortization	52,259	44,794
Other	122,080	41,171
	$ 1,431,638	$ 1,551,365
Total	$10,992,978	$11,134,879

(See accompanying Notes to Consolidated Financial Statements.)

LIABILITIES	December 31 1994	1993
Capitalization		
Common stock – $10 par value, 400,000,000 shares authorized; 144,863,447 and 147,047,918 shares outstanding, respectively (311,804 and 334,002 shares, respectively, reserved for conversion of preferred stock)	$ 1,448,635	$ 1,470,479
Premium on common stock	545,825	553,966
Common stock expense	(47,461)	(48,175)
Retained earnings used in the business	1,379,081	1,319,685
Total common shareholders' equity	$ 3,326,080	$ 3,295,955
Cumulative preferred stock - $100 par value, 6,747,484 shares authorized; 3,905,470 and 3,909,419 shares outstanding, respectively (1,539,827 shares unissued)		
Redeemable solely at the option of the Company	380,283	380,683
Long-term debt	3,825,296	3,830,596
Total Capitalization	$ 7,531,659	$ 7,507,234
Other Non-Current Liabilities		
Obligations under capital leases	$ 126,076	$ 141,043
Other postretirement benefits	37,143	48,567
Other	48,707	15,130
	$ 211,926	$ 204,740
Current Liabilities		
Short-term borrowings	$ 39,489	$ 138,204
Amounts due within one year		
Long-term debt	19,214	19,649
Obligations under capital leases	201,877	197,877
Accounts payable	147,020	159,870
Property and general taxes	31,608	38,592
Income taxes	5,304	16,839
Accumulated deferred income taxes	32,625	63,046
Interest	60,214	66,388
Dividends payable	82,012	83,143
Payrolls	71,958	67,778
Fermi 2 refueling outage	1,267	20,774
Other	97,215	103,193
	$ 789,803	$ 975,353
Deferred Credits		
Accumulated deferred income taxes	$ 2,014,821	$ 1,986,463
Accumulated deferred investment tax credits	346,379	359,205
Other	98,390	101,884
	$ 2,459,590	$ 2,447,552
Commitments and Contingencies (Notes 2, 3, 4, 9, 12 and 13)		
Total	$10,992,978	$11,134,879

(See accompanying Notes to Consolidated Financial Statements.)

	Year Ended December 31		
	1994	1993	1992
Operating Activities			
Net Income	$ 419,909	$ 521,903	$ 588,047
Adjustments to reconcile net income to net cash from operating activities:			
Accretion income	(13,644)	(44,130)	(45,695)
Depreciation and amortization	476,415	432,512	423,407
Deferred Fermi 2 depreciation, amortization and return - net	77,363	21,929	(28,769)
Deferred income taxes and investment tax credit - net	93,287	85,574	132,179
Fermi 2 refueling outage - net	(19,507)	17,856	(6,084)
Other	(31,091)	32,367	6,714
Changes in current assets and liabilities:			
Customer accounts receivable and unbilled revenues	(505)	10,733	9,068
Other accounts receivable	(7,593)	(2,247)	17,815
Inventories	(1,774)	33,839	5,239
Accounts payable	(13,858)	21,364	(24,930)
Taxes payable	(18,031)	(6,499)	(8,109)
Interest payable	(6,174)	(19,769)	(15,199)
Other	(2,189)	35,350	9,807
Net cash from operating activities	$ 952,608	$ 1,140,782	$1,063,490
Investing Activities			
Plant and equipment expenditures	$(366,392)	$ (396,407)	$ (415,937)
Purchase of leased equipment	(11,500)	(2,402)	–
Nuclear decommissioning trust funds	(46,563)	(5,346)	(4,482)
Non-utility investments	(12,843)	182	(614)
Changes in current assets and liabilities	5,042	10,225	(7,897)
Other	(11,537)	(19,988)	2,047
Net cash used for investing activities	$(443,793)	$ (413,736)	$ (426,883)
Financing Activities			
Sale of cumulative preferred stock	$ –	$ 200,000	$ –
Sale of general and refunding mortgage bonds	200,000	1,510,000	350,000
Funds received from Trustees: Installment sales contracts and loan agreements	50,470	76,510	348,960
Increase (decrease) in short-term borrowings	(98,715)	109,210	(9,000)
Redemption of long-term debt	(258,034)	(2,024,289)	(957,859)
Redemption of preferred and preference stock	–	(164,158)	(22,005)
Premiums on reacquired long-term debt and preferred and preference stock	(11,563)	(81,453)	(16,556)
Purchase of common stock	(59,855)	–	–
Dividends on common, preferred and preference stock	(331,445)	(330,792)	(318,349)
Other	(2,622)	(20,417)	(9,225)
Net cash used for financing activities	$(511,764)	$ (725,389)	$ (634,034)
Net Increase (Decrease) in Cash and Temporary Cash Investments	$ (2,949)	$ 1,657	$ 2,573
Cash and Temporary Cash Investments at Beginning of the Period	11,071	9,414	6,841
Cash and Temporary Cash Investments at End of the Period	$ 8,122	$ 11,071	$ 9,414
Supplementary Cash Flow Information			
Interest paid (excluding interest capitalized)	$ 289,375	$ 346,542	$ 406,571
Income taxes paid	183,172	233,542	178,786
New capital lease obligations	9,328	36,606	39,320

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.

(See accompanying Notes to Consolidated Financial Statements.)

	Common Stock		Premium on Common Stock	Common Stock Expense	Retained Earnings Used in the Business
	Shares	$10 Par Value			
Balance at December 31, 1991	146,983,123	$1,469,831	$553,463	$(48,150)	$ 872,428
Issuance of common stock on conversion of convertible cumulative preferred stock, 5½% series	33,568	336	261	(13)	
Expense associated with preferred and preference stock redeemed					(847)
Net income					588,047
Cash dividends declared					
Common stock – $1.98 per share					(291,066)
Cumulative preferred and preference stock*					(30,403)
Balance at December 31, 1992	147,016,691	$1,470,167	$553,724	$(48,163)	$1,138,159
Issuance of common stock on conversion of convertible cumulative preferred stock, 5½% series	31,227	312	242	(12)	
Expense associated with preferred and preference stock redeemed					(6,634)
Net income					521,903
Cash dividends declared					
Common stock – $2.06 per share					(302,894)
Cumulative preferred and preference stock*					(30,849)
Balance at December 31, 1993	147,047,918	$1,470,479	$553,966	$(48,175)	$1,319,685
Issuance of common stock on conversion of convertible cumulative preferred stock, 5½% series	22,164	222	173	(9)	
Common stock reacquired from Detroit Edison Savings & Investment Plans, August 4, 1994	(2,206,635)	(22,066)	(8,314)	723	(30,198)
Net income					419,909
Cash dividends declared					
Common stock – $2.06 per share					(300,676)
Cumulative preferred stock*					(29,639)
Balance at December 31, 1994	144,863,447	$1,448,635	$545,825	$(47,461)	$1,379,081

*At established rate for each series.

(See accompanying 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, taking into account the cost recovery restrictions contained in the December 1988 and January 21, 1994 MPSC rate orders and the provisions of the Energy Policy Act of 1992 ("Energy Act"), 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.

PRINCIPLES APPLIED IN CONSOLIDATION – The Consolidated Financial Statements include the accounts of all subsidiary companies, all of which are wholly-owned.

REVENUES – The Company records unbilled revenues for electric and steam heating services provided after cycle billings through month-end.

PROPERTY, RETIREMENT AND MAINTENANCE, DEPRECIATION AND AMORTIZATION – Utility properties are recorded at original cost less regulatory disallowances. 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. 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. Provision for depreciation of Fermi 2, excluding decommissioning expense, was 3.26% of average depreciable property for 1994 and 2.63% for 1993 and 1992, 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 and Deferred Fermi 2 Amortization below. Provision for depreciation of all other utility plant, as a percent of average depreciable property, was 3.2% for 1994, 3.4% for 1993 and 3.3% for 1992.

DEFERRED FERMI 2 DEPRECIATION AND RETURN – An MPSC authorized phase-in plan for Fermi 2, effective in January 1988, provided for gradual rate increases in the early years of plant operation rather than a one time substantial rate increase which conventional ratemaking would provide. SFAS No. 92, "Regulated Enterprises - Accounting for Phase-in Plans," permits the capitalization of costs deferred for future recovery under a phase-in plan. Accordingly, the Company recorded non-cash income of deferred depreciation and deferred return totaling $506.5 million through 1992. In 1992, deferred depreciation was $4.5 million and deferred return was $13.8 million. Beginning in 1993 and continuing through 1998, these deferred amounts will be amortized to operating expense as the cash recovery is realized through revenues. Amortization of these deferred amounts totaled $84.8 million in 1994 and $30.9 million in 1993.

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%, which is the composite average of the Cooperative debt assumed by the Company at the time of the purchase. Since the straight-line amortization of the regulatory asset exceeds the revenues provided for such amortization during the first 10 years of the recovery period, the Company is recording deferred amortization, a non-cash item of income, totaling $67.2 million through 1999. For 1994, 1993 and 1992, the amounts deferred were $7.5 million, $9 million and $10.5 million, respectively. The deferred amounts will be amortized to operating expense as the cash recovery is realized through revenues during the years 2000 through 2008.

PROPERTY TAXES – The Company accrues property taxes monthly during the fiscal period of the applicable taxing authority.

INCOME TAXES – Deferred income taxes are provided for temporary 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 were deferred and are amortized over the estimated composite service life of the related property. See Note 6.

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 as

completed projects are placed in service and related depreciation is authorized to be recovered through customer rates. The Company capitalized AFUDC at 7.66% in 1994 and 9.65% in 1993 and 1992.

ACCRETION INCOME – In 1988, the Company adopted SFAS No. 90, "Regulated Enterprises - Accounting for Abandonments and Disallowances of Plant Costs," and recorded indirect losses for Greenwood Unit No. 1, for the abandoned Greenwood Unit Nos. 2 and 3 and for a portion of Fermi 2 as a discount (reduction) of the Company's investment in these units. These net after-tax losses, due to discounting, originally totaled $198 million, which amounts are being restored to net income over the period 1988-1998 as the Company records a non-cash return (accretion income) on its investment in these units. The Company recorded $8.9 million, $29.5 million and $30.2 million of net after-tax accretion income in 1994, 1993 and 1992, respectively.

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. In accordance with MPSC regulations, the discount, premium and expense, when related to debt redeemed without refunding, are written off to other income and deductions, and when related to debt redeemed with refunding, are amortized over the life of the replacement issue. Capital stock premium and expense related to redeemed preferred and preference stock are written off against retained earnings used in the business.

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. See Note 2.

LEASES – See Note 9.

EMPLOYEES' RETIREMENT PLAN AND OTHER POSTRETIREMENT BENEFITS – See Note 13.

NOTE 2

Fermi 2

GENERAL – Fermi 2, a nuclear generating unit, began commercial operation in January 1988. Fermi 2 has a design electrical rating (net) of 1,139 megawatts ("MW"). However, due to certain equipment limitations, Fermi 2 is rated at 1,116 MW until modifications can be made to achieve the design rating. This unit represents approximately 28% of total assets, 11% of total operation and maintenance expenses and 11% of summer net rated capability.

MPSC rate orders issued in April 1986, January 1987, December 1988 and January 1994 contain provisions with respect to the recovery of Fermi 2 costs. See Note 3 for a discussion of Fermi 2 rate matters and the MPSC's treatment of Fermi 2 project costs of $4.858 billion.

LICENSING AND OPERATION – The Nuclear Regulatory Commission ("NRC") maintains jurisdiction over the licensing and operation of Fermi 2.

Fermi 2 was out of service in 1994. On December 25, 1993, the reactor automatically shut down following a turbine-generator failure. Safety systems responded within design and regulatory specifications. The turbine suffered mechanical damage, the exciter and generator incurred mechanical and fire damage, and the condenser had some internal damage. The fire was contained in the turbine building, and there was no release of radioactive contaminants during the event. The nuclear part of the plant was not damaged.

Major repairs have been completed and tests are continuing to balance and synchronize the unit. The Company expects that most repair costs related to returning the Fermi 2 turbine-generator to service will be covered by insurance. These costs are estimated to be in the $70 million to $80 million range. The Company has received partial insurance payments of $25 million for property damage. In addition, the Company has received insurance payments of $66 million for replacement power costs. As a result of an investigation as to the cause of the December 1993 mechanical failure, the Company will replace major Fermi 2 turbine components. Installation of new low-pressure turbine sections is expected to add about 20 MW of generating capacity to the plant, which would expand the plant's capability by about 2%.

In the interim period the Company will operate Fermi 2 without the large seventh and eighth stage turbine blades until the next refueling, which will reduce the Fermi 2 power output to a range of about 800 MW to 900 MW. During the lower output period, new turbine shafts and blades will be manufactured for the plant's three low-pressure turbines. These major components will be installed during the next refueling outage in 1996.

Replacing the major turbine components in 1996 is expected to cost between $30 million and $40 million. These costs will not be covered by insurance. These costs will be capitalized and are expected to be recovered in rates because such costs are less than the cumulative amount available under the cap on Fermi 2 capital expenditures, a provision of the MPSC's December 1988 order. See Note 3.

INSURANCE – The Company insures Fermi 2 with property damage insurance provided by Nuclear Mutual Limited ("NML") and Nuclear Electric Insurance Limited ("NEIL"). The NML and NEIL insurance policies provide $500 million of composite primary coverage (with a $1 million deductible) and $2.25 billion of excess coverage, respectively, for stabilization, decontamination and debris removal costs and repair and/or replacement of property. Accordingly, the combined limits provide total property damage insurance of $2.75 billion.

The Company maintains an insurance policy with NEIL providing for extra expenses, including certain replacement power costs necessitated by Fermi 2's unavailability due to an insured event. This policy, which has a 21-week waiting period, provides for three years of coverage.

Under the NML and NEIL policies, the Company could be liable for maximum retrospective assessments of up to approximately $28 million per loss if any one loss should exceed the accumulated funds available to NML or NEIL.

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 $75.5 million could be levied against each licensed nuclear facility, but not more than $10 million per year per facility. On December 31, 1994, there were 110 licensed nuclear facilities in the United States. Thus, deferred premium charges in the aggregate amount of approximately $8.3 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 $8.5 billion.

DECOMMISSIONING – The NRC has jurisdiction over the decommissioning of nuclear power plants. 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 when its license expires in the year 2025 is $489 million in current 1994 dollars and $3 billion in future 2025 dollars. The assumed annual inflation rate used to increase the cost to decommission is 6%, compounded annually.

The MPSC and FERC regulate the recovery of costs of decommissioning nuclear power plants. A January 1994 MPSC order authorized a $500 million external trust fund in 1994 dollars to finance the decommissioning of Fermi 2. The MPSC's January 21, 1994 rate order includes an increase in rates for the decommissioning of Fermi 2, which the Company believes will be adequate to fund the estimated cost of decommissioning using the NRC formula. See Note 3. The order approves a decommissioning surcharge on customer bills under which the Company is currently collecting approximately $31.4 million annually, including $3.5 million for the recovery of low-level radioactive waste disposal. The FERC has approved the recovery of decommissioning expense in base rates, most recently in its June 1993 order.

The Company has established external trust funds to hold decommissioning and low-level radioactive waste disposal funds collected from customers. During 1994, 1993 and 1992, the Company collected $26.9 million, $3.7 million and $3.4 million, respectively, from customers for decommissioning Fermi 2. Also, in 1994, the Company collected $3.3 million from customers for low-level radioactive waste disposal. Such amounts were recorded as components of depreciation and amortization expense in the Consolidated Statement of Income and accumulated depreciation and amortization in the Consolidated Balance Sheet. Earnings on the external decommissioning trust fund assets during 1994, 1993 and 1992 were $1.3 million, $1.2 million and $1.0 million, respectively. Earnings on the external low-level radioactive waste disposal trust fund assets were $0.2 million in 1994. Trust fund earnings are recorded as an investment with a corresponding credit to accumulated depreciation and amortization. Trust fund assets are assumed to earn an after-tax rate of return of 7%, compounded annually.

The external trust fund for low-level radioactive waste disposal costs was initially established by charges to other operation expense in the Consolidated Statement of Income of $1.4 million in 1993 and $5.9 million in 1992.

At December 31, 1994, the Company had a reserve of $51.5 million for the future decommissioning of Fermi 2 and $10.8 million for low-level radioactive waste disposal costs. These reserves are included in accumulated depreciation and amortization in the Consolidated Balance Sheet with a like amount deposited in external trust funds.

The Company also had a reserve of $14.2 million at December 31, 1994 for the future decommissioning of Fermi 1, an experimental nuclear unit on the Fermi 2 site that has been shut down since 1972. This reserve is included in other deferred credits in the Consolidated Balance Sheet with a like amount deposited in an external trust fund. The Company estimates that the cost of decommissioning Fermi 1 in the year 2025 is $19 million in current 1994 dollars and $114 million in future 2025 dollars.

The staff of the Securities and Exchange Commission has questioned certain of the current accounting practices of the electric utility industry regarding the recognition, measurement and classification of decommissioning costs for nuclear generating units in the financial statements of electric utilities. In response to these questions, the Financial Accounting Standards Board has agreed to review the accounting for removal costs, including decommissioning. If current electric utility industry accounting practices for such decommissioning are changed: (1) annual provisions for decommissioning could increase, (2) the estimated cost for decommissioning could be recorded as a liability rather than as accumulated depreciation, and (3) trust fund income from the external decommissioning trusts could be reported as investment income rather than as a reduction to decommissioning expense.

The Energy Act provided for a fund to be established for the decommissioning and decontamination of existing United States Department of Energy ("DOE") uranium enrichment facilities. Utilities with nuclear units are required to pay for a portion of the cost by making annual payments into the fund over a 15 year period. The law directs state regulators to treat these payments as a necessary and reasonable cost of fuel and, accordingly, the Company has recorded a regulatory asset and liability in the Consolidated Balance Sheet to reflect these costs.

NUCLEAR FUEL DISPOSAL COSTS – The Company has a contract with the 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 fee of 1 mill per kilowatthour applied to the Fermi 2 electricity generated and sold. The spent nuclear fuel disposal cost is included as a component of the Company's nuclear fuel expense. The DOE has stated that it will be unable to store spent nuclear fuel at a permanent repository until after 2010. However, the DOE and utilities with nuclear units are pursuing other interim storage options. The Company estimates that existing temporary storage capacity at Fermi 2 will be sufficient until the year 2000, or until 2015 with the expansion of such storage capacity.

NOTE 3

Rate Matters

The Company is subject to the primary 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. MPSC orders issued in December 1988 and on January 21, 1994 are currently in effect with respect to the Company's rates and certain other revenue and operating-related matters.

On January 21, 1994, the MPSC issued an order reducing the Company's rates in the amount of $78 million annually. The rate reduction was determined by using a 1994 test year and an overall rate of return of 7.66%, incorporating an 11% return on common equity and a capital structure comprised of 40% common equity, 55.01% long-term debt and 4.99% preferred stock. The MPSC order includes the recovery of (1) increased Fermi 2 decommissioning costs of $28.1 million annually, which includes the recovery of low-level radioactive waste disposal costs, (2) full recovery of 1994 other post-retirement benefit costs plus recovery and amortization of the 1993 deferred cost (see Note 13), (3) costs associated with the return to rate base of Greenwood Unit No. 1, (4) Fermi 2 phase-in plan revenue requirements of $70.8 million in 1994 and (5) costs associated with a three-year $41.5 million ($7.6 million in 1994, $14.9 million in 1995 and $19 million in 1996) demand-side management program. In keeping with the MPSC's recognition of the need for industrial customers to be competitive, the January 1994 rate reduction was allocated among the various classes of customers approximately as follows: Industrial–$43 million, Commercial–$24 million, Residential–$10 million and Governmental–$1 million. The order was effective for service rendered on and after January 22, 1994 and is the subject of various appeals before the Michigan Court of Appeals.

INDUSTRIAL RATES – In August 1994, the Company entered into 10-year special manufacturing contracts which, if approved by the MPSC, will lower costs for the Company's three largest customers (Chrysler Corporation, Ford Motor Company and General Motors Corporation) without impacting the rates or service of other customers. Annual revenue reductions will range in amounts from about $30 million in 1995 to $50 million for 1999 through 2004. The Company expects to offset these reductions by further reducing operating expenses.

In August 1994, the Company filed an application with the MPSC seeking approval of the special manufacturing contracts. The Commission scheduled expedited hearings in this case, which were completed in December 1994. An order approving these long-term contracts is expected to be issued in March 1995.

FERMI 2 – The December 1988 MPSC order established, for the period January 1989 through December 2003, (1) a cap on Fermi 2 capital additions of $25 million per year, in 1988 dollars adjusted by the Consumers Price Index ("CPI"), cumulative, (2) a cap on Fermi 2 non-fuel operation and maintenance expenses adjusted by the CPI and (3) a capacity factor performance standard based on a three-year rolling average commencing in 1991. For a capital investment of $200 million or more (in 1988 dollars adjusted by the CPI), the Company must obtain prior MPSC approval to be included in rate base. See Note 1 - Regulation.

Under the cap on Fermi 2 capital expenditures, the cumulative amount available totals $50 million (in 1994 dollars) at December 31, 1994. Under the cap on non-fuel operation and maintenance expenses, the cumulative amount available totals $31 million (in 1994 dollars) at December 31, 1994.

Under the capacity factor performance standard, 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%. For purposes of the capacity factor performance standard, the capacity for Fermi 2 for the period 1989-1993 shall be 1,093 MW, and 1,139 MW for each year thereafter until December 31, 2003.

As discussed in Note 2, Fermi 2 was out of service in 1994 and will operate at a reduced power output until the installation of major turbine components during the next refueling outage in 1996. As a result, the three-year rolling average capacity factor will be unfavorably affected in 1994-1997. The plant's capacity factor was 0%, 86.5% and 76.6% during 1994, 1993 and 1992, respectively, or a three-year rolling average of 54.4% in 1994. The average capacity factor for the top 50% of U.S. boiling water reactors for the 36-month period ending September 1994, was 79.2%. The Company has accrued for the Fermi 2 capacity factor performance standard disallowances that will be imposed during the period 1994-1997.

In accordance with April 1986 and December 1988 MPSC rate orders, ratemaking treatment of the Company's Fermi 2 project costs of $4.858 billion is as follows: (1) $3.018 billion

in rate base with recovery and return, (2) $300 million amortized over 10 years with no return, (3) $513 million amortized over 19 years with associated interest of 8% and (4) $1.027 billion disallowed and written off by the Company in 1988.

At December 31, 1994, the Company's net plant investment in Fermi 2 was $3.1 billion ($3.9 billion less accumulated depreciation and amortization of $0.8 billion).

Under the December 1988 MPSC order, if nuclear operations at Fermi 2 permanently cease, amortization in rates of the $300 million and $513 million investments in Fermi 2 would continue and the remaining net rate base investment amount shall be removed from rate base and amortized in rates, without return, over 10 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 Consolidated 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. The December 1988 and January 21, 1994 rate orders do not address the costs of decommissioning if operations at Fermi 2 prematurely cease.

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

NOTE 4

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)*	$1,026.6	$174.3
Accumulated depreciation *(millions)*	$ 297.8	$ 67.1

* 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 December 31, 1994, 75% 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.

The Company was required to purchase MPPA's capacity and energy entitlement through 1994. Such purchases were 80% for 1992, 20% for 1993 and 10% for 1994. The cost for the buyback of power was 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 $50.9 million, $12.5 million and $6.0 million for 1992, 1993 and 1994, respectively.

LUDINGTON PUMPED STORAGE – Operation, maintenance and other expenses of the Ludington Pumped Storage Plant ("Ludington") are shared by the Company and Consumers Power Company ("Consumers") in proportion to their respective interests in the plant. See Note 12 for a discussion of litigation related to Ludington.

NOTE 5

Sale of Accounts Receivable and Unbilled Revenues

The Company has an agreement providing for the sale and assignment, from time to time, of an undivided ownership interest in $200 million of the Company's customer accounts receivable and unbilled revenues.

At December 31, 1994 and 1993, customer accounts receivable and unbilled revenues in the Consolidated Balance Sheet have been reduced by $200 million reflecting the sale. All expenses associated with the program are being charged to other income and deductions in the Consolidated Statement of Income.

NOTE 6

Income Taxes

Total income tax expense as a percent of income before tax varies from the statutory federal income tax rate for the following reasons:

	Percent of Income Before Tax		
	1994	1993	1992
Statutory income tax rate	35.0%	35.0%	34.0%
Deferred Fermi 2 depreciation and return	3.5	1.1	(0.6)
Investment tax credit	(1.9)	(1.7)	(1.9)
Depreciation	5.5	3.9	3.3
Other – net	(3.2)	(1.6)	(0.2)
Effective income tax rate	38.9%	36.7%	34.6%

Components of income taxes were applicable to the following:

	1994	1993	1992
	(Thousands)		
Operating expenses			
Current	$195,848	$243,480	$204,346
Deferred – net			
Borrowed funds component of AFUDC	(1,081)	(1,081)	(1,081)
Depreciation and amortization	52,873	74,567	70,864
Property taxes	(23,640)	(9,590)	3,952
Alternative minimum tax	–	28,174	50,537
Fermi 2 capitalized labor and expenses	(1,998)	(1,592)	(1,692)
Nuclear fuel	14,645	(1,543)	6,313
Fermi 2 performance reserve	(10,850)	–	–
Reacquired debt losses	43,162	–	–
Indirect construction costs	(1,268)	(1,268)	(1,268)
Uncollectible accounts	1,380	(700)	(3,060)
Contributions in aid of construction	(6,898)	(3,756)	(4,877)
Fermi 2 refueling outage	6,798	(6,136)	2,068
Shareholder value improvement plan	2,244	559	(2,256)
Coal contract buyouts	(401)	(1,411)	(1,918)
Injuries and damages	(1,071)	(5,855)	–
Steam purchase reserve	–	(3,850)	–
Employee reorganization expenses	4,200	(4,200)	–
Pensions and benefits	10,130	4,925	3,708
Other	(590)	1,073	(6,110)
	87,635	68,216	115,180
Investment tax credit – net			
Utilized	2,612	250	(417)
Amortized	(15,438)	(14,477)	(16,351)
	(12,826)	(14,227)	(16,768)
Total	270,657	297,469	302,758
Other income and deductions			
Current	(8,083)	(7,712)	(5,464)
Deferred – net	(28)	(882)	(1,644)
Total	(8,111)	(8,594)	(7,108)
Disallowed plant costs and accretion income			
Current	(18,384)	(18,405)	(19,835)
Deferred – net			
Disallowed plant costs	17,863	17,863	19,874
Accretion income	4,773	14,604	15,537
Total	4,252	14,062	15,576
Total income taxes	$266,798	$302,937	$311,226

The Fermi 2 phase-in plan required the Company to record additional deferred income tax expense related to deferred depreciation totaling $33.5 million, with this amount amortized to income over the six-year period ending December 31, 1998.

In January 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires an asset and liability approach for financial accounting and reporting for income taxes. At January 1, 1993, the Company recorded an increase in accumulated deferred income tax liabilities of $740 million representing (a) the tax effect of temporary differences not previously recognized and (b) the recomputing of its tax liability at the current tax rate. The liability increase was offset by a regulatory asset of equal value, titled "Recoverable Income Taxes" in the Consolidated Balance Sheet. This regulatory asset represents the future revenue recovery from customers for these taxes as they become payable, with no effect on net income. In August 1993, the Omnibus Budget Reconciliation Act of 1993 increased the federal corporate income tax rate from 34% to 35% retroactive to January 1, 1993. As a result, the Company recorded (1) an increase of $88.1 million in accumulated deferred income tax liabilities, offset by a corresponding increase in "Recoverable Income Taxes," and (2) an increase of $10.4 million in income tax expense.

At December 31, 1994, "Recoverable Income Taxes" totaled $663.1 million (deferrals of $828.1 million in 1993 less amortization of $108.2 million in 1994 and $56.8 million in 1993).

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

	1994	1993
	(Thousands)	
Property	$(2,070,943)	$(2,023,328)
Fermi 2 deferred depreciation and return	(170,668)	(207,724)
Property taxes	(52,913)	(76,553)
Investment tax credit	187,000	195,000
Reacquired debt losses	(43,162)	–
Other	103,240	63,096
	$(2,047,446)	$(2,049,509)
Deferred income tax liabilities	$(2,566,578)	$(2,590,064)
Deferred income tax assets	519,132	540,555
	$(2,047,446)	$(2,049,509)

In 1993, the MPSC issued an order, in a generic proceeding, authorizing accounting procedures consistent with SFAS No. 109 and providing assurance that the effects of previously flowed-through tax benefits will continue to be allowed rate recovery.

The federal income tax returns of the Company are settled through the year 1988. The Company believes that adequate provisions for federal income taxes have been made through December 31, 1994.

NOTE 7

Common Stock and Cumulative Preferred and Preference Stock

At December 31, the outstanding Cumulative Preferred Stock redeemable solely at the option of the Company was:

	Date of Issuance	1994	1993
		(Thousands)	
Cumulative Preferred Stock			
5½% Convertible Series, 55,470 and 59,419 shares respectively	Oct. 1967	$ 5,547	$ 5,942
7.68% Series, 500,000 shares	Mar. 1971	50,000	50,000
7.45% Series, 600,000 shares	Nov. 1971	60,000	60,000
7.36% Series, 750,000 shares	Dec. 1972	75,000	75,000
7.75% Series, 1,500,000 shares	Feb. 1993	150,000	150,000
7.74% Series, 500,000 shares	Apr. 1993	50,000	50,000
Preferred stock expense		(10,264)	(10,259)
Total Cumulative Preferred Stock		$380,283	$380,683

The Convertible Cumulative Preferred Stock, 5½% Series, is convertible by the holder into Common Stock. The conversion price was $17.79 per share at December 31, 1994. The number of shares converted during 1994, 1993 and 1992 was 3,949, 5,563 and 5,978, 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. This 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 7.68% Series, 7.45% Series and 7.36% Series Cumulative Preferred Stock are redeemable solely at the option of the Company at a per share redemption price of $101, plus accrued dividends.

The Company's 7.75% Series and 7.74% Series Cumulative Preferred Stock are redeemable solely at the option of the Company at a per share redemption price of $100 (equivalent to $25 per Depositary Share), plus accrued dividends, on and after April 15, 1998 and July 15, 1998, respectively.

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.

At December 31, 1994, there was no outstanding Cumulative Preferred Stock subject to mandatory redemption.

At December 31, 1994, the Company had Cumulative Preference Stock of $1 par value, 30,000,000 shares authorized with 30,000,000 shares unissued.

On August 4, 1994, the Company purchased 2,266,635 shares of its $10 par value Common Stock at a price of $27.125 per share, totaling $59.9 million, from the trustee of the Detroit Edison Savings & Investment Plans. These shares were canceled and reverted to the status of authorized but unissued shares.

NOTE 8

Short-Term Credit Arrangements and Borrowings

As described below, at December 31, 1994, the Company had total short-term credit arrangements of approximately $405 million. At December 31, 1994 and December 31, 1993, $39.5 million and $138.2 million of short-term borrowings were outstanding with weighted average interest rates of 6.2% and 3.4%, respectively.

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 1994 for bank lines of credit were approximately $0.3 million. The Company uses bank lines of credit to support the issuance of commercial paper and bank loans. All borrowings are at prevailing money market rates which are below the banks' prime lending rates.

In May 1993, FERC issued its order authorizing the continuation of the Company's $1 billion of short-term borrowing authority. This authority will be in effect through May 31, 1995.

The Company has a nuclear fuel financing arrangement (heat purchase contract) 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, 1994, approximately $205 million was available to the Company under such Loan Agreement. See Note 9 for a discussion of the Company's heat purchase contract with Renaissance.

Renaissance entered into five-year interest rate swap agreements, guaranteed by the Company, in December 1990, with five banks for a nominal amount of $125 million. These agreements are used to reduce the potential impact of increases in interest rates on the variable rate debt by exchanging the receipt of variable rate amounts for fixed interest payments at rates ranging from 8.12% to 8.145% over the life of the agreements. The differential to be paid or received is recognized as an adjustment to the interest component included as part of nuclear fuel expense.

NOTE 9

Leases

Future minimum lease payments under long-term non-cancellable leases, consisting of nuclear fuel ($221 million computed on a projected units of production basis), lake vessels ($48 million), locomotives and coal cars ($149 million), office space ($28 million) and computers, vehicles and other equipment ($6 million) at December 31, 1994 are as follows:

	(Millions)		*(Millions)*
1995	$103	1998	$ 41
1996	99	1999	23
1997	61	Remaining years	125
		Total	$452

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 $193 million and $184 million at December 31, 1994 and 1993, respectively. The increase in 1994 from 1993 of $9 million includes purchases of $3 million and capitalized interest of $6 million.

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 $49 million (including $8 million for nuclear fuel), $126 million (including $89 million for nuclear fuel) and $108 million (including $70 million for nuclear fuel) for 1994, 1993 and 1992, respectively.

NOTE 10

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. At December 31, 1994, approximately $3.1 billion principal amount of Mortgage Bonds could have been issued on the basis of property additions, combined with an earnings test provision, assuming an interest rate of 8.9% on any such additional Mortgage Bonds. An additional $1.2 billion principal amount of Mortgage Bonds could have been issued on the basis of bond retirements.

Long-term debt outstanding at December 31 was:

	Interest Rate	1994	1993
		(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
1989 Series A, due 7/1/19	9⅞	–	168,285
1990 Series A, due 3/31/20	7.904	163,254	169,533
1990 Series B, due 3/31/16	7.904	209,352	218,868
1990 Series C, due 3/31/14	8.357	68,380	71,799
1992 Series D, due 8/1/02 and 8/1/22	7.605*	290,000	300,000
1992 Series E, due 12/15/99	6.83	50,000	50,000
1993 Series B, due 12/15/99	6.83	50,000	50,000
1993 Series C, due 1/15/03 and 1/13/23	7.939*	225,000	225,000
1993 Series D, due 4/1/99	6.45	100,000	100,000
1993 Series E, due 3/15/00, 3/17/03 and 3/15/23	6.854*	390,000	400,000
1993 Series G, due 5/1/97 and 5/1/01	5.921*	225,000	225,000
1993 Series J, due 6/1/18	7.74	270,000	300,000
Less:			
Unamortized net discount		(182)	(1,906)
Amount due within one year		(19,214)	(19,214)
		$2,271,590	$2,507,365
Remarketed Notes			
Secured by corresponding amounts of General and Refunding Mortgage Bonds			
1993 Series H, due 7/15/28	5.839**	$ 50,000	$ 50,000
1993 Series K, due 8/15/33	4¾**	160,000	160,000
1994 Series C, due 8/15/34	6.708**	200,000	–
Less:			
Unamortized net discount		(177)	(181)
		$ 409,823	$ 209,819
Tax Exempt Revenue Bond Obligations			
Secured by corresponding amounts of General and Refunding Mortgage Bonds			
Installment Sales Contracts, due 9/1/05 - 9/1/24	7.32*	$ 302,155	$ 306,440
Less:			
Unamortized net discount		(279)	(293)
Funds on deposit with Trustee		–	(160)
Amount due within one year		–	(435)
		$ 301,876	$ 305,552
Loan Agreements, due 7/15/08 - 8/1/24	6.73*	$ 487,495	$ 467,025
Less:			
Unamortized net discount		(73)	–
		$ 487,422	$ 467,025
Unsecured			
Installment Sales Contracts, due 12/15/15 - 12/1/19	8.95*	$ 314,060	$ 290,360
Loan Agreements, due 4/15/10 - 10/1/24	5.02*	$ 40,525	$ 50,475
		$1,143,883	$1,113,412
Total Long-Term Debt		$3,825,296	$3,830,596

*Weighted average interest rate at December 31, 1994.
**Variable rate at December 31, 1994.

In 1995, 1996, 1997, 1998 and 1999, long-term debt maturities consist of $19 million, $119 million, $144 million, $169 million and $219 million, respectively.

In June 1992, the Company entered into a three-year interest rate swap agreement matched to a $31 million variable rate tax exempt revenue bond. This agreement is used to reduce the potential impact of increases in interest rates on the variable rate debt by exchanging the receipt of variable rate amounts for fixed interest payments at a rate of 4.32% over the life of the agreement. The differential to be paid or received is recognized as an adjustment to interest expense related to the debt.

NOTE 11

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and temporary cash investments/Short-term borrowings
The carrying amount approximates fair value because of the short maturity of those instruments.

Other investments
The fair value of the Company's other investments was not estimated since they are not material and because some are already recorded at fair value.

Nuclear decommissioning trust funds
The fair value of the Company's nuclear decommissioning trust funds is estimated based on quoted market prices for securities and carrying amount for the cash equivalents.

Sale of accounts receivable and unbilled revenues
The carrying amount approximates fair value because of the short maturity of accounts receivable and unbilled revenues pledged for sale.

Cumulative preferred stock
The fair value of the Company's preferred stock outstanding is estimated based on the quoted market prices for the same or similar issues.

Long-term debt
The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

Customer surety deposits
Surety deposits, including interest as specified by MPSC regulation, are returned to customers. The carrying amount approximates fair value.

The estimated fair values of the Company's financial instruments at December 31, all of which are held or issued for purposes other than trading, are as follows:

	1994		1993	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Thousands)			
Cash and temporary cash investments	$ 8,122	$ 8,122	$ 11,071	$ 11,071
Other investments	15,168	15,168	2,809	2,809
Nuclear decommissioning trust funds	76,492	76,492	29,929	31,290
Sale of accounts receivable and unbilled revenues	200,000	200,000	200,000	200,000
Cumulative preferred stock	390,547	336,249	390,942	396,154
Long-term debt	3,844,510	3,511,459	3,850,405	4,106,216
Short-term borrowings	39,489	39,489	138,204	138,204
Customer surety deposits	10,870	10,870	10,819	10,819

NOTE 12

Commitments and Contingencies

COMMITMENTS – The Company has entered into purchase commitments of approximately $638 million at December 31, 1994, which includes, among other things, the costs of major turbine components to be replaced at Fermi 2 and line construction and clearance costs. The Company also has entered into substantial long-term fuel supply and transportation commitments.

The Company has an Energy Purchase Agreement ("Agreement") for the purchase of steam and electricity from the Detroit Resource Recovery Facility. Under the Agreement, the Company will purchase steam through the year 2008 and electricity through June 30, 2024. Purchases of steam and electricity were $21.3 million, $23.6 million and $24.5 million for 1992, 1993 and 1994, respectively, and annual purchase commitments are approximately $30.0 million, $33.2 million, $35.8 million, $37.0 million and $38.3 million for 1995, 1996, 1997, 1998 and 1999, respectively.

CONTINGENCIES – In 1986, the Michigan Attorney General and the Michigan Natural Resources Commission filed a state lawsuit against the Company and Consumers as co-owners of Ludington for claimed aquatic losses. 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).

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 were ordered by the FERC to install a temporary barrier net around the plant to protect fish on an interim basis until

permanent measures could be developed. A net has been in operation for six seasons and the companies have proposed that it be utilized as part of the permanent solution.

On October 5, 1994, the Company and all other parties to the state action and the FERC proceeding, except certain Indian tribes, reached a tentative settlement. The settlement agreement is subject to FERC and MPSC approval. (The Michigan Supreme Court is holding this matter in abeyance pending approval of a settlement.) The settlement provides for damages and use of the net as a permanent solution. The net present value of the Company's portion of the damages is estimated to be approximately $30 million which will be paid over a 24-year period, including $10 million to enhance recreational opportunities on Company-owned and donated property. At December 31, 1994, the Company has recorded a regulatory asset and liability of $7 million for past damages, pending approval by the FERC and MPSC.

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 ("PRPs") to begin removal activities at the Carter Industrials superfund site. In June 1993, a Consent Decree was entered by the U.S. District Court for the Eastern District of Michigan. It included a provision for the payment of past costs incurred by the EPA of which the Company's share was approximately $1.3 million, paid in June 1993. The Company has recorded a liability of $8.4 million, which amount was charged to other operation expense in the Consolidated Statement of Income in 1989-1992, as its anticipated cost of the clean-up in 1995-1997. On July 7, 1994, the PRPs in this matter petitioned the EPA to consider amending the clean-up plan to permit landfill disposal of certain contaminated soil and on December 12, 1994, the EPA issued a public notice of its intent to amend the Consent Decree to incorporate the proposed change in the clean-up plan. Should the procedure be approved, the Company's portion of the clean-up costs will be reduced by approximately $3 million. There is, however, the possibility that EPA may, through subsequent proceedings, require a clean-up of the sewer and sewer outfall emptying into the Detroit River.

In August 1993, the Company, along with approximately 28 other parties, received a "Notice of Demand" from the Michigan Department of Natural Resources ("MDNR"), acting pursuant to a Michigan statute, for all past ($142,000) and future costs incurred by the state in performing response activities related to the Carter Industrials site. In addition, the notice indicated the need to conduct a PCB-sediment sampling program at the sewer outfall emptying into the Detroit River. In response to the "Notice of Demand," the Carter Industrials Site Group (the group, including the Company, of PRPs formed to jointly remediate the Carter Industrials site) paid $126,600 of past costs incurred by the MDNR, of which approximately 45% ($57,000) was paid by the Company. The group declined to commit to pay future costs which the MDNR may incur and declined to conduct the program of Detroit River sediment sampling and analysis requested by the MDNR. At this time, it is impossible to predict what impact, if any, this matter will have upon the Company.

The Energy Act became effective in October 1992. While the Company is unable to predict the ultimate impact of this legislation on its operations, the Company expects that, over time, non-utility generation resources will be developed which will result in greater competition for power sales.

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

See Notes 2 and 3 for a discussion of contingencies related to Fermi 2.

NOTE 13

Employees' Retirement Plan and Other Postretirement Benefits

EMPLOYEES' RETIREMENT PLAN – The Company has a trusteed and non-contributory 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. Contributions were made to the Plan totaling $23.7 million in 1992, $29.4 million in 1993 and $45.8 million in 1994.

Net pension cost included the following components:

	1994	1993	1992
		(Thousands)	
Service cost - benefits earned during the period	$ 25,146	$ 22,945	$ 21,644
Interest cost on projected benefit obligation	75,922	74,490	70,511
Actual return on Plan assets	(3,272)	(119,037)	(56,208)
Net deferral and amortization:			
Deferral of net gain (loss) during current period	(90,069)	33,435	(23,528)
Amortization of unrecognized prior service cost	3,613	3,297	2,776
Amortization of unrecognized net asset resulting from initial application	(4,507)	(4,507)	(4,507)
Net pension cost	$ 6,833	$ 10,623	$ 10,688

Assumptions used in determining net pension cost are as follows:

	1994	1993	1992
Discount rate	7.5%	8.0%	8.0%
Annual increase in future compensation levels	4.5	5.0	5.0
Expected long-term rate of return on Plan assets	9.5	9.5	9.5

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

	December 31	
	1994	1993
	(Thousands)	
Plan assets at fair value, primarily equity and debt securities	$1,054,048	$1,059,775
Less actuarial present value of benefit obligation:		
Accumulated benefit obligation, including vested benefits of $852,374 and $872,138, respectively	872,530	892,761
Increase in future compensation levels	138,411	152,279
Projected benefit obligation	1,010,941	1,045,040
Plan assets in excess of projected benefit obligation	43,107	14,735
Unrecognized net asset resulting from initial application	(33,288)	(37,795)
Unrecognized net loss(gain)	3,856	(7,315)
Unrecognized prior service cost	40,391	45,518
Asset recorded as Other Deferred Debits in the Consolidated Balance Sheet	$ 54,066	$ 15,143

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

	December 31	
	1994	1993
Discount rate	8.0%	7.5%
Annual increase in future compensation levels	4.5	4.5

The unrecognized net asset at date of initial application is being amortized over approximately 15.4 years, which was 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, defined 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 working for the Company. These benefits are provided principally through insurance companies and other organizations.

Effective January 1, 1993, the Company adopted the provisions of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The standard required the Company to change its accounting for postretirement benefits from the pay-as-you-go (cash) basis to the accrual of such benefits during the active service periods of employees to the date they attain full eligibility for benefits. The transition obligation at the time of adoption is being amortized over 20 years. The Company's incremental cost upon adoption of the standard was $49 million for 1993 which is being deferred in accordance with the January 21, 1994 MPSC rate order. See Note 3. This amount is being amortized and recovered in rates over the estimated four-year period 1994-1997.

Net other postretirement benefits cost included the following components:

	1994	1993
	(Thousands)	
Service cost - benefits earned during the period	$16,267	$15,312
Interest cost on accumulated postretirement benefit obligation	33,459	33,787
Actual return on assets	(208)	(18)
Deferral of net loss during current period	(833)	–
Amortization of unrecognized transition obligation	20,633	21,685
Net other postretirement benefits cost	$69,318	$70,766

Assumptions used in determining net other postretirement benefits cost are as follows:

	1994	1993
Discount rate	7.5%	8.0%
Annual increase in future compensation levels	4.5	5.0
Expected long-term rate of return on assets	9.5	9.5

The following reconciles the funded status to the amount recorded in the Company's Consolidated Balance Sheet:

	December 31	
	1994	1993
	(Thousands)	
Actuarial present value of benefit obligation:		
Retirees	$(256,370)	$(242,787)
Fully eligible active participants	(67,581)	(65,933)
Other active participants	(140,710)	(129,075)
Accumulated postretirement benefit obligation	(464,661)	(437,795)
Less assets at fair value, primarily equity and debt securities	58,080	599
Benefit obligation in excess of assets	(406,581)	(437,196)
Unrecognized transition obligation	369,459	392,026
Unrecognized net gain	(21)	(3,397)
Liability recorded as Other Non-Current Liabilities in the Consolidated Balance Sheet	$ (37,143)	$ (48,567)

Assumptions used in determining the accumulated benefit obligation are as follows:

	December 31	
	1994	1993
Discount rate	8.0%	7.5%
Annual increase in future compensation levels	4.5	4.5

Benefit costs were calculated assuming health care cost trend rates beginning at 12.6% for 1994 and decreasing to 6.0% in 2008 and thereafter for persons under age 65 and decreasing from 7.4% to 6.0% for persons age 65 and over. A one-percentage-point increase in health care cost trend rates would increase the aggregate of the service cost and interest cost components of benefit costs by $6 million for 1994 and increase the accumulated benefit obligation by $47 million at December 31, 1994.

NOTE 14

Supplementary Quarterly Financial Information (Unaudited)

	1994 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(Thousands, except per share amounts)			
Operating Revenues	$899,589	$872,690	$944,389	$802,673
Operating Income	189,319	161,832	200,298	167,946
Net Income	112,870	87,283	124,381	95,375
Earnings for Common Stock	105,458	79,872	116,972	87,967
Earnings Per Share	0.72	0.54	0.80	0.61

	1993 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(Thousands, except per share amounts)			
Operating Revenues	$874,847	$835,171	$976,248	$868,945
Operating Income	221,732	186,498	228,436	207,281
Net Income	135,203	102,664	153,365	130,671
Earnings for Common Stock	127,060	94,799	145,950	123,257
Earnings Per Share	0.86	0.64	0.99	0.84

The fourth quarter of 1994 includes a decrease in operating revenues of $59 million, a decrease in operation expense of $65 million and a decrease in maintenance expense of $1 million related to a settlement agreement, with the parties intervening in the 1994 PSCR reconciliation case with the MPSC, for business interruption insurance proceeds associated with the December 25, 1993 outage at Fermi 2. See Note 2.

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.

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

RESULTS OF OPERATIONS

In 1994, the Company's earnings for common stock were $390.3 million, or $2.67 per share, a decrease of 20.5% from the $491.1 million, or $3.34 per share earned in 1993. The earnings decrease was due in part to a January 21, 1994 order by the Michigan Public Service Commission ("MPSC"), which reduced rates by $78 million annually and increased depreciation and operation expenses by $84 million annually. In addition, accretion income decreased and amortization of the Fermi 2 nuclear power plant phase-in plan increased significantly in 1994. Also, the Company incurred additional one-time charges at the Fermi 2 nuclear power plant, which was out of service in 1994 due to equipment failure, for maintenance expenses and the establishment of a reserve for estimated Fermi 2 performance in 1995-1997. The earnings decrease was limited by higher system sales and lower interest expense due to the early redemption and refinancing of higher cost debt and the redemption of maturing debt.

At December 31, 1994, the book value of the Company's common stock was $22.89 per share, an increase of 2.5% since December 31, 1993. Return on average total common shareholders' equity was 11.6% in 1994, 15.2% in 1993 and 18.6% in 1992.

The ratio of earnings to fixed charges for 1994, 1993 and 1992 was 3.13, 3.25 and 3.09, respectively. The ratio of earnings to fixed charges and preferred and preference stock dividend requirements for 1994, 1993 and 1992 was 2.73, 2.88 and 2.79, respectively.

OPERATING REVENUES

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

	1994	1993
	(Millions)	
Rate Changes		
MPSC rate reduction	$ (81)	$ –
Expense stabilization procedure	–	(63)
Power Supply Cost Recovery Clause	(5)	(106)
	(86)	(169)
System sales volume and mix	103	158
Interconnection sales	(17)	2
Fermi 2 capacity factor performance standard reserve	(31)	–
Other – net	(5)	6
Total	$ (36)	$ (3)

Rate Changes

The January 21, 1994 MPSC rate order reduced the Company's rates by $78 million annually. In keeping with the MPSC's recognition of the need for industrial customers to be competitive, the January 1994 rate reduction was allocated among the various classes of customers approximately as follows: Industrial–$43 million, Commercial–$24 million, Residential–$10 million and Governmental–$1 million.

A December 1988 MPSC rate order provided for a moratorium on base rate changes for the five-year period 1989 - 1993, an expense stabilization procedure ("ESP") surcharge, which provided annual revenues of $63 million in 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 ESP surcharge expired for service rendered on or after January 1, 1993, and the PSCR Clause was reinstated in 1993. As a result of these two items, 1993 operating revenues were reduced by approximately $169 million.

Kilowatthour Sales

Kilowatthour sales increased (decreased) as follows:

	1994	1993
Residential	1.1%	6.4%
Commercial	3.5	4.0
Industrial	5.9	6.6
Other (includes primarily sales for resale)	(14.1)	6.7
Total System	2.8	5.6
Interconnection	(45.2)	12.7
Total	(1.0)	6.1

1994

Residential sales increased due to substantially warmer weather in the second quarter resulting in increased air conditioning and cooling-related loads, partially offset by lower cooling-related loads in the third quarter. The increased heating-related loads in the first quarter were offset by decreased heating-related loads in the fourth quarter. Commercial sales increased due primarily to improved economic conditions and increased cooling-related loads. Industrial sales increased as a result of higher sales to automotive, steel and other manufacturing customers reflecting the improvement in the economy. The decreased sales to other customers reflect lower sales to wholesale for resale customers.

1993

Residential and commercial sales increased due primarily to substantially warmer summer weather resulting in increased air conditioning and cooling-related loads, partially offset by warmer winter weather reducing heating-related sales. Industrial sales increased due to higher automotive and steel production and improved economic conditions. The increased sales to other customers reflect increased load requirements of wholesale for resale customers.

Interconnection Sales

Interconnection sales represent sales between utilities to meet energy needs as a result of demand and/or generating unit availability.

1994

Interconnection sales decreased due to the reduced availability of energy for sale as a result of the Fermi 2 outage and lower sales to Consumers Power Company.

1993

Interconnection sales increased due primarily to increased sales to Consumers Power Company, partially offset by a decrease in sales to Ontario Hydro.

OPERATING EXPENSES

Fuel and Purchased Power

Fuel and purchased power expenses increased (decreased) due to the following factors:

	1994	1993
	(Millions)	
Net system output	$ (6)	$ 43
Average unit cost	59	(37)
Fermi 2 business interruption insurance proceeds	(65)	–
Other	6	5
Total	$ (6)	$ 11

Net system output and average unit costs were as follows:

	1994	1993	1992
	(Thousands of Megawatthours)		
Power plant generation			
Fossil	42,410	38,882	36,689
Nuclear	–	8,274	7,338
Purchased power	6,599	2,211	2,705
Net system output	49,009	49,367	46,732
Average unit cost ($/Megawatthour)	$16.94	$15.73	$16.49

1994

The increase in average unit cost resulted from replacing lower-cost nuclear generation with higher-cost fossil generation and purchased power due to the Fermi 2 outage in 1994 as a result of a turbine-generator failure on December 25, 1993. This increase was offset by the receipt of Fermi 2 business interruption insurance proceeds.

1993

The decrease in average unit cost was due to declining fuel prices resulting from greater use of lower-cost Western low-sulfur coal, increases in lower-cost nuclear generation and decreases in the buyback of Belle River Power Plant capacity and energy from the Michigan Public Power Agency.

Other Operation

1994

Other operation expense increased due primarily to other postretirement health care and life insurance benefits expense, service quality claims expense and higher nuclear plant, transmission and distribution and demand-side management expenses. These increases were partially offset by lower incentive award expenses related to a shareholder value improvement plan, expenses recorded in the year-earlier period for the write-off of obsolete and excess stock material and a reserve for steam purchases under the agreement with the Greater Detroit Resource Recovery Authority, lower uncollectible and employee reorganization expenses and lower injuries and damages expense.

1993

Other operation expense increased due primarily to the write-off of obsolete and excess stock material, higher injuries and damages expenses, a provision for employee reorganization expenses, a reserve for steam purchases under the agreement with the Greater Detroit Resource Recovery Authority, incentive award expenses related to a shareholder value improvement plan and expenses related to the new collective bargaining agreement with employees represented by the Utility Workers Union of America - Local 223. These increases were partially offset by lower uncollectible expenses and a 1992 accrual for low-level nuclear waste disposal.

Maintenance

1994

Maintenance expense increased due primarily to higher nuclear plant and storm expenses, partially offset by lower fossil plant and line clearance expenses. Since Fermi 2 was down for repair in 1994, the Company elected to upgrade various plant facilities which resulted in higher nuclear plant maintenance expense.

1993

Maintenance expense decreased due primarily to lower line clearance and storm expenses, partially offset by expenses related to the new collective bargaining agreement with employees represented by the Utility Workers Union of America–Local 223.

Depreciation and Amortization

1994 and 1993

Depreciation and amortization expense increased due to increases in plant in service and, for 1994, to increased Fermi 2 decommissioning costs authorized by the January 21, 1994 MPSC rate order.

Deferred Fermi 2 Depreciation and Amortization

1994 and 1993

Deferred Fermi 2 depreciation, a non-cash item of income, was recorded beginning with the implementation of the Fermi 2 rate phase-in plan in January 1988. The annual amount deferred decreased each year through 1992. Beginning in 1993 and continuing through 1998, these deferred amounts are amortized to operating expense as the cash recovery is realized

through revenues. Deferred Fermi 2 amortization, also a non-cash item of income, was recorded beginning with the Company's purchase of the Wolverine Power Supply Cooperative, Inc.'s ownership interest in Fermi 2 in February 1990. The annual amount deferred decreases each year through 1999.

Amortization of Deferred Fermi 2 Depreciation and Return

1994 and 1993

Beginning in 1993, the Company began amortizing to operating expense deferred Fermi 2 depreciation and return as discussed herein.

Taxes Other Than Income Taxes

1994

Taxes other than income taxes decreased due primarily to lower property taxes, partially offset by higher Michigan Single Business Tax ("MSBT").

1993

Taxes other than income taxes increased due primarily to higher MSBT expense and higher property taxes.

Income Taxes

1994

Income taxes decreased due primarily to lower pretax income, partially offset by higher prior years' federal income tax accrual. In March 1994, the Company and the Internal Revenue Service ("IRS") reached a settlement of the Company's income tax returns for the years 1987 and 1988.

1993

Income taxes decreased due primarily to lower pretax income and prior years' federal income tax accrual, partially offset by an increase in the federal corporate income tax rate from 34% to 35% retroactive to January 1, 1993 and higher taxes due to the reduction of deferred Fermi 2 depreciation, amortization and return.

Deferred Fermi 2 Return

1993

Deferred Fermi 2 return, a non-cash item of income, was recorded beginning with the implementation of the Fermi 2 rate phase-in plan in January 1988. The annual amount deferred decreased each year through 1992. Beginning in 1993 and continuing through 1998, these deferred amounts are amortized to operating expense as the cash recovery is realized through revenues.

Other Income and Deductions

1994

Other deductions increased slightly due primarily to the write-off of premiums and expenses related to the $50 million portion of 1989 Series A Mortgage Bonds not refinanced and an accrual for a contribution to the Detroit Edison Foundation.

1993

Other deductions increased due primarily to an increase in the accrual for decommissioning expenses for Fermi 1, an experimental nuclear unit that has been shut down since 1972.

Accretion Income

1994 and 1993

Accretion income, a non-cash item of income, was recorded beginning in January 1988 to restore to income, over the period 1988-1998, losses recorded due to discounting indirect disallowances of plant costs. The annual amount of accretion income recorded decreases each year through 1998. Also, effective in January 1994, accretion income decreased due to the return to rate base of Greenwood Unit No. 1.

Long-Term Debt Interest Charges

1994 and 1993

Long-term debt interest charges decreased due to the early redemption and refinancing of securities when economic and the redemption of maturing securities.

Other Interest Charges

1994

Other interest charges increased due to higher levels of short-term borrowings, accruals for prior years' MSBT audits and the settlement of 1987 and 1988 IRS audits.

Preferred and Preference Stock Dividend Requirements

1994

Preferred and preference stock dividend requirements decreased slightly due to the optional and mandatory redemption of outstanding shares in 1993.

1993

Preferred and preference stock dividend requirements increased slightly due to issuance of cumulative preferred stock, partially offset by optional and mandatory redemption 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 28% of the Company's total assets and 11% of the Company's summer net rated capability, and lower levels of capital expenditures.

Fermi 2

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

Fermi 2 was out of service in 1994. On December 25, 1993, the reactor automatically shut down following a turbine-generator failure. Safety systems responded within design and regulatory specifications. The turbine suffered mechanical damage, the exciter and generator incurred mechanical and

fire damage, and the condenser had some internal damage. The fire was contained in the turbine building, and there was no release of radioactive contaminants during the event. The nuclear part of the plant was not damaged.

Major repairs have been completed and tests are continuing to balance and synchronize the unit. The Company expects that most repair costs related to returning the Fermi 2 turbine-generator to service will be covered by insurance. These costs are estimated to be in the $70 million to $80 million range. The Company has received partial insurance payments of $25 million for property damage. In addition, the Company has received insurance payments of $66 million for replacement power costs. As a result of an investigation as to the cause of the December 1993 mechanical failure, the Company will replace major Fermi 2 turbine components. Installation of new low-pressure turbine sections is expected to add about 20 megawatts ("MW") of generating capacity to the plant, which would expand the plant's capability by about 2%.

In the interim period the Company will operate Fermi 2 without the large seventh and eighth stage turbine blades until the next refueling, which will reduce the Fermi 2 power output to a range of about 800 MW to 900 MW. During the lower output period, new turbine shafts and blades will be manufactured for the plant's three low-pressure turbines. These major components will be installed during the next refueling outage in 1996.

Replacing the major turbine components in 1996 is expected to cost between $30 million and $40 million. These costs will not be covered by insurance. These costs will be capitalized and are expected to be recovered in rates because such costs are less than the cumulative amount available under the cap on Fermi 2 capital expenditures, a provision of the MPSC's December 1988 order.

At December 31, 1994, Fermi 2 was insured for property damage in the amount of $2.75 billion and the Company had available approximately $8.5 billion in public liability insurance. To the extent that insurable claims for replacement power, property damage, decontamination, repair and replacement and other costs 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.

Cash Generation and Cash Requirements

Consolidated Statement of Cash Flows

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 $1,063 million in 1992, $1,141 million in 1993 and $953 million in 1994. Net cash from operating activities decreased in 1994 due to lower net income and changes in current assets and liabilities, partially offset by higher non-cash charges to income for the Fermi 2 phase-in plan and depreciation and amortization. Net cash from operating activities increased in 1993 due to lower non-cash items of income for the Fermi 2 phase-in plan, higher depreciation and amortization, and changes in current assets and liabilities, partially offset by lower net income and deferred income taxes.

Net cash used for investing activities increased in 1994 due primarily to increased funding of nuclear decommissioning trust funds, the purchase of leased equipment and non-utility investments, partially offset by lower plant and equipment expenditures. Net cash used for investing activities decreased in 1993 due primarily to lower plant and equipment expenditures.

During the period 1992-1994, the Company has engaged in an extensive debt refinancing program. Assuming favorable economic conditions, the Company expects that it will continue to refinance existing higher-cost debt and equity securities. Also, in 1994, as a result of a plan change, the Company entered into the one-time purchase of common stock from the trustee of the Detroit Edison Savings & Investment Plans.

Additional Information

An MPSC order permits the Company to issue approximately $3.5 billion of securities for the purpose of refinancing debt and preferred and/or preference stock (issued prior to 1993) prior to maturity (when economic) and at maturity, and to replace funds used for those purposes. The Company also has MPSC authority to refinance substantially all non-taxable debt obligations.

Cash requirements for scheduled long-term debt redemptions are expected to be $19 million, $119 million, $144 million, $169 million and $219 million for 1995, 1996, 1997, 1998 and 1999, respectively.

Cash requirements for capital expenditures were $363 million in 1994 and are expected to be approximately $1.9 billion for the period 1995 through 1999. In 1995, cash requirements for capital expenditures are estimated at $394 million. Environmental expenditures are expected to approximate $79 million for the period 1995 through 1999, including expenditures for Clean Air Act compliance requirements. See "Environmental Matters" herein.

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 redemption requirements.

In May 1993, the Federal Energy Regulatory Commission ("FERC") issued its order authorizing the continuation of the Company's $1 billion of short-term borrowing authority. This authority will be in effect through May 31, 1995.

The Company had total short-term credit arrangements of approximately $405 million at December 31, 1994, under which $39.5 million of borrowings were outstanding.

Capitalization

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		
	1994	1993	1992
Common Shareholders' Equity	44.2%	43.9%	42.0%
Preferred and Preference Stock	5.0	5.1	4.5
Long-Term Debt	50.8	51.0	53.5
	100.0%	100.0%	100.0%

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, municipalization, cogeneration, independent power production, open access to transmission lines and a more competitive bulk power supply market. 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, electric utilities may be required to unbundle their products and services to accommodate emerging competitive alternatives brought about by possible industry restructuring due to deregulation.

On December 5, 1994, the Company's Board of Directors approved the formation of a holding company. The Company's shareholders will be asked to approve this organizational structure at the Company's April 24, 1995 Annual Meeting of Common Shareholders. This organizational structure will be subject to receipt of a number of regulatory approvals.

A holding-company structure will provide greater financial flexibility to develop and operate new non-utility businesses. It also will offer a mechanism for better defining and separating the Company's regulated and unregulated businesses, and for protecting the Company's utility business and customers from any risks that may be involved in non-utility ventures.

When all approvals are in place, the Company's common stock will be exchanged share-for-share for the common stock of the holding company. The holding-company structure could be in place before the end of 1995.

As a result of the Energy Policy Act of 1992, the Company expects that, over time, non-utility generation resources will be developed which will result in greater competition for power sales. In addition, in April 1994, the MPSC issued an interim order setting forth a framework for a retail wheeling experiment. The 90 MW experiment would last five years commencing with the need for additional capacity, which is expected to be approximately the year 2000, and would be implemented concurrently with the Company's next Request for Proposal case under the MPSC's capacity solicitation process. The Company has appealed the MPSC's interim order with the U.S. District Court for the Western District of Michigan claiming that the MPSC does not have the authority to order the Company to participate in retail wheeling, and that the jurisdiction over transmission rates for wheeling resides with the FERC. The MPSC is expected to issue a final order by the end of April 1995.

In response to the changing market for electricity, the Company has developed a number of programs designed to increase its efficiency and competitive status and address customer needs. An aggressive demand-side management program has been developed, an integral part of which is an interruptible rate for large industrial customers. This rate, commonly referred to as R-10 and approved by the MPSC, permits its customers to achieve economic benefits while enabling the Company to reduce its peak demand requirements. The January 21, 1994 MPSC rate order increased the 400 MW available under the R-10 rate to 525 MW in 1994 and 650 MW in 1995, with the Company absorbing revenue losses associated with the additional 250 MW made available under this rate.

As part of a continuing response to the challenge of competition, the Company has executed 10-year special manufacturing contracts with Chrysler Corporation, Ford Motor Company and General Motors Corporation, covering 54 of the Big Three automakers' largest manufacturing locations in Southeastern Michigan. On August 3, 1994, the Company filed the executed special manufacturing contracts with the MPSC. The MPSC must approve these contracts before they can become effective. An order approving these long-term contracts is expected to be issued in March 1995.

The special manufacturing contracts are available to customers with a total connected load of 100 MW or more for specific locations of 5 MW and over. Service under the special manufacturing contracts will include both firm and interruptible service, which is priced to provide customers with competitively-based electric rates.

A major feature of the special manufacturing contracts will be the establishment of a long-term, 10-year relationships with these customers during which the Company will be the customers' sole supplier of electricity through the year 2000. The customers may reduce their purchases by 20% annually during the last four years of the contracts. The special manufacturing contracts provide that the customers' existing self-generation will only be used for emergency back-up. It is anticipated that this will result in additional sales and revenue for the Company. The contracts also provide for a corporate minimum take-or-pay provision for 1995 through 1999 with specified price reductions for 1995 through 2000. Through these agreements, the customers will be assured of both a more competitive and predictable price for electric energy. Detroit Edison will be assured that the customers will purchase their electric requirements from the Company.

Pursuant to the terms of the special manufacturing contracts, the customers will be able to designate a percentage of their load at each facility as interruptible. The customers will also have the ability to designate interruptions on a corporate basis with the flexibility to shift interruptible load among separate facilities. In total, approximately 160 MW of interruptible capacity is expected.

In order to forge an energy partnership with these customers, the Company will provide service delivery quality guarantees and on-site engineering expertise to implement better service, identify energy conservation efficiency improvement opportunities and achieve valuable energy savings for each customer. The goal of these provisions of the special manufacturing contracts is to combine the customers' energy conservation efforts with the knowledge and skills provided by the Company. The Company also may invest in energy saving projects with these customers.

The Company will serve the special manufacturing contract customers at rates above its marginal cost. Further, at this time the Company is not requesting a change in electric rates charged to other customers. As a result, annual revenue reductions will range in amounts from about $30 million in 1995 to $50 million for 1999 through 2004. The Company expects to offset these reductions by further reducing operating expenses.

In 1994, the Company completed its accelerated reliability improvement program which upgraded its transmission and distribution system. This program has helped reduce interruptions and the duration of outages thus increasing customer satisfaction.

The Company is reviewing potential energy services as a method of remaining competitive while diversifying within the scope of its core business.

Meeting Energy Demands

Since 1980, the compound annual sales growth was 1.8% and peak demand growth was 2.4% (after adjusting for the effects of unusual weather). System sales and demand are expected to grow at a compound annual rate of about 1.5% per year for the next 15 years.

Sales to the non-manufacturing segment, which include customers such as agribusiness, grocery stores, restaurants and government, are projected to grow at a strong pace in the next 15 years, a compound annual increase of 1.9% per year. This projected increase indicates the Company's customer base is becoming more diverse and less dependent on the manufacturing segment.

The Company expects to meet its near-term demand for energy by the return to service, subject to environmental regulations, of power plant units currently in economy reserve status when energy demand and consumption requirements provide economic justification. The return to service of these units is conditioned upon the outcome of a competitive bidding process which was established by an MPSC order issued in July 1992. The Company will submit a new plan to the MPSC detailing its proposed method of meeting energy demands on or before May 1, 1995.

Inflation

Inflation is a measure of the purchasing power of the dollar. In 1994, the inflation rate, as defined by the Consumer Price Index, was 2.7%. Although the current inflation rate is relatively low, its compound effect through time can be significant, primarily in its effect on the Company's ability to replace its investment in utility plant.

The regulatory process limits the amount of depreciation expense recoverable through revenues to the historical cost of the Company's investment in utility plant. Such amount produces cash flows which are inadequate to replace such property in future years. However, the Company believes that it will be able to recover the increased cost of replacement facilities when, and if, replacement occurs.

Regulation and Rates

The Company has no plans to seek increased rates for electric service from the MPSC in the near future.

Environmental Matters

Protecting the environment from damage, as well as correcting past environmental damage, continues to be the focus of state and federal regulators. Committees at both the state and federal level are studying the effects of a wide array of chemicals and electromagnetic fields as well as global warming (as potentially affected by carbon dioxide emissions). Legislation and/or rulemaking resulting from these and any future studies could further impact the electric utility industry including the Company.

The Environmental Protection Agency ("EPA") and the Michigan Department of Natural Resources have aggressive programs regarding the cleanup of contaminated property. The Company anticipates that it will be periodically included in these types of environmental proceedings. Further, additional environmental expenditures, although difficult to quantify, will be necessary as the Company prepares to comply with the phase-in of the 1990 Amendments to the federal Clean Air Act. The Company currently meets the first phase of sulfur dioxide emissions and nitrogen oxides emissions requirements. The second phase begins in the year 2000. The Company currently burns low-sulfur coal (less than 1% sulfur) at all its coal-fired units and believes it can meet the second phase sulfur dioxide emission requirements through additional blending of coals. Current projections indicate that annual fuel costs may increase by $13-20 million in the period 2000-2009 in order to comply with new sulfur dioxide emissions requirements. In addition, approximately $59 million in capital expenditures may be necessary for nitrogen oxides emissions requirements.

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

		1994	1993	1992	1991
Operating Revenues *(Thousands)*	Residential	$ 1,136,169	$ 1,125,624	$ 1,098,027	$ 1,154,440
	Commercial	1,473,309	1,428,321	1,438,258	1,410,708
	Industrial	736,339	720,002	749,240	723,984
	Other	130,383	220,901	214,171	197,006
	Total System	$ 3,476,200	$ 3,494,848	$ 3,499,696	$ 3,486,138
	Interconnection	43,141	60,363	58,447	105,399
	Total	$ 3,519,341	$ 3,555,211	$ 3,558,143	$ 3,591,537
Sales *(Millions of kWh)*	Residential	12,170	12,033	11,309	12,222
	Commercial	17,042	15,996	15,384	15,571
	Industrial	13,356	12,618	11,827	11,564
	Other	1,586	2,318	2,177	1,692
	Total System	44,154	42,965	40,697	41,049
	Interconnection	1,978	3,611	3,204	5,534
	Total	46,132	46,576	43,901	46,583
Electric Customers *(Year End)*	Residential	1,805,141	1,790,197	1,777,914	1,770,859
	Commercial	172,221	170,453	169,080	168,255
	Industrial	889	850	813	814
	Other	1,974	2,041	1,992	1,968
	Total	1,980,225	1,963,541	1,949,799	1,941,896
Average Annual Use Per Residential Customer *(kWh)*		6,773	6,747	6,375	6,929
Average Annual Bill Per Residential Customer		$632.34	$631.21	$618.93	$654.54
Average Revenue Per kWh	Residential	9.34¢	9.35¢	9.71¢	9.45¢
	Commercial	8.65	8.93	9.35	9.06
	Industrial	5.51	5.71	6.33	6.26
Capitalization *(Thousands)*	Long-Term Debt	$ 3,825,296	$ 3,[illegible]	$ 3,973,485	$ 4,218,264
	Preferred/Preference Stock	380,283		333,994	353,237
	Common Shareholders' Equity	3,326,080	3,2[illegible]	3,113,887	2,847,572
	Total	$ 7,531,659	$ 7,507,234	$ 7,421,366	$ 7,419,073
Capitalization *(Percent)*	Long-Term Debt	50.8	51.0	53.5	56.8
	Preferred/Preference Stock	5.0	5.1	4.5	4.8
	Common Shareholders' Equity	44.2	43.9	42.0	38.4
	Total	100.0	100.0	100.0	100.0
Common Stock Data	Earnings (Loss) Per Share	$2.67	$3.34	$3.79	$3.64
	Dividend Paid Per Share	$2.06	$2.04	$1.955	$1.855
	Payout	77%	61%	52%	51%
	Dividend Declared Per Share	$2.06	$2.06	$1.98	$1.88
	Shares Outstanding – Average	146,151,505	147,031,446	146,998,485	146,945,932
	Return on Average Common Equity	11.64%	15.23%	18.56%	19.55%
	Book Value Per Share	$22.89	$22.34	$21.13	$19.32
	Market Price: High	$30¼	$37⅛	$35¼	$35⅝
	Low	$24¼	$29⅛	$30¼	$27¾
Miscellaneous Financial Data	Avg. Interest Rate Long-Term Debt	7.2%	7.4%	8.6%	9.1%
	Avg. Dividend Rate Preferred/Preference Stock	7.8%	7.8%	8.5%	8.6%
	Net Income (Loss) *(Thousands)*	$ 419,909	$ 521,903	$ 588,047	$ 568,037
	Earnings (Loss) for Common Stock *(Thousands)*	$ 390,269	$ 491,066	$ 557,549	$ 535,205
	Long-Term Debt and Redeemable Preferred/ Preference Stock *(Thousands)*	$ 3,979,763	$ 4,007,622	$ 4,525,504	$ 4,900,020
	Total Assets *(Thousands)*	$10,992,978	$11,134,879	$10,209,061	$10,463,624
	Gross Utility Plant *(Thousands)*	$13,115,658	$12,788,445	$12,402,581	$11,997,862
	Net Utility Plant *(Thousands)*	$ 8,585,966	$ 8,650,564	$ 8,617,738	$ 8,558,227
	Capital Expenditures *(Thousands)*	$ 366,392	$ 396,407	$ 415,937	$ 272,121
Miscellaneous Operating Data	System Capability at Year End – MW	10,476	10,274	10,410	10,267
	System Capability at Time of Peak – MW	10,282	10,103	10,262	10,121
	System Peak Demand – MW	9,684	9,362	8,704	8,980
	Reserve Margin at Time of Peak	6.2%	7.9%	17.9%	12.7%
	System Load Factor	55.4%	55.8%	56.9%	55.9%
	Heat Rate – Btu per kWh	9,980	10,080	9,990	9,980
	Fuel Cost – ¢ Per Million Btu	157.1¢	148.2¢	150.5¢	153.3¢
	Number of Employees at Year End	8,494	8,919	9,183	9,357

1990	1989	1988	1987	1986	1985	1984
$ 1,045,081	$ 1,013,677	$ 984,689	$ 905,208	$ 880,205	$ 827,210	$ 758,124
1,328,170	1,259,513	1,160,024	1,068,072	1,057,749	984,340	857,587
740,401	739,982	739,794	690,109	698,873	701,593	631,985
193,087	189,859	217,665	193,342	232,457	275,014	250,509
$ 3,306,739	$ 3,203,031	$ 3,102,172	$ 2,856,731	$ 2,869,284	$ 2,788,157	$2,498,205
269,542	202,574	133,518	128,473	78,041	77,916	76,856
$ 3,576,281	$ 3,405,605	$ 3,235,690	$ 2,985,204	$ 2,947,325	$ 2,866,073	$2,575,061
11,513	11,524	11,723	11,134	10,492	10,077	10,150
15,145	14,816	14,345	13,574	12,859	12,033	11,553
12,250	12,498	13,045	12,524	11,882	11,710	11,621
1,596	1,846	2,031	2,260	2,807	2,875	2,563
40,504	40,684	41,144	39,492	38,040	36,695	35,887
11,887	9,301	6,671	6,665	3,252	2,870	2,797
52,391	49,985	47,815	46,157	41,292	39,565	38,684
1,757,878	1,738,494	1,718,835	1,697,326	1,664,226	1,642,981	1,629,668
166,850	164,138	160,680	156,986	150,670	146,608	144,012
808	788	762	737	701	648	629
1,939	1,934	1,926	1,928	1,905	1,892	1,894
1,927,475	1,905,354	1,882,203	1,856,977	1,817,502	1,792,129	1,776,203
6,583	6,668	6,866	6,635	6,350	6,165	6,253
$597.51	$586.50	$576.70	$539.44	$532.74	$506.06	$467.03
9.08¢	8.80¢	8.40¢	8.13¢	8.39¢	8.21¢	7.47¢
8.77	8.50	8.09	7.87	8.23	8.18	7.42
6.04	5.92	5.67	5.51	5.88	5.99	5.44
$ 4,923,999	$ 4,561,005	$ 4,238,536	$ 4,693,687	$ 3,656,569	$ 3,770,863	$3,845,272
376,183	399,188	416,212	521,894	742,273	879,497	894,168
2,588,452	2,370,060	2,226,949	2,919,985	2,716,403	2,588,025	2,379,998
$ 7,888,634	$ 7,330,253	$ 6,881,697	$ 8,135,566	$ 7,115,245	$ 7,238,385	$7,119,438
62.4	62.2	61.6	57.7	51.4	52.1	54.0
4.8	5.5	6.0	6.4	10.4	12.1	12.6
32.8	32.3	32.4	35.9	38.2	35.8	33.4
100.0	100.0	100.0	100.0	100.0	100.0	100.0
$3.26	$2.65	$(2.92)	$3.25	$2.58	$2.33	$2.20
$1.755	$1.68	$ 1.68	$1.68	$1.68	$1.68	$1.68
54%	63%	–%	52%	65%	72%	76%
$1.78	$1.68	$ 1.68	$1.68	$1.68	$1.68	$1.68
146,888,809	146,816,363	146,761,458	146,729,292	146,643,377	143,183,133	135,230,827
19.11%	16.75%	(15.91)%	16.69%	14.09%	13.31%	12.87%
$17.56	$16.07	$15.10	$19.75	$18.34	$17.47	$16.91
$30¼	$25⅛	$17½	$19	$19⅜	$17⅞	$16⅛
$23½	$17⅛	$12	$12½	$15⅜	$14	$11½
9.2%	9.5%	9.6%	9.5%	9.2%	9.9%	9.9%
8.7%	8.8%	8.9%	10.7%	11.5%	11.6%	11.6%
$ 514,459	$ 425,951	$ (378,826)	$ 554,974	$ 477,095	$ 437,515	$ 401,937
$ 479,280	$ 388,933	$ (428,583)	$ 476,734	$ 378,292	$ 334,251	$ 297,778
$ 5,300,962	$ 5,028,961	$ 5,148,498	$ 5,232,662	$ 4,774,495	$ 4,731,589	$4,460,381
$10,573,325	$ 9,949,599	$10,060,293	$11,158,214	$10,377,125	$ 9,863,760	$9,276,614
$11,749,142	$11,024,368	$10,766,755	$11,893,418	$11,062,449	$10,466,039	$9,752,346
$ 8,624,923	$ 8,236,553	$ 8,303,644	$ 9,682,875	$ 9,034,716	$ 8,612,890	$8,076,168
$ 230,201	$ 242,973	$ 235,127	$ 709,084	$ 645,196	$ 710,699	$ 938,004
10,130	10,081	10,004	9,164	9,070	9,296	8,898
9,953	9,942	10,038	9,020	9,199	9,367	9,271
9,032	8,704	9,133	8,427	8,050	7,172	7,350
10.2%	14.2%	9.9%	7.0%	14.3%	30.6%	26.1%
54.9%	57.3%	55.2%	57.4%	57.9%	63.3%	60.2%
9,940	9,940	9,990	10,060	10,090	9,990	9,990
155.8¢	169.2¢	173.8¢	172.9¢	189.2¢	202.0¢	190.6¢
9,669	10,254	10,614	11,221	10,967	11,086	11,136

Detroit Edison has assembled a strong management team composed of executives with diverse backgrounds and extensive experience both inside and outside the company. This team encourages employee innovation that will enable Detroit Edison to increase shareholder value by changing the company today to prosper tomorrow.

John E. Lobbia, 53, chairman of the board and chief executive officer since 1990. He knows every aspect of Detroit Edison after 26 years' experience in diverse areas such as customer service, finance, engineering, power supply and corporate strategic planning. In the 1980s he managed the company's cogeneration activities and dealt directly with large electricity users who were examining the increasing range of energy options. This experience helped shape his philosophy, that in an increasingly competitive business environment, the only way for a company to increase shareholder value is to provide superior customer value. He holds a bachelor of science degree in electrical engineering from the University of Detroit Mercy. Active in the community, Mr. Lobbia was chosen by 42 CEOs from Southeastern Michigan companies to manage the Detroit Investment Fund, a $60-million capital fund designed to attract investors to the city by targeting real estate projects and high-growth businesses. He also has chaired the Greater Detroit Chamber of Commerce, the Detroit Economic Growth Corporation and the United Way for Southeastern Michigan.

Anthony F. Earley, Jr., 45, president and chief operating officer since 1994. Mr. Earley brings a broad knowledge base from experience outside the company and heads Detroit Edison's internal culture change initiative. He holds degrees in physics, engineering and law from the University of Notre Dame and served as an officer in the U.S. Navy's nuclear power program. A former partner in a law firm specializing in energy and environmental issues, Mr. Earley worked with nuclear licensing, safety issues and regulatory matters. As former president of the Long Island Lighting Co., he has an extensive background in utility customer relations, regulation and nuclear energy. Active in industry associations, he served on the executive committees of the New York Power Pool and the New York Gas Group, as well as on the board of the Empire State Electric Energy Research Corporation. He also serves on the advisory board of the United Way for Southeastern Michigan and the Engineering Advisory Council for Notre Dame.

Larry G. Garberding, 56, executive vice president and chief financial officer since 1990. He has extensive financial knowledge and experience in a broad range of business activities. He previously was a partner at Arthur Andersen & Co. and dealt primarily with energy-related companies. He also held leadership roles with several gas companies as deregulation came to that industry. He has a bachelor of science degree in industrial administration from Iowa State University. Among his community involvement activities, Mr. Garberding is a director of the Detroit Symphony Orchestra Hall and the Michigan Nature Conservancy. He is a member of the board and chairman of the finance committee of Harper Hospital.

Frank E. Agosti, 58, senior vice president, Power Supply, since 1990. He has more than 35 years' experience in power generation and fuel delivery at Detroit Edison and was responsible for the startup of the Monroe and Fermi 2 power plants. He holds a bachelor of science degree in mechanical engineering from Michigan Technological University. His organization designs, operates and maintains fossil-fueled power plants and fuel-delivery systems, and sells process steam, coal, fly ash and technical services. Mr. Agosti serves on the boards of the East Central Area Reliability Council, Michigan Energy Resources Research Association, Michigan Manufacturers Association and Goodwill Industries of Greater Detroit. He serves on the board of trustees for Lawrence Technological University and on the industry advisory boards of Michigan Technological University and the American Society of Mechanical Engineers.

Robert J. Buckler, 45, senior vice president, Energy Marketing and Distribution, since 1992. Mr. Buckler has 20 years' of wide-ranging experience with Detroit Edison, including engineering, fuel supply, power plant construction and operation, marketing, customer service and corporate strategic planning. He has championed actions to increase customer satisfaction by finding ways to better serve customers, including best-in-class improvements in telephone communications, service reliability and outage restoration. He holds bachelor's and master's degrees in mechanical engineering from the University of Michigan. His organization is responsible for all aspects of the company's transmission and distribution system, customer service and retail customer marketing and sales. Mr. Buckler is a member of the boards of the Engineering Society of Detroit, Rackham Foundation and YMCA of Metropolitan Detroit. He chairs the YMCA Camping Service board and is a member of the visiting committee of the engineering college of the University of Michigan-Dearborn.

Douglas R. Gipson, 47, senior vice president, Nuclear Generation, since 1993. With more than 25 years' experience in the nuclear power industry, Mr. Gipson is responsible for the company's nuclear-related activities and the safe, efficient and reliable operation of the Fermi 2 power plant. Besides associate's degrees from Kirkwood College, he has completed training at Iowa State University's research reactor as well as Iowa Electric Light and Power's Duane Arnold nuclear plant and Gulf States Utilities' River Bend plant. He has been certified as a senior reactor operator (SRO) by General Electric and licensed by the Nuclear Regulatory Commission as a SRO. Before joining Detroit Edison, he headed the River Bend plant's operations, planning and scheduling and quality services areas. Mr. Gipson is a member of the Edison Electric Institute Nuclear Operations Committee and was a member of the advisory board for the University of Michigan's Public Utility Executive Program. In addition, he serves on the board of directors for the United Way of Monroe County, the River Raisin Centre for the Arts and the Monroe County Emergency Medical Authority.

Gerard M. Anderson, 36, vice president for Non-Utility Business Ventures since 1993. Prior to joining Detroit Edison, he worked for McKinsey & Co., Inc. and advised clients in the utility, financial services and manufacturing fields, including automotive companies and government agencies. As chairman of Biomass Energy Systems, Inc. and its five operating subsidiaries, Mr. Anderson is responsible for expanding the company's landfill-gas power-generation business. He also is chief executive officer of Edison Energy Services, Inc., a subsidiary focused on working with large industrial and institutional customers on energy projects. He holds a bachelor of science degree in engineering from the University of Notre Dame and master's degrees in business administration and public policy from the University of Michigan.

Michael E. Champley, 46, vice president, Marketing and Sales, since 1992. With 20 years' experience with Detroit Edison, Mr. Champley has broad expertise in strategic and financial planning, pricing and regulatory affairs and developing strategic supplier and customer business relationships. He is responsible for retail

marketing and sales activities, including market planning, product development, pricing, economic development, sales force management and the company's steam business. Mr. Champley spearheaded the company's innovative special manufacturing contract negotiations with its largest customers. He earned a bachelor of science degree from the University of Dayton and a master of business administration degree from Indiana University. Early in his career he taught "Principles of Public Utilities" at Indiana University and provided independent consulting services to municipal electric and wastewater utilities. Mr. Champley has held elected and appointed municipal government positions and serves on the executive and advisory committees of the Institute of Public Utilities at Michigan State University.

Haven E. Cockerham, 47, vice president, Human Resources, since 1994. He brings entrepreneurial and broad-based corporate experience to Detroit Edison. Prior to joining the company, Mr. Cockerham had more than 20 years' experience in personnel management and human relations with General Motors Corp. He owned and operated an automobile dealership and headed a management consulting firm that specialized in human resources, marketing support and strategic planning with major clients in banking, consumer products, utilities and government. He holds a bachelor of science degree in economics from North Carolina A&T State University and a master of business administration degree from Michigan State University. His organization works in cooperation with company business units to increase organizational capability, improve employee skills and foster a motivating work environment. He is responsible for employee selections, training and development, compensation, health care, union/management relations, organization development and internal communications.

Ronald W. Gresens, 61, vice president and controller since 1987. He has more than 26 years' experience with Detroit Edison's auditing and financial groups. His organization is responsible for accounting, budgeting and tax functions throughout the company. He has a bachelor of arts degree in accounting from Michigan State University. Prior to joining Detroit Edison in 1968, he was an audit manager for Price Waterhouse LLP. A certified public accountant (CPA), Mr. Gresens is a member of the Michigan Association of CPAs, American Institute of CPAs and Financial Executives Institute. In addition, he is a member of the Chief Accounting Officers Association of the Edison Electric Institute. Mr. Gresens formerly served on the Evaluation and Allocations Subcommittee of the Capital Fund Division of the United Way.

Leslie L. Loomans, 51, vice president and treasurer since 1989. Mr. Loomans has nearly 30 years' experience with the company's marketing and financial groups, including the responsibility of planning and issuing more than $10 billion of bonds and stocks. He holds a bachelor of science degree in electrical engineering and a master of business administration degree from the University of Michigan. His organization is responsible for finance and investor relations, banking and cash management, trust fund management, corporate insurance and the administration of employee and retiree benefits and payrolls. Also, he chairs the Greater Detroit Area Health Council and serves on the board of NSF International, Nuclear Mutual Limited and Energy Insurance Mutual, chairing the latter's audit committee. He is a member of the Investment Committee of the Community Foundation of Southeastern Michigan and the Edison Electric Institute's Finance Committee.

Christopher C. Nern, 50, vice president and general counsel since 1993. With more than 20 years' experience with Detroit Edison, he has responsibility for the company's legal affairs and the corporate secretary's function. Mr. Nern developed the company's long-time program of performing legal matters internally; he also has been instrumental in the use of internal resources for all litigation and regulatory support. He has a bachelor of arts degree from Michigan State University and a juris doctor degree from the Wayne State University Law School. Before joining Detroit Edison he was assistant attorney general for the State of Michigan Consumer Protection Division. Mr. Nern is a member of the Michigan General Counsels Association and the Edison Electric Institute Legal Committee. In addition, he is a past president of the Michigan chapter of the American Corporate Counsel Association, a trustee of the Detroit Bar Association Foundation, and a member of the Cablecasting Board for the city of Birmingham.

S. Martin Taylor, 54, vice president, Corporate and Public Affairs, since 1994. He joined Detroit Edison in 1989 with an extensive political background at the federal, state and local levels. He earned a bachelor of science degree in political science and economics from Western Michigan University and a juris doctor degree from the Detroit College of Law. Early in his career he worked as a corporate attorney in Chicago and later served on the cabinets of two Michigan governors. Besides responsibility for Regional Relations and State and Federal Affairs, he has primary responsibility for Public Relations, Corporate Contributions, Environmental Initiatives and Detroit Edison's Employees' Political Action Committee. Mr. Taylor co-chaired the successful campaign of Detroit Mayor Dennis Archer and chaired the Archer transition team. In 1994, Michigan Gov. John Engler re-appointed him to the Michigan Strategic Fund Board of Directors. He serves on many other boards and commissions, including the Michigan State Chamber of Commerce, the Michigan Cancer Foundation, the Children's Hospital of Michigan and the Detroit Zoological Commission. In addition, he chairs Kids Voting-Michigan, Detroit Urban League and Local Initiatives Support Corporation.

Susan M. Beale, 46, corporate secretary since 1989. Ms. Beale joined Detroit Edison in 1982 after working as a lawyer for Consumers Power and Southern California Edison. She holds a bachelor of science degree in home economics from Michigan State University and a juris doctor degree from the University of Michigan. She has handled Detroit Edison corporate contracts, fuel purchasing and environmental matters. She also has participated in corporate strategic planning on employee issues. She championed the company's employee peer-review system and its Innovations employee-suggestion program and streamlined its policies and practices. Her responsibilities include Shareholder Services and numerous Board of Directors matters for both the company and its subsidiaries. Ms. Beale chairs the Detroit Securities Law Section of the American Corporate Counsel Association and is on the National Education Committee for the American Society of Corporate Secretaries. In addition, she serves on the advisory board of the Detroit Women's Economic Club.

Frederick S. Karwacki, 46, general auditor since 1989. He has a bachelor of science degree in accounting from Michigan Technological University. Reporting directly to the chairman of the board, Mr. Karwacki is responsible for assessing the company's management, operating and financial controls as well as the administrative and operational effectiveness of organizational units. A certified public accountant (CPA) and certified internal auditor, he belongs to the Michigan Association of CPAs, the American Institute of CPAs and the Institute of Internal Auditors.

Officer Retirements

Malcolm G. Dade, Jr., vice president, Human Resources, retired July 1, 1994, after 12 years of service.

Saul J. Waldman, vice president, Corporate Communications, retired July 2, 1994, after 19 years of service.

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

The company's common stock is listed on the New York Stock Exchange and the Chicago Stock Exchange (symbol DTE). 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 High	Price Range Low	Dividends Paid Per Share
1993	First	37⅛	32	$0.495
	Second	36¼	33⅛	0.515
	Third	36	33¾	0.515
	Fourth	34¾	29⅞	0.515
1994	First	30¼	26	$0.515
	Second	27¼	24¼	0.515
	Third	27½	24¼	0.515
	Fourth	27½	24¾	0.515

At Dec. 31, 1994, 144,863,447 shares of the company's common stock were outstanding. These shares were held by a total of 151,077 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, 1994)

Type of Owner:

	Owners	Shares
Individuals	72,483	17,560,606
Joint Accounts	65,752	22,597,426
Trust Accounts	11,748	6,974,685
Nominees	54	84,270,535
Institutions and Foundations	217	140,372
Brokers and Security Dealers	11	10,912
Others	812	13,308,911
Total	151,077	144,863,447

State and Country:

	Owners	Shares
Michigan	72,004	36,186,475
Florida	11,268	4,553,688
California	8,662	2,697,417
New York	7,048	83,584,281
Illinois	6,549	4,142,283
Ohio	5,082	1,456,004
44 Other States	39,892	12,060,605
Foreign Countries	572	182,694
Total	151,077	144,863,447

Annual Meeting of Shareholders

The 1995 Annual Meeting of Shareholders will be held at 10 a.m. Detroit time Monday, April 24, at The Detroit Edison Company General Offices, 2000 2nd Ave., Detroit. Shareholders will be asked to (1) elect members of the Board of Directors, (2) adopt a plan of share exchange, (3) approve a long-term incentive plan and (4) ratify the appointment of independent accountants.

At the 1994 Annual Meeting of Shareholders, five directors, all of whom were incumbents, were elected, and the appointment of independent accountants was ratified.

Corporate Address

The Detroit Edison Company
2000 2nd Ave., Detroit, MI 48226-1279
Telephone: (313) 237-8000

Independent Accountants

Price Waterhouse LLP
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
Corporate Secretary
The Detroit Edison Company
2000 2nd Ave., Detroit, MI 48226-1279

Transfer Agents

The Detroit Edison Company
2000 2nd Ave., Detroit, Michigan 48226-1279

Susan M. Beale	Cathy M. Lewis
Ronald J. Gdowski	Janet A. Scullen
Elaine M. Godfrey	Jack L. Somers
Sophie J. Koziatek	Gloria A. Williams

Shareholder Services: (800) 551-5009

Registrar of Stock

The Detroit Edison Company
2000 2nd Ave., Detroit, MI 48226-1279
(Preferred and Common Stock)

Other Shareholder Information

Shareholders who hold stock in street form may request quarterly reports by writing to the address below. Shareholders of record automatically receive quarterly reports.

As a service to shareholders of record, Detroit Edison offers direct deposit of dividend payments. Payments can be electronically transferred directly to the bank or savings and loan account of choice on the payment date. Please write to the address below to receive an authorization form to request direct deposit of dividend payments.

The Detroit Edison Company
c/o Shareholder Services, Room 434 W.C.B.
2000 2nd Ave., Detroit, MI 48226-1279

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.
Former Chairman of the Board and Chief Executive Officer, Bundy Corporation
(Manufacturer of steel tubing, fluid lines and engineered plastic products)

Lillian Bauder
President and Chief Executive Officer, Cranbrook Educational Community

David Bing
Chairman of the Board, Bing Steel, Inc.
(A steel service center)

Anthony F. Earley, Jr.
President and Chief Operating Officer, The Detroit Edison Company

Larry G. Garberding
Executive Vice President and Chief Financial Officer, The Detroit Edison Company

Theodore S. Leipprandt
[illegible]

John E. Lobbia
Chairman of the Board and Chief Executive Officer, The Detroit Edison Company

Patricia S. 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 and Chief Executive Officer, Comerica Incorporated and Comerica Bank

Dean E. Richardson
Retired Chairman of the Board, Manufacturers National Corporation

Alan E. Schwartz
Partner, Honigman Miller Schwartz and Cohn (Attorneys at law)

William Wegner
[illegible]

Audit
Patricia S. Longe*
Lillian Bauder
David Bing
Theodore S. Leipprandt
Dean E. Richardson

[illegible]
Alan E. Schwartz*
Wendell W. Anderson, Jr.
Patricia S. Longe
Walter J. McCarthy, Jr.
Eugene A. Miller

Energy Resources Planning
David Bing*
Wendell W. Anderson, Jr.**
Theodore S. Leipprandt
Walter J. McCarthy, Jr.
William Wegner

Nuclear Review
William Wegner*
Lillian Bauder
Theodore S. Leipprandt
Patricia S. Longe
Walter J. McCarthy, Jr.

Executive
John E. Lobbia*
Terence E. Adderley
Lillian Bauder
Anthony F. Earley, Jr.
Larry G. Garberding
Dean E. Richardson
Alan E. Schwartz

Organization & Compensation
Wendell W. Anderson, Jr.*
Terence E. Adderley
David Bing
Eugene A. Miller
Dean E. Richardson
Alan E. Schwartz

Finance
Dean E. Richardson*
Patricia S. Longe**
Terence E. Adderley
Larry G. Garberding
Eugene A. Miller
Alan E. Schwartz

*Chairman
**Vice Chairman

Walter L. Cisler
1897 - 1994

Detroit Edison's former Chairman of the Board and Chief Executive Officer, Walter L. Cisler, died Oct. 18, 1994, at 97. Just as the company gained much from his leadership from 1951 to 1975, so people and nations worldwide benefited from his work to promote social and economic development.

Mr. Cisler was instrumental in restoring electricity to war-torn Europe following World War II. In the 1940s he joined Detroit Edison as chief engineer of power plants and later oversaw the post-war expansion and upgrading of the electric power system that serves southeastern Michigan.

Even after he retired from the company, Mr. Cisler continued to make lasting contributions to the fields of energy and power. He organized Overseas Advisory Associates Inc., a non-profit Michigan corporation, to advise foreign countries on the development of energy industries. He was decorated by the U.S. government and by 17 foreign governments.

Mr. Cisler was a legend in the electric utility industry and beyond. He will be missed.

Director Retirements

Wendell W. Anderson, Jr., and Walter J. McCarthy, Jr., directors since 1979 and 1975 respectively, will not stand for re-election to the Board of Directors due to the by-laws age restriction. Mr. McCarthy, former Chairman of the Board, retired from the company in 1990 with 27 years of service. Detroit Edison expresses sincere appreciation to Mr. Anderson and Mr. McCarthy for their many contributions to the company.

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 and Chief Executive Officer, Cranbrook Educational Community

David Bing
Chairman of the Board, Bing Steel, Inc. (A steel service center)

Anthony F. Earley, Jr.
President and Chief Operating Officer, The Detroit Edison Company

Larry G. Garberding
Executive Vice President and Chief Financial Officer, The Detroit Edison Company

Theodore S. Leipprandt
Marketing Specialist, Cooperative Elevator Company (Handling export and domestic marketing of dry beans in the Thumb area)

John E. Lobbia
Chairman of the Board and Chief Executive Officer, The Detroit Edison Company

Patricia S. 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 and Chief Executive Officer, Comerica Incorporated and Comerica Bank

Dean E. Richardson
Retired Chairman of the Board, Manufacturers National Corporation

Alan E. Schwartz
Partner, Honigman Miller Schwartz and Cohn (Attorneys at law)

William Wegner
Consultant; Owner of W Squared, Inc. (A consulting firm engaged in providing services to nuclear utility companies)

Audit
Patricia S. Longe
Lillian Bauder
David Bing
Theodore S. Leipprandt
Dean E. Richardson

Nominating
Alan E. Schwartz
Wendell W. Anderson, Jr.
Patricia S. Longe
Walter J. McCarthy, Jr.
Eugene A. Miller

Energy Resources Planning
David Bing
Wendell W. Anderson, Jr.
Theodore S. Leipprandt
Walter J. McCarthy, Jr.
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Organization & Compensation
Wendell W. Anderson, Jr.*
Terence E. Adderley**
David Bing
Eugene A. Miller
Dean E. Richardson
Alan E. Schwartz

Finance
Dean E. Richardson*
Patricia S. Longe**
Terence E. Adderley
Larry G. Garberding
Eugene A. Miller
Alan E. Schwartz

*Chairman
**Vice Chairman

Walker L. Cisler
1897 - 1994

Detroit Edison's former Chairman of the Board and Chief Executive Officer, Walker L. Cisler, died Oct. 18, 1994, at 97. Just as the company gained much from his leadership from 1951 to 1975, so people and nations worldwide benefited from his work to promote social and economic development.

Mr. Cisler was instrumental in restoring electricity to war-torn Europe following World War II. In the 1940s he joined Detroit Edison as chief engineer of power plants and later oversaw the post-war rebuilding and expansion of the electric power system that serves Southeastern Michigan.

Even after he retired from the company, Mr. Cisler continued to make lasting contributions to the fields of energy and power. He organized Overseas Advisory Associates Inc., a non-profit Michigan corporation, to advise foreign countries on the development of energy industries. He was decorated by the U.S. government and by 17 foreign governments.

Mr. Cisler was a legend in the electric utility industry and in life. He will be missed.

Director Retirements

Wendell W. Anderson, Jr., and **Walter J. McCarthy, Jr.**, directors since 1970 and 1978 respectively, will not stand for re-election to the Board of Directors due to the by-laws age restriction. Mr. McCarthy, former Chairman of the Board, retired from the company in 1990 with 27 years of service. Detroit Edison expresses sincere appreciation to Mr. Anderson and Mr. McCarthy for their many contributions to the company.

Detroit Edison

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