SHIELDS & COMPANY
MEMBER NEW YORK STOCK EXCHANGE
140 BROADWAY NEW YORK, NY 10005

RAYMOND E. MOORE, CFA (212) 320-3065 Trading (212) 320-3001 **August 31, 2006**

ray.moore@shieldsandco.com

Initiating Coverage

Rating: Hold – Income

DTE Energy
(DTE-NYSE-$42)

	8/30						
Price	42						
52-week range	48-39				Price	Y-t-d	12 Mos.
Book 3/31/06	32.95	127%	P/book	Performance	8/30	%	%
Operating Earnings*				DTE Energy	42	(3)	(9)
2004	1.18	35.4		Phil. Electric Index	464	9	8
2005	1.96	21.3		Dow Industrials	11,370	6	9
2006 Estimate	2.20	19.0		Analyst Total	10		
2007 "	2.55	16.4		Buys	2		
2008 "	2.85	14.7		Sells	1		
2009 "	3.00	13.9					
2010 "	3.25	12.9		Shares (millions)	178		
Dividend	2.06	4.9%	Yield	Equity Value ($ Bil.)	7		

* Excludes Synfuel & Mark-to-Market Results

Summary & Recommendation

Management began 2006 with earnings guidance of $3.60-$3.90 a share versus $3.27 a share in 2005. It also cited the potential to grow earnings 9% to 10% annually through 2010 - 6% utilities - 20% non-utilities, but that target seemed ambitious, particularly since synfuel credits ($1.54 a share in 2005) were scheduled to expire in 2007. High oil prices and the absence of enabling legislation eliminated synfuel generated profits in 2006, cutting guidance to $2.41 - $2.66 a share. If DTE's potential 9% to 10% annual growth were achieved off the lower base, earnings would return to the $3.20 - $3.30 a share range in 2010. Our earnings range of $2.20-$2.32 a share compares to $1.96 a share in 2005 and excludes mark-to-market gains and losses as well as synfuel credits. GAAP earnings were $3.05 a share versus $2.49 a share in 2004.

DTE Energy is a diversified electric and gas utility whose major subsidiaries, Detroit Edison and Michigan Consolidated Gas (MichCon), earned $1.62 a share ($285 million) in 2005, or 83% of consolidated ongoing results of $1.96 a share. Non-utilities businesses that comprise energy services and production and exploration are: Fuel Transportation and Marketing - $0.22 a share ($41 million), Power & Industrial Contracts - $0.05 a share ($9 million), and Unconventional Gas Production - $0.02 a share ($4 million). In presentations before investor groups, particularly in Boston in July, management raised the profile of Unconventional Gas Production. Once a footnote in investors' matrix valuation, the unconventional gas story grew as natural

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See page 8 of report for Analyst's Certification, pages 8-9 for Important Disclosures and page 9 for Other Disclosures and Disclaimers

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gas prices increased and created opportunities to grow earnings by 1) re-pricing volumes as hedges roll off at the older Antrim field in northern Michigan, 2) increasing production in the Barnett field in Texas, and 3) expanding potential flows from a 55,000 acreage expansion in the yet undefined southern Barnett field.

Despite the buzz over unconventional gas, DTE Energy stock has performed poorly. Its price declined 3% and 9%, respectively, year-to-date and trailing 12-months, sharply underperforming both the Philadelphia Electric Index (+9% and +8%) and the Dow Industrials (+6% and +9%). Investors are concerned over 1) rate cuts and need for rate relief at Detroit Edison, 2) the reduced level of ongoing earnings, 3) declining gas prices and the impact on earnings and development at Barnett, and 4) whether management will successfully grow non-utility businesses. Management's most visible success in the non-utilities arena, synfuels, is regarded by many investors as a process of mining for tax credits and short-term profits as opposed to building a long-term business based on sound economics.

The $2.06 a share dividend provides a 4.9% yield versus an industry average of 3.5% and represents 91% of 2006 mid-point earnings of $2.26 a share. We regard the dividend as safe, but growth is unlikely at least until 2008/9 when the payout drops to the 70% area. In the interim, the yield offers some downside price protection while the increased visibility of the unconventional gas business should cause the shares to react to the direction of gas prices. The stock's main attraction though is income and we rate the shares Hold.

According to Bloomberg Financial Service, 10 sell side firms maintain active recommendations: 2-buys -1-sell - 7-holds.

Unconventional Gas

DTE's experience in exploration and development of gas from shale dates back 15+ years - first in the Antrim field in the northern peninsula of Michigan and, since 2004, the Barnett field in north central Texas. Barnett reserves are huge, having been compared to the Permian Basin, but Barnett's shale reserves, though plentiful, only became economically viable as fracturing and drilling techniques improved in the late 1990s and gas prices rose. Risk of not finding gas is minimal. Price and flow rates determine profits. Year-to-date, DTE has drilled 6 test wells, all gas producing, in the undeveloped 55,000 acre southern expansion. Findings are pooled with other drillers and estimates of potential and flow rates are expected by year-end. Devon Energy remains the area's largest producer although the region has begun attracting giants such as Royal Dutch and Marathon.

DTE's E&P strategy was simple: find gas, lock in profits via sophisticated hedging techniques, and leave modest exposure to market vagaries. The rise in gas prices plus the surge to post-hurricane levels of $13-$15 per mcf created opportunities to 1) expand margins as hedges rolled off at Antrim, and 2) increase earnings via production expansion at heretofore marginally economic fields such as Barnett. For it all to work, prices have to cooperate. NYMEX gas futures were $6.47 per mcf as of 8/29/06, 38% below the $10.50 per mcf assumed in management guidance.

Breakeven Estimates: At a Morgan Stanley conference in March, management stated that profits at Antrim, at then existing prices and assuming no hedges (unrealistic but good for illustrative purposes), would total $80 million in 2006 ($0.45 a share) compared to the $15 million ($0.08 a share) budgeted. That statement revealed the leverage potential at Antrim but, more importantly, by identifying earnings at Antrim of $15 million, we are able to estimate breakeven costs at both Antrim and Barnett (Table 1).

Breakeven at the older Antrim field works out to $2.86 per mcf, the difference between revenues (based on roll off prices of $10.50 per mcf) of $85 million less pretax earnings of $23 million divided by 21.5 bcfe sales. At Barnett, breakeven is $4.87 per mcf. The decline in gas prices since the April forecast, from $10.50 per mcf to $6.47 as of 8/30/06, cut profit potential at both fields and may be reaching levels that could discourage drilling at Barnett., At Antrim, the margin above breakeven has declined from $7.64 per mcf to $3.61. At Barnett the margin has dropped from $5.63 per mcf to $1.60.

Antrim: According to the arithmetic (no solving for x), Antrim earnings of $0.08 a share ($15 million) assume $7.38 per mcf margin expansion (sales $10.50 less $3.12 average price) on hedge roll off volumes of 2.3 bcfe. Current futures price applied to roll off volumes reduces budgeted annual revenues by $9 million and earnings by $6 million to a pro forma $0.05 per share ($9 million - 40% drop off from budget).

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Barnett: Net production was a modest 0.7 bcfe in 2005 and we estimate that startup costs more than offset the $6 million revenue contribution. Budgeted production of 4.1 bcfe multiplied by $10.50 per mcf produces $43 million in revenues and $0.08 a share ($15 million) in earnings. Prices of $6.47 per mcf reduce that revenue forecast to $27 million (annualized) and earnings to $0.03 a share ($5 million- 62% below budget).

Table 1
Unconventional Gas
Interpolated Breakeven at Antrim & Barnett

Column	(1)	(2)	(3)	(4)
	2005		2006	
Production Bcfe		Antrim	Barnett	Consolidated
Antrim	21.5	21.5		21.5
Barnett	0.7		4.1	4.1
Total	22.2	21.5		21.5
Price per mcf				
Antrim	3.12	3.94		3.94
Barnett	9.01		10.50	10.50
Average	3.33			5.94
Revenues $-millions				
Antrim	68	85		85
Barnett	6		43	43
Total	74	85	43	128
Tax Rate	20%	35%	35%	35%
Earnings	4	15	15	30
Net Income Margin %	5%	18%	35%	23%
Per mcf	0.18	0.70	3.66	1.40
Pre Tax Earnings	5	23	23	46
Per Mcf	0.23	1.07	5.63	2.15
All Other Costs	69	62	20	82
Break-Even Sales Margin	3.11	2.86	4.87	3.79

Reserve Valuations: Natural resources are often valued on reserves. It makes for easy arithmetic, but we're not sure that logic is applicable to an ongoing business that's not for sale and has recurring earnings and cash flows. (We have the same opinion of EBITDA despite its industry-wide acceptance, but that's another story.)

Management presented a range of asset values on probable and proved reserves in Antrim (300,000 acres) and Barnett (31,000 acres). Average asset value was $4.68 a share ($839 million), with a range of $3.58 ($641 million) to $5.79 a share ($1,036 million). If DTE were to 1) sell and receive after-tax proceeds equal to values estimated by management, and 2) use the proceeds to buy back common and retire debt at 5.8%, on a 50/50 basis, our $2.85 a share estimate for 2008 declines to $2.65-$2.70 a share.

This exercise excludes any value for the potential in the 55,000 acre southern expansion at Barnett. If we assume southern expansion equals the value of all reserves to date in Antrim (300,000 acres) and Barnett (31,000 acres), thus doubling the proceeds from sale, the transaction could be slightly accretive in the $2.80 to $3.10 a share range. In short, we doubt the tail (unconventional gas) will wag the dog (DTE Energy overall).

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Table 2
Management Reserve Valuation
April 2006

Column	(1)	(2)	(3)	(4)	(5)
	Reserves	Value Range	Average	Low	High
Antrim	Bcfe	$/mcf	$-Mil.	$-Mil.	$-Mil.
Probable	35	0.50-1.00	26	18	35
Proved	338	2.50-3.00	930	845	1,014
Total	373		956	863	1,049
Less					
Cost of Capacity Hedges			280	280	280
Allocated Debt			150	150	150
Net			526	433	619
Per Share			2.94	2.42	3.46
Barnett					
Probable	120	1.50-2.50	240	180	300
Proved	59	1.50-3.00	133	89	177
Total	179		373	269	477
Less					
Allocated Debt			60	60	60
Net $-Millions			313	209	417
Per Share			1.75	1.16	2.33
Combined $-Millions			839	641	1,036
Per Share			4.68	3.58	5.79
Shares-179 million					

Management has backed off from 2006 guidance of $0.16 a share ($25-$30 million) for unconventional gas, but left unchanged its 2008 target of $0.32 a share ($50-$65 million). Earnings three years out assumed lower futures prices and other intangibles that were probably pared back to reflect possible contingencies. (Not unlike securities analysts' long-term estimates.)

Regulated Electric & Gas

Combined Utilities: DTE's largest subsidiary, Detroit Edison, earned $1.55 a share ($272 million) in 2005, and accounted for 79% of ongoing earnings of $1.96 a share. Michigan Consolidated Gas (MichCon) contributed $0.07 a share ($13 million) after reducing reported earnings by $60 million ($0.34 a share) of after-tax interest expense associated with the purchase of MIchCon. The combined utilities accounted for $1.62 a share ($285 million), or 83% of consolidated results. By 2010, Detroit Edison and MichCon profits could approach $2.47 a share ($444 million), or 76% of consolidated results of $3.26 a share ($586 million).

Detroit Edison: Management's 6% annual forecast for the four years ending 2010 assumes Detroit Edison earns 11% returns on a growing equity rate base. Its ongoing mid-point operating earnings guidance is $1.94 a share ($343 million) in 2006, with a target of $2.35 a share ($424 million) in 2010.

In March the MPSC issued a "show cause order" asking Detroit Edison to defend its rate of return. Management cited capital needs, earnings below allowed levels and an expected rate increase filing in 2007. The decision was scheduled for December 2006 but both parties announced a settlement on August 31, 2006. The agreement contained a temporary $79 million ($0.26 a share) rate reduction that will remain in effect until the March 31, 2008 or 12 months from the filing of a general rate case. Management has indicated that its rate filing will be no later than July 1, 2007 and that the company should earn 11% returns in 2006 and 2007.

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We believe that the company is vulnerable to a reduction in the allowed return on common. Each 100 basis point change on $3,850 million common equity (midpoint in 2010) equates to $0.21 a share ($38.5 million), or a revenue equivalent of $60 million. A return of 10.5% would produce earnings of $2.24 a share ($404 million) in 2010, versus the 6% forecast level of $2.35 a share ($424 million).

MichCon: MichCon's capital program will increase the equity rate base from $800 million in 2006 to $925 million (mid-point) in 2010. Management's forecast has MichCon earning $0.42 a share ($75 million) in 2006, and $0.56 a share ($100 million) in 2010. Bottom-line earnings, after absorbing the $60 million ($0.34 a share) of acquisition-related interest, are estimated at $0.08 a share ($15 million) in 2006, (versus $0.07 a share, or $13 million in 2005) and $0.22 a share ($40 million) in 2010.

Power and Industrial Contracts

Power and Industrial Contract (P&I) business is premised on the concept that DTE Energy has the expertise to operate on-site industrial power plants more efficiently than the host company whose business is to sell something other than electricity. Its target market includes all energy intensive businesses, such as metals and paper, located mostly, but not entirely, in the mid-west. The company's most notable success is Chrysler Corporation, where it operates 8 on-site energy facilities.

P&I's reported earnings were $1.59 a share ($280 million) in 2005, including synfuels of $1.54 a share ($271 million). Going forward other operations contributed $0.05 a share ($9 million), including $0.08 a share ($15 million) of after-tax losses in competitive generation and waste coal conversion. Management's forecast has earnings rising from $0.13 a share ($24 million) in 2005 to $0.26 a share ($40-$55 million) in 2008, on the assumption that competitive generation and waste coal investments are sold or written off ($270 million).

Admittedly, P&I is a logical extension of an integrated utility's expertise, but we share little enthusiasm for its prospects. It's tough to change infrastructure. Negotiation processes are often lengthy, dealing with in-place labor unions is delicate, and there's the normal corporate culture that's reluctant to cede control.

Fuel Transportation Marketing and Trading

Fuel Transportation Marketing and Trading (FTMT) is similar to Power & Industrial Contract in that it offers its expertise in natural gas pipeline storage, coal transportation and marketing services to local distribution companies and other energy intensive industries. The company uses derivatives as part of it marketing and trading activities that are designed to maximize return. In early 2005, management elected not to withdraw storage for one cycle under a strategy that locked in profits but in the interim created a huge $202 million loss under derivative accounting rules that reverses once the contract is terminated. (Skyrocketing gas prices created a mismatch of hedged versus market prices.)

FTMT earnings, excluding mark-to-market losses of $39 million, were $0.23 a share ($41 million) in 2005. Profits are projected at $0.23 a share ($40 million) in 2006 and expected to rise $0.02-$0.03 a share ($4-$5 million) annually through 2010.

Consolidated Earnings Profile

Table 3 outlines consolidated earnings snap shots for 2005 (column 1), 2006 guidance range and mid-point (columns 2 to 4) and 2010 (column 5). The forecast incorporates management guidelines issued during presentations before investor groups, although we did lower Detroit Edison's return on common from 11% to 10.5%. Regulated utilities of $2.47 a share ($444 million) in 2010 remain dominant, accounting for 76% of consolidated results of $3.26 a share. Unconventional gas profits based on mid-point guidance and 20% growth in 2009 and 2010 rise to $0.38 a share ($69 million), followed by Fuel Transportation & Trading - $0.33 a share ($60 million), and Power & Industrial - $0.27 a share ($48 million).

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Table 3
Earnings Profile
2005-2006-2010

Shares (Millions)	176	177			180
Column Normalized Earnings Utility	(1) Actual 2005	(2) Low	(3) 2006 Range High	(4) Average	(5) 2010 Est
Detroit Edison	272	320	335	328	404
Per Share	1.55	1.81	1.89	1.85	2.24
MichCon Gross	73	70	80	75	100
Per Share	0.41	0.40	0.45	0.42	0.56
Acquisition Interest	60	60	60	60	60
Per Share	0.34	0.34	0.34	0.34	0.33
MichCon Net	13	10	20	15	40
Per Share	0.07	0.06	0.11	0.08	0.22
Total Utility	285	330	355	343	444
Per Share	1.62	1.86	2.01	1.94	2.47
Non-Utility					
Power & Industrial	280	215	225	220	
Per Share	1.59	1.21	1.27	1.24	
Estimated SFC	271	210	220	215	
Per Share	1.54	1.19	1.24	1.21	
Operations ex Tax Credits	9	5	5	5	48
Per Share	0.05	0.03	0.03	0.03	0.27
Unconventional Gas	4	25	30	28	69
Per Share	0.02	0.14	0.17	0.16	0.38
Fuel Trans & Marketing Trading	2	85	90	88	
Per Share	0.01	0.48	0.51	0.49	
Energy Trading (Gain) Loss	39	(45)	(50)	(48)	
Per Share	0.22	(0.25)	(0.28)	(0.27)	
Normalized net of Trading	41	40	40	40	60
Per Share	0.23	0.23	0.23	0.23	0.33
Total Non-Utility	54	70	75	73	177
Combined Normalized Earnings	339	400	430	415	0.99
Per Share	1.93	2.26	2.43	2.34	621
Corporate & Other	(6)	10	20	15	35
Per Share	(0.03)	0.06	0.11	0.08	0.19
Consolidated Earnings Normalized	345	390	410	400	586
Per Share	1.96	2.20	2.32	2.26	3.26

Earnings net of synfuels and mark-to-market gains and losses

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Shareholder Profile

Some 30% of DTE's 178 million shares are held by its five largest holders.

Largest Shareholders

Largest Shareholders (6/30/06) SEC Filings	Shares (millions)	% Shares Outstanding
Franklin Resources	18.1	10
Capital Research	10.1	6
Barclays Global	9.6	5
Bank of America	8.6	5
Vanguard Group	6.9	4
Total	53.3	30

Analyst's Certification

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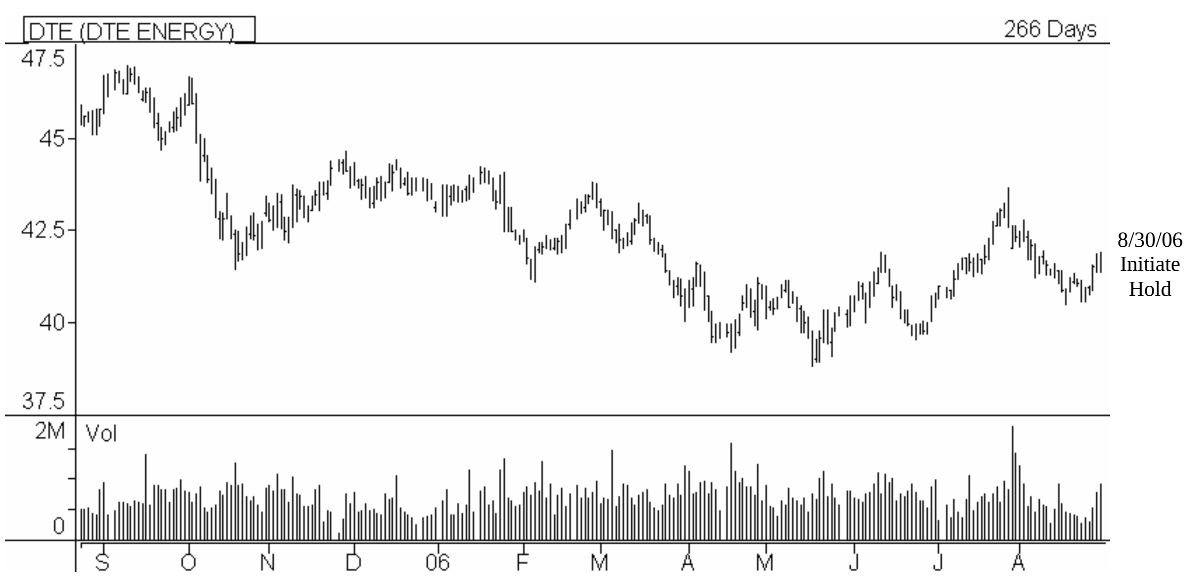
Market Perform & Hold Total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.
Sell Total return is expected to significantly under perform (15% plus) the total return of the industry coverage universe over the next 12 months.

Range of Formal Recommendations 17 total 1-buy-15-holds-1 sell



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