SHIELDS & COMPANY
MEMBER NEW YORK STOCK EXCHANGE
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Follow-up to August 31, 2006 Report

Rating: Hold – Income

DTE ENERGY
(DTE-NYSE)

	12/12						
Price	49						
52-week range	49-39				Price	Y-t-d	12 Mos.
Book 9/30/06	32.94	147%	P/book	Performance	12/12	%	%
Operating Earnings*				DTE Energy	49	13	11
2004	1.18	41.2		Phil. Electric Index	495	16	14
2005	1.96	24.8		Dow Industrials	12,316	15	14
2006 Estimate	2.20	22.1		Analyst Total	12		
2007 "	2.55	19.1		Buys	2		
2008 "	2.80	17.4		Sells	2		
Dividend	2.12	4.4%	Yield	Shares (millions)	178		
* Excludes Synfuel & Mark to Market Results				Equity Value $ Bil.	9		

Attempt to Simplify Corporate Profile

Management began 2006 with earnings targets averaging 9% to 10% annually through 2010, 6% utilities and 20% non-utilities, so says our report dated August 31, 2006. But soon thereafter, at the Edison Electric Institute's Financial Forum in November (and other broker-sponsored gatherings since), management changed gears and instead adopted a strategy tied to increasing shareholder value by selling assets, retiring debt and buying back shares. Management has been silent as to revised overall profit goals but kept the utilities (Detroit Edison and Michigan Consolidated Gas) target at $525 million in 2010 (technically, the verbal growth range was cut from 6% to 5%-6%).

Why change? Our opinion is that management recognized its diversification strategy failed to increase shareholder wealth. Synfuel earnings, accounting for a third of profits, were ignored by much of the investment community and considered more a vehicle for mining earnings rather than building a long-term business. Its other non-utilities businesses did little to enhance price/ earnings multiples, and the overall earnings mix lacked the predictability needed to attract investors seeking safety and income. The new direction should prove slightly accretive (2%-4%) and reduce risk by raising the earnings component of the utilities businesses.

Even DTE Energy's reported results are subject to interpretation. GAAP earnings were $3.05 a share in 2005, versus $2.49 a share. Operating earnings, the number most commonly accepted by investors, were $3.27 a share in 2005, versus $2.66 a share. And a third interpretation of ongoing earnings, normalizing for mark to market accounting (FIN-133) and eliminating synthetic fuel credits, has a 2005 earnings base of $1.96 a share.

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Management's initial guidance of $3.60-$3.90 a share for 2006 was pared to $2.41-$2.66 a share as increases in oil prices threatened to eliminate all or most of anticipated synfuel tax credits. Guidance was narrowed earlier this year to $2.42-$2.53 a share and raised on December 7, 2006 to $2.52-$2.63 a share. Initial guidance for 2007 is $2.60-$2.80 a share, excluding synfuels.

Our earnings estimates after normalizing for trading swings are $2.20 and $2.55 a share for 2006 and 2007, respectively. Taking into account our $2.20 a share mid-point for 2006, DTE Energy is not a cheap stock. Its price of $49 a share represents a 2006 price/earnings multiple of 22 versus the average of 17 for the typical electric company. If management's higher mid-point 2007 guidance of $2.70 a share is used as a benchmark, the P/E works out to 18 times versus an industry average of 15. In short, we believe P/E expansion is unlikely and the company's main attraction is a yield that should be supported by a declining risk profile. We are maintaining a Hold Rating for income and anticipate a 12-month trading range of $45-$53 a share.

The Board raised the dividend from $2.06 to $2.12 a share at the December declaration. The new rate represents an 82% payout of 2006 guidance and provides a 4.4% yield versus an industry average yield of 3.2%. Dividend policy is geared to paying out 80% of gross utilities earnings. Our pro forma earnings profile in Table 2 would support a dividend increase of $0.06 a share to $2.18 in December 2007.

Proceeds from Asset Sales: Asset sales and higher cash flows from synfuels are listed in Table 1 and range from $2,200 million to $900 million with midpoint of $1,550 million.

Table 1
Potential Cash Flow Proceeds

`	High $-mil	Low $-mil	Average $-mil
Synfuel	400	200	300
Peakers	150	50	100
Unconventional Gas	1,000	250	625
P&I	650	400	525
Total Gross	2,200	900	1,550

Pro Forma 2008 Earnings Profile: The overall corporate goal is to simplify its earnings profile via divestiture and capital redeployment. Table 2, column 2 is our 2008 earnings estimate ($2.80 a share). In columns 1 and 3, cash flows are allocated assuming: 1) the high end of expectations ($2,200 million) and 2) the average ($1,550 million). Both scenarios show the transaction to be slightly accretive (admittedly based on rough assumptions) at $2.90 a share (4%) on the high end and $2.86 a share (2%) at midpoint proceeds.

Under the high end forecast, we assumed all the gas production would be sold versus 50% with average proceeds. In the Power & Industrial segment, management indicated that the sale of 50% of selected assets could generate $650 million pretax and $500 million net of taxes. Since those selected assets are worth $650 million versus P&I entire investment base of $500 million, we assumed 75% of P&I earnings disappear.

Utilities earnings are shown two ways: 1) on a gross basis as per the sector results ($2.84-$2.76 a share) in the income statement and 2) net of acquisition interest incurred in the purchase of MichCon less allocated interest savings from debt retirement ($2.66-$2.53 a share).

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Table 2
Projected Earnings Profile

Column	(1)	(2)	(3)
	High	Earnings	Average
Fund Proceeds ($-millions)	2,200	2008	1,550
Detroit Edison ($-millions)		368	
MichCon Gross ($-millions)		84	
Gross Utility ($-millions)		452	
Shares (million)	159		164
Gross Utilities Per Share	2.84		2.76
Interest Savings Debt Retirement	30		23
Acquisition Interest	(60)		(60)
Net Utilities ($-millions)	422		415
Net Utilities Per Share	2.66		2.53
Non-utilities ($-millions)		129	
Loss of Gas Profits ($-millions)			
@100%	(29)		
@50%			(15)
75% Cut in P&I Profits	(36)		(36)
Net Non utilities ($-millions)	64		79
Per Share	0.40		0.48
Income before Corporate ($-millions)	486		494
Per Share	3.06		3.01
Corporate and Other ($-millions)	(25)		(25)
Consolidated ($-millions)	461		469
Per Share	2.90		2.86
Gross Utilities (% Total)	98		96
Net Utilities (% Total)	92		89
Dividend			
Dividend Per Share	2.12		2.12
Payout of Gross Utilities	75		77
Payout of Net Utilities	80		84
Price	48		48
Price/Earnings	16.5		16.8

After Tax Proceeds and Book Gains: Table 3 is a "back of the envelope" estimate of after-tax cash proceeds and book profits. The table assumes the high end of management estimates ($2,200 million) and the sale of 100% of the unconventional gas properties. The tax bases for assets sold are our best guesses. We would expect this scenario to produce net after-tax proceeds of $1,752 million and book profit of $432 million.

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Column 1: Cash Proceeds
Column 2: Estimated Book Value
Column 3: Estimated Tax Basis
Column 4: Pretax Gain (Loss) - Column 1 less Column 2
Column 5: Pretax Gain (Loss) Multiplied by 35%
Column 6: Net Cash Proceeds - Column 1 less Column 5
Column 7: Book Profit/(Loss) .- Column 6 less Column 2

Table 3
Estimated Net Cash Proceeds & Book Profits
($2,200 million)

Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	High $-mil	Book $-mil	Tax Basis $-mil	Gain/(loss) Pre Tax $-mil	Taxes 35% $-mil	Cash Net $-mil	Book Profit/(loss) $-mil
				(Col 1-3)	(Col 4 *35%)	(Col 1-5)	(Col 6-2)
Synfuel	400					400	
Peakers	150	270	150	0	0	150	(120)
Unconventional Gas	1,000	400	150	850	298	703	303
P&I	650	250	220	430	151	500	250
Total Gross	2,200	920	520	1,280	448	1,752	432

Balance Sheet Impact of Asset Sales: Estimated 2008 capitalization is $15,770 million before asset sales. The book gain ($432 million - Table 3, column 7) raises the common equity component from 38% to 40% before applying cash proceeds to debt retirement and common stock buy backs. Management has indicated that as much as 70% of the proceeds could be allocated to stock purchase. However at a 62%/38% capital structure the debt to buy back components is more likely to be 50/50. Table 4 allocates the proceeds 50/50 between debt and share repurchase, keeping the capital structure at 62% debt and 38% common. Shares outstanding, at a $48 price, decline 10% to 159 million.

Table 4
Estimated Pro Forma Capitalization

Column	(1)	(2)	(3)	(4)	(5)
	2008 est.	Book Gain	Adjusted Capital	Cash Proceeds	Pro Forma
Capitalization	$-mil	$-mil	$-mil	$-mil	$-mil
Debt	9,777		9,777	876	8,901
Preferred	0		0		0
Common	5,992	432	6,424	876	5,548
Total	15,770		16,202	1,752	14,450
Capital Structure					
Debt	62%		60%		62%
Preferred	0%		0%		0%
Common	38%		40%		38%
Total	100%		100%		100%
Book Value	33.86				34.95
Shares millions	177			18	159

Analyst's Certification

I Raymond E. Moore certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. Other DTE reports issued by me are: 8/31/06 ($42) – Hold.

Important Disclosures

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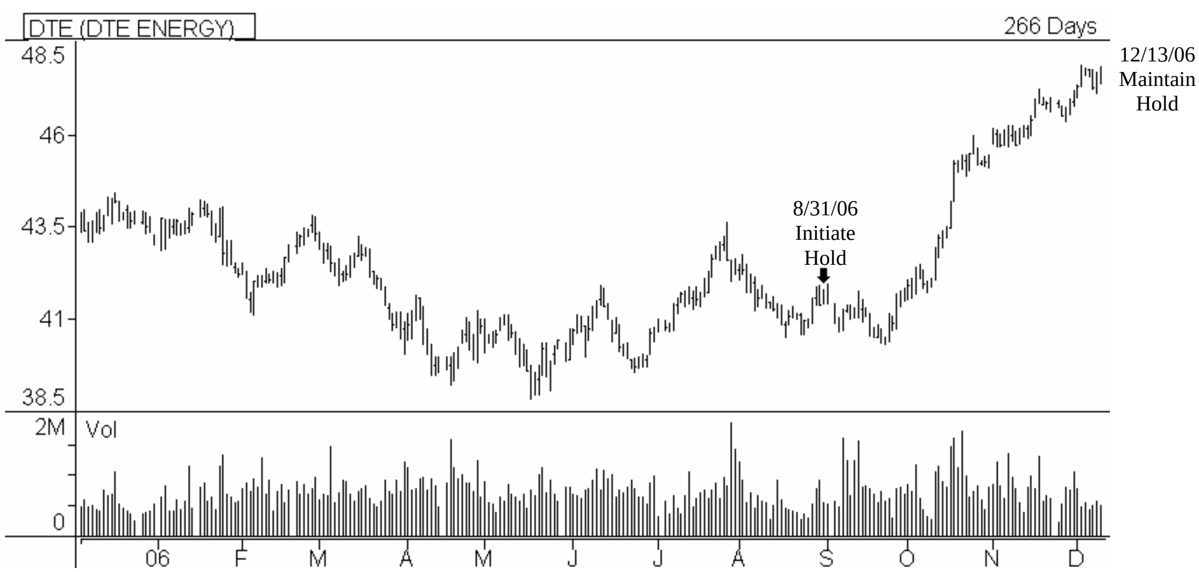
Buy Total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.
Market Perform & Hold Total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.
Sell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

Analyst's Ratings Distribution

		% Investment Banking
Buy	12%	0%
Hold	82%	0%
Sell	6%	0%

The principal risks to the achievement of our price targets include general market trends, disappointing earnings and lower energy prices and adverse regulatory developments



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