

A large, stylized graphic of the number '20' dominates the page. The '2' is black and the '0' is a vibrant orange-red. The '2' has a thick, rounded top and a vertical stem that tapers slightly. The '0' is a simple, rounded oval shape. The background is white, with a vertical strip of alternating black and orange-red horizontal bars on the far left edge.

ANNUAL REPORT 2003

DISTRICT ENERGY ST. PAUL, INC., DISTRICT COOLING ST. PAUL, INC.

CELEBRATING **20** YEARS OF COMFORT BY DEGREES

RECOGNITION OF ANDERS RYDAKER'S RENEWABLE ENERGY RECORD



On the occasion of our 20th anniversary, the Board of Directors of District Energy St. Paul is pleased to acknowledge the vision and leadership provided by our President, Anders Rydaker. Anders' commitment to renewable energy and the environment has earned him recognition as one of the world's leading experts in this field. In Saint Paul, Anders identified a way to improve the city's air quality and solve an urban wood waste disposal problem. The result was the highly efficient St. Paul Cogeneration combined heat and power plant. This renewable energy plant simultaneously produces heat and electricity, doubling its efficiency. All Minnesotans can share our pride in having the first state capitol in the nation to be heated by "green energy." Anders has also successfully implemented seawater and deep lake water air-conditioning projects in his Swedish homeland, reducing electrical usage by up to 90 percent. He is a much sought-after speaker on renewable energy panels throughout the U.S. and Europe. District Energy's mission encourages the development of energy-efficient solutions. We are proud of the national and international recognition of Anders' skills and success in implementing these goals.

**BOARD OF DIRECTORS
DISTRICT ENERGY ST. PAUL**

TO OUR CUSTOMERS, BUSINESS ASSOCIATES AND THE COMMUNITY:



Our 2003 annual report celebrates District Energy's 20 years of service to the downtown Saint Paul community. Our company was just a glimmer in former Mayor George Latimer's eye back in 1978 when the nation and the City of Saint Paul were both searching for a reliable, more efficient way to provide heating service to consumers. Five years later, hot water began flowing under Saint Paul streets to enthusiastic building owners, and the nation had a proven way to inexpensively and reliably meet its expanding energy needs.

But that was just the beginning. Ten years later, we offered district cooling service to our first customers and 10 years after that, we became a "green energy" service provider thanks to the successful startup of an adjacent biomass-based combined heat and power (CHP) plant. Commercial operation of the CHP plant was a crowning achievement this past year. Construction began in summer 2001 and was completed in spring 2003. While the outer shell was taking shape, our plant employees received extensive training in the operation of major equipment components that would turn urban wood waste from the metro area into heat and electricity.

The new CHP plant wasn't the only District Energy-affiliated building changing the downtown Saint Paul skyline in 2003. A new cooling plant began producing chilled water for air conditioning in June. In addition to a highly efficient electric chiller, the plant incorporates a 4-million-gallon chilled water storage tank – the second such tank on our cooling system. Locating the plant in the rapidly expanding northeast section of the city increases overall cooling system reliability and enables us to serve customers previously beyond our reach.

Reliability and customer service were further enhanced in 2003 by replacing a portion of our current copper wire metering communications system with fiber optic cable. Project partners include Ramsey County, the City of Saint Paul and the State of Minnesota. This is a multi-phase project, which we expect to complete within the next three years.

Efforts to educate the public about renewable energy, combined heat and power, natural resources and the environment received a significant boost in 2003 with the installation of three Energy Tree exhibit panels along Kellogg Boulevard in downtown Saint Paul. District Energy partnered

with its next-door neighbor, the Science Museum of Minnesota, to create these exhibits, and we look forward to collaborating with them on future energy education projects.

As always, our accomplishments in 2003 and for the past 19 years are the direct result of dedicated board members guiding our efforts and highly skilled employees committed to our company's values and mission. Bernie St. Peter, a District Energy board member for 17 years, was elected Chairperson in 2003. Susan Sands, who chaired the Board for the past five years, remains an active member.

With all of these talented people onboard, our future is filled with unlimited opportunities.



Anders J. Rydaker
President



Bernard V. St. Peter
Chairperson

DIRECTORS



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Edward P. Starr ***
Retired Saint Paul
City Attorney



Rajan C. Thomas ***
Principal Engineer,
State Management
Division, Minnesota
Department of
Administration



Legal Counsel:
William M. Mahlum, Esq.
Mahlum & Associates

* District Energy Board Member
** District Cooling Board Member

A TALE OF TWO SWEDES

Two district energy experts from Sweden have been the guiding force behind District Energy's many successes since the company's inception in 1979. The first was Hans Nyman and the second is Anders Rydaker. What is it about Saint Paul, Minnesota, that attracted the attention of these two men who had successful careers in their homeland? Let's take a look.

Hans began his career as a plant engineer at a combined heat and power (CHP) utility in Linköping, Sweden. He later started and rapidly expanded the district heating utility serving Uppsala, Sweden, which now operates a large CHP system serving almost all of the city.

Hans came to the United States in 1978 as a district heating consultant to the former Minnesota Energy Agency. In 1979, he was selected chief operating officer of the newly formed District Heating Development Company (DHDC), now called District Energy St. Paul. To prove the viability of a hot water district heating system in Saint Paul, DHDC knew it needed to have a proven leader in the energy field to head the company. Hans was named president in 1981, a position he held until his untimely death in 1993.

Among the many worthy candidates the Board interviewed to succeed Hans was Anders Rydaker, another Swedish district energy expert. Anders was already a familiar face at District Energy as he had worked as a DHDC consultant during the 1983 construction of Saint Paul's district heating

system and on the conversion of the original steam plant to hot water. He had also initiated several energy-saving projects in District Energy's plant and worked on the company's initial district cooling feasibility studies.

Anders returned to Sweden in 1990 to manage a branch office of FVB in Stockholm. Over the next three years, he established FVB as the leading Swedish consulting firm in the district cooling field. In 1993, he accepted the Board's offer to become District Energy's next president.

District Energy has turned Saint Paul into a model city of energy efficiency and environmental stewardship thanks to the efforts of Hans and Anders. We are extremely fortunate that they both decided to move their families across the ocean in order to further district heating and cooling and combined heat and power in the U.S.



Hans Nyman



Anders Rydaker

20 YEARS OF PROGRESS

Launched as a demonstration project in 1983, District Energy (then known as District Heating Development Company) was the City's response to the energy crises of the late 1970s, when the stability of the international energy markets began to falter. Civic leaders found themselves faced with the challenge of rebuilding the downtown area during a time in which fuel supplies and prices were increasingly volatile.

"We started looking for something that would encourage new investment and activity in our City," recalls former Mayor George Latimer. "We had heard about the efficient hot water district heating systems in Sweden and thought that model might be applicable to Saint Paul."

Latimer and his colleagues on the District Heating Development Company board ultimately hired the Swedish engineer Hans Nyman to lead the effort to build an efficient, centralized heating system that would serve downtown buildings. The initial venture was a public/private

partnership among the City of Saint Paul, State of Minnesota, U.S. Department of Energy and the downtown business community, all of whom wanted to prove the viability of a hot water district heating system in a state with cold winters. The demonstration project was a resounding success.

The district heating system expanded significantly during the 1980s as building owners came to recognize its economic benefits and operating efficiencies. In 1993, an affiliate company, District Cooling St. Paul, began offering cooling service to downtown buildings. This system eliminated the need for customers to operate their own air-conditioning units or use ground water to cool their buildings.

The majority of downtown buildings constructed in recent years have opted to contract with District Energy rather than operate their own heating and cooling equipment. New and existing customers alike continue to benefit from rates that have remained remarkably stable even as the cost of natural gas has spiked to record levels. Unlike a single-fuel

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1983

Construction of a \$46 million hot water district heating system begins; St. Paul Public Library becomes first customer



Photo by Assassi Productions

1984

Initial heating system construction completed



1985

Pipeline extension to Mount Airy housing complex



1986

Pipeline extension to Empire Builder Industrial Park

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heating plant, District Energy can utilize a variety of fuel sources, continuously adapting its fuel purchases to changing market conditions.

In 2003, District Energy reached another milestone in its long-range plan to reduce its dependence on fossil fuels and switch to renewable energy sources. It is now buying "green energy" from a new combined heat and power (CHP) plant operated by its affiliate, Market Street Energy Company. The CHP plant simultaneously produces heat for the district energy system and electricity for customers of Xcel Energy. It is fueled primarily by clean wood waste, a plentiful, renewable local resource.

The CHP plant is just the latest in an impressive series of accomplishments that have marked District Energy's first 20 years of service, some of which are summarized in the timeline that runs along the bottom of these pages. In this report you can also learn how we have consistently delivered on our original mission: to provide excellent value, customer service and environmental stewardship to our customers and the community.

EXCEPTIONAL CUSTOMER VALUE

District Energy was founded to accomplish one key objective: to provide superior value to its customers in downtown Saint Paul. We have delivered on that promise not only through our stable rates, which have consistently remained below the annual rate of inflation, but by offering a complete energy service that is more efficient and reliable for our customers.

Key elements that make District Energy a superior value include:

- **RELIABILITY:** District Energy customers enjoy a reliability rate that exceeds 99.99 percent.
- **CUSTOMER SERVICE:** Our customers consistently give us the highest possible rating when asked if we are responsive to their needs.
- **EASE OF OPERATION:** Customers need not worry about operating their own boilers and chillers, thereby reducing their operating and personnel costs.

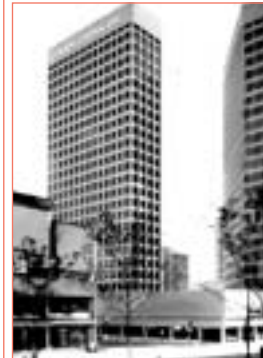
Company changes its name from District Heating Development Company to District Energy St. Paul; over 400 heating customers connected to system



Formation of new affiliate, District Cooling St. Paul



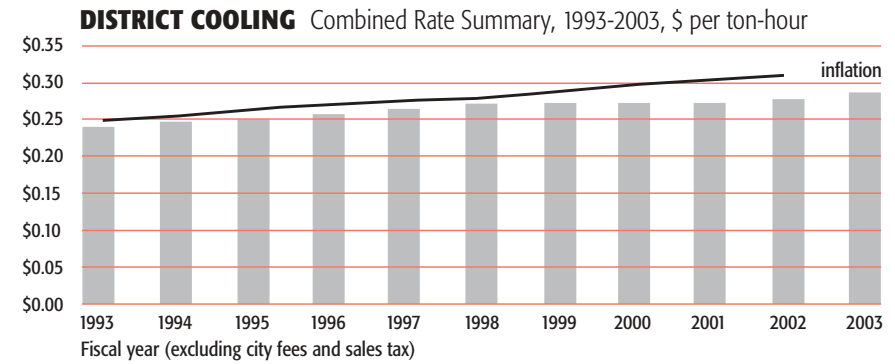
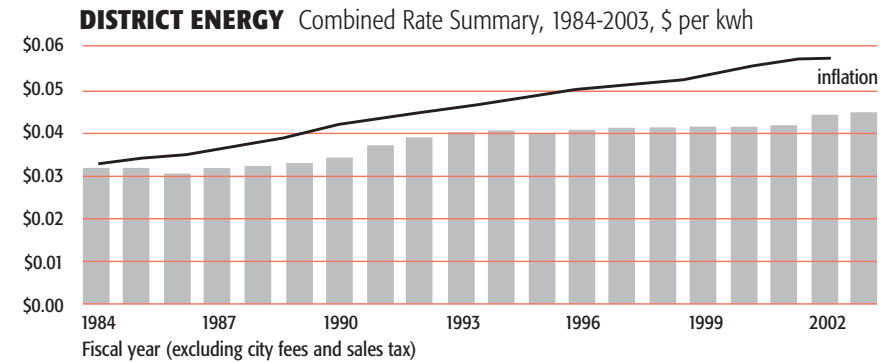
Four major customers totaling over 4,500 kilowatts connect to district heating



Turbine generator installed to meet internal electrical requirements



- FUEL FLEXIBILITY:** Unlike on-site systems, we are not dependent on one fuel source. Our fuel purchase decisions are based on market price, supply levels and environmental factors. In 2003 District Energy customers began heating and cooling their buildings with “green energy” produced from a renewable fuel source: urban wood waste.
- SYSTEM EFFICIENCY:** Our centralized system is far more efficient than a collection of on-site boilers and chillers.
- SYSTEM EXPANSION:** By expanding our system on a regular basis, we maintain rate stability by amortizing system costs over a larger customer base.



Successful marketing, design and financing of the initial district cooling system

Initial district cooling system construction completed



Ordney Center for the Performing Arts becomes first district cooling customer; System of the Year Award from the International District Energy Association



Photo by Franz Hall

First test burn of clean, renewable wood waste mixed with coal as boiler fuel



UNPARALLELED CUSTOMER SERVICE

District Energy prides itself on offering a level of reliability and customer service that is second to none. The reliability rate of our heating and cooling service is more than 99.99 percent. Our small company size ensures fast, personal service. We're always available to answer questions, offer advice or solve problems. We're on-call 24 hours a day, 365 days a year, in case of an emergency. Building size makes no difference – all customers are important to us and are treated equally.

Our customer service representatives help building owners and managers identify the most energy efficient solutions for their existing buildings, new buildings or expansion projects. And then they work with the owner's architects, engineers and contractors to ensure a smooth interface between the building's internal mechanical equipment and our external district heating and cooling pipelines.

Relationship building is part of our customer service strategy. Alex Sleiman has earned the informal title of "Mr. District Energy" based on his vast knowledge of heating and cooling equipment and his willingness to work with building owners, managers and operators on ways to conserve energy and save money. Other District Energy employees are recognized within the community due to their day-to-day interface with customers and vendors, their participation in local organizations and special events or their one-on-one meetings with building managers and operators to conduct customer surveys.

Reliability and exceptional customer service are two company values that have served us well over the past 20 years and will continue to guide our efforts far into the future.

Recognized by Inc. magazine and MCI as one of the top 40 customer-focused companies in the nation; named Company of the Year by the Greater Saint Paul Building Owners and Managers Association

Major downtown revitalization projects contract for heating and/or cooling services



District Energy and Cinergy Solutions develop a proposal for the financing and construction of a wood-fired combined heat and power plant



Formation of new affiliate, Market Street Energy Company; Market Street Energy and Cinergy Solutions form an affiliate, St. Paul Cogeneration, to operate a new combined heat and power plant



ENVIRONMENTAL STEWARDSHIP

District Energy has always been committed to energy solutions that benefit the environment. District heating eliminates the need for on-site boilers and polluting smokestacks. Emissions from our one stack are tightly controlled, and our heating system is monitored continuously to ensure maximum efficiency. Our cooling system eliminates the need for on-site chillers, which historically have used chlorofluorocarbon (CFC) refrigerants that are known to be a contributing factor to global warming. It also eliminates the practice of extracting ground water for one-time use to cool buildings, a procedure that was common in Saint Paul until recently.

The new combined heat and power (CHP) plant represents a major leap forward in environmentally-sound energy generation. The CHP plant simultaneously produces heat and electricity, making it more than twice as efficient as conventional electric power plants. It is fueled primarily by clean wood waste, a plentiful, renewable local resource. Projected to burn

280,000 tons of wood waste annually, it is the largest wood-fired CHP plant serving a district energy system in the United States. Xcel Energy has contracted to purchase 25 megawatts of electric capacity and 153,000 megawatt-hours of energy annually, enough to supply approximately 20,000 homes.

This plant will reduce District Energy's reliance on coal by up to 75 percent, reduce soot emissions by 50 percent, and reduce greenhouse gas emissions by more than 280,000 tons. At the same time, it helps the community solve a waste disposal problem, and keeps fuel dollars in the local economy.

"The Izaak Walton League lends its congratulations to District Energy St. Paul on its 20th anniversary and its newest addition. The waste wood cogeneration project will generate significant environmental benefits for Saint Paul, the state of Minnesota, and the planet."

*Bill Grant, Associate Executive Director
Izaak Walton League of America*

Approval from the Minnesota Pollution Control Agency to proceed with construction of a wood-burning combined heat and power plant



Natural gas prices reach record-setting levels; heating and cooling rates remain stable

Amid rising energy costs, St. Paul has a success story

While most residential consumers, businesses and government are scrambling with attempts to fill percent increases in fuel costs, District Energy St. Paul, a not-for-profit municipal plant along the Mississippi River, is able to provide small rebates to its customers, which include Ramsey County buildings, several downtown hospitals and the State Capitol.

District Energy plant cited as a model of energy efficiency, diversity and affordability by President George W. Bush; ground broken for an adjacent combined heat and power plant



"The plant is a model of energy efficiency. It is also a model of energy diversity. It uses conventional fuels like oil and natural gas and coal, and renewable fuel like wood chips."

President George W. Bush

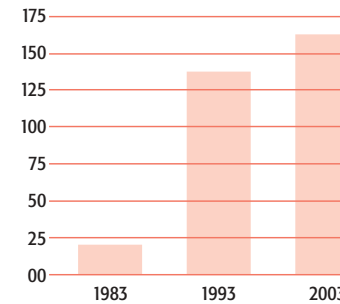


EXPANDING OUR HORIZONS

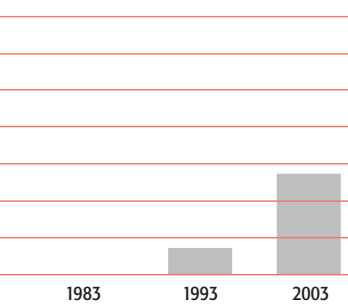
Our district energy system has come a long way since hot water first began circulating in 1983. Our first customer contract was signed in June 1982 with the St. Paul Public Library. By the end of 1983, we had 22 signed customers. Today, District Energy supplies heating service to 163 buildings in and around downtown Saint Paul, representing about 80 percent of the total market in that area. District Cooling St. Paul serves 70 customers, or about 60 percent of the potential market.

The accompanying charts illustrate system growth from 1983 to 2003. Over the years, service has expanded well beyond the immediate downtown area to the State Capitol Complex, the Ramsey County Law Enforcement Center east of Interstate Highway 35E, and to the new US Bank Center on the south side of the Mississippi River. An expanding system stabilizes rates for existing customers by amortizing system costs over a larger customer base. It also reduces the fossil fuel and electricity being consumed by on-site systems, thereby benefiting our environment.

District Heating Customers

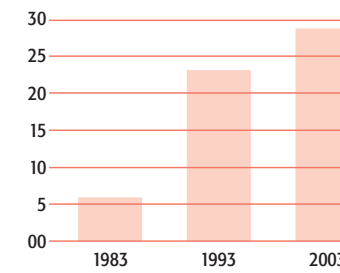


District Cooling Customers



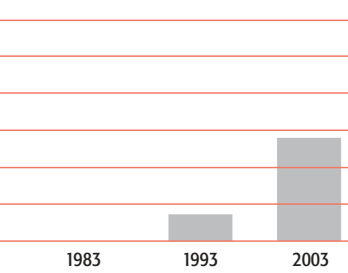
District Heating

Total sq. ft. served (in millions)



District Cooling

Total sq. ft. served (in millions)



Major pipeline extensions north of downtown and across the Mississippi River; ground broken for additional cooling plant and chilled water storage tank



Combined heat and power plant produces "green energy" from wood waste for district heating and cooling customers and Xcel Energy; start-up of new cooling plant



OPERATIONS SUMMARY

HEATING SYSTEM DATA

Customer Data:

Downtown customers and adjacent areas163
 Mount Airy townhouses298
 FY 2003 Energy Sales.....311,000 MWh

Building Area Served:

Downtown.....21 million sq. ft.
 Adjacent areas
 (including Mount Airy).....7 million sq. ft.
Total28 million sq. ft.

Heat Sources:

Main plant, 76 West Kellogg Boulevard
 Two coal/gas-fired boilers.....88 MW
 Four gas/oil-fired boilers.....106 MW
 Regions Hospital plant
 Four gas/oil-fired boilers.....25 MW
 Mobile boiler
 (temporary and/or backup)5 MW
 Combined heat & power thermal energy65 MW
Total289 MW

COOLING SYSTEM DATA

Customer Data:

Downtown customers.....70
 FY 2003 Energy Sales.....23,631,000 ton-hours

Building Area Served:

Downtown14 million sq. ft.

Chilled Water Sources:

Main plant, 76 West Kellogg Boulevard
 Six electric chillers.....12,000 tons
 Two steam absorption chillers1,000 tons
 New plant, 10th and Sibley
 One electric chiller.....2,000 tons
 Chilled water storage systems.....10,800 tons
 Satellite chillers.....3,900 tons
Total.....29,700 tons

HEATING SYSTEM DATA

Piping:

Type.....prefabricated steel pipe with polyurethane
 insulation encased in polyethylene jacket
 Diameter.....3/4-inch to 28-inch
 Length.....90,500 feet each, supply and return
 Volume.....785,000 gallons

Operating Data:

Temperature
 Supply.....190-250° F
 Return140-160° F
 Pressure
 Supply180 psi
 Minimum pressure differential20 psi

Reliability:

Reliability rate.....99.99%

COOLING SYSTEM DATA

Piping:

Type.....steel pipe wrapped in protective
 coating with cathodic protection
 Diameter3-inch to 30-inch
 Length31,100 feet each, supply and return
 Volume of distribution system...885,000 gallons
 Volume of storage systems.....6,700,000 gallons

Operating Data:

Temperature
 Supply.....42° F
 Return.....56° F
 Pressure
 Supply150 psi
 Minimum pressure differential.....15 psi

Reliability:

Reliability rate.....99.99%

DISTRICT ENERGY ST. PAUL, INC.

In FY 2003, District Energy saw a 22 percent increase in the Net from Operations. This was due to increases in other revenues and a cost reduction in non-fuel operating expenses. Despite natural gas price increases of over 40 percent in the last year, District Energy was able to keep the customer demand rate unchanged for the sixth year in a row and the energy rate unchanged for the second straight year.

DISTRICT COOLING ST. PAUL, INC.

FY 2003 highlights include an 8 percent increase in customer demand and a 14 percent increase in the Net from Operations. For the eleventh consecutive year, District Cooling was able to provide an energy rebate to its customers that totaled 5 percent of total energy revenues.

District heating and cooling charges are made up of two parts: an energy rate and a demand rate. The energy rate is based on the actual cost of the fuel and electricity each company used during the year, while the demand rate is based on all other annual non-fuel costs.

FINANCIAL SUMMARY

(Year-End September 30)

	DISTRICT ENERGY			DISTRICT COOLING		
	FY 2003	FY 2002	FY 2001	FY 2003	FY 2002	FY 2001
RATES AND UNIT SALES						
District Energy						
Demand rate (\$/kW/mo)	\$ 4.35	\$ 4.35	\$ 4.35			
Energy rate after rebate (\$/MWh)	\$ 14.15	\$ 14.15	\$ 11.50			
Overall rate (\$/MMBtu)	\$ 13.16	\$ 13.16	\$ 12.36			
Demand (kW) - average	167,991	166,995	158,251			
Energy sales (MWh) - actual	311,206	273,684	304,586			
Heating season degree days	7,708	6,762	8,024			
Energy sales (MWh) - normalized	315,000	316,000	303,000			
District Cooling						
Demand rate (\$/ton/mo)				\$ 22.82	\$ 22.38	\$ 21.73
Energy rate after rebate (\$/ton-hour)				\$ 0.058	\$ 0.056	\$ 0.057
Overall rate (\$/ton-hour, 1200 Util hrs)				\$ 0.286	\$ 0.279	\$ 0.274
Demand (tons) - average				19,965	18,402	17,449
Energy sales (ton-hours) - actual				24,630,727	23,815,436	22,721,792
Cooling season degree days				863	989	928
REVENUES AND EXPENSES						
Operating Revenues						
Net demand revenues	\$ 8,811,560	\$ 8,770,680	\$ 8,325,680	\$ 5,492,837	\$ 4,973,090	\$ 4,594,096
Energy revenues	4,549,214	3,903,606	3,528,716	1,509,233	1,438,146	1,378,241
Energy rebate to customers	0	0	0	(81,692)	(103,689)	(72,669)
Other revenues	414,982	148,213	254,240	0	0	0
Total operating revenues	\$ 13,775,756	\$ 12,822,499	\$ 12,108,636	\$ 6,920,378	\$ 6,307,547	\$ 5,899,668
Operating Expenses						
Fuel and energy	\$ 4,549,214	\$ 3,903,606	\$ 3,528,717	\$ 1,427,541	\$ 1,334,456	\$ 1,305,572
Non-fuel operating expenses	3,837,394	4,497,837	4,535,516	1,539,655	1,519,660	1,030,628
Total operating expenses	8,386,608	8,401,443	8,064,233	2,967,196	2,854,116	2,336,200
Net From Operations	\$ 5,389,148	\$ 4,421,056	\$ 4,044,403	\$ 3,953,182	\$ 3,453,431	\$ 3,563,468

MISSION

Be the preferred provider of community energy services that benefit our customers, the community and the environment.

STAFF MEMBERS

Jeffrey Amacher, Joyce Anderson, Ronald Anderson, Thomas Anderson, Chad Bednar, Jo Boyer, Jeanette Bray, Ron Brown, Michael Burns, Scott Ebert, Stephen Elzy, Valerie Cruz-Gerlich, Paul Hazelip, Erik Henriksen, Andrew Kasid, Michael Kasper, Brian Lane, Ingvar Larsson, Barbara Ledo, Joseph Lee, Dennis Leyden, Brenda Ludescher, Peter Lujan, Michael Marah, Michael Marsollek, Char McLean, Lowell Miller, Martha Modrynski, Dane Murphy, Mike Myers, Scott Oettinger, Keith Oklobzija, David Parenteau, Paul Robeck, David Roske-Groth, Anders Rydaker, Craig Salisbury, Ray Schmidt, Trudy Sherwood, John Skeie, Alex Sleiman, Carl Smith, Nina Ta, Ellen Thoma, Nancy Toohey, James Tracy, David Urke, Steve Wachter, Gregg Wills

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