

30  
thrive

2013 annual report

celebrating history. embracing success. building the future.



**DISTRICT ENERGY**  
ST. PAUL™

Launching District Energy took an enormous community effort. It was a public-private partnership that I think is so successful an example of a public-private partnership as anything in America today.

# thrive

“As a long-standing board member, you develop a sense of trust that this company can overcome anything. Every new challenge takes some ingenuity to reach success, but this team has proven its ability to execute multiple types of energy projects and get the job done.”

Mark Rancone, Board of Directors, District Energy St. Paul  
Bill Mahlum  
General Counsel, 1979-2013

Every organization must define its success differently. Some rely on financial metrics and stockholder dividends to measure progress. Others may gauge themselves against their competitors and the market. District Energy St. Paul has taken a unique approach to defining and achieving success. The mission of the company, established just over 30 years ago, is to be a preferred energy service provider that also benefits the community and the environment. For our company and our people, this means we have not found success unless we can exceed expectations for all three. Following in the footsteps of three decades of dedicated leadership, I know we can't simply just meet the minimum or check off a milestone. Our core promise, our mission, compels us to thrive in all that we do.

This past year, District Energy St. Paul celebrated its 30th anniversary. It was a time for reflection and to take stock of our achievements and challenges. With such a rich history of leadership and technical advancements, our past has helped us build an important foundation to our business. However, we know that a company can't rest on its laurels. We can't live in the past and celebrate the success earned by our predecessors. Instead, it must serve as an inspiration. We must deliver great things today for Saint Paul and for our loyal customers. We must also look forward to what is necessary to keep rates stable, advance our global energy model, and nurture the great talent that continues to grow within our company.

Over the past year, our company truly did thrive. We found remarkable ways to honor the past, find success in the present, and create a vision for the future. Building on a strong financial track record, the District Energy and District Cooling earned an A- rating with Standard & Poor's. This was a crucial rating used to secure a major debt refunding and new construction financing for both companies, providing additional rate stability for years to come. The company also completed on a global scale with hundreds of other energy systems and was selected for a Global District Energy Climate Excellence Award. It was a tremendous honor to be recognized by the International Energy Agency and the International District Energy Association for our achievements in technology, customer service, and environmental leadership.

In a final reflection of our past year and our milestone anniversary, we must certainly consider the single most important contribution to our success. People. We have a

“[District Energy] is beneficial to us as building owners and managers because it's a system that not only embraces sustainability and energy conservation, but there's also rate stability for us as customers.”

Pat Wolf, Board of Directors, District Energy St. Paul

staff that is sought out by systems around the world for their expertise. Through their dedication and skills, we have grown an industry-leading customer base and infrastructure. We have a customer base that has reinvented itself time and time again to find success in Saint Paul. They are a resilient and diverse community of businesses, hospitality, health care, and people living and working in this city. After providing many of our customers with 20 to 30 years of service, we are honored that they are selecting us as their preferred service provider for today and the future. The extension of original agreements was earned by proving our value to the buildings, the bottom line, and by connecting them to a system that continues to advance to meet their needs.

Looking forward, we see great things for District Energy and Saint Paul. With each milestone, we will honor the dedication it took to reach that point, and then we will find the next point on the horizon and find a way to prosper. We will not merely sustain our business. We will reach beyond traditional success. We will carry on our great tradition and we will thrive.



George Fremder  
Board Chairperson



Ken Smith  
President and CEO

As a company, we are committed to measure our success based on our progress towards our mission, to be the preferred service provider benefiting our customers, our community, and the environment. We measure our progress based on many indicators; rate stability, customer experience, health of our community partnerships, our advancements toward renewables, and a sound environmental profile. To test ourselves and our improvements, we often look to our peers for a reflection or measure of our success. Over the years, we have been honored with awards from our industry association (International District Energy Association), the City of Saint Paul, the American Council of Engineering Companies, the Interstate Renewable Energy Council, the Department of Energy, the Saint Paul Area Chamber of Commerce, the Midwest Energy Efficiency Alliance, the American Council on Renewable Energy, Environmental Initiative, and a citation from President George W. Bush. We compete in these evaluations not to earn the hardware, but to prove to ourselves that we are achieving excellence or to learn where we have opportunities.

# thrive

## advancing our system



“Launching District Energy took an enormous community effort. It was a public-private partnership that I think is as great an example of a public-private partnership as anything in America to this day.”

Bill Mahlum, General Counsel, 1979 – 2013





“As District Heating technology continues to advance, District Energy has done a wonderful job of incorporating new technologies within its Distribution System. The continual improvements made in all phases of the system over the last thirty years have enabled District Energy to provide the best possible service to its customers while becoming a recognized leader in District Heating Distribution Systems.”

**Paul Hazelip**, Distribution Field & Construction Superintendent, 1983-Present

## advancing our system toward award-winning excellence

### District Energy and Ramsey County Honored with Sustainable Saint Paul Award

District Energy and Ramsey County received a Sustainable Saint Paul award in the Renewable Energy category for the solar thermal installation on the Law Enforcement Center's roof. The county's solar thermal installation is providing 40 percent of the Law Enforcement Center's domestic hot water needs. This project marks the second major solar thermal installation on a District Energy customer building.

### Bronze Space Award Recipient

At the 2013 IDEA Annual Conference, District Energy St. Paul earned a Bronze Space Award for increased space committed to our district heating and district cooling services. District Energy currently provides heating and domestic hot water services to approximately 80% of the downtown building square footage and District Cooling serves approximately 65%. The award reflects the extension of many long-term customer agreements, continuing service to the majority of downtown, and the addition of new customers as Saint Paul continues to see building upgrades and new development.

### global district energy climate excellence award

2013 marked a particularly important accomplishment for District Energy St. Paul, with selection for the Global District Energy Climate Excellence Award. The International District Energy Association (IDEA) and Euroheat & Power sponsor the award to promote district energy's critical role in helping our communities meet their sustainability goals. District Energy St. Paul was selected from dozens of global applications by an international panel of experts led by the International Energy Agency. According to award organizers, “we need solutions that make it possible to combine sound economic growth with little environmental impact and customer convenience.” Among other criteria, District Energy was recognized for its modernization of the system, including solar thermal technology, data collection enhancements, customer service investments, and climate-related community education.

The carbon footprint from our high-performance solar thermal installation resulted in carbon emission reductions of approximately 460,000 pounds in 2012. Wood residuals and waste heat serve as two of the primary fuels providing flexibility to the heating system, allowing the heating system to be over 50 percent renewable. In 30 years of service, District Energy tripled the space heated while cutting carbon emissions per square-foot-served by over 50 percent.

The company is proud to receive such an immense honor for our promotion of energy conservation, commitment to customer service, and careful attention to environmental concerns.

Ken Smith, President and CEO, shares “District Energy's vision propels us to promote energy conservation, provide exceptional customer service, and give careful attention to environmental concerns. Our company values push us toward modernization and integration. Continued advancement of our technologies, our infrastructure, and our customer service has kept our business competitive in the energy market.”

“The late Hans Nyman would say during company meetings or gatherings ‘I want you all to feel as if we are one big happy family.’ He felt close to us all and knew how important it was for everyone to respect one another.”

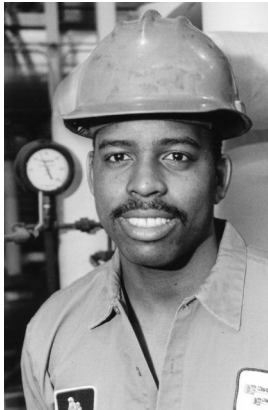
**Ron Anderson**, Lead Engineer, 1983-present

“As an employee since 1990, I have always felt very fortunate to work for a Saint Paul company that genuinely cares about their customers, employees, and the environment.”

**Martha Modrynski**, Senior Accountant, 1990-present

# thrive

people. our most essential story.



In reflection of its 30th anniversary of service, District Energy is writing more than a company history. The people who have built this company have made an investment beyond their employment or board service. We have team members that started here over three decades ago and have made this place their life's work. They have put in the long hours and led the company through many trials and successes. Many of our board members helped bring the original vision of Hans Nyman and George Latimer to a reality. Our board members are dedicated to the company's continued success and show their support in service and in partnership. Together with our customers, our people have truly built a legacy for the organization and the commitment of service to Saint Paul. This legacy is built on the shoulders of great women and men who envisioned a better future and pushed a bit harder on the edges of what is possible. All of which has inspired our newest team members and affiliates to carry on the traditions and expectations. It is this legacy, along with our core values and unique operating philosophy, that has afforded us such success in our industry and in this community.



“The thing that has impressed me most about District Energy is its focus on the customers. There’s an old saying that people are known by the company they keep, and I think companies are known by the people they keep. District Energy has done a very good job of keeping some good people at all levels of the organization, and their focus on the customer, their focus on customer service, has helped them be successful over the years.”

George Fremder, Board of Directors, Ever-Green Energy



“We have a unique approach to customer service, setting an expectation of personal attention to help customers problem-solve for their buildings. We get to know our customers and work with them to find ways to save energy, and money, for their operations.”

**Jonathan Martens**, Customer Service Engineer, 2012-present

“When I started 27 years ago we would read meters manually and it would take days. Now we are preparing for a new metering system that will provide us with one-minute readings with better reports for billing, customer service, and system reliability.”

**Tom Anderson**, Technical Communications Manager, 1986-present



“This financing has provided the companies with access to new financial markets to fund capital needs, providing for long-term rate stability for the customers and allowing for continued growth of the systems.”

Andrew Kasid - Chief Financial Officer, 1990-Present

Andrew Kasid  
Chief Financial Officer, 1990-Present



# thrive

strong financial structures lead to long-term rate stability and growth opportunities

Utilities leverage many different organizational structures to fit their business model and the goals or mission of their company. Throughout the U.S., there are for-profit and non-profit ventures, with ownership models for municipalities, private institutions, or private entities with shareholder interests. In 1979, District Energy St. Paul, Inc. and District Cooling St. Paul, Inc. were established as 501(c)(3) non-profit entities. This structure reflected the core mission for this undertaking, to relieve the burdens of local government through the creation of a community-focused utility that would advance the energy system serving Saint Paul. As a 501(c)3, this also meant the company could make it a priority to meet the energy needs of customers through a stable, cost-based rate structure.

## financing for steady growth

Utilities must also establish a financial structure that can meet capital and operating needs and long-term outlook. Both District Energy and District Cooling were financed with 100 percent debt, using a combination of variable and fixed rate debt in the form of tax-exempt and taxable debt.

The foundation of the financial structure is built on the customer contracts. The customer contracts provide the means to fund system capital needs while providing long-term rate stability. Our customers understand that their commitment to our service agreement provides their building operations with a buffer from production equipment replacements and maintenance, fuel market volatility, as well as providing access to renewable and efficient energy solutions.

## 2013: making moves to stay competitive, efficient, and affordable

To continue our record of stable rates and commitment to customers, District Energy and District Cooling achieved major financial milestones in 2013. As part of the refunding of

the prior debt obligations and new construction financing, the companies both received an "A-" stable rating from Standard & Poor's. According to S&P, the rating review reflects a series of credit strengths, including stable revenue under long-term contracts with a fairly diverse customer base, rates that can be adjusted to recover costs, and well-managed assets, which are reliable and efficient.

**Throughout the history of both utilities, there have been over \$265 million in completed financings including 52 separate revenue bond issues.**

The companies have always been structured around long-term financing mechanisms to allow us to keep rates stable and our debt service to a minimum. This new financing is the first long-term fixed rate financing completed by the companies, providing for additional rate stability for years to come. This important refinancing was completed with the help of the City of Saint Paul and Saint Paul Port Authority, with both taking part in the bond transaction. Additionally, the City of Saint Paul extended the District Energy and District Cooling franchise agreements to 2033.

District Energy and District Cooling are moving swiftly to deliver the benefits of this refinancing to customers, through efficiency projects and other initiatives that will improve the system and continue our commitment to cost-competitive rates.



## Rates and Unit Sales

Year-End September 30	FY2013	FY2012	FY2011
<b>DISTRICT ENERGY</b>			
Demand rate (\$/kW/mo)	\$ 5.27	\$ 5.27	\$ 5.17
Energy rate (\$/MWh)	\$ 25.59	\$ 25.59	\$ 26.59
Fuel adjustment charge (\$/MWh)	(\$ 1.17)	(\$ 0.66)	\$ 0.12
Overall rate (\$/MMBtu, 1700 Util hrs)	\$ 18.05	\$ 18.20	\$ 18.45
Demand (kW) - average	176,325	177,871	176,902
Energy sales (MWh) - actual	323,853	261,698	336,443
Heating season degree days	7,599	5,813	7,684
Energy sales (MWh) - normalized	321,000	314,000	342,000

## DISTRICT COOLING

Demand rate (\$/ton/mo)	\$ 26.69	\$ 26.69	\$ 26.30
Energy rate (\$/ton-hour)	\$ 0.087	\$ 0.087	\$ 0.085
Fuel adjustment charge (\$/ton-hour)	\$ 0.004	\$ 0.001	\$ 0.000
Overall rate (\$/ton-hour, 1200 Util hrs)	\$ 0.358	\$ 0.355	\$ 0.348
Demand (tons) - average	27,633	27,072	26,313
Energy sales (tons-hours) - actual	38,613,612	42,985,488	37,622,272
Cooling season degree days	981	1,185	1,025

## Revenues and Expenses

Year-End September 30	FY2013	FY2012	FY2011
<b>DISTRICT ENERGY</b>			
<b>OPERATING REVENUES</b>			
Net demand revenues	\$ 11,211,555	\$ 11,313,296	\$ 11,013,846
Energy revenues	\$ 7,922,819	\$ 6,645,042	\$ 8,850,172
Other revenues	\$ 950,284	\$ 1,110,962	\$ 939,043
<b>Total operating revenues</b>	<b>\$ 20,084,658</b>	<b>\$ 19,069,300</b>	<b>\$ 20,803,061</b>
<b>OPERATING EXPENSES</b>			
Fuel and energy	\$ 7,922,819	\$ 6,645,042	\$ 8,850,172
Non-fuel operating expenses	\$ 6,976,824	\$ 6,717,939	\$ 6,538,379
<b>Total operating expenses</b>	<b>\$ 14,899,643</b>	<b>\$ 13,362,981</b>	<b>\$ 15,388,551</b>
<b>Net from operations</b>	<b>\$ 5,185,015</b>	<b>\$ 5,706,319</b>	<b>\$ 5,414,510</b>
<b>DISTRICT COOLING</b>			
<b>OPERATING REVENUES</b>			
Net demand revenues	\$ 8,869,289	\$ 8,683,783	\$ 8,314,344
Energy revenues	\$ 3,730,937	\$ 3,614,520	\$ 3,455,239
Other revenues	\$ 0	\$ 1,167	\$ 0
<b>Total operating revenues</b>	<b>\$ 12,600,226</b>	<b>\$ 12,299,470</b>	<b>\$ 11,769,583</b>
<b>OPERATING EXPENSES</b>			
Fuel and energy	\$ 3,730,937	\$ 3,614,520	\$ 3,455,239
Non-fuel operating expenses	\$ 4,248,802	\$ 4,074,286	\$ 3,694,858
<b>Total operating expenses</b>	<b>\$ 7,979,739</b>	<b>\$ 7,688,806</b>	<b>\$ 7,150,097</b>
<b>Net from operations</b>	<b>\$ 4,620,487</b>	<b>\$ 4,610,664</b>	<b>\$ 4,619,486</b>



“Our customers rely on our years of experience with the district system and the buildings we serve. We work with the customer every step of the way, from system design, to hook-up, to troubleshooting for efficiency as their energy needs change. I’ve been in every mechanical room on the system and each one runs a little differently so it needs a customized solution.”

**Jeff Volovsek**, Energy Delivery Services Manager, 2006-Present



“In the early years District Energy relied heavily on consulting engineers to design and oversee construction of distribution piping expansion. In 1992 with the support of management, three staff (Ray Schmidt, Paul Hazelip and I) took on the challenge of planning, designing, engineering, construction management, quality assurance, and commissioning all of the district heating and cooling distribution projects. We equipped ourselves with the necessary computer software, tools and equipment, and forged relationships with contractors, suppliers, and Public Works to successfully complete projects to date that total nearly 75,000 feet of dual pipe systems.”

**David L. Urke, P.E.**, Project Manager / Project Engineer, 1984-Present

**George Fremder**, Chairperson  
*retired* - Second Vice President, Corporate Services, Securian Financial Group

**Mark Rancone**, Vice Chairperson (Incoming 2014 Chairperson)  
Vice President, Roseville Properties Management Co.

**Patricia Wolf**, Vice Chairperson, District Cooling  
President, Commercial Real Estate Services

**Rassoul Dastmozd, Ph.D.**, Board Member  
President, St. Paul College  
Dr. Dastmozd represents District Energy’s medium sized customers.

**Patrick Hamilton**, Board Member  
Director of Global Change Initiatives, Science Museum of Minnesota  
Mr. Hamilton represents District Energy’s small customers.

**Harry Melander**, Board Member  
Executive Secretary, St. Paul Building and Construction Trades Council

**James Pederson**, Board Member  
*retired* - Deputy Commissioner of Administration, State of Minnesota

**Ken Peterson**, Board Member  
Commissioner of Labor and Industry, State of Minnesota  
Mr. Peterson represents District Energy’s large customers.





“To go forward – you’ve got to have the right people doing it. You have to have the people that hang their titles on the doorknob when they come in, and it’s ‘us’ rather than ‘me’.”

Robert D. Lowe, Sr. 1934-2014

### In Memoriam

The District Energy St. Paul family is mourning the loss of one of our dearest friends and an important founder of the organization, Robert D. Lowe. Bob Lowe was a founding board member, hand selected by Mayor George Latimer to serve on the District Heating and Development Company board in 1978. Since his original term of service, Lowe had served on both the District Energy and Ever-Green Energy boards.

Lowe was a Saint Paul native who started his career as a union pipefitter in 1957 after serving in the U.S. Army from 1954-1956. He eventually served as Business Manager for Local Union 455 and International Representative for the United Association of Plumbers and Pipefitters. He was passionate about helping his community and served on numerous boards and committees, including: the Saint Paul Parks and Building Capitol Improvement Committee, Downtown St Paul YMCA Board, St Paul Chapter of Big Brothers Board, and the St. Paul Board of Education, among others. Our organization is forever indebted to Bob Lowe for his contributions and he will be sorely missed.