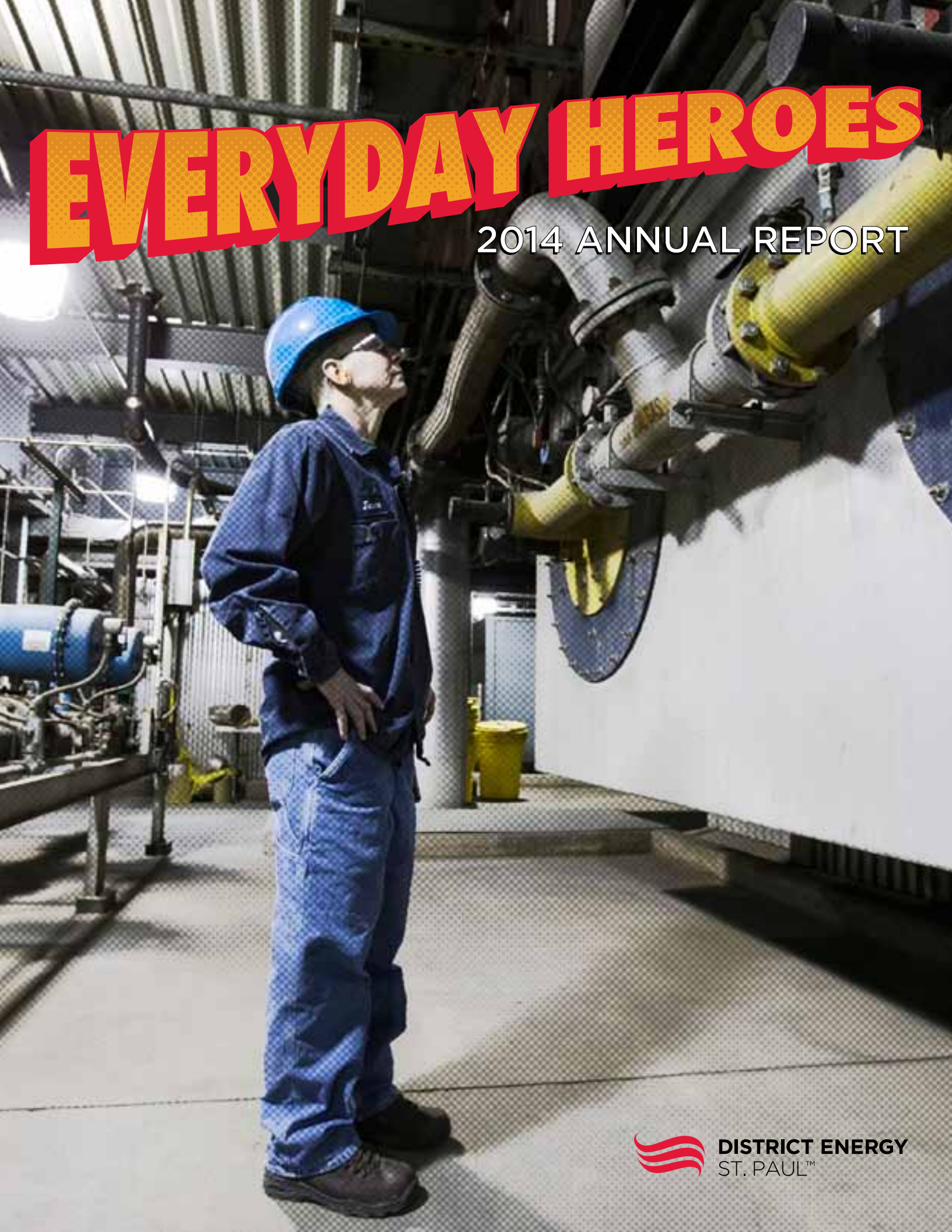


EVERYDAY HEROES

2014 ANNUAL REPORT



DISTRICT ENERGY
ST. PAUL™

EVERYDAY HEROES



WE MAKE EVERYDAY DECISIONS TO RUN OUTSTANDING OPERATIONS AND EXCEED EXPECTATIONS. THIS DEDICATION HAS GAINED US A REPUTATION FOR EXCELLENCE BOTH LOCALLY AND AROUND THE WORLD.

Growing up on a farm outside of a small-town in Minnesota, I have always valued a strong work ethic. I admire people who roll up their sleeves to tackle hard work, particularly when it is the type of work that others avoid and doesn't garner much recognition. In my hometown, I was surrounded by farmers, railroad workers, civil servants, teachers, and many others who contributed so much, but lived very humble lives. Looking back, I am even more impressed by the individuals who contributed to the vitality of my community. They had a heart for service and their hard work really made a difference in keeping the community safe, keeping the doors open for local businesses, and making a place for families to raise their kids. In their own ways, many of these folks were everyday heroes.

While I have moved from the small town to the city and the individuals around me have changed, I am still taken with the people have a heart for serving others and who take pride in their work. They are often the same people who go out of their way to do the right thing without expecting recognition or reward.

I firmly believe that when these same behaviors are displayed through our work at District Energy St. Paul that they are a reflection of our core values. We have built our service culture on four key areas: customers, community, work environment, and conduct. Our people know that we need to be here for our customers 24/7/365, be good citizens in our community, and bring the best of ourselves to our work. We strive to live these values every day and it shows in our service and how people know us in Saint Paul and throughout our industry.

Our team makes the effort to do amazing things. Not because they seek recognition, but because it's good for our customers and our neighbors, which aligns with our company values. Long before I joined District Energy, this was the established culture of the company. Maybe it's our Swedish and Minnesotan roots, but the humble streak runs deep in this

organization. Our teams work under the streets, in the depths of building basements, and in the often unseen parts of our plants to keep everything running smoothly and reliably. They are here night and day, holidays, during polar vortexes and heat waves to heat and cool the capital city. Last year was an incredible example of their dedication as they worked through fuel supply disruptions and the coldest winter on record since 1979. They work hard to find sustainable and cost effective solutions for our systems and to help our customers make choices that improve efficiency and benefit the environment. We help customers save money and energy, which is good news for their businesses, their residents, and the city.

Working behind the scenes means that our team members may not be the most recognizable people in the city, but they make a difference through their work ethic and ingenuity, their concern for our customers, and their partnerships throughout the city. So the next time you see a truck with a red wave or see the steam plume hovering over our plant, remember that your local, hometown utility is here for you, working day and night and underground to keep things running. In turn, we will keep providing Saint Paul with reliable energy that benefits our customers, our community, and the environment. This hard work has earned our company the reputation of North America's most award winning community energy system, but our daily measure of success is to live our core values and keep doing the humble work of everyday heroes.

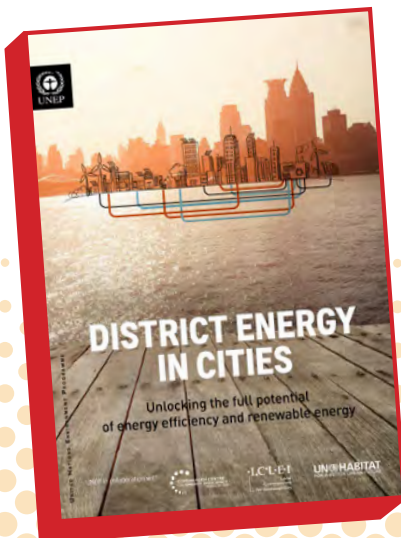
Ken Smith
President and CEO

Mark Rancone
Board Chairman

KEN SMITH WAS NAMED INTERNATIONAL DISTRICT ENERGY ASSOCIATION CHAIRPERSON IN JUNE 2014. HE IS THE THIRD REPRESENTATIVE OF DISTRICT ENERGY ST. PAUL TO HOLD THIS HONOR.

LEADING BY EXAMPLE

Ken Smith was named International District Energy Association Chairperson in June 2014. He is the third representative of District Energy St. Paul to hold this honor. He is midway through his term and making all of us proud with his leadership and the ambassador role he has played both within and outside of our industry. Smith knows that our industry holds the key to important infrastructure improvements for our communities and that district energy and integrated energy systems play a crucial role in achieving greenhouse gas emission reductions and economic resilience. Smith's chairmanship has centered on the opportunity to "inspire the next generation," which promotes our investment in the evolution of the power grid (microgrids), the continued modernization of district energy systems (ecodistricts and community energy), the platform for technology innovation, and the changing generation of people in our industry. Smith has used his platform to continue connecting our energy solutions to the cities, campuses, and other stakeholders that want a comprehensive energy solution. From Dubai to Dubuque, this conversation has been challenging the way we approach energy planning to realize significant environmental and economic benefits. Smith is sharing our challenges and successes and turning our hometown story into an international best practice.



International Recognition For Our Hard Work

Our organization's dedication to high standards and the hard work and the integrity of the individuals that work at District Energy have built a system worthy of imitation. In September our system was featured in a report from the United National Environment Programme titled "District Energy in Cities: Unlocking the full potential of energy efficiency and renewable energy" which was presented at the UN Climate Change Summit in New York. Our system was recognized for our integration of renewable fuels, energy efficiency, and reduction of greenhouse gas emissions. The Saint Paul system was featured alongside Munich, Paris, Oslo, and Qatar as systems providing multiple benefits through district energy infrastructure.

Ready for Anything

Service reliability means everything to our customers, so the District Energy team plans ahead to make sure our infrastructure is ready to face challenges to the system. It also means having the right plan to tackle problems before they become a problem for our customers. We use smart partners that know our system and our customers to help us work efficiently, and when necessary, our entire team spends the night making repairs and improvements to the system to provide service when it's needed most. Most of our customers and the citizens of Saint Paul don't even know we are out there, working in underground valve chambers, making structural repairs and valve replacements, and monitoring the clock to be sure we minimize any disruptions to business or daily life. Last year was no exception as we continue to upgrade our infrastructure to maintain our essential reliability. We tackled a particularly important repair underneath St. Peter Street, using electric cart boilers to keep service to buildings with nighttime activities. This was a complex repair that required two overnight efforts, with over a dozen of our employees applying their expert skills to sequence repairs and have everything running smoothly by the time the sun came up over the city. We take every opportunity to upgrade our system before issues become a problem. At District Energy our teams are ready for anything and prepared to do what it takes to keep our customers online.

LEAK WARRIORS

MEANWHILE...

Keeping Everyone Safe and Warm

IT WAS VERY LATE ON A SUNDAY EVENING IN JANUARY 2014. WE GOT WORD THROUGH THE WIRE THAT A LEAK IN THE SYSTEM MIGHT AFFECT A CUSTOMER BUILDING THROUGH AN EVENING OF BRUTALLY COLD WINTER TEMPERATURES.

When the temperatures dip below -25, our customers need to know that our heating system will be there to take care of them. We maintain an on-call customer service team to handle potential trouble day or night, no matter the season. Unlike many office buildings, the affected building was the Naomi Family Center, which provides shelter to people throughout the night. The

Center provides shelter and care for previously homeless women and children and provides a Center for Independence program to teach skills and confidence for women to move forward and provide for themselves and their families.

We dispatched our team immediately to secure the site for safety and brought in our civil and mechanical cohorts to help us tackle the problem. Our distribution team used a pressure gauge in the customer's mechanical room to determine that the source of the leak within the supply pipe and isolate it for repair. Although only one customer building would have been affected, we commit to the same level of service whether it is one building or 100 buildings. To fix the repair, the building would have needed to be without heat for five hours. During a Minnesota winter, our team knew that this was not an option and we went to work to find a solution. We kept that building from losing heat by using our proven "bleed and feed" method, which transfers supply water into the return pipe. This was necessary because supply water is 230 degrees and return water is 160 degrees. At -25 degrees outside temp, 160 degree return water is not hot enough to keep a building warm. Five hours later, the leak was repaired and everyone inside Naomi Family Center kept cozy for the night without ever knowing there was any trouble. We know it is our job to keep things running effectively and make sure that our customers can go on about their daily schedule while we keep the city warm and cool.



Improving Reliability and Efficiency at Mt. Airy

District Energy provides heating service to Mt. Airy homes, a family housing development north of the Capitol serving a diverse community that benefits from secure housing as well as on-site programs like Early Childhood Family Education and Head Start. These families rely on our heating system to keep them warm through the winter and to heat their domestic hot water. Our team works throughout the year to make sure these services are reliable and affordable. We rely on a partnership with the Public Housing Authority staff who help us troubleshoot technical issues and develop educational opportunities to teach residents how to reduce their energy usage. Behind the scenes, we have been working over the last two years to upgrade the substation with advanced monitoring systems that are crucial to managing energy delivery for these customers. We are proud of the collaborative effort of our production, distribution, and information technology teams that worked together to implement these solutions. The newly installed technology will improve reliability and efficiency for Mt. Airy residents, which is important to keeping them comfortable and their rates affordable. The upgrades also mean that our equipment serves our system better, with optimized interactions between equipment components, better alarm functions, and the ability to monitor remotely. The system automatically notifies staff of any issues, which means we can get ahead of issues before they impact residents. This summer additional equipment and controls will be added to evenly utilize pumping equipment and to establish a more redundant pumping scheme. Our team is committed to perform the system improvements and upkeep that enables us to provide outstanding reliability and efficiency for our customer families and businesses.



THESE FAMILIES RELY ON OUR HEATING SYSTEM TO KEEP THEM WARM THROUGH THE WINTER AND TO HEAT THEIR DOMESTIC HOT WATER.

LONG COLD WINTER

LAST WINTER WAS THE COLDEST WINTER IN 35 YEARS, PRESENTING TWO POLAR VORTEXES AND A STREAK OF 17 DAYS BELOW ZERO THESE EXTREME CONDITIONS PRESENTED EXTRAORDINARY CHALLENGES TO BUILDING MANAGERS AND UTILITIES. COMPLICATING MATTERS, NATURAL GAS WAS NOT AS READILY AVAILABLE DUE TO DEMAND, DISTRIBUTION LIMITATIONS, AND A MAJOR PIPELINE DISRUPTION IN CANADA. AT DISTRICT ENERGY OUR DEDICATED STAFF, CONTINGENCY PLANNING, FUEL FLEXIBILITY, AND INTENTIONAL APPROACH TO REDUNDANCY MEANT THAT LAST WINTER OUR CUSTOMERS HAD RELIABLE HEATING DESPITE THE WEATHER AND CURTAILMENTS OF NATURAL GAS SUPPLY.

Fuel flexibility is one of the great advantages of our system, however, it is really the management of fuel switching that helps keeps our costs down and services reliable. Our energy production staff is constantly monitoring conditions and evaluating the fuel and weather outlooks to determine which fuels and which equipment will be dispatched on a given day. By planning ahead and applying years of experience with the system, our team can make the correct decisions during critical moments to

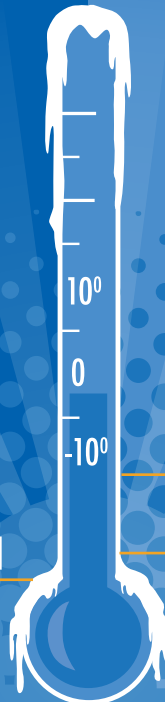
the operation. This also means taking a rigorous approach to maintenance so that our equipment is prepared for the worst of conditions and maximum flexibility. We are meticulous about off-season and ongoing maintenance so our customers can count on our service, especially when heating and cooling are in high demand by our customers. The teams at District Energy take pride in the fact that we provided reliable service throughout the long, cold winter of 2014 when our customers needed it most.

9th COLDEST winter on record

COLDEST winter since **1978**

days BELOW zero **53**

straight days below zero **17**



WE ARE JUST DOWN THE STREET...

AS A LOCAL NON-PROFIT UTILITY, OUR STAFF IS JUST DOWN THE STREET AND READY TO HELP OUR CUSTOMERS. OUR IN-HOUSE EXPERTS CAN HELP YOU OPTIMIZE YOUR SYSTEM, TROUBLESHOOT EQUIPMENT, AND ANSWER YOUR TECHNICAL QUESTIONS. OUR TEAMS ARE COMMITTED TO HELPING CUSTOMERS SUCCEED AND EXCEEDING THEIR SERVICE EXPECTATIONS.

A Great Year for the Arts

Downtown Saint Paul continues to attract artists to live, work, and play and is increasing its reputation as a destination for art enthusiasts. The music and art festivals are growing and local theaters are under development, opening doors, and expanding their offerings. District Energy celebrates two of its customers that are working hard to change the theater experience in Saint Paul. The Ordway Center for the Performing Arts, together with its Arts Partners, took on the major task of building a new 1,100 seat Concert Hall adjacent to its existing 1,900-seat Music Theater. We worked with the Ordway and McGough Construction to make sure our services will meet the needs of the expanded facility. Our team helped with the review of the engineering design, resulting in a final building design that accommodated our existing underground infrastructure and expanded a new hot water line.

This year the collaborative company Bedlam Theatre opened a new theater space and restaurant at 213 East 4th Street in Lowertown. The venue is open seven days a week hosting up to three events a night including theatrical performance, dance, and music. Beyond their priority of sustainability, by converting to district heating and cooling, the building owners were able to significantly reduce the size of their mechanical room to offer more space for the Bedlam artists to meet, build, and rehearse for performances.



Photo courtesy John Schaidler



Above and Beyond

In 2014, Saint Paul RiverCentre, Xcel Energy Center, and Roy Wilkins Auditorium achieved a level of sustainability certification that no other facility in their industry has reached. Not in Saint Paul. Not in Minnesota. Not anywhere else in the world. They have been certified in three international sustainability standards – LEED, Green Globes, and APEX/ASTM. Five years ago, the facilities launched an effort to reduce their energy and water consumption and waste production, which required changing many of their operating protocols and adopting new behaviors for staff and for the thousands of visitors that come to the complexes each year. All of this dedication has paid off in substantial reductions in energy and water use as well as waste, saving the company money each year and reducing their environmental footprint. District Energy is thrilled to be part of the effort to reach this milestone, having worked with the complex to understand their energy profile and make efficiency improvements; as well as the collaborative effort to launch the 1.4 MW solar thermal installation that helped them reach their energy and environmental goals. Hats off to this amazing team for their incredible work to lead the way for sustainable convention and venue management.

Serving the People

Catholic Charities of St. Paul and Minneapolis has a mission to serve those most in need. They are a leader at solving poverty, creating opportunity, and advocating for justice in the community. As Catholic Charities is serving the community, District Energy has been proud to be their service provider since 1983. In 2014, Catholic Charities made strides to establish a new facility that will greatly improve their ability to reach out and help the community. Plans are in place for a new Dorothy Day Center campus with two buildings. The first building, Higher Ground Saint

Paul, will be a five-story building with emergency shelter and permanent homes for 470 people. The second phase of the project will be a Connection Center, bringing health care, job training and other support services to Saint Paul's homeless population. District Energy provides heating and cooling services for several non-profit, human service organizations serving individuals and families in Saint Paul. We are honored to be part of Catholic Charities energy service team and look forward to supporting their efforts throughout every phase of this crucial development.

Revenues and Expenses

Year-End September 30	FY2014	FY2013	FY2012
DISTRICT ENERGY			
OPERATING REVENUES			
Net demand revenues	\$ 10,720,227	\$ 11,211,555	\$ 11,313,296
Energy revenues	\$ 10,183,700	\$ 7,922,819	\$ 6,645,042
Other revenues	\$ 972,757	\$ 950,284	\$ 1,110,962
Total operating revenues	\$ 21,876,684	\$ 20,084,658	\$ 19,069,300
OPERATING EXPENSES			
Fuel and energy	\$ 10,183,700	\$ 7,922,819	\$ 6,645,042
Non-fuel operating expenses	\$ 7,411,174	\$ 6,976,824	\$ 6,717,939
Total operating expenses	\$ 17,594,874	\$ 14,899,643	\$ 13,362,981
Net from operations	\$ 4,281,810	\$ 5,185,015	\$ 5,706,319
DISTRICT COOLING			
OPERATING REVENUES			
Net demand revenues	\$ 8,671,082	\$ 8,869,289	\$ 8,683,783
Energy revenues	\$ 3,656,262	\$ 3,730,937	\$ 3,614,520
Other revenues	\$ 0	\$ 0	\$ 1,167
Total operating revenues	\$ 12,327,344	\$ 12,600,226	\$ 12,299,470
OPERATING EXPENSES			
Fuel and energy	\$ 3,656,262	\$ 3,730,937	\$ 3,614,520
Non-fuel operating expenses	\$ 4,471,865	\$ 4,248,802	\$ 4,074,286
Total operating expenses	\$ 8,128,127	\$ 7,979,739	\$ 7,688,806
Net from operations	\$ 4,199,217	\$ 4,620,487	\$ 4,610,664

Rates and Unit Sales

Year-End September 30	FY2014	FY2013	FY2012
DISTRICT ENERGY			
Demand rate (\$/kW/mo)	\$ 5.27	\$ 5.27	\$ 5.27
Energy rate (\$/MWh)	\$ 25.59	\$ 25.59	\$ 25.59
Fuel adjustment charge (\$/MWh)	\$ 1.98	(\$ 1.17)	(\$ 0.66)
Overall rate (\$/MMBtu, 1700 Util hrs)	\$ 18.98	\$ 18.05	\$ 18.20
Demand (kW) - average	168,845	176,325	177,871
Energy sales (MWh) - actual	369,326	323,853	261,698
Heating season degree days	8,634	7,599	5,813
Energy sales (MWh) - normalized	325,000	321,000	330,000
DISTRICT COOLING			
Demand rate (\$/ton/mo)	\$ 26.69	\$ 26.69	\$ 26.69
Energy rate (\$/ton-hour)	\$ 0.087	\$ 0.087	\$ 0.087
Fuel adjustment charge (\$/ton-hour)	\$ 0.008	\$ 0.004	\$ 0.001
Overall rate (\$/ton-hour, 1200 Util hrs)	\$ 0.362	\$ 0.358	\$ 0.355
Demand (tons) - average	27,031	27,633	27,072
Energy sales (tons-hours) - actual	37,696,251	38,613,612	42,985,488
Cooling season degree days	761	981	1,185

**STABLE RATES
AND
RELIABLE SERVICE!**



BOARD OF DIRECTORS

Mark Rancone, Chairperson
Vice President, Roseville Properties Management Company

James Pederson, Vice Chairperson
Deputy Commissioner of Administration (retired), State of Minnesota

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

Rassoul Dastmozd, PhD
President, Saint Paul College
Medium-sized customer representative

Patrick Hamilton
Director of Global Change Initiatives, Science Museum of Minnesota
Small-sized customer representative

Erik Olson
Vice President of Operations, United Hospital
Large-sized customer representative

Kristina Taylor
Vice-President of Community Relations, Ecolab

David Ybarra
President, Minnesota Pipe Trades Association

Lending a Hand through United Way

District Energy St. Paul has been a United Way partner for more than a decade. Through workplace giving we have supported the great work of United Way and their affiliate organizations. This year, we began to expand our relationship with the United Way to increase the financial and volunteer contributions our staff would make to their community. United Way allows workplace giving to be directed to any of their partner organizations. We encouraged our teams to seek out and support organizations that aligned with their interests, knowing that a personal connection always drives more engagement with the charitable experience. We also launched efforts to increase our volunteer participation with United Way events. Our first event was United Way Action Day, a metro-wide, speed-volunteering event that gave our staff the opportunity to assemble school supplies, snack bags, dental kits, and laundry supplies for area kids and families. As a non-profit, District Energy is committed to finding ways to give back to its community and has been a sponsor of many other initiatives that support our customers, our community, and our environment. Volunteering is an essential way to expand our contributions and build our relationships throughout Saint Paul. We hope 2014 was just the start of a great opportunity to support a culture of volunteers who give back.