DISTRICT ENERGY ST. PAUL



LEADERSHIP



2010 DISTRICT ENERGY BOARD OF DIRECTORS: Ken Smith, President/CEO; Mark Rancone, Vice Chairperson; Harry Melander, Board Member; Tom Geskermann, Board Member; William Mahlum, General Counsel; James Pederson, Board Member; Pat Wolf, Vice Chairperson; George Fremder, Chairperson; Donovan Schwichtenberg, Board Member; Bill Buth, Board Member. Director Emeritus not pictured: Bernard St. Peter, Susan Sands, Barbara Lukermann, George Latimer.

To our Customers, Business Associates, and the Community: It may come as no surprise to those familiar with our company that we are unique. There are many reasons we are unique, including how our company was founded and the leaders that came together to realize an ambitious vision for a better future. This foundation has influenced everything at the core of the company, from our values, to our customer service, to our innovative solutions.

It began with a vision, a dream. Our founders dared to be different and dreamed of a better way to deliver energy. They envisioned a new community energy system that would be a model for the Nation. This innovative spirit is not just a thing of our past. It continues to manifest itself every day as we work to remain at the forefront of our industry and lead the advancement of energy. As a team, we work to deliver the efficiencies and renewables that anchor an integrated system. All while providing value and affordable rates to our customers.

Dreams are a crucial part of invention, but they can not serve our mission unless we build. 2010 was an active year of building and progress. We built new service connections, added customers and expanded our system. District Energy was also an integral partner in the early utility relocation construction that helped our region move forward on Light Rail Transit. In addition to system

improvements, we implemented solutions to continue being a renewable energy leader, using more biomass and less fossil fuel. Our longstanding commitment to renewables led to building the Midwest's largest solar installation, through a partnership with the City of Saint Paul, the Saint Paul RiverCentre and the Department of Energy. This project will help transform the solar market and showcase Saint Paul's continued commitment to energy leadership.

To dream and to build are both admirable, but the true test of our commitment is how we deliver our services. District Energy was built with a commitment to deliver reliability, efficiency, affordable rates, and outstanding customer service. That remains our commitment today. In 2010, we improved our organization with an expanded customer service team, new solutions for energy delivery, and increased integration of fuels. In recognition of our efforts, the International District Energy Association concluded that we outperformed all other systems, and presented us the prestigious System of the Year award.

As we look forward to 2011 and beyond, District Energy will continue to innovate and envision ways to integrate energy advancements in Saint Paul. And we will deliver on our commitments to provide services that benefit our customers, our community and the environment. It is what makes us unique.

George Fremder Board Chairperson

Jesefo Funder Ker Smith

Ken Smith President/CEO

SOLAR DISTRICT ENERGY: FIRST IN THE NATION



Solar energy is shifting from a novel idea in Minnesota to a growing energy option for utilities, businesses and residents across the state. After aspiring to join this solar movement for many years, District Energy launched a large scale project on the roof of the Saint Paul RiverCentre in 2010. Covering roughly half the size of a football field, the installation adds 144 solar thermal collectors to the unprecedented renewable energy district taking shape in Saint Paul. The advanced, commercial-grade collectors will serve the downtown convention center and the other District Energy customers, thanks to a \$1 million grant from the Department of Energy and the partnership of the City of Saint Paul.

Solar Energy at RiverCentre



Energy usage is based on 2009 data. Solar energy production is estimated from pre-operation modeling. Actual data will vary annually.

District Energy's high-performing collectors generate hot water to be used for space heating and domestic hot water in the RiverCentre. Once the building's heating needs are met, the system exports excess solar energy to the hot water distribution network serving downtown Saint Paul. This makes our installation the first in the United States to take solar thermal energy from one building and export it for use in other buildings through our existing district system.

This important project will lower the carbon footprint for our district energy system by 900,000 pounds per year, the equivalent of removing 90 cars from the road each year. It will also fulfill the company's historic solar aspirations and move us one step closer to 100 percent renewable fuels. 2011 will be filled with anticipation as this groundbreaking system captures and produces its first BTUs and lowers the carbon footprint for our system and our customers.

BUILDING SUSTAINABILITY



Before the first customer was served in 1983 District Energy imagined combined heat and power (CHP) in its future plans. CHP is one of the most efficient energy generation technologies in the world. And District Energy has been using this technology to generate both heat and power for over 20 years.

In 1990, the first CHP system was installed to help boost production efficiency at and to generate power for the plant. That was just the beginning. Planning continued for building a biomasspowered CHP, or cogeneration system. The dream was to produce renewable heat for our customers and electricity for export to the grid. In 2003, this dream became a reality when St. Paul Cogenera-

Salvaged Wood Leads to Clean Energy



12,000 truckloads of wood diverted Energy to heat from the waste stream annually



downtown

tion came online. Now the majority of the heat delivered to our customers is produced from clean local woody biomass and forest residuals.

Each year we try to push the envelope to use more renewable fuels and less fossil fuel. We reached another system best by frequently cofiring 20% wood chips by volume with coal during this winter season. Cofiring allows us to use existing coal boilers to combust biomass by blending it with coal.

In addition to cofiring, we achieved for a rate of 85% biomass for the fuel used at St. Paul Cogeneration. Eventually, our goal is to become 100% renewable system-wide using a combination of biomass, solar thermal, heat recovery and efficiency, and other renewable resources. Whatever the future holds, District Energy is dedicated to projects that are reliable, effective, and economically feasible to support our customers.

SYSTEM OF THE YEAR AWARD



The District Energy vision was born in the late 1970s when Saint Paul and its building owners faced a major decision of how to secure a reliable energy source and stable energy prices. This dream was realized in 1983. In 1993, the company celebrated two great accomplishments. District Cooling St. Paul was created to serve the growing need to cool downtown. And we were honored to receive the prestigious System of the Year Award from the International District Energy Association, recognizing our system as the best in the business. District Energy was the first ever recipient of this award.

IDEA serves as a vital information hub for the district energy industry, connecting industry professionals and advancing the technology around the world, with over 1000 members from 25 countries. District energy systems are judged on six criteria including overall energy efficiency, reliability and availability, environmental benefits, and customer and communications service improvements. IDEA sets clear standards for excellence, pushing our company to work hard to lead the industry.

Even with the IDEA accolades in 1993, District Energy did not rest on its laurels. We committed ourselves to integrating a variety of renewable energy sources and technologies for our system. And we joined industry partners to carefully plan for the transition that lead to the development of the wood-fired combined heat and power plant (CHP) that became operational in 2003. Subsequently, we developed the nation's only solar thermal system to be integrated with a district energy system. IDEA, once again, recognized our commitment to excellence and awarded our company its second System of the Year Award from IDEA in 2010. Only the world's largest district energy system has won this award twice.

These awards are a great honor. They push us to dream, deliver the next industry innovation and bring new solutions to our customers. We enter 2011 humbled and motivated to continue our industry leadership and bring the best to Saint Paul.

THANK YOU



Launching our first electronic annual report is a ground-breaking event for District Energy St. Paul and fits so well with our "Dream. Build. Deliver." theme. Thanks to our board and our employees who worked so hard to make 2010 a successful year. Thank you to our customers for giving us the opportunity to be their preferred energy provider. This support drives us to fulfill our mission to best serve our customers, our community, and the environment.



Our heartfelt gratitude goes to Joy, Pat and Scott from The Design Company who so patiently and graciously guided us through the creative process of putting all of the pieces together to complete our first online 2010 annual report.



Visit these links to learn more about district energy and what we do:

www.solarsaintpaul.com www.districtenergy.com www.districtenergy.org



DISTRICT ENERGY

Rates and Unit Sales	FY 2010	FY 2009	FY 2008
Demand rate (\$/kW/mo)	\$ 4.90	\$ 4.71	\$ 4.57
Energy rate (\$/MWh)	\$ 26.86	\$ 30.51	\$ 25.15
Fuel adjustment charge (\$/MWh)	\$ 0.00	(\$ 1.20)	\$ 1.20
Overall rate (\$/MMBtu, 1700 Util hrs	s) \$ 18.00	\$ 18.31	\$ 17.17
Demand (kW) - average	183,061	190,481	192,607
Energy sales (MWh) - actual	301,671	343,871	353,962
Heating season degree days	7,053	7,658	7,911
Energy sales (MWh) - normalized	331,000	350,000	354,000
Operating Revenues			
Net demand revenues	\$ 10,814,046	\$ 10,805,873	\$ 10,620,101
Energy revenues	7,995,714	10,209,594	9,060,954
Other revenues	1,121,544	929,365	909,319
Total operating revenues	\$ 19,931,304	\$ 21,944,832	\$ 20,590,374
Operating Expenses			
Fuel and energy	\$ 7,995,714	\$ 10,209,594	\$ 9,041,394
Non-fuel operating expenses	7,174,811	6,557,808	6,129,321
Total operating expenses	15,170,525	16,767,402	15,170,715
Net From Operations	\$ 4,760,779	\$ 5,177,430	\$ 5,419,659

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.

"District Energy customers saved more than \$45 million over the past 10 years, when compared to gas."



DISTRICT COOLING

Rates and Unit Sales	FY 2010	FY 2009	FY 2008
Demand rate (\$/ton/mo)	\$ 25.66	\$ 25.66	\$ 24.79
Energy rate (\$/ton-hour)	0.079	0.079	0.071
Fuel adjustment charge (\$/ton-hour)	0.004	0.004	0.007
Overall rate (\$/ton-hour, 1200 Util hrs)	\$ 0.340	\$ 0.339	\$ 0.326
Demand (tons) - average	25,586	25,186	25,257
Energy sales (ton-hours) - actual	39,183,636	34,605,266	34,818,595
Cooling season degree days	982	652	814
Operating Revenues			
Net demand revenues	\$ 7,903,460	\$ 7,789,208	\$ 7,546,448
Energy revenues	3,264,393	2,923,577	2,732,118
Other revenues	51	3,632	185
Total operating revenues	\$ 11,167,904	\$ 10,716,417	\$ 10,278,751
Operating Expenses			
Fuel and energy	\$ 3,264,393	\$ 2,923,579	\$ 2,732,118
Non-fuel operating expenses	3,347,320	2,836,816	2,749,898
Total operating expenses	6,611,713	5,760,395	5,482,016
Net From Operations	\$ 4,556,191	\$ 4,956,022	\$ 4,796,735