

a foundation for
our services
a dependable
and indispensable
infrastructure

2012 annual report



DISTRICT ENERGY
ST. PAUL™

cornerstone

the core values that
define and uphold
our foundation
a reminder of our
commitments to
our customers, our
community, and the
environment

to our customers,
business associates,
and the community

The role of energy has become a priority in planning for vibrant and resilient communities. The need for reliable, yet versatile infrastructure is more important than ever to meeting diverse economic and environmental needs. District Energy St. Paul is part of the important infrastructure fabric of the city, but our strong foundation is comprised of more than just the physical components of the plant, distribution system, and customer connections. Our investments into reliability, energy efficiency, a diverse fuel mix, and system versatility are truly the cornerstone of our service to Saint Paul.

At our foundation is a straightforward commitment to the success of Saint Paul. As the city grows, our infrastructure and services grow with it while maintaining reliable service and stable rates. Our customer base for heating has almost tripled, reaching over 80% of the square footage in downtown Saint Paul. Cooling services have grown to reach over 60%. During the past year, we added more than 650,000 square feet to our customer base. District

heating



cooling



Our system uses less energy to serve more customers than it did three decades ago.

Energy has adapted our services over the years to serve system growth and the changing needs of our customers, with programs that focus on improved metering, distribution maintenance, and our Delta T program. These core services are essential to providing the City of Saint Paul and our customers a more efficient energy system. As a result, our system uses less energy to serve more customers than it did three decades ago.

District Energy was incorporated as a non-profit through a public-private partnership determined to create a stable energy future.

As we enter our 30th year of service, our success continues to intertwine with Saint Paul's future. As the community increases its curiosity about energy and the environment, we have sought depth for our commitment to educational partnerships. We serve the city's landmarks and Fortune 500 companies. We provide reliable energy for fans of theater, hockey, music, art, and more. We are poised to provide this innovation and reliability to growth beyond downtown and the future baseball fans. The city will continue to evolve and we are poised to have our services at the cornerstone of this success.



George Fremder
Board Chairperson

Ken Smith
President and CEO

In 2012, District Energy continued to expand services by adding new customers and extending our commitments to customers served by the system for decades. Our primary heating and cooling system in downtown Saint Paul provides the infrastructure needed to extend beyond the downtown core. Our service to United Hospital, Mt. Airy homes, Ramsey County's Law Enforcement Center, the Minnesota State Capitol Complex and the West Side demonstrates our experience providing service far beyond perceived boundaries. We continue local energy discussions with developers, business leaders, and planners as we expand the possibilities of our system.



Strengthening the customer base

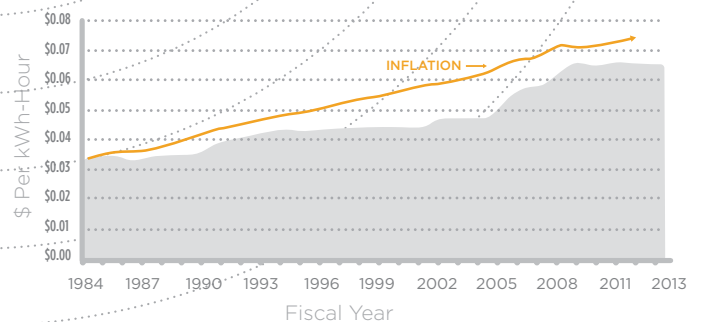
We added heating and cooling services for the Metropolitan Council's Operational and Maintenance Facility and the Union Depot serving the Green Line corridor and two beautifully renovated buildings - 81 on 7th and Pioneer Endicott. Along with new services, our commitment to customers and reliable service shows through the extension of agreements with customers that helped launch our heating and cooling services.

Rate stability

One of the most important successes in 2012 for District Energy and District Cooling was the management of our finances to provide rate stability. There were no rate increases for customers in FY 2013. Our customers are experiencing many changes in various commodity and real estate markets, making it even more important that we deliver reliable service with stable rates. Every year our customers are charged with planning and maintaining budgets that keep their organizations competitive. District Energy's stable rate structure and system infrastructure helps our customers meet these planning goals. By aggregating the load of our customer base, we are able to use our production and distribution system more efficiently than individual equipment. Thermal storage allows access to off-peak pricing and increased reliability through extreme weather events. Our flexible fuel model, including waste heat from biomass and solar thermal, helps us withstand and prepare for volatility in fuel markets. After almost three decades in service, our rates are still below that of inflation and we prioritize keeping costs down to help our customers thrive.

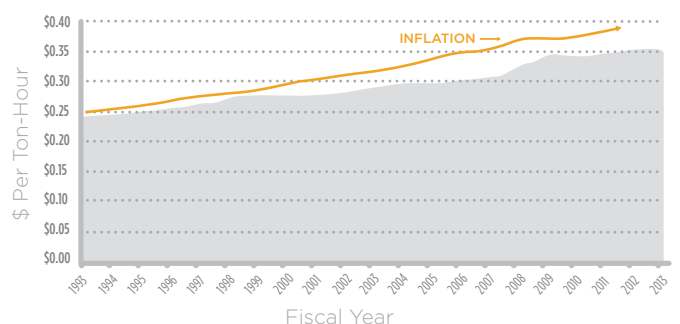
District Energy St. Paul

Combined Heating Rate Summary—1984-2013



District Cooling St. Paul

Combined Cooling Rate Summary—1993-2013

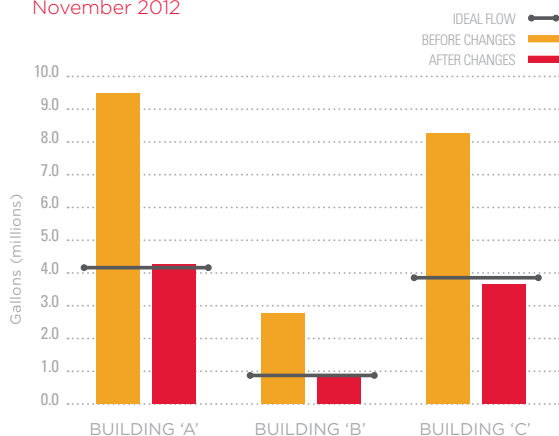


not just for
downtown anymore



customers first

Return Temperature Analysis November 2012



The Delta T is the change in temperature from the supply of hot or chilled water to the building to the return of that water to the district system. This change in temperature serves as an indicator of building performance. A well-maintained Delta T helps the building's internal system and District Energy's system performance. It also helps customers save money.

Supporting our customers is a key component to continuing our long-standing service relationships. Two notable events in 2012 were the Operating Engineers Seminar and Customer Appreciation Day. The Operating Engineers Seminar focused on Delta T improvements and several guest speakers shared tips to an overflow crowd of operating engineers. The Wave newsletter continued the conversation by offering ideas on improving the customer Delta T and overall building performance. Our well-attended Customer Appreciation Day allowed our team to welcome new customers and to connect with our customers' operating engineers, building managers, and property owners. Some visitors enjoyed a tour of the plant for the first time and others have made the tour an annual tradition.

Improving our communication

Our team committed to improving the flow of information to customers in 2012. In addition to the enhanced website, customer brochures, and newsletter, new billing explanations were developed for commercial and residential customers. We encourage all customers to learn about their charges through in-person meetings or by reviewing their monthly bills. General billing information is available on our new website.



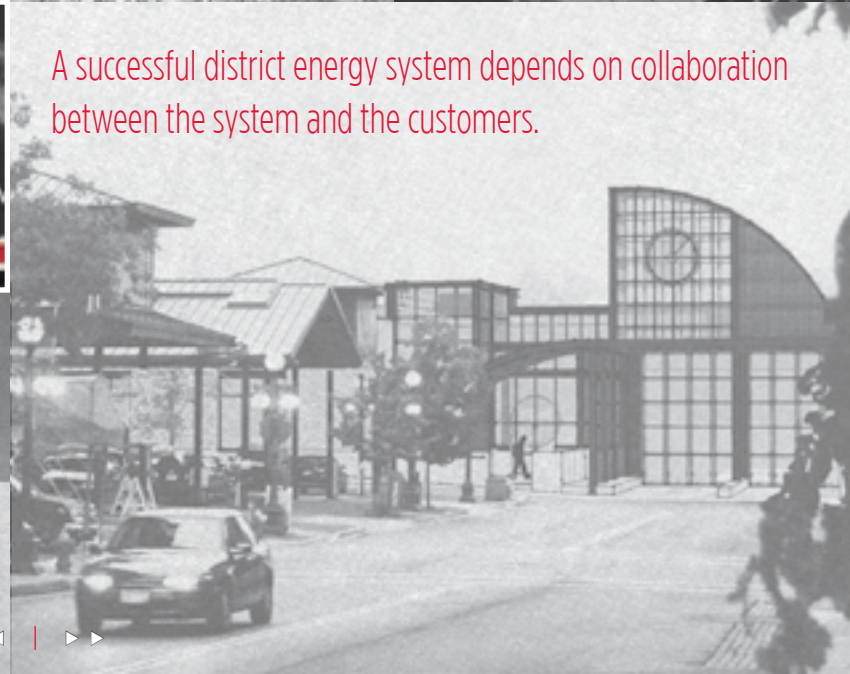
Solar thermal installed on Ramsey County Law Enforcement Center

District Energy is proud to partner with our customers as they seek greater environmental certifications, industry awards, building performance objectives, and, most recently, the development of alternative energy within their building systems. Last year, Ramsey County partnered with District Energy, the City of Saint Paul, and the State of Minnesota, to launch a new solar installation generating hot water for the building through the integration of 35 solar thermal collectors (Solar Skies, produced in Alexandria, Minnesota). The system is a unique demonstration site for small-to-medium sized systems linked to district heating systems, generating 320 million BTUs annually. We commend Ramsey County for their leadership and for taking this step toward sustainability.

partnering with
our customers



A successful district energy system depends on collaboration between the system and the customers.



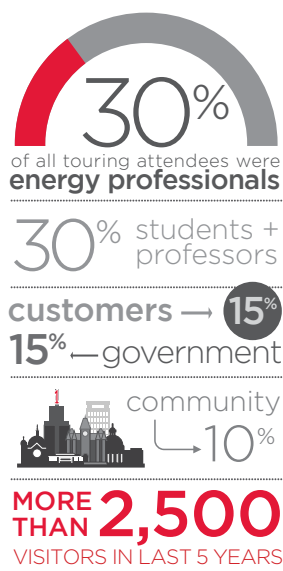
District Energy St. Paul is a community-based energy system. For District Energy, this means leveraging the cornerstone of our values and infrastructure to serve the community.



community

Partnerships

As a community-based energy system, we look to other leaders for inspiration and partnership. During 2012, we were honored to participate in community vision and planning sessions during urban pioneer Charles Landry's visit. We worked with the International District Energy Association to develop the Community Energy Guide that serves as a tool for people seeking to create local energy systems. We continued our support of the Citizen's League as they strive to create a vision for more efficient energy infrastructure in Minnesota. We intensified our commitment to educational partnership and worked with the Science Museum of Minnesota, the Center for Renewable Energy and Education Development Project (CREED), and Will Steger, Mark Seeley, and Don Shelby to engage and educate people about energy and climate change.



Education through experience

In 2012, we hosted dozens of tours for local and global visitors focusing on specific interests of visitors, emphasizing the importance of integrated local energy. Of special interest, educators from local colleges and universities make tours to our facilities a regular part of their curriculum. Our location is the only one in the United States featuring an integrated showcase of efficient and renewable energy

technologies, including combined heat and power, solar hot water, biomass, district cooling, district heating, and thermal storage.

Engaged Leadership

Our team continues to participate in community events and organizations - from the Saint Paul BOMA Expo to the Living Green Expo to the interactive quiz game on the Sustainability Stage during the State Fair. Beyond events, our leadership team deepened its relationships in Saint Paul through participation on the boards of Saint Paul's Building Owners and Managers Association, the Saint Paul Area Chamber of Commerce, and the Capitol River Council.



Community Giving

We continue a long-standing partnership with the United Way to offer our employees an opportunity to give back to the community. We are proud to announce that our 2012 campaign set a new company record! In addition, our employees chose Neighborhood House, a local customer, as a community partner in a targeted giving campaign resulting in a \$3,200 donation to provide a week's worth of meals for 64 families.

As the years go by, we strengthen our commitment to giving by contributing to organizations helping our community thrive - from Music in Mears to the Ordway Center's Circle of Stars. Additional sponsorships included fundraisers supporting our customers the Saint Paul Public Library and Regions and United Hospitals.

financials

Rates and Unit Sales

Year-End September 30 FY2012 FY2011 FY2010

DISTRICT ENERGY

Demand rate (\$/kW/mo)	\$ 5.27	\$ 5.17	\$ 4.90
Energy rate (\$/MWh)	\$ 25.59	\$ 26.59	\$ 26.86
Fuel adjustment charge (\$/MWh)	(\$ 0.66)	(\$ 0.12)	\$ 0.00
Overall rate (\$/MMBtu, 1700 Util hrs)	\$ 18.20	\$ 18.45	\$ 18.00
Demand (kW) - average	177,871	176,902	183,061
Energy sales (MWh) - actual	261,698	336,443	301,671
Heating season degree days	5,813	7,684	7,053
Energy sales (MWh) - normalized	314,000	342,000	336,000

DISTRICT COOLING

Demand rate (\$/ton/mo)	\$ 26.69	\$ 26.30	\$ 25.66
Energy rate (\$/ton-hour)	\$ 0.087	\$ 0.085	\$ 0.079
Fuel adjustment charge (\$/ton-hour)	\$ 0.001	\$ 0.000	\$ 0.005
Overall rate (\$/ton-hour, 1200 Util hrs)	\$ 0.355	\$ 0.348	\$ 0.341
Demand (tons) - average	27,072	26,313	25,586
Energy sales (tons-hours) - actual	42,985,488	37,622,272	39,183,636
Cooling season degree days	1,185	1,025	982

Revenues and Expenses

Year-End September 30 FY2012 FY2011 FY2010

DISTRICT ENERGY

OPERATING REVENUES

Net demand revenues	\$ 11,313,296	\$ 11,013,846	\$ 10,814,046
Energy revenues	\$ 6,645,042	\$ 8,850,172	\$ 7,995,714
Other revenues	\$ 1,110,962	\$ 939,043	\$ 1,121,544
Total operating revenues	\$ 19,069,300	\$ 20,803,061	\$ 19,931,304

OPERATING EXPENSES

Fuel and energy	\$ 6,645,042	\$ 8,850,172	\$ 7,995,714
Non-fuel operating expenses	\$ 6,717,939	\$ 6,538,379	\$ 7,174,811
Total operating expenses	\$ 13,362,981	\$ 15,388,551	\$ 15,170,525
Net from operations	\$ 5,706,319	\$ 5,414,510	\$ 4,760,779

DISTRICT COOLING

OPERATING REVENUES

Net demand revenues	\$ 8,683,783	\$ 8,314,344	\$ 7,903,460
Energy revenues	\$ 3,614,520	\$ 3,455,239	\$ 3,264,393
Other revenues	\$ 1,167	\$ 0	\$ 51
Total operating revenues	\$ 12,299,470	\$ 11,769,583	\$ 11,167,904

OPERATING EXPENSES

Fuel and energy	\$ 3,614,520	\$ 3,455,239	\$ 3,264,393
Non-fuel operating expenses	\$ 4,074,286	\$ 3,694,858	\$ 3,347,320
Total operating expenses	\$ 7,688,806	\$ 7,150,097	\$ 6,611,713
Net from operations	\$ 4,610,664	\$ 4,619,486	\$ 4,556,191

We intensified our commitment to educational partnership and worked with the Science Museum of Minnesota, the Center for Renewable Energy and Education Development Project (CREED), and Will Steger, Mark Seeley, and Don Shelby to engage and educate people about energy and climate change.

Board of Directors

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

Mark Rancone, Vice Chairperson, District Energy
Vice President, Roseville Properties Management Co.

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

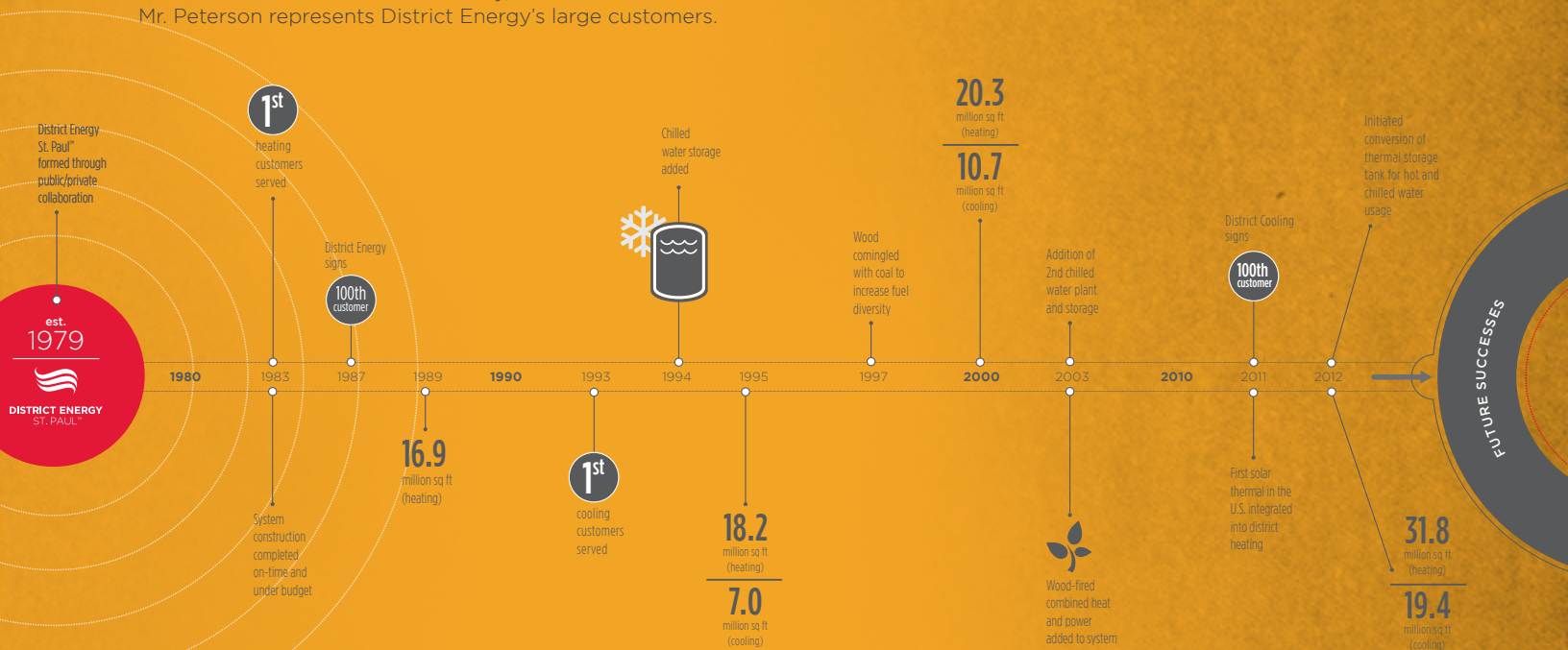
Donovan Schwichtenberg, Secretary/Treasurer
retired - President, St. Paul College
Dr. Schwichtenberg represents District Energy's medium customers.

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.



Bill Butth stepped off the District Energy board in 2012, completing 8 years of service as a representative of our medium customers. Bill's history with the company extends well beyond this latest term as a board member. Bill was the President of the Saint Paul Building Owners and Managers Association for more than 33 years. During that time, Bill played an essential role in partnership with George Latimer to connect with potential system customers and educate them about the transition to a hot water district energy system. Over the years, Bill has been a key advisor and a strong voice representing the interests of our customers. We are eternally grateful for his years of service and his leadership.

Pat Hamilton was elected to the District Energy board with his term beginning in September 2012. Pat is the Director of Global Change Initiatives at the Science Museum of Minnesota. He also is a Principal Investigator with the University of Minnesota's National Center for Earth-surface Dynamics and a Fellow of the University of Minnesota's Institute on the Environment. Pat has been producing energy and environmental exhibits and programs for the Museum for 28 years. Currently, Hamilton is working with his museum colleagues to make the institution a public case study of recent innovations in energy efficiency and renewable energy. Pat will bring a unique perspective to the board and we look forward to tapping his experiences in support of our system and our customers.

For more information on the Board of Directors >> www.districtenergy.com/inside-district-energy/board/