



*we pledge, we deliver*

**GENERATIONAL  
DIVERSITY**

**DISTRIBUTED  
GENERATION**

## Building the Foundation

Rochester Public Utilities  
Annual Report  
2003

**DEMAND  
FOR VALUE**

**INTENSIFIED  
STRATEGIC PLANNING**

**QUALITY**

**INFRASTRUCTURE  
PLANNING**

**PRICING**

**EMPLOYEE  
TRAINING**

**RENEWABLE  
GENERATION  
INVESTIGATION**

# Table of Contents

---



|  |    |
|--|----|
| From the Management                        | 3  |
| Organizational Planning and Change         | 4  |
| Renewable and Conservation Initiatives     | 5  |
| Serving Customers: Now and Into the Future | 8  |
| Financial Highlights                       | 10 |
| 2003 Financial Statements                  | 11 |
| Notes to Consolidated Financial Statements | 16 |
| Report of Independent Auditors             | 20 |
| Operating and Financial Statistics         | 21 |

# From the Management

Our business does not exist without the customer. While most businesses can say this, it's only recently that the utility industry has begun to respond to it. While deregulation may be on the back burner in Minnesota, we cannot overlook customer choice. For over 110 years, RPU has served Rochester. In 2003, we began **building the foundation** that will ensure RPU will be the area's service provider of choice for the next 110 years.

## Strategic Direction

In 2003, our vision became *"We will set the standard for service."* An internal initiative, ServOrg, introduced employees to the idea of customer intimacy, which is the strategic direction we will pursue. "The other side of the meter" is where we believe we can best serve our customer-owners by providing exceptional service for our core utility products and value-added offerings.

RPU management attended educational sessions on operational planning, embracing change, and teamwork. Employees also learned about key elements of becoming a great service organization. In other words, we began **building the foundation** to meet our vision: *"We will set the standard for service."*

## Business Updates

This year, our community continued the growth trend so evident the last several years. Rochester's construction valuation increased by 3 percent over 2002. Water utility sales rose 9.2 percent, while electric utility sales increased 0.26 percent – both due to a dry, cool summer. The number of customers for electricity and water increased by 2.5 percent and 3.45 percent, respectively. The electric peak demand for the year was set on August 18 at 261.9 megawatts (MW). This is also an all-time peak. A record water pumpage day was also set on

August 18, when 29.3 million gallons flowed through our system.

RPU's construction budget is closely tied with city expansion, which this year included the beginning of a major reconstruction project for U.S. Highway 52. From millions in financial commitments for relocating utilities to staff time consumed in planning and implementing relocations, this project will require significant resources from RPU through project completion in 2006.

RPU's bond rating from Fitch, Inc. was confirmed at A+ in December. Fitch noted RPU's financial strength and higher financial reserves would allow RPU to be a candidate for a higher rating. The Utility Board considered this feedback and took action to increase financial reserves, beginning with the 2004 budget year. Moody's Investors Service rates RPU at AA-, a rating maintained since our 2002 bond issue.

As we worked to find solutions to meet the electric demands of our growing community, and provide steam from the power plant to one of our largest customers, we began an open dialogue with concerned customers. More than 10 public meetings were held throughout the year to discuss generation, transmission, alternative energy, and conservation. Feedback from stakeholders indicated they were pleased with the open communications.

## Reliability

Electric reliability has been an ongoing concern in recent years, and it moved front and center with the Northeast Blackout on August 14, 2003. While this incident did not affect our region, we have been studying alternatives that will increase the reliability of our grid. We favored TRANSLink, LLC, as a regional solution and signed a letter of intent to participate in that organization. However, in November 2003, TRANSLink discontinued operations due to regulatory uncertainty. We will



continue investigating transmission organizations to serve our regional reliability needs.

## Utility Board News

In August 2003, board member Paul Bourgeois resigned when he accepted a position out-of-state. RPU thanks Mr. Bourgeois for his three years of service to the utility. His financial expertise was a significant asset during projects like the Cascade Creek Gas Turbine 2 planning and construction.

Susan Parker was named to fill the vacancy. Ms. Parker is Controller with Olmsted County Public Works, and her financial knowledge will be invaluable to utility administration and operations for the duration of her term.

## In Summary

In closing, we thank all employees for delivering high-quality and reliable utility services to our customers. Our improved safety record in 2003 signifies heightened employee awareness and ownership, which bodes well for our focus on service. We look forward to providing continued quality service in 2004, Rochester's sesquicentennial year.

Sincerely,

Larry J. Koshire  
General Manager

Richard L. Landwehr  
Utility Board President



# Organizational Planning and Change

We will set the standard for service. As our vision for 2003, this statement set in motion a year of planning, preparation, and training as we began building a foundation for becoming a top-notch service organization.

No, there were no problems with our way of doing business. We have offered customers good service in providing electricity and water for more than 110 years. Now, as customers demand more value, we're preparing to provide great service. We pledge, we deliver.

## Strategic Direction

When determining a strategic direction, companies usually focus on one of three areas: operational excellence, product leadership, or customer intimacy. As a municipal utility, we will continue to offer our core products, electricity and water, and maintain our excellent reliability of above 99.99 percent. Now, our primary focus will be external, and we will focus our efforts on customer intimacy, defined by our management teams as *"an attitude that seeks opportunities to address customer expectations and provide solutions."* Seeking out customers' needs will provide opportunities for building value and deepening our customer relationships.

Internal launches of our vision statement, training, and the ServOrg initiative have prepared employees to think and "do" outside of the traditional municipal utility mindset of hierarchical leadership and the "we say so" mentality. This begins our transformation from good to great.

Our management began 2003 with a commitment to team building, leadership, and change-readiness training. Staff was educated on the importance of strategic planning and the rigor of the process.

Moving down the path of customer intimacy involves intensified strategic planning. Now, every process, every plan, every question, must have the customer in mind:

- How will this affect the customer?
- Will the customer find this useful?

These are questions we will now ask ourselves.

Process review began in 2003 and will continue in 2004. Decisions made do not only affect the most apparent department, or the department making the decision, but other departments and, ultimately, our customers. A decision should be made based on its effect on external and internal customers – once again, "How will this decision affect the customer?" Emerging from departmental silos and relating utility activities across departments is a new challenge for utilities, one RPU has strongly committed to taking on.

Our customer services section, where employees are on the front lines with customers, in 2003 laid out and began planning several new customer-focused activities for 2004. Initiatives include investigating logistics and mechanics of taking their "show on the road," or bringing account services to remote locations via wireless PC. A local college might have students moving in on registration day. Great, we'll be there to sign them up for utility services. The senior center serves a large population – can we offer our services once a month by being on-site for questions and to accept payments? Ideas like these will propel us from good to great.

Also, as the diversity of our community increases, our customer service representatives must find ways to adapt and serve all customers better. Planning for use of a third-party translation service and alternative ways to read our billing statements occurred during 2003. Watch for exciting changes in 2004.



A new web site was launched in 2003 to make virtual visits to RPU more user-friendly. With a new look, better navigation, and more information, the web site is a great extension of the RPU brand.

# Renewable and Conservation Initiatives

**A**s a municipal utility, RPU has an obligation to provide quality utility services at a reasonable price. We have an obligation to serve the community, and as our customers' demand for electricity and water grow, we must supply these resources. We strive to do this in an economically responsible, environmentally friendly way. Conservation and renewable energy initiatives help all of us interact more responsibly with the environment.

## Conservation

Our conservation initiatives, of which two of the largest are the Conserve & Save incentive and education program and Partners load management, totaled approximately 8 million kWh in energy savings in 2003. The associated demand reduction was 6,000 kW. RPU budgets approximately \$1.2 million per year for conservation and renewable energy initiatives.

## CONSERVE & \$AVE

Conserve & Save  
totaled approximately 8 million kWh  
in energy savings during 2003.

Conserve & Save is a partnership of Austin Utilities (AU), Owatonna Public Utilities (OPU), and RPU. The three utilities collaborate on planning, share administrative and project delivery costs, and execute joint marketing and promotion plans. Through this partnership, all three cities benefit from a heightened awareness of energy conservation. Energy conservation participation has increased in the other cities as well: OPU experienced a

conservation participation increase of 45 percent, and AU realized an increase of 85 percent in 2003. Also, we are increasing awareness of energy conservation throughout southeastern Minnesota because our media markets reach outside our respective city limits.

Conserve & Save is an incentive and education program. The education portion includes activities like this year's lighting change-out at the local Ronald McDonald House, an Ugly Refrigerator Contest, our presence at trade shows and county fairs, meetings with trade allies, and presentations to local service clubs and community groups.

During Public Power Week in October, RPU teamed with Southern Minnesota Municipal Power Agency (SMMPA), the Environmental Protection Agency (EPA), the Department of Energy (DOE), the Midwest Energy Efficiency Alliance (MEEA), and GE Lighting to completely change-out all lighting in Rochester's Ronald McDonald House. In a two-day event, RPU, SMMPA, and GE changed out the lighting in the house, much to the delight of the Ronald McDonald House staff and guests who commented the light was so much better. The second day, a press conference involving Mayor Ardell Brede, our general manager Larry Koshire, and officials from the other participating agencies recognized the benefits of the change-out and highlighted the facility for the press.

The change-out of existing lights reduced bulb wattage by 10,000 and will result in an annual savings of \$2,450 for Ronald McDonald House. EPA has indicated they plan to use this activity as a template for 2004 Change a Light, Change the World campaigns around the country.

To the credit of the Conserve & Save program, RPU, AU, and OPU are receiving national recognition for our



RPU's lighting change-out at  
Ronald McDonald House will result  
in an annual savings of \$2,450.

work in the conservation arena. In December, the American Council for an Energy Efficient Economy (ACEEE) recognized our three utilities as having an "Exemplary Natural Gas Program." As you might know, RPU is not a gas utility, but the other two utilities offer this

*"Your service rep was very helpful... I know that the word 'service' is used very casually these days, but it's rare that a customer really feels they've been 'serviced with quality.' This person deserves applause from our [homeowners' association] board and unit owners."*



service. The award commended the collaboration of municipal utilities to promote conservation of natural gas.

### Renewable Energy Initiatives

The demand for electricity continues to rise with our wired world. As televisions and computers per home increase,

received with great success. Wind energy, fuel cells, and distributed generation were areas where RPU sought to bring more to the energy research arena in Rochester.

Minnesota is one of the top 10 windiest states, so it makes sense that this technology is taking off in our area. SMMPA, our wholesale power provider

---

By the end of 2003,  
775 customers had subscribed to RPU's  
wind power program, purchasing  
almost 3.5 million kWh annually.

---

and joint action agency, constructed two wind turbines near Fairmont, MN, another of its member cities.

The NEG-Micon, 950-megawatt (MW) units began sending power onto the grid in April. The turbines are projected to produce 5 million kilowatt-hours annually (enough energy to power at least 700 homes) for at least the next 25 years. SMMPA plans to continue site research in member communities, with the intention of owning and operating more turbines in the future.

With the commissioning of the new turbines, RPU revamped its three-year-old wind offering. One kilowatt-hour is now available for one additional penny per month. Customers can purchase any quantity of wind power, from 1 kWh to 100 to 1,000. Previously, wind power was offered at an additional 3.5 cents per kWh and was only available in 50-kWh blocks. Customers now have the ability to more closely tailor their level of investment in wind power to their interests and budget.

At the end of the year, 775 customers subscribed to our wind power program, purchasing 289,937 kWh per month. This totals almost 3.5 million kWh annually.

Taking our commitment to investigating wind ever further, a wind feasibility study was completed in Rochester this year. Began in May 2002, the study on the campus of Assisi Heights wrapped up in April of 2003. An anemometer, a device that collects data on wind speed and direction, was suspended on a temporary tower for one year. At the end of the study, which was done in collaboration with the Minnesota Department of Commerce, it was determined that Rochester site was not a feasible location to generate wind power at this time. As equipment improves and turbines become larger and require a lower wind speed to generate electricity, a site in Rochester may again be investigated.

Another exciting renewable research project kicked off in March – HESS, or Hybrid Energy System Study. This is a joint effort between University of Minnesota Rochester (UMR) and RPU to study a fuel cell application when tied to a residential heating and cooling system. The first phase of the project took place this year, and the research team consisting of representatives from both UMR and RPU learned about fuel cells and how they worked. A summary of Phase I was completed and documented in the report “Dynamic

---

Two wind turbines  
near Fairmont, MN,  
are projected to produce  
enough energy to power  
700 homes for the next 25 years!

---

new businesses open, and existing businesses expand, more electricity is needed to fuel our lives. With this, many customers are asking for cleaner, greener energy. In 2003, RPU participated in renewable energy research and improved our wind power offering. The retooled wind offering was



RPU file photo



Photo from Ballard Power Systems

Performance of the Nexa Fuel Cell Power Module.” A fuel cell was purchased for the project, and a graduate student from UMR worked with the lead researcher, a UMR professor, to create the test and compile data.

The goal of Phase II, which will begin in 2004 if approved, will be to connect a fuel cell with a geothermal heating and cooling system. In addition, Phase II will require the formation of a consortium to provide the means for others, such as fuel cell manufacturers, to participate. If Phase II is successful, Phase III will follow. Phase III entails giving the system a “brain” through the application of computerization. This is referred to as “fuzzy logic.”

Also, near the end of the year, we began another renewable research project – the study of photovoltaic technology. A Rochester residence was chosen as a pilot site in 2003, and planning and site study began. The project will continue into 2004.

## Community Events

Throughout the year we exhibit at local events to promote products and services and to maintain our community presence and rapport with customers. These include trade shows like the Rochester Area Builders Home Show, the Women’s Expo and the Olmsted County Fair.

Public Power Week, a national week of promoting municipal utilities sponsored by the American Public Power Association, is also a great time to educate our customers on the benefits of public power. This year, we celebrated Public Power Week with several events, including the Ronald McDonald House lighting change-out mentioned earlier and the first Energy Fair in Rochester.

On October 11, 2003, an estimated 500 people attended the Energy Fair hosted by RPU and UMR to showcase the latest in the energy technology world. More than 25 local and regional exhibitors educated customers on everything from geothermal heating and cooling

systems to a personal transportation system (SkyWeb 2000) to planting trees for energy conservation. Visitors could take in seminars on various topics, experience hands-on demonstrations, and enjoy lunch on us.

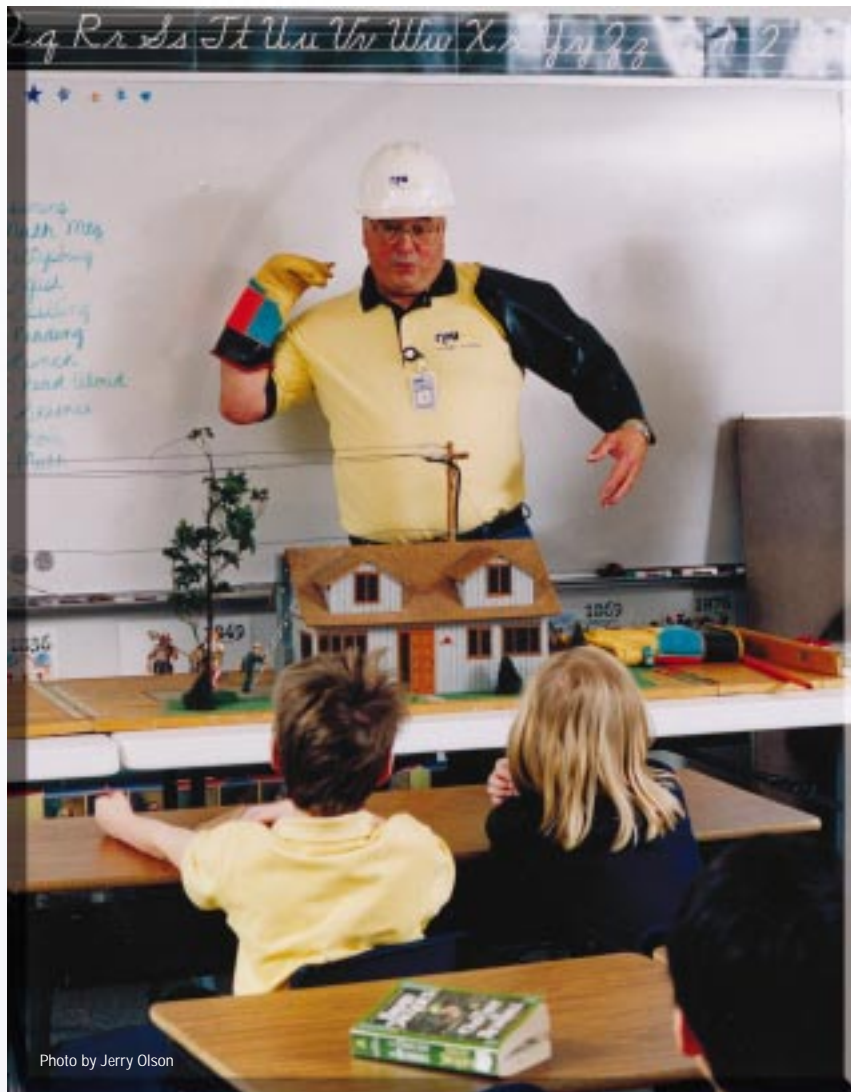


Photo by Jerry Olson

Every spring, RPU visits third-grade classrooms in Rochester to spread the message about electrical safety for indoor and outdoor activities. In 2003, we reached over 2,000 enthusiastic third-graders. Outreach efforts also include tours of electric and water utility facilities and conservation education for all ages.



# Serving Customers: Now and Into the Future

We are charged with the important tasks of keeping the lights on and the water running, and bringing both utility services to the new members of our constantly growing community. Being a municipal provider of vital services comes with additional responsibility – that of listening to and responding to our customer-owners, and of being fiscally and environmentally responsible in our methods of delivery.

## Steam Sales Project

The permitting of the steam sales project, which began in 1999 as a new way to serve one of our largest customers, continued through 2003. The concern that the project will require additional coal burning at our Silver Lake Power Plant (SLP) spurred local citizens to become involved in the comment periods at the local and state levels. In 2002, an Environmental Assessment Worksheet (EAW) was completed. After reviewing the assessment, the Minnesota Pollution Control Agency (MPCA) determined that additional study, an Environmental Impact Study (EIS), was not necessary.

During 2003, more discussion on the project surfaced. We responded by meeting with concerned customers and speaking to interested community groups. More than 10 public meetings were held throughout the year at various locations, including the public library and our power plant and service center.

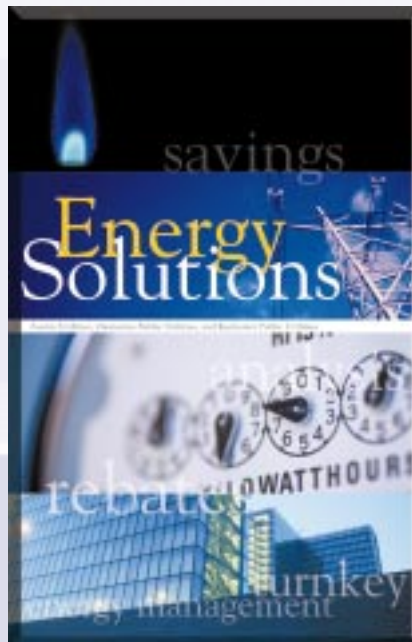
The RPU board, as a result of increased community discussion, directed RPU staff to study potential upgrades for the power plant. RPU commissioned R.W. Beck of Denver to conduct the study, which analyzed current and potential regulatory requirements and emissions control equipment options specific to

operation of SLP. The MPCA, in granting RPU an Air Quality Construction Permit, also requested the results be presented to its Citizens Board upon completion. RPU staff presented the study to both groups in late 2003 and was commended for the effort expended on the informational study.

This deeper look into upgrades for the plant served as a kick-off for a power-supply study, which was set to begin in early 2004. Eighteen months of additional study and planning will take place in 2004 and 2005 as we evaluate options for continuing to provide high-quality and reliable electric service to our community.

## Energy Solutions

Another way we are offering value to our customers is by providing turn-key energy consulting services through a venture called RPU Energy Solutions. Launched in 2000, RPU Energy Solutions has worked with industrial and commercial customers to find ways to save money through energy conservation.



## Operations Updates

Throughout 2003, RPU employees worked diligently to keep up with the increasing demand for electric and water services in Rochester. Building permits issued in the city ended 3 percent ahead of last year, at 4,137. The total value of these permits was \$306 million, a figure that earned fifth place on the city's books.

Keeping up with the rapid growth of Rochester over the last few years is a challenge for infrastructure planning. To enable us to better plan for expansion, the utility created an electric customer connection charge. This one-time charge of \$300 is paid by the builder of any new home in Rochester to recoup part of the cost of running service to that home.

No electric rate increases occurred in 2003, though an increase of one percent had been budgeted for the year. Mid-year, a review of cash flows revealed that a rate increase was not necessary. The water utility realized a rate increase of 4 percent.

The Rochester economy continued to perform better than the national economy in 2004 with strong employment figures. Even so, Celestica, one of the largest employers in Rochester, closed its doors in June of 2003. This cost the city \$500 million in production output, and 600 employees were laid off. However, the site was awarded tax-free status under the Minnesota JOBZ program, and a new tenant is expected early in 2004.

RPU sold over 1.173 billion kilowatt-hours (kWh) to 43,359 electric customers this past year. That equates to an increase of 0.26 percent in sales over 2002, and an increase of 2.5 percent in customers. The peak electric demand was set on August 18 at 261.9 megawatts (MW).



Water sales amounted to 6.24 million CCF (one hundred cubic feet), which is an increase of 9.2 percent from 2002. Water customers numbered 32,721 in 2003, a 3.45 percent increase over the previous year.

Peak water pumpage, also set on August 18, was 29.3 million gallons, which is 1.5 million gallons ahead of the previous peak day, set in July of 2001. Total pumping capacity in a 24-hour period is 31.4 million gallons.

August was the new record month, with 733,725,841 gallons pumped. Previous was 645,974,506 gallons which occurred in July of 2001. Year-end pumpage was 5,011,304,421 gallons. This was also a new annual record. Previous peak year (2001) was 4,789,401,579 gallons.

August 18, 2003, was the day RPU customers set two record peaks:

- electric = 261.9 megawatts
- water = 29.3 million gallons



## Roc52

The Highway 52 reconstruction project, also known as Roc 52, will help to meet our city's future transportation needs. The road construction project began in early 2003 and is expected last through 2006. In the end, 12 miles of Highway 52 through Rochester will be widened to three lanes from two, new interchanges and bridges will be added, and new sound walls will be erected in strategic places.

This project does not come without involvement of the local utility. The project's scope and impact on RPU's engineering staff was greater than anticipated. Its financial scope was not anticipated in our previous long-term financial projections. Transmission relocations cost RPU \$718,000 after state reimbursements. This included moving 7,100 circuit feet of overhead line, 8 steel poles, and 18 wood poles. Distribution relocations totaled \$1,625,300, none of which qualified for reimbursement. The relocations included 145,530 circuit feet of overhead line, 9,093 circuit feet of underground line, and 1,145 feet of underground duct bank. Water utility relocations occurred at a cost of \$414,202.

## Reliability and Security Efforts

Customers expect reliable electric service, and as our society becomes more and more wired, it is even more important that we, as an industry, prepare to serve the electric demand.

Late in 2002, RPU signed a letter of intent to participate in TRANSLink, LLC, a start-up company created to manage the transmission assets of electric utilities (investor-owned, cooperatives, and municipals). This was to result in better reliability as it related to transmission. Unfortunately, TRANSLink



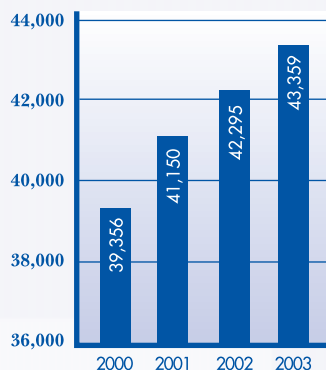
The total value of Rochester building permits was \$306 million, a figure that earned fifth place on the city's books.

shelved its plans in late 2003 as its governing board, composed of representatives from participating utilities, became concerned about regulatory and market uncertainty. RPU still believes the concept of a regional transmission organization is sound, and we will continue to investigate participating in another transmission venture when there is more regulatory clarity.

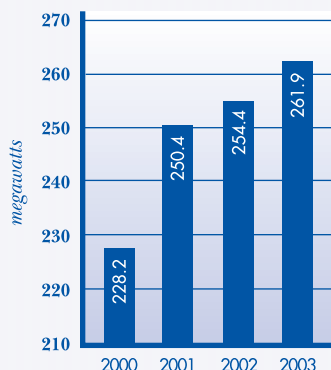
The August 14, 2003, Northeast Blackout raised concern about reliability across the country. While this blackout did not affect our region, it gave us pause to consider our resources and plans should an event like this happen in our region. The Silver Lake Power Plant and the Cascade Creek gas turbines would be local assets in the event of a blackout, as we would be able to start a part of our own generation as we waited to be connected onto the regional grid.

# 2003 Financial Highlights

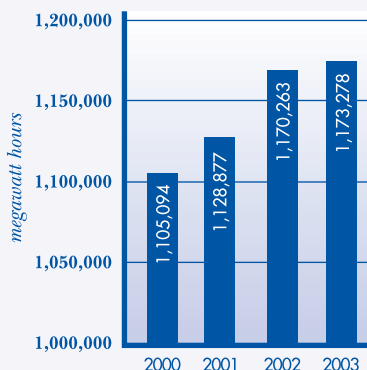
**Number of  
Electric Customers**



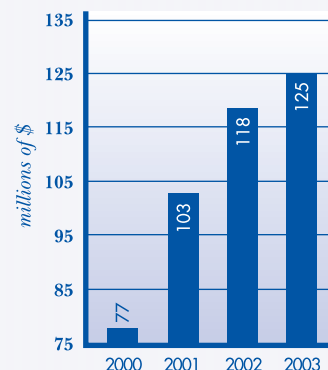
**Electric Peaks**



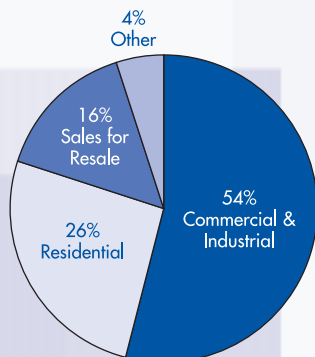
**Electric Sales**



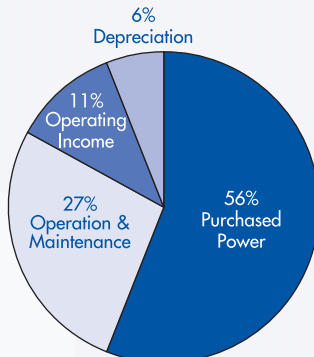
**Net Plant & Property  
Investment Electric Utility**



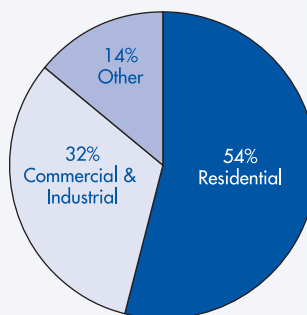
**Electric Operating Revenues**



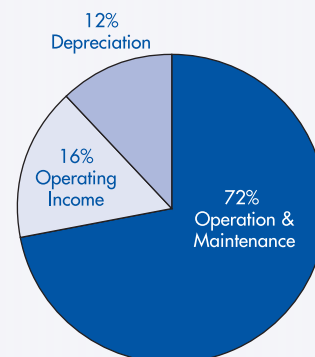
**Electric Operating Expenses**



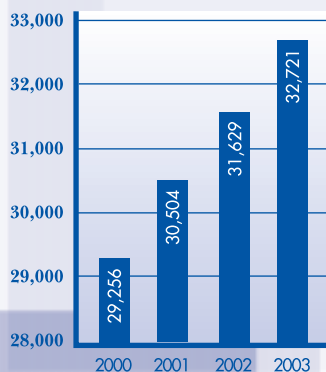
**Water Operating Revenues**



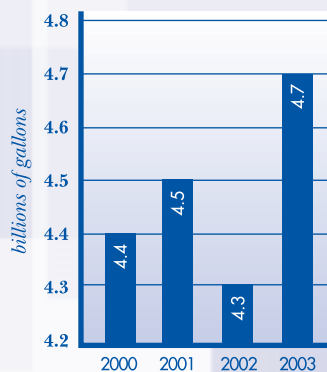
**Water Operating Expenses**



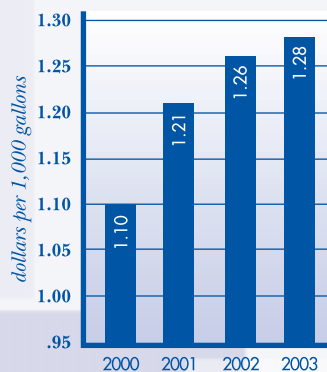
**Number of  
Water Customers**



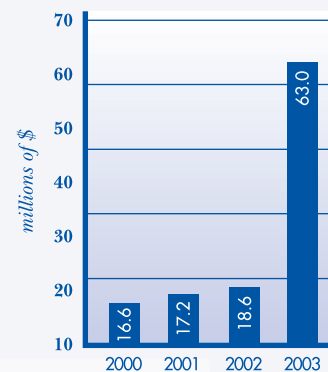
**Water Sales**



**Average Billing Rate  
per 1,000 gallons**



**Net Plant & Property  
Investment Water Utility**







# Building the Foundation

Rochester Public Utilities

Financial Statements

2003

# 2003 Financial Statements

## Consolidated Statements of Revenues, Expenses, and Changes in Net Assets

YEARS ENDED DECEMBER 31

|  | 2003          | 2002          |
|--|---------------|---------------|
| <b>Operating Revenues:</b>                           |               |               |
| Electric   | \$99,090,742  | \$90,633,880  |
| Water  | 6,368,057     | 5,707,107     |
| Total Operating Revenues                             | 105,458,799   | 96,340,987    |
| <b>Operating Expenses:</b>                           |               |               |
| Purchased Power                                      | 53,999,389    | 53,403,133    |
| Operations and Maintenance                           | 33,246,051    | 24,803,254    |
| Depreciation   | 6,192,313     | 4,782,095     |
| Total Operating Expenses                             | 93,437,753    | 82,988,482    |
| <b>Operating Income</b>                              | 12,021,046    | 13,352,505    |
| <b>Nonoperating Revenues (Expenses):</b>             |               |               |
| Investment Income                                    | 604,081       | 843,131       |
| Interest Expense                                     | (2,077,922)   | (1,183,146)   |
| Miscellaneous, Net                                   | 167,617       | (673,191)     |
| Total Nonoperating Revenues (Expenses)               | (1,306,224)   | (1,013,206)   |
| <b>Income Before Transfers/Capital Contributions</b> | 10,714,822    | 12,339,299    |
| Transfers Out  | (7,144,081)   | (6,998,633)   |
| Capital Contributions                                | 44,760,042    | 1,339,950     |
| <b>Change in Net Assets</b>                          | 48,330,783    | 6,680,616     |
| Net Assets, Beginning of Year                        | 118,753,565   | 112,072,949   |
| Net Assets, End of Year                              | \$167,084,348 | \$118,753,565 |

See Notes to Consolidated Financial Statements Found on Pages 16 - 19.



# 2003 Financial Statements

## Income by Segments of Business

| <b>2003</b>                                   | Electric     | Water        | Total         |
|---|--------------|--------------|---------------|
| Operating Revenues                            | \$99,090,742 | \$6,368,057  | \$105,458,799 |
| Operating Expenses                            | 88,078,566   | 5,359,187    | 93,437,753    |
| Operating Income                              | 11,012,176   | 1,008,870    | 12,021,046    |
| Nonoperating Income (Expense)                 | (1,358,531)  | 52,307       | (1,306,224)   |
| Income Before Transfers/Capital Contributions | 9,653,645    | 1,061,177    | 10,714,822    |
| Transfers Out                                 | (6,805,010)  | (339,071)    | (7,144,081)   |
| Capital Contributions                         | 1,200,193    | 43,559,849   | 44,760,042    |
| Change in Net Assets                          | \$4,048,828  | \$44,281,955 | \$48,330,783  |

| <b>2002</b>                                   | Electric     | Water       | Total        |
|---|--------------|-------------|--------------|
| Operating Revenues                            | \$90,633,880 | \$5,707,107 | \$96,340,987 |
| Operating Expenses                            | 78,725,261   | 4,263,221   | 82,988,482   |
| Operating Income                              | 11,908,619   | 1,443,886   | 13,352,505   |
| Nonoperating Income (Expense)                 | (1,094,290)  | 81,084      | (1,013,206)  |
| Income Before Transfers/Capital Contributions | 10,814,329   | 1,524,970   | 12,339,299   |
| Transfers Out                                 | (6,693,125)  | (305,508)   | (6,998,633)  |
| Capital Contributions                         | 1,339,950    |             | 1,339,950    |
| Change in Net Assets                          | \$5,461,154  | \$1,219,462 | \$6,680,616  |

See Notes to Consolidated Financial Statements Found on Pages 16 - 19.

# 2003 Financial Statements

## Consolidated Statements of Net Assets

DECEMBER 31

|  | 2003          | 2002          |
|--|---------------|---------------|
| <b>ASSETS:</b>                                       |               |               |
| <b>Current Assets:</b>                               |               |               |
| Cash and Cash Equivalents (Note 3)                   | \$13,965,031  | \$13,119,843  |
| Accounts Receivable and Accrued Utility Revenues     | 9,904,434     | 8,870,244     |
| Fossil Fuel Inventory                                | 2,672,762     | 1,417,664     |
| Materials and Supplies Inventory                     | 3,945,527     | 3,703,972     |
| Other Current Assets                                 | 108,402       | 219,660       |
| Total Current Assets                                 | 30,596,156    | 27,331,383    |
| <b>Non-Current Assets:</b>                           |               |               |
| <b>Restricted Cash and Cash Equivalents (Note 4)</b> |               |               |
| Cash and Cash Equivalents                            | 6,436,953     | 12,392,111    |
| Amounts Held in Escrow                               | 240,591       | 286,658       |
| Total Restricted Cash and Cash Equivalents           | 6,677,544     | 12,678,769    |
| <b>Deferred Charges</b>                              |               |               |
| Unamortized Bond Issuance Costs (Note 5)             | 541,607       | 583,763       |
| Other  | 167,180       | 90,750        |
| Total Deferred Charges                               | 708,787       | 674,513       |
| <b>Capital Assets</b>                                |               |               |
| Construction Work in Progress                        | 13,170,833    | 10,922,550    |
| Land and Land Rights                                 | 1,994,774     | 1,994,774     |
| Depreciable Assets, Net (Note 6)                     |               |               |
| Electric   | 112,505,697   | 108,288,138   |
| Water  | 60,267,682    | 16,577,742    |
| Net Capital Assets                                   | 187,938,986   | 137,783,204   |
| Total Non-Current Assets                             | 195,325,317   | 151,136,486   |
| Total Assets   | \$225,921,473 | \$178,467,869 |
| <b>LIABILITIES:</b>                                  |               |               |
| <b>Current Liabilities:</b>                          |               |               |
| Accounts Payable                                     | \$6,595,471   | \$6,498,773   |
| Due to Other Funds                                   | 1,675,345     | 1,344,889     |
| Accrued Compensated Absences                         | 1,794,143     | 1,732,647     |
| Customer Deposits                                    | 290,591       | 261,017       |
| Interest Payable                                     | 185,602       | 337,191       |
| Current Maturities of Long Term Debt (Note 5)        | 1,265,000     | 1,275,000     |
| Deferred Credits                                     | 364,776       | 247,387       |
| Total Current Liabilities                            | 12,170,928    | 11,696,904    |
| <b>Non-Current Liabilities:</b>                      |               |               |
| Accrued Compensated Absences                         | 824,302       | 819,400       |
| Accrued Claims                                       | 160,000       | 190,000       |
| Revenue Bonds Payable                                |               |               |
| (net of unamortized discount) (Note 5)               | 44,725,161    | 46,014,845    |
| Unearned Lease Revenues                              | 956,734       | 993,155       |
| Total Non-Current Liabilities                        | 46,666,197    | 48,017,400    |
| Commitments and Contingencies (Note 10)              |               |               |
| Total Liabilities                                    | \$58,837,125  | \$59,714,304  |
| <b>NET ASSETS:</b>                                   |               |               |
| Invested in Capital Assets, Net of Related Debt      | \$148,385,779 | \$102,885,471 |
| Restricted (Note 4)                                  | 240,591       | 286,658       |
| Unrestricted Net Assets                              | 18,457,978    | 15,581,436    |
| Total Net Assets                                     | \$167,084,348 | \$118,753,565 |

See Notes to Consolidated Financial Statements Found on Pages 16 - 19.



# 2003 Financial Statements

## Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31

|  | 2003                | 2002                |
|--|---------------------|---------------------|
| <b>Cash Flows From Operating Activities:</b>   |                     |                     |
| Cash Received from Customers   | \$101,658,435       | \$93,104,692        |
| Cash Paid to Suppliers and Employees   | (87,395,089)        | (76,364,373)        |
| Internal Activity — Payments From Other Funds  | 3,480,391           | 2,708,571           |
| Net Cash Provided By Operating Activities  | 17,743,737          | 19,448,890          |
| <b>Cash Flows From Noncapital Financing Activities:</b>                                  |                     |                     |
| Operating Transfers to Other Funds   | (7,152,168)         | (7,032,180)         |
| <b>Cash Flows From Capital and Related Financing Activities:</b>                         |                     |                     |
| Proceeds from Issuance of Revenue Bonds  |                     | 11,194,853          |
| Capital Contributions  | 1,200,193           | 1,339,950           |
| Additions to Utility Plant and Other Assets  | (12,790,306)        | (23,406,214)        |
| Service Territory Acquisition  | (1,170,977)         | (512,634)           |
| Payments on Bonds and Notes Payable Obligations  | (3,701,372)         | (2,578,835)         |
| Issuance Costs of Revenue Bonds  |                     | (129,737)           |
| Net Cash (Used In) Capital and Related Financing Activities                              | (16,462,462)        | (14,092,617)        |
| <b>Cash Flows From Investing Activities:</b>   |                     |                     |
| Interest Received  | 714,855             | 791,732             |
| Service Territory Escrow Payments  | (2,608)             | (256,121)           |
| Funds Released From Service Territory Escrow   | 48,676              | 794,660             |
| Net Cash Provided By Investing Activities  | 760,923             | 1,330,271           |
| Net (Decrease) in Cash and Cash Equivalents  | (5,109,970)         | (345,636)           |
| <b>Cash and Cash Equivalents, Beginning of Year</b>                                      | <b>25,511,954</b>   | <b>25,857,590</b>   |
| <b>Cash and Cash Equivalents, End of Year</b>  | <b>\$20,401,984</b> | <b>\$25,511,954</b> |
| <b>Classified As:</b>  |                     |                     |
| Current Assets   | \$13,965,031        | \$13,119,843        |
| Restricted Assets  | 6,436,953           | 12,392,111          |
| <b>Total Cash and Cash Equivalents, End of Year</b>                                      | <b>\$20,401,984</b> | <b>\$25,511,954</b> |
| <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>  |                     |                     |
| Operating Income   | \$12,021,046        | \$13,352,505        |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:  |                     |                     |
| Depreciation   | 6,192,313           | 4,782,095           |
| Other  | 431,947             | 268,915             |
| (Increase) Decrease In:  |                     |                     |
| Accounts Receivable and Accrued Utility Revenues   | (1,084,190)         | 703,482             |
| Inventories  | (1,496,653)         | 980,476             |
| Prepaid and Other Current Assets   | 30,470              | (34,554)            |
| Increase (Decrease) In:  |                     |                     |
| Accrued Liabilities and Accounts Payable   | 1,538,262           | 136,151             |
| Customer Deposits  | 29,574              | (9,116)             |
| Unearned Lease Revenues  | (36,421)            | (36,420)            |
| Other  | 117,389             | (694,644)           |
| Net Cash Provided by Operating Activities  | \$17,743,737        | \$19,448,890        |
| <b>Non-Cash Capital and Related Financing Activities:</b>                                |                     |                     |
| Additions to Utility Plant and Other Assets Contributed by the City's Governmental Funds | \$41,528,675        |                     |
| Additions to Utility Plant and Other Assets Contributed by Developers                    | \$2,031,174         |                     |

See Notes to Consolidated Financial Statements Found on Pages 16 - 19.

### NOTE 1: **Organization and Summary of Significant Accounting Policies**

#### ***Organization and Accounting Method***

Rochester Public Utilities ("Utility") is a municipal utility. The Electric Utility is engaged in the generation, transmission, and distribution of electric power and energy, and related activities. The Water Utility is engaged in the supply, purification, and distribution of water, and related activities. The equity of the Utility is vested in the City of Rochester, Minnesota. The Utility is comprised of two proprietary funds, the Electric and the Water Enterprise Funds of the City of Rochester, Minnesota. Activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. The Utility prepares its fund-basis financial statements as a business-type activity in conformity with accounting practices prescribed for regulated enterprises by the applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Utility has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, to the extent they do not conflict with or contradict GASB pronouncements. Interfund transactions are not eliminated for purposes of the consolidated financial statements.

#### ***Revenues***

Meters are read through a series of monthly cycles. Accounts are billed based on a combination of fixed charges and charges for actual usage. Utility tariffs for electric service include a power supply adjustment under which electric rates charged to customers are adjusted to reflect changes in power supply costs. Other activities are billed according to contractual arrangements and fees, or fees for services provided. Utility revenues are recognized on the accrual basis of accounting and include estimated amounts for service rendered but not billed.

#### ***Accounts Receivable***

The Utility provides an allowance for losses on receivables, as needed, for accounts considered uncollectible.

#### ***Property, Depreciation and Amortization***

Electric and water property is recorded at original cost. Additions to utility plant and significant replacements are recorded at cost. Cost includes components of labor, materials and overhead. Depreciation expense is

recorded using the straight-line method over the expected useful life of the property, which ranges from five years to seventy-five years. Purchased service territory rights are amortized over a forty-year period on a straight-line basis.

#### ***Contributions in Lieu of Taxes***

Contributions in Lieu of Taxes are paid by the Utility to the General Fund of the City of Rochester based upon the monthly commodity sales billed by the electric and water utilities, and are reported as Transfers Out in the Statement of Revenues, Expenses and Changes in Net Assets.

#### ***Inventories***

Inventories consist of materials, supplies, and fossil fuels used in Utility operations. Materials and supplies inventory is valued at a moving average cost or market. Fossil fuel inventory is valued at cost, using the last-in, first-out method.

#### ***Compensated Absence Benefits***

Vacation pay, which is payable upon termination, is accrued as it is earned by employees.

The Utility's sick leave liability is estimated based on the Utility's past experience of making termination payments for sick leave. Employees are compensated upon termination for one-third of their unused sick leave, after meeting certain qualifications.

#### ***Amortization of Bond Issuance Costs and Bond Discount***

Bond issuance costs, bond discount and bond premium are amortized over the terms of the related bond issues using the interest method.

#### ***Taxes***

In accordance with certain provisions of the United States Internal Revenue Code and related federal and state governing laws and regulations, the Utility is exempt from federal and state income taxes, and local property taxes.

#### ***Use of Estimates***

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from the estimates.

---

***Reclassifications***

Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 presentation.

***Concentration of Credit Risk***

Financial instruments which expose the Utility to a concentration of credit risk consist primarily of cash equivalents and accounts receivable.

Cash equivalents are primarily comprised of the Utility's equity in the City of Rochester cash and investment pool. Credit risk factors associated with the cash and investment pool are disclosed in Note 3.

The Utility's accounts receivable are generally due from a large number of residential and business retail customers who are concentrated geographically in or near the City of Rochester.

**NOTE 2: Revenues**

Revenue, consisting primarily of billings to customers for Utility services, includes accrued Utility revenue amounts of \$3,160,131 and \$3,164,507 for the years ended December 31, 2003 and 2002, respectively.

Sales to the Utility's single largest customer were \$9,704,156 and \$9,005,637 in 2003 and 2002, respectively. During the year ended December 31, 2003, no other customer accounted for more than 10% of operating revenues. Sales to other funds of the City of Rochester were \$2,855,107 and \$2,883,406 for the years ended December 31, 2003 and 2002, respectively.

**NOTE 3: Cash and Cash Equivalents**

The Utility considers all temporary cash investments, including the Utility's equity in the City of Rochester investment pool, to be cash and cash equivalents. Generally, cash equivalents are highly liquid investments. The majority of the Utility's cash and cash equivalents are held in the City of Rochester cash and investment pool.

All deposits are insured or collateralized by securities held by the City of Rochester or its agents in the City's name.

The Utility's equity in the City of Rochester cash and investment pool is based on actual cash receipts and disbursements and a monthly allocation of investment earnings on a pro-rata basis.

Investments held in the investment pool are disclosed in the notes to the City of Rochester's basic financial statements included in the City's 2003 Comprehensive Annual Financial Statement by credit risk category which gives an indication of the level of credit risk assumed by the City of Rochester.

**NOTE 4: Restricted Assets*****Restricted Cash and Cash Equivalents***

In 2002 the electric Utility issued revenue bonds to fund improvements of the distribution system and in 2000 the electric Utility issued revenue bonds to fund the construction of a new gas turbine generator and improvements to the electric Utility's transmission and distribution system. Provisions of the revenue bonds require that the electric Utility fund a debt service account in an amount equal to the following year's bond principal and interest payments at least by the date the debt service payments are due each year. In addition to the debt service account, bond provisions require that \$3,517,468 of the bond proceeds be deposited in a reserve account to be used to pay bond principal and interest payments if funds in the debt service account are insufficient.

Under the terms of the revenue bonds, the bond proceeds, net of accrued interest, bond discount, and the reserve requirement, were deposited into a Construction Account to pay all construction-related costs. Any funds remaining after the payment of these costs must be transferred to the debt service account.

Restricted Cash and Cash Equivalents are summarized as follows:

|                      | 2003                | 2002                |
|----------------------|---------------------|---------------------|
| Reserve Account      | \$ 3,517,468        | \$ 3,517,468        |
| Construction Account | 2,919,485           | 8,747,495           |
| Debt Service Account |                     | 127,148             |
| Total                | <u>\$ 6,436,953</u> | <u>\$12,392,111</u> |

***Restricted Amounts Held in Escrow***

In accordance with a territorial rights agreement with People's Cooperative Services, the Utility deposits funds in an escrow account managed by a fiscal agent upon annexation of areas in service territories assigned to People's Cooperative Services. Upon agreement of compensation for the transfer of the service territory

rights to the Utility, the funds in escrow are returned to the Utility. The service territory escrow fund totaled \$240,591 and \$286,658 at December 31, 2003 and 2002 respectively.

#### NOTE 5: Long-Term Debt

At December 31, 2003 and 2002, long-term debt consisted of the following:

|   | 2003          | 2002          |
|---|---------------|---------------|
| Revenue Bonds, Series 2002A<br>3.00% - 4.50%, due December 1,<br>2003 to 2017                           | \$ 10,830,000 | \$ 11,275,000 |
| Revenue Bonds, Series 2000A,<br>4.75% - 5.25%, due December 1,<br>2001 to 2030                          | 35,485,000    | 36,115,000    |
| Less: Unamortized Discount  | 434,150       | 446,139       |
| Plus: Unamortized Premium   | 109,311       | 145,984       |
| Note Payable, due in annual<br>installments of \$200,000 plus interest<br>at 5.56% through July 6, 2003 |               | 200,000       |
| Less: Current Maturities  | 1,265,000     | 1,275,000     |
| Total   | \$ 44,725,161 | \$ 46,014,845 |

The revenue bonds are secured by all funds and revenues of the Utility derived from the ownership and operation of its electric Utility system. The bond issuance costs, bond discount and bond premium are amortized over the terms of the bond issues.

The annual requirements to amortize all debt outstanding as of December 31, 2003, including interest payments of \$34,702,841 are as follows:

|            |               |
|------------|---------------|
| 2004       | \$ 3,492,219  |
| 2005       | 3,487,719     |
| 2006       | 3,491,344     |
| 2007       | 3,487,706     |
| 2008       | 3,495,393     |
| Thereafter | 63,563,460    |
| Total      | \$ 81,017,841 |

#### NOTE 6: Capital Assets

Major classes of depreciable assets and total accumulated depreciation as of December 31, 2003 and 2002 are as follows:

|  | 2003           | 2002           |
|--|----------------|----------------|
| Intangible Plant Assets                    | \$ 6,758,947   | \$ 5,596,560   |
| Buildings, Structures,<br>and Improvements | 26,997,433     | 21,799,404     |
| Installations, Equipment, & Fixtures       | 229,785,438    | 175,693,762    |
| Total Depreciable Assets                   | 263,541,818    | 203,089,726    |
| Less: Accumulated Depreciation             | 90,768,439     | 78,223,846     |
| Net Depreciable Assets                     | \$ 172,773,379 | \$ 124,865,880 |

In 2003 capital assets totaling \$41,528,675 were contributed to the Utility by the City of Rochester, and \$3,231,367 were contributed to the Utility by others.

#### NOTE 7: Southern Minnesota Municipal Power Agency

The Utility is a voting member of the Southern Minnesota Municipal Power Agency (SMMPA). The Utility has entered into a power purchase contract with SMMPA, whereby SMMPA will provide all Utility power requirements up to 216 megawatts, the contract rate of delivery. This contract expires in the year 2030. In 1999, the Utility and SMMPA agreed to a contract rate of delivery (CROD) that began in 2000. The CROD caps the amount of power SMMPA must supply to the Utility under the power purchase contract. The Utility is responsible for acquiring its power needs above the CROD. The Utility purchased 1,190,599,757 and 1,178,592,804 kilowatt hours totaling \$54,923,316 and \$54,405,121 from SMMPA during the years ended December 31, 2003 and 2002, respectively.

The Utility was reimbursed \$2,050,584 and \$2,101,039 for the years ended December 31, 2003 and 2002 respectively, for its share of previous SMMPA charges. These reimbursed charges are reported as offsets to purchased power costs.

The Utility leases a portion of its electrical transmission system, known as the North Loop, to SMMPA under a non-cancelable operating lease through the year 2030. The Utility is responsible for all operating and maintenance costs. The Utility received a lump sum payment of \$1,500,000 in 1989 and lease revenues are being recognized ratably over the lease term.



---

**NOTE 8: Pension Plans**

The Utility participates in a statewide retirement plan administered by the Public Employees Retirement Association (PERA) of Minnesota. PERA administers the Public Employees Retirement Fund (PERF) which is a cost sharing, multiple employer retirement plan. PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits and annual contributions are established by State statute. Total required contributions made during the year ended December 31, 2003 were \$1,247,911 of which \$650,517 was made by the Utility and \$597,394 was made by the Utility's employees.

PERA does not make separate measurements of assets and pension benefit obligations for individual employers participating in the plan. PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained by writing to PERA, 60 Empire Dr. # 200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

The Utility had maintained an unqualified supplemental pension plan. The plan was unfunded and was discontinued in 1968. Funds have been deposited with a plan administrator to fund the estimated benefits due under the plan. The pension reserve deposit as of December 31, 2003 and 2002 was \$121,510 and \$135,812, respectively. Payments under the plan for 2003 and 2002 were \$17,855 and \$19,520, respectively.

**NOTE 9: Legal Matters**

The Utility continues to pursue the acquisition of certain electric service rights from People's Cooperative Services, a rural Utility system. At times this involves proceedings before the Minnesota Public Utilities Commission and the Minnesota courts, and negotiation of various settlement agreements with People's Cooperative Services.

**NOTE 10: Commitments and Contingencies*****Risk Management Program***

The City of Rochester has established a self-insurance program for group health coverage and workers' compensation. Rochester Public Utilities participates in this self-insurance program. The group health program

is limited to losses of \$225,000 per claim with a variable annual aggregate, and the workers' compensation coverage is limited to \$720,000 per occurrence, both through the use of stop-loss policies. The City recognizes a liability on individual claims when a loss is probable and the amount can be reasonably estimated. In addition, the City recognizes an estimated liability on unreported claims that are incurred but not yet reported. The Utility recognized an estimated liability for workers' compensation claims of \$51,000 and \$55,000 at December 31, 2003 and 2002, respectively. No actuarial studies have been performed by independent actuaries.

***Power Sales Agreement***

The Utility has entered into an agreement with the Minnesota Municipal Power Agency (MMPA) to sell a maximum 100 megawatts of power annually from its Silver Lake Plant to MMPA at a fixed rate. Under the terms of the agreement, the Utility is paid a fixed fee for providing the availability of generating capacity and is reimbursed for the fuel-related costs of generating power.

Activity under this agreement for the years ended December 31, 2003 and 2002 was as follows:

|                             | 2003         | 2002         |
|-----------------------------|--------------|--------------|
| kWh provided                | 338,148,663  | 64,537,000   |
| Payments for availability   | \$ 4,599,360 | \$ 4,509,660 |
| Reimbursed generation costs | \$ 9,828,970 | \$ 1,902,273 |

***Service Territory Settlements***

In connection with the acquisitions of certain electric service rights from People's Cooperative Services (PCS), the Utility is required to make payments to PCS based upon the amount of electricity sold in specific territories over a ten-year term. The payment varies by each settlement agreement and ranges from 5.7 mills (tenths of a cent) per kWh to 14.5 mills per kWh. These commitments expire over periods from 2004 to 2012. Costs are recognized under these agreements as service is provided.

## Report of Independent Auditors

---

*To the Public Utility Board  
City of Rochester, Minnesota*

We have audited the consolidated statements of net assets of Rochester Public Utilities as of December 31, 2003 and 2002 and the related consolidated statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Rochester Public Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed more fully in Note 1, the consolidated financial statements present only the Electric and Water Funds and are not intended to present fairly the financial position of the City of Rochester and the results of its operations and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the fund-basis financial statements referred to above present fairly, in all material respects, the financial position of Rochester Public Utilities as of December 31, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Smith, Schafer and Associates, Ltd.*

*Smith, Schafer and Associates, Ltd.*

*Certified Public Accountants*

*February 20, 2004*

*Rochester, Minnesota*

## Operating and Financial Statistics (unaudited)

### ELECTRIC

|                            | <u>2003</u>   | <u>2002</u>   | <u>2001</u>   | <u>2000</u>   | <u>1999</u>   | <u>1994</u>  |
|----------------------------|---------------|---------------|---------------|---------------|---------------|--------------|
| <b>Retail Customers:</b>   |               |               |               |               |               |              |
| Residential                | 39,244        | 38,259        | 37,196        | 35,575        | 34,575        | 31,042       |
| General Service            | 4,109         | 4,030         | 3,948         | 3,775         | 3,680         | 3,263        |
| Industrial / Commercial    | 2             | 2             | 2             | 2             | 2             | 18           |
| Other                      | 4             | 4             | 4             | 4             | 4             | 4            |
| Total Retail Customers     | 43,359        | 42,295        | 41,150        | 39,356        | 38,261        | 34,327       |
| <b>Retail Sales: (kWh)</b> |               |               |               |               |               |              |
| Residential                | 304,653,325   | 302,755,054   | 281,380,914   | 266,869,075   | 262,200,110   | 208,291,909  |
| General Service            | 601,393,595   | 608,230,284   | 588,722,985   | 564,982,838   | 530,641,265   | 301,444,649  |
| Industrial / Commercial    | 250,347,096   | 243,121,084   | 242,412,000   | 245,259,867   | 233,083,266   | 382,766,941  |
| Other                      | 16,883,613    | 16,156,452    | 16,361,294    | 15,912,286    | 15,557,764    | 12,721,530   |
| Total Retail Sales (kWh)   | 1,173,277,629 | 1,170,262,874 | 1,128,877,193 | 1,093,024,066 | 1,041,482,405 | 905,225,029  |
| <b>Retail Revenue:</b>     |               |               |               |               |               |              |
| Residential                | \$25,876,051  | \$25,569,567  | \$23,182,844  | \$22,143,004  | \$20,532,160  | \$17,850,548 |
| General Service            | 40,375,839    | 40,155,746    | 38,046,675    | 36,830,277    | 33,240,749    | 23,558,867   |
| Industrial / Commercial    | 13,281,822    | 13,093,886    | 12,904,764    | 12,932,888    | 11,961,707    | 23,767,374   |
| Other                      | 1,722,054     | 1,650,037     | 1,604,468     | 1,580,620     | 1,541,165     | 1,342,043    |
| Total Retail Revenue       | \$81,255,766  | \$80,469,236  | \$75,738,751  | \$73,486,789  | \$67,275,781  | \$66,518,832 |
| Annual Peak (Megawatts)    | 261.9         | 254.4         | 250.4         | 228.2         | 230.2         | 174.4        |
| Total kWh Generated        | 361,726,670   | 144,260,682   | 300,149,000   | 314,358,000   | 222,840,400   | 206,337,300  |
| Total kWh Purchased        | 1,194,543,798 | 1,179,943,696 | 1,155,555,944 | 1,123,571,924 | 1,055,321,078 | 917,971,443  |
| Year End Cash Balance      | \$18,652,198  | \$23,532,042  | \$24,455,887  | \$45,857,123  | \$11,845,061  | \$8,313,456  |

### WATER

|                            | <u>2003</u>   | <u>2002</u>   | <u>2001</u>   | <u>2000</u>   | <u>1999</u>   | <u>1994</u>   |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Retail Customers:</b>   |               |               |               |               |               |               |
| Residential                | 29,663        | 28,684        | 27,589        | 26,454        | 25,573        | 22,543        |
| Industrial / Commercial    | 3,058         | 2,945         | 2,915         | 2,802         | 2,712         | 2,588         |
| Total Retail Customers     | 32,721        | 31,629        | 30,504        | 29,256        | 28,285        | 25,131        |
| <b>Retail Sales: (ccf)</b> |               |               |               |               |               |               |
| Residential                | 3,314,437     | 2,829,508     | 2,853,453     | 2,709,202     | 2,544,315     | 2,330,585     |
| Industrial / Commercial    | 2,922,239     | 2,880,907     | 3,111,917     | 3,101,765     | 3,348,606     | 2,814,902     |
| Total Retail Sales (ccf)   | 6,236,676     | 5,710,415     | 5,965,370     | 5,810,967     | 5,892,921     | 5,145,487     |
| <b>Retail Revenue:</b>     |               |               |               |               |               |               |
| Residential                | \$3,423,496   | \$3,003,346   | \$2,959,844   | \$2,598,930   | \$2,290,453   | \$2,019,779   |
| Industrial / Commercial    | 2,141,201     | 2,049,770     | 2,164,850     | 1,965,207     | 1,930,589     | 1,593,794     |
| Public Fire Protection     | 401,055       | 324,105       | 291,665       | 248,790       | 239,933       | 205,934       |
| Total Retail Revenue       | \$5,965,752   | \$5,377,221   | \$5,416,359   | \$4,812,927   | \$4,460,975   | \$3,819,507   |
| Total Pumped (gallons)     | 5,011,304,421 | 4,560,177,918 | 4,789,401,579 | 4,605,549,252 | 4,580,381,474 | 3,945,154,569 |
| Year End Cash Balance      | \$1,990,376   | \$2,266,570   | \$2,226,901   | \$1,359,954   | \$1,539,357   | \$1,709,530   |

## General Information

---

### ROCHESTER PUBLIC UTILITIES MANAGEMENT

General Manager Larry Koshire

Director, Operations Walt Lorber

Director, Administration Curt Kraft

### UTILITY BOARD

Board President Richard Landwehr, Director of Business Development, Weis Builders, Inc.

Board Member Mark Utz, Attorney, Wendland & Utz, Ltd.

Board Member John (Jack) Jibben, Vice Chair of Project Coordination and Campus Planning, Mayo Clinic

Board Member Paul Bourgeois, Chief Financial Officer, Rochester Independent School District #535 (served through August 2003)

Board Member Susan Parker, Controller, Olmsted County Public Works (began service November 2003)

Board Member and City Council Liaison John Hunziker, Executive Director, Olmsted County History Center

### HEADQUARTERS

Rochester Public Utilities

4000 East River Road NE

Rochester, MN 55906-2813

(800) 778-3421

(507) 280-1500

[www.rpu.org](http://www.rpu.org)







# General Information

---

## ROCHESTER PUBLIC UTILITIES MANAGEMENT

General Manager – Larry Koshire

Director, Operations – Walt Lorber

Director, Administration – Curt Kraft

## UTILITY BOARD

Board President – Richard Landwehr, Director of Business Development, Weis Builders, Inc.

Board Member – Mark Utz, Attorney, Wendland & Utz, Ltd.

Board Member – John (Jack) Jibben, Vice Chair of Project Coordination and Campus Planning, Mayo Clinic

Board Member – Paul Bourgeois, Chief Financial Officer, Rochester Independent School District #535 (served through August 2003)

Board Member – Susan Parker, Controller, Olmsted County Public Works (began service November 2003)

Board Member and City Council Liaison – John Hunziker, Executive Director, Olmsted County History Center

## ADVISORS AND CONSULTANTS

### Independent Auditors

Smith, Schafer and Associates, Ltd.

### Bond Counsel

Briggs & Morgan

### Financial Advisors

Springsted Public Finance Advisors

## HEADQUARTERS

Rochester Public Utilities

4000 East River Road NE

Rochester, Minnesota 55906-2813

(800) 778-3421

[www.rpu.org](http://www.rpu.org)

### Designer

Nehlsen Communications

### Project Manager & Copy Editor

Julie Moenck

### Financial Section Coordinator

Mary Borgschatz

### Cover Photo Credits

DISTRIBUTED GENERATION: Ballard Power Systems

RENEWABLE GENERATION INVESTIGATION: RPU File Photo

