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Project Authorization Procedure

Overview

All projects that involve a request for Company financial resources must be authorized. This document is procedure related to the [Project Authorization Policy](#) and identifies specific approval level thresholds, requirements, and guidelines concerning the authorization process. This procedure will be updated from time to time to reflect changes in the Company organization and business practices.

All projects involving capital expenditures and/or property retirements or any one-time project with total expenditures of \$500,000 or greater for utility projects or \$1,000,000 or greater for non-utility projects must be authorized according to the guidelines contained in this procedure including submittal of a [Project Authorization Request Form](#). It should be completed and then printed so that a paper copy is available for the appropriate approval signatures and can be attached to other project documentation as required.

Though not all projects require submittal of a [Project Authorization Request Form](#) as defined and outlined in this procedure, business units or departments are encouraged to utilize the form for all projects for internal documentation purposes. For assistance, contact your business unit or department budget coordinator.

Electric and Gas Distribution Projects

Certain electric and gas distribution projects administered by the distribution business unit are grouped and planned as packages. These include electric distribution projects in the categories of new services, system maintenance, system improvement, and facility relocation; and gas distribution projects in the categories of new and replacement mains and services. Individual projects within these categories do not require a Capital/Expense Advisory and do not require completion of a [Project Authorization Request Form](#). These categories each have order group numbers to roll up individual projects for planning and control purposes.

Initial approval for specific work to be done in these areas, or a specific dollar amount allocated for such work, is received at work plan meetings which are held by the distribution business unit on a regular basis. Their approval guidelines will be reviewed by the applicable [Senior Project Team](#) from time to time. In addition, the aggregate budget and actual spending for projects in these categories will be reviewed by the applicable [Senior Project Team](#) periodically, and they may request a review of specific projects within these major categories.

All other distribution projects, such as distribution substation construction, are subject to the project authorization approval process.

Multi-phase Projects

Whenever possible, work related to a specific goal, or work related to a specific electric distribution line, substation, gas distribution main, gas transmission main, information technology (IT), or work

related to an interdependent, geographically proximate group of electric lines or gas mains should be considered as one project with one approval.

Projects requiring probable and significant scope revision and probable significant cost change, however, can be broken into phases. These would include projects in which future work steps are highly dependent upon what is found during preceding work steps. For these types of projects, approval could be requested for phase 1 (discovery and design) and an estimate could be provided for phase 2 (development and implementation). Both phases would be considered part of the overall project cost.

There are other exceptions described below that might justify breaking a project into multiple phases.

1. For road projects where coordination with the Department of Transportation prevents completion of the project as one self-contained set of work activities without prolonged breaks in those activities; and
2. For electric and gas distribution projects, project managers may bring parts of a system that appear contiguous to the applicable Senior Project Team for approval in order to effectively prioritize the segmentation of the project based on performance or structural integrity issues. For example, on a 20 mile electric line, the Major Projects Group might need to replace 5 miles as soon as possible to resolve performance issues and prioritize the remaining 15 miles lower on their project list.

Project Authorization Process

The approval process begins when a business unit/department requests that work be performed. The Project Manager of the responsible business unit or department should review the need and ensure the completion of several items as required in a timely fashion so that approval is obtained well in advance of project start-up.

Capital/Expense Advisory

The Project Manager should submit a Capital/Expense Advisory to FI-Property Accounting for any project with a capital component (such as addition as, retirements, salvage, or removal), regardless of cost. A Capital/Expense Advisory should also be sought if it is unclear whether a project is capital or expense, to ensure the project costs are treated properly. An advisory should be submitted using the Capital Projects Scorecard application on the intranet. Preliminary consultations with Property Accounting are suggested.

Work Breakdown Structure (WBS) Elements

The Project Manager should work with the business unit's budget coordinator to determine the proper WBS elements to account for the project. A project might consist of one or many WBS elements.

Regulatory Approvals

The Project Manager is responsible for initiating reviews with the State Regulatory Affairs (SRA) Department and the Environmental Department for any project that may require regulatory actions. The following section, "Guidelines for Regulatory Commission Approval" provide more detail. Generally, there are no regulatory approvals required for non-utility projects. The only significant exception would be affiliated interest projects, particularly when any utility provides or receives services to or from a non-utility, which may include employees working on the project, or providing or receiving other resources such as asset transfers.

Any projects for leased facilities from a non-utility affiliate of a utility that meet the qualifications requiring state commission approval will also need state commission approval (e.g. PWGS or OCXP). If an electric utility is involved, federal approvals may also be required. If WEC Business Support (WBS) provides or receives services to or from the non-utility, those services are likely, but not

necessarily, allowed by existing agreements. The State Regulatory Affairs Department should review these projects to determine the need for state regulatory commission(s) approval.

Financial Analysis

Financial analysis is the responsibility of the Business Unit or the Corporate Center representative depending on whose budget the project would impact. See "Guidelines for Financial Analysis" section for more detail.

Internal Approval

The Project Manager must ensure that the appropriate internal level of project approval is received based on the thresholds indicated in the following table. The project timeline should include adequate time to prepare the documentation required for final approval before work commences on the project. Under emergency conditions this may not be possible. However, approvals for unforeseen emergency projects must be obtained as soon as possible after the start of work.

Upon receipt of the final required approval, the original [Project Authorization Request Form](#) and Capital/Expense Advisory should be forwarded to FI-Property Accounting as required based on the thresholds identified in the following table. Each business unit or department must keep Property Accounting updated with respect to their specific guidelines, approval thresholds, and individuals who have authority to approve projects. Property Accounting will assign an asset number and notify the Project Manager.

For projects requiring regulatory commission approval, Property Accounting will create an asset at the time regulatory approval is received. Copies of all approved [Project Authorization Request Forms](#), including capital projects, should be forwarded to the [Financial Analysis and Planning Group](#) of the Finance Department and to the business unit or department budget coordinator of the requesting area.

Questions

For any questions concerning the procedure, please contact [Financial Analysis and Planning](#) within the Finance Department.

Required Project Approval Levels*

Project Characteristics	Minimum Required Approval Level
Less than \$500,000 for utility projects and less than \$1,000,000 for non-utility projects	Approval based on the business unit or department's guidelines and policy is required. The business unit's/department's policy and guidelines should be in writing and should be communicated to all employees with project spending authority. A Capital/Expense Advisory should be requested from FI-Property Accounting for all projects with a capital component (i.e., additions, retirement, salvage, or removal), or if it is unclear whether a project is expense or capital regardless of the project's cost. All projects which contain capital require submittal of an approved Project Authorization Request Form and a copy of the Capital/Expense Advisory from Property Accounting for creation of an asset in the system. Projects which are all expense do not require submittal of a Project Authorization Request Form unless required by the business unit or department. Business areas are encouraged to utilize the form for documentation purposes.
\$500,000 to \$1,000,000 for utility projects	Approval of the Vice President or Department Head of the business unit or department is required. Both a Capital/Expense Advisory and a completed Project Authorization Request Form are required.
\$1,000,000 or more	Refer to the approval levels described in the Project Authorization Policy .

Requires regulatory approval (regardless of cost)	Applicable Senior Project Team review and approval is required. Both a Capital/Expense Advisory and a completed Project Authorization Request Form are required.
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*Individual project approvals do not allow business units or departments to exceed budgets. Note that thresholds are calculated based on the total cost of the project, not just the WEC Energy Group portion of the cost.

Guidelines for Financial Analysis

The financial implications of all projects, regardless of the level of estimated cost, are to be considered and evaluated. Projects that are discretionary or have alternatives available should have a rigorous financial analysis prepared. Such projects should include a revenue requirement calculation, and should explicitly consider any associated asset retirements. All projects that require [Senior Project Team](#) approval must have a strategic investment proposal prepared and submitted which includes a financial analysis section. The Project Manager should contact the Business Unit financial representative (or the Corporate Center representative) for support in preparing the financial analysis and in presenting the strategic investment proposal. The Project Manager should forward the strategic investment proposal (electronic version of the PowerPoint slides) to the [Financial Analysis and Planning Group](#) in the Finance Department for review at least 3 days before the scheduled applicable [Senior Project Team](#) presentation. The proposal generally requires the following information.

Strategic Investment Description

This section provides a description of the project and strategic implications, including potential opportunities and risk assessment. This section should describe any intangibles which may not be easily quantified in the financial analysis that should be considered.

Alternatives Considered

A discussion of alternatives considered for the proposed project should be included. If no alternative to the proposed project exists, the project proposal should identify the reasons why not.

Financial Analysis of Investment

The proposed investment should include an analysis of the financial implications of each alternative including project details, costs which may be incurred by other business units or departments to support this investment, spending time frame, rate case status, revenue requirements, and potential earnings impacts, if material. For significant investments in structures, equipment, or property, the Project Manager should contact the Insurance Risk Management Group before presenting a project to the [Senior Project Team](#). The Insurance Risk Management Group will provide an estimate of the costs impact from loss control programs, fire control systems, higher premiums on existing insurance policies, or the need to purchase additional insurance policies to cover builder's risk or other special needs. Also, the Project Manager or the business unit controller (or designated representative) should contact the Tax Department to determine if there are special tax rules governing the project and to obtain the suitable tax depreciation schedule to use in calculating the revenue requirement for the project.

Risk Analysis and Mitigation

The Project Manager should consider relevant significant risks associated with a project.

- **Environment Risk** relates to external forces that could affect the viability of the company's business model including fundamentals that drive the company's overall objectives and strategies. Environmental risks that might be applicable could include competitor risk, changing customer tastes and needs risk, technological innovation risk, financial sensitivity risk (such as interest rates, vendor prices), other financial risk (investor confidence/capital availability, pricing, currency, commodity/fuel, liquidity/cash flow, credit default/collateral), sovereign/political risk, legal risk, regulatory risk, environmental compliance risk, industry risk, and catastrophic loss risk.

- **Process Risk** relates to how effectively the company's business processes enable the company to execute its business model. Process risks that might be applicable would include operations efficiency risk, human resources risk, knowledge capital risk, product development risk, organization structure risk, capacity risk, vendor/supplier sourcing risk, partnering risk, business interruption risk, health and safety risk, and employee fraud or illegal acts risk.
- **Information Risk** relates to how information is used for internal decision-making and how information is provided for external reporting. Information risks that might be applicable would include information technology risk, business objective and performance measure alignment risk, budget and planning risk, tax risk, pension fund risk, valuation risk, and planning and lifecycle risk.

This section provides a list of potential risks to a company's viability and performance. Many of these risks are either nonexistent or they are not significant when applied to an individual project. The purpose of this section is to give the Project Manager a list to consider when evaluating potential risks. The Project Manager should only focus on those risks that are significant to a given project. A slide should be included in all presentations to the Senior Project Team that addresses significant risks and mitigation efforts (costs) to deal with those risks.

As mentioned in the Financial Analysis of Investment section, the Project Manager should quantify the costs of insurance, fire control systems, or other loss control systems if they are needed for a project. If no incremental insurance, fire control, or loss control systems are needed for a project, this lack of need should be included on this slide.

Sourcing Strategy

The Project Manager should discuss the sourcing strategy for key contractors and vendors that will be used on the project. Specific areas to be addressed would be Engineering, Materials and Components, and Construction.

- **Engineering:** The Project Manager should specify whether external or internal engineering services would be utilized and why. If external engineering services are to be used, selection criteria must be listed. If a preferred engineering company has been identified, the reasons behind this preference must be included.
- **Materials and Components:** The Project Manager should specify whether materials and components are to be withdrawn from Stores Inventory or are to be purchased from outside vendors. Again selection criteria should be listed. If a preferred vendor/supplier has been identified, the reasons behind this preference must be included.
- **Construction:** The Project Manager should specify whether an outside contractor or internal labor will be used and why. If an outside contractor is to be used, the selection criteria should be included. If a preferred contractor has been identified, the reasons behind this choice must also be listed.

A sourcing strategy description slide should be included in all presentations to the Senior Project Team. **Project Managers must also contact Supply Chain before presenting the project to the Senior Project Team to ensure that all purchasing indemnification issues are addressed.**

Success of Strategic Investment

This section should list and describe the critical success factors and measures by which the company may benchmark the project's progress and ultimate success in achieving desired goals.

Regulatory Issues

A description of any regulatory issues or milestones that may need to be addressed in conjunction with this project, if applicable.

Revised Project Authorizations

Projects which require revision are to be re-estimated and resubmitted for approval by the Project Manager, as appropriate. Revisions are authorized by obtaining the level of approval necessary based upon the project's revised total cost.

The table below should be used to determine whether a project change is significant and requires authorization resubmittal:

Original Estimate	% Change (excluding benefits loading adjustments)
Less than \$1,000,000	10%
\$1,000,000 or more	10%
PSCW approved projects	PSCW order conditions apply. (PSCW typically requires notification when project cost is projected to exceed the authorized amount by 10% or when there is a significant change in project scope.)

*The percentage change could be based upon a change to the total project budget or the change to the company portion of the project budget.

A revised Project Authorization request should include the following three items:

- A summary explanation of the reason for the variance from the original authorization.
- Any change in financial implications resulting from the revision.
- The approximate percent of project completion.

Revised Project Authorizations must be prepared and submitted for all required approvals within thirty calendar days from the date the Project Manager becomes aware that a revision is required. Project managers are responsible for tracking total project costs. If a reauthorization is required, the Project Manager should follow the guidelines below.

- Approval of revisions for projects that remain below the \$1 million threshold will be at the discretion of the business unit or department, and the approval process for a revision should follow the same business unit or department's approval guidelines as the initial approval.
- Projects that were originally authorized within the business unit or department but now have revised total costs in excess of the \$1 million threshold, will need to be reviewed and approved by the applicable [Senior Project Team](#) according to the guidelines in this document.
- If actual or budgeted project costs differ significantly as defined above from those previously authorized by the applicable [Senior Project Team](#), the [Financial Analysis and Planning Group](#) of the Finance Department should be notified so that it may inform senior management. The applicable [Senior Project Team](#) may approve a revision upon notification of a project's new estimates, or it may request a presentation to review the changes. Occasionally the Finance Department will independently review actual to authorized amounts for projects previously approved by the applicable [Senior Project Team](#). Compliance within authorized levels will be expected.

Significant changes in the scope of a project that alters the units of property, or where the mix of capital versus expense changes significantly without impacting the total project cost, will also require authorization resubmittal. Under either of these conditions, the Project Manager should consult with FI-Property Accounting to obtain a revised Capital/Expense Advisory. Also, FI-Property Accounting needs notification if an approved project is canceled so the asset number can be rescinded.

Guidelines for Regulatory Commission Approval

State Regulatory Affairs (SRA) is responsible for review and determination of PSCW, Illinois Commerce Commission (ICC) and Minnesota Public Utilities Commission (MPUC) approval

requirements for all qualifying construction and maintenance projects. This group should be consulted as soon as the project scope is determined if regulatory commission approval is required.

Project Cost Threshold

Projects must be submitted to the appropriate commission for review based on the cost of construction or the purpose of the construction. Please refer to the following sections that discuss the requirements for electric utility, gas utility, water utility, and steam utility construction.

The need for PSCW review is determined by gross project cost which includes capital, removal, and O&M. SRA should be contacted regarding types of costs included in the PSCW's definition of gross project cost. Due to the inherent difficulties in developing accurate project cost estimates, the internal review level by SRA has been set at approximately 90% of the PSCW threshold.

Electric Utility

Wisconsin: Construction projects involving generation, transmission, distribution, and building facilities with an estimated cost exceeding \$10.31 million must be submitted to the PSCW for review and approval before construction may proceed. The internal threshold for review by the State Regulatory Affairs is \$9.28 million. Please consult SRA if your project exceeds this amount. When the same project is proposed for multiple units at the same plant - regardless of timing - the sum of the cost is used for filing considerations.

The following projects require PSCW review and approval regardless of cost: projects to install large electric generating facilities or render new retail electric service in a municipality in which the utility has not previously rendered such service.

Gas Utility

Wisconsin: The construction, installation or operation of any single gas pipeline project, or the construction, installation or operation of any equipment, property, apparatus, building, facility or addition thereto (generally referred to as "plant"), with an estimated gross cost (includes capital, removal, and O&M) exceeding \$2.5 million requires a certificate of authority from the PSCW. The internal threshold for review by SRA is \$2 million. Please consult SRA if your project exceeds this amount. Following are exceptions to this rule which do not require PSCW authorization:

- Plant installed in accordance with filed extension rules and rates.
- Plant installed in compliance with commission orders.
- Plant ordered to be relocated or modified to accommodate highway or airport construction.

The following actions require a certificate of authority regardless of cost:

- Plant installed to furnish service in a municipality in which the utility has not been previously authorized to provide service.
- New territorial or boundary line agreements ⁽¹⁾.
- A production, mixing, standby, peak shaving, or storage plant or a principle gas manufacturing or mixing unit or any equipment designed to materially change the rated or nominal output characteristics of such a plant.
- Plant installed for use as intrastate pipeline facilities to deliver gas to another gas public utility, an interstate or intrastate gas pipeline company, or a cooperative association.
- New or altered plant for the purpose of bringing in a new type of gas or to supply a different type of gas to the public.
- A gas pipeline or plant in a newly created municipality or newly annexed or consolidated area, unless the utility already owns service facilities in the area and the exclusive right to serve a specified part of the area has been established.

- Substituting one kind of gas for another except that a utility may use gas cylinders to keep customers in service temporarily during repairs, replacements or modifications to the gas distribution system.
- Changing the heating value or specific gravity of the gas normally supplied to customers in excess of that allowed in PSC 134.21.

⁽¹⁾There are many exceptions and nuances to the rule requiring a certificate of authority for providing service in a new, or newly annexed, service area. Please contact State Regulatory Affairs for assistance in determining the specific requirements.

Finally, notification of the state regulatory commission is required if the Company intends to connect service to a customer that appears to be a master meter system operator, and for making any new connection to an interstate or intrastate gas pipeline. These notifications must be filed at least 15 days prior to start of construction.

Illinois: Any new plant, equipment, property or facility which is not in substitution of any existing plant, equipment, property or facility or any extension or alteration thereof or in addition thereto requires a certificate that public convenience and necessity require such construction from the ICC. The Illinois utility must show the ICC that the project will deliver the following:

- Construction is necessary to provide adequate, reliable, and efficient service to its customers and is the least-cost means of satisfying the service needs of its customers or that the proposed construction will promote the development of an effectively competitive electricity market that operates efficiently, is equitable to all customers, and is the least cost means of satisfying those objectives;
- Utility is capable of efficiently managing and supervising the construction process and has taken sufficient action to ensure adequate and efficient construction and supervision thereof; and
- Utility is capable of financing the proposed construction without significant adverse financial consequences for the utility or its customers.

Minnesota: No large energy facility as defined in 216B.2421 which covers large pipeline projects will be sited or constructed in Minnesota without the issuance of a certificate of need by the commission pursuant to 216C.05 to 216C.30 and 216B.243.

The project must show the following when assessing the need for the large energy facility:

- Accuracy of the long-range demand forecasts on which the necessity for the facility is based;
- The effect of existing or possible energy conservation programs under sections 216C.05 to 216C.30 and 216B.243 or other federal or state legislation on long-term energy demand;
- The relationship of the proposed facility to overall state energy needs;
- Promotional activities that may have given rise to the demand for the new facility;
- Benefits of the new facility, including its use to protect or enhance environmental quality, and to increase reliability of energy supply in Minnesota and the region; and
- The policies, rules, and regulations of other state and federal agencies and local governments.

Within 12 months of the submission of an application to the Minnesota commission, the Minnesota commission will either approve or deny a certificate of need for the large energy facility. Application fees apply which are applied toward the total costs necessary to complete the evaluation for the proposed large energy facility.

Steam Utility

Wisconsin: Construction projects involving steam facilities (mains, distribution or transmission)

with an estimated cost exceeding 3% of the Company's steam utility gross operating revenue for the previous calendar year (2015 filing threshold = \$1,325,000) must be submitted to the PSCW for review and approval before construction may proceed. Buildings or building additions are also subject to this provision.

Two types of projects (as shown below) require PSCW review and approval regardless of cost.

- Construction of any facilities for providing steam service in a municipality in which the utility has not previously rendered service.
- Construction of any facilities for providing steam service outside the utility's service territory.

Guidelines for Environmental Permitting and Approval

The Environmental Department is responsible for review and determination of environmental permitting and approval requirements for all qualifying construction and maintenance projects. Environmental should be consulted early in planning and no later than the point when the project scope is determined. See [Environmental Review of Construction Projects](#) for Environmental Department Environmental Review Procedure and Department contact information.

Construction projects often have environmental impacts, some of which may require the modification of existing regulatory permits or the acquisition of new permits. Environmental Department staff should be consulted to complete a detailed environmental project review. The following types of activities may have an environmental impact and may require new and or modified environmental permits and approvals:

- Ground disturbing activities.
- Proposed project within the FERC hydroelectric license project boundary.
- Changes/repairs/upgrades to existing generation facilities that may result in a change in unit capacity, annual utilization or air emissions.
- Proposed project within or adjacent to a mapped wetland, mapped waterway or mapped floodplain.
- Construction to occur in undisturbed, rural areas or on farmlands.
- Project that may result in a water or other liquid discharge.
- Proposed construction on a brownfield, landfill or historic fill site.
- Demolition or renovation of any building or structure that may contain or is known to contain asbestos, lead paint, hazardous materials, or oils.

Miscellaneous Regulatory Approvals/Notifications

In addition to regulatory commission authorizations, other regulatory approvals, notifications, or rulings for the project implementation may be required. Additionally, Administrative Code waivers or rulings may need to be obtained in order to implement projects where affected equipment or facilities must meet periodic inspection or testing requirements. At a minimum, any project requiring [Senior Project Team](#) approval which may also require state regulatory commission actions should be reviewed by State Regulatory Affairs (SRA).

Preparation of Regulatory Filings

SRA will prepare the required filing and will arrange for its review and submittal to the state regulatory commission. The Project Manager is responsible for a project that may require filing must provide the following information (including supporting documents) for the filing:

- Purpose (need) for the project.
- Description of facilities being installed.
- Project cost details including AFUDC, if appropriate.
- Description and cost of any property being retired.

- Effect of the project on the cost of operation and quality and reliability of service.
- Description and cost of alternative methods that were considered and the reasons for rejecting each alternative.
- For building projects, information on energy efficiency and conservation measures.
- Designation of other entities (utilities, municipalities, cooperative associations, regulatory agencies, etc.) principally affected by the project and a statement as to which (if any) have been notified about the project.
- Description of the environmental impact of the project (facility location map or drawing, alternate sites or routes considered, land use zoning, proximity to wetlands, impact on threatened or endangered species, impact on historical and archeological resources, etc.).
- For facilities that produce magnetic fields, including lines and substations, estimates of magnetic field strengths near the facility and the proximity of the site or route to nearby residences, work places, schools and other public places.
- Designation of whether or not the project facilities will be located within a floodway or flood plain.

Once a project has been approved by the state regulatory commission, periodic reporting on project scope, milestones, schedule, and cost information to the state regulatory commission is required as well as anticipated changes in scope or cost. Business unit heads or designees are required to provide this information to SRA in accordance with a Compliance Memorandum distributed upon receipt of each state regulatory commission order. The Compliance Memorandum, issued by the Vice President, SRA, assigns project reporting requirements to the responsible corporate business units. SRA forwards the applicable notifications/reports to the state regulatory commission.

AFUDC is not included in total project cost for internal project authorization thresholds or for state regulatory commission filing thresholds. SRA, however, will determine whether or not AFUDC is to be calculated for a project. If AFUDC is to be calculated, the Project Manager will provide SRA with the project's capital cash flows and estimated in-service dates. This information will enable SRA to calculate AFUDC for inclusion in the filing to the state regulatory commission.

Related Resources

[Project Authorization Policy](#)

[Project Authorization Request Form](#)

[Environmental Review of Construction Projects](#)