Northeast
Utilities System

Capital Project Approval Policy and Procedures (CaPP)

Enterprise Risk Management

ERM-2001, Rev. 2

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1. Purpose and Scope

The following NU Capital Project Approval Policy and Procedures (CaPP) formalizes the NU approach to evaluating and monitoring capital projects and programs (hereinafter referred to as "Capital Projects"). The CaPP sets out the requirements for the development of Capital Project proposals, proposal evaluation, Risk and Capital Committee (RaCC) review of Capital Project proposals, proposal approval and Capital Project monitoring.

The CaPP is intended to apply to all NU operating companies as well as the corporate shared services organization.

a. Link to Annual Capital Plan and Budget

The preparation and submission of a Capital Plan to the NU Management Committee for review and approval is required on an annual basis. Each year, the Capital Plan will be developed consistent with the longer term Strategic Plan, and the annual operating plans and budgets. The Capital Plan, in its final approved state, does not authorize Capital Project requests detailed in the plan. Each Capital Project request must follow Section 3 below to obtain the necessary approvals to proceed.

Each year, subsequent to the annual establishment of the Capital Plan and operating plans ("the plans") of the NU businesses, but by no later than March 31 of such year, the board of directors of each operating company (The Connecticut Light and Power Company, Public Service Company of New Hampshire, Western Massachusetts Electric Company and Yankee Gas Service Company) will confirm their review and approval of the plans for their respective operating company. This approval will include a delegation of authority to the Chairman of the Board of that operating company to make reasonable changes to the approved plans during the year and to approve specific Capital Projects under the plans as the Chairman of the Board of that operating company deems appropriate.

b. Definition of Capital Projects

For purposes of Capital Project review and approval, clear approval channels have been established for each Capital Project. The following definitions will be used to ensure that proposed Capital Project expenditures are routed through the appropriate approval channels as further described in Section 3.

Stand-alone Project – Capital Projects that are independent of existing projects and no additional capital spend is expected in order to generate all expected benefits contemplated in the project plan.

Component Project – Portion of a Capital Project that is required in order to achieve the benefits expected in a larger project plan or an add-on to a project that has already been approved. This component project requires an additional capital spend and may or may not have additional benefits independent of the larger defined Capital Project.

The term Capital Project, as used herein includes capital program expenditures which are $10 million or greater, individually or in the aggregate (spanning multiple functions or businesses), and meet one or more of the following criteria:

1. Non-routine capital program;
2. Capital program which involves a new or complex technology;
3. Capital program which increases the company's strategic, financial, operational or reputation risk

Each year, subsequent to the establishment of NU's longer-term strategic plan, the Enterprise Risk Management (ERM) Group will provide the RaCC with a list of all proposed capital expenditures $10 million or greater included in the plan which are recommended for future RaCC review. The ERM Group will document the rationale for such recommendations based on the criteria listed above. The ERM Group will update the list of capital expenditures recommended for RaCC review, as necessary, after the Capital Plans and operating plans are approved by the boards of directors of each operating company.

The RaCC may, at any time, request to review any proposed capital expenditure, regardless of recommendations made by the ERM Group.

Large Procurement Programs – The NU Purchasing Department, in conjunction with the businesses, enters into "Large Procurement Programs" which could include "Of Choice" Contracts, Master Service Agreements and/or Blanket Purchase Orders. These procurements are governed under the NU Purchasing Policy Large Project Procurement Process and are generally not subject to RaCC review. However, if any Large Procurement Program results in an exposure to NU of $10 million or more, such program must come before the RaCC for a formal review and recommendation to the CEO/Chairman for approval.

Each month the Directors of Purchasing and ERM (or their designees) will jointly determine if any Large Procurement Program requires RaCC review. In addition, the Directors will determine if there are any issues associated with Large Procurement Programs which warrant an informational briefing of the RaCC.

Informational briefings on Large Procurement Programs, as required, will be provided to the RaCC by either the Director of Purchasing or the Director of ERM, depending on the issues which are to be discussed.

c. Capital Project Expenditure Categories

Each Capital Project will be categorized as follows:

Non-Discretionary – Capital Projects are considered to be Non-Discretionary when the company is obligated to make the investment in order to comply with: federal, state or local laws; legally binding codes, standards or regulations; legally binding orders or are the subject of commitments by the company in the context of a regulatory proceeding. (i.e., new business load growth, regulatory commitments)

Discretionary – All other Capital Projects (i.e., system renewal, IT, facilities)

2. Capital Project Approval Roles and Responsibilities

a. Risk and Capital Committee Structure

The RaCC is NU's governing Enterprise Risk Management Committee. The RaCC Charter details the RaCC's objectives, which include reviewing and making recommendations for approval of specific Capital Projects to the Chairman of the Board (Chairman), President and Chief Executive Officer (CEO) of Northeast Utilities and the Chairmen of the Boards of the operating companies (as applicable) (Referred to hereinafter as CEO/Chairman)

b. Corporate ERM Group

The general responsibilities of the Corporate ERM Group are detailed in the Northeast Utilities Risk Policy and are further defined herein.

c. Finance Group

The Finance Group's responsibilities under the CaPP are as follows:

1. **Vice President – Finance (VP Finance)** – Responsible for reviewing and approving all financial analyses, addressing capital allocation issues and providing guidance to the Financial Planning and Analysis Group associated with project evaluations.

2. **Manager - Financial Planning and Analysis (FPA) –** Responsible for overseeing the day-to-day management of project evaluations, including the provision of guidance to the FPA Staff, approving appropriate analysis metrics, and regularly updating the VP Finance on the status of all project and initiative evaluations. The Manager of the FPA Group will also interface regularly with the Director of Enterprise Risk Management and/or the appropriate ERM Business Unit Risk Controller regarding the status of current and future RaCC projects.

3. **FPA Staff** – Responsible for working directly with the project teams to provide financial guidance and perform required analyses. Further duties are described within Appendix III.

4. **Director – Financial Forecasting** – Responsible for running the NU corporate financial model at the request of the VP Finance for certain projects when capital allocation issues are anticipated, for significant projects when impact to NU consolidated results are required, or for other reasons as determined by the VP Finance.

d. Other Risk Management Groups

Other risk management groups within NU, including, but not limited to, Treasury, Environmental and Purchasing, are responsible for managing discrete risks and will provide information on those risks and risk management activities to the operating units and the ERM Group on an ongoing basis and to the RaCC as appropriate.

3. Capital Project Review Procedures

All proposed Capital Projects greater than or equal to $10 million in gross capital expenditures (the threshold for RaCC review) must be presented to the RaCC by a Sponsoring Officer and formally approved by the CEO/Chairman upon recommendation of the RaCC. Capital projects which are greater than or equal to $50 million are subject to the review of both the RaCC and the NU Board of Trustees with final approval by the CEO/Chairman. Capital Projects below the $10 million threshold are subject to the approval procedures specified by the operating unit or corporate shared service organization with which they are associated.

a. Coordination of Capital Project Proposals

Capital spending for Northeast Utilities is directed and coordinated by the originating operating unit or corporate shared services organization. All Capital Project Proposals are to be submitted to the Sponsoring Officer for initial review. Capital Projects meeting the threshold for RaCC or Board review will require further analysis and risk assessment which must be provided as discussed below. Appendix I provides further details on the components of the Capital Project Proposals to be provided to the RaCC.

b. Stages of Capital Project Proposal Review by the RaCC

There are typically six stages in a Capital Project life-cycle which are subject to review by the RaCC. These stages are intended to provide the RaCC with sufficient information to allow the RaCC to review, approve, and monitor each Capital Project during its life-cycle. RaCC may, at its discretion, accept presentations made in other venues (e.g., Management Committee) in lieu of any of these stages or waive stages.

i. **Conceptual Opportunity Discussion** – This is the earliest stage of review by the RaCC and entails the conceptual review of a potential strategic opportunity which could require a capital investment of $10 million or greater. Information in this review will include a description, strategic rationale, preliminary risk assessment and next steps to pursue the identified strategic opportunity.

ii. **Conceptual Capital Project Review** – Once a strategic opportunity can be described in terms of a specific Capital Project, the Sponsoring Officer will bring the Capital Project to the RaCC for a formal briefing on the details of the project. This briefing is intended to provide the RaCC with a detailed review of the Capital Project but will not include any request for approval. Information in this review will include a description, strategic rationale, preliminary timeline, risk assessment and financial assessment and next steps for the development of the Capital Project. Stages i. and ii. may be combined, if appropriate, based on the development status of a Capital Project.

iii. **Capital Project Approval Proposal** – Prior to a final commitment to a Capital Project, the Sponsoring Officer will provide the RaCC with a detailed review and risk assessment of the Capital Project, which will form the basis of a recommendation by the RaCC to the CEO/Chairman for a project approval. If the Capital Project is greater than or equal to $50 million, this proposal will be also reviewed with the NU Board of Trustees. Information in this review and any request for approval will include a project description (capital expenditure category, strategic alignment), project purpose (need, solution, benefits and alternatives considered), project timeline, risk assessment, financial assessment and monitoring plan. Triggering events, which upon occurrence, could require the Capital Project be brought back for additional review and recommendation for re-approval by the RaCC, should be detailed in each monitoring plan. Triggering events may include the following:

(1) Bankruptcy of key suppliers/vendors

(2) Significant increases in key inputs (e.g., commodity prices)

(3) Significant budget over or under runs at any point during the project

(4) Significant changes, early or late, in project in-service date

(5) Significant changes in the pattern of capital costs between years while maintaining overall total project cost.

Changes to the Capital Project resulting in the lesser of $10 million or 20% of total project costs will be deemed significant for total costs, project to date cash flow or annual project budget.

A change of 3 months (early or late) to a project in-service date will be deemed significant.

iv. **Capital Project Monitoring Review -** On a monthly basis a summary of all RaCC approved Capital Projects will be provided to the RaCC by the Sponsoring Officers, including a brief status update for each Capital Project and indication of any occurrences of triggering events. At the request of the RaCC, the Sponsoring Officer will provide a detailed assessment of any triggering event and resulting consequences by no later than the following regularly scheduled RaCC meeting, or within a timeframe agreed to by the RaCC at the meeting during which the RaCC is informed of the occurrence of the triggering event. Such detailed assessment may include a request for Capital Project re-approval at the discretion of the RaCC. In addition, detailed quarterly project status updates will be provided to the RaCC by the Sponsoring Officers consistent with the monitoring plan set forth in each Capital Project Approval Proposal. Information in the quarterly status update will include project description, status of project, project timeline, current capital spending pattern compared to the CEO/Chairman approved plan and status on key risks.

v. **Post Completion Capital Project Review –** Within six months following the completion of a Capital Project (declaration of in-service), the Sponsoring Officer will provide the RaCC with a detailed review of the results of the Capital Project with a focus on risks encountered and lessons learned.

vi. **Post Completion Capital Project Monitoring** - Once a Capital Project is in full operation, further performance monitoring will be at the discretion of the RaCC.

Templates for stages i - v of Capital Project review are included in Exhibit 1 to this procedure.

4. Approval Limits

In order for a Capital Project to be considered for approval, the Sponsoring Officer must obtain the proper level of management and executive approval prior to beginning any project work or committing to any contracts.

a. Approval Authority

All capital spending must be reviewed and approved according to the approval levels in CaPP Appendix II. Capital may not be transferred from a Capital Project reviewed by the RaCC to another project without prior review and approval by the RaCC. Capital may not be transferred from any Capital Project to another project if it causes the level of capital in that project to exceed the RaCC review level without prior approval by the RaCC. On an ongoing basis, actual capital spending in excess of approved amounts must be approved on an aggregate project basis according to the approval levels in this policy. If a project that was not reviewed by the RaCC requires additional capital which results in total capital for the project to be above the RaCC review limit, the entire project must be reviewed by the RaCC and the Board (as appropriate) and approved by the CEO/Chairman.

b. Approval Limit Amendments

The RaCC has approval authority over the terms of the CaPP, the operating unit level capital approval authority limits and appropriate sub-limits at the commodity level, and the approved products and activities. At a minimum, it is the responsibility of the Chief Financial Officer (CFO), ERM Director, and the RaCC to review the CaPP annually to ensure that it is aligned with Northeast Utilities' objectives, strategic goals and business activities.

It is the responsibility of the ERM Group to ensure that CaPP is current and reflects existing business activities. The CaPP is intended to reflect the risk control processes that are in place governing Capital Project expenditure approval throughout the Northeast Utilities system. The Northeast Utilities' internal auditors shall review CaPP as they deem necessary.

c. Policy Exception Management

All exceptions to the CaPP will be handled individually in accordance with the following procedures:

All identified exceptions will be communicated to the RaCC in writing by the Sponsoring Officer responsible for the Capital Project which generated the exception. If a Capital Project which created an exception does not have a specific Sponsoring Officer, the Officer in charge of the business unit which generated the exception will be responsible for communication with the RaCC.

Each exception must be documented in writing including a detailed explanation of the exception, the applicable policy statement that was not complied with and remediation steps taken as necessary to ensure that such exception does not occur again.

All exceptions must be conditionally approved depending on expenditure levels (Appendix II) in writing prior to execution and then reviewed by the RaCC

If the RaCC does not approve the policy exception, the out of policy action taken must be remedied prior to the next meeting of the RaCC.

5. Summary of Changes

a. Revision 2

i. Replaces ERM-2001, Revision 1. Effective 3/27/2008
   - Replaces description of Financial Assessment with Financial Planning and Analysis Framework presented to the Risk and Capital Committee on April 25, 2008

b. Revision 1

i. Replaces ERM-2001, Revision 0. Effective 3/28/07. New provisions included:
   - Approval of Capital Plan and operating plans by operating company boards of directors
   - Large Capital Program review process
   - Large Procurement Program review process

APPENDIX I
Capital Project Proposals

Project Description

Each Capital Project Proposal must include a detailed description of the rationale for the project. This section of the Capital Project Proposal should contain the following information:

Operating Unit proposing the project

Identification of Sponsoring Officer

Capital Expenditure Category - (e.g., Non-Discretionary, Discretionary)

Total Capital Expenditure – shown by year

Strategic Alignment – Describe how this project aligns with the company's strategic objectives and goals. This section should clearly indicate which of the objectives and goals this project is fulfilling as detailed in the current NU Strategic Plan and/or Operating Plans.

Project Purpose – The reason that Northeast Utilities should undertake this Capital Project. This section should describe in detail the need that the project addresses; what the project entails (the solution); the benefits of the project; and any possible alternatives to the proposed project.

Project Timeline

The expected timing of capital expenditures, any flexibility in capital spend, contingent liabilities that could arise as a result of this project and an explicit exit strategy. All capital expenditure amounts should be clearly noted along with the timeframe during which they are expected to occur.

Risk Assessment

The Capital Project Proposal Team with the help of the appropriate Business Unit Risk Controller (BURC) performs and documents qualitative and quantitative risk assessments of the business case as required. The risks should be documented in a Risk Scorecard including risk owners, mitigation plans. The risk analyses performed will be tailored to each Capital Project but may include:

Probabilistic Sensitivity Analysis

Scenario Analysis

Qualitative Risk Mapping (Heat Map)

These analyses will be included in the Capital Project Proposal that is presented to the RaCC.

In addition, the Risk Assessment should contain a cost driver sensitivity analysis, which quantifies the identified risks, calculates an expected value of each risk resulting in a total risk exposure compared to the cost contingency assumed in the total cost estimate.

Financial Assessment: See Appendix III – Project Financial Evaluation Framework

Monitoring Plan

Each Capital Project Proposal will detail a project-specific monitoring plan to occur throughout the development life cycle of each Capital Project including identification of triggering events, which, upon occurrence, could result in a request for re-approval of the project.

Appendix

Capital Project Proposal Team –The names and contact information for the proposal team should be provided should there be any questions or comments on materials in the project proposal package. Each Project Proposal Team must be led by an officer, who is the official "Project Sponsor" for the Capital Project.

Business Unit Risk Controller (BURC) – The name and contact information for the appropriate BURC should be included in the Statement of Purpose so that he/she can be contacted for explanations regarding the risk analyses included in the project proposal package.

APPENDIX II
Capital Project Approval Limits

Project Capital Spend	Required Review	Approval Authority
<$10 million	Responsible Officer	Executive Vice President Operations
=$10 million <$50 million	Risk and Capital Committee	Chief Executive Officer/Operating Company Chairman (as appropriate)
>=$50 million	Risk and Capital Committee NU Board of Trustees	Chief Executive Officer/Operating Company Chairman (as appropriate)

APPENDIX III
Project Financial Evaluation Framework

1. Objective

The purpose of this Appendix is to establish a consistent but flexible framework for evaluating the financial merits of new business opportunities, significant capital projects and programs (hereinafter referred to as projects), and strategic and tactical initiatives. This framework is designed to ensure that appropriate financial analyses are performed for large capital projects and other various strategic initiatives that are subject to the CaPP. This analysis includes, but is not limited to, evaluation of project cost estimates and underlying assumptions, financial impacts of the capital investments (net present value, internal rate of return, earnings per share, expected ROE, etc.), sensitivities to the financial results given a variety different assumptions/scenarios, financing alternatives, capital structure considerations/implications, and the financial assessment of alternative approaches considered to achieve each project's stated goals.

The FPA Group is responsible for ensuring that the appropriate analysis is performed for each project subject to the CaPP, tailored to meet the specific needs of each individual project. This framework consists of (a) the process by which the FPA Group will evaluate all projects falling within the scope of this framework, (b) identification of the various types of financial analytics and metrics that may be used in evaluating projects, and (c) procedures for identifying and resolving potential capital constraints.

2. Scope

This framework will apply to all capital projects subject to RaCC review and recommendation for approval by the CEO/Chairman. Similar protocols to those described within this framework may be applied to other projects and initiatives not requiring RaCC review at the discretion of the FPA.

3. Project Analysis

a) <u>Capital Allocation</u>

If the proposed capital expenditures for a project under evaluation have already been included in an approved five-year forecast or annual operating budget, then that project was deemed, at the time of the forecast or budget approval, to have had adequate financing capability, and, therefore, no initial capital allocation limitations. In these cases, a current assessment will be made as to whether any significant project, company-specific or macroeconomic issues have arisen since the last approved forecast or budget that could now constrain capital spending (See Appendix IV for an overall project analysis flow map). Pertinent issues include, but are not limited, to:

- Significant increases in project capital expenditures
- Deteriorated financial market conditions
- Adverse rate case results
- Credit downgrade

If any of the above (or other) issues arise that could inhibit NU's access to capital, result in deteriorated credit metrics, or lead to other unfavorable outcomes that could deter the company from proceeding with a particular project, then the forecast or budget may be re-run with any significant updated assumptions.

If the model re-run indicates that a capital constraint will in fact result, as determined by the VP Finance, then the given project must be prioritized against all other corporate projects, assuming no other financing or mitigation options are available. An evaluation of the project will be coordinated by the FPA Group based on the following considerations:

- Is the project discretionary?
- Can it be postponed?
- What are its' risk and return characteristics?

- What is the project's EPS Contribution?
- What is the project's strategic fit compared to other projects?
- What regulatory, political, societal factors should be considered?

Upon completion of the evaluation, results will be presented to Management Committee and other appropriate Senior Management representatives or to the RaCC as appropriate. Once a project is determined to pose no capital allocation issues, or if an issue existed, it was determined that the project had priority over other projects, the financial evaluation will be completed and the project, can then be brought to the RaCC for review, and, if appropriate, for recommendation to Chairman/CEO for approval.

4. Evaluation Process

The FPA Manager will meet with the Project Sponsor to discuss the strategic, tactical, or operational intent of the particular project, the general project timeline, and the expectations of the FPA Group. The FPA Manager will then assign the project to FPA Staff and develop an evaluation plan, including the type of financial analysis required and relevant financial metrics to assess. After discussing the plan with the VP Finance, the plan will be revised as appropriate.

FPA Staff will work directly as a member of a project team arranged by the Project Sponsor through project completion, which, for RaCC projects, will be either project termination or the post-completion review, or, for non-RaCC projects, when a project has been approved or terminated by senior management. FPA Staff assigned to the project are responsible for (a) assessing all project cost estimates provided by the project team, (b) coordinating with all finance-related departments to provide any required financial support, such as financial assumptions, financing considerations, accounting treatment, tax implications, etc., and (c) working with project team to develop feasible alternative solutions and scenarios. FPA Staff will also build any required financial models to assess assumptions and scenarios, calculate appropriate financial metrics, and assist with any financial aspects of a related regulatory filing.

a) Financial Metrics

The particular financial analysis that will be performed and metrics that will be utilized will depend to some degree on the type of project being evaluated and will correlate with the pending RaCC approval phase (all projects for the purposes of this framework are treated as if they require RaCC review and CEO/Chairman approval since most major projects are anticipated to exceed the $10 million RaCC threshold). However, similar analyses may take place at various times for projects not subject to RaCC review, at the discretion of the FPA Group.

Metrics that will be used for project evaluations can be generally categorized as follows: Customer-focused Financial Metrics, Shareholder Financial Metrics, and Project-Specific Financial Metrics, which are defined below. Furthermore, analyses may include a sensitivity analysis that stresses basic financial assumptions to understand the level of risks inherent to a project and assess their potential financial impacts. Although the sensitivities measured will depend on specific project characteristics, examples of assumptions to be stressed are also provided below.

In addition, for complex projects, multiple analyses may be developed to account for various project scenarios, such as the use of different technologies, alternative business models or corporate structures, unique regulatory recovery mechanisms, or the combined impacts resulting from sensitivities to multiple assumptions. The appropriate metrics and sensitivities would typically be applied to all viable scenarios.

The following section is not meant to be an exhaustive list of all applicable metrics, and all metrics listed for any one category are not required to be used for each project. The list provides guidelines for the types of analyses and metrics that should be considered for each project. Actual analyses and metrics utilized will depend on the unique characteristics and expectations for each project, as well as the time available for analysis.

Customer-Focused Financial Metrics - Customer-focused financial metrics are those used to assess project costs from the customers' perspective, and may include the following:

- Project Impacts on Average Customer Rates
- Project Impacts on Average Customer Bill
- Present Value of Revenue Requirements
- Revenue Requirement Break-even in Years

Shareholder Financial Metrics- Shareholder Financial Metrics will be used for all project analyses, and will be used to assess the basic financial impacts of a project on NU. These metrics include:

- Total Capital Spending and Timing
- Annual O&M (Fixed and Variable)
- Project ROE, NPV, and IRR
- Earnings and EPS contributions
- Annual Cash flow

Project-Specific Financial Metrics - Project-Specific Financial Metrics are additional financial indicators that are dependent on the nature of the project being evaluated. They are utilized to ascertain the value of a project per dollar spent, or to compare multiple projects seeking to solve a similar problem. These metrics include, but are not limited to, the following, as categorized by project type:

- Generation Projects
  - Capital Dollars Spent/Megawatt
  - Incremental Busbar Costs/Megawatt Hour

- Transmission Projects
  - Capital Dollars/Transmission Mile
  - Congestion Costs Eliminated

- Distribution Projects
  - Reliability Improvements Achieved per Dollars Spent
  - O&M savings, efficiencies such as FTE reductions

- IT
  - Response time or System availability improvements per Dollars Spent
  - O&M savings, efficiencies such as FTE reductions

- Facilities/Real estate
  - Cost per Square foot

Sensitivity Analysis– Certain sensitivity analyses are applicable to all projects, while others are dependent on specific project characteristics. The impact of risks identified by the Project Sponsor and/or Project Team working with Enterprise Risk Management will be considered in this section. Below are examples of sensitivities that may be utilized.

- +/- Capital spend
- +/- O&M spending
- Recovery lost due to in-service delay.
- Recovery lost due to regulatory lag
- Scenario Analysis

5. **Application of Analysis/Metrics to RaCC review phases** The following table provides a summary of the various types of metrics and analyses that may be applied to a project in a particular RaCC approval phase. Certain metrics may be provided to RaCC as part of a specific deliverable, while other metrics may be prepared only for internal Finance Department analysis and review.

Conceptual Discussion/Review	Project Approval	Project Monitoring	Post-Completion Review
Shareholder Metrics o High-level Capital Expenditures o High-level Capital Expenditures timing (by year) o Expected Return on Equity (ROE) and Equity Percentage **Customer Metrics** o High-level Revenue Requirements o Directional project impacts on average rates and bills **Other** o Identify alternative project options	**Shareholder Metrics** o Same as for Conceptual Review, with greater precision o Net Present Value (NPV) and Internal Rate of Return (IRR) o Earnings Per Share (EPS) Contribution **Project-Specific** **Metrics** o Specific metrics dependent on project (See 4a) **Customer Metrics** o Detailed rate impacts o Detailed Revenue Requirements analysis o Present Value of Revenue Requirements o Revenue Requirements Break-even year **Sensitivities** o +/- Capital spend o +/- O&M spending o Impact of Timing Delays o Other project-specific metrics o Impacts to ROEs, NPVs, Earnings	**Quarterly Updates on project Costs/timing** o Compare actual metrics against metrics in RaCC Project Approval document(s) o Compare to sensitivity analysis o Coordinate with Financial Forecasting as necessary to update NU Model (to the extent available) o Adjust sensitivities for other similar projects, if applicable	o Compare actual metrics against metrics in RaCC Project Approval document(s) o Adjust sensitivities for other similar projects, if applicable o Financial "Lessons Learned" o Back-testing of assumptions/ sensitivities

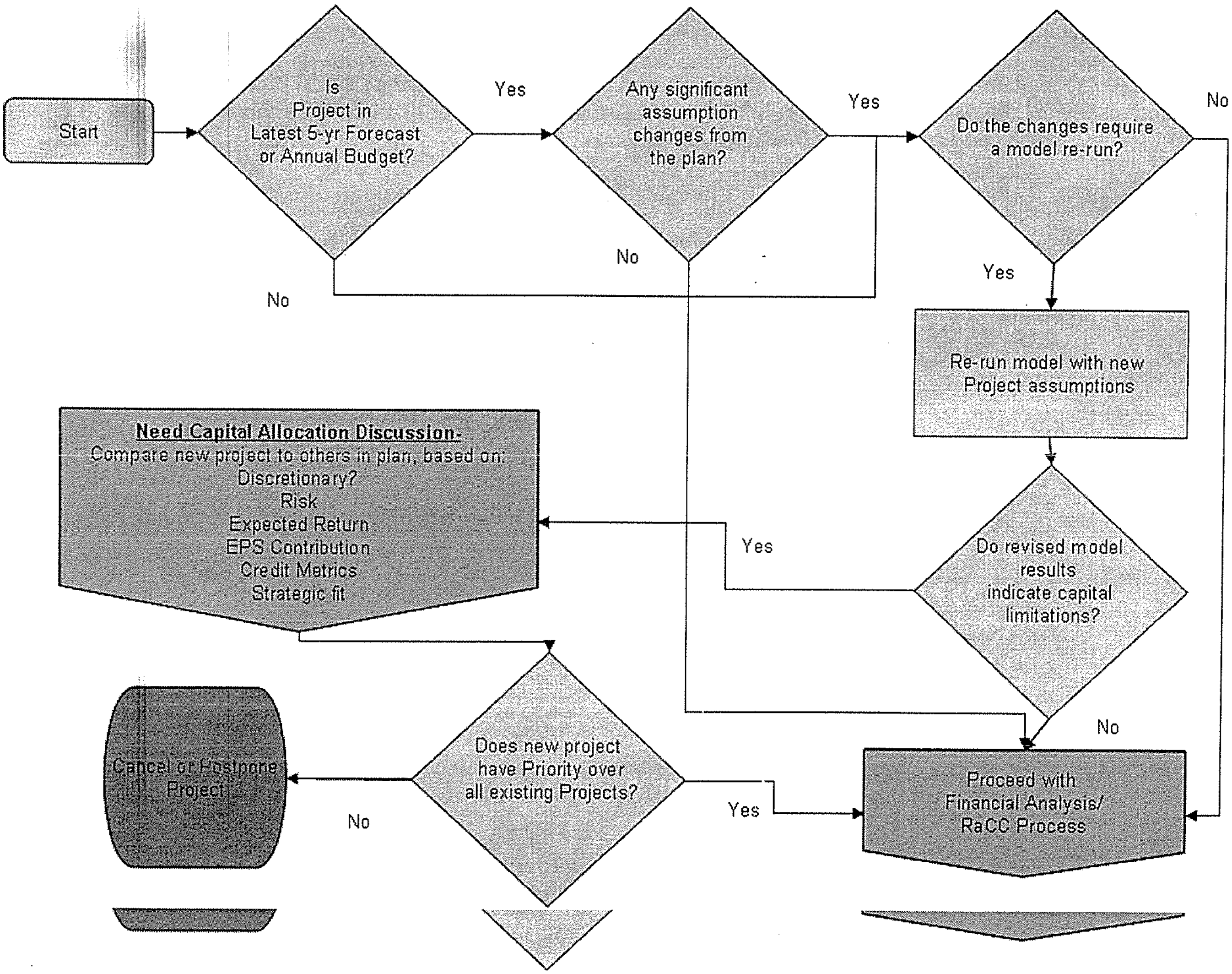
6. Project approvals contingent on savings expectations

Certain projects recommended by RaCC are approved by the CEO/Chairman with the expectation that savings will accrue as a result of the project, e.g., Full Time Equivalent (FTE) reductions, lower operations and maintenance costs, improved efficiency, etc. When projects are approved on such a basis, either partially or fully, the FPA Group will coordinate with Financial Forecasting and the appropriate Business Unit to ensure that such estimated savings are captured in the latest budget or forecast. In addition, project teams may be asked to substantiate actual savings to the RaCC at either a Capital Project Monitoring Review or Post Completion Capital Project Monitoring meeting, or at a later date that aligns with the anticipated timing of the achievement of such savings.

7. Framework Review

This framework will be reviewed periodically and updated as necessary to reflect new business practices and analysis.

Appendix IV-
Overall Project Evaluation Process Map



APPENDIX V
Glossary of Terms

Risk: The presence of a lack of certainty regarding the outcome of a particular decision or action which is measured by a Risk Score.

Impact: Impact is evaluated using management judgment on a scale from one to five (representing minor to worst case respectively).

Risk Tolerance: The maximum negative outcome that can be tolerated by NU relative to its strategic, operational and officer goals.

Risk Assessment: The systematic identification of risks and their corresponding Risk Score.

Risk Score: Risk Scores are determined by estimating the potential magnitude of impact of the decision or action and multiplying it by the level of uncertainty associated with the decision or action.

Risk Management: Actions or decisions by management to accept, increase, or reduce the current Risk Score in a manner that considers and balances the tradeoffs between risk and return. Mitigation may include avoiding risk by partial or complete cessation of the activity, reducing the likelihood through preventive controls, reducing the consequences with a contingency plan, or transferring the risk to a third party.

Risk Scorecard: An electronic database of the identified and assessed risks of the business which includes the assignment of accountability for the risk and the current or planned risk management activities identified for that risk.

Exhibits

Capital Project Review and Approval Templates

Exhibit 1 – Conceptual Opportunity Discussion Template

Exhibit 2 – Conceptual Capital Project Review Template

Exhibit 3 – Capital Project Review and Approval Template

Exhibit 4 – Capital Project Monitoring Review – Monthly and Quarterly Templates

Exhibit 5 – Post Completion Project Review Template