

# **WISCONSIN ENERGY CORPORATION**

## **AUDIT AND OVERSIGHT COMMITTEE OF THE BOARD OF DIRECTORS**

### **CHARTER**

**Approved: April 21, 2011**

#### **PURPOSE**

The principal purpose of the Audit and Oversight Committee (Committee) is to (A) assist the Board of Directors in carrying out its oversight responsibility of (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications and independence, and (iv) the performance of the Company's internal audit function and independent auditors, and (B) prepare the report that Securities and Exchange Commission rules require to be included in the Company's proxy statement. With respect to item (i), preparation of the financial statements is the role of Company management, not the Committee. The Committee shall report all significant findings to the Board.

#### **COMPOSITION**

The Committee shall consist of three or more independent directors who are periodically appointed by the Board. Members shall serve at the pleasure of the Board and for such term or terms as the Board may determine. Each member shall, in the judgment of the Board, meet the independence standards of the New York Stock Exchange, the Sarbanes-Oxley Act of 2002 and the Securities and Exchange Commission. Each member shall be financially literate as the Board of Directors interprets such qualification in its judgment. The Board shall determine whether any director serving on the Committee is an "audit committee financial expert," as such term is defined in the rules and regulations promulgated by the Securities and Exchange Commission. No director may serve as a member of the Committee if such director serves on the audit committees of more than three public companies unless the Board determines that such simultaneous service would not impair the ability of such director to effectively serve on the Committee and discloses this determination in Wisconsin Energy Corporation's proxy statement. No member of the Committee may receive any compensation from the Company other than (i) directors' fees which may be received in cash, stock options or other in-kind consideration, (ii) other deferred compensation for prior service that is not contingent on future service, and (iii) any other benefits that other directors receive for their service to the Company as a director. One of the directors shall be appointed Chair for a term to be determined by the Board and shall preside over the meetings of the Committee. In the event the Committee Chair is unable to serve as Chair for a specific meeting, he/she shall designate one of the Committee members to preside.

#### **DUTIES AND RESPONSIBILITIES**

The Committee shall have unrestricted access to the independent auditor, Company personnel and documentation pertinent to the scope of its duties and responsibilities. The duties and responsibilities of the Committee shall be to:

##### **Independent Auditor**

- Evaluate the services of the independent auditor, or other independent auditors under consideration, and approve a firm to be engaged for the coming year. The Committee shall

have the sole and ultimate authority and responsibility to evaluate and, where appropriate, terminate and replace the independent auditor. The independent auditor is ultimately accountable to the Committee.

- Review and approve proposed audit and non-audit services for the year, and any additional audit or non-audit services subsequently proposed, and assure that such services will not affect the independence of the auditor. Approve in advance any non-audit engagements of the independent auditor permitted by Section 201 of the Sarbanes-Oxley Act of 2002 and assure that approval is disclosed in the Company's periodic reports as required by law. Authority to pre-approve services can be delegated to one or more members of the Audit and Oversight Committee, but any pre-approval decision by the delegate must be reported to the full Audit and Oversight Committee at its next regularly scheduled meeting.
- Prior to the start of the annual audit, approve the audit plan and the terms and estimated fees for the engagement following the independent auditor's presentation of the audit plan and objectives of the audit.
- Review with management and the independent auditor, at least annually, recent accounting, tax, and financial reporting developments and auditing standards.
- Ensure that the independent auditor submits, at least on an annual basis, to the Committee a formal written statement delineating all relationships between the auditor and the Company consistent with Independence Standards Board Standard No. 1. Engage in a dialogue with the independent auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the outside auditor. Take appropriate action, when necessary, to ensure the independence of the independent auditor.
- At least annually, obtain and review a report by the independent auditor describing: the auditor's internal quality-control procedures; any material issues with the auditor raised by the most recent internal quality-control review, inspection report of the Public Company Accounting Oversight Board, or peer review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditor, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditor and the Company.
- Discuss with the independent auditor matters required by the American Institute of Certified Public Accountant's AU Section 380 relating to the conduct of the audit.
- Set clear hiring policies for employees or former employees of the independent auditors.
- Oversee the resolution of any disagreements between the Company's independent auditors and management regarding financial reporting.
- Review on a regular basis with the Company's independent auditors any problems or difficulties encountered by the independent auditors in the course of any audit work, including management's response with respect thereto, any restrictions on the scope of the independent auditors' activities or on access to requested information, and any significant disagreements with management. In connection therewith, the Committee should review with the independent auditors:
  - (i) any accounting adjustments that were noted or proposed by the independent auditors but were not recorded by management (due to immateriality or other reasons);
  - (ii) any significant "management" or "internal control" comments; and
  - (iii) the responsibilities, budget and staffing of the Company's internal auditors.

- Ensure that the audit partners scheduled to perform the current year's audit of the Company's financial statements satisfy the rules governing audit partner rotation.
- Ensure that the Chief Executive Officer, Controller, Chief Financial Officer, Chief Accounting Officer or other person serving in an equivalent position of the Company, was not, within one year prior to the initiation of the audit, an employee of the independent auditors who participated in any capacity in the Company's audit.

### **Annual and Interim Financials**

- After the annual audit, review the financial statements and other related financial information to be included in the Company's Annual Report on Form 10-K, including the Company's disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations," with appropriate Company management and the independent auditor. Review with the independent auditor its report to the Committee regarding the audit and its opinion to be issued on the financial statements. Recommend to the Board any action considered necessary, including that audited financials be included in the Form 10-K.
- Prior to the filing of the Company's Quarterly Report on Form 10-Q, review the interim financial statements to be included in the 10-Q with management and the independent auditor.
- Review the certifications of the Chief Executive Officer and Chief Financial Officer related to the annual and interim reports as required by the Sarbanes-Oxley Act of 2002 as well as any significant reports of management's Disclosure Committee.
- Discuss earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies. The Committee need not discuss in advance each earnings release or each instance in which the Company may provide earnings guidance.
- Review and discuss with management, the independent auditors and the internal audit function:
  - (i) critical accounting policies and such other accounting policies of the Company as are deemed appropriate for review by the Committee prior to any interim or year-end filings with the Securities and Exchange Commission or other regulatory body, including any financial reporting issues which could have a material impact on the Company's financial statements;
  - (ii) major issues regarding accounting principles and financial statement presentations, including (A) any significant changes in the Company's selection or application of accounting principles and (B) any analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the ramifications and effects of alternative generally accepted accounting principles on the Company's financial statements;
  - (iii) all alternative treatments of financial statement presentation that have been discussed by the independent auditors and management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors; and
  - (iv) the effect of regulatory and accounting initiatives, as well as off balance sheet transactions, on the financial statements of the Company.

## **Internal Controls**

Review with the Company's Chief Executive Officer and Chief Financial Officer and other senior members of management, the Company's internal auditors and independent auditors:

- (i) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize, and report financial data, including any material weaknesses in internal controls identified by the Company's independent auditor;
- (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and
- (iii) any significant changes in internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

## **Internal Audit Function**

Meet at least semi-annually with the internal auditor to review internal audit's independence, coordination with the independent auditor, staffing, audit scope, significant audit results, management's responsiveness to recommendations, evaluation of internal control systems, and other relevant matters.

## **Code of Business Conduct**

- Review any reports submitted regarding compliance with Wisconsin Energy Corporation's Code of Business Conduct and approve, as appropriate, any preapprovals or waivers thereto for directors, executive officers and senior financial officers and ensure that any waivers are disclosed in accordance with applicable laws.
- Establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

## **Oversight of Legal/Litigation and Environmental Matters**

- Meet at least annually with the general counsel, and outside counsel when appropriate, to review legal matters, including any matters that may have a material impact on the financial statements of the Company.
- Review and provide oversight of:
  - (i) litigation matters, to ensure appropriate management and supervision is being afforded significant actual and potential litigation and insurance claims; and
  - (ii) environmental compliance matters, including review of the Company's regulatory and civil litigation exposure concerning environmental contamination and/or toxic torts and to ensure that appropriate management attention is being given to such matters.
- The Committee shall have direct access to and meet as needed with the officer in charge of each function, without management present, as appropriate. The officers shall report all significant matters to the Committee.

## **Risk Assessment and Risk Management**

Discuss the Company's major risk categories and exposures and the steps management has taken to monitor and control such categories and exposures. In this regard, review the processes used by the Board's Finance Committee and the Company's Enterprise Risk Management and

Compliance Risk Steering Committees to discuss policies with respect to the Company's risk assessment and to ensure robust risk management.

### **Annual Performance Evaluation**

Produce and provide to the Board an annual performance evaluation of the Committee. The evaluation shall compare the performance of the Committee with the requirements of this Charter. Recommend to the Board any improvements to the Charter.

### **Other**

- Prepare the report required by the rules of the Securities and Exchange Commission to be included in Wisconsin Energy Corporation's annual proxy statement.
- Recommend to the Board special audits or studies the Committee considers necessary or advisable. Review the reports issued for such special audits or studies and recommend to the Board any action considered necessary.
- The Committee shall also be responsible for any other matters as may from time to time be requested by the Board and/or the Chief Executive Officer.
- The Committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee of the Committee.

The Committee shall be notified promptly by management, the internal auditor or independent auditor of the discovery of fraudulent, questionable or illegal events which could have a material impact on the financial statements or reputation of the Company.

### **MEETINGS**

The Committee shall meet once every fiscal quarter, or more frequently if circumstances warrant. As deemed necessary by the Committee, meetings shall be attended by Company personnel. Both the internal auditor and the independent auditor shall (i) meet alone with the Committee at each regularly scheduled meeting to discuss any matters that the Committee or any of these persons or firms believe should be discussed privately and (ii) have authority and are expected to contact the Committee on any matters requiring its attention.

The Committee may obtain advice and assistance from outside legal, accounting or other advisors. The Committee may retain these advisors without seeking Board approval.

The Committee may meet separately with management and request any officer, employee or Company's outside counsel to attend a Committee meeting or to meet with any advisors or consultants to the Committee.