

THE EMPIRE DISTRICT ELECTRIC COMPANY

CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Organization

The Audit Committee (the "Committee") of the Board of Directors (the "Board") of The Empire District Electric Company (the "Company") shall consist of no fewer than three members. The members of the Committee shall meet the independence requirements of the New York Stock Exchange ("NYSE"), the Securities and Exchange Commission ("SEC") and the Sarbanes-Oxley Act of 2002. Each member of the Committee must be financially literate, as such qualification is interpreted by the Board in its business judgment, or must become financially literate within a reasonable period of time after his/her appointment to the Committee. In addition, at least one member of the Committee must be an "audit committee financial expert" as defined by the SEC. No member of the Committee may serve on the audit committees of more than two other public companies.

Committee members shall be appointed by (with due regard to the recommendations of the Nominating/Corporate Governance Committee), and may be replaced by, the Board of Directors. The Chairperson of the Committee shall be designated by the Board.

Purpose

The Committee shall assist the Board in its oversight of (1) the integrity of the Company's financial statements, (2) the Company's compliance with legal and regulatory requirements, (3) the independent auditor's qualification and independence and (4) the performance of the Company's internal audit function and independent auditors.

The Committee shall prepare (or cause to be prepared) an Audit Committee report as required by the SEC to be included in the Company's annual proxy statement.

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with GAAP and applicable rules and regulations. These are the responsibilities of management and the independent auditors.

Meetings

The Committee shall meet at least quarterly and is empowered to hold special meetings as circumstances require, and shall make regular reports to the Board. In order to facilitate open communication and to allow the Committee to perform its oversight functions most effectively, the Committee shall meet regularly with management, the Director of Auditing (as defined below) and the independent auditors in separate executive sessions.

Duties and Responsibilities**Independent Auditors**

1. The independent auditor(s) shall report directly to the Committee. The Committee shall be directly responsible for the appointment, compensation, retention, termination and oversight of the work of the independent auditor(s) engaged by the Company for the purposes of preparing or issuing an audit report or performing other audit, review or attest services for the Company. The Committee shall be directly responsible for the resolution of disagreements between management and the independent auditor(s) regarding financial reporting.
2. All auditing services and non-audit services (other than the de minimus exceptions provided by the Securities Exchange Act of 1934) provided to the Company by the independent auditors shall be pre-approved by the Committee.
3. The Committee shall review with the independent auditors, prior to their audit, the scope of their examination; review the anticipated level of non-audit services to be provided by independent auditors and consider the possible effect, if any, of these services on the independence of the independent auditors; and review with the independent auditors the estimated fees to be paid for the work performed.
4. The Committee shall obtain and review a report from the independent auditors at least annually describing (a) the internal quality-control procedures of the independent auditors, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditors, 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 independent auditors, and any steps taken to deal with any such issues and (c) all relationships between the independent auditors and the Company (in order to assess auditor independence).
5. After reviewing the report described in paragraph 4 and the independent auditors' work throughout the year, the Committee shall evaluate the qualifications, performance and independence of the independent auditors (including a review of the experience and qualifications of the senior members of the independent auditor team). This evaluation shall include the review and evaluation of the lead partner of the independent auditors. In making its evaluation, the Committee should take into account the opinions of management and the Company's internal auditors. In addition to assuring the regular rotation of the lead audit partner (as required by law), the Committee should further consider whether, in order to assure continuing auditor independence, there should be regular rotation of the audit firm itself. The Committee shall present its conclusions to the Board and, if determined by the Committee, recommend that the Board take additional action to satisfy itself of the qualifications, performance and independence of the auditor.
6. The Committee shall discuss with the independent auditors any communications between the audit team and the independent auditors' national office respecting auditing or accounting issues presented by the engagement.
7. The Company may hire employees or former employees of the independent auditors who were engaged on the Company's account if such persons are (a) selected by management and (b) approved by the Committee.
8. The Committee shall discuss with the independent auditors such matters and take such action as contemplated by Statements on Auditing Standards 61 ("SAS 61"), including

discussions with respect to the independent auditors' responsibility under generally accepted auditing standards; significant accounting policies; proposed audit adjustments not recorded, if any; unusual transactions; significant audit adjustments; other information in documents containing audited financial statements; the Company's consultation with other accountants; major issues discussed with management prior to retention of the independent auditors; and difficulties encountered in performing an audit.

9. The Committee shall, to the extent not already covered by SAS 61, review with the independent auditors any problems or difficulties encountered by the independent auditors in the course of the audit work (and management responses), including any restrictions on the scope of their activities or on access to requested information, and any significant disagreements with management.
10. The Committee shall review with the independent auditors any "management" or "internal control" letters issued by the independent auditors to the Company.

Internal Auditors

The head of the Internal Auditing Department of the Company ("Director of Auditing") shall report directly to the Chief Executive Officer of the Company and to the Committee.

1. The Committee shall provide oversight of the internal audit function of the Company including:
 - (a) The planned scope of the internal audit work.
 - (b) Findings and recommendations of the internal auditors and related management actions.
 - (c) The adequacy of the staffing and organizational structure of the internal audit function.
2. The Committee shall ensure there are no unjustified restrictions or limitations on the Director of Auditing.
3. The Committee shall review the adequacy and effectiveness of the internal audit function, including compliance with the Code of Business Conduct and Ethics of the Company.
4. The Committee shall discuss with the independent auditors the responsibilities, budget and staffing of the Company's internal audit function.
5. The Committee shall, on an as-needed basis, meet separately with the Director of Auditing to discuss any matters that the Committee or the Director of Auditing believes should be discussed privately.
6. The Committee shall review and reassess the adequacy of the Internal Audit Department Charter on an annual basis.
7. The Committee shall review the adequacy and effectiveness of the internal accounting controls and compliance with the Foreign Corrupt Practices Act.

Financial Statement and Disclosure Matters

1. The Committee shall provide oversight of the quarterly and annual reporting of the Company.

2. The Committee shall review and discuss with management and the independent auditors the Company's annual audited financial statements and quarterly financial statements, including disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."
3. The Committee shall discuss with management the types of information to be disclosed and the type of presentation to be made in the Company's earnings press releases (with particular attention paid to any use of "pro forma" or "adjusted" non-GAAP information), as well as in financial information and earnings guidance provided to analysts and rating agencies. This discussion should be general and the Committee need not discuss in advance each earnings release or each instance in which the Company may provide earnings guidance.
4. The Committee shall review with management and the independent auditors major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles.
5. The Committee shall review with management and the independent auditors major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies.
6. The Committee shall receive from management advice of significant current financial reporting issues and practices.
7. The Committee shall discuss with management and the independent auditors their qualitative judgments about the appropriateness of accounting policies, principles and financial disclosure practices used or proposed to be adopted.
8. The Committee shall review with management and the independent auditors analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.
9. The Committee shall discuss with management and the independent auditors the effect of regulatory and accounting initiatives, as well as any off-balance sheet structures on the Company's financial statements.
10. The Committee shall discuss with management and the independent auditors the impact of the Company's compliance with legal and regulatory requirements on the Company's financial statements.
11. The Committee shall make such recommendations to the Board, as the Committee deems appropriate, with respect to the inclusion of the audited financial statements in the Company's Annual Report on Form 10-K for the last fiscal year for filing with the SEC.

Other Responsibilities/Matters

1. The Committee shall establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters. The Committee shall, as necessary, review and revise such procedures.

2. The Committee shall have the authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties.
3. The Committee shall be entitled to appropriate funding from the Company, as determined by the Committee, for payment of (a) compensation to any independent accounting firm engaged by the Company for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, (b) compensation to any advisers employed by the Committee under the preceding paragraph and (c) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties. The Committee may approve the other engagement terms of any such firms or advisers.
4. The Committee shall periodically review and assess compliance with all applicable rules and regulations of the SEC and the NYSE specifically applicable to the composition and responsibilities of the Committee and recommend any proposed changes to the Board for approval.
5. The Committee shall discuss with management guidelines and policies to govern the process by which risk is assessed and managed. In particular, the Committee shall discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
6. The Committee shall prepare (or cause to be prepared) an audit committee report as required by the SEC to be included in the Company's annual proxy statement.
7. The Committee shall conduct an annual evaluation of its own performance.
8. The Committee shall perform such other activities as the Board may from time to time deem necessary or appropriate.