

AQUILA, INC.
COMPENSATION AND BENEFITS COMMITTEE
OF THE BOARD OF DIRECTORS
CHARTER

I. ORGANIZATION

1. Formation. There will be a committee of the Board of Directors (the “Board”) known as the Compensation and Benefits Committee (the “Committee”).

2. Number. The Committee will be composed of two or more directors as determined by the Board.

3. Independence. Each director must be independent of management, and free from any other relationship that, in the determination of the Board (a) might interfere with the exercise of such director’s independent judgment or (b) result in a lack of compliance with (i) the rules of the New York Stock Exchange,¹ (ii) the provisions of the Sarbanes-Oxley Act or (iii) the rules of the United States Securities and Exchange Commission. Each proxy statement for Aquila’s annual shareholder meetings must disclose the basis for this determination by the Board.

4. Term. The members of the Committee will be elected by the Board of Directors at the annual meeting of the Board and will serve until their successors are duly elected. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the Committee.

II. PURPOSE AND RESPONSIBILITIES

The Committee’s purpose and responsibilities are to:

Compensation

- review and approve corporate goals and objectives relevant to CEO compensation, evaluate the CEO’s performance in light of those goals and objectives, and determine and approve the CEO’s compensation level based on this evaluation;
- make recommendations to the Board with respect to non-CEO compensation, incentive compensation plans and all equity based plans (provided, however, that the Committee may delegate authority with respect to equity based plans for non senior management employees); and
- produce a compensation committee report on executive compensation, as required by the SEC, for inclusion in the Company’s proxy statement filed with the SEC.

Employee Benefit Program

- establish or amend or make recommendations that the Board establish or amend employee benefit programs as the Committee considers necessary or appropriate from time to time;²
- monitor the activities of those members of the Company's management (the "Company Benefits Committee") that are responsible for administering the Company's employee benefit programs;
- review corporate benefit program goals from time to time;
- appoint and, if necessary, replace benefit plan fiduciaries and/or service providers;
- review and approve plan investment policies;
- review plan investment performance reports provided by the Company Benefits Committee (at least annually); and
- monitor the Company Benefits Committee's discharge of its ERISA fiduciary responsibilities (at least annually).

III. MEETINGS

The Committee will meet at least two times annually, or more frequently as circumstances dictate.

IV. ANNUAL PERFORMANCE EVALUATION

There will be an annual performance evaluation of the Committee.

V. OUTSIDE RESOURCES

The Committee has the sole authority to retain and terminate any compensation consultant to assist in the evaluation of director, CEO or senior management compensation, including sole authority to approve such consultant's fees and other retention terms.

VI. REVIEW AND PUBLICATION

This Charter will be made available on Aquila's website. The Committee must review and reassess the continued adequacy of this Charter at least annually.

¹ Under current NYSE rules, a person will not be considered to be independent if such person or any of their immediate family members:

- has been an employee or executive officer (in the case of the director's immediate family members) of Aquila within the past three years (note that serving as an interim chairman, CEO, or executive officer will not trigger this disqualification);
- received more than \$100,000 in any year within the last three years in direct compensation from Aquila (other than director or committee fees and pension or other forms of deferred compensation);
- is a current partner of Aquila's audit firm, is a current employee of Aquila's audit firm or, in the case of the director's immediate family members, is a current employee of Aquila's audit firm and participates in the audit firm's audit, assurance or tax compliance (but not tax planning) practice, or is a former partner or employee of Aquila's audit firm who personally worked on Aquila's audit with in the past three years;
- has been employed by a company within the past three years at a time in which a current executive officer of Aquila served on the compensation committee of such company;
- is a current employee (in the case of the director only) or is a current executive officer (in the case of the director's immediate family members) of a company that has made payment to, or received payments from Aquila for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of 2% or \$1 million of the other company's consolidated gross revenues; or
- has a direct or indirect (e.g., as a partner, shareholder or executive officer of another company) business relationship with Aquila, except those relationships the Board determines do not interfere with the exercise of independent judgment because, among other things, they are immaterial to Aquila, the director or, if applicable, the organization with whom the director or family member is affiliated.

² Employee benefit plan amendments that do not have a material economic impact on the Company may be approved by the Company Benefits Committee; provided such amendments are reported to the Committee promptly following adoption.