

# Aquila, Inc. Corporate Governance Principles

## **I. Introduction.**

The following principles have been approved by the board of directors (“the Board”) of Aquila, Inc. (“Aquila”) and, along with the charters of the various committees, provide the framework for the governance of Aquila. The Board will periodically review and, if necessary, amend these principles.

## **II. Role of the Board and Management.**

1. Role of the Board. Aquila’s business is conducted by its employees, managers and officers, under the direction of the Chairman/CEO (“Chairman/CEO”) and the oversight of the Board, to enhance the long-term value of the company for its shareholders. The Board is elected by the shareholders to oversee management and ensure that the long-term interests of the shareholders are being served. Both the Board and management recognize that the long-term interests of shareholders are advanced by responsibly addressing the concerns of other stakeholders and interested parties, including employees, recruits, customers, suppliers, Aquila communities, government officials and the public at large.

2. Primary Functions. In order to maximize long-term shareholder value, the directors’ primary functions are to:

- Assure that management develops sound business strategies;
- Review and, where appropriate, approve and evaluate financial and internal controls;
- Select the Chairman/CEO and other senior officers and review management succession planning; and
- Ensure that Aquila’s business is conducted with high standards of ethical conduct and in conformity with applicable laws and regulations.

3. Communications. The Chairman/CEO is responsible for establishing effective communications with Aquila’s stakeholder groups (i.e., shareholders, customers, company employees, communities, suppliers, creditors, governments and corporate partners).

4. Agenda Items. Agenda items for board meetings are designated by the Chairman/CEO in consultation with other board members, management, shareholders, or other relevant parties as determined by the Chairman/CEO.

5. Distribution of Board Materials in Advance. Materials for review, discussion and/or action of the Board should, to the extent practicable, be distributed sufficiently in advance of meetings, thereby allowing time for review prior to the relevant meeting.

6. Executive Sessions of Non-Management Directors. The independent directors will meet on a regular basis. The independent executive sessions will be chaired by the Lead Independent Director, who is selected annually by the independent directors.

7. Board Access to Senior Management and Independent Advisors. Board members shall be granted complete access to Aquila's management but should seek to initiate contact in a way that does not interfere materially with the operation of Aquila's ordinary business. If contact is in written form, the Board will provide a copy of the written contact(s) to the Chairman/CEO. The Board, in its sole discretion, may retain and access any independent advisors which, in its judgment, it may require and have access to any independent advisors of Aquila.

8. Ethics and Conflicts of Interest. The Board expects Aquila directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to the policies set forth in Aquila's Code of Business Conduct. The Board will not permit any waiver of any ethics policy for any director or executive officer. If a director becomes aware of any actual or potential conflict of interest concerning any director (including themselves), the director must promptly inform the Chairman of the Nominating and Corporate Governance Committee and the Lead Independent Director. If it is determined that a significant conflict exists and cannot be resolved or mitigated to the satisfaction of the Chairman of the Nominating and Corporate Governance Committee and the Lead Independent Director, the conflicted director should resign.

All directors will recuse themselves from any discussion or decision affecting their personal, business or professional interests. Except as set forth in Aquila's Code of Business Conduct or other applicable code of conduct, the Board, through the Nominating and Corporate Governance Committee, must resolve any conflict of interest question involving the Chairman/CEO or a senior vice president, and the Chairman/CEO must resolve any conflict of interest issue involving any other officer of Aquila.

9. Self-Evaluation. As described more fully in the charter of the Nominating and Corporate Governance Committee, the Board and each of the committees will perform an annual self-evaluation of its performance.

### **III. Composition of the Board.**

1. Qualifications. Directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the company's shareholders. They must also have an inquisitive and objective perspective, practical wisdom, and mature judgment. Aquila endeavors to have a board representing diverse experience at policy-making levels in business, government, education and technology as well as in areas that are relevant to Aquila's business activities.

2. Independence of the Board. The Board must be comprised of a majority of directors who qualify as independent directors under the listing standards of the New York Stock Exchange. The Board, acting through the Nominating and Corporate Governance

Committee, will review annually the relationship that each director has with Aquila (either directly or as a partner, shareholder or officer of an organization that has a relationship with Aquila). Following the annual review, only those directors who the Board affirmatively determines have no material relationship with Aquila will be considered independent directors, subject to additional qualifications prescribed under the listing standards of the New York Stock Exchange.

3. Selection of New Directors. The Nominating and Corporate Governance Committee is responsible for selecting and recommending to the Board candidates for election as directors; shareholders also have the opportunity to nominate directors in accordance with the Bylaws of Aquila. The Board delegates the process of screening director candidates to the Nominating and Corporate Governance Committee, which may solicit advice from the Chairman/CEO and other members of the Board. After the screening process is completed, the Board will nominate an appropriate slate of director candidates for election by Aquila's shareholders.

4. Orientation of New Board Members. Aquila will maintain an orientation process for new board members that includes extensive materials, meetings with key management, and visits to company facilities. In addition, Aquila will make available to its directors continuing education programs and opportunities.

5. Service on Other Boards. Including service on Aquila's board, directors can serve on no more than six public company boards and the CEO can serve on no more than three public company boards.

6. Changes in Circumstances. When a non-employee director's work responsibilities or position changes substantially from the conditions that existed or were known at the time the director was nominated for election to the Board (*e.g.*, the director ceases to serve as CEO for a major company), the director will submit a letter to the Chairman and the chair of the Nominating and Corporate Governance Committee, with a copy to the Corporate Secretary, describing the change in circumstances and offering to resign from the Board. The Nominating and Corporate Governance Committee will evaluate the change in circumstances and will make a recommendation to the Board, which will decide whether to accept or decline the offer to resign. Directors will inform the Nominating and Corporate Governance Committee of any other material changes in their circumstances or in relationships that may impact their designation as "independent."

7. Compensation of Board. The entire Board has the responsibility for setting board compensation and benefits for non-employee directors. Compensation for Aquila directors should be comparable to directors' compensation in other companies of Aquila's relative size and scope, help align directors' interests with the long-term interests of shareholders, and be structured in a way that is simple, transparent and easy for shareholders to understand. In furtherance of the principle that compensation and benefits of non-employee directors should help align their interests with the long-term interests of shareholders, the Board believes each non-employee director should maintain ownership of Aquila stock.

#### **IV. Role and Composition of Committees.**

1. Number, Structure and Independence of Committees. There will be an Executive Committee, Nominating and Corporate Governance Committee, Audit Committee, Compensation Committee, and other committees as the Board deems advisable. The purpose and responsibilities of each of these committees will be outlined in committee charters or enabling resolutions approved by the Board. The Board may, subject to limitations in Aquila's Bylaws, appoint additional standing or temporary committees from time to time as the directors see fit, delegating to committees all or part of the Board's powers. The Nominating and Corporate Governance Committee, Audit Committee and Compensation Committee will be comprised entirely of independent directors as required pursuant to applicable law or prescribed under the listing standards of the New York Stock Exchange.

2. Committee Meetings. The frequency, length and agenda of meetings of each of the committees will be determined by the chair of the committee. Materials related to agenda items should, to the extent practical, be distributed sufficiently in advance of committee meetings, thereby allowing for review prior to the relevant meeting.

#### **V. Other Corporate Governance Matters.**

1. Executive Stock Ownership. In furtherance of the principle that compensation and benefits of executives should help align their interests with the long-term interests of shareholders, the Board believes each executive should maintain ownership of Aquila stock.