

SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549

 FORM S-8
 REGISTRATION STATEMENT
 Under
 THE SECURITIES ACT OF 1933

HOUSTON LIGHTING & POWER COMPANY
 (Exact name of issuer as specified in its charter)

TEXAS (State or other jurisdiction of incorporation or organization)	74-0694415 (I.R.S. Employer Identification No.)
1111 LOUISIANA HOUSTON, TEXAS (Address of principal executive offices)	77002 (Zip Code)

 EMPLOYEE STOCK OPTIONS TO BE ASSUMED BY
 HOUSTON LIGHTING & POWER COMPANY (TO BE RENAMED
 HOUSTON INDUSTRIES INCORPORATED) PURSUANT TO THE AGREEMENT
 AND PLAN OF MERGER DATED AS OF AUGUST 11, 1996, AS AMENDED,
 BY AND AMONG HOUSTON INDUSTRIES INCORPORATED,
 HOUSTON LIGHTING & POWER COMPANY,
 HI MERGER, INC. AND NORAM ENERGY CORP.
 (Full title of the plan)

 Hugh Rice Kelly
 Executive Vice President, General Counsel, and Corporate Secretary
 1111 Louisiana
 Houston, Texas 77002
 (Name and address of agent for service)
 Telephone number, including area code, of agent for service: (713) 207-1111

 CALCULATION OF REGISTRATION FEE

TITLE OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT (2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (2)	AMOUNT OF REGISTRATION FEE (3)
Employee Stock Options (together in some cases with tandem stock appreciation rights)	options covering 1,532,356 shares	\$ 7.867	\$12,055,572	\$ 3,653.20
Common Stock, without par value (1)	1,532,356 shares	\$14.356	\$21,998,514	\$ 6,666.22
Total			\$34,054,086	\$ 10,319.42

(1) Includes preference stock purchase rights of one Right per share associated with the Common Stock.
 (2) Calculated solely for purposes of determining the registration fee (a) in the case of the employee stock options, on the basis of the estimated cash amount which holders of outstanding options could elect to receive in lieu of having such options assumed by the Registrant, and (b) in the case of the Common Stock issuable upon exercise thereof, on the basis of the exercise price of such options.
 (3) Because no separate consideration is payable for the Rights, the registration fee for such securities is included in the fee for the Common

Stock.

INTRODUCTORY STATEMENT

Houston Lighting & Power Company (to be renamed Houston Industries Incorporated) (the "Registrant" or the "Company") is filing this Registration Statement on Form S-8 relating to Employee Stock Options to be assumed by it pursuant to the Agreement and Plan of Merger dated as of August 11, 1996, as amended (the "Merger Agreement"), by and among Houston Industries Incorporated, a Texas corporation ("HII"), the Registrant (a wholly owned subsidiary of HII), HI Merger, Inc., a Delaware corporation and a direct wholly owned subsidiary of HII ("Merger Sub") and NorAm Energy Corp., a Delaware corporation ("NorAm"), and the Registrant's Common Stock, without par value, and associated Rights to purchase its Series A Preference Stock, without par value (such Common Stock and associated Rights collectively, the "Common Stock"), issuable upon exercise thereof.

Pursuant to the Merger Agreement, among other things (a) HII will be merged into the Company, (b) each outstanding share of Common Stock, without par value, of HII ("HII Common Stock") will be converted into one share of Common Stock, and the Registrant will be renamed "Houston Industries Incorporated", (c) NorAm will be merged into Merger Sub (the "NorAm Merger"), as a result of which NorAm will become a wholly owned subsidiary of the Registrant, (d) each share of common stock, par value \$0.625 per share, of NorAm ("NorAm Common Stock") outstanding immediately prior to the effective time of the NorAm Merger will be converted into either cash or Common Stock, in accordance with the elections of the holders of NorAm Common Stock, subject to proration and (e) each holder of an unexpired Employee Stock Option to purchase NorAm Common Stock, along with any tandem stock appreciation rights outstanding at the effective time of the NorAm Merger (a "NorAm Stock Option") will be entitled (except to the extent such Employee Stock Options are forfeited or expire at such effective time) to elect to either (x) have all or any portion of his or her NorAm Stock Option cancelled and "cashed out" pursuant to Section 2.2(e)(ii) of the Merger Agreement or (y) have all or any portion of his or her NorAm Stock Option assumed by the Registrant as provided in Section 5.11 of the Merger Agreement.

This Registration Statement relates only to the Employee Stock Options to be assumed by the Registrant and the Common Stock issuable upon exercise thereof.

PART I

INFORMATION REQUIRED IN THE SECTION 10(A) PROSPECTUS

Note: The document(s) containing the plan information required by Item 1 of Form S-8 and the statement of availability of registrant information and any other information required by Item 2 of Form S-8 will be sent or given to participants as specified by Rule 428 under the Securities Act of 1933, as amended (the "Securities Act"). In accordance with Rule 428 and the requirements of Part I of Form S-8, such documents are not being filed with the Securities and Exchange Commission (the "Commission") either as part of this Registration Statement or as prospectuses or prospectus supplements pursuant to Rule 424 under the Securities Act. The Registrant shall maintain a file of such documents in accordance with the provisions of Rule 428. Upon request, the Registrant shall furnish to the Commission or its staff a copy or copies of all of the documents included in such file.

PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

ITEM 3. INCORPORATION OF DOCUMENTS BY REFERENCE.

The following documents filed with the Securities and Exchange Commission (the "Commission") by the Company (File No. 1-3187) or by HII (File No. 1-7629) pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or as otherwise indicated, are hereby incorporated in this Registration Statement by reference:

(1) the combined Annual Report on Form 10-K of the Company and HII for the year ended December 31, 1996;

(2) the combined Quarterly Report on Form 10-Q of the Company and HII for the quarter ended March 31, 1997;

(3) the Current Report on Form 8-K of the Company dated February 4, 1997;

(4) the combined Current Report on Form 8-K of the Company and HII dated February 5, 1997; and

(5) the description of the Common Stock contained in Item 4 of the Company's Registration Statement on Form 8-B, as filed with the Commission on July 30, 1997, pursuant to Section 12(b) of the Exchange Act.

All documents filed with the Commission by the Company and HII pursuant to sections 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this Registration Statement and prior to the filing of a post-effective amendment to this Registration Statement which indicates that all securities offered hereby have been sold, or which deregisters all securities then remaining unsold, shall be deemed to be incorporated by reference in this Registration Statement and to be a part hereof from the date of filing of such documents.

Any statement contained herein or incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Registration Statement to the extent that a statement contained herein or in any subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Registration Statement.

ITEM 4. DESCRIPTION OF SECURITIES.

Not applicable.

ITEM 5. INTERESTS OF NAMED EXPERTS AND COUNSEL.

Not applicable.

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Article 2.02.A.(16) and Article 2.02-1 of the Texas Business Corporation Act and Article V of the Company's Amended and Restated Bylaws provide the Company with broad powers and authority to indemnify its directors and officers and to purchase and maintain insurance for such purposes. Pursuant to such statutory and Bylaw

provisions, the Company has purchased insurance against certain costs of indemnification that may be incurred by it and by its officers and directors.

Additionally, Article IX of the Company's Restated Articles of Incorporation provides that a director of the Company is not liable to the Company or its shareholders for monetary damages for any act or omission in the director's capacity as director, except that Article IX does not eliminate or limit the liability of a director for (i) breaches of such Director's duty of loyalty to the Company and its shareholders, (ii) acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law, (iii) transactions from which a director receives an improper benefit, irrespective of whether the benefit resulted from an action taken within the scope of the director's office, (iv) acts or omissions for which liability is specifically provided by statute and (v) acts relating to unlawful stock repurchases or payments of dividends.

Article IX also provides that any subsequent amendments to Texas statutes that further limit the liability of directors will inure to the benefit of the directors, without any further action by shareholders. Any repeal or modification of Article IX shall not adversely affect any right of protection of a director of the Company existing at the time of the repeal or modification.

ITEM 7. EXEMPTION FROM REGISTRATION CLAIMED.

Not Applicable.

ITEM 8. EXHIBITS.

The following documents are filed as a part of this Registration Statement or incorporated by reference herein:

Exhibit Number	Document Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
4.1*	Restated Articles of Incorporation of the Company (Restated as of May 1993)	Combined Form 10-Q for the quarter ended June 30, 1993	1-3187 1-7629	3
4.2*	Articles of Amendment to Restated Articles of Incorporation of the Company (dated August 9, 1996)	Registration Statement on Form S-4	333-11329	3(b)
4.3*	Articles of Amendment to Restated Articles of Incorporation of the Company (dated December 3, 1996)	Combined Form 10-K for the year ended December 31, 1996	1-3187 1-7629	3(c)
4.4*	Amendments to Restated Articles of Incorporation of the Company to be effective as of the effective time of the merger of HII with and into the Company (included as Exhibit A to Exhibit 4.7)			
4.5*	Amended and Restated Bylaws of the Company (as of June 5, 1996)	Combined Form 10-Q for the quarter ended	1-3187 1-7629	3

Exhibit Number	Document Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
4.6*	Amended and Restated Bylaws of HII (as of May 22, 1996), to become the Bylaws of the Company as of the effective time of the merger of HII with and into the Company	Combined Form 10-Q for the quarter ended June 30, 1996	1-3187 1-7629	3
4.7*	Agreement and Plan of Merger among HII, the Company, Merger Sub and NorAm dated as of August 11, 1996	Combined Form 8-K dated August 11, 1996	1-3187 1-7629	2
4.8*	Amendment to Agreement and Plan of Merger among HII, the Company, Merger Sub and NorAm dated as of October 23, 1996	Registration Statement on Form S-4	333-11329	2(c)
4.9*	Form of Amended and Restated Rights Agreement between the Company and Texas Commerce Bank National Association, as Rights Agent, to be executed upon the closing of the merger of HII with and into the Company, including form of Statement of Resolution Establishing Series of Shares designated Series A Preference Stock and Form of Rights Certificate	Registration Statement on Form S-4	333-11329	4(b)(1)
4.10	Long-Term Incentive Compensation Plan			
4.11	1994 Incentive Equity Plan of NorAm Energy Corp.			
4.12	DEI 1990 Stock Award Plan			
4.13	Form of Election			
4.14	Form of Election Notice			
5	Opinion of Baker & Botts, L.L.P.			
23.1	Consent of Deloitte & Touche LLP			

* Incorporated herein by reference as indicated.

ITEM 9. UNDERTAKINGS.

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however, that the undertakings set forth in paragraphs (i) and (ii) above do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to Section 13 or Section 15(d) of the Exchange Act that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described under Item 6 above, or otherwise, the registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement or Amendment to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, the State of Texas, on July 28, 1997.

HOUSTON LIGHTING & POWER COMPANY
(Registrant)

By: /s/ Don D. Jordan

(Don D. Jordan, Chairman and Chief Executive Officer)

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS REGISTRATION STATEMENT OR AMENDMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED.

Signature -----	Title -----	Date -----
/s/ Don D. Jordan ----- (Don D. Jordan)	Chairman, Chief Executive Officer and Director (Principal Executive Officer and Principal Financial Officer)	July 28, 1997
/s/ Mary P. Ricciardello ----- (Mary P. Ricciardello)	Vice President and Comptroller (Principal Accounting Officer)	July 28, 1997
----- (William T. Cottle)	Director	July 28, 1997
/s/ Charles R. Crisp ----- (Charles R. Crisp)	Director	July 28, 1997
----- (Jack D. Greenwade)	Director	July 28, 1997
/s/ Lee W. Hogan ----- (Lee W. Hogan)	Director	July 28, 1997
/s/ Hugh Rice Kelly ----- (Hugh Rice Kelly)	Director	July 28, 1997

(R. Steve Letbetter) Director July 28, 1997

(David M. McClanahan) Director July 28, 1997

/s/ Stephen W. Naeve

(Stephen W. Naeve) Director July 28, 1997

/s/ S. C. Schaeffer

(S. C. Schaeffer) Director July 28, 1997

(R. L. Waldrop) Director July 28, 1997

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* Incorporated herein by reference as indicated.

ARKLA, INC.
LONG TERM INCENTIVE COMPENSATION PLAN

PART I

PURPOSES; DEFINITIONS; SHAREHOLDER APPROVAL;
RESERVATION OF SHARES; AND PARTICIPATION IN PLAN

ARTICLE I

Purposes

1.1. Purposes of Plan. The purpose of this Arkla, Inc. Long Term Incentive Compensation Plan (this "Plan") is to create shareholder value. To do so, the Plan provides incentives to selected key employees of Arkla, Inc. (the "Company") who contribute, and are expected to contribute, materially to the success of the Company and its subsidiaries; to provide a means of rewarding outstanding performance; and to enhance the interest of such key employees in the Company's continued success and progress by providing them a proprietary interest in the Company. Further, this Plan is designed to enhance the Company's ability to maintain a competitive position in attracting and retaining qualified key personnel necessary for the continued success and progress of the Company.

ARTICLE II

Definitions

2.1. Certain terms used herein shall have the meaning below stated, subject to the provisions of Section 11.1.

"Board" or "Board of Directors" means the Board of Directors of the Company.

"Chairman" means the Chairman of the Board.

"Code" means the Internal Revenue Code of 1954, as amended.

"Committee" means the Executive Compensation Committee appointed by the Board to administer this plan pursuant to Article XI.

"Common Stock" means, subject to the provisions of Section 13.3, the presently authorized common stock of the Company, par value \$.625 per share.

"Company" means Arkla, Inc.

"Disability" means a physical or mental impairment of sufficient severity such that an Employee is both eligible for and in receipt of benefits under the long-term disability provisions of the Company's benefit plans.

"Employee" means an officer or employee of the Company or of a Subsidiary of the Company.

"Fair Market Value" means, except as provided below with respect to shares of Common Stock subject to Stock Appreciation Rights granted in connection with a Non-statutory Stock Option, the closing price at which the Common Stock of the Company shall have been sold regular way on the New York Stock Exchange on the date as of which such value is being determined, or, if no sales occurred on such day, then on the next preceding day on which there were such sales, or, if at any time the Common Stock shall not be listed on the New York Stock Exchange, the fair market value as determined by the Committee on the basis of available prices for such Common Stock or in such manner as may be authorized by applicable regulations under the Code. Notwithstanding the foregoing, if a Key Employee exercises a Stock Appreciation Right granted in connection with a Non-statutory Stock Option pursuant to Section 9.5, Fair Market Value means, for purposes of Section 9.5 (c), the highest price at which Common Stock of the Company shall have been sold regular way on the New York Stock Exchange during the period beginning on the third day and ending on the twelfth day following the release of the Company's quarterly reports on sales and earnings in compliance with Rule 16b-3(e) of the Securities Exchange Act of 1934.

"Incentive Stock Option" means an option to purchase Common Stock, granted by the Company to a Key Employee pursuant to Section 9.1, which meets the requirements of Section 422A of the Code.

"Key Employee" means an Employee selected to participate in this Plan pursuant to the terms hereof.

"Nonstatutory Option" means an option to purchase Common Stock, granted by the Company to a Key Employee pursuant to Section 9.1, which does not meet the requirements of Section 422A of the Code.

"Option" means an Incentive Stock Option or a Nonstatutory Stock Option.

"Performance Cycle" means the period of time used when measuring the degree to which the Performance Objectives relating to Restricted Stock Awards have been met.

"Performance Objectives" means the criteria established by the Committee for each Performance Cycle as the basis for determining the number of shares of Common Stock which shall be released from the restrictions of a Restricted Stock Award and the number of additional

"opportunity shares" of Common Stock related to such Restricted Stock Award which the Committee may elect to award to a Key Employee.

"Plan" means the Arkla, Inc. Long Term Incentive Compensation Plan, as set forth herein and as from time to time amended.

"Restricted Stock Award" means an award of restricted shares of Common Stock, granted by the Company to a Key Employee pursuant to Section 5.1.

"Stock Appreciation Right" means a right, granted by the Company to a Key Employee pursuant to Section 9.5, to earn additional compensation for services rendered based upon the appreciation of the Fair Market Value of the Common Stock.

"Stock Award" means a Restricted Stock Award and an award of "opportunity shares" related to such Restricted Stock Award pursuant to Section 5.1.

"Subsidiary" means a subsidiary corporation as defined in Section 425(f) of the Code.

ARTICLE III

Shareholder Approval; Reservation of Shares

3.1. Shareholder Approval. This Plan shall become effective only if approved by the affirmative vote, in person or by proxy, of the holders of a majority of the shares of Capital Stock of the Company present and entitled to vote at a meeting held to take action thereon at which a quorum is present.

3.2. Shares Reserved Under Plan. The aggregate number of shares of Common Stock which may be awarded under this Plan shall not exceed 1,500,000 shares; of which amount no more than 1,000,000 shares may be granted pursuant to Stock Awards. The shares of Common Stock which may be granted pursuant to Stock Awards or for which Options and Stock Appreciation Rights may be granted will consist of either authorized but unissued shares of Common Stock or shares of Common Stock which have been issued and which shall have been heretofore or hereafter reacquired by the Company. The total number of shares authorized under this Plan shall be subject to increase or decrease in order to give effect to the adjustment provisions of Section 13.3 and to give effect to any amendment adopted as provided in Section 12.1. If any Restricted Stock Award, Option or Stock Appreciation Right granted under this Plan shall expire, terminate or be cancelled for any reason without having been exercised in full, the corresponding number of shares shall again be available for purposes of this Plan; provided, however, that the number of Shares of Common Stock authorized under this Plan shall be reduced by the number of shares subject to an Option for which a Key Employee has exercised a related Stock Appreciation Right in accordance with Section 9.5.

ARTICLE IV

Participation in Plan

4.1. Eligibility to Receive Stock Awards, Options and Stock Appreciation Rights. Stock Awards, Options and Stock Appreciation Rights under this Plan may be granted only to persons which are determined by the Committee, upon the recommendation of the Chairman, to be key Employees of the Company or a Subsidiary of the Company on the date the Stock Award, Option or Stock Appreciation Rights is granted. A member of the Board of Directors who is not also an Employee of the Company or of a Subsidiary of the Company shall not be eligible to receive a Stock Award, Option or Stock Appreciation Right.

4.2. Participation Not Guarantee of Employment. Nothing in this Plan or in the instrument evidencing the grant of a Stock Award, Option or Stock Appreciation Right shall in any manner be construed to limit in any way the right of the Company or a Subsidiary to terminate a Key Employee's employment at any time, without regard to the effect of such termination on any rights such Key Employee would otherwise have under this Plan, or give any right to such a Key Employee to remain employed by the Company or a Subsidiary thereof in any particular position or at any particular rate of compensation.

PART II

STOCK AWARDS
AND RELATED TAX PAYMENTS

ARTICLE V

Stock Awards

5.1. Grant of Restricted Stock Awards.

(a) Selection of Key Employees. Subject to the terms of this Plan, the Committee shall, upon the recommendation of the Chairman, select from among the Employees of the Company and its Subsidiaries those Key Employees to whom Stock Awards shall be awarded for each Performance Cycle. Restricted Stock Awards and the allocation of "opportunity shares" related to such Restricted Stock Award shall generally be made at the beginning of a Performance Cycle, but may, in the Committee's discretion, be made from time to time during the term of a Performance Cycle.

(b) Award of Shares. The Committee shall determine the number of shares of Common Stock covered by each Restricted Stock Award and the maximum number of "opportunity shares", if any, related to such Restricted Stock Award which may be awarded to a Key Employee; after the close of, and, if appropriate and in accordance with Section 7.2(b), during the term of each Performance Cycle, shall determine whether the restrictions set forth in Article VI hereof shall lapse

with respect to a portion on all of the shares awarded under a Restricted Stock Award and whether any additional "opportunity shares" related to such Restricted Stock Award shall be awarded.

(c) Form of Instrument. Each Restricted Stock Award shall be made pursuant to an instrument prescribed in form by the Committee. Such instrument shall specify the restrictions set forth in Article VI and the Performance Objectives which, if not achieved, may cause all or part of the shares to be forfeited after the close of the Performance Cycle with respect to which they were awarded.

5.2. Performance Objectives. Each Restricted Stock Award shall be subject to the achievement of Performance Objectives by the Company during the Performance Cycle with respect to which the Restricted Stock Award is made. The Chairman shall establish Performance Objectives prior to the beginning of each Performance Cycle with the approval of the Committee. Once established, Performance Objectives may be changed, adjusted or amended during the term of a Performance Cycle only upon authorization by the Board. The degree to which the Company achieves such Performance Objectives shall serve as the basis for the Committee's determination of the portion of a Key Employee's Restricted Stock Award which shall become vested by reason of the lapse of the restrictions set forth in Article VI and the portion of "opportunity shares", if any, which shall be awarded.

5.3. Rights With Respect to Shares. Subject to Section 5.4, each Key Employee to whom a Restricted Stock Award has been made shall have absolute ownership of such shares including the right to vote the same and to receive dividends thereon, subject, however, to the terms, conditions and restrictions described in this Plan and in the instrument evidencing the grant of the Restricted Stock Award.

5.4. Escrow. Shares of Common Stock transferred pursuant to a Restricted Stock Award shall be held in escrow pursuant to an agreement satisfactory to the Committee until such time as the Committee shall have determined whether the restrictions set forth in Article VI shall have lapsed.

ARTICLE VI

Restrictions Applicable to Restricted Stock Awards

6.1. Restrictions. Each Restricted Stock Award granted under this Plan shall contain the following terms, conditions and restrictions and such additional terms, conditions and restrictions as may be determined by the Committee:

Until the restrictions set forth in this Section 6.1 shall lapse pursuant to Article VII, shares of Common Stock awarded to a Key Employee pursuant to each Restricted Stock Award:

(a) shall not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, and

(b) shall be returned to the Company, and all rights of the Employee to such shares shall terminate without any payment of consideration by the Company, if (1) the Committee notifies the Employee pursuant to Section 7.1 (as of the end of the Performance Cycle or portion thereof) that it has determined that the Performance Objectives established with respect to all or a portion of the shares of Common Stock granted under a Restricted Stock Award have not been achieved, or (2) the Employee's continuous employment with the Company or any of its Subsidiaries shall terminate for any reason, except as provided in Section 7.2.

ARTICLE VII

Lapse of Restrictions

7.1. Lapse of Restrictions Due to Achievement of Performance Objectives. As soon as practicable after the close of each Performance Cycle the Committee shall determine whether the Company has achieved the Performance Objectives established for such Performance Cycle. The Committee shall notify each Key Employee who has received a Restricted Stock Award whether the Performance Objectives established for the Performance Cycle have been achieved, the number of shares, if any, of Common Stock with respect to which the restrictions of Article VI have lapsed, the number of shares, if any, which shall be returned to the Company and the number of "opportunity shares", if any, related to such Restricted Stock Award which such Key Employee shall receive. Any lapse of restrictions or award of "opportunity shares" pursuant to this Section 7.1 shall occur on the date the Committee notifies the Key Employee thereof in writing.

7.2. Lapse of Restrictions Due to Certain Terminations of Employment. If a Key Employee who has been in the continuous employment of the Company or of any Subsidiary thereof since the date on which a Restricted Stock Award was granted to him shall, while in such employment and prior to the close of the Performance Cycle with respect to which such Restricted Stock Award was granted:

(a) terminate employment by reason of retirement on or after his 65th birthday under a Company sponsored retirement plan, the restrictions set forth in Section 6.1 shall lapse, as to all shares included in the Restricted Stock Award granted to such Key Employee, on the day of such retirement;

(b) terminate employment by reason of death, Disability, or retirement prior to his 65th birthday but on or after the earliest date on which he is eligible to retire under a Company sponsored retirement plan with an immediate retirement benefit, or if his employment is terminated by the Company without cause, the restrictions set forth in Section 6.1(b)(2) shall lapse on the date of such event and all other restrictions set forth in Section 6.1 shall lapse (1) if such event occurs during the first year of the Performance Cycle, on the date of such event as to the same proportion of the shares

included in the Restricted Stock Award granted to such Key Employee as the number of days elapsed in the Performance Cycle as of the date of such event bears to the total number of days in the Performance Cycle and (2) if such event occurs during any year after such first year of the Performance Cycle, after the close of such year as to some proportion of shares included in the Restricted Stock Award granted to such Key Employee (together with the maximum amount of "opportunity shares", if any, related to the Restricted Stock Award which may be awarded to such Key Employee) as the number of days elapsed in the Performance Cycle as of the date of such event bears to the total number of days in the Performance Cycle.

7.3. Lapse of Restrictions upon Change of Control. Notwithstanding any provision of Section 6.1 or any other provision of this Plan or any provision in any grant or award hereunder to the contrary, all of the restrictions set forth in Article VI on the shares of Common Stock heretofore or hereafter granted under this Plan pursuant to Restricted Stock Awards shall lapse and all "opportunity shares" related to such Restricted Stock Awards shall be awarded upon and simultaneously with any "change in control" of the company occurring. Such a "change in control" shall be deemed to have taken place if:

(a) any "person" or "group" (as such terms are used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Act")) together with its or their "affiliates" and "associates" (as such terms are defined in Rule 12b-2 under the Act), other than the Company or any employee benefit plan(s) sponsored by the Company, becomes the "beneficial owner" (as defined in Rule 13d-3 under the act), directly or indirectly, of the Company's voting securities having 20% or more of the total number of votes that may be cast for the election of the members of the Board of Directors;

(b) within 24 months following a tender or exchange offer for voting securities of the Company, a proxy contest for the election of members of the Board of Directors, individuals who at the initiation of such transaction constituted a majority of the members of the Board of Directors for any reason cease to constitute a majority of the Board of Directors, or any successor to the Company, unless a majority of the members of the Board of Directors in office at the end of such 24-month period were nominated at any time or from time to time upon the recommendation of a majority of the members of the Board of Directors in office at the beginning of such period;

(c) if the Company shall become a subsidiary of another corporation or shall be merged or consolidated with another corporation or if substantially all of the assets of the Company shall be sold; or

(d) any other change in control or other event of a nature that would be required to be reported in response to Item 5(f) of Schedule 14A of Regulation 14A promulgated under the Act shall have occurred.

ARTICLE VIII

Tax Payments

8.1. Tax Payment. Each Key Employee who has received shares of Common Stock pursuant to a Restricted Stock Award with respect to which all of the restrictions set forth in Article VI shall have lapsed or pursuant to an award of "opportunity shares" related to such Restricted Stock Award shall also receive from the Company a cash payment in the year following the close of the Performance Cycle in an amount determined by the Committee, which amount will be sufficient to pay such Key Employee's tax liability (assuming the highest rates of tax applicable to any individual taxpayer in the year in which such payment is made) with respect to (i) such shares and (ii) such cash payment.

PART III

OPTIONS AND STOCK APPRECIATION RIGHTS; TERMINATION OF EMPLOYMENT AND DEATH

ARTICLE IX

Options and Stock Appreciation Rights

9.1. Grant of Options.

(a) Grant. Upon the recommendation of the Chairman, the committee may grant Incentive Stock Options and/or Nonstatutory Stock Options to Key Employees. All Options under this Plan shall be granted within ten years of the date this Plan is adopted or the date this Plan is approved by shareholders of the Company, whichever is earlier.

(b) Option Price. The purchase price per share of Common Stock under each Option shall be not less than 100 percent of the Fair Market Value per share of such Common Stock on the date the Option is granted. The Option price may be subject to adjustment in accordance with the provisions of Section 13.3 hereof.

(c) Option Agreements. Options and any Stock Appreciation Rights attached to such Options shall be evidenced by Option agreements in such form as the Committee shall approve and containing such terms and conditions, including the period of their exercise and whether in installments or otherwise, as shall be contained therein, which need not be the same for all Options.

(d) Options Nontransferable. An Option granted under this Plan shall by its terms be nontransferable by the Key Employee otherwise than by will or the laws of descent and distribution, and, during the lifetime of the Key Employee, shall be exercisable only by him. No transfer of an Option by a Key Employee by will or by the laws of descent and distribution shall be effective to

bind the Company unless the Company shall have been furnished with written notice thereof and a copy of the will and/or such other evidence as the Committee may determine necessary to establish the validity of the transfer.

9.2. Exercise of Options.

(a) Term of Options. No Option granted under this Plan may be exercised until one year after the date of grant thereof. The restriction contained in the preceding sentence shall cease to apply to the exercise of any Option heretofore or hereafter granted under this Plan upon and simultaneously with any "change in control" of the Company, as defined in Section 7.3, occurring. Options may be exercised over such period ending not later than ten years from the date such Options shall have been granted, as the Committee shall determine at the time each Option is granted.

(b) Payment on Exercise. No shares of Common Stock shall be issued on the exercise of an Option unless paid for in full at the time of purchase. Payment for shares of Common Stock purchased upon the exercise of an Option shall be made in cash or, with the consent of the Committee, in Common Stock valued at the then Fair Market Value thereof, or by a combination of cash and Common Stock. Stock certificates for the shares of Common Stock so paid for will be issued and delivered to the person entitled thereto only at the Company's office in Shreveport, Louisiana. No Key Employee shall have any rights as a shareholder with respect to any share of Common Stock covered by an Option unless and until he shall have become the holder of record of such share, and, except as otherwise permitted by Section 13.3 hereof, no adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property or distributions or other rights) in respect of such share for which the record date is prior to the date on which such employee shall have become the holder of record thereof.

9.3. Incentive Stock Options.

(a) Annual Limitation. Any other provision of this Plan notwithstanding, but subject to the limitation of Section 3.2 relating to the aggregate number of shares subject to this Plan, the aggregate Fair Market Value (determined as of the time the Option is granted) of the shares for which any Key Employee may be granted Incentive Stock Options in any calendar year (under this Plan and any other plans of the Company and its Subsidiaries) shall not exceed the sum of \$100,000 plus any unused limit carryover from the three immediately preceding calendar years. For purposes of this paragraph, the term "limit carryover" means an amount equal to one-half of the excess, if any, of \$100,000 over the aggregate Fair Market Value (determined as of the time of grant) of the shares for which the Key Employee was granted such Incentive Stock Options under all plans of the Company and its Subsidiaries. The amount of Incentive Stock Options granted during any calendar year shall be treated as first covering the \$100,000 limitation referred to herein and then covering any unused limit carryovers in the chronological order of the calendar years in which the carryovers arose.

(b) Sequential Exercise Rule. The agreement pursuant to which an Option is granted shall provide that an Incentive Stock Option shall not be exercisable while there is outstanding any other Incentive Stock Option which was granted before the granting of such Incentive Stock Option to the Key Employee to purchase stock in the Company or in a corporation which was a Subsidiary at the time of the grant of such Incentive Stock Option. For this purpose, any such prior Incentive Stock Option shall be considered outstanding either until it is exercised in full or until it expires by reason of lapse of time.

(c) Incentive Stock Options Granted to Ten Percent Shareholders. No Incentive Stock Option shall be granted to any Key Employee who owns, directly or indirectly pursuant to Section 425(d) of the Code, stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or any subsidiary, unless at the time such Incentive Stock Option is granted, the price of the Incentive Stock Option is at least 110 percent of the Fair Market Value of the Common Stock subject to the Incentive Stock Option and such Incentive Stock Option, by its terms, is not exercisable after the expiration of five (5) years from the date such Incentive Stock Option is granted.

(d) Notice. Each Key Employee shall give prompt notice to the Company of any disposition of shares acquired upon exercise of an Incentive Stock Option if such disposition occurs within either two years after the date of grant or one year after the date of transfer of such shares to the Key Employee upon the exercise of such Incentive Stock Option.

9.4. Nonstatutory Stock Options.

(a) No Exercise Sequence Required. Nonstatutory Stock Options granted under this Plan may be exercised in any order, regardless of the date of grant or the existence of any outstanding Option, and no Stock Appreciation Right may be exercised after the related Option becomes nonexercisable.

9.5. Stock Appreciation Rights Attached to Options.

(a) Award. The Committee may award a Stock Appreciation Right with respect to any shares of Common Stock covered by any Option granted under this Plan and such Stock Appreciation Right shall be granted only at the time of the grant of the related Option.

(b) Terms and Conditions. Each Stock Appreciation Right shall be subject to the same terms and conditions as the related Option with respect to date of expiration, limitations on transferability and eligibility to exercise; provided, however, that the Stock Appreciation Right granted in connection with a Nonstatutory Stock Option shall be exercisable only during the period beginning on the third day and ending on the twelfth day following the release of the Company's quarterly earnings. A Stock Appreciation Right granted in connection with an Incentive Stock Option may be exercised only when the Fair Market Value of the shares of Common Stock subject to such Incentive Stock Option exceeds the exercise price of such Incentive Stock Option. No Stock

Appreciation Right may be exercised after the related Option becomes nonexercisable. Stock Appreciation Rights shall be payable in the form of cash or, at the election of the Committee, Common Stock or a combination thereof.

(c) Amount of Compensation. The amount of compensation which shall be payable to an Employee pursuant to the exercise of a Stock appreciation Right shall be equal to the excess of the Fair Market Value of one share of Common Stock (1) with respect to a Stock Appreciation Right granted in connection with an Incentive Stock Option, on the date the appropriate officer of the Company receives notice of the exercise of such Stock Appreciation Right and (2) with respect to a Stock Appreciation Right granted in connection with a Nonstatutory Stock Option, on the date of determination of the Fair Market Value as provided in the last sentence of the definition thereof, in each case over the Fair Market Value of such share on the date the Stock Appreciation Right was granted multiplied by the number of Option shares with respect to which the Stock Appreciation Right is exercised (the "spread"). The amount of compensation which shall be payable to a Key Employee pursuant to the exercise of a Stock Appreciation Right accompanying an Option shall not exceed 100 percent of the spread.

(d) Termination of Option. Upon the exercise of a Stock Appreciation Right, the related Option shall cease to be exercisable as to the number of shares of Common Stock with respect to which such Stock Appreciation Right was exercised, and the related Option shall be considered to have been exercised to that extent.

ARTICLE X

Termination of Employment and Death

10.1. Termination of Employment. Unless earlier terminated in accordance with its terms, an Option or Stock Appreciation Right shall terminate after (i) 90 days in the case of an Incentive Stock Option and (ii) one year in the case of a Nonstatutory Stock Option, after any of the following:

(a) voluntary termination of employment by the Key Employee, with or without consent of the Company,

(b) termination of employment of the Key Employee by the Company or any of its Subsidiaries, with or without cause, or

(c) termination of employment of the Key Employee because of Disability, retirement under a retirement plan maintained by the Company, or because the Subsidiary employing such Key Employee ceases to be a Subsidiary of the Company and he does not, prior thereto or contemporaneously therewith, become a Key Employee of the Company or of another Subsidiary;

provided that, with regard to terminations of employment pursuant to paragraph (b), the Option or Stock Appreciation Right shall terminate as of the date of such discharge if prior to such termination

the Board or the Committee in its discretion shall determine that it is not in the best interest of the Company that the Option or Stock Appreciation Right should continue for said period.

10.2. Death of Optionee. If a Key Employee shall die during the term of his Option or Stock Appreciation Right, his legal representatives shall be entitled to exercise the Option or Stock Appreciation Right in whole or in part, to the extent such Option or Stock Appreciation Right was exercisable by such Key Employee on the date of such Key Employee's death, at any time within one year following the death of such Key Employee.

PART IV

ADMINISTRATION, AMENDMENT AND TERMINATION OF PLAN; MISCELLANEOUS

ARTICLE XI

Administration of Plan

11.1. The Committee. This Plan shall be administered by a Committee of three or more persons, all of whom shall be members of the Board and shall be appointed by, and serve at the pleasure of, the Board. No person shall serve as a member of the Committee if such person had been eligible, at any time within one year prior to appointment as a member, for selection as a person to whom Stock Awards or Options may be granted under this Plan. A majority of the Committee shall constitute a quorum thereof and the actions of a majority of the Committee at a meeting at which a quorum is present, or actions unanimously approved in writing by all members of the Committee, shall be the actions of the Committee. Vacancies occurring on the Committee shall be filled by the Board. The Committee shall have full and final authority to interpret this Plan and the agreements evidencing Restricted Stock Awards, Options and Stock Appreciation Rights granted hereunder, to prescribe, amend and rescind rules and regulations, if any, relating to this Plan and to make all determinations necessary or advisable for the administration of this Plan. The Committee's determination in all matters referred to herein shall be conclusive and binding for all purposes and upon all persons including, but without limitation, the Company, the shareholders of the Company, the Committee and each of the members thereof, and Employees of the Company, and their respective successors in interest.

11.2. Liability of Committee. No member of the Committee shall be liable for anything done or omitted to be done by such member or by any other member of the Committee in connection with this Plan, except for the willful misconduct or gross negligence of such member. The Committee shall have power to engage outside consultants, auditors or other professional help to assist in the fulfillment of the Committee's duties under this Plan at the Company's expense.

11.3. Determinations of the Committee. In making its determinations concerning the Key Employees who shall receive Stock Awards, Options and Stock Appreciation Rights, as well as the

number of shares to be covered thereby and time or times at which they shall be granted, the Committee shall take into account the nature of the services rendered by the respective Key employees, their past, present and potential contribution to the Company's success and such other factors as the Committee may deem relevant. The Committee shall also determine the form of Stock Awards and of Option agreements to be issued under this Plan and the terms and conditions to be included therein, provided such terms and conditions are not inconsistent with the terms of this Plan. The Committee may, in its discretion or in accordance with a direction from the Board, waive any provisions of any Restricted Stock Award or Option agreement, provided such waiver is not inconsistent with the terms of this Plan as then in effect.

ARTICLE XII

Amendment and Termination of Plan

12.1. Amendment of Plan. (a) Generally. The Plan may be amended at any time and from time to time by the Board of Directors of the Company but no amendment which (1) increases the aggregate number of shares of Common Stock which may be granted pursuant to this Plan, (2) decreases the minimum Option price provided in this Plan, (3) extends the period during which Stock Awards, Options and Stock Appreciation Rights may be granted under this Plan, or (4) changes the class of Key Employees eligible to receive Restricted Stock Awards, Options and Stock Appreciation Rights shall be effective unless and until the same is approved by the affirmative vote, in person or by proxy, of the holders of a majority of the shares of Common Stock of the Company present and entitled to vote at a meeting held to take such action at which a quorum is present.

(b) Amendments Relating to Incentive Stock Options. To the extent applicable, this Plan is intended to permit the issuance of Incentive Stock Options in accordance with the provisions of Section 422A of the Code. The Plan may be modified or amended at any time, both prospectively and retroactively, and in such manner as to affect Incentive Stock Options previously granted, if such amendment or modification is necessary for this Plan and the Incentive Stock Options granted hereunder to qualify under said provisions of the Code.

12.2. Termination. The Board of Directors of the Company may at any time terminate this Plan as of any date specified in a resolution adopted by the Board. If not earlier terminated, this Plan shall terminate on May 12, 1996. No Stock Awards, Options or Stock Appreciation Rights may be granted after this Plan has terminated. After this Plan shall terminate, the function of the Committee will be limited to supervising the administration of Stock Awards, Options and Stock Appreciation Rights previously granted.

ARTICLE XII

Miscellaneous Provisions

13.1. Restrictions upon Grant of Stock Awards, Options and Stock Appreciation Rights. The listing upon the New York Stock Exchange or the registration or qualification under any Federal or State law of any shares of Common Stock to be granted pursuant to this Plan (whether to permit the grant of Stock Awards, Options or Stock Appreciation Rights or the resale or other disposition of any such shares of Common Stock by or on behalf of the Employees receiving such shares) may be necessary or desirable and, in any such event, delivery of the certificates for such shares of Common Stock shall, if the Board of Directors, in its sole discretion, shall determine, not be made until such listing, registration or qualification shall have been completed. In such connection, the Company agrees that it will use its best efforts to effect any such listing, registration or qualification, provided, however, that the Company shall not be required to use its best efforts to effect such registration under the Securities Act of 1933 other than on Form S-8, as presently in effect, or such other forms as may be in effect from time to time calling for information comparable to that presently required to be furnished under Form S-8.

13.2. Restrictions upon Resale of Unregistered Stock. If the shares of Common Stock that have been transferred to a Key Employee pursuant to the terms of this Plan are not registered under the Securities Act of 1933, as amended, pursuant to an effective registration statement, such Key Employee, if the Committee shall deem it advisable, may be required to represent and agree in writing (i) that any shares of Common Stock acquired by such Key Employee pursuant to this Plan will not be sold except pursuant to an effective registration statement under the Securities Act of 1933, as amended, or pursuant to an exemption from registration under said Act and (ii) that such Key Employee is acquiring such shares of Common Stock for his own account and not with a view to the distribution thereof.

13.3. Adjustments. The number of shares of Common Stock of the Company authorized for issuance under this Plan, as well as the price to be paid for any shares issued pursuant to the exercise of Options, shall be subject to adjustment by the Committee, in its sole discretion, to reflect any stock split, stock dividend, recapitalization, merger, consolidation, reorganization, combination or exchange of shares or other similar event.

13.4. Restrictive Legends.

(a) Certificates for shares of Common Stock delivered pursuant to Restricted Stock Awards shall bear an appropriate legend referring to the terms, conditions and restrictions described in this Plan and in the instruments evidencing the grant of the Restricted Stock Awards. Any attempt to dispose of any such shares of Common Stock in contravention of the terms, conditions and restrictions described in this Plan or in the instruments evidencing the grant of the Restricted Stock Award shall be ineffective.

(b) Any shares of Common Stock of the Company received by a Key Employee as a stock dividend on, or as a result of stock splits, combinations, exchanges of shares, reorganizations, mergers, consolidations or otherwise with respect to, shares of Common Stock received pursuant to a Restricted Stock Award shall have the same status and bear the same legend as the shares received pursuant to the Restricted Stock Award.

13.5. Withholding of Taxes.

(a) Each Key Employee granted a Restricted Stock Award shall agree that no later than the date of the lapse of all of the restrictions mentioned in Article VI hereof and in the instrument evidencing the grant of the Restricted Stock Award and on the date of receipt of any "opportunity shares" related to such Restricted Stock Award, such Key Employee will pay to the Company, or make arrangements satisfactory to the Committee regarding payment of, any taxes of any kind required by law to be withheld with respect to such shares of Common Stock.

(b) Each Key Employee who exercises a Nonstatutory Stock Option to purchase Common Stock shall agree that no later than the date of such exercise or receipt he will pay to the Company, or make arrangements satisfactory to the Committee regarding payment of, any taxes of any kind required by law to be withheld with respect to the transfer to him of such shares of Common Stock.

(c) Each Key Employee who receives payment in cash under this Plan shall receive such payments net of an amount sufficient to satisfy any taxes of any kind required to be withheld from such payments.

13.6. Use of Proceeds. The proceeds from the sale of Common Stock pursuant to Options granted under this Plan shall constitute general funds of the Company and may be used for such corporate purposes as the Company may determine.

NORAM ENERGY CORP.

1994 INCENTIVE EQUITY PLAN

NorAm Energy Corp., a Delaware corporation (the "Company"), hereby establishes this NorAm Energy Corp. 1994 Incentive Equity Plan (this "Plan") generally effective as of January 1, 1994, subject to shareholder approval.

1. Purpose. The purpose of this Plan is to attract and retain key employees for the Company and its Subsidiaries and to provide to such persons incentives and rewards for superior performance. This Plan supersedes and replaces the Arkla, Inc. Long Term Incentive Compensation Plan ("LTIP") with respect to performance cycles beginning after December 31, 1993, and the provisions of Paragraph 6 incorporate the equity based compensation arrangement of the Chairman of the Company that was approved by the Board of Directors on September 15, 1993. Any shares of common stock of the Company that remain available for awards under the LTIP may continue to be awarded with respect to performance cycles beginning before January 1, 1994.

2. Definitions. As used in this Plan,

(a) "Annual Incentive Award" means the annual incentive compensation payment made pursuant to Paragraph 9.

(b) "Appreciation Right" means a right granted pursuant to Paragraph 5.

(c) "Award" means an Annual Incentive Award, an Appreciation Right, an Option Right, an award of Opportunity Shares, a Performance Unit or an award of Restricted Stock.

(d) "Board" means the Board of Directors of the Company.

(e) "Code" means the Internal Revenue Code of 1986, as in effect from time to time.

(f) "Committee" means the Compensation and Benefits Committee of the Board and, to the extent the administration of this Plan has been assumed by the Board pursuant to Paragraph 14, the Board.

(g) "Common Stock" means the Common Stock, \$.625 par value, of the Company or any security into which such Common Stock may be changed by reason of any transaction or event of the type described in Paragraph 11.

(h) "Date of Grant" means the date specified by the Committee on which a grant of Option Rights, Appreciation Rights, Performance Units or Opportunity Shares or a grant

or sale of Restricted Stock will become effective (which date will not be earlier than the date on which the Committee takes action with respect thereto).

(i) "Grant Price" means the price per share of Common Stock at which an Appreciation Right not granted in tandem with an Option Right is granted.

(j) "Management Objectives" means the objectives, if any, established by the Committee that are to be achieved with respect to an Award granted under this Plan, which may be described in terms of Company-wide objectives, in terms of objectives that are related to performance of the division, Subsidiary, department or function within the Company or a Subsidiary in which the Participant receiving the Award is employed or in other terms, and which will relate to the Performance Cycle determined by the Committee. The Committee may adjust Management Objectives and any minimum acceptable level of achievement with respect to any Management Objectives if, in the sole judgment of the Committee, events or transactions have occurred which are unrelated to the performance of the Participant and result in a distortion of the Management Objectives or such minimum acceptable level of achievement.

(k) "Market Value per Share" means, at any date, the closing sale price of the Common Stock on that date (or, if there are no sales on that date, the last preceding date on which there was a sale) in the principal market in which the Common Stock is traded.

(l) "Opportunity Shares" means shares of Common Stock awarded pursuant to Paragraph 8.

(m) "Option Price" means the purchase price per share payable on exercise of an Option Right.

(n) "Option Right" means the right to purchase a share of Common Stock upon exercise of an option granted pursuant to Paragraph 4.

(o) "Participant" means a person who is selected by the Committee to receive benefits under this Plan and who is at that time a key employee of the Company or any of its Subsidiaries. No member of the Board may be selected to receive benefits under this Plan unless the Board member is at that time also an employee of the Company or any Subsidiary.

(p) "Performance Cycle" means, in respect of an Award, a period of time established by the Committee within which the Management Objectives relating to such Award are to be achieved.

(q) "Performance Unit" means a unit equivalent to \$100 (or such other value as the Committee determines) awarded pursuant to Paragraph 7.

(r) "Restricted Stock" means shares of Common Stock granted or sold pursuant to Paragraph 6 as to which neither the ownership restrictions nor the restriction on transfers referred to therein has expired.

(s) "Rule 16b-3" means Rule 16b-3 of the Securities and Exchange Commission (or any successor rule to the same effect) as in effect from time to time.

(t) "Spread" means the excess of the Market Value per Share on the date when an Appreciation Right is exercised over (a) the Option Price provided for in the related Option Right or (b) if there is no tandem Option Right, the Grant Price provided for in the Appreciation Right, multiplied by the number of shares of Common Stock in respect of which the Appreciation Right is exercised.

(u) "Subsidiary" means any corporation in which at the time the Company owns or controls, directly or indirectly, not less than 50% of the total combined voting power represented by all classes of stock issued by such corporation.

3. Shares Available Under Plan. Subject to adjustment as provided in Paragraph 11, the shares of Common Stock which may be issued or transferred and covered by outstanding Awards granted under this Plan will not exceed in the aggregate 3,800,000 shares, of which number no more than 2,000,000 shares will be issued or transferred as Restricted Stock (taking into account an aggregate of 43,513 shares of Common Stock previously delivered and to be delivered to the Chairman of the Company through the end of 1994 pursuant his compensation arrangement approved by the Board on September 13, 1993), stock options and stock appreciation rights with respect to no more than 80,000 shares will be granted to any Participant during any calendar year and no more than 700,000 shares will be delivered in payment of any Annual Incentive Award. Such shares may be shares of original issuance or treasury shares or a combination of the foregoing. Upon exercise of any Appreciation Rights, there will be deemed to have been delivered under this Plan for purposes of this Paragraph 3 the number of shares of Common Stock covered by the Appreciation Rights or the related Option Rights, regardless of whether such Appreciation Rights were paid in cash or shares of Common Stock. Subject to the provisions of the preceding sentence, any shares of Common Stock which are subject to Option Rights or Appreciation Rights or are awarded or sold as Restricted Stock that are terminated, unexercised, forfeited or surrendered or which expire for any reason will again be available for issuance under this Plan.

4. Option Rights. The Committee may from time to time authorize grants to any Participant of options to purchase shares of Common Stock upon such terms and conditions as it may determine in accordance with the following provisions:

(a) Each grant will specify the number of shares of Common Stock to which it pertains.

(b) Each grant will specify the Option Price, which will not be less than 100% of the Market Value per Share on the Date of Grant.

(c) Each grant will specify that the Option Price will be payable (i) in cash or by check acceptable to the Company, (ii) by the transfer to the Company of shares of Common Stock having an aggregate Market Value per Share at the date of exercise equal to the aggregate Option Price or (iii) by a combination of such methods of payment. Any grant may provide for deferred payment of the Option Price from the proceeds of sale through a broker of some or all of the shares to which such exercise relates.

(d) Successive grants may be made to the same Participant whether or not any Option Rights previously granted to such Participant remain unexercised.

(e) Each grant will specify the required period or periods of continuous service by the Participant with the Company or any Subsidiary and/or the Management Objectives to be achieved before the Option Rights or installments thereof will become exercisable, and any grant may provide for the earlier exercise of the Option Rights in the event of a change in control of the Company or other similar transaction or event.

(f) Each grant the exercise of which, or the timing of the exercise of which, is dependent, in whole or in part, on the achievement of Management Objectives may specify a minimum level of achievement in respect of the specified Management Objectives below which no Options Rights will be exercisable and may set forth a formula or other method for determining the number of Option Rights that will be exercisable if performance is at or above such minimum but short of full achievement of the Management Objectives.

(g) Option Rights granted under this Plan may be (i) options which are intended to qualify under particular provisions of the Code, (ii) options which are not intended to so qualify or (iii) combinations of the foregoing.

(h) No Option Right will be exercisable more than ten years from the Date of Grant.

(i) Each grant of Option Rights will be evidenced by an agreement executed on behalf of the Company by any officer and delivered to the Participant and containing such terms and provisions, consistent with this Plan, as the Committee may approve.

5. Appreciation Rights. The Committee may also from time to time authorize grants to any Participant of Appreciation Rights upon such terms and conditions as it may determine in accordance with this Paragraph. Appreciation Rights may be granted in tandem with Option Rights or separate and apart from a grant of Option Rights. An Appreciation Right will be a right of the Participant granted such Award to receive from the Company upon exercise an amount which will be determined by the Committee at the Date of Grant and will be expressed as a percentage of the

Spread (not exceeding 100%) at the time of exercise. An Appreciation Right granted in tandem with an Option Right may be exercised only by surrender of the related Option Right. Each grant of an Appreciation Right may utilize any or all of the authorizations, and will be subject to all of the limitations, contained in the following provisions:

(a) Each grant will state whether it is made in tandem with Option Rights and, if not made in tandem with any Option Rights, will specify the number of shares of Common Stock in respect of which it is made.

(b) Each grant made in tandem with Option Rights will specify the Option Price and each grant not made in tandem with Option Rights will specify the Grant Price, which in either case will not be less than 100% of the Market Value per Share on the Date of Grant.

(c) Any grant may specify that the amount payable on exercise of an Appreciation Right may be paid by the Company in (i) cash, (ii) shares of Common Stock having an aggregate Market Value per Share equal to the Spread or (iii) any combination thereof, as determined by the Committee in its sole discretion at the time of payment.

(d) Any grant may specify that the amount payable on exercise of an Appreciation Right may not exceed a maximum specified by the Committee at the Date of Grant (valuing shares of Common Stock for this purpose at their Market Value per Share at the date of exercise).

(e) Each grant will specify the required period or periods of continuous service by the Participant with the Company or any Subsidiary and/or Management Objectives to be achieved before the Appreciation Rights or installments thereof will become exercisable, and will provide that no Appreciation Right may be exercised except at a time when the Spread is positive and, with respect to any grant made in tandem with Option Rights, when the related Option Right is also exercisable. Any grant may provide for the earlier exercise of the Appreciation Rights in the event of a change in control of the Company or other similar transaction or event.

(f) Each grant the exercise of which, or the timing of the exercise of which, is dependent, in whole or in part, on the achievement of Management Objectives may specify a minimum level of achievement in respect of the specified Management Objectives below which no Appreciation Rights will be exercisable and may set forth a formula or other method for determining the number of Appreciation Rights that will be exercisable if performance is at or above such minimum but short of full achievement of the Management Objectives.

(g) Each grant of an Appreciation Right will be evidenced by an agreement executed on behalf of the Company by any officer and delivered to and accepted by the Participant receiving the grant, which agreement will describe such Appreciation Right,

identify any Option Right granted in tandem with such Appreciation Right, state that such Appreciation Right is subject to all the terms and conditions of this Plan and contain such other terms and provisions, consistent with this Plan, as the Committee may approve.

6. Restricted Stock. The Committee may also from time to time authorize grants or sales to any Participant of Restricted Stock upon such terms and conditions as it may determine in accordance with the following provisions:

(a) Each grant or sale will constitute an immediate transfer of the ownership of shares of Common Stock to the Participant in consideration of the performance of services, entitling such Participant to voting and other ownership rights, but subject to the restrictions hereinafter referred to. Each grant or sale may limit the Participant's dividend rights during the period in which the shares of Restricted Stock are subject to any such restrictions.

(b) Each grant or sale will specify the Management Objectives, if any, that are to be achieved in order for the ownership restrictions to lapse. Each grant or sale that is subject to the achievement of Management Objectives will specify a minimum acceptable level of achievement in respect of the specified Management Objectives below which the shares of Restricted Stock will be forfeited and may set forth a formula or other method for determining the number of shares of Restricted Stock with respect to which restrictions will lapse if performance is at or above such minimum but short of full achievement of the Management Objectives.

(c) Each such grant or sale may be made without additional consideration or in consideration of a payment by such Participant that is less than the Market Value per Share at the Date of Grant.

(d) Each such grant or sale will provide that the shares of Restricted Stock covered by such grant or sale will be subject, for a period to be determined by the Committee at the Date of Grant, to one or more restrictions, including, without limitation, a restriction that constitutes a "substantial risk of forfeiture" within the meaning of Section 83 of the Code and the regulations of the Internal Revenue Service thereunder, and any grant or sale may provide for the earlier termination of such period in the event of a change in control of the Company or other similar transaction or event.

(e) Each such grant or sale will provide that during the period for which such restriction or restrictions are to continue, the transferability of the Restricted Stock will be prohibited or restricted in a manner and to the extent prescribed by the Committee at the Date of Grant (which restrictions may include, without limitation, rights of repurchase or first refusal in the Company or provisions subjecting the Restricted Stock to continuing restrictions in the hands of any transferee).

(f) Each grant or sale of Restricted Stock will be evidenced by an agreement executed on behalf of the Company by any officer and delivered to and accepted by the Participant and containing such terms and provisions, consistent with this Plan, as the Committee may approve.

(g) Shares of Common Stock transferred pursuant to a grant of Restricted Stock will be held in escrow pursuant to an agreement satisfactory to the Committee until such time as the restrictions on transfer have expired.

7. Opportunity Shares. The Committee may also from time to time authorize grants to any Participant of Opportunity Shares, the ownership of which will be transferred to the Participant upon achievement of specified Management Objectives, upon such terms and conditions as it may determine in accordance with the following provisions:

(a) Each grant will specify the number of Opportunity Shares to which it pertains.

(b) Each grant will specify the Management Objectives that are to be achieved.

(c) Each grant will specify a minimum acceptable level of achievement in respect of the specified Management Objectives below which no delivery of Opportunity Shares will occur and may set forth a formula or other method for determining the number of Opportunity Shares to be delivered if performance is at or above such minimum but short of full achievement of the Management Objectives.

(d) Each grant will specify the time and manner of delivery of Opportunity Shares which have been earned.

(e) Each grant of Opportunity Shares will be evidenced by an agreement executed on behalf of the Company by any officer and delivered to and accepted by the Participant and containing such terms and provisions, consistent with this Plan, as the Committee may approve, including provisions relating to a change in control of the Company or other similar transaction or event.

8. Performance Units. The Committee may also from time to time authorize grants to any Participant of Performance Units, which will become payable upon achievement of specified Management Objectives, upon such terms and conditions as it may determine in accordance with the following provisions:

(a) Each grant will specify the number of Performance Units to which it pertains.

(b) Each grant will specify the Management Objectives that are to be achieved.

(c) Each grant will specify a minimum acceptable level of achievement in respect of the specified Management Objectives below which no payment will be made and may set forth a formula or other method for determining the amount of the payment to be made if performance is at or above such minimum but short of full achievement of the Management Objectives.

(d) Each grant will specify the time and manner of payment of Performance Units which have become payable, which payment may be made in (i) cash, (ii) shares of Common Stock having an aggregate Market Value per Share equal to the aggregate value of the Performance Units which have become payable or (iii) any combination thereof, as determined by the Committee in its sole discretion at the time of payment.

(e) Each grant of a Performance Unit will be evidenced by an agreement executed on behalf of the Company by any officer and delivered to and accepted by the Participant and containing such terms and provisions, consistent with this Plan, as the Committee may approve, including provisions relating to a change in control of the Company or other similar transaction or event.

9. Annual Incentive Awards. The Committee may from time to time authorize payment of annual incentive compensation, which will become payable upon achievement of specified Management Objectives. Annual incentive compensation will be payable upon such terms and conditions as the Committee may determine in accordance with the following provisions:

(a) The Committee will specify the Management Objectives that are to be achieved, which will be based on a one-year Performance Cycle beginning with the Performance Cycle that ends on December 31, 1993.

(b) The Committee will specify a minimum acceptable level of achievement in respect of the specified Management Objectives below which no payment will be made and may set forth a formula or other method for determining the amount of the payment to be made if performance is at or above such minimum but short of full achievement of the Management Objectives. The Committee may adopt a method for determining the amount of payment to be made in the event of a change in control of the Company or other similar transaction or event.

(c) The Committee will specify the time and manner of payment of annual incentive compensation which becomes payable, which payment may be made in (i) cash, (ii) shares of Common Stock having an aggregate Market Value per Share equal to the aggregate value of the incentive compensation which has become payable or (iii) any combination thereof, as determined by the Committee in its sole discretion at the time of payment.

(d) As soon as practicable after the beginning of a Performance Cycle, the Committee will notify each Participant of the terms of the annual incentive compensation program for that Performance Cycle, which notification will state that such incentive compensation is subject to all the terms and conditions of this Plan, and contain such other terms and provisions, consistent with this Plan, as the Committee may approve.

10. Transferability. No Option Right, Appreciation Right, Performance Unit that has not become payable, Annual Incentive Award that has not become payable or Opportunity Share that has not been delivered will be transferable by a Participant other than by will or the laws of descent and distribution. Option Rights or Appreciation Rights will be exercisable during the Participant's lifetime only by the Participant or by the Participant's guardian or legal representative.

11. Adjustments. The Board may make or provide for such adjustments in the maximum number of shares specified in Paragraph 3, in the numbers of shares of Common Stock covered by outstanding Option Rights, Appreciation Rights and Opportunity Shares granted hereunder, in the Option Price or Grant Price applicable to any such Option Rights and Appreciation Rights, and/or in the kind of shares covered thereby (including shares of another issuer), as the Board in its sole discretion, exercised in good faith, may determine is equitably required to prevent dilution or enlargement of the rights of Participants that otherwise would result from any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, merger, consolidation, spin-off, reorganization, partial or complete liquidation, issuance of rights or warrants to purchase securities or any other corporate transaction or event having an effect similar to any of the foregoing.

12. Fractional Shares. The Company will not be required to issue any fractional share of Common Stock pursuant to this Plan. The Committee may provide for the elimination of fractions or for the settlement of fractions in cash.

13. Withholding Taxes. To the extent that the Company is required to withhold federal, state, local or foreign taxes in connection with any payment made or benefit realized by a Participant or other person under this Plan, or is requested by a Participant to withhold additional amounts with respect to such taxes, and the amounts available to the Company for such withholding are insufficient, it will be a condition to the receipt of such payment or the realization of such benefit that the Participant or such other person make arrangements satisfactory to the Company for payment of the balance of such taxes required or requested to be withheld, which arrangements in the discretion of the Committee may include relinquishment of a portion of such benefit.

14. Administration of the Plan. (a) Unless the administration of this Plan has been expressly assumed by the Board pursuant to a resolution of the Board, this Plan will be administered by the Committee, which at all times will consist entirely of not less than three nonemployee directors appointed by the Board, each of whom will be a "disinterested person" within the meaning of Rule 16b-3. A majority of the Committee will constitute a quorum, and the action of the members

of the Committee present at any meeting at which a quorum is present, or acts unanimously approved in writing, will be the acts of the Committee.

(b) The interpretation and construction by the Committee of any provision of this Plan or of any agreement, notification or document evidencing the grant of an Award and any determination by the Committee pursuant to any provision of this Plan or of any such agreement, notification or document will be final and conclusive. No member of the Committee will be liable for any such action or determination made in good faith.

15. Amendments, Etc. (a) This Plan may be amended from time to time by the Board but may not be amended by the Board without further approval by the shareholders of the Company if such amendment would result in this Plan no longer satisfying the requirements of Rule 16b-3.

(b) In case of termination of employment by reason of death, disability or retirement, or in the event of hardship or other special circumstances, of a Participant who holds an Option Right or Appreciation Right not immediately exercisable in full, or any Restricted Stock as to which ownership restrictions or the prohibition or restriction on transfer has not lapsed, or any Performance Units or Annual Incentive Awards which have not become fully payable or any Opportunity Shares that have not been delivered, the Board may, in its sole discretion, take any action that it deems to be equitable under the circumstances or in the best interests of the Company, including waiving or modifying any limitation or requirement with respect to any Award under this Plan.

(c) This Plan will not confer upon any Participant any right with respect to continuance of employment or other service with the Company or any Subsidiary, nor will it interfere in any way with any right the Company or any Subsidiary would otherwise have to terminate such Participant's employment or other service at any time.

DEI 1990 STOCK AWARD PLAN

1. Purpose. The purpose of the DEI 1990 Stock Award Plan (the "Plan") is to motivate key Employees to produce a superior return to the shareholders of Diversified Energies, Inc. by offering key Employees an opportunity to realize Stock appreciation, by facilitating Stock ownership and by rewarding them for achieving a high level of corporate financial performance. The Plan is also intended to facilitate recruiting and retaining key personnel of outstanding ability by providing an attractive capital accumulation opportunity.
2. Definitions.
 - 2.1 the terms defined in this section are used (and capitalized) elsewhere in the plan.
 - a. "Affiliate" means any corporation that is a "parent corporation" or "subsidiary corporation" of the Company, as those terms are defined in Section 425(e) and (f) of the Code, or any successor provision.
 - b. "Agreement" means a written contract entered into between the Company or an Affiliate and a Participant containing the terms and conditions of an Award in such form and not inconsistent with this Plan as the Committee shall approve from time to time, together with all amendments thereto, which amendments may be unilaterally made by the Company (with the approval of the Committee) unless such amendments are deemed by the Committee to be materially adverse to the Participant and are not required as a matter of law.
 - c. "Award" means a grant made under this Plan in the form of Restricted Stock, Options, Stock Appreciation Rights, Performance Units or Stock.
 - d. "Board" means the Board of Directors of the Company.
 - e. "Code" means the Internal Revenue Code of 1986, as amended from time to time.
 - f. "Committee" means three or more Disinterested Persons designated by the Board to administer the Plan under Section 3.

- g. "Company" or "DEI" means Diversified Energies, Inc., a Minnesota corporation, or any successor to substantially all of its businesses.
- h. "Disinterested Person" means a member of the Board who is considered a disinterested person within the meaning of Exchange Act Rule 16b-3 or any successor definition.
- i. "Effective Date" means the date specified in Sec. 12.1 hereof.
- j. "Employee" means a salaried employee (including an officer or director who is also an employee) of the Company or an Affiliate.
- k. "Event" means any of the following:
 - (1) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) of beneficial ownership (within the meaning of Exchange Act Rule 13d-3) of 20% or more of either (i) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of the Board (the "Outstanding Company Voting Securities"); provided, however, that the following acquisitions shall not constitute an Event:
 - (A) any acquisition of voting securities of the Company directly from the Company,
 - (B) any acquisition of voting securities of the Company by the Company or any of its wholly-owned Subsidiaries,
 - (C) any acquisition of voting securities of the Company by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its Subsidiaries, or
 - (D) any acquisition by any corporation with respect to which, immediately following such acquisition, more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners,

respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such acquisition in substantially the same proportions as was their ownership, immediately prior to such acquisition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be;

- (2) Individuals who, as of the Effective Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director of the Board subsequent to the Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the incumbent Board shall be considered a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest which was (or, if threatened, would have been) subject to Exchange Act Rule 14a-11;
- (3) Approval by the shareholders of the Company of a reorganization, merger, consolidation or statutory exchange of Outstanding Company Voting Securities, unless immediately following such reorganization, merger, consolidation or exchange, all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such reorganization, merger, consolidation or exchange beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such reorganization, merger, consolidation or exchange in substantially the same proportions as was their ownership, immediately prior to such reorganization, merger, consolidation or exchange, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be; or
- (4) Approval by the shareholders of the Company of (i) a complete liquidation or dissolution of the Company or (ii) the sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation with respect to which, immediately following such sale or other disposition, more than 60% of, respectively, the then outstanding shares of common stock of such

corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as was their ownership, immediately prior to such sale or other disposition, of the outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be.

Notwithstanding the above, an Event shall not be deemed to occur with respect to a recipient of an Award if the acquisition of the 20% or greater interest referred to in paragraph (1) is by a group, acting in concert, that includes that recipient or if at least 40% of the then outstanding common stock or combined voting power of the then outstanding voting securities (or voting equity interests) of the surviving corporation or of any corporation (or other entity) acquiring all or substantially all of the assets of the Company shall be beneficially owned, directly or indirectly, immediately after a reorganization, merger, consolidation, statutory share exchange or disposition of assets referred to in paragraphs (3) or (4) by a group, acting in concert, that includes that recipient.

- l. "Exchange Act" means the Securities Exchange Act of 1934, as amended.
- m. "Fair Market Value" as of any date means, unless otherwise expressly provided in the Plan:
 - (i) the closing price of a Share on the date immediately preceding that date or, if no sale of Shares shall have occurred on that date, on the next preceding day on which a sale occurred of Shares,
 - (A) on the composite tape for New York Stock Exchange listed shares, or
 - (B) if the Shares are not quoted on the composite tape for New York Stock Exchange listed shares, on the principal United States Securities Exchange registered under the Exchange Act on which the Shares are listed, or
 - (C) if the Shares are not listed on any such exchange, on the National Association of Securities Dealers, Inc. Automated Quotations National Market System, or

- (ii) if clause (i) is inapplicable, the mean between the closing "bid" and the closing "asked" quotation of a Share on the date immediately preceding that date, or, if no closing bid or asked quotation is made on that date, on the next preceding day on which a quotation is made, on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or
- (iii) if clauses (i) and (ii) are inapplicable, what the Committee determines in good faith to be 100% of the fair market value of a Share on that date.

However, if the applicable securities exchange or system has closed for the day at the time the event occurs that triggers a determination of Fair Market Value, whether the grant of an Award, the exercise of an Option or Stock Appreciation Right or otherwise, all references in this paragraph to the "date immediately preceding that date" shall be deemed to be references to "that date". In the case of an Incentive Stock Option, if such determination of Fair Market Value is not consistent with the then current regulations of the Secretary of the Treasury, Fair Market Value shall be determined in accordance with said regulations. The determination of Fair Market Value shall be subject to adjustment as provided in Section 16.

- n. "Fundamental Change" shall mean a dissolution or liquidation of the Company, a sale of substantially all of the assets of the Company, a merger or consolidation of the Company with or into any other corporation, regardless of whether the Company is the surviving corporation, or a statutory share exchange involving capital stock of the Company.
- o. "Incentive Stock Option" means any Option designated as such and granted in accordance with the requirements of Code Section 422A or any successor to said section.
- p. "Non-Qualified Stock Option" means an Option other than an Incentive Stock Option.
- q. "Option" means a right to purchase Stock, including both Non-Qualified Stock Options and Incentive Stock Options.
- r. "Participant" means an Employee to whom an Award is made.
- s. "Performance Cycle" means the period of time as specified in an Agreement over which Performance Units are to be earned.
- t. "Performance Units" means an Award made pursuant to Section 11.

- u. "Plan" means this DEI 1990 Stock Award Plan, as amended from time to time.
- v. "Restricted Stock" means Stock granted under Section 7 so long as such Stock remains subject to restrictions.
- w. "Retirement" of an Employee means termination of employment with the Company or an Affiliate on or after the date the Employee attains age 55.
- x. "Share" means a share of Stock.
- y. "Stock" means the common stock, \$1 par value per share (as such par value may be adjusted from time to time), of the Company.
- z. "Stock Appreciation Right" means an Award granted under Section 10.
- aa. "Subsidiary" means a "subsidiary corporation", as that term is defined in Section 425(f) of the Code, or any successor provision.
- bb. "Successor" means the legal representative of the estate of a deceased Participant or the person or persons who may, by bequest or inheritance, or pursuant to the terms of an Award or of forms submitted by the Participant to the Committee pursuant to Section 21, acquire the right to exercise an Option or Stock Appreciation Right or to receive cash or Shares issuable in satisfaction of an Award in the event of a Participant's death.
- cc. "Term" means the period during which an Option or Stock Appreciation Right may be exercised or the period during which the restrictions placed on Restricted Stock are in effect.

2.2 Gender and Number. Except when otherwise indicated by context, reference to the masculine gender shall include, when used, the feminine gender and any term used in the singular shall also include the plural.

3. Administration.

3.1 Authority of Committee. The Committee shall administer the Plan. Solely for purposes of determining and administering Awards to Employees who are not then subject to the reporting requirements of Section 16 of the Exchange Act, the Committee may delegate all or any portion of their authority under the Plan to persons who are not Disinterested Persons. The Committee shall have exclusive power to make Awards, to determine when and to whom Awards will be granted, the form of each Award, the amount of each Award, and any other terms or conditions

of each Award. Each Award shall be subject to an Agreement authorized by the Committee. The Committee's interpretation of the Plan and of any Awards made under the Plan shall be final and binding on all persons with an interest therein. The Committee shall have the power to establish regulations to administer the Plan and to change such regulations.

3.2 Indemnification. To the full extent permitted by law, (i) no member of the Committee or any person to whom the Committee delegates authority under the Plan shall be liable for any action or determination taken or made in good faith with respect to the Plan or any Award made under the Plan, and (ii) the members of the Committee and each person to whom the Committee delegates authority under the Plan shall be entitled to indemnification by the Company with regard to such actions and determinations.

4. Shares Available Under the Plan. The number of Shares available for distribution under this Plan shall not exceed 800,000 (subject to adjustment pursuant to Section 16). Any Shares subject to the terms and conditions of an Award under this Plan which are not used because the terms and conditions of the Award are not met may again be used for an Award under the Plan. However, Shares with respect to which a Stock Appreciation Right has been exercised (in cash or in Stock) may not again be awarded under this Plan.

5. Eligibility. Participation in the Plan shall be limited to any Employee. The granting of Awards to Employees is solely at the discretion of the Committee.

6. General terms of awards

a. Amount of award

Each agreement shall set forth the number of shares of restricted stock, other stock or performance units subject to such agreement, or the number of shares to which the Option subject to such Agreement applies or with respect to which payment upon the exercise of the Stock Appreciation Right subject to such Agreement is to be determined, as the case may be.

b. Term

Each Agreement, other than those relating solely to Awards of Stock without restrictions, shall set forth the Term of the Option, Stock Appreciation Right or Restricted Stock or the Performance Cycle for the Performance Units, as the case may be. An Agreement may permit an acceleration of the expiration of the applicable Term upon such terms and conditions as shall be set forth in the Agreement, which may, but need not, include without limitation acceleration resulting from the occurrence of an Event or in the event of the Participant's death or Retirement. Acceleration of the Performance Cycle of Performance Units shall be subject to Section 11.2.

c. Transferability

During the lifetime of a Participant to whom an Award is granted, only such Participant (or such Participant's legal representative) may exercise an Option or Stock Appreciation Right, or receive payment with respect to an Award of Performance Units. No Award of Restricted Stock (prior to the expiration of the restrictions), Options, Stock Appreciation Rights or Performance Units may be sold, assigned, transferred, exchanged or otherwise encumbered, and any attempt to do so shall be of no effect. Notwithstanding the immediately preceding sentence, an Agreement may provide that the Award subject to the Agreement shall be transferable to a Successor in the event of a Participant's death.

d. Termination of Employment

No Option or Stock Appreciation Right may be exercised by a Participant, all Restricted Stock held by a Participant shall be forfeited and no payment with respect to Performance Units for which the applicable Performance Cycle has not been completed shall be made, if the Participant's employment with the Company and its Affiliates shall be voluntarily terminated or involuntarily terminated with or without cause prior to the expiration of the Term of the Option, Stock Appreciation Right or Restricted Stock or the completion of the Performance Cycle, as the case may be, except as, and to the extent, provided in the Agreement applicable to that Award. An Award may be exercised by, or paid to, the Successor of a Participant following the death of such Participant to the extent, and during the period of time, if any, provided in the applicable Agreement.

7. Restricted Stock Awards. An Award of Restricted Stock under the Plan shall consist of Shares subject to restrictions on transfer and conditions of forfeiture, which restrictions and conditions shall be included in the applicable Agreement. Except as otherwise provided in the applicable Agreement, each Stock certificate issued in respect to an Award of Restricted Stock shall either be deposited with the Company or its designee, together with an assignment separate from such certificate, in blank, signed by the Participant, or bear such legends with respect to the restricted nature of the Restricted Stock evidenced thereby as shall be provided for in the applicable Agreement. The Agreement shall describe the terms and conditions by which the restrictions upon awarded Restricted Stock shall lapse. Upon the lapse of the restrictions, Shares free of restrictive legends, if any, relating to such restrictions shall be issued to the Participant or his Successor. A Participant with a Restricted Stock Award shall have all the other rights of a shareholder including, but not limited to, the right to receive dividends and the right to vote the Shares of Restricted Stock.

8. Stock Awards. Awards of Stock without restrictions may be made.

9. Stock Options.

9.1 Terms of All Options. An Option shall be granted pursuant to an Agreement as either an Incentive Stock Option or a Non-Qualified Stock Option. The purchase price of each Share subject to an Option shall be determined by the Committee and set forth in the Agreement, but shall not be less than 100% of the Fair Market Value of a Share as of the date the Option is granted. The purchase price of the Shares with respect to which an Option is exercised shall be payable in full at the time of exercise, provided that to the extent permitted by law, the Agreement may permit some or all Participants to simultaneously exercise Options and sell the Shares thereby acquired pursuant to a brokerage or similar relationship and use the proceeds from such sale as payment of the purchase price of such Shares. The purchase price may be payable in cash, in Stock having a Fair Market Value as of the date the Option is exercised equal to the purchase price of the Stock being purchased pursuant to the Option, or a combination thereof, as determined by the Committee and provided in the Agreement. Each Option shall be exercisable in whole or in part on the terms provided in the Agreement. In no event shall any Option be exercisable at any time after its expiration date. When an Option is no longer exercisable, it shall be deemed to have lapsed or terminated.

9.2 Incentive Stock Options. In addition to the other terms and conditions applicable to all Options:

- (i) the aggregate Fair Market Value (determined as of the date the Option is granted) of the Shares with respect to which Incentive Stock Options held by an individual first become exercisable in any calendar year (under this Plan and all other incentive stock option plans of the Company and its Affiliates) shall not exceed \$100,000 (or such other limit as may be required by the Code) if such limitation is necessary to qualify the Option as an Incentive Stock Option;
- (ii) an Incentive Stock Option shall not be exercisable more than 10 years after the date of grant (or such other limit as may be required by the Code) if such limitation is necessary to qualify the Option as an Incentive Stock Option; and
- (iii) the Agreement covering an Incentive Stock Option shall contain such other terms and provisions which the Committee determines necessary to qualify such Option as an Incentive Stock Option.

10. Stock Appreciation Rights. An Award of a Stock Appreciation Right shall entitle the Participant, subject to terms and conditions determined by the Committee, to receive upon exercise of the Stock Appreciation Right all or a portion of the excess of (i) the Fair Market

Value of a specified number of Shares as of the date of exercise of the Stock Appreciation Right over (ii) a specified price which shall not be less than 100% of the Fair Market Value of such Shares as of the date of grant of the Stock Appreciation Right. A Stock Appreciation Right may be granted in connection with a previously or contemporaneously granted Option, or independent of any Option. If issued in connection with an Option, the Committee may impose a condition that exercise of a Stock Appreciation Right cancels the Option with which it is connected and exercise of the connected Option cancels the Stock Appreciation Right. Each Stock Appreciation Right may be exercisable in whole or in part on the terms provided in the Agreement. Notwithstanding anything to the contrary stated in the Plan, no Stock Appreciation Right shall be exercisable prior to six months from the date of grant except in the event of the death or disability of the Participant. No Stock Appreciation Right shall be exercisable at any time after its expiration date. When a Stock Appreciation Right is no longer exercisable, it shall be deemed to have lapsed or terminated. Upon exercise of a Stock Appreciation Right, payment to the Participant (or to his Successor) shall be made at such time or times as shall be provided in the Agreement in the form of cash, Stock or a combination of cash and Stock as determined by the Committee and provided in the Agreement. The Agreement may provide for a limitation upon the amount or percentage of the total appreciation on which payment (whether in cash and/or Stock) may be made in the event of the exercise of a Stock Appreciation Right.

11. Performance Units.

11.1 Initial Award. An Award of Performance Units under the Plan shall entitle the Participant (or a Successor) to future payments of cash, Stock or a combination of cash and Stock, as determined by the Committee and provided in the Agreement, based upon the achievement of pre-established performance targets. Such performance targets may, but need not, include without limitation targets relating to one or more of corporate, group, unit, Affiliate or individual performance. The Agreement may establish that a portion of a full or maximum amount of a Participant's Award will be paid for performance which exceeds the minimum target but falls below the maximum target applicable to such Award. The Agreement shall also provide for the timing of such payment. Following the conclusion or acceleration of each Performance Cycle, the Committee shall determine the extent to which (i) performance targets have been attained, (ii) any other terms and conditions with respect to an Award relating to such Performance Cycle have been satisfied and (iii) payment is due with respect to an Award of Performance Units.

11.2 Acceleration and Adjustment. The Agreement may permit an acceleration of the Performance Cycle and an adjustment of performance targets and payments with respect to some or all of the Performance Units awarded to a Participant, upon such terms and conditions as shall be set forth in the Agreement, upon the occurrence of certain events, which may, but need not include without limitation an Event, a Fundamental Change, a recapitalization, a change in the accounting practices of the

Company, a change in the Participant's title or employment responsibilities, the Participant's death or Retirement or, with respect to payments in Stock with respect to Performance Units, a reclassification, stock dividend, stock split or stock combination as provided in Section 16.

12. Effective Date of the Plan.

12.1 Effective Date. The Plan shall become effective as of February 26, 1990, the date of adoption of the Plan, provided that the Plan is approved and ratified by the affirmative vote of the holders of a majority of the outstanding Shares of Stock present or represented and entitled to vote in person or by proxy at a meeting of the shareholders of the Company no later than December 31, 1990.

12.2 Duration of the Plan. The Plan shall remain in effect until all Stock subject to it shall be distributed or until all Awards have expired or lapsed, or the Plan is terminated pursuant to Section 15. No Award of an Incentive Stock Option shall be made more than 10 years after the Effective Date (or such other limit as may be required by the Code) if such limitation is necessary to qualify the Option as an Incentive Stock Option. The date and time of approval by the Committee of the granting of an Award shall be considered the date and time at which such Award is made or granted.

13. Right to Terminate Employment. Nothing in the Plan shall confer upon any Participant the right to continue in the employment of the Company or any Affiliate or affect any right which the Company or any Affiliate may have to terminate the employment of the Participant with or without cause.

14. Tax Withholding. The Company shall have the right to withhold from any cash payment under the Plan to a Participant or other person an amount sufficient to cover any required withholding taxes. The Company shall have the right to require a Participant or other person receiving Stock under the Plan to pay the Company a cash amount sufficient to cover any required withholding taxes. In lieu of all or any part of such a cash payment from a person receiving Stock under the Plan, the Committee may permit the individual to elect to cover all or any part of the required withholdings, and to cover any additional withholdings up to the amount needed to cover the individual's full FICA and federal, state and local income tax with respect to income arising from payment of the Award, through a reduction of the number of Shares delivered to him or a subsequent return to the Company of Shares held by the Participant or other person, in each case valued in the same manner as used in computing the withholding taxes under the applicable laws. Such elections are subject to the following limitations if, and to the extent, such limitations are necessary to comply with Exchange Act Rule 16b-3 or any successor provision:

a. Time of Election

Any such election by a Participant who is then subject to the reporting requirements of Section 16 of the Exchange Act or any successor provision ("Section 16") or his Successor may be made only if the conditions set forth in clauses (1) and (2) below are satisfied:

- (1) (A) The election may be made during the period beginning on the third business day following the date of public release of the Company's quarterly or annual financial statements and ending on the twelfth business day following such date of public release, or

(B) The election may be made at least six months prior to the date the Award is paid to him.
- (2) An election by a Participant or his Successor may not be made within six months of the date of grant of the Award to which the payment relates; provided, however, that said restriction does not apply in the event death or disability of the Participant occurs prior to such election and during said six month period.

The foregoing restrictions do not apply to any Participant who is not subject to the reporting requirements of Section 16 at the time of the election.

b. Committee Approval

Any such election by a Participant then subject to the reporting requirements of Section 16 or his Successor is irrevocable and is subject to approval by the Committee. The Committee's approval may be granted in advance but is subject to revocation by the Committee at any time.

15. Amendment, Modification and Termination of the Plan. The Board may at any time terminate, suspend or modify the Plan. Amendments are subject to approval of the shareholders of the Company only if such approval is necessary to maintain the Plan in compliance with the requirements of Exchange Act Rule 16b-3, Code Section 422A, their successor provisions or any other applicable law or regulation. No termination, suspension, or modification of the Plan will materially and adversely affect any right acquired by any Participant (or his legal representative) or any Successor under an Award granted before the date of termination, suspension, or modification, unless otherwise agreed to by the Participant in the Agreement or otherwise or required as a matter of law; but it will be conclusively presumed that any adjustment for changes in capitalization provided for in Section 11.2 or Section 16 does not adversely affect any right.
16. Adjustment for Changes in Capitalization. Appropriate adjustments in the aggregate number and type of Shares available for Awards under the Plan and in the number and type of Shares

and amount of cash subject to Awards then outstanding, in the Option price as to any outstanding Options and, subject to Section 11.2, in outstanding Performance Units and payments with respect to outstanding Performance Units may be made by the Committee in its sole discretion to give effect to adjustments made in the number or type of Shares of the Company through a Fundamental Change (subject to Section 17), recapitalization, reclassification, stock dividend, stock split, stock combination or other relevant change, provided that fractional Shares shall be rounded to the nearest whole share.

17. Fundamental Change. In the event of a proposed Fundamental Change, the Committee may, but shall not be obligated to:
- a. if the Fundamental Change is a merger or consolidation or statutory share exchange, make appropriate provision for the protection of the outstanding Options and Stock Appreciation Rights by the substitution of options, stock appreciation rights and appropriate voting common stock of the corporation surviving any merger or consolidation or, if appropriate, the parent corporation of the Company or such surviving corporation to be issuable upon the exercise of Options or used to calculate payments upon the exercise of Stock Appreciation Rights, in lieu of options, stock appreciation rights and capital stock of the Company; or
 - b. at least 30 days prior to the occurrence of the Fundamental Change, declare, and provide written notice to each holder of an Option or Stock Appreciation Right of the declaration, that each outstanding Option and Stock Appreciation Right, whether or not then exercisable, shall be cancelled at the time of, or immediately prior to the occurrence of, the Fundamental Change in exchange for payment to each holder of an Option or Stock Appreciation Right, within ten days after the Fundamental Change, of cash equal to (i) for each Share covered by the cancelled Option, the amount, if any, by which the Fair Market Value (as hereinafter defined in this Section) per Share exceeds the exercise price per Share covered by such Option or (ii) for each Stock Appreciation Right, the price determined pursuant to Section 10, except that Fair Market Value of the Shares as of the date of exercise of the Stock Appreciation Right, as used in clause (i) of Section 10, shall be deemed to mean Fair Market Value for each Share with respect to which the Stock Appreciation Right is calculated determined in the manner hereinafter referred to in this Section. At the time of the declaration provided for in the immediately preceding sentence, each Stock Appreciation Right that has been outstanding for at least six months and each Option shall immediately become exercisable in full and each person holding an Option or a Stock Appreciation Right shall have the right, during the period preceding the time of cancellation of the Option or Stock Appreciation Right, to exercise his Option as to all or any part of the Shares covered thereby or his Stock Appreciation Right in whole or in part, as the case may be. In the event of a declaration pursuant to this Section 17(b), each outstanding Option and Stock Appreciation Right granted pursuant to the Plan that shall not have been exercised

prior to the Fundamental Change shall be cancelled at the time of, or immediately prior to, the Fundamental Change, as provided in the declaration. Notwithstanding the foregoing, no person holding an Option or a Stock Appreciation Right shall be entitled to the payment provided for in this Section 17(b) if such Option or Stock Appreciation Right shall have expired pursuant to the Agreement. For purposes of this Section only, "Fair Market Value" per Share shall mean the cash plus the fair market value, as determined in good faith by the Committee, of the non-cash consideration to be received per Share by the shareholders of the Company upon the occurrence of the Fundamental Change, notwithstanding anything to the contrary provided in the Plan.

18. Forfeitures. An Agreement may provide that in the event a Participant has received or been entitled to payment of cash, delivery of Stock, or a combination thereof pursuant to an Award within six months prior to his termination of employment with the Company and its Affiliates, the Committee, in its sole discretion, may require the Participant to return or forfeit the cash and/or Stock received with respect to the Award (or its economic value as of (i) the date of the exercise of Options or Stock Appreciation Rights, (ii) the date of, and immediately following, the lapse of restrictions on Restricted Stock or the receipt of Stock without restrictions, or (iii) the date on which the right of the Participant to payment with respect to Performance Units vests, as the case may be) in the event of certain occurrences specified in the Agreement. The Committee's right to require forfeiture must be exercised within 90 days after discovery of such an occurrence but in no event later than 15 months after the Participant's termination of employment with the Company and its Affiliates. The occurrences may, but need not, include competition with the Company or any Affiliate, unauthorized disclosure of material proprietary information of the Company or any Affiliate, a violation of applicable business ethics policies of the Company or any Affiliate or any other occurrence specified in the Agreement within the period or periods of time specified in the Agreement.
19. Unfunded Plan. The Plan shall be unfunded and the Company shall not be required to segregate any assets that may at any time be represented by Awards under the Plan.
20. Other Benefit and Compensation Programs. Payments and other benefits received by a Participant under an Award made pursuant to the Plan shall not be deemed a part of a Participant's regular, recurring compensation for purposes of the termination, indemnity or severance pay law of any country and shall not be included in, nor have any effect on, the determination of benefits under any other employee benefit plan, contract or similar arrangement provided by the Company or an Affiliate unless expressly so provided by such other plan, contract or arrangement, or unless the Committee expressly determines that an Award or portion of an Award should be included to accurately reflect competitive compensation practices or to recognize that an Award has been made in lieu of a portion of competitive cash compensation.

21. Beneficiary Upon Participant's Death. To the extent that the transfer of a Participant's Award at his death is permitted under an Agreement, (i) a Participant's Award shall be transferable at his death to the beneficiary, if any, designated on forms prescribed by and filed with the Committee and (ii) upon the death of the Participant, such beneficiary shall succeed to the rights of the Participant to the extent permitted by law. If no such designation of a beneficiary has been made, the Participant's legal representative shall succeed to the Awards which shall be transferable by will or pursuant to laws of descent and distribution to the extent permitted under an Agreement.

22. Governing Law. To the extent that Federal laws do not otherwise control, the Plan and all determinations made and actions taken pursuant to the Plan shall be governed by the laws of Minnesota and construed accordingly.

 THIS DOCUMENT CONSTITUTES
 PART OF A PROSPECTUS
 COVERING SECURITIES THAT
 HAVE BEEN REGISTERED UNDER
 THE SECURITIES ACT OF 1933.

NORAM ENERGY CORP.

EMPLOYEE STOCK OPTION ELECTION FORM

This Election Form ("Election Form") is to be used by a holder of unexpired employee stock options to purchase shares of common stock of NorAm Energy Corp. ("NorAm"), along with any tandem stock appreciation right that is outstanding at the Effective Time (as defined below), whether or not then exercisable (a "NorAm Stock Option"), to make an election with respect to the type or types of consideration (described below) to be received for the NorAm Stock Option upon consummation of the Transaction (as defined below), as contemplated by the Agreement and Plan of Merger, dated as of August 11, 1996, as amended (the "Merger Agreement"), by and among Houston Industries Incorporated ("HI"), Houston Lighting & Power Company, a wholly owned subsidiary of HI ("HL&P"), HI Merger Inc., a wholly owned subsidiary of HI ("Merger Sub"), and NorAm.

Pursuant to the Merger Agreement (i) HI will merge into HL&P (the "HI/HL&P Merger"), which will be renamed "Houston Industries Incorporated" ("Houston") and (ii) NorAm will merge into Merger Sub (the "NorAm Merger") as a result of which NorAm will become a wholly owned subsidiary of Houston. The term "Transaction" refers to the business combination between HI and NorAm to be implemented by the HI/HL&P Merger and the NorAm Merger. Except as otherwise indicated, capitalized terms used but not defined herein have the meanings given to them in the Joint Proxy Statement/Prospectus dated October 29, 1996 of HL&P, HI and NorAm relating to the Transaction, a copy of which was received with this Election Form. The undersigned hereby acknowledges receipt of the Joint Proxy Statement/Prospectus and the Prospectus Supplement dated January 21, 1997 accompanying this Election Form.

Pursuant to the Merger Agreement, each holder of a NorAm Stock Option that is not excepted by the provisions of this paragraph may elect to have all or any portion of his or her NorAm Stock Options cancelled and "cashed out" (as described below) or to have all or any portion of his or her NorAm Stock Options assumed by Houston (as described below). The undersigned, as a holder of a NorAm Stock Option, hereby irrevocably elects to receive the consideration (cash and/or assumed options) indicated below his or her name on the list of "Outstanding NorAm Stock Options" attached hereto as Exhibit A. Such election is subject to the terms and conditions set forth in (i) the Joint Proxy Statement/Prospectus, (ii) the Merger Agreement, a copy of which is attached

as Appendix A to the Joint Proxy Statement/Prospectus, and (iii) the instructions hereto. Such election shall not apply to any NorAm Stock Option that is granted in 1997 pursuant to the NorAm Energy Corp. 1994 Incentive Equity Plan to the extent that the option, by its terms, is forfeited or expires at the effective time of the Transaction.

An election to cash out a NorAm Stock Option shall be an election to receive a cash amount (subject to the applicable tax withholding) equal to the product of (x) the total number of shares of NorAm Common Stock subject to such NorAm Stock Option and (y) the excess, if any, of (1) the Cash Consideration over (2) the exercise price per share of the NorAm Common Stock previously subject to such NorAm Stock Option ("Cash Conversion Option").

Except as noted below, an election to have Houston assume a NorAm Stock Option shall be an election that such NorAm Stock Option shall thereafter represent an option to acquire, on the same terms and conditions (giving effect to any accelerated vesting caused by the Transaction) as were applicable under such NorAm Stock Option, a number of shares of Houston Common Stock equal to the number of shares of NorAm Common Stock purchasable pursuant to such NorAm Stock Option multiplied by the Stock Consideration, at a price per share equal to the per-share exercise price for the shares of NorAm Common Stock purchasable pursuant to such NorAm Stock Option divided by the Stock Consideration ("Share Conversion Option"). To the extent that you elect the Share Conversion Option as to nonqualified stock options, the options will be assumed by Houston as nonqualified stock options. To the extent that you elect the Share Conversion Option as to incentive stock options, NorAm and HI intend to take the position that the options assumed by Houston are incentive stock options, except to the extent that the aggregate fair market value of stock (as determined at the time of original grant) with respect to which the options are exercisable by you for the first time during any calendar year exceed \$100,000. The Internal Revenue Service, however, may challenge the position that the options assumed by Houston qualify as incentive stock options.

The undersigned hereby acknowledges that the number of shares of Houston Common Stock that may be purchased upon exercise of an assumed NorAm Stock Option shall not include any fractional share and, upon exercise of such option, a cash payment shall be made for any fractional share based upon the closing price of a share of Houston Common Stock on the NYSE on the last Trading Day of the calendar month immediately preceding the date of exercise.

IF A PROPER ELECTION IS NOT MADE, THE UNDERSIGNED SHALL BE DEEMED TO HAVE ELECTED TO RECEIVE THE CASH CONVERSION OPTION. TO BE EFFECTIVE, THIS ELECTION FORM MUST BE PROPERLY COMPLETED, SIGNED AND RECEIVED BY SUSAN JANIK, NORAM ENERGY CORP., 1600 SMITH STREET, ROOM 3216, HOUSTON, TEXAS 77002, PRIOR TO 5 P.M., HOUSTON TIME, ON THE BUSINESS DAY IMMEDIATELY PRECEDING THE CLOSING DATE OF THE TRANSACTION.

Date: July 30, 1997

Printed Name of Optionee

Signature of Optionee

EXHIBIT A

MR. OPTION HOLDER

OUTSTANDING NORAM STOCK OPTIONS

INSTRUCTIONS:

For each stock option described below, indicate whether you wish to have your option assumed by Houston or you wish to receive cash. If you wish to receive cash for the option (the "Cash Conversion Option" described in the foregoing Election Form), you should leave the "Number of Shares" in the left column blank. If you wish to have the option entirely assumed by Houston (the "Share Conversion Option" described in the foregoing Election Form), you should fill the total number of shares subject to the option in as the "Number of Shares" in the left column. If you wish to have the option assumed by Houston as to some, but not all, of the NorAm shares subject to such option, indicate in the left column the Number of Shares as to which you wish the option to be assumed and you will receive cash (less any applicable tax withholding) for the balance of the NorAm shares subject to such option.

NOTE: Special provisions apply to your CYCLE X stock options granted on 1/7/97. The Cycle X stock options will automatically expire (notwithstanding your election) if you become an employee of HI at the Effective Time and will be replaced by a substitute HI long term incentive award. If you do not become an employee of HI at the Effective Time, your election will apply only to a prorata portion of the Cycle X stock options set forth below. The prorata portion will be based on the number of days in Cycle X through the Effective Time.

SHARE CONVERSION OPTION	DATE OF GRANT	SHARES SUBJECT TO OPTION	EXERCISE PRICE	TYPE OF OPTION	EXPIRATION DATE
-----	-----	-----	-----	-----	-----
Number of Shares					

Number of Shares					

Number of Shares					

INCOME TAX WITHHOLDING: If you elect the Cash Conversion Option, federal income tax will be withheld at the rate of 28%. If you wish to increase your federal income tax withholding, indicate the percent to be withheld here _____%.

 THIS DOCUMENT CONSTITUTES
 PART OF A PROSPECTUS
 COVERING SECURITIES THAT
 HAVE BEEN REGISTERED UNDER
 THE SECURITIES ACT OF 1933.

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NORAM ENERGY CORP.
 1600 Smith Street
 Houston, Texas 77002

HOUSTON INDUSTRIES INCORPORATED
 Houston Industries Plaza
 1111 Louisiana Street
 Houston, Texas 77002

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July 30, 1997

To the holders of stock options of NorAm Energy Corp.:

At a Special Meeting of the stockholders of NorAm Energy Corp. ("NorAm") held on December 17, 1996 (the "Special Meeting"), the stockholders of NorAm approved an Agreement and Plan of Merger dated as of August 11, 1996, as amended (the "Merger Agreement"), by and among Houston Industries Incorporated ("HI"), Houston Lighting & Power Company, a wholly owned subsidiary of HI ("HL&P"), HI Merger, Inc., a wholly owned subsidiary of HI ("Merger Sub"), and NorAm, which provides that NorAm will merge into Merger Sub (the "Merger"), and as a result will become a wholly owned subsidiary of Houston (as defined below).

The Merger Agreement also provides that HI will merge into HL&P, as a result of which each outstanding share of HI common stock will be converted into one share of common stock of the surviving corporation, which will be renamed "Houston Industries Incorporated" ("Houston"). The term "Transaction" refers to the business combination between HI and NorAm. It is contemplated that the Merger will be consummated promptly after the satisfaction or waiver of the various conditions to the Merger set forth in the Merger Agreement (the "Effective Time").

At the Effective Time of the Merger, each outstanding share of common stock of NorAm ("NorAm Common Stock") not owned directly or indirectly by HI or NorAm will be converted into the right to receive shares of common stock of Houston or cash. The cash amount (the "Cash Consideration") per share of NorAm Common Stock will be \$16.00 plus two percent (simple interest) per quarter from May 11, 1997 until the closing date of the Transaction. The number of shares of Houston common stock (the "Stock Consideration") issued per share of NorAm Common Stock will be not less than 0.6154 shares nor more than 0.7529 shares. (The actual number will depend upon the average closing price of HI common stock on the New York Stock Exchange during a 20-trading-day period commencing 25 trading days prior to the closing date of the Transaction.) The value (based on the average closing price) of the Houston common stock issued per share of NorAm Common Stock will be \$16.00 per share if the average price of HI common stock is greater than or equal to \$21.25 and less than or equal to \$26.00; the value will be more or

less than \$16.00 if the average price is outside the range. Each NorAm stockholder will be entitled to elect to receive Cash Consideration and/or Stock Consideration, subject to proration as described in the Merger Agreement and the Joint Proxy Statement/Prospectus.

At the Effective Time of the Merger, each unexpired employee stock option to purchase shares of NorAm Common Stock, along with any tandem stock appreciation right, that is outstanding at the Effective Time (a "NorAm Stock Option"), whether or not then exercisable, will be converted into (A) cash in an amount equal to the product of (x) the total number of shares of NorAm Common Stock subject to such NorAm Stock Option and (y) the excess, if any, of (1) the Cash Consideration over (2) the exercise price per share of the NorAm Common Stock previously subject to such NorAm Stock Option ("Cash Conversion Option") and/or (B) an option to acquire, on the same terms and conditions (giving effect to any accelerated vesting caused by the Transaction and subject to the provisions of this letter) as were applicable under such NorAm Stock Option, a number of shares of Houston common stock equal to the number of shares of NorAm Common Stock purchasable pursuant to such NorAm Stock Option multiplied by the Stock Consideration, at a price per share equal to the per-share exercise price for the shares of NorAm Common Stock purchasable pursuant to such NorAm Stock Option divided by the Stock Consideration ("Share Conversion Option"). (Note, however, that Houston will not be required to issue any fractional shares of Houston common stock upon the exercise of a converted NorAm Stock Option. Cash will be paid in lieu of such fractional shares.) To the extent that you choose to receive the Share Conversion Option, shortly after the Effective Time, you will receive a letter agreement that sets forth the number of shares subject to your assumed (or converted) option, the exercise price per share and any other relevant terms and conditions of the option.

In general, to the extent that you elect the Cash Conversion Option, the cash paid in respect of those NorAm Stock Options will be taxable to you and subject to any applicable federal and state withholding. If you elect the Share Conversion Option, the assumption by Houston of those NorAm Stock Options will not be a taxable event. To the extent that you elect the Share Conversion Option as to nonqualified stock options, the options will be assumed by Houston as nonqualified stock options. To the extent that you elect the Share Conversion Option as to incentive stock options, NorAm and HI intend to take the position that the options assumed by Houston are incentive stock options, except to the extent that the aggregate fair market value of stock (as determined at the time of original grant) with respect to which the options are exercisable by you for the first time during any calendar year exceeds \$100,000. The Internal Revenue Service, however, may challenge the position that the stock options assumed by Houston qualify as incentive stock options as opposed to nonqualified stock options, which would be taxed at the time of exercise. It is unclear whether substantial authority exists with regard to such tax treatment. If the Internal Revenue Service were to prevail in such a challenge, and it was determined that there was no substantial authority for your position, you could be subject to an accuracy-related penalty of 20% of the underpayment plus interest. Adequate disclosure of the affected items to the Internal Revenue Service, or having substantial authority for your position, would avoid the imposition of such penalty. NorAm and Houston are not providing any advice to individual optionees concerning the federal income tax consequences of this election (or any subsequent stock option exercise or sale of option stock), nor are they assuming any liability to individual optionees regarding the ultimate outcome of this issue. You are urged to consult with your own tax advisor as to the particular tax consequences to you, including any disclosure requirements.

An Election Form is enclosed for your use. To be effective, the Election Form must be properly completed, signed and received by Susan Janik, NorAm Energy Corp., 1600 Smith Street, Room 3216, Houston, Texas 77002 prior to 5 p.m., Houston time on the business day immediately preceding the closing date of the Transaction.

A copy of the Joint Proxy Statement/Prospectus relating to the Transaction is enclosed for your information. The enclosed Joint Proxy Statement/Prospectus contains information regarding the Houston common stock purchasable upon the exercise of assumed NorAm Stock Options following the Transaction and other important information that you should read carefully.

Sincerely,

T. Milton Honea,
Chairman of the Board,
President and Chief
Executive Officer of
NorAm Energy Corp.

and

Don D. Jordan,
Chairman and Chief Executive
Officer of
Houston Industries Incorporated

[Letterhead of Baker & Botts, L.L.P.]

July 30, 1997

Houston Lighting & Power Company
Houston Industries Plaza
1111 Louisiana
Houston, Texas 77002

Ladies and Gentlemen:

As set forth in the Registration Statement on Form S-8 (the "Registration Statement") to be filed by Houston Lighting & Power Company, a Texas corporation (the "Company"), with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"), relating to employee stock options (the "Options") to be assumed by the Company pursuant to Section 5.11 of the Agreement and Plan of Merger dated as of August 11, 1996, as amended (the "Merger Agreement") by and among Houston Industries Incorporated, a Texas corporation ("HII"), the Company, HI Merger, Inc., a Delaware corporation ("HI Merger"), and NorAm Energy Corp., a Delaware corporation ("NorAm") and up to 1,532,356 shares of common stock, without par value, of the Company (the "Common Stock") and associated rights to purchase Series A Preference Stock, without par value, of the Company (the "Rights") to be issued from time to time upon exercise thereof following such assumption, certain legal matters in connection with the Options, the Common Stock and the Rights are being passed upon for you by us. At your request, this opinion is being furnished to you for filing as Exhibit 5 to the Registration Statement.

In our capacity as your counsel in the connection referred to above, we have examined the Company's Restated Articles of Incorporation and Amended and Restated Bylaws, each as amended to date, the respective amendments thereto to be effective at the effective time of the merger of HII with and into the Company (the "HII/HL&P Merger") and the Merger Agreement, and have examined originals, or copies certified or otherwise identified, of corporate records of the Company, certificates of public officials and of representatives of the Company, statutes and other instruments or documents, as a basis for the opinions hereinafter expressed. In giving such opinions, we have relied upon certificates of officers of the Company with respect to the accuracy of the material factual matters contained in such certificates. In making our examination, we have assumed that all signatures on all documents examined by us are genuine, that all documents submitted to us as originals are accurate and complete, that all documents submitted to us as copies are true and correct copies of the originals thereof and that all information submitted to us was accurate and complete. We have also assumed that, prior to their assumption by the Company, the Options were duly authorized by all necessary corporate action on the part of NorAm and validly issued.

On the basis of the foregoing, and subject to the assumptions, limitations and qualifications set forth herein, we are of the opinion that:

1. The Company is a corporation duly organized and validly existing in good standing under the laws of the State of Texas.
2. The Options, upon assumption by the Company upon the effectiveness of the merger of NorAm with and into HI Merger (the "NorAm Merger") as provided in the Merger Agreement, will be duly authorized by all requisite corporate action on the part of the Company and validly issued.
3. The shares of Common Stock issuable upon exercise of the Options (the "Shares") have been duly authorized by all requisite corporate action on the part of the Company and when issued and sold from time to time, following assumption by the Company upon the effectiveness of the NorAm Merger as provided in the Merger Agreement, upon exercise of the Options and payment therefor as provided therein, such Shares will be validly issued, fully paid and nonassessable.
4. The issuance of the Rights associated with the Shares has been duly authorized by all requisite corporate action on the part of the Company and, upon issuance from time to time following the effectiveness of the NorAm Merger in accordance with the terms of the Amended and Restated Rights Agreement between the Company and Texas Commerce Bank National Association, as Rights Agent, to be executed upon the closing of the HII/HL&P Merger, the Rights associated with the Shares will be validly issued.

The opinion set forth in paragraph 4 above is limited to the valid issuance of the Rights under the Texas Business Corporation Act. In this connection, we do not express any opinion herein on any other aspect of the Rights, the effect of any equitable principles or fiduciary considerations relating to the adoption of the Rights Agreement or the issuance of the Rights, the enforceability of any particular provisions of the Rights Agreement, or the provisions of the Rights Agreement which discriminate or create unequal voting power among shareholders.

This opinion is limited to the original issuance of Shares and Rights by the Company and does not cover shares of Common Stock and related Rights delivered by the Company out of shares and related Rights reacquired by it.

July 30, 1997

We are members of the Texas Bar and the opinions set forth above are limited in all respects to matters of Texas law as in effect on the date hereof.

Very truly yours,

/s/ BAKER & BOTTS, L.L.P.

INDEPENDENT AUDITORS' CONSENT

We hereby consent to the incorporation by reference in the Registration Statement of Houston Lighting & Power Company (the "Company") on Form S-8 of our report dated February 21, 1997, appearing in the combined Annual Report on Form 10-K of Houston Industries Incorporated and the Company for the year ended December 31, 1996.

/s/ DELIOTTE & TOUCHE LLP

DELOITTE & TOUCHE LLP
Houston, Texas

July 30, 1997