UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1996

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to _______________

Commission file number 1-7629

HOUSTON INDUSTRIES INCORPORATED
(Exact name of registrant as specified in its charter)

Texas	74-1885573
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1111 Louisiana Houston, Texas	77002
(Address of principal executive offices)	(Zip Code)

(713) 207-3000
(Registrant's telephone number, including area code)

Commission file number 1-3187

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

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

(713) 207-1111
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes X No
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As of April 30, 1996, Houston Industries Incorporated had 262,742,947 shares of common stock outstanding, including 14,042,052 ESOP shares not deemed outstanding for financial statement purposes. As of April 30, 1996, all 1,100 shares of Houston Lighting & Power Company's common stock were held, directly or indirectly, by Houston Industries Incorporated.

HOUSTON INDUSTRIES INCORPORATED AND HOUSTON LIGHTING
& POWER COMPANY QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 1996

This combined Form 10-Q is separately filed by Houston Industries Incorporated and Houston Lighting & Power Company. Information contained herein relating to Houston Lighting & Power Company is filed by Houston Industries Incorporated and separately by Houston Lighting & Power Company on its own behalf. Houston Lighting & Power Company makes no representation as to information relating to Houston Industries Incorporated (except as it may relate to Houston Lighting & Power Company) or to any other affiliate or subsidiary of Houston Industries Incorporated.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
(THOUSANDS OF DOLLARS)

	Three Months Ended March 31, 1996	Three Months Ended March 31, 1995
REVENUES:		
Electric utility	$ 811,965	$ 746,166
Other	12,456	9,072
Total	824,421	755,238
EXPENSES:		
Electric utility:		
Fuel	197,622	183,602
Purchased power	78,179	65,588
Operation and maintenance	193,448	198,529
Taxes other than income taxes	62,565	70,950
Depreciation and amortization	129,347	104,196
Other operating expenses	25,793	17,220
Total	686,954	640,085
OPERATING INCOME	137,467	115,153
OTHER INCOME (EXPENSE):		
Litigation settlements	(95,000)	
Allowance for other funds used during construction	1,131	2,629
Time Warner dividend income	10,403	
Interest income	692	537
Other - net	(2,427)	(2,648)
Total	(85,201)	518
INTEREST AND OTHER CHARGES:		
Interest on long-term debt	71,395	65,216
Other interest	1,574	8,999
Allowance for borrowed funds used during construction	(685)	(1,805)
Preferred dividends of subsidiary	6,632	8,985
Total	78,916	81,395
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(26,650)	34,276
INCOME TAXES	(9,910)	10,427
INCOME (LOSS) FROM CONTINUING OPERATIONS	(16,740)	23,849
DISCONTINUED OPERATIONS (NET OF INCOME TAXES)- Gain on sale of cable television subsidiary		90,607
NET INCOME (LOSS)	$ (16,740)	$ 114,456
EARNINGS (LOSS) PER COMMON SHARE:		
CONTINUING OPERATIONS	$ (.07)	$ .09
DISCONTINUED OPERATIONS- Gain on sale of cable television subsidiary		.37
EARNINGS (LOSS) PER COMMON SHARE	$ (.07)	$ .46
DIVIDENDS DECLARED PER COMMON SHARE	$ .375	$ .375
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (000)	248,466	247,197

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)

ASSETS

	March 31, 1996	December 31, 1995
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric plant:		
Plant in service	$ 12,186,407	$ 12,089,490
Construction work in progress	279,960	320,040
Nuclear fuel	223,952	217,604
Plant held for future use	48,631	48,631
Other property	111,022	105,624
Total	12,849,972	12,781,389
Less accumulated depreciation and amortization	4,020,267	3,916,540
Property, plant and equipment - net	8,829,705	8,864,849
CURRENT ASSETS:		
Cash and cash equivalents	6,332	11,779
Special deposits	443	433
Accounts receivable - net	30,767	39,635
Accrued unbilled revenues	39,088	59,017
Time Warner dividends receivable	10,313	10,313
Fuel stock	60,505	59,699
Materials and supplies, at average cost	136,441	138,007
Prepayments	7,769	18,562
Total current assets	291,658	337,445
OTHER ASSETS:		
Investment in Time Warner securities	1,030,875	1,027,875
Deferred plant costs - net	606,689	613,134
Deferred debits	311,597	317,215
Unamortized debt expense and premium on reacquired debt	159,835	161,788
Regulatory tax asset - net	225,285	228,587
Recoverable project costs - net	222,520	232,775
Equity investments in and advances to foreign and non-regulated affiliates - net	35,671	35,938
Total other assets	2,592,472	2,617,312
Total	$ 11,713,835	$ 11,819,606

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)

CAPITALIZATION AND LIABILITIES

	March 31, 1996	December 31, 1995
CAPITALIZATION:		
Common Stock Equity:		
Common stock, no par value	$ 2,444,304	$ 2,441,790
Unearned ESOP shares	(264,318)	(268,405)
Retained earnings	1,843,723	1,953,672
Unrealized loss on investment in Time Warner common securities - net	(1,544)	(3,494)
Total common stock equity	4,022,165	4,123,563
Preference Stock, no par value, authorized 10,000,000 shares; none outstanding		
Cumulative Preferred Stock of Subsidiary, no par value:		
Not subject to mandatory redemption	351,345	351,345
Subject to mandatory redemption	51,055	51,055
Total cumulative preferred stock	402,400	402,400
Long-Term Debt:		
Debentures	348,960	348,913
Long-term debt of subsidiaries:		
First mortgage bonds	2,704,462	2,979,293
Pollution control revenue bonds	4,434	4,426
Other	4,796	5,790
Total long-term debt	3,062,652	3,338,422
Total capitalization	7,487,217	7,864,385
CURRENT LIABILITIES:		
Notes payable	292,728	6,300
Accounts payable	146,086	136,008
Taxes accrued	57,255	174,925
Interest accrued	84,434	79,380
Dividends declared	98,502	98,502
Accrued liabilities to municipalities	19,291	20,773
Customer deposits	61,381	61,582
Current portion of long-term debt and preferred stock	459,454	379,451
Other	49,334	58,664
Total current liabilities	1,268,465	1,015,585
DEFERRED CREDITS:		
Accumulated deferred income taxes	2,059,522	2,067,246
Unamortized investment tax credit	387,289	392,153
Fuel-related credits	106,061	122,063
Other	405,281	358,174
Total deferred credits	2,958,153	2,939,636
COMMITMENTS AND CONTINGENCIES		
Total	$11,713,835	$11,819,606

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
(THOUSANDS OF DOLLARS)

	Three Months Ended March 31, 1996	Three Months Ended March 31, 1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income (loss) from continuing operations	$ (16,740)	$ 23,849
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	129,347	104,196
Amortization of nuclear fuel	7,595	6,557
Deferred income taxes	(8,774)	6,347
Investment tax credit	(4,864)	(4,858)
Allowance for other funds used during construction	(1,131)	(2,629)
Fuel cost (refund) and over/(under) recovery - net	(11,112)	48,136
Net cash used in discontinued cable television operations		(3,682)
Changes in other assets and liabilities:		
Accounts receivable and accrued unbilled revenues	28,797	(12,488)
Inventory	760	(8,904)
Other current assets	10,783	6,961
Accounts payable	10,078	(71,202)
Interest and taxes accrued	(112,616)	(83,195)
Other current liabilities	(11,013)	2,382
Other - net	58,828	29,827
Net cash provided by operating activities	79,938	41,297
CASH FLOWS FROM INVESTING ACTIVITIES:		
Electric capital and nuclear fuel expenditures (including allowance for borrowed funds used during construction)	(70,141)	(55,915)
Non-regulated electric power project expenditures and advances	(8,809)	(11,699)
Corporate headquarters expenditures (including capitalized interest)	(5,598)	(25,945)
Net cash used in discontinued cable television operations		(17,406)
Other - net	(1,794)	(2,956)
Net cash used in investing activities	(86,342)	(113,921)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of matured bonds	(110,000)	
Payment of common stock dividends	(93,209)	(92,722)
Increase in notes payable - net	286,428	210,864
Net cash used in discontinued cable television operations		(40,798)
Extinguishment of long-term debt	(85,263)	
Other - net	3,001	2,004
Net cash provided by financing activities	957	79,348
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,447)	6,724
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,779	10,443
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 6,332	$ 17,167

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

	1996	1995
Cash Payments:		
Interest (net of amounts capitalized)	$ 61,385	$ 84,349
Income taxes	18,365	1,424
Income tax refund		(1,909)

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED RETAINED EARNINGS
(THOUSANDS OF DOLLARS)

	Three Months Ended March 31, 1996	Three Months Ended March 31, 1995
Balance at Beginning of Period	$ 1,953,672	$ 1,221,221
Net Income (Loss) for the Period	(16,740)	114,456
Total	1,936,932	1,335,677
Common Stock Dividends	(93,209)	(92,752)
Balance at End of Period	$ 1,843,723	$ 1,242,925

See Notes to Consolidated Financial Statements.

HOUSTON LIGHTING & POWER COMPANY
STATEMENTS OF INCOME
(THOUSANDS OF DOLLARS)

	Three Months Ended March 31, 1996	1995
OPERATING REVENUES	$ 811,965	$ 746,166
OPERATING EXPENSES:		
Fuel	197,622	183,602
Purchased power	78,179	65,588
Operation	139,772	141,320
Maintenance	53,676	57,209
Depreciation and amortization	128,434	103,913
Income taxes	32,063	19,018
Other taxes	62,565	70,950
Total	692,311	641,600
OPERATING INCOME	119,654	104,566
OTHER INCOME (EXPENSE):		
Litigation settlements (net of income taxes of $33,250)	(61,750)	
Allowance for other funds used during construction	1,131	2,629
Other - net	(3,360)	(1,453)
Total	(63,979)	1,176
INCOME BEFORE INTEREST CHARGES	55,675	105,742
INTEREST CHARGES:		
Interest on long-term debt	57,504	61,518
Other interest	2,411	3,135
Allowance for borrowed funds used during construction	(685)	(1,805)
Total	59,230	62,848
NET INCOME (LOSS)	(3,555)	42,894
DIVIDENDS ON PREFERRED STOCK	6,632	8,985
INCOME (LOSS) AFTER PREFERRED DIVIDENDS	$ (10,187)	$ 33,909

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY
BALANCE SHEETS
(THOUSANDS OF DOLLARS)

ASSETS

	March 31, 1996	December 31, 1995
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric plant in service	$ 12,186,407	$ 12,089,490
Construction work in progress	279,960	320,040
Nuclear fuel	223,952	217,604
Plant held for future use	48,631	48,631
Total	12,738,950	12,675,765
Less accumulated depreciation and amortization	4,013,418	3,906,139
Property, plant and equipment - net	8,725,532	8,769,626
CURRENT ASSETS:		
Cash and cash equivalents	2,076	75,851
Special deposits	443	433
Accounts receivable:		
Affiliated companies	2,997	2,845
Others	14,897	23,858
Accrued unbilled revenues	39,088	59,017
Inventory:		
Fuel stock	60,505	59,699
Materials and supplies, at average cost	135,723	137,584
Prepayments	3,003	11,876
Total current assets	258,732	371,163
OTHER ASSETS:		
Deferred plant costs - net	606,689	613,134
Deferred debits	283,979	290,012
Unamortized debt expense and premium on reacquired debt	158,147	159,962
Regulatory tax asset - net	225,285	228,587
Recoverable project costs - net	222,520	232,775
Total other assets	1,496,620	1,524,470
Total	$ 10,480,884	$ 10,665,259

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY
BALANCE SHEETS
(THOUSANDS OF DOLLARS)

CAPITALIZATION AND LIABILITIES

	March 31, 1996	December 31, 1995
CAPITALIZATION:		
Common Stock Equity:		
Common stock, class A; no par value	$ 1,524,949	$ 1,524,949
Common stock, class B; no par value	150,978	150,978
Retained earnings	2,057,649	2,150,086
Total common stock equity	3,733,576	3,826,013
Cumulative Preferred Stock:		
Not subject to mandatory redemption	351,345	351,345
Subject to mandatory redemption	51,055	51,055
Total cumulative preferred stock	402,400	402,400
Long-Term Debt:		
First mortgage bonds	2,704,462	2,979,293
Pollution control revenue bonds	4,434	4,426
Other	4,796	5,790
Total long-term debt	2,713,692	2,989,509
Total capitalization	6,849,668	7,217,922
CURRENT LIABILITIES:		
Notes payable	203,648	
Accounts payable	138,844	119,032
Accounts payable to affiliated companies	3,630	6,982
Taxes accrued	74,403	192,673
Interest accrued	66,719	70,823
Accrued liabilities to municipalities	19,291	20,773
Customer deposits	61,381	61,582
Current portion of long-term debt and preferred stock	259,454	179,451
Other	44,115	54,149
Total current liabilities	871,485	705,465
DEFERRED CREDITS:		
Accumulated deferred federal income taxes	1,942,180	1,947,488
Unamortized investment tax credit	387,289	392,153
Fuel-related credits	106,061	122,063
Other	324,201	280,168
Total deferred credits	2,759,731	2,741,872
COMMITMENTS AND CONTINGENCIES		
Total	$ 10,480,884	$ 10,665,259

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY
STATEMENTS OF CASH FLOWS

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
(THOUSANDS OF DOLLARS)

	Three Months Ended March 31, 1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (3,555)	$ 42,894
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	128,434	103,913
Amortization of nuclear fuel	7,595	6,557
Deferred income taxes	(5,309)	7,234
Investment tax credits	(4,864)	(4,858)
Allowance for other funds used during construction	(1,131)	(2,629)
Fuel cost (refund) and over/(under) recovery - net	(11,112)	48,136
Changes in other assets and liabilities:		
Accounts receivable - net	28,738	(638)
Material and supplies	1,861	(841)
Fuel stock	(806)	(8,026)
Accounts payable	16,460	(81,091)
Interest and taxes accrued	(122,376)	(89,018)
Other current liabilities	(11,425)	(261)
Other - net	54,736	27,180
Net cash provided by operating activities	77,246	48,552
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital and nuclear fuel expenditures (including allowance for borrowed funds used during construction)	(70,141)	(55,915)
Other - net	(2,233)	(2,525)
Net cash used in investing activities	(72,374)	(58,440)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of matured bonds	(110,000)	
Payment of dividends	(89,175)	(91,461)
Increase in notes payable	203,648	
Extinguishment of long-term debt	(85,263)	
Other - net	2,143	1,866
Net cash used in financing activities	(78,647)	(89,595)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(73,775)	(99,483)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	75,851	235,867
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,076	$ 136,384

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

	1996	1995
Cash Payments:		
Interest (net of amounts capitalized)	$ 56,393	$ 57,915
Income taxes	22,892	1,176

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY
STATEMENTS OF RETAINED EARNINGS
(THOUSANDS OF DOLLARS)

	Three Months Ended March 31, 1996	Three Months Ended March 31, 1995
Balance at Beginning of Period	$ 2,150,086	$ 2,153,109
Net Income (Loss) for the Period	(3,555)	42,894
Total	2,146,531	2,196,003
Deduct - Cash Dividends:		
Preferred	6,632	8,985
Common	82,250	82,250
Total	88,882	91,235
Balance at End of Period	$ 2,057,649	$ 2,104,768

See Notes to Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AND

HOUSTON LIGHTING & POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

(1) GENERAL

The interim financial statements and notes (Interim Financial Statements) contained in this Form 10-Q for the period ended March 31, 1996 (Form 10-Q) are unaudited and condensed. Certain notes and other information contained in the Combined Annual Report on Form 10-K (File Nos. 1-7629 and 1-3187) for the year ended December 31, 1995 (Form 10-K), of Houston Industries Incorporated (Company) and Houston Lighting & Power Company (HL&P) have been omitted in accordance with Rule 10-01 of Regulation S-X under the Securities Exchange Act of 1934. The information presented in the Interim Financial Statements should be read in combination with the information presented in the Form 10-K, including the financial statements and notes contained therein. For information regarding the Company's discontinued cable television operations, see Note 13 to the financial statements contained in the Form 10-K.

(2) CERTAIN CONTINGENCIES

The following notes to the financial statements of the Form 10-K (as updated by the notes contained in this Form 10-Q) are incorporated herein by reference: Note 1(b) (System of Accounts and Effects of Regulation), Note 2 (Jointly-Owned Nuclear Plant), Note 3 (Rate Matters), Note 4 (Investments in Foreign and Non-Regulated Entities) and Note 11 (Commitments and Contingencies).

(3) JOINTLY-OWNED NUCLEAR PLANT

HL&P is the project manager (and one of four co-owners) of the South Texas Project Electric Generating Station (South Texas Project), which consists of two 1,250 megawatt nuclear generating units. HL&P has a 30.8 percent interest in the project.

On April 30, 1996, HL&P and the City of Austin (Austin), one of the four co-owners of the South Texas Project, agreed to settle a lawsuit in which Austin had alleged that outages occurring at the South Texas Project between early 1993 and early 1994 were due to HL&P's failure to perform certain obligations it owed Austin under a Participation Agreement relating to the project. For information regarding this settlement and a $13 million (after-tax) charge to first quarter earnings resulting from the settlement, see Note 7(a) to the Interim Financial Statements.

For information concerning a similar lawsuit filed against HL&P by the City of San Antonio (San Antonio), another co-owner of the South Texas Project, and San Antonio's pending arbitration claims against HL&P with respect to the construction of the South Texas Project, see Note 2(b) to the financial statements contained in the Form 10-K. HL&P and San Antonio (acting through the City Public Service Board of San Antonio (CPS)) have agreed on the principles under which they would settle all claims with respect to the South Texas Project. For information regarding the proposed settlement and a $49 million (after-tax) charge to first quarter earnings relating thereto, see Note 7(a) to the Interim Financial Statements.

(4) RATE CASE PROCEEDINGS

For information concerning the settlement of HL&P's most recent rate case (Docket No. 12065) and the continuing impact of that settlement on HL&P's results of operations, see Note 3(a) to the financial statements contained in the Form 10-K. The two Public Utility Commission of Texas (Utility Commission) orders concerning HL&P that are still subject to appellate review are: Docket No. 8425 (HL&P's 1988 rate case) and Docket No. 6668 (an inquiry into the prudence of the planning and construction of the South Texas Project). For information regarding these appeals, see Note 3(b) to the financial statements contained in the Form 10-K.

(5) CAPITAL STOCK

Company. At March 31, 1996 and December 31, 1995, the Company had 400,000,000 authorized shares of common stock, of which 248,556,370 and 248,316,710 shares, respectively, were outstanding as of such dates. Outstanding shares exclude the unallocated shares of the Company's Employee Stock Ownership Plan, which as of March 31, 1996 and December 31, 1995 totaled 14,186,577 and 14,355,758, respectively. Earnings per common share for the Company are computed by dividing net income by the weighted average number of shares outstanding during the respective period.

HL&P. All issued and outstanding shares of Class A voting common stock of HL&P are held by the Company, and all issued and outstanding shares of Class B non-voting common stock of HL&P are held by Houston Industries (Delaware) Incorporated (HI Delaware), a wholly owned subsidiary of the Company. Earnings per share data for HL&P are not computed because all of its common stock is held by the Company and HI Delaware.

On March 31, 1996 and December 31, 1995, HL&P had 10,000,000 authorized shares of preferred stock, of which 4,318,397 shares were outstanding.

(6) LONG-TERM DEBT

HL&P. In January 1996, HL&P repaid upon maturity $100 million principal amount of its Collateralized Medium-Term Notes Series B and $10 million principal amount of its Collateralized Medium-Term Notes Series A plus accrued interest on the two issues.

In March 1996, HL&P deposited approximately $86 million in a trust and irrevocably directed the trustee to redeem on May 8, 1996 all issued and outstanding principal amounts of HL&P's 7 1/4% first mortgage bonds due February 1, 2001 (at a redemption price of 100.42% plus accrued interest) and 6 3/4% first mortgage bonds due April 1, 1998 (at a redemption price of 100.15% plus accrued interest).

(7) SUBSEQUENT EVENTS

(a) South Texas Project Litigation. On April 30, 1996, Houston Lighting & Power Company entered into a settlement with Austin regarding City of Austin v. Houston Lighting & Power Company, Cause No. 94-07946, in the 11th Judicial District Court, Harris County, Texas. In that suit, filed by Austin in May 1994, Austin asserted that HL&P had mismanaged its responsibilities as Project Manager of the South Texas Project. Austin contended that, because of HL&P's mismanagement and negligence, the outage at the South Texas Project during 1993-94 had caused Austin damages of approximately $120 million.

Trial of Austin's suit began in March 1996, and the settlement was reached in April 1996. Under the settlement, HL&P agreed to pay Austin $20 million in cash to resolve all pending disputes between HL&P and Austin, and Austin agreed to support the formation of a new operating company to assume HL&P's role as project manager for the South Texas Project. The Company and HL&P have recorded the $20 million ($13 million net of tax) payment to Austin on the Company's Statements of Consolidated Income and HL&P's Statements of Income as litigation settlements expense.

HL&P and CPS have agreed on the principles under which they would settle all claims with respect to the South Texas Project. Under the proposed settlement, HL&P and CPS would enter into definitive agreements providing, among other things, for (i) a cash payment by HL&P to CPS of $75 million ($25 million of which has already been paid), (ii) an agreement to support formation of a new operating company to replace HL&P as project manager of the South Texas Project and (iii) the execution of a 10-year joint operations agreement under which HL&P and CPS will share savings resulting from the joint dispatching of their respective generating assets in order to take advantage of each system's lower cost resources. Under the terms of the joint operations agreement, CPS will be guaranteed minimum annual savings of $10 million with a minimum cumulative savings of $150 million over the ten year term of the agreement. Based on current forecasts and other assumptions regarding the combined operation of the two generating systems, HL&P anticipates that the savings resulting from joint operations will equal or exceed the minimum savings guaranteed under the joint operations agreement.

Although no assurance can be given as to the ultimate resolution of negotiations, the proposed settlement will resolve all claims, litigation and matters in arbitration between the two parties with respect to the South Texas Project. The proposed settlement has been reviewed by San Antonio's city council but is still subject to approval by CPS. In anticipation of the settlement, the Company and HL&P have recorded a $49 million expense (net of tax) on the Company's Statement of Consolidated Income and HL&P's Statements of Income (reflected as litigation settlement expense). The unpaid portion of the cash payment contemplated by the settlement is shown in other deferred credits on the Company's Consolidated and HL&P's Balance Sheets.

(b) HI Energy. In May 1996, a subsidiary of Houston Industries Energy, Inc. (HI Energy) purchased for approximately $55 million an additional 39 percent of the capital stock of Empresa Distribuidora la Plata (EDELAP), an electric utility company operating in La Plata, Argentina and surrounding regions. HI Energy also indirectly owns 16.6 percent of the capital stock of EDELAP, which shares were acquired in December 1992 for $37 million. For additional information regarding HI Energy's investments in foreign and non-regulated entities, see Note 4 to the financial statements contained in the Form 10-K. Beginning in the second quarter of 1996, EDELAP will be reflected in the Company's financial statements on a consolidated basis.

(c) Redemption of HL&P Preferred Stock. In March 1996, HL&P provided notice to the holders of its $9.375 preferred stock that it would redeem 514,000 shares of such stock at a cost of approximately $53 million ($102.34375 per share including accrued dividends). On April 1, 1996, HL&P redeemed 257,000 of such shares pursuant to a sinking fund requirement and 257,000 shares pursuant to optional redemption provisions. HL&P will record the redemptions in the second quarter of 1996.

(8) INTERIM PERIOD RESULTS: RECLASSIFICATIONS

The results of interim periods are not necessarily indicative of results expected for the year due to the seasonal nature of HL&P's business. In the opinion of management, the interim information reflects all adjustments (consisting only of normal recurring adjustments) necessary for a full presentation of the results for the interim periods. Certain amounts from the previous year have been reclassified to conform to the 1996 presentation of financial statements. Such reclassifications do not affect earnings.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis should be read in combination with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of the Form 10-K, the financial statements and notes contained in Item 8 of the Form 10-K and the Interim Financial Statements.

RESULTS OF OPERATIONS

COMPANY

A summary of selected financial data for the Company and its subsidiaries is set forth below:

	Three Months Ended March 31, 1996	1995	Percent Change
	(Thousands of Dollars)		
Revenues	$824,421	$755,238	9
Operating Expenses	686,954	640,085	7
Operating Income	137,467	115,153	19
Other Income (Expense)	(85,201)	518	-
Interest and Other Charges	78,916	81,395	(3)
Income Taxes	(9,910)	10,427	-
Income (Loss) from Continuing Operations	(16,740)	23,849	-
Gain from Discontinued Operations		90,607	-
Net Income (Loss)	(16,740)	114,456	-

The Company had a consolidated loss per share of $.07 for the first quarter of 1996 compared to consolidated earnings per share of $.46 for the first quarter of 1995. The decline in 1996 first quarter earnings was the result of a $62 million (after-tax) charge incurred in connection with the settlement of the Austin litigation and the proposed settlement of San Antonio's claims relating to the South Texas Project. For information regarding these matters and their accounting impact on the Company and HL&P, see Note 7(a) to the Interim Financial Statements. First quarter 1995 earnings included a one-time after-tax gain of $.37 per share recorded in connection with the sale of the Company's cable television subsidiary.

Excluding the $62 million (after-tax) charge to earnings, the Company's consolidated earnings from continuing operations would have been $.18 per share in the first quarter of 1996 compared to $.09 per share in the first quarter of 1995. The increase in consolidated earnings from continuing operations for the first quarter of 1996 is primarily the result of improved earnings by the Company's principal subsidiary, HL&P. In addition, first quarter earnings benefited from after-tax dividend income of approximately $9 million from the Company's investment in Time Warner Inc. securities (acquired in connection with the Company's sale of its cable television subsidiary).

HL&P

A summary of selected financial data for HL&P is set forth below:

	Three Months Ended March 31, 1996	Three Months Ended March 31, 1995	Percent Change
	(Thousands of Dollars)		
Base Revenues (1)	$552,335	$524,015	5
Reconcilable Fuel Revenues (2)	259,630	222,151	17
Operating Expenses (3)	692,311	641,600	8
Operating Income (3)	119,654	104,566	14
Other Income (Expense) (3)	(63,979)	1,176	-
Interest Charges	59,230	62,848	(6)
Income (Loss) After Preferred Dividends	(10,187)	33,909	-

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(1) Includes miscellaneous revenues, certain non-reconcilable fuel revenues and certain purchased power related revenues.
(2) Includes revenues collected through a fixed fuel factor net of adjustment for over/under recovery. See "Operating Revenues and Sales" below.
(3) Includes income taxes.

In the first quarter of 1996, HL&P's income after preferred dividends declined $44 million compared to 1995 first quarter income. The decline in HL&P's income after preferred dividends was the result of a $62 million (after-tax) charge to earnings relating to the South Texas Project litigation, as described above. For information regarding these matters and their accounting impact on the Company and HL&P, see Note 7(a) to the Interim Financial Statements. Excluding the $62 million charge to earnings, HL&P's first quarter 1996 income after preferred dividends would have been $52 million ($18 million higher than 1995 first quarter income). This increase resulted primarily from increased electric sales partially offset by increased depreciation and amortization expenses related to HL&P's investments in the South Texas Project and certain lignite reserves.

OPERATING REVENUES AND SALES

HL&P's first quarter 1996 base revenues benefited from a 16 percent increase in residential kilowatt-hour (KWH) sales and a 7 percent increase in commercial KWH sales compared to the first quarter of 1995. Weather was a major contributor to the increase in KWH sales. Other factors contributing to increased sales were continued customer growth and increased electricity usage per customer.

Reconcilable fuel revenues are revenues that are collected through a fixed fuel factor. These revenues are adjusted monthly to equal related expenses; therefore, such revenues and expenses have no effect on earnings unless such fuel costs are determined not to be recoverable. For information regarding the recovery of fuel costs, see "Business of HL&P -- Fuel -- Recovery of Fuel Costs" in Item 1 of the Form 10-K.

FUEL AND PURCHASED POWER EXPENSES

HL&P's first quarter fuel expenses increased $14 million compared to the first quarter of 1995. The increase was due to an increase in the unit cost of gas. The average cost of fuel for the first quarter of 1996 was $1.70 per million British Thermal Units (MMBtu) compared to $1.62 per MMBtu for the same period in 1995, including an average gas cost of $2.13 per MMBtu and $1.71 per MMBtu, respectively. Purchased power expense increased $13 million for the first quarter of 1996 primarily as a result of increased energy purchases partially offset by decreased firm capacity costs (reflecting the expiration of a purchased power contract in 1995).

OPERATION AND MAINTENANCE, DEPRECIATION AND AMORTIZATION, AND OTHER TAXES

First quarter operation and maintenance expense decreased $5 million in comparison to the first quarter of 1995 primarily due to the absence of refueling activities at the South Texas Project combined with a modest decline in HL&P's administrative and general operations expense.

Depreciation and amortization expense increased $25 million during the first quarter of 1996 compared to the first quarter of 1995. This increase included HL&P's decision to write down $13 million of its investment in the South Texas Project as permitted under the settlement of HL&P's most recent rate case (Docket No. 12065). Under this settlement, HL&P has the option to write down up to $50 million ($33 million after-tax) per year of its investment in the South Texas Project through December 31, 1999. Additionally, pursuant to the settlement, HL&P began amortization of its investment in certain lignite reserves (associated with the now cancelled Malakoff generation project) at a rate of approximately $22 million per year. This amortization resulted in a $6 million increase in amortization expense during the first quarter of 1996. For additional information regarding the settlement and its ongoing effects on HL&P's results of operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Certain Factors Affecting Future Earnings of the Company and HL&P - Rate Matters and Other Contingencies" in Item 7 of the Form 10-K and Note 3(a) to the financial statements contained in the Form 10-K. The increase in depreciation and amortization expense also included $3 million for amortization of HL&P's 1995 early retirement program and $2 million of increased plant depreciation expense.

Other taxes decreased $8 million in the first quarter of 1996 primarily because of a decrease in estimated property taxes.

LIQUIDITY AND CAPITAL RESOURCES

COMPANY

GENERAL

The Company's net cash provided by operating activities for the first quarter of 1996 totaled $80 million. Net cash used in the Company's investing activities for the first quarter of 1996 totaled $86 million, primarily due to electric capital and nuclear expenditures. The Company's financing activities for the first quarter of 1996 resulted in a net cash inflow of $1 million. The Company's primary financing activities were payment of matured bonds, payment of dividends on its common stock and extinguishment of long-term debt funded by an increase in notes payable in the form of commercial paper.

SOURCES OF CAPITAL RESOURCES AND LIQUIDITY

In the first quarter of 1996, the Company reduced its borrowing capacity under its bank credit facilities from $1.1 billion to $750 million (exclusive of bank credit facilities of subsidiaries). Borrowings under these facilities are used to support the Company's commercial paper program. As of March 31, 1996, the Company had approximately $87 million of commercial paper outstanding.

In May 1996, a subsidiary of HI Energy purchased for approximately $55 million an additional 39 percent equity interest in EDELAP, an Argentine electric utility company in which HI Energy already indirectly owned a 16.6 percent equity interest. HI Energy purchased the interest with proceeds from intercompany borrowings from the Company. For additional information regarding this acquisition, see Note 7(b) to the Interim Financial Statements.

RATIOS OF EARNINGS TO FIXED CHARGES

The Company's ratios of earnings to fixed charges for the three and twelve months ended March 31, 1996 were 0.68 and 2.56, respectively. The Company believes that the ratio for the three-month period is not necessarily indicative of the ratio for a twelve-month period due to the seasonal nature of HL&P's business and the recording of a $62 million after-tax charge to 1996 first quarter earnings.

HL&P

GENERAL

HL&P's net cash provided by operating activities for the first quarter of 1996 totaled $77 million. Net cash used in HL&P's investing activities for the first quarter of 1996 totaled $72 million. HL&P's capital and nuclear fuel expenditures (excluding allowance for funds used during construction) for the first three months of 1996 totaled $69 million out of the $387 million annual budget. HL&P's financing activities for the first quarter of 1996 resulted in a net cash outflow of approximately $79 million primarily from payment of dividends; the extinguishment of long-term debt; and the repayment of matured long-term debt (all of which exceeded the increase in short-term borrowings).

SOURCES OF CAPITAL RESOURCES AND LIQUIDITY

As of March 31, 1996, HL&P had approximately $204 million of commercial paper outstanding. HL&P's commercial paper borrowings are supported by a bank line of credit of $400 million.

In January 1996, HL&P repaid at maturity $110 million principal amount (plus accrued interest) of its collateralized medium-term notes. In March 1996, HL&P deposited approximately $86 million in a trust and irrevocably instructed the trustee to redeem on May 8, 1996 certain of HL&P's first mortgage bonds. For information regarding these repayments and redemptions, see Note 6 to the Interim Financial Statements. For information regarding the redemption in April 1996 of certain shares of HL&P's preferred stock, see Note 7(c) to the Interim Financial Statements.

RATIOS OF EARNINGS TO FIXED CHARGES

HL&P's ratios of earnings to fixed charges for the three and twelve months ended March 31, 1996 were 0.92 and 3.54, respectively. HL&P's ratios of earnings to fixed charges and preferred dividends for the three and twelve months ended March 31, 1996, were 0.80 and 3.05, respectively. HL&P believes that the ratios for the three-month period are not necessarily indicative of the ratios for a twelve-month period due to the seasonal nature of HL&P's business and the recording of a $62 million after-tax charge to 1996 first quarter earnings.

NEW ACCOUNTING ISSUES

In January 1996, the Company and HL&P adopted SFAS No. 121, ("Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of"). The adoption of SFAS No. 121 had no material effect on the Company's or HL&P's financial condition or results of operations for the three months ended March 31, 1996.

Effective January 1, 1996, the Company and HL&P adopted SFAS No. 123, "Accounting for Stock-Based Compensation." In accordance with SFAS No. 123, the Company will continue to apply the existing accounting rules contained in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and will disclose in future annual reports on Form 10-K the required pro forma effect on net income and earnings per share of the fair value based method of accounting for stock compensation. The adoption of SFAS No. 123 had no material effect on the Company's or HL&P's financial condition or results of operations for the three months March 31, 1996.

For information regarding SFAS Nos. 121 and 123, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - New Accounting Issues" in Item 7 of the Form 10-K.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For a description of legal proceedings affecting the Company and its subsidiaries, including HL&P and HI Energy, reference is made to the information set forth in Item 3 of the Form 10-K and Notes 2(b), 3 and 4(c) to the Financial Statements in the Form 10-K, which information, as qualified and updated by the description of developments in regulatory and litigation matters contained in Notes 3, 4 and 7(a) of the Notes to the Interim Financial Statements included in Part I of this Report, is incorporated herein by reference.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

Houston Industries Incorporated:

Exhibit 11 - Computation of Earnings per Common Share and Common Equivalent Share.

Exhibit 12 - Computation of Ratios of Earnings to Fixed Charges.

Exhibit 27 - Financial Data Schedule.

Exhibit 99(a) - Notes 1(b), 2, 3, 4, and 11 to the Financial Statements included on pages 57, 59 through 64 and 73 through 74 of the Form 10-K.

Houston Lighting & Power Company:

Exhibit 12 - Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Fixed Charges and Preferred Dividends.

Exhibit 27 - Financial Data Schedule.

Exhibit 99(a) - Notes 1(b), 2, 3, 4 and 11 to the Financial Statements included on pages 57, 59 through 64 and 73 through 74 of the Form 10-K.

(b) Reports on Form 8-K.

None.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HOUSTON INDUSTRIES INCORPORATED
(Registrant)

/s/ Mary P. Ricciardello

Mary P. Ricciardello

Vice President and Comptroller
(Principal Accounting Officer)

Date: May 13, 1996

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HOUSTON LIGHTING & POWER COMPANY
(Registrant)

/s/ Mary P. Ricciardello

Mary P. Ricciardello

Vice President and Comptroller
(Principal Accounting Officer)

Date: May 13, 1996

EXHIBIT INDEX

Houston Industries Incorporated:

Exhibit 11 -	Computation of Earnings per Common Share and Common Equivalent Share.
Exhibit 12 -	Computation of Ratios of Earnings to Fixed Charges.
Exhibit 27 -	Financial Data Schedule.
Exhibit 99(a) -	Notes 1(b), 2, 3, 4, and 11 to the Financial Statements included on pages 57, 59 through 64 and 73 through 74 of the Form 10-K.

Houston Lighting & Power Company:

Exhibit 12 -	Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Fixed Charges and Preferred Dividends.
Exhibit 27 -	Financial Data Schedule.
Exhibit 99(a) -	Notes 1(b), 2, 3, 4 and 11 to the Financial Statements included on pages 57, 59 through 64 and 73 through 74 of the Form 10-K.

Exhibit 11

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

COMPUTATION OF EARNINGS (LOSS) PER COMMON SHARE
AND COMMON EQUIVALENT SHARE
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended March 31, 1996	Three Months Ended March 31, 1995
Primary Earnings (Loss) Per Share:		
(1) Weighted average shares of common stock outstanding	248,466,091	247,196,758
(2) Effect of issuance of shares from assumed exercise of stock options (treasury stock method)	21,668	(40,290)
(3) Weighted average shares	248,487,759	247,156,468
(4) Net income (loss)	$ (16,740)	$ 114,456
(5) Primary earnings (loss) per share (line 4 divided by line 3)	$ (.07)	$ .46
Fully Diluted Earnings (Loss) Per Share:		
(6) Weighted average shares per computation (line 3)	248,487,759	247,156,468
(7) Shares applicable to options included (line 2)	(21,668)	40,290
(8) Dilutive effect of stock options based on the average price for the quarter or quarter-end price, whichever is higher, of $22.75 and $19.375 for 1996 and 1995, respectively (treasury stock method)	21,668	(40,290)
(9) Weighted average shares	248,487,759	247,156,468
(10) Net income (loss)	$ (16,740)	$ 114,456
(11) Fully diluted earnings (loss) per share (line 10 divided by line 9)	$ (.07)	$ .46

Notes:

These calculations are submitted in accordance with Regulation S-K item 601(b)(11) although it is not required for financial presentation disclosure per footnote 2 to paragraph 14 of Accounting Principles Board (APB) Opinion No. 15 because it does not meet the 3% dilutive test.

The calculations for the three months ended March 31, 1995 are submitted in accordance with Regulation S-K item 601(b)(11) although they are contrary to paragraphs 30 and 40 of APB No. 15 because they produce anti-dilutive results.

Exhibit 12

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(THOUSANDS OF DOLLARS)

		Three Months Ended March 31, 1996	Twelve Months Ended March 31, 1996
Fixed Charges as Defined:			
(1)	Interest on Long-Term Debt	$ 71,395	$ 285,669
(2)	Other Interest	1,574	14,161
(3)	Preferred Dividends Factor of Subsidiary	10,545	41,403
(4)	Interest Component of Rentals Charged to Operating Expense	384	2,551
(5)	Total Fixed Charges	$ 83,898	$ 343,784
Earnings as Defined:			
(6)	Income (Loss) from Continuing Operations	$ (16,740)	$ 356,811
(7)	Income Taxes for Continuing Operations	(9,910)	179,218
(8)	Fixed Charges (line 5)	83,898	343,784
(9)	Income from Continuing Operations Before Income Taxes and Fixed Charges	$ 57,248	$ 879,813
Preferred Dividends Factor of Subsidiary:			
(10)	Preferred Stock Dividends of Subsidiary	$ 6,632	$ 27,602
(11)	Ratio of Pre-Tax Income (Loss) from Continuing Operations to Income (Loss) from Continuing Operations (line 6 plus line 7 divided by line 6)	1.59	1.50
(12)	Preferred Dividends Factor of Subsidiary (line 10 times line 11)	$ 10,545	$ 41,403
Ratio of Earnings to Fixed Charges (line 9 divided by line 5)		0.68	2.56

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This schedule contains summary financial information extracted from the
Company's and HL&P's financial statements and is qualified in its entirety by
reference to such financial statements.

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Houston Industries Incorporated
1,000

3-MOS
DEC-31-1996
MAR-31-1996
PER-BOOK
8,725,532
1,170,719
291,658
1,525,926
0
11,713,835
2,179,986
0
1,843,723
4,022,165
51,055
351,345
3,058,596
0
2,500
290,228
430,130
25,700
4,056
3,624
3,472,892
11,713,835
824,421
(9,910)
25,793
686,954
137,467
(85,201)
52,266
72,284
(10,108)
6,632
(16,740)
93,209
57,488
79,938
(0.07)
(0.07)

Total annual interest charges on all bonds for year-to-date 3/31/96.

EXHIBIT 99(a)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE YEARS ENDED DECEMBER 31, 1995

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(B) SYSTEM OF ACCOUNTS AND EFFECTS OF REGULATION. HL&P, the principal subsidiary of the Company, maintains its accounting records in accordance with the FERC Uniform System of Accounts. HL&P's accounting practices are subject to regulation by the Utility Commission, which has adopted the FERC Uniform System of Accounts.

As a result of its regulated status, HL&P follows the accounting policies set forth in SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," which allows a utility with cost-based rates to defer certain costs in concert with rate recovery that would otherwise be expensed. In accordance with this statement, HL&P has deferred certain costs pursuant to rate actions of the Utility Commission and is recovering or expects to recover such costs in electric rates charged to customers. The regulatory assets are included in other assets on the Company's Consolidated and HL&P's Balance Sheets. The regulatory liabilities are included in deferred credits on the Company's Consolidated and HL&P's Balance Sheets. The following is a list of significant regulatory assets and liabilities reflected on the Company's Consolidated and HL&P's Balance Sheets:

	December 31, 1995 (Millions of Dollars)
Deferred plant costs - net	$613
Malakoff investment	233
Regulatory tax asset - net	229
Unamortized loss on reacquired debt	121
Deferred debits	137
Unamortized investment tax credit	(392)
Accumulated deferred income taxes - regulatory tax asset	(80)

If as a result of changes in regulation or competition, HL&P's ability to recover these assets and/or liabilities would not be assured, then pursuant to SFAS No. 71 and to the extent that such regulatory assets or liabilities ultimately were determined not to be recoverable, HL&P would be required to write off or write down such assets or liabilities.

(2) JOINTLY-OWNED NUCLEAR PLANT

(A) HL&P INVESTMENT. HL&P is the project manager (and one of four co-owners) of the South Texas Project, which consists of two 1,250 megawatt nuclear generating units. HL&P has a 30.8 percent interest in the project and bears a corresponding share of capital and operating costs associated with the project. As of December 31, 1995, HL&P's investment in the South Texas Project and in nuclear fuel, including AFUDC, was $2.0 billion (net of $439 million plant accumulated depreciation) and $75.1 million (net of $142 million nuclear fuel amortization), respectively.

(B) REGULATORY PROCEEDINGS AND LITIGATION. Between June 1993 and February 1995, the South Texas Project was listed on the United States Nuclear Regulatory Commission's (NRC) "watch list" of plants with weaknesses that warrant increased NRC regulatory attention. In February 1995, the NRC removed the South Texas Project from its "watch list."

In February 1994, the City of Austin (Austin), one of the four co-owners of the South Texas Project, filed suit against HL&P (Austin Litigation). Trial of that suit, which began in March 1996 is pending in the 11th District Court of Harris County, Texas. Austin alleges that the outages at the South Texas Project from early 1993 to early 1994 were due to HL&P's failure to perform obligations it owed to Austin under the Participation Agreement among the four co-owners of the South Texas Project (Participation Agreement). Austin also asserts that HL&P breached certain undertakings voluntarily assumed by HL&P on behalf of the co-owners under the terms of the NRC Operating Licenses and Technical Specifications relating to the South Texas Project.

Under amended pleadings in the Austin Litigation, Austin claims it suffered damages of at least $120 million due to increased operating and maintenance costs, the cost of replacement power and lost profits on wholesale transactions that did not occur. Although HL&P and the Company do not believe there is merit to Austin's claims, no assurance can be given as to the ultimate outcome of this matter.

In May 1994, the City of San Antonio (San Antonio), another co-owner of the South Texas Project, intervened in the litigation filed by Austin against HL&P and asserted claims similar to those asserted by Austin. Although San Antonio has not specified the damages sought in its complaint, expert reports filed in the litigation have indicated that San Antonio's claims may be in excess of $228 million. On February 29,1996, San Antonio announced that it was taking a nonsuit on its claims in the Austin Litigation in order to pursue settlement discussions with HL&P concerning those claims, as well as separate claims for unspecified damages previously asserted by San Antonio against HL&P with respect to the construction of the South Texas Project, which construction claims are the subject of a request for arbitration under the Participation Agreement. In order to preserve its litigation claims pending the outcome of settlement negotiations, San Antonio refiled its lawsuit in the 152nd District Court of Harris County, Texas. While neither the Company nor HL&P believes there is merit to San Antonio's claims either in the pending litigation or in the arbitration proceeding, there can be no assurance as to the ultimate outcome of those matters, nor can there be an assurance as to the ultimate outcome of the settlement discussions. If a settlement is reached, it is possible, among other things, that such resolution could require in the near term a charge to earnings from continuing operations, but it is not anticipated that any such resolution would be material to the Company's or HL&P's financial position, liquidity or ability to meet their respective cash requirements stemming from operating, capital expenditures and financing activities.

(C) NUCLEAR INSURANCE. HL&P and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain $2.75 billion in property damage insurance coverage which is above the legally required minimum, but is less than the total amount of insurance currently available for such losses. This coverage consists of $500 million in primary property damage insurance and excess property insurance in the amount of $2.25 billion. Under the excess property insurance (which became effective in November 1995), HL&P and the other owners of the South Texas Project are subject to assessments, the maximum aggregate assessment under current policies being $25.8 million during any one policy year. The application of the proceeds of such property insurance is subject to the priorities established by the NRC regulations relating to the safety of licensed reactors and decontamination operations.

Pursuant to the Price Anderson Act (Act), the maximum liability to the public for owners of nuclear power plants, such as the South Texas Project, was $8.92 billion as of December 1995. Owners are required under the Act to insure their liability for nuclear incidents and protective evacuations by maintaining the maximum amount of financial protection available from private sources and by maintaining secondary financial protection through an industry retrospective rating plan. The assessment of deferred premiums provided by the plan for each nuclear incident is up to $75.5 million per reactor subject to indexing for inflation, a possible 5 percent surcharge (but no more than $10 million per reactor per incident in any one year) and a 3 percent state premium tax. HL&P and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan.

There can be no assurance that all potential losses or liabilities will be insurable, or that the amount of insurance will be sufficient to cover them. Any substantial losses not covered by insurance would have a material effect on HL&P's and the Company's financial condition and results of operations.

(D) NUCLEAR DECOMMISSIONING. In accordance with the Rate Case Settlement, HL&P contributes $14.8 million per year to a trust established to fund HL&P's share of the decommissioning costs for the South Texas Project. For a discussion of securities held in the Company's nuclear decommissioning trust, see Note 1(j). In May 1994, an outside consultant estimated HL&P's portion of decommissioning costs to be approximately $318 million (1994 dollars). The consultant's calculation of decommissioning costs for financial planning purposes used the DECON methodology (prompt removal/dismantling), one of the three alternatives acceptable to the NRC, and assumed deactivation of Unit Nos. 1 and 2 upon the expiration of their 40-year operating licenses. While the current and projected funding levels presently exceed minimum NRC requirements, no assurance can be given that the amounts held in trust will be adequate to cover the actual decommissioning costs of the South Texas Project. Such costs may vary because of changes in the assumed date of decommissioning, changes in regulatory and accounting requirements, changes in technology and changes in costs of labor, materials and equipment.

(3) RATE MATTERS

The Utility Commission has original (or in some cases appellate) jurisdiction over HL&P's electric rates and services. In Texas, Utility Commission orders may be appealed to a District Court in Travis County, and from that Court's decision an appeal may be taken to the Court of Appeals for the 3rd District at Austin (Austin Court of Appeals). Discretionary review by the Supreme Court of Texas may be sought from decisions of the Austin Court of Appeals. In the event that the courts ultimately reverse actions of the Utility Commission, such matters are remanded to the Utility Commission for action in light of the courts' orders. On remand, the Utility Commission's action could range from granting rate relief substantially equal to the rates previously approved to reducing the revenues to which HL&P was entitled during the time the applicable rates were in effect, which could require a refund to customers of amounts collected pursuant to such rates.

(A) 1995 RATE CASE. In August 1995, the Utility Commission unanimously approved the Rate Case Settlement, which resolved HL&P's 1995 rate case (Docket No. 12065) as well as a separate proceeding (Docket No. 13126) regarding the prudence of operation of the South Texas Project. Subject to certain changes in existing regulation or legislation, the Rate Case Settlement precludes HL&P from seeking rate increases until after December 31, 1997. HL&P began recording the effects of the Rate Case Settlement in the first quarter of 1995. The Rate Case Settlement reduced HL&P's earnings for 1995 by approximately $100 million.

The after-tax effects in 1995 of the Rate Case Settlement are as follows:

	Year Ended December 31, 1995
	(Millions of Dollars)
Reduction in base revenues	$ 52
South Texas Project write-down	33
One-time write-off of mine-related costs	6
Other expenses	9
Total Rate Case Settlement effect on net income	$100

The Rate Case Settlement gives HL&P the option to write down up to $50 million ($33 million after-tax) per year of its investment in the South Texas Project through December 31, 1999. The parties to the Rate Case Settlement agreed that any such write-down will be treated as a reasonable and necessary expense during routine reviews of HL&P's earnings and any rate review proceeding initiated against HL&P. In accordance with the Rate Case Settlement, HL&P recorded a $50 million pre-tax write-down in 1995 of its investment in the South Texas Project which is included in the Company's Statements of Consolidated Income and HL&P's Statements of Income in depreciation and amortization expense. In 1995, HL&P also began accruing its share of decommissioning expense for the South Texas Project at an annual rate of $14.8 million (a $9 million per year increase over 1994).

As required by the Rate Case Settlement, HL&P will begin in 1996 to amortize its $153 million investment in certain lignite reserves associated with the canceled Malakoff project. These amortizations will equal approximately $22 million per year. As a result of this additional amortization, HL&P's remaining investment in Malakoff ($233 million at December 31, 1995) will be fully amortized no later than December 31, 2002. During the second quarter of 1995, HL&P recorded a one-time pre-tax charge of $9 million incurred in connection with certain Malakoff mine-related costs that were not previously recorded and were not recoverable under the terms of the Rate Case Settlement. Issues concerning the prudence of expenditures related to Malakoff were deferred until a subsequent rate case.

In Docket No. 8425, the Utility Commission allowed recovery of certain costs associated with Malakoff by allowing HL&P to amortize these costs over ten years. Such recoverable costs are not included in rate base and, as a result, no return on investment is being earned during the recovery period. The $28 million unamortized balance of these costs at December 31, 1995 is included in the $233 million discussed above and is to be amortized over the following 54 months.

In anticipation of the Rate Case Settlement, the Company and HL&P recorded in the fourth quarter of 1994 a one-time, pre-tax charge of approximately $70 million to reconcilable fuel revenues, an amount which HL&P agreed as a part of the Rate Case Settlement was not recoverable from ratepayers.

(B) RATE CASE APPEALS. Pursuant to the Rate Case Settlement, HL&P and the other parties to that settlement have dismissed their pending appeals of previous Utility Commission orders. As a result of that action or subsequent judicial action, the Utility Commission's orders have become final in Docket No. 9850 (involving HL&P's 1991 rate case) and in Docket Nos. 8230 and 9010 (involving deferred accounting). Two appeals of other orders, by parties who did not join in the Rate Case Settlement, remain pending: review of Docket No. 8425 (HL&P's 1988 rate case), and review of Docket No. 6668 (the Utility Commission's inquiry into the prudence of the planning and construction of the South Texas Project). The appeal from the order in Docket No. 8425 concerns (i) the treatment as "plant held for future use" of certain costs associated with the Malakoff generating station and (ii) the treatment by HL&P of certain tax savings associated with federal income tax deductions for expenses not included in cost of service for ratemaking purposes. The appeal is currently pending before the Texas Supreme Court.

Review of the Utility Commission's order in Docket No. 6668 is pending before a Travis County district court. In that order the Utility Commission determined that $375.5 million of HL&P's $2.8 billion investment in the South Texas Project had been imprudently incurred. That ruling was incorporated into HL&P's 1988 and 1991 rate cases. Unless the order is modified or reversed on appeal, the amount found imprudent by the Utility Commission will be sustained.

(4) INVESTMENTS IN FOREIGN AND NON-REGULATED ENTITIES

(A) GENERAL. HI Energy sustained net losses of $33 million, $6 million and $2 million in 1995, 1994 and 1993, respectively. Development costs for 1995 were approximately $14 million. The majority of costs in 1994 and 1993 were related to project development activities.

(B) FOREIGN INVESTMENTS. Houston Argentina S.A. (Houston Argentina), a subsidiary of HI Energy, owns a 32.5 percent interest in Compania de Inversiones en Electricidad S.A. (COINELEC), an Argentine holding company which acquired a 51 percent interest in Empresa Distribuidora de La Plata S.A. (EDELAP), an electric utility company operating in La Plata, Argentina and surrounding regions. Houston Argentina's share of the purchase price was approximately $37.4 million. Such investment was in the form of (i) a capital contribution of $27.6 million to COINELEC and (ii) a loan to COINELEC in the aggregate principal amount of $9.8 million. HI Energy has also entered into support agreements with two financial institutions pursuant to which HI Energy has agreed to make additional cash contributions or subordinated loans to COINELEC or pay COINELEC's lenders up to a maximum aggregate of $6.6 million in the event of a default by COINELEC of its commitments to such financial institutions. Subsequent to the acquisition, the generating assets of EDELAP were transferred to Central Dique S.A., an Argentine Corporation, 51 percent of the stock of which is owned by COINELEC. HI Energy's portion of EDELAP and Central Dique S.A. earnings was approximately $1 million in both 1995 and 1994.

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In 1995, HI Energy invested approximately $7 million in a cogeneration project being developed in San Nicolas, Argentina and approximately $5 million in a coke calcining project being developed in the state of Andhra Pradesh, India. These projects had no earnings impact in 1995.

HI Energy estimates that its commitment in 1996 for the Argentine cogeneration project will be approximately $31 million and that its share of the 1996 commitment for the coke calcining project will be approximately $3 million. HI Energy has entered into a support agreement in favor of the International Finance Corporation (IFC) under the terms of which HI Energy has agreed to provide one of its subsidiaries (HIE Rain), which is an investor in the coke calcining project, with sufficient funds to meet certain funding obligations of HIE Rain under agreements with the IFC. The maximum aggregate funding commitment of HI Energy under this support agreement is approximately $18 million, of which approximately $16 million is to support contingent obligations of HIE Rain and the balance of which is additional equity to be contributed to the coke calcining project.

(C) ILLINOIS WASTE TIRE-TO-ENERGY PROJECTS. HI Energy is a subordinated lender to two waste tire-to-energy projects being developed by Ford Heights and Fulton, respectively, located in the state of Illinois. HI Energy also owns a $400,000 equity interest (20 percent) in Ford Heights. Both projects were being developed in reliance on the terms of the Illinois Retail Rate Law, enacted in 1987, to encourage development of energy production facilities for the disposal of solid waste by providing an operating subsidy to qualifying projects. In March 1996, the Governor of Illinois signed into law legislation which purports to repeal the subsidy provided to most of such energy production facilities, including the two waste tire-to-energy projects in which HI Energy has invested. A lawsuit has been filed on behalf of the Ford Heights and Fulton projects challenging, among other things, the constitutionality of the repeal and its retroactive application to the two waste tire-to-energy projects. On March 26, 1996, the Ford Heights project filed a voluntary petition seeking protection under the federal bankruptcy laws. The ability of the two waste tire-to-energy projects to meet their debt obligations is dependent upon the projects continuing to receive the operating subsidy under the Retail Rate Law. The terms of the public bonds issued by the Ford Heights and Fulton projects are non-recourse to the Company and HI Energy.

In response to the actions taken by the state of Illinois, the Company has established a valuation allowance of $28 million ($18 million after-tax), which amount reflects the combined amounts lent on a subordinated basis to the Ford Heights and Fulton projects. In addition to amounts funded through March 26, 1996, HI Energy also is party to two separate Note Purchase Agreements committing it, under certain circumstances, to acquire up to (i) $3 million in aggregate principal amount of additional subordinated notes from the Ford Heights project and (ii) $17 million in aggregate principal amount of additional subordinated notes from the Fulton project. The Company has entered into a support agreement under which it has agreed to provide additional funds to HI Energy to enable it to honor its obligations under the two Note Purchase Agreements. The Company is unable to predict the ultimate effect of these developments on HI Energy's remaining funding commitments under these Note Purchase Agreements; however, in the Company's opinion it is unlikely that the majority of the additional unfunded subordinated debt provided for in the Fulton Note Purchase Agreement would be required to be funded unless construction activities with respect to the Fulton project are recommenced at some future date. If HI Energy becomes obligated to advance additional funds under the Note Purchase Agreements, the Company could be required to increase the amount of the valuation allowance, which would result in additional charges to earnings.

(11) COMMITMENTS AND CONTINGENCIES

(a) HL&P COMMITMENTS. HL&P has various commitments for capital expenditures, fuel, purchased power, cooling water and operating leases. Commitments in connection with HL&P's capital program are generally revocable by HL&P subject to reimbursement to manufacturers for expenditures incurred or other cancellation penalties. HL&P's other commitments have various quantity requirements and durations. However, if these requirements could not be met, various alternatives are available to mitigate the cost associated with the contracts' commitments.

(b) FUEL AND PURCHASED POWER. HL&P is a party to several long-term coal, lignite and natural gas contracts which have various quantity requirements and durations. Minimum payment obligations for coal and transportation agreements are approximately $175 million in 1996, $178 million in 1997 and $184 million in 1998. Additionally, minimum payment obligations for lignite mining and lease agreements are approximately $5 million for 1996, $8 million for 1997 and $9 million for 1998. Collectively, the fixed price gas supply contracts, which expire in 1997, could amount to 11 percent of HL&P's annual natural gas requirements for 1996 and 7 percent for 1997. Minimum payment obligations for both natural gas purchase and storage contracts are approximately $57 million in 1996, $38 million in 1997 and $9 million in 1998.

HL&P also has commitments to purchase firm capacity from cogenerators of approximately $22 million in each of the years 1996 through 1998. Utility Commission rules currently allow recovery of these costs through HL&P's base rates for electric service and additionally authorize HL&P to charge or credit customers through a purchased power cost recovery factor for any variation in actual purchased power costs from the cost utilized to determine its base rates. In the event that the Utility Commission, at some future date, does not allow recovery through rates of any amount of purchased power payments, the two principal firm capacity contracts contain provisions allowing HL&P to suspend or reduce payments and seek repayment for amounts disallowed.

(c) OTHER. HL&P's service area is heavily dependent on oil, gas, refined products, petrochemicals and related businesses. Significant adverse events affecting these industries would negatively affect the revenues of the Company and HL&P. For information regarding contingencies relating to the South Texas Project, see Note 2 above. The Company and HL&P are involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts.

Exhibit 12

HOUSTON LIGHTING & POWER COMPANY
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES AND
RATIOS OF EARNINGS TO FIXED CHARGES AND
PREFERRED DIVIDENDS
(THOUSANDS OF DOLLARS)

		Three Months Ended March 31, 1996	Twelve Months Ended March 31, 1996
Fixed Charges as Defined:			
(1)	Interest on Long-Term Debt	$ 57,504	$ 240,370
(2)	Other Interest	2,411	7,393
(3)	Amortization of (Premium) Discount	2,254	8,895
(4)	Interest Component of Rentals Charged to Operating Expense	384	2,551
(5)	Total Fixed Charges	$ 62,553	$ 259,209
Earnings as Defined:			
(6)	Net Income (Loss)	$ (3,555)	$ 434,483
Federal Income Taxes:			
(7)	Current	5,471	176,493
(8)	Deferred (Net)	(6,870)	48,258
(9)	Total Federal Income Taxes	(1,399)	224,751
(10)	Fixed Charges (line 5)	62,553	259,209
(11)	Earnings Before Income Taxes and Fixed Charges (line 6 plus line 9 plus line 10)	$ 57,599	$ 918,443
Ratio of Earnings to Fixed Charges (line 11 divided by line 5)		0.92	3.54
Preferred Dividends Requirements:			
(12)	Preferred Dividends	$ 6,632	$ 27,602
(13)	Less Tax Deduction for Preferred Dividends	14	54
(14)	Total	6,618	27,548
(15)	Ratio of Pre-Tax Income (Loss) to Net Income (Loss) (line 6 plus line 9 divided by line 6)	1.39	1.52
(16)	Line 14 times line 15	9,199	41,873
(17)	Add Back Tax Deduction (line 13)	14	54
(18)	Preferred Dividends Factor	$ 9,213	$ 41,927
(19)	Fixed Charges (line 5)	$ 62,553	$ 259,209
(20)	Preferred Dividends Factor (line 18)	9,213	41,927
(21)	Total	$ 71,766	$ 301,136
Ratio of Earnings to Fixed Charges and Preferred Dividends (line 11 divided by line 21)		0.80	3.05

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This schedule contains summary financial information extracted from HL&P's financial statements and is qualified in its entirety by reference to such financial statements.

0000048732
Houston Lighting & Power Company
1,000

3-MOS
DEC-31-1996
MAR-31-1996
PER-BOOK
8,725,532
0
258,732
1,496,620
0
10,480,884
1,675,927
0
2,057,649
3,733,576
51,055
351,345
2,709,636
0
0
203,648
230,130
25,700
4,056
3,624
3,168,114
10,480,884
811,965
32,063
660,248
692,311
119,654
(63,979)
55,675
59,230
(3,555)
6,632
(10,187)
82,250
57,488
77,246
0
0

Total annual interest charges on all bonds for year-to-date 3/31/96.

EXHIBIT 99(a)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE YEARS ENDED DECEMBER 31, 1995

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(B) SYSTEM OF ACCOUNTS AND EFFECTS OF REGULATION. HL&P, the principal subsidiary of the Company, maintains its accounting records in accordance with the FERC Uniform System of Accounts. HL&P's accounting practices are subject to regulation by the Utility Commission, which has adopted the FERC Uniform System of Accounts.

As a result of its regulated status, HL&P follows the accounting policies set forth in SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," which allows a utility with cost-based rates to defer certain costs in concert with rate recovery that would otherwise be expensed. In accordance with this statement, HL&P has deferred certain costs pursuant to rate actions of the Utility Commission and is recovering or expects to recover such costs in electric rates charged to customers. The regulatory assets are included in other assets on the Company's Consolidated and HL&P's Balance Sheets. The regulatory liabilities are included in deferred credits on the Company's Consolidated and HL&P's Balance Sheets. The following is a list of significant regulatory assets and liabilities reflected on the Company's Consolidated and HL&P's Balance Sheets:

	December 31, 1995 (Millions of Dollars)
Deferred plant costs - net	$613
Malakoff investment	233
Regulatory tax asset - net	229
Unamortized loss on reacquired debt	121
Deferred debits	137
Unamortized investment tax credit	(392)
Accumulated deferred income taxes - regulatory tax asset	(80)

If as a result of changes in regulation or competition, HL&P's ability to recover these assets and/or liabilities would not be assured, then pursuant to SFAS No. 71 and to the extent that such regulatory assets or liabilities ultimately were determined not to be recoverable, HL&P would be required to write off or write down such assets or liabilities.

(2) JOINTLY-OWNED NUCLEAR PLANT

(A) HL&P INVESTMENT. HL&P is the project manager (and one of four co-owners) of the South Texas Project, which consists of two 1,250 megawatt nuclear generating units. HL&P has a 30.8 percent interest in the project and bears a corresponding share of capital and operating costs associated with the project. As of December 31, 1995, HL&P's investment in the South Texas Project and in nuclear fuel, including AFUDC, was $2.0 billion (net of $439 million plant accumulated depreciation) and $75.1 million (net of $142 million nuclear fuel amortization), respectively.

(B) REGULATORY PROCEEDINGS AND LITIGATION. Between June 1993 and February 1995, the South Texas Project was listed on the United States Nuclear Regulatory Commission's (NRC) "watch list" of plants with weaknesses that warrant increased NRC regulatory attention. In February 1995, the NRC removed the South Texas Project from its "watch list."

In February 1994, the City of Austin (Austin), one of the four co-owners of the South Texas Project, filed suit against HL&P (Austin Litigation). Trial of that suit, which began in March 1996 is pending in the 11th District Court of Harris County, Texas. Austin alleges that the outages at the South Texas Project from early 1993 to early 1994 were due to HL&P's failure to perform obligations it owed to Austin under the Participation Agreement among the four co-owners of the South Texas Project (Participation Agreement). Austin also asserts that HL&P breached certain undertakings voluntarily assumed by HL&P on behalf of the co-owners under the terms of the NRC Operating Licenses and Technical Specifications relating to the South Texas Project.

Under amended pleadings in the Austin Litigation, Austin claims it suffered damages of at least $120 million due to increased operating and maintenance costs, the cost of replacement power and lost profits on wholesale transactions that did not occur. Although HL&P and the Company do not believe there is merit to Austin's claims, no assurance can be given as to the ultimate outcome of this matter.

In May 1994, the City of San Antonio (San Antonio), another co-owner of the South Texas Project, intervened in the litigation filed by Austin against HL&P and asserted claims similar to those asserted by Austin. Although San Antonio has not specified the damages sought in its complaint, expert reports filed in the litigation have indicated that San Antonio's claims may be in excess of $228 million. On February 29,1996, San Antonio announced that it was taking a nonsuit on its claims in the Austin Litigation in order to pursue settlement discussions with HL&P concerning those claims, as well as separate claims for unspecified damages previously asserted by San Antonio against HL&P with respect to the construction of the South Texas Project, which construction claims are the subject of a request for arbitration under the Participation Agreement. In order to preserve its litigation claims pending the outcome of settlement negotiations, San Antonio refiled its lawsuit in the 152nd District Court of Harris County, Texas. While neither the Company nor HL&P believes there is merit to San Antonio's claims either in the pending litigation or in the arbitration proceeding, there can be no assurance as to the ultimate outcome of those matters, nor can there be an assurance as to the ultimate outcome of the settlement discussions. If a settlement is reached, it is possible, among other things, that such resolution could require in the near term a charge to earnings from continuing operations, but it is not anticipated that any such resolution would be material to the Company's or HL&P's financial position, liquidity or ability to meet their respective cash requirements stemming from operating, capital expenditures and financing activities.

(C) NUCLEAR INSURANCE. HL&P and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain $2.75 billion in property damage insurance coverage which is above the legally required minimum, but is less than the total amount of insurance currently available for such losses. This coverage consists of $500 million in primary property damage insurance and excess property insurance in the amount of $2.25 billion. Under the excess property insurance (which became effective in November 1995), HL&P and the other owners of the South Texas Project are subject to assessments, the maximum aggregate assessment under current policies being $25.8 million during any one policy year. The application of the proceeds of such property insurance is subject to the priorities established by the NRC regulations relating to the safety of licensed reactors and decontamination operations.

Pursuant to the Price Anderson Act (Act), the maximum liability to the public for owners of nuclear power plants, such as the South Texas Project, was $8.92 billion as of December 1995. Owners are required under the Act to insure their liability for nuclear incidents and protective evacuations by maintaining the maximum amount of financial protection available from private sources and by maintaining secondary financial protection through an industry retrospective rating plan. The assessment of deferred premiums provided by the plan for each nuclear incident is up to $75.5 million per reactor subject to indexing for inflation, a possible 5 percent surcharge (but no more than $10 million per reactor per incident in any one year) and a 3 percent state premium tax. HL&P and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan.

There can be no assurance that all potential losses or liabilities will be insurable, or that the amount of insurance will be sufficient to cover them. Any substantial losses not covered by insurance would have a material effect on HL&P's and the Company's financial condition and results of operations.

(D) NUCLEAR DECOMMISSIONING. In accordance with the Rate Case Settlement, HL&P contributes $14.8 million per year to a trust established to fund HL&P's share of the decommissioning costs for the South Texas Project. For a discussion of securities held in the Company's nuclear decommissioning trust, see Note 1(j). In May 1994, an outside consultant estimated HL&P's portion of decommissioning costs to be approximately $318 million (1994 dollars). The consultant's calculation of decommissioning costs for financial planning purposes used the DECON methodology (prompt removal/dismantling), one of the three alternatives acceptable to the NRC, and assumed deactivation of Unit Nos. 1 and 2 upon the expiration of their 40-year operating licenses. While the current and projected funding levels presently exceed minimum NRC requirements, no assurance can be given that the amounts held in trust will be adequate to cover the actual decommissioning costs of the South Texas Project. Such costs may vary because of changes in the assumed date of decommissioning, changes in regulatory and accounting requirements, changes in technology and changes in costs of labor, materials and equipment.

(3) RATE MATTERS

The Utility Commission has original (or in some cases appellate) jurisdiction over HL&P's electric rates and services. In Texas, Utility Commission orders may be appealed to a District Court in Travis County, and from that Court's decision an appeal may be taken to the Court of Appeals for the 3rd District at Austin (Austin Court of Appeals). Discretionary review by the Supreme Court of Texas may be sought from decisions of the Austin Court of Appeals. In the event that the courts ultimately reverse actions of the Utility Commission, such matters are remanded to the Utility Commission for action in light of the courts' orders. On remand, the Utility Commission's action could range from granting rate relief substantially equal to the rates previously approved to reducing the revenues to which HL&P was entitled during the time the applicable rates were in effect, which could require a refund to customers of amounts collected pursuant to such rates.

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HI Energy estimates that its commitment in 1996 for the Argentine cogeneration project will be approximately $31 million and that its share of the 1996 commitment for the coke calcining project will be approximately $3 million. HI Energy has entered into a support agreement in favor of the International Finance Corporation (IFC) under the terms of which HI Energy has agreed to provide one of its subsidiaries (HIE Rain), which is an investor in the coke calcining project, with sufficient funds to meet certain funding obligations of HIE Rain under agreements with the IFC. The maximum aggregate funding commitment of HI Energy under this support agreement is approximately $18 million, of which approximately $16 million is to support contingent obligations of HIE Rain and the balance of which is additional equity to be contributed to the coke calcining project.

(C) ILLINOIS WASTE TIRE-TO-ENERGY PROJECTS. HI Energy is a subordinated lender to two waste tire-to-energy projects being developed by Ford Heights and Fulton, respectively, located in the state of Illinois. HI Energy also owns a $400,000 equity interest (20 percent) in Ford Heights. Both projects were being developed in reliance on the terms of the Illinois Retail Rate Law, enacted in 1987, to encourage development of energy production facilities for the disposal of solid waste by providing an operating subsidy to qualifying projects. In March 1996, the Governor of Illinois signed into law legislation which purports to repeal the subsidy provided to most of such energy production facilities, including the two waste tire-to-energy projects in which HI Energy has invested. A lawsuit has been filed on behalf of the Ford Heights and Fulton projects challenging, among other things, the constitutionality of the repeal and its retroactive application to the two waste tire-to-energy projects. On March 26, 1996, the Ford Heights project filed a voluntary petition seeking protection under the federal bankruptcy laws. The ability of the two waste tire-to-energy projects to meet their debt obligations is dependent upon the projects continuing to receive the operating subsidy under the Retail Rate Law. The terms of the public bonds issued by the Ford Heights and Fulton projects are non-recourse to the Company and HI Energy.

In response to the actions taken by the state of Illinois, the Company has established a valuation allowance of $28 million ($18 million after-tax), which amount reflects the combined amounts lent on a subordinated basis to the Ford Heights and Fulton projects. In addition to amounts funded through March 26, 1996, HI Energy also is party to two separate Note Purchase Agreements committing it, under certain circumstances, to acquire up to (i) $3 million in aggregate principal amount of additional subordinated notes from the Ford Heights project and (ii) $17 million in aggregate principal amount of additional subordinated notes from the Fulton project. The Company has entered into a support agreement under which it has agreed to provide additional funds to HI Energy to enable it to honor its obligations under the two Note Purchase Agreements. The Company is unable to predict the ultimate effect of these developments on HI Energy's remaining funding commitments under these Note Purchase Agreements; however, in the Company's opinion it is unlikely that the majority of the additional unfunded subordinated debt provided for in the Fulton Note Purchase Agreement would be required to be funded unless construction activities with respect to the Fulton project are recommenced at some future date. If HI Energy becomes obligated to advance additional funds under the Note Purchase Agreements, the Company could be required to increase the amount of the valuation allowance, which would result in additional charges to earnings.

(11) COMMITMENTS AND CONTINGENCIES

(a) HL&P COMMITMENTS. HL&P has various commitments for capital expenditures, fuel, purchased power, cooling water and operating leases. Commitments in connection with HL&P's capital program are generally revocable by HL&P subject to reimbursement to manufacturers for expenditures incurred or other cancellation penalties. HL&P's other commitments have various quantity requirements and durations. However, if these requirements could not be met, various alternatives are available to mitigate the cost associated with the contracts' commitments.

(b) FUEL AND PURCHASED POWER. HL&P is a party to several long-term coal, lignite and natural gas contracts which have various quantity requirements and durations. Minimum payment obligations for coal and transportation agreements are approximately $175 million in 1996, $178 million in 1997 and $184 million in 1998. Additionally, minimum payment obligations for lignite mining and lease agreements are approximately $5 million for 1996, $8 million for 1997 and $9 million for 1998. Collectively, the fixed price gas supply contracts, which expire in 1997, could amount to 11 percent of HL&P's annual natural gas requirements for 1996 and 7 percent for 1997. Minimum payment obligations for both natural gas purchase and storage contracts are approximately $57 million in 1996, $38 million in 1997 and $9 million in 1998.

HL&P also has commitments to purchase firm capacity from cogenerators of approximately $22 million in each of the years 1996 through 1998. Utility Commission rules currently allow recovery of these costs through HL&P's base rates for electric service and additionally authorize HL&P to charge or credit customers through a purchased power cost recovery factor for any variation in actual purchased power costs from the cost utilized to determine its base rates. In the event that the Utility Commission, at some future date, does not allow recovery through rates of any amount of purchased power payments, the two principal firm capacity contracts contain provisions allowing HL&P to suspend or reduce payments and seek repayment for amounts disallowed.

(c) OTHER. HL&P's service area is heavily dependent on oil, gas, refined products, petrochemicals and related businesses. Significant adverse events affecting these industries would negatively affect the revenues of the Company and HL&P. For information regarding contingencies relating to the South Texas Project, see Note 2 above. The Company and HL&P are involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts.