UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 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 number)
1111 LOUISIANA HOUSTON, TEXAS 77002	(713) 207-3000
(Address and zip code of principal executive offices)	(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, without par value, and associated rights to purchase preference stock	New York Stock Exchange Chicago Stock Exchange London Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: None

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 number)
1111 LOUISIANA HOUSTON, TEXAS 77002	(713) 207-1111
(Address and zip code of principal executive offices)	(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: None

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

TITLE OF EACH CLASS

Preferred stock, cumulative, no par-$4 Series and $9.375 Series.

Indicate by check mark whether each of the registrants: (1) has 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

The aggregate market value of the voting stock held by non-affiliates of Houston Industries Incorporated was $5,752,350,875 as of March 3, 1997, using the definition of beneficial ownership contained in Rule 13d-3 promulgated pursuant to the Securities Exchange Act of 1934 and excluding shares held by directors and executive officers.

As of March 3, 1997, Houston Industries Incorporated had 246,793,389 shares of Common Stock outstanding, including 13,131,390 ESOP shares not deemed outstanding for financial statement purposes. Excluded from the number of shares of Common Stock outstanding are 16,042,027 shares held by the Company as treasury stock. As of March 1, 1997, all outstanding shares of Houston Lighting & Power Company's Common Stock were held, directly or indirectly, by Houston Industries Incorporated.

Portions of the definitive proxy statement relating to the 1996 Annual Meeting of Shareholders of Houston Industries Incorporated, which will be filed within 120 days of December 31, 1996, are incorporated by reference in Item 10, Item 11, Item 12 and Item 13 of Part III of this Form 10-K.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of each of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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HOUSTON INDUSTRIES INCORPORATED AND
HOUSTON LIGHTING & POWER COMPANY
Form 10-K for the Year Ended December 31, 1996

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THIS COMBINED ANNUAL REPORT ON FORM 10-K IS SEPARATELY FILED BY HOUSTON INDUSTRIES INCORPORATED (COMPANY) AND HOUSTON LIGHTING & POWER COMPANY (HL&P). INFORMATION CONTAINED HEREIN RELATING TO HL&P IS FILED BY THE COMPANY AND SEPARATELY BY HL&P ON ITS OWN BEHALF. HL&P MAKES NO REPRESENTATION AS TO INFORMATION RELATING TO THE COMPANY (EXCEPT AS IT MAY RELATE TO HL&P), HOUSTON INDUSTRIES ENERGY, INC. (HI ENERGY) OR ANY OTHER AFFILIATE OR SUBSIDIARY OF THE COMPANY.

THE MERGER

On December 17, 1996, the shareholders of the Company and NorAm Energy Corp. (NorAm) approved an Agreement and Plan of Merger (Merger Agreement) pursuant to which the Company will merge into HL&P, and NorAm will merge into a subsidiary of the Company (Merger Sub). NorAm is principally engaged in the distribution and transmission of natural gas, including the gathering, storage and marketing of natural gas. Upon consummation of the mergers (collectively, the Merger), HL&P, the surviving corporation of the Company/HL&P merger, will be renamed "Houston Industries Incorporated" (Houston) and will continue to conduct HL&P's electric utility business under HL&P's name. Merger Sub, the surviving corporation of the NorAm/Merger Sub merger, will be renamed "NorAm Energy Corp." and will continue to conduct NorAm's natural gas distribution and transmission business under NorAm's name. As a result of the Merger, NorAm will become a wholly owned subsidiary of Houston. The Merger Agreement also provides for alternative merger structures in certain circumstances.

Consideration for the purchase of NorAm shares will be a combination of cash and shares of Houston common stock. The transaction is valued at $3.9 billion, consisting of $2.5 billion for NorAm's common stock and equivalents and $1.4 billion of NorAm debt.

The closing of the Merger is subject to the satisfaction or waiver of various conditions precedent, including the obtaining of all required governmental authorizations and consents. For additional information regarding the Merger, including the status of governmental authorizations with respect thereto, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--The Merger" in Item 7 of this Report and Note 16 of the Company's Consolidated and HL&P's Financial Statements in Item 8 of this Report (Financial Statements).

Unless otherwise stated, the information presented in this Form 10-K relates solely to the Company and HL&P without giving effect to the Merger.

PART I

ITEM 1. BUSINESS.

THE COMPANY AND ITS SUBSIDIARIES

The Company, incorporated in Texas in 1976, is a holding company operating principally in the electric utility business. Based on the intrastate operations of HL&P and the exemptions applicable to affiliates of HI Energy, the Company is exempt from regulation as a "registered" holding company under the Public Utility Holding Company Act of 1935 (1935 Act), except with respect to the acquisition of voting securities of other domestic public utility companies and utility holding companies. For additional information regarding the Company's status under the 1935 Act, including the Company's application to the Securities and Exchange Commission (SEC) for an exemption under Section 3(a)(2) of the 1935 Act in connection with the Merger, see "--Regulation of the Company--Federal."

HL&P, incorporated in Texas in 1906, is the principal subsidiary of the Company and is engaged in the generation, transmission, distribution and sale of electric energy. HI Energy, a subsidiary of the Company formed in 1993, participates primarily in the development and acquisition of foreign independent power projects and the privatization of foreign generating and distribution facilities. The business and operations of HL&P historically have accounted for substantially all of the Company's consolidated income from continuing operations and common stock equity. Following consummation of the Merger, it is anticipated that HL&P's electric utility operations and business will continue to account for the predominant portion of the consolidated income from continuing operations and common stock equity of Houston. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--The Merger" in Item 7 of this Report.

In connection with the sale of the Company's cable television subsidiary in 1995, the Company received 1 million shares of Time Warner Inc. (Time Warner) common stock and 11 million shares of Time Warner convertible preferred stock, which are recorded on the Company's consolidated balance sheet at approximately $1 billion. During 1996, the Company received $41.6 million in dividends attributable to these securities. For information regarding how the Company accounts for these securities, see Note 1(j) to the Financial Statements.

The Company and HL&P's executive offices are located at Houston Industries Plaza, 1111 Louisiana, Houston, Texas 77002 (Telephone Number 713-207-3000). As of December 31, 1996, the Company and its subsidiaries had 8,100 full-time employees.

SPECIAL FACTORS

HL&P's electric utility operations are subject to a number of risk factors, including increasing levels of competition; legislative and regulatory changes in the basic rules governing electric utility operations and the uncertainties associated with such changes; new technologies; stringent environmental regulations and contingencies associated with the ownership and operation of a nuclear power plant. The Company's involvement, through HI Energy, in foreign power projects also entails significant political and financial uncertainties, including currency exchange rate fluctuations, political instability and potential expropriation. The effects of these and other factors on the Company's and HL&P's business and operations are described elsewhere in this Report. See "--Business of HL&P--Competition," "--Business of HI Energy" and "--Regulation of the Company" below and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Certain Factors Affecting Future Earnings of the Company and HL&P" in Item 7 of this Report.

BUSINESS OF HL&P

SERVICE AREA

HL&P's service area covers a 5,000 square mile area on the Texas Gulf Coast, including Houston (the nation's fourth largest city). HL&P serves approximately 1.5 million residential, commercial and industrial customers. HL&P is a member of the Electric Reliability Council of Texas, Inc. and is interconnected to a transmission grid encompassing most of the state of Texas.

Although the economy of HL&P's service area encompasses a wide range of products and services, Houston's economy is centered primarily on energy sector industries, such as oil companies, petrochemical and refining complexes, industrial and petrochemical construction firms and natural gas distribution and processing centers. During the year ended December 31, 1996, energy sector industries accounted for approximately 32 percent of HL&P's industrial electric base revenues and 8 percent of its total electric base revenues. Other important sectors of Houston's economy include the Port of Houston, the Johnson Space Center and the Texas Medical Center.

SYSTEM CAPABILITY AND LOAD

The following table sets forth information with respect to HL&P's system capability and load:

				Maximum Hourly Firm Demand			
Year	Installed Net Capability (MW)	Purchased Power (MW)(1)	Total Net Capability (MW)	Date	MW (2)	% Change From Prior Year	Reserve Margin (%)
1992	13,583	945	14,528	Jul. 30	10,783	(1.1)	34.7
1993	13,679	945	14,624	Aug. 19	11,397	5.7	28.3
1994	13,666	720	14,386	Jun. 28	11,245	(1.3)	27.9
1995	13,921	445	14,366	Jul. 27	11,419	1.5	25.8
1996	13,960	445	14,405	Jul. 23	11,718	2.6	22.9

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(1) Reflects firm capacity purchased. For additional information on purchased power commitments, see "--Fuel--Purchased Power" below.

(2) Does not include interruptible load. Including interruptible demand, the maximum hourly demand served in 1996 was 12,667 megawatts (MW) compared to 12,377 MW in 1995.

Based on present trends, HL&P expects maximum hourly firm demand for electricity to grow at a compound annual rate of approximately 1.5 percent over the next ten years. Assuming growth at that rate and average weather conditions and including the net effects of HL&P's demand-side management programs, HL&P projects that its reserve margin will decrease to an estimated 15 percent by 2001. For long-term planning purposes, HL&P intends to maintain its reserve margin at approximately 15 percent in excess of maximum hourly firm demand load requirements.

HL&P experiences significant seasonal variation in its sales of electricity. Sales during the summer months are higher than sales during other months of the year due to the reliance on air conditioning. See Note 15 to the Financial Statements for a presentation of certain unaudited quarterly financial information for 1995 and 1996.

COMPETITION

The electric utility industry historically has been composed of vertically integrated companies providing electric service on an exclusive basis within governmentally-defined geographic areas. Prices for electric service typically have been set by governmental authorities under principles designed to provide the utility with an opportunity to recover its cost of providing electric service plus a reasonable return on its invested capital. Federal legislation as well as legislative and regulatory initiatives in various states have encouraged competition among electric utility and non-utility owned power generators. These developments, combined with increasing demand for lower-priced electricity and technological advances in electric generation, are acting to accelerate the electric utility industry's movement toward more competition.

For information on competition, including a discussion of stranded cost issues, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Certain Factors Affecting Future Earnings of the Company and HL&P--Competition" in Item 7 of this Report, which is incorporated herein by reference.

CAPITAL PROGRAM

HL&P has an ongoing program to maintain its existing production, transmission and distribution facilities and to expand its physical plant in response to customer needs. Assuming a target reserve margin of 15 percent, HL&P does not currently forecast a need for additional capacity until 2002. Under an integrated resource planning rule adopted by the Public Utility Commission of Texas (Utility Commission) in 1996, Texas electric utilities are required to conduct public solicitations for generating capacity to satisfy their future energy needs. The integrated resource plan rules are intended to complement the development of a competitive wholesale market for electric power. HL&P is required to file a preliminary integrated resource plan by January 1998.

In 1996, HL&P's capital and nuclear fuel expenditures were approximately $383 million, excluding Allowance for Funds Used During Construction (AFUDC). HL&P's capital program (excluding AFUDC) is currently estimated to cost approximately $239 million in 1997, $253 million in 1998 and $276 million in 1999. HL&P's capital program for the three-year period 1997 through 1999 consists primarily of improvements to its existing electric generating, distribution, and general plant facilities. For the three-year period 1997 through 1999, HL&P's projected capital program consists of the following estimated expenditures:

	Amount (millions)	Percent of Total Expenditures
Generating facilities	$104	14%
Transmission facilities	39	5%
Distribution facilities	378	49%
Substation facilities	48	6%
General plant facilities	128	17%
Nuclear fuel	71	9%
Total	$768	100%

Actual capital expenditures will vary from estimates as a result of numerous factors, including, but not limited to, changes in the rate of inflation, availability and relative cost of fuels and purchased power, changes in environmental laws, regulatory and legislative changes and the effect of regulatory proceedings. For information regarding expenditures associated with (i) HL&P's share of nuclear fuel costs and (ii) environmental programs, see "--Fuel--Nuclear Fuel--Supply" and "--Regulatory Matters--Environmental Quality" below.

FUEL

Based upon various assumptions relating to the cost and availability of fuels, plant operation schedules, load growth, load management and environmental protection requirements, HL&P's estimate of its future energy mix is as follows:

	Energy Mix (%)			
	Historical	Estimated		
	1996	1997	1999	2001
Gas	32	29	33	42
Coal and Lignite	40	42	41	40
Nuclear	9	8	8	8
Purchased Power	19	21	18	10
Total	100	100	100	100

There can be no assurance that the various assumptions upon which the estimates set forth in the table above are based will prove to be correct. Accordingly, HL&P's actual energy mix in future years may vary materially from the percentages shown in the table. For information regarding HL&P's fuel costs, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations--HL&P--Fuel and Purchased Power Expense - HL&P" in Item 7 of this Report and Note 11(b) to the Financial Statements.

NATURAL GAS SUPPLY. During 1996, HL&P purchased approximately 65 percent of its natural gas requirements pursuant to long-term contracts having terms of five years or longer. HL&P purchased the remaining 35 percent of its natural gas requirements in the spot market. In 1996, no individual supplier provided more than 21 percent of HL&P's total natural gas requirements. Substantially all of HL&P's natural gas supply contracts contain pricing provisions based on fluctuating spot market prices.

Based on the current market for, and availability of, natural gas, HL&P believes that it will be able to replace the supplies of natural gas covered under its present long-term contracts with gas purchased in the spot market or under short-term contracts as such long-term contracts expire. HL&P's average daily gas consumption during 1996 was 612 billion British thermal units (BBtu) with peak daily consumption of 1,361 BBtu. HL&P's average cost of natural gas was $2.31 per million British thermal units (MMBtu) in 1996, $1.69 per MMBtu in 1995 and $1.90 per MMBtu in 1994.

Although natural gas has been relatively plentiful in recent years, supplies available to HL&P and other consumers are vulnerable to disruption due to weather conditions, transportation disruptions, price changes and other events. As a result of these factors, supplies of natural gas may become unavailable from time to time, or prices may increase rapidly in response to temporary supply constraints or other factors.

COAL AND LIGNITE SUPPLY. HL&P purchases approximately three-fourths of the coal required to operate its four coal-fired units at the W. A. Parish Electric Generating Station (W. A. Parish) under two long-term contracts from mines in the Powder River Basin area of Wyoming. The first of these contracts expires in 2010, and the other expires in 2011. HL&P obtains the remaining coal required to operate these units under short-term contracts. The majority of the coal purchased is transported to the W. A. Parish coal-handling facilities under a long-term rail transportation contract. In the second quarter of 1997, HL&P expects to complete construction of a rail spur connecting these facilities to another rail transporter. The additional rail spur is expected to provide a competitive alternative for the transportation of coal not subject to the existing long-term transportation agreement.

HL&P obtains the lignite used to fuel the two units of the Limestone Electric Generating Station (Limestone) from a surface mine adjacent to the plant. HL&P owns the mining equipment, facilities and a portion of the lignite leases at the mine, which is operated under a long-term contract.

The lignite reserves currently under lease and contract are expected to provide substantially all of the lignite requirements for Limestone through 2014.

The mining of coal/lignite reserves is subject to federal and state requirements with respect to the development and operation of coal mines, and to state and federal regulations relating to land reclamation and environmental protection.

NUCLEAR FUEL. Supply. HL&P is the project manager (and one of four co-owners) of the South Texas Project Electric Generating Station (South Texas Project). The supply of fuel for nuclear generating facilities involves the acquisition of uranium concentrates, conversion of such concentrates into uranium hexafluoride, enrichment of the uranium hexafluoride and fabrication of nuclear fuel assemblies. The South Texas Project fuel requirements are procured in common by the South Texas Project owners. HL&P and the other South Texas Project owners have on-hand or have contracted for the raw materials and services they expect to need for operation of the South Texas Project units through the years shown in the following table:

Uranium	2000 (1)
Conversion	2001
Enrichment	2014 (2)
Fabrication	2005

(1) Contracts provide for over 50 percent of the uranium concentrates required. The balance of uranium concentrates requirements is expected to be provided by future spot and medium-term contracts.

(2) The South Texas Project has suspended its enrichment services contract for the period between October 2000 through September 2006 pursuant to an option available under such contract. During this period, the South Texas Project intends to obtain such services through a competitive bidding process.

Although HL&P and the other South Texas Project owners cannot predict the future availability of uranium and related services, they do not anticipate, based on current market conditions, difficulty in obtaining requirements for the remaining years of the South Texas Project's operations.

Spent Fuel Disposal. By contract, the United States Department of Energy (DOE) has committed itself ultimately to take possession of all spent fuel generated by the South Texas Project. HL&P has been advised that the DOE currently plans to place the spent fuel in a permanent underground storage facility. The DOE contract currently requires payment of a spent fuel disposal fee on nuclear plant-generated electricity of one mill (one-tenth of a cent) per net kilowatt-hour (KWH) sold. This fee is subject to adjustment to ensure full cost recovery by the DOE. In December 1996, the DOE notified utilities that it anticipates a delay in assuming its obligation to begin disposing of spent fuel, and solicited input from the utilities as to how the delay can best be accommodated. Although the DOE's efforts to arrange long-term disposal have been unsuccessful to date, the South Texas Project is designed to have sufficient on-site storage facilities to accommodate nearly 40 years of spent fuel disposal for each unit.

Enrichment Decontamination and Decommissioning Assessment Fees. The Energy Policy Act of 1992 (Energy Policy Act) includes a provision that assesses a fee upon domestic utilities that purchased nuclear fuel enrichment services from the DOE before October 24, 1992. This fee covers a portion of the cost to decontaminate and decommission facilities providing for such enrichment services. The South Texas Project's assessment is approximately $2 million per year (subject to escalation for inflation). HL&P's share of such fees is 30.8 percent. These assessments will continue until the earlier of October 24, 2007 or when $2.25 billion (adjusted for inflation) has been collected from domestic utilities with nuclear generating units. HL&P has a remaining estimated liability of $6.5 million for such assessments.

OIL SUPPLY. HL&P maintains limited fuel oil stocks to satisfy fuel needs in emergency situations. In addition, certain of HL&P's gas-fired generating plants are designed to operate on fuel oil if fuel oil becomes more economical to use than natural gas.

PURCHASED POWER. At December 31, 1996, HL&P had contracts covering 445 MW of firm capacity and associated energy. These contracts expire as follows: 1998 - 125 MW and 2005 - 320 MW. Capacity payments under HL&P's firm purchased power commitments for the next three years are approximately $22 million per year. Current Utility Commission rules permit full recovery of costs incurred under these purchased power contracts through HL&P's rates for electric service. The two principal firm capacity contracts (covering 320 MW of firm capacity) contain provisions allowing HL&P to suspend or reduce purchased power payments in the event that the Utility Commission disallows future recovery of these costs through HL&P's rates for electric service.

RECOVERY OF FUEL COSTS. Utility Commission rules provide for the recovery of certain fuel and purchased power energy costs through a fixed fuel factor included in electric rates. The fixed fuel factor is established during either a utility's general rate proceeding or a fuel factor proceeding and is to be generally effective for a minimum of six months. In any event, a reconciliation of the fuel revenues and the fuel costs is required every three years. HL&P can request a revision to its fuel factor in April and October of each year. Fuel revenues accrued pursuant to such factor are adjusted monthly to equal fuel expenses; therefore, such revenues and expenses have no effect on earnings unless fuel costs are determined not to be recoverable. The adjusted over/under recovery of fuel costs is recorded on HL&P's balance sheets as fuel-related credits or fuel-related debits, respectively. Fuel costs are reviewed during periodic fuel reconciliation proceedings.

For information regarding the recovery of fuel costs, including a $70 million temporary fuel surcharge implemented to address an under-recovery of eligible fuel costs during the period February 1995 through August 1996, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations--HL&P--Operating Revenues and Sales - HL&P" in Item 7 of this Report.

REGULATORY MATTERS

RATES AND SERVICES. HL&P operates under a certificate of convenience and necessity granted by the Utility Commission which covers HL&P's present service area and facilities. In addition, HL&P holds franchises to provide electric service within the incorporated municipalities in its service territory. None of these franchises expires before 2007.

Under the Texas Public Utility Regulatory Act (PURA), the Utility Commission has original jurisdiction over electric rates and services in unincorporated areas of the state of Texas and in the incorporated municipalities that have relinquished original jurisdiction. Original jurisdiction over electric rates and services in the remaining incorporated municipalities served by HL&P is exercised by such municipalities, including the City of Houston, but the Utility Commission has appellate jurisdiction over electric rates and services within those incorporated municipalities.

UTILITY COMMISSION RATE PROCEEDINGS. Beginning in 1995, HL&P implemented a reduction in its base rates under the terms of the settlement of its 1995 rate case (Docket No. 12065)(Rate Case Settlement). For additional information regarding terms of the Rate Case Settlement, 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 Contingencies" in Item 7 of this Report and Note 3(a) to the Financial Statements.

ENVIRONMENTAL QUALITY. HL&P is subject to a number of federal, state and local environmental requirements that govern its discharge of emissions into the air and water and regulate its handling of solid and hazardous waste. HL&P has incurred substantial expenditures in the past to comply with these requirements and anticipates that further expenditures will be incurred in the future. Most of the environmental requirements applicable to HL&P are implemented by the Texas Natural Resource Conservation Commission (TNRCC), which shares regulatory jurisdiction with the United States Environmental Protection Agency (EPA).

Air Quality. A major provision of the federal Clean Air Act (Clean Air Act) affecting electric utilities, like HL&P, is the Acid Rain Program, which is designed to reduce emissions of sulfur dioxide (SO2) from electric utility generating units. The Acid Rain Program requires that after a certain date a utility must have been granted a regulatory "allowance" for each ton of SO2 emitted from its facilities. Allowances have been distributed to utilities by the EPA based on their historic operations. If a utility is not allocated sufficient allowances to cover its future SO2 emissions, it must either purchase allowances from other utilities or reduce SO2 emissions from its units through the installation of additional controls and equipment. HL&P believes that it has been allocated a sufficient number of emission allowances for it to continue operating its existing facilities for the foreseeable future.

Provisions of the Clean Air Act dealing with urban air pollution require establishing new emission limitations for nitrogen oxides (NOx) from existing sources. Initial limitations were finalized in 1993, but the implementation of these emission reductions has been delayed by the EPA and TNRCC until 1999. Although HL&P did not incur any additional NOx pollution control costs in 1996, HL&P estimates that, based on current market conditions and other factors, it could be required to spend $40 million between 1997 and 1999 in order to fully comply with new NOx requirements scheduled to be implemented in 1999.

The Ozone Transport Assessment Group (OTAG) was established in 1995. It is comprised of state air directors from 37 states, including Texas, which is represented by the TNRCC. OTAG is responsible for evaluating the long-range transport of pollutants related to ozone formation, which includes NOx, and to identify levels of NOx emission reductions deemed necessary for attainment of the standard. The results of OTAG's evaluation are expected in mid-1997. The EPA has issued an Advanced Notice of Proposed Rulemaking (ANPR) in which the EPA indicated that it intends to require each state to develop a state implementation plan to ensure that reductions in ozone-related pollutants will be achieved. In addition, the EPA has proposed new air quality standards for ozone and for small particle pollutants. The outcome of either or both of these and other related rulemakings may affect the magnitude and the timing of future expenditures necessary for NOx reduction from HL&P facilities. Furthermore, the ANPR does not contain sufficient details upon which the Company or HL&P can estimate the potential costs of implementing the proposed rules.

In both 1995 and 1996, HL&P incurred costs of approximately $3 million per year in order to comply with requirements under the Clean Air Act mandating electric utilities to install continuous emission monitoring equipment. Installation of the new systems was completed in 1996, and, based on existing regulatory requirements, no additional expenditures are currently projected. To implement these Clean Air Act programs, an Operating Permit Program has been established that will be administered in Texas by the TNRCC. Although HL&P is required to submit applications for affected HL&P facilities to the TNRCC during 1997, it is not anticipated, based on existing regulatory requirements, that HL&P will be required to make any significant changes to its current air quality control requirements. Current air quality related permit programs administered by the TNRCC impose fees on HL&P of approximately $1 million annually.

Water Quality. The federal Clean Water Act governs the discharge of pollutants into surface waters and is administered jointly in Texas by the TNRCC and the EPA. HL&P has obtained permits from both the TNRCC and the EPA for all of its facilities that require such permits and anticipates obtaining timely renewal of such permits as they expire.

Solid and Hazardous Waste. HL&P's handling and disposal of solid waste is also subject to regulation by the TNRCC. HL&P's cost in 1996 for commercial disposal of industrial solid waste was approximately $4.6 million.

Electric and Magnetic Fields. The issue of whether exposure to electric and magnetic fields (EMFs) may result in adverse health effects or damage to the environment is currently being debated. EMFs are produced by all devices which carry or use electricity, including home appliances as well as electric transmission and distribution lines. Results of studies concerning the effect of EMFs have been inconclusive and EMFs are not the subject of any federal, state or local regulations affecting HL&P. However, lawsuits have arisen in several states (including Texas) against electric utilities and others alleging that the presence or use of electric power transmission and distribution lines has an adverse effect on health and/or property values.

FEDERAL REGULATION OF NUCLEAR POWER. Under the 1954 Atomic Energy Act and the 1974 Energy Reorganization Act, operation of nuclear plants is extensively regulated by the United States Nuclear Regulatory Commission (NRC), which has broad power to impose licensing and safety requirements. In the event of non-compliance, the NRC has the authority to impose fines or shut down nuclear plants, or both, depending upon its assessment of the severity of the situation, until compliance is achieved.

HL&P holds an operating license from the NRC in connection with its role as project manager of the South Texas Project. For information regarding the formation of an operating company to replace HL&P as project manager of the South Texas Project, see Note 2(b) to the Financial Statements.

LOW-LEVEL RADIOACTIVE WASTE DISPOSAL. The 1980 federal Low-Level Radioactive Waste Policy Act directed states to assume responsibility for the disposal of low-level nuclear waste generated within their borders. Under this Act, states may combine with other states and seek consent from Congress for regional compacts to construct and operate low-level nuclear waste sites. The only facility licensed to receive commercial low-level nuclear waste that is currently available to the South Texas Project is located in Barnwell, South Carolina. The South Texas Project has entered into a contract with the operator of the Barnwell facility to dispose of all of its low-level nuclear waste through December 1997.

The Texas Low-Level Radioactive Waste Disposal Authority (Waste Disposal Authority) is currently seeking authority to build and operate a low-level waste disposal facility in Hudspeth County, Texas. A bill that establishes an interstate compact among Texas, Maine and Vermont is currently pending before Congress. Ratification of the compact would limit access to the proposed facility to the three compact members. Although lack of Congressional action would not prohibit the Waste Disposal Authority from constructing the site unilaterally, failure to ratify the compact would result in the loss of contributions from Maine and Vermont toward the construction of the facility. HL&P expects that the measure will be considered by Congress in 1997.

The Waste Disposal Authority is authorized to assess a planning and implementation fee to waste generators to fund development of the proposed Texas disposal facility. For the authority's 1997 fiscal year, HL&P's share of this assessment fee is approximately $3.7 million. Subject to licensing of the facility in 1998, the Waste Disposal Authority estimates that the Texas site (construction of which has not yet begun) could begin receiving waste in late 1999. In the event the Barnwell facility stops accepting waste before the Texas site is opened, the South Texas Project would store its waste in an interim storage facility located at the nuclear plant. The plant currently has storage capacity for at least five years of low-level nuclear waste generated by the project.

NUCLEAR INSURANCE AND NUCLEAR DECOMMISSIONING

For information concerning nuclear insurance and nuclear decommissioning, see Notes 2(c) and 2(d) to the Financial Statements.

LABOR MATTERS

As of December 31, 1996, HL&P had 7,864 full-time employees of whom 3,042 were hourly-paid employees represented by the International Brotherhood of Electrical Workers under a collective bargaining agreement which expires on May 25, 1998.

OPERATING STATISTICS OF HL&P

	Year Ended December 31, 1996	1995	1994
Electric Energy Generated and Purchased (Megawatt-Hours (MWH)):			
Generated -- Net Station Output	55,170,841	53,447,128	53,894,994
Purchased	12,540,172	10,452,818	10,107,449
Net Interchange	1,486	(1,488)	(1,018)
Total	67,712,499	63,898,458	64,001,425
Company Use, Lost and Unaccounted for Energy	(3,350,400)	(2,822,876)	(2,678,629)
Total Energy Sold	64,362,099	61,075,582	61,322,796
Electric Sales (MWH):			
Residential	19,048,238	18,103,209	17,194,724
Commercial	14,640,762	14,233,413	13,631,381
Small Industrial (1)	11,727,500	11,174,404	10,940,813
Large Industrial (1)	13,519,845	12,493,029	13,537,677
Street Lighting -- Government and Municipal	119,339	117,253	116,643
Total Firm Retail Sales	59,055,684	56,121,308	55,421,238
Other Electric Utilities	205,463	169,750	167,286
Total Firm Sales	59,261,147	56,291,058	55,588,524
Interruptible	4,038,277	4,093,385	5,027,743
Off-System	1,062,675	691,139	706,529
Total	64,362,099	61,075,582	61,322,796
Number of Customers (End of Period): (2)			
Residential	1,353,631	1,327,168	1,301,074
Commercial	185,031	175,998	170,959
Small Industrial (1)	1,692	1,543	1,525
Large Industrial (Including Interruptible) (1)	126	127	145
Street Lighting -- Government and Municipal	83	82	81
Other Electric Utilities (Including Off-System)	15	11	11
Total	1,540,578	1,504,929	1,473,795
Operating Revenue (Thousands of Dollars):			
Residential	$ 1,603,591	$ 1,471,702	$ 1,586,074
Commercial	986,591	923,223	1,029,104
Small Industrial (1)	611,495	564,609	643,383
Large Industrial (1)	473,451	431,499	541,188
Street Lighting -- Government and Municipal	22,125	20,679	25,902
Total Electric Revenue -- Firm Retail Sales	3,697,253	3,411,712	3,825,651
Other Electric Utilities	18,841	22,207	25,669
Total Electric Revenue -- Firm Sales	3,716,094	3,433,919	3,851,320
Interruptible	97,164	81,707	108,730
Off-System	25,995	12,250	13,691
Total Electric Revenue	3,839,253	3,527,876	3,973,741
Miscellaneous Electric Revenues	185,774	152,421	(227,656)
Total	$ 4,025,027	$ 3,680,297	$ 3,746,085
Installed Net Generating Capability (Kilowatts (KW)) (End of Period)	13,960,370	13,921,370	13,666,000
Cost of Fuel (Cents per MMBtu):			
Gas	231.3	168.5	189.8
Coal (3)	210.8	202.5	159.0
Lignite	111.1	124.8	110.8
Nuclear	61.6	58.2	57.4
Average	181.6	159.3	153.6

(1) For reporting purposes, HL&P classifies customers with an electric demand in excess of 600 kilovolt-amperes as industrial. Small industrial customers typically are retail stores, office buildings, universities and other customers not associated with large industrial plants.

(2) In 1996, HL&P began calculating the number of customers based on the number of active customers at month end (as opposed to number of billing transactions). This change had the effect of increasing the number of customers (primarily commercial) reported in 1996 by approximately 4,400. Prior periods have not been restated.

(3) The cost of coal for 1994 reflects the receipt of approximately $66.1 million (38.2 cents per MMBtu) related to the sale of certain railroad

settlement payments. See Note 14 to the Financial Statements.

BUSINESS OF HI ENERGY

HI Energy, a subsidiary of the Company formed in 1993, participates primarily in the development and acquisition of foreign independent power projects and the privatization of foreign generating and distribution facilities. As of December 31, 1996, the Company's Consolidated Balance Sheet included approximately $567 million invested in foreign utility and non-regulated companies. In 1996, HI Energy reported earnings of approximately $0.2 million compared to a loss of $33 million in 1995, a year which included an $18 million after-tax one-time charge to earnings related to an investment in two waste tire-to-energy projects.

For additional information regarding HI Energy, see "--Regulation of the Company--Federal and State Regulation of Foreign Investments" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Certain Factors Affecting Future Earnings of the Company and HL&P--HI Energy" in Item 7 of this Report and Notes 1(a) and 4 to the Financial Statements.

MAJOR FOREIGN INVESTMENTS

In May 1996, a subsidiary of HI Energy acquired 11.35 percent of the common stock of Light - Servicos de Eletricidade S.A., a publicly held Brazilian corporation (Light), for $392 million. Light is the operator of an integrated electric power and distribution system that serves a portion of the state of Rio de Janeiro, Brazil, including the city of Rio de Janeiro. HI Energy acquired the shares as a bidder in the government-sponsored auction of 60 percent of Light's outstanding shares. Subsequent to the auction, the winning bidders, including a subsidiary of HI Energy, formed a consortium whose aggregate ownership interest of 50.44 percent represents a controlling interest in Light.

HI Energy also owns 49 percent of the capital stock of an electric utility operating in La Plata, Argentina, which as of December 31, 1996 was recorded as an equity investment in the amount of $81 million. In 1995, HI Energy acquired 90 percent of the capital stock of an electric utility in north-central Argentina for $16 million. In late 1997, a subsidiary of HI Energy expects to complete development of a 160 MW cogeneration facility in Argentina at an estimated cost of approximately $100 million. In 1998, another subsidiary of HI Energy, together with various other investors, expects to complete development of a coke calcining and power generation facility in the state of Andhra Pradesh, India. The waste gases from the calcining facility will be used to generate electricity for sale to industrial customers and a local utility. Assuming the project is completed on schedule, HI Energy's estimated share of the cost of this project is approximately $9 million.

RISKS OF OVERSEAS OPERATIONS

The financing, development and operation of foreign power projects entail political and financial uncertainties, including risks associated with currency exchange rate fluctuations, currency repatriation and convertibility restrictions, political instability and potential expropriation. The uncertainty of the legal environment in certain countries in which HI Energy is or in the future may be operating could make it more difficult for HI Energy to enforce its rights under agreements relating to its overseas operations. HI Energy seeks to minimize the risks of its overseas operations in a variety of ways, including co-investing with local partners and reviewing the potential return of any investment against related political and other risks. Notwithstanding these efforts, there can be no assurance that HI Energy's efforts to minimize overseas operational risks will be successful.

REGULATION OF THE COMPANY

FEDERAL

The Company is a holding company as defined in the 1935 Act; however, based upon the intrastate operations of HL&P and the exemptions applicable to the affiliates of HI Energy, the Company is exempt from regulation as a "registered" holding company under the 1935 Act, except with respect to the acquisition of voting securities of other domestic public utility companies and utility holding companies. In connection with the Merger, the Company and HL&P have filed an application with the SEC requesting an order granting Houston an exemption from regulation as a registered public utility holding company under Section 3(a)(2) of the 1935 Act. For information regarding the application, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--The Merger." Following the Merger, Houston will be the holding company for NorAm, which is a public utility under the 1935 Act.

In June 1995, the SEC issued a comprehensive report on the regulation of utility holding companies in which it recommended repeal of the 1935 Act, subject to a minimum one-year transition period and legislation that would provide for access by state commissions to the books and records of holding companies and their affiliates and oversight by the Federal Energy Regulatory Commission of intrasystem transactions. Several bills have been introduced in Congress which would repeal the 1935 Act. Repeal or significant modification of the 1935 Act could have a significant effect on the electric utility industry.

STATE

The Company is not subject to regulation by the Utility Commission under PURA or by the incorporated municipalities served by HL&P. Those regulatory bodies do, however, have authority to review accounts, records and contracts relating to transactions by HL&P with the Company and its other subsidiaries.

FEDERAL AND STATE REGULATION OF FOREIGN INVESTMENTS

Section 33(a)(1) of the 1935 Act exempts foreign utility company affiliates of the Company from regulation as "public utility companies," thereby permitting the Company to invest in foreign utility companies without registration under the 1935 Act as a holding company. The exemption, however, is dependent upon the SEC's receiving from each state commission having jurisdiction over the retail rates of any U.S. utility company that is associated or affiliated with the foreign utility company, a certification to the effect that such commission has the authority and resources to protect ratepayers subject to its jurisdiction and that such commission intends to exercise its authority.

The Utility Commission has provided such a certification to the SEC subject, however, to the right of the Utility Commission to revise or withdraw the certification as to any future acquisition. The Company is required to notify the Utility Commission in the event that its aggregate investment in foreign exempt wholesale generators (EWGs) and utility companies exceeds 30 percent of the Company's consolidated net worth or if the Company's operating losses attributable to its direct or indirect foreign investments exceed 5 percent of consolidated retained earnings during the previous four quarters.

Subject to certain limited exceptions, Section 33(f)(1) of the 1935 Act prohibits any public utility (such as HL&P or, after the Merger, Houston) from issuing any security for the purpose of financing the acquisition, ownership or operation of a foreign utility company, or assuming any obligation or liability with respect to a foreign utility company.

EXECUTIVE OFFICERS OF THE COMPANY (1)
As of March 3, 1997

Name	Age(2)	Officer Since	Business Experience 1992-1997 and Positions(3)	
Don D. Jordan	64	1976	Chairman and Chief Executive Officer and Director	1997-
			Chairman, Chief Executive Officer and President and Director	1996-1997
			Chairman and Chief Executive Officer and Director	1993-1996
			Chairman, President and Chief Executive Officer and Director	1992-1993
			Chairman and Chief Executive Officer and Director - HL&P	1992-
R. Steve Letbetter	48	1978	President and Chief Operating Officer and Director	1997-
			Senior Vice President and Director	1996-1997
			Vice President and Director	1995-1996
			Vice President	1993-1995
			President and Chief Operating Officer - HL&P	1993-
			Group Vice President - Finance and Regulatory Relations - HL&P	1992-1993
Lee W. Hogan	52	1990	Executive Vice President and Director	1997-
			Senior Vice President and Director	1996-1997
			Vice President and Director	1995-1996
			Vice President	1993-1995
			President and Chief Operating Officer - HI Energy	1993-1997
			Group Vice President - External Affairs - HL&P	1992-1993
Hugh Rice Kelly	54	1984	Executive Vice President, General Counsel and Corporate Secretary	1997-
			Senior Vice President, General Counsel and Corporate Secretary	1994-1997
			Vice President, General Counsel and Corporate Secretary	1992-1994
			Executive Vice President, General Counsel and Corporate Secretary - HL&P	1997-
			Senior Vice President, General Counsel and Corporate Secretary - HL&P	1992-1997
Stephen W. Naeve	49	1988	Executive Vice President and Chief Financial Officer	1997-
			Senior Vice President and Chief Financial Officer	1996-1997
			Vice President - Strategic Planning and Administration	1993-1996
			Vice President - Corporate Planning and Treasurer - HL&P	1992-1993
Charles R. Crisp	49	1996	Senior Vice President	1997-
			Executive Vice President and General Manager - Energy Production and Director - HL&P	1996-
			President and Director, Tejas Gas Corporation	1992-1996

B. Bruce Gibson....................	43	1994	Senior Vice President - Governmental Affairs	1997-
			Vice President - Government and Regulatory Affairs	1996-1997
			Vice President - Government and Regulatory Affairs - HL&P	1996-
			Vice President - Governmental Relations	1994-1996
			President and CEO, Texas Chamber of Commerce	1994
			Executive Assistant to the Texas Lt. Governor	1992-1994
Robert L. Waldrop..................	49	1988	Senior Vice President - Communications	1997-
			Senior Vice President - External Affairs - HL&P	1996-
			Senior Vice President - Marketing and Customer Service - HL&P	1996
			Group Vice President - External Affairs - HL&P	1993-1996
			Vice President - Public and Customer Relations - HL&P	1992-1993
Mary P. Ricciardello...............	41	1993	Vice President and Comptroller	1996-
			Vice President and Comptroller - HL&P	1996-
			Comptroller	1993-1996
			Assistant Corporate Secretary and Assistant Treasurer - HL&P	1992-1993

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(1) All of the officers have been elected to serve until the annual meeting of the Board of Directors scheduled to occur on May 9, 1997 and until their successors qualify.

(2) At December 31, 1996.

(3) In 1997, the Board of Directors of the Company appointed certain divisional officers of the Company. Pursuant to those appointments, the following Executive Officers of the Company and/or HL&P also hold the following divisional officer titles within the Company:

Charles R. Crisp	President & Chief Operating Officer, HII Power Generation Group
Lee. W. Hogan	President & Chief Operating Officer, HI Retail Energy Group
David M. McClanahan	President & Chief Operating Officer, HL&P Division, HI Retail Energy Group
Stephen C. Shaeffer	Executive Vice President, Retail Energy Regulation, HI Retail Energy Group

EXECUTIVE OFFICERS OF HL&P (1)(2)
As of March 3, 1997

Name	Age(3)	Officer Since	Business Experience 1992-1997 and Positions	
Don D. Jordan	64	1971	Chairman and Chief Executive Officer and Director	1992-
R. Steve Letbetter	48	1978	President and Chief Operating Officer and Director	1995-
			President and Chief Operating Officer	1993-1995
			Group Vice President - Finance and Regulatory Relations	1992-1993
William T. Cottle	51	1993	Executive Vice President and General Manager - Nuclear and Director	1996-
			Group Vice President - Nuclear	1993-1996
			Vice President - Operations - Grand Gulf Nuclear Station, Entergy Operations, Inc.	1992-1993
Charles R. Crisp	49	1996	Executive Vice President and General Manager - Energy Production and Director	1996-
			President and Director, Tejas Gas Corporation	1992-1996
Jack D. Greenwade	57	1982	Senior Vice President and Assistant to the President and Director	1996-
			Group Vice President - Operations	1992-1996
Hugh Rice Kelly	54	1984	Senior Vice President, General Counsel and Corporate Secretary	1992-
David M. McClanahan	47	1986	Executive Vice President and General Manager - Energy Delivery and Customer Service and Director	1996-
			Group Vice President - Finance and Regulatory Relations	1993-1996
			Senior Vice President and Chief Financial Officer - KBLCOM	1992-1993
Stephen C. Schaeffer	49	1989	Executive Vice President - Shared Services and Financial and Regulatory Affairs and Director	1996-
			Senior Vice President - Treasurer - HI Energy	1993-1996
			Group Vice President - Administration and Support	1992-1993
Robert L. Waldrop	49	1988	Senior Vice President - External Affairs And Director	1996-
			Senior Vice President - Marketing and Customer Service	1996
			Group Vice President - External Affairs	1993-1996
			Vice President - Public and Customer Relations	1992-1993
Mary P. Ricciardello	41	1993	Vice President and Comptroller	1996-
			Comptroller - Company	1993-1996
			Assistant Corporate Secretary and Assistant Treasurer	1992-1993

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(1) All of the officers have been elected to serve until the annual meeting of the Board of Directors scheduled to occur on May 9, 1997 and until their successors qualify.

(2) For the purposes of the requirements of this Report, the HL&P officers listed may also be deemed to be executive officers of the Company.

(3) At December 31, 1996.

ITEM 2. PROPERTIES.

The Company considers its property and the property of its subsidiaries to be well maintained, in good operating condition and suitable for their intended purposes.

HL&P

All of HL&P's electric generating stations and all of the other operating properties of HL&P are located in the state of Texas.

ELECTRIC GENERATING STATIONS. As of December 31, 1996, HL&P owned 12 electric generating stations (62 generating units) with a combined turbine nameplate rating of 13,544,608 KW, including a 30.8 percent interest in one nuclear generating station (two units) with a combined turbine nameplate rating of 2,623,676 KW.

SUBSTATIONS. As of December 31, 1996, HL&P owned 212 major substations (with capacities of at least 5 megavolt amperes (Mva)) having a total installed rated transformer capacity of 54,307 Mva (exclusive of spare transformers), including a 30.8 percent interest in one major substation with an installed rated transformer capacity of 3,080 Mva.

ELECTRIC LINES--OVERHEAD. As of December 31, 1996, HL&P operated 25,003 pole miles of overhead distribution lines and 3,606 circuit miles of overhead transmission lines, including 474 circuit miles operated at 69,000 volts, 2,035 circuit miles operated at 138,000 volts and 1,097 circuit miles operated at 345,000 volts.

ELECTRIC LINES--UNDERGROUND. As of December 31, 1996, HL&P operated 9,636 circuit miles of underground distribution lines and 12.6 circuit miles of underground transmission lines, including 4.5 circuit miles operated at 69,000 volts and 8.1 circuit miles operated at 138,000 volts.

GENERAL PROPERTIES. HL&P owns various properties, which include a 47-story headquarters office building, division offices, service centers, telecommunications equipment and other facilities used for general purposes.

TITLE. The electric generating plants and other important units of property of HL&P are situated on lands owned in fee by HL&P. Transmission lines and distribution systems have been constructed in part on or across privately owned land pursuant to easements or on streets and highways and across waterways pursuant to authority granted by municipal and county permits, and by permits issued by state and federal governmental authorities. Under the laws of the state of Texas, HL&P has the right of eminent domain pursuant to which it may secure or perfect rights-of-way over private property, if necessary.

MORTGAGE. HL&P's mortgage, which secures first mortgage bonds issued by HL&P and collateralizes certain other securities issued on behalf of HL&P, constitutes a direct first lien on substantially all of HL&P's properties. The terms of the mortgage contain significant restrictions on the ability of HL&P to pledge, sell or otherwise dispose of its assets.

HI ENERGY

For information with respect to property owned directly or indirectly by HI Energy, see "Business--Business of HI Energy" in Item 1 of this Report and Note 4 to the Financial Statements.

ITEM 3. LEGAL PROCEEDINGS.

NORAM MERGER LAWSUIT. In August 1996, a purported NorAm shareholder filed a lawsuit, Shaw v. NorAm Energy Corp., et al., in the District Court of Harris County, Texas, against NorAm, certain of its officers and directors and the Company to enjoin the Merger or to rescind the Merger and/or to recover damages in the event that the Merger is consummated. The complaint alleges, among other things, that the consideration for the Merger is inadequate, that NorAm's Board of Directors breached its fiduciary duties and that the Company aided and abetted such breaches of fiduciary duties. In addition, the plaintiff seeks certification as a class action. The Company believes that the claims are without merit.

ENVIRONMENTAL. HL&P is a defendant in litigation arising out of the environmental remediation of a site in Corpus Christi, Texas. The site was operated by third parties as a metals reclaiming operation. Although HL&P neither operated nor owned the site, certain transformers and other equipment originally sold by HL&P may have been delivered to the site by third parties, and HL&P and others have remediated the site pursuant to a plan approved by appropriate state agencies and a federal court. To date, HL&P has recovered from other responsible parties $1.4 million of the more than $3 million it has spent on remediation. In Dumes, et al. v. HL&P, et al. (pending in the U.S. District Court for the Southern District of Texas, Corpus Christi Division), landowners near the site have asserted claims that their property has been contaminated as a result of the remediation effort and are seeking approximately $70 million in compensatory damages, in addition to punitive damages of $51 million. The Dumes case is currently subject to a stay due to the bankruptcy of two co-defendants. Although the ultimate outcome of this case cannot be predicted at this time, the Company and HL&P do not believe that this case will have a material adverse effect on the Company's or HL&P's financial condition, liquidity or results of operations.

The EPA has identified HL&P as a "potentially responsible party" (PRP) under the Comprehensive Environmental Response, Compensation, and Liability Act for the costs of cleaning up a site located adjacent to one of HL&P's transmission lines. In October 1992, the EPA issued an Administrative Order to HL&P and several other companies purporting to require them to manage the remediation of the site. HL&P believes that the EPA took this action solely on the basis of information indicating that HL&P in the 1950s acquired record title to a portion of the land on which the site is located. HL&P does not believe that it now nor previously has had any ownership interest in the land in question and has obtained a judgment from a court in Galveston County, Texas, to that effect. Accordingly, HL&P has not complied with this order, even though HL&P understands that other responsible parties are proceeding with site remediation. To date, neither the EPA nor any other PRP has instituted a claim against HL&P for any share of the remediation costs, but under current law if HL&P is determined to be a responsible party, HL&P could be found to be jointly and severally liable for the remediation costs (estimated to be approximately $80 million in the aggregate) and could be subjected to substantial fines and damage claims.

For a description of certain other legal and regulatory proceedings affecting the Company and HL&P, reference is made to the information set forth in Notes 2(b), 3, 10 and 11(c) to the Financial Statements, which notes are incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

At a special meeting of the Company's shareholders held on December 17, 1996, the shareholders of the Company approved the Merger Agreement. As part of the approval of the Merger Agreement, T. Milton Honea, Robert C. Hanna, O. Holcombe Crosswell and Joseph M. Grant were elected directors of Houston effective upon the consummation of the Merger.

The number of votes cast for, cast against or withheld, as well as the number of abstentions and broker non-votes recorded, with respect to the proposal to approve the Merger Agreement are as follows:

Votes in favor of the Proposal:	196,946,951
Votes against the Proposal (or withheld):	1,459,637
Abstentions:	1,276,532
Broker non-votes:	None

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock, which at March 3, 1997 was held of record by approximately 66,000 shareholders, is listed on the New York, Chicago and London Stock Exchanges (symbol: HOU). All of HL&P's common stock is currently held, directly or indirectly, by the Company. Following the Merger, each share of the Company's Common Stock, including associated preference rights, automatically will be converted into one share of Houston Common Stock (and one associated Houston preference right).

The following table sets forth the high and low sales prices of the Company's Common Stock on the composite tape during the periods indicated, as reported by The Wall Street Journal, and the dividends declared for such periods, in each case as adjusted to give effect to the two-for-one stock split effected by a stock distribution in December 1995. Dividend payout was $1.50 per share for 1996 and 1995. The dividend declared during the fourth quarter of 1996 is payable in March 1997.

	Market Price		Dividend Declared
	High	Low	Per Share
1996			
First Quarter			$0.375
January 17	$25 5/8		
March 29		$21 5/8	
Second Quarter			$0.375
April 19		$20 1/2	
June 28	$24 3/4		
Third Quarter			$0.375
July 1	$24 3/4		
September 5		$21 1/8	
Fourth Quarter			$0.375
November 11	$24 1/8		
December 6		$20 3/4	
1995			
First Quarter			$0.375
January 3		$17 11/16	
February 3	$20 1/2		
Second Quarter			$0.375
April 3		$18 15/16	
June 5	$21 7/8		
Third Quarter			$0.375
September 1		$21 1/16	
September 28	$22 3/4		
Fourth Quarter			$0.375
October 2		$22 1/16	
December 29	$24 1/2		

The closing market price of the Company's Common Stock on December 31, 1996 was $22 5/8 per share.

Future dividends will be subject to determination based upon the results of operations and financial condition of the Company, the Company's future business prospects, any applicable contractual restrictions and such other factors as the Company's Board of Directors considers relevant. For information regarding restrictions on the payment of dividends as contained in the credit facility expected to be entered into in connection with the Merger, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources--Company--Sources of Capital Resources and Liquidity--The Merger" in Item 7 of this Report.

ITEM 6. SELECTED FINANCIAL DATA OF THE COMPANY.

The following table sets forth selected financial data with respect to the Company's consolidated financial condition and results of consolidated operations and should be read in conjunction with the Financial Statements and the related notes in Item 8 of this Report. Certain amounts from prior years have been reclassified to conform with the 1996 presentation. Such reclassifications do not affect earnings. On July 6, 1995, the Company closed the sale of its cable television operations. The operations of KBLCOM have been accounted for as discontinued operations.

	Year Ended December 31,				
	1996	1995	1994	1993	1992
	(Thousands of Dollars, except per share amounts)				
Revenues (1)	$ 4,095,277	$ 3,729,271	$ 3,752,573	$ 4,083,238	$ 3,857,932
Income from continuing operations before cumulative effect of change in accounting (2)	$ 404,944	$ 397,400	$ 423,985	$ 440,531	$ 370,031
Gain on sale of cable television subsidiary		708,124			
Loss from discontinued operations			(16,524)	(24,495)	(29,544)
Cumulative effect of change in accounting (3)			(8,200)		94,180
Net income (2)	$ 404,944	$ 1,105,524	$ 399,261	$ 416,036	$ 434,667
Earnings per common share (4):					
Continuing operations before cumulative effect of change in accounting (2)	$ 1.66	$ 1.60	$ 1.72	$ 1.69	$ 1.43
Gain on sale of cable television subsidiary		2.86			
Loss from discontinued operations			(.07)	(.09)	(.11)
Cumulative effect of change in accounting (3)			(.03)		.36
Earnings per common share (2)	$ 1.66	$ 4.46	$ 1.62	$ 1.60	$ 1.68
Cash dividends declared per common share (4)(5)	$ 1.50	$ 1.50	$ 1.50	$ 1.875	$ 1.49
Dividend pay-out ratio from continuing operations	89%	94%	87%	89%	104%
Return on average common equity (6)(7)	10.2%	29.5%	12.0%	12.7%	13.3%
Ratio of earnings from continuing operations to fixed charges before cumulative effect of change in accounting	2.76	2.71	2.89	2.78	2.29
At year-end:					
Book value per common share (2)(4)	$ 16.41	$ 16.61	$ 13.64	$ 12.53	$ 12.68
Market price per common share (4)	$ 22.63	$ 24.25	$ 17.82	$ 23.82	$ 22.94
Market price as a percent of book value (2)	138%	146%	131%	190%	181%
At year-end:					
Total assets of continuing operations	$ 12,287,857	$ 11,819,606	$ 10,784,095	$ 10,867,581	$ 11,075,897
Net assets of discontinued operations			618,982	487,026	231,252
Total assets	$ 12,287,857	$ 11,819,606	$ 11,403,077	$ 11,354,607	$ 11,307,149
Long-term obligations including current maturities - continuing operations (8)	$ 3,280,113	$ 3,768,928	$ 3,905,518	$ 3,950,576	$ 4,244,077
Long-term obligations including current maturities included in net assets of discontinued operations			504,580	514,964	740,453
Capitalization from continuing operations:					
Common stock equity	53%	50%	44%	43%	42%
Cumulative preferred stock of HL&P (including current maturities)	2%	5%	7%	7%	7%
Long-term debt (including current maturities)	45%	45%	49%	50%	51%
Capital expenditures:					
HL&P electric capital and nuclear fuel expenditures (excluding AFUDC) (9)	$ 314,934	$ 296,635	$ 412,899	$ 329,016	$ 337,082
Non-regulated electric power project expenditures and advances (excluding capitalized interest)	493,179	49,835	7,087	35,796	1,625
Cable television additions and other cable-related investments - discontinued		47,601	84,071	61,856	45,233
Corporate headquarters expenditures (excluding capitalized interest) (9)	5,308	89,627	44,250	26,034	

(1) Reflects a reclassification of HI Energy's equity income from Other-Income Expense) to Revenues.

(2) The Company adopted Statement of Position (SOP) 93-6, "Employers' Accounting for Employee Stock Ownership Plans," effective January 1, 1994, which had the effect of reducing net income while increasing earnings per share. See Note 9(b) to the Financial Statements. SOP 93-6 is effective only with respect to financial statements for periods after January 1, 1994, and no restatement was permitted for prior periods.

(3) The 1994 cumulative effect relates to the change in accounting for postemployment benefits. See also Note 9(d) to the Financial Statements. The 1992 cumulative effect relates to the change in accounting for revenues.

(4) All common share data reflect a two-for-one common stock dividend distribution in December 1995.

(5) Year ended December 31, 1993 includes five quarterly dividends of $.375 per share due to a change in the timing of the Company's Board of Directors' declaration of dividends. Dividend payout was $1.50 per share for 1993.

(6) The return on average common equity for 1995 includes the gain on the sale of the Company's cable television subsidiary. The return on average common equity excluding the gain was 11.7%.

(7) The calculation of return on average common equity has been changed from a 13-month average to a beginning plus ending balance formula. Prior years have been restated for consistent presentation.

(8) Includes Cumulative Preferred Stock subject to mandatory redemption.

(9) During 1995 and 1996, HL&P made payments toward the purchase of its corporate headquarters building. Such payments are not reflected in the Company's electric capital and nuclear fuel expenditures because they are affiliate transactions eliminated upon consolidation.

ITEM 6. SELECTED FINANCIAL DATA OF HL&P.

The following table sets forth selected financial data with respect to HL&P's financial condition and results of operations and should be read in conjunction with the Financial Statements.

	Year Ended December 31,				
	1996	1995	1994	1993	1992
	(Thousands of Dollars)				
Revenues	$ 4,025,027	$ 3,680,297	$ 3,746,085	$ 4,079,863	$ 3,826,841
Income after preferred dividends but before cumulative effect of change in accounting	$ 406,855	$ 450,977	$ 461,381	$ 449,750	$ 375,955
Cumulative effect of change in accounting (1)			(8,200)		94,180
Income after preferred dividends	$ 406,855	$ 450,977	$ 453,181	$ 449,750	$ 470,135
Return on average common equity	10.5%	11.8%	12.0%	12.3%	13.3%
Ratio of earnings to fixed charges before cumulative effect of change in accounting	3.71	3.75	3.80	3.40	2.73
Ratio of earnings to fixed charges and preferred dividend requirements before cumulative effect of change in accounting	3.24	3.20	3.20	2.90	2.34
At year-end:					
Total assets	$ 10,596,232	$ 10,665,259	$ 10,850,981	$ 10,753,616	$ 10,790,052
Long-term obligations including current maturities (2)	$ 2,931,015	$ 3,220,015	$ 3,356,789	$ 3,402,032	$ 3,796,719
Capitalization:					
Common stock equity	56%	52%	51%	50%	47%
Cumulative preferred stock (including current maturities)	2%	6%	7%	7%	7%
Long-term debt (including current maturities)	42%	42%	42%	43%	46%
Capital and nuclear fuel expenditures (excluding AFUDC) (3)	$ 382,992	$ 391,550	$ 412,899	$ 329,016	$ 337,082
Percent of capital expenditures financed internally from operations	140%	110%	216%	158%	137%

(1) The 1994 cumulative effect relates to the change in accounting for postemployment benefits. The 1992 cumulative effect relates to the change in accounting for revenues from a cycle billing to a full accrual method effective January 1, 1992.

(2) Includes Cumulative Preferred Stock subject to mandatory redemption.

(3) 1995 and 1996 expenditures include payments toward the purchase of HL&P's corporate headquarters building.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis should be read in combination with the financial statements and notes contained in Item 8 of this Form 10-K. Statements contained in this Form 10- K that are not historical facts are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Such statements are expectations as to future economic performance and are not statements of fact. Actual results might differ materially from those projected in these statements. Important factors that could cause future results to differ include the effects of competition, legislative and regulatory changes, fluctuations in the weather and changes in the economy as well as other factors discussed in this and other filings by Houston Industries Incorporated (Company) and Houston Lighting & Power Company (HL&P) with the Securities and Exchange Commission (SEC). When used in the Company's and HL&P's documents or oral presentations, the words "anticipate," "estimate," "expect," "objective," "projection," "forecast," "goal" or similar words are intended to identify forward-looking statements.

THE MERGER

On December 17, 1996, the shareholders of the Company and NorAm Energy Corp. (NorAm) approved an Agreement and Plan of Merger (Merger Agreement) pursuant to which the Company will merge into HL&P, and NorAm will merge into a subsidiary of the Company (Merger Sub). Upon consummation of the mergers (collectively, the Merger), HL&P, the surviving corporation of the Company/HL&P merger, will be renamed "Houston Industries Incorporated" (Houston) and Merger Sub, the surviving corporation of the NorAm/Merger Sub merger, will be renamed "NorAm Energy Corp." and will become a wholly owned subsidiary of Houston.

NorAm is principally engaged in the distribution and transmission of natural gas, including the gathering, storage and marketing of natural gas. Through its Entex, Arkla and Minnegasco distribution divisions, NorAm is the nation's third-largest natural gas utility in terms of customers served, with over 2.7 million customers in six states. NorAm operates interstate gas pipeline facilities through NorAm Gas Transmission Company and Mississippi River Transmission Corporation. It also owns natural gas gathering assets in Oklahoma, Louisiana, Arkansas and Texas and is engaged in various other energy-related businesses, including natural gas and electric wholesale trading, gas storage, wholesale electric services and providing unregulated retail energy services to industrial and large commercial customers.

The acquisition of NorAm is expected to add 2.1 million customers to Houston's customer base (net of NorAm customers who are already in HL&P's service territory) and to increase the combined companies' domestic retail customer base to approximately 3.6 million customers in six states. In addition, the Company and HL&P expect to benefit from NorAm's gas and electric wholesale trading organization and, by combining the expertise of the NorAm trading organization with HL&P's electric power expertise, develop a wholesale energy trading and risk management business. NorAm's international strategy, which emphasizes investments in the gas transmission and distribution businesses, should complement the Company's existing international operations, which are currently focused on power plant development and acquisition of electric distribution systems.

Unless otherwise stated, the information presented in this Form 10-K relates solely to the Company and HL&P without giving effect to the Merger.

Merger Consideration. Under the Merger Agreement, each share of common stock of the Company, including each associated preference stock right, outstanding immediately prior to the effective time of the Merger (other than shares owned by the Company or HL&P, which will be canceled) will be converted automatically into one share of Houston common stock, and each outstanding share of common stock of NorAm will be converted into the right to receive cash or Houston common stock. The cash consideration for each NorAm share will be $16.00 in cash (subject to increase if the Merger closes after May 11, 1997). If the closing does not occur by May 11, 1997, the cash consideration (but not the stock consideration) will increase thereafter by two percent per quarter until the consummation of the Merger. The increase, if any, will be calculated pro rata on a daily basis for the period from May 11, 1997 until consummation. The Merger Agreement contains provisions generally designed to result in 50 percent of the outstanding shares of NorAm common stock being converted into stock consideration and 50 percent being converted into cash consideration.

The number of shares of Houston common stock issued per share of NorAm common stock will be not less than 0.6154 shares nor more than 0.7529 shares (the actual number of shares will depend upon the average closing price of Houston common stock (Average Price of HI Common Stock) on the New York Stock Exchange for each of the first 20 consecutive trading days in the period commencing 25 trading days prior to the closing date of the Merger). Depending on the Average Price of HI Common Stock prior to the closing of the Merger and assuming that 50 percent of the NorAm shares of common stock are converted into shares of Houston common stock, it is estimated that the total number of shares of Houston common stock issued and outstanding immediately after the Merger would increase by a range of 47 million to 58 million shares.

The Merger is valued at $3.9 billion, consisting of $2.5 billion for NorAm's common stock and equivalents and $1.4 billion of NorAm debt. The Company intends to finance the cash portion of the Merger consideration through bank borrowings and will account for the Merger as a purchase. For additional information regarding the financing of the Merger, see "--Liquidity and Capital Resources--Company--Sources of Capital Resources and Liquidity--The Merger" below.

Regulatory Approvals and Consents. The closing of the Merger is subject to the satisfaction or waiver of various conditions contained in the Merger Agreement, including the obtaining of all required governmental consents. As of March 1, 1997, approvals have been received from all state regulatory commissions and municipalities whose prior approval was required.

In February 1997, the Federal Energy Regulatory Commission (FERC) initiated a jurisdictional inquiry to determine whether its prior approval of the Merger is required under Section 203 of the Federal Power Act of 1935 (Federal Power Act). FERC directed NorAm Energy Services, Inc. (NES), a subsidiary of NorAm engaged in the power marketing business, to set forth its views as to whether such prior approval may be required because of NES' jurisdictional status as a power marketer. In the alternative, FERC invited NES to submit an application for approval of the Merger under Section 203 of the Federal Power Act. The Company believes that FERC approval is not required for the Merger and that application of FERC jurisdiction to a transaction of this nature would be unprecedented. In March 1997, NES filed a response with FERC stating NES' view that FERC does not have jurisdiction over the Merger and requesting that FERC promptly issue an order ruling on the basis of its jurisdiction. NES noted, however, that it was considering, based on the possibility of an expedited review of the Merger under guidelines recently issued by FERC, the possibility of filing an application under Section 203 of the Federal Power Act for approval of the Merger.

The Company and HL&P have filed an application with the SEC requesting an order granting Houston an exemption from regulation as a registered public utility holding company under Section 3(a)(2) of the Public Utility Holding Company Act of 1935 (1935 Act). If the order is not granted and HL&P determines that upon consummation of the Merger Houston would not be an exempt public utility holding company under Section 3(a)(2) of the 1935 Act, the Merger Agreement provides that NorAm and the Company would both be merged into HL&P, with HL&P being the surviving corporation and being renamed "Houston Industries Incorporated ". The primary difference resulting from this alternative merger structure is that NorAm would not be a wholly owned subsidiary of Houston and all of the regulated utility assets of HL&P and NorAm would be held within the same corporation. Under such circumstances, no public utility holding company would exist.

RESULTS OF OPERATIONS

HOUSTON INDUSTRIES INCORPORATED

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

	Year Ended December 31, 1996	Year Ended December 31, 1995	Percent Change
	(Thousands of Dollars)		
Revenues	$4,095,277	$3,729,271	10
Operating Expenses	3,104,811	2,823,821	10
Operating Income	990,466	905,450	9
Interest and Other Charges	329,945	326,340	1
Income Taxes	200,165	199,555	--
Income from Continuing Operations	404,944	397,400	2
Gain from Discontinued Operations		708,124	--
Net Income	404,944	1,105,524	(63)

	Year Ended December 31, 1995	Year Ended December 31, 1994	Percent Change
	(Thousands of Dollars)		
Revenues	$ 3,729,271	$ 3,752,573	(1)
Operating Expenses	2,823,821	2,785,521	1
Operating Income	905,450	967,052	(6)
Interest and Other Charges	326,340	318,599	2
Income Taxes	199,555	230,424	(13)
Income from Continuing Operations	397,400	423,985	(6)
Gain (Loss) from Discontinued Operations	708,124	(16,524)	--
Net Income	1,105,524	399,261	177

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All common stock data included in Item 7 of this Report reflect the Company's two-for-one common stock dividend distribution in December 1995. In July 1995, the Company sold KBLCOM Incorporated (KBLCOM), its cable television subsidiary. The operations of KBLCOM are reflected as discontinued operations. For additional information, see Notes 5(a) and 13 to the Company's Consolidated and HL&P's Financial Statements in Item 8 of this Report (Financial Statements).

EARNINGS - THE COMPANY

1996 Compared to 1995. Consolidated earnings from continuing operations were $405 million, or $1.66 per share, for 1996, compared to earnings of $397 million, or $1.60 per share, in 1995. The Company's 1995 net income was $1.1 billion, or $4.46 per share, including a one-time after-tax gain of $708 million, or $2.86 per share, recorded upon the sale of the Company's cable television subsidiary.

The Company's earnings include non-recurring, after-tax charges amounting to $67 million in 1996 and $24 million in 1995. The non-recurring charges in 1996 included a $62 million after-tax charge associated with HL&P's settlement of litigation relating to the South Texas Electric Generating Station (South Texas Project) and $5 million associated with the write down of an additional portion of Houston Industries Energy, Inc.'s (HI Energy) investment in two suspended waste tire-to-energy plants in Illinois. After adjusting for non-recurring gains and charges in both years, consolidated earnings from continuing operations per share rose nearly 14 percent to $1.93 in 1996 from $1.70 in 1995, while income from continuing operations rose to $472 million in 1996 from $422 million the previous year. The improvement in earnings resulted from increased sales at HL&P, improved results at HI Energy and a full year of after-tax dividend income ($37 million in 1996 compared to $18 million in 1995) from the Company's investment in Time Warner Inc. (Time Warner) securities.

HL&P's 1996 contribution to net income of the Company was $407 million after dividends on preferred stock as compared to $451 million in 1995. HI Energy reported 1996 earnings of approximately $0.2 million compared to a loss of $33 million in 1995.

Other revenues of the Company increased from $49 million in 1995 to $70 million in 1996 due primarily to equity earnings from a Brazilian electric utility in which HI Energy acquired an 11.35 percent interest in May of 1996. Other operating expenses were $73 million and $121 million in 1996 and 1995, respectively. The decline is primarily attributed to reduced HI Energy expenses, including a $21 million reduction in nonrecurring charges related to the previously discussed Illinois projects and reduced project development costs.

1995 Compared to 1994. Consolidated earnings per share were $4.46 for 1995, an increase of $2.84 per share from 1994. The Company's 1995 earnings benefited significantly from a one-time after-tax gain of $708 million or $2.86 per share recorded upon the sale of the Company's cable television subsidiary. The gain was reflected in discontinued operations on the Company's Statements of Consolidated Income. The Company's 1995 consolidated earnings per share from continuing operations were $1.60 per share, compared to $1.72 per share in 1994.

HL&P contributed $1.82 per share in 1995 (reflecting net income of $451 million after dividends on preferred stock). In 1995, HI Energy sustained a net loss of $33 million or $.13 per share. The net loss included an $18 million after-tax charge to earnings resulting from the establishment of a valuation allowance reflecting the impairment of the ability of the two waste tire- to-energy projects to repay $28 million in subordinated debt advanced to the projects by HI Energy. This impairment is a result of the repeal by the State of Illinois of an operating subsidy benefiting the projects, see Note 4(c) to the Financial Statements. Earnings for 1995 included after-tax dividend income of approximately $18 million related to Time Warner securities.

The Company had other revenues of $49 million in 1995 compared to $6 million in 1994. Other revenues are principally from electric sales and operating revenues from HI Energy. The increase in other revenues was primarily due to revenues from Edese S.A. (Edese), a foreign electric utility operating company in which HI Energy acquired a 90 percent ownership interest in 1995. Other operating expenses for the Company were $121 million for 1995 compared to $36 million in 1994. The increase is principally due to increased HI Energy operating expenses for Edese, the $18 million after-tax charge to earnings relating to the waste tire-to-energy projects and increased project development costs.

HL&P

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

	Year Ended December 31, 1996	Year Ended December 31, 1995	Percent Change
	(Thousands of Dollars)		
Base Revenues (1)	$ 2,743,375	$ 2,645,303	4
Reconcilable Fuel Revenues (2)	1,281,652	1,034,994	24
Operating Expenses (3)	3,292,699	2,945,633	12
Operating Income (3)	732,328	734,664	--
Other Income (Expense)	(70,879)	(5,923)	--
Interest Charges	232,031	247,809	(6)
Income After Preferred Dividends	406,855	450,977	(10)

	Year Ended December 31, 1995	Year Ended December 31, 1994	Percent Change
	(Thousands of Dollars)		
Base Revenues (1)	$ 2,645,303	$ 2,673,146	(1)
Reconcilable Fuel Revenues (2)	1,034,994	1,072,939	(4)
Operating Expenses (3)	2,945,633	3,003,203	(2)
Operating Income (3)	734,664	742,882	(1)
Other Income (Expense)	(5,923)	1,554	--
Interest Charges	247,809	249,472	(1)
Income After Preferred Dividends	450,977	453,181	--

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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 - HL&P" in this section for further discussion.

(3) Includes income taxes.

EARNINGS - HL&P

1996 Compared to 1995. HL&P's net earnings after preferred dividends were $407 million for 1996 compared with $451 million the previous year. The decrease was due to a $62 million (after-tax) one-time charge associated with the settlement of litigation claims related to the South Texas Project, and the $33 million (after-tax) amortization of HL&P's investment in certain lignite reserves. Increased sales resulting from favorable weather and economic conditions helped offset the effects discussed above. Total kilowatt-hour (KWH) sales rose 6 percent during 1996, with increases of 4 percent in the residential class, 3 percent in commercial and 7 percent in industrial sales.

1995 Compared to 1994. HL&P's 1995 earnings were $451 million, a decline of $2 million from 1994. Earnings for 1995 benefited from 5 percent growth in residential and 4 percent growth in commercial KWH sales resulting from continued customer growth and warmer summer weather in 1995. However, the revenue improvements were offset by (i) reduced electric rates stemming from the settlement of HL&P's most recent rate case (Rate Case Settlement), (ii) HL&P's decision to write down $50 million ($33 million after-tax) of its investment in the South Texas Project as permitted under the Rate Case Settlement and (iii) increased non-routine operating expenses partially associated with staff severance costs and litigation. HL&P's earnings for 1994 reflected a one-time after-tax charge of $46 million in the fourth quarter also related to the Rate Case Settlement.

OPERATING REVENUES AND SALES - HL&P

1996 Compared to 1995. The base revenue increase is primarily the result of sales growth in 1996 and, to a lesser degree, the impact of weather.

The increase of 24 percent in reconcilable fuel revenues resulted primarily from increased natural gas prices. Reconcilable fuel revenues are revenues that are collected through a fixed fuel factor. The Public Utility Commission of Texas (Utility Commission) provides for recovery of certain fuel and purchased power costs through a fixed fuel factor included in electric rates. The fixed fuel factor is established during either a utility's general rate proceeding or its fuel factor proceeding and is generally effective for a minimum of six months. Revenues collected through such factor are adjusted monthly to equal expenses; therefore, such revenues and expenses have no effect on earnings unless fuel costs are determined not to be recoverable. The adjusted over/under recovery of fuel costs is recorded on HL&P's Balance Sheets as fuel-related credits or fuel-related debits, respectively. Fuel costs are reviewed during periodic fuel reconciliation proceedings, which are required at least every three years.

At December 31, 1996, HL&P's cumulative under-recovery of fuel costs was $84 million. In October 1996, HL&P filed with the Utility Commission a request to implement a temporary fuel surcharge over a six-month period to address a material under-recovery in eligible fuel costs during the period February 1995 through August 1996. This proceeding (Docket No. 16486) was settled and became effective on January 1, 1997. According to the terms of the settlement, the amount to be recovered by HL&P through the surcharge is approximately $70 million, inclusive of interest through June 30, 1997.

1995 Compared to 1994. The $28 million decline in 1995 base revenues was primarily due to (i) decreased base rates resulting from the Rate Case Settlement, (ii) decreased firm industrial KWH sales and (iii) a reduction of revenues associated with recovery of certain firm capacity purchased power costs included in base rates. See Note 11(b) to the Financial Statements for discussion of firm capacity costs.

FUEL AND PURCHASED POWER EXPENSE - HL&P

Fuel costs constitute the single largest expense for HL&P. The mix of fuel sources for generation of electricity is determined primarily by system load and the unit cost of fuel consumed. The average cost of fuel used by HL&P in 1996 was $1.82 per million British Thermal Units (MMBtu) ($2.31 for natural gas, $2.11 for coal, $ 1.11 for lignite and $0.62 for nuclear). In 1995, the average cost of fuel was $1.59 per MMBtu ($1.69 for natural gas, $2.03 for coal, $1.25 for lignite and $0.58 for nuclear).

1996 Compared to 1995. Fuel expenses in 1996 increased by $146 million or 17 percent over 1995 expenses. The increase was driven by significant increases in the average unit cost of natural gas, which rose to $2.31 in 1996 from $1.69 per MMBtu in 1995. Purchased power expenses also increased in 1996 by $89 million over 1995 expenses. This change was driven by an increase in both the amount of KWH purchased by HL&P and the unit cost paid.

1995 Compared to 1994. Fuel expense increased in 1995 by 2 percent, or $18 million when compared to 1994, primarily due to the receipt in 1994 of $66 million from the sale of receivables received by HL&P as a result of a litigation settlement. For additional information on this transaction, see Note 14 to the Financial Statements. Excluding the effects of such transaction, 1995 fuel expense declined by 5 percent from 1994. This decline was attributable to (i) a general decline in the unit cost of natural gas and (ii) the increased use of nuclear generation (which has a per unit fuel cost that is substantially lower than HL&P's other fuel sources). Purchased power expense decreased $175 million in 1995 as compared to 1994 resulting primarily from the expiration of certain purchased power contracts.

OPERATION AND MAINTENANCE EXPENSES, DEPRECIATION, AMORTIZATION AND OTHER - HL&P

1996 Compared to 1995. Operations and maintenance expense increased by $23 million or 3 percent in 1996. This increase is largely attributable to the implementation of an employee incentive program and an increase in severance payments paid to employees, as described below. A significant decline in employee benefits-related expenses partially offset the other increases in operations and maintenance expense.

In 1995, HL&P incurred $15 million in work force severance costs as a result of its efforts to streamline and improve certain business activities. In 1996, HL&P incurred additional severance costs of $30 million. These severance costs reflect total staff reductions of 1,164 employees over the two-year period.

Depreciation and amortization expense increased $71 million in 1996 compared to 1995. The increase is due to the accelerated amortization of $50 million ($33 million after-tax) of HL&P's investment in certain lignite reserves. In 1996, HL&P began amortizing its $153 million investment in these lignite reserves, which are associated with a cancelled generation project. The lignite reserves will be fully amortized no later than 2002. The 1996 increase in depreciation and amortization expense also included a full year of amortization for HL&P's 1995 early retirement program and increased depreciation expense related to electric plant in service. In 1996, HL&P continued to write down its investment in the South Texas Project at a rate of approximately $50 million per year. This amortization is in addition to ordinary depreciation associated with the South Texas Project. The accelerated amortization of the lignite reserves and the South Texas Project is pursuant to HL&P's most recent rate order.

For additional information regarding these amortizations, see Note 3(a) to the Financial Statements.

1995 Compared to 1994. 1995 operation and maintenance expenses increased $37 million over 1994 expenses. Substantially all of the increase resulted from (i) employee severance expenses, (ii) other employee benefits adjustments and (iii) certain litigation expenses. Depreciation and amortization expense for 1995 increased $77 million compared to 1994, primarily due to the $50 million amortization recorded on the South Texas Project. See Note 3(a) to the Financial Statements. Other taxes decreased $6 million for 1995 compared to 1994, primarily due to decreased state gross receipts obligations attributable to base and fuel refunds. Other-net expense for 1995 increased $13 million compared to 1994 primarily as a result of a one-time, pre-tax charge of $9 million incurred in connection with mine-related costs which are not recoverable under the Rate Case Settlement.

CERTAIN FACTORS AFFECTING FUTURE EARNINGS
OF THE COMPANY AND HL&P

Earnings for the past three years are not necessarily indicative of future earnings and results. The level of future earnings depends on numerous factors ranging from growth in energy sales, weather, HI Energy's future results of operations, competition, legislative and other regulatory changes, the rate of economic growth in HL&P's service area and the ability of the Company and HL&P to control costs and maintain a pricing structure that is both attractive to customers and profitable to the Company and HL&P. Future earnings will also be affected by the impact of the acquisition of NorAm and its integration into the Company's consolidated operations.

RATE MATTERS AND CONTINGENCIES

The Utility Commission has jurisdiction (or in some cases appellate jurisdiction) over HL&P's electric rates and as such monitors HL&P's earnings to ensure that HL&P is not earning in excess of its permitted rate of return.

Subject to certain changes in existing regulation or legislation, HL&P is precluded under the terms of its Rate Case Settlement from seeking any increase in its rates until December 31, 1997. For information regarding the terms of the settlement, see Note 3 to the Financial Statements.

The Company and HL&P are involved in other legal, tax and regulatory proceedings before various courts, regulatory agencies and governmental authorities, some of which may involve substantial amounts. For additional information regarding such matters, see Notes 3(a) and 11 to the Financial Statements.

COMPETITION

Due to changing government regulations, technological developments and the availability of alternative energy sources, the U.S. electric utility industry has become increasingly competitive. Such competition affects HL&P's business both in terms of sources of power supply available to HL&P and alternatives available to traditional customers of HL&P to meet their power needs.

Long-Term Trends in Industry. Based on a strategic review of the Company and HL&P's business and of ongoing developments in the electric utility and related industries regarding competition, regulation and consolidation, the Company's management believes that the pace of change affecting the electric utility industry is likely to accelerate, albeit in a state-by-state fashion. The Company's management also believes that the businesses of electricity and natural gas are converging and consolidating and that these trends will alter the structure and business practices of companies serving these markets in the future. In particular, the Company's management has observed a trend toward performance-based rate making for regulated distribution and transmission operations. This trend should increase the pressure on electric utilities to become more efficient operators.

In order to adapt to the increasingly competitive environment in which HL&P operates, the Company and HL&P intend to evaluate and consider a wide array of potential business strategies. These may include business combinations or acquisitions involving other utility or non-utility businesses or properties, internal restructuring, and reorganizations or dispositions of currently owned properties or currently operating business units. In addition, the Company and HL&P may engage in new business ventures, such as electric power marketing, which arise from competitive and regulatory changes in the utility industry. Pursuit of any of the above strategies, or any combination thereof, may significantly affect the business operations and financial condition of the Company. For a discussion of the expected impact of the Merger on the Company's and HL&P's competitive position, see "--The Merger" above.

Competition in Wholesale Market. The Energy Policy Act of 1992 and the Texas Public Utility Regulatory Act (PURA) both contain provisions intended to facilitate the development of a wholesale energy market. Although HL&P's wholesale sales traditionally have accounted for less than 1 percent of its total revenues, the expansion of competition in the wholesale electric market is significant in that it has increased the range of non-utility competitors, such as exempt wholesale generators (EWGs) and power marketers, in the Texas electric market as well as resulted in fundamental changes in the operation of the state transmission grid.

In February 1996, the Utility Commission adopted rules granting third-party users of transmission systems open access to such systems at rates, terms and conditions comparable to those available to utilities owning such transmission assets. Under the Utility Commission order implementing the rule, HL&P was required to separate, on an operational basis, its wholesale power marketing operations from the operations of the transmission grid and, for purposes of transmission pricing, to disclose each of its separate costs of generation, transmission and distribution.

In January 1997, the Utility Commission approved interim transmission cost of service rates under the new transmission access pricing rules. Although the actual impact on HL&P of the new pricing rules will not be known until final approval of the rates (which is not expected to occur until April 1997), HL&P estimates that the final rates will result in increased transmission costs of between $22 and $25 million per year. To mitigate any cost increases to utilities and/or their customers, the Utility Commission will phase in the increased transmission costs in 10 percent increments during the three-year period beginning with the implementation of the rule. At the end of the phase-in period, the Utility Commission expects that each transmission-owning utility will have either adjusted its cost structures or requested a change in rates to account for such increased transmission cost. In 1997, HL&P expects to pay increased transmission costs under the rule of between $2.2 and $2.5 million. In addition, based on rate substitution provisions contained in HL&P's existing transportation contracts, HL&P expects that its rights to receive contractual payments for transmission wheeling, which in 1996 amounted to $9.4 million, will be terminated.

The Company believes that the transmission access pricing rules discriminate against utilities, like HL&P, that have low cost transmission facilities and operate in compact service territories. Under the rules, HL&P and similarly situated utilities are expected to pay more in transmission fees than they will receive in fees, while utilities with high cost transmission facilities operating in spread-out service territories will receive more in transmission fees than they pay out. HL&P and other interested parties have petitioned the Utility Commission to amend the transmission pricing rules to, among other things, simplify transmission pricing and eliminate cross- subsidies inherent in the current rules. In March 1997, HL&P also filed a lawsuit alleging that the Utility Commission's transmission pricing rules are unlawful because they violate state statutory law, the Texas and U.S. Constitutions and, in adopting the rules, the Utility Commission failed to comply with the notice, comment and reasoned justification requirements of the Texas Governmental Code. HL&P has asked the court to (a) declare invalid the portion of the rules that created a transmission subsidy for some transmission providers and a deficit for HL&P and others and (b) remand the rulemaking to the Utility Commission for further proceedings. No assurance, however, can be given to the ultimate outcome of this lawsuit.

In August 1996, the Utility Commission approved the creation of an independent system operator (ISO) to manage the state's electric grid. The ISO is a key component of implementing the Utility Commission's overall strategy to create a competitive wholesale market. The ISO is responsible for ensuring that all power producers and traders have fair access to the Texas electric transmission system. The Texas ISO plan is the first ISO proposal to be implemented in the U.S. The ISO is governed by an equal number of representatives from each of six wholesale market groups: investor owned utilities, municipally owned utilities, electric cooperatives and river authorities, transmission dependent utilities, independent power producers and power marketers.

Competition from Self-Generation. HL&P estimates that since 1978, cogeneration projects representing approximately one-third of HL&P's current total peak generating capability have been built in the Houston area and that, as a result, HL&P has lost approximately 2,500 megawatts (MW) in customer load to self-generation. HL&P has implemented flexible pricing to respond to the threat of competition in situations where large industrial customers have an alternative to buying power from HL&P, primarily by constructing their own generating facilities. Under a tariff option approved by the Utility Commission in 1995, HL&P can price its industrial rate to new or expanding loads within a range between 6 percent above its marginal cost and its full embedded cost rate. HL&P determines the size of the discount based on its assessment of the customer's alternative power price. While flexible tariff structures may help HL&P increase or retain sales to industrial customers (and reduce costs that would otherwise be borne by other customers), such tariffs generally result in sales at lower margins. The future effect of self-generation facilities cannot currently be determined but may be adverse.

Competition in Retail Market. Although neither federal nor Texas law currently permits retail sales by unregulated entities such as cogenerators or EWGs, HL&P anticipates that cogenerators, EWGs and other interests will continue to exert pressure to obtain access to the electric transmission and distribution systems of regulated utilities for the purpose of making retail sales to customers of regulated utilities.

In January 1997, the Utility Commission delivered a report to the Texas legislature on the scope of competition in Texas electric markets and the impact of competition and industry restructuring on customers in both competitive and non-competitive markets (including legislative recommendations to promote the public interest in such markets). In its report, the Utility Commission recommended that the Texas legislature enact legislation to implement retail competition in Texas but recommended against any legislation that would introduce broad-based retail competition before 2000.

Stranded Costs. As the U.S. electric utility industry continues its transition to a more competitive environment, a substantial amount of fixed costs previously approved for recovery under traditional utility regulatory practices (including regulatory assets and liabilities) may become "stranded," i.e., unrecoverable at competitive market prices. The issue of stranded costs could be particularly significant with respect to fixed costs incurred in connection with the past construction of generation plants, such as nuclear power plants which, because of their high fixed costs, would not command the same price for their output as they have in a regulated environment.

In January 1997, the Utility Commission delivered a report to the Texas legislature on stranded investments in the electric industry in Texas. The report estimated that the total amount of stranded costs for all Texas utilities could be as high as $21 billion, based on one set of assumptions, and alternatively projected that such costs could be minimal or non-existent, based on another set of assumptions. The broad range of estimates illustrates the inherent uncertainty in calculating these costs.

The Utility Commission has identified five possible mechanisms for recovering stranded costs, including (i) access charges to all transmission and distribution customers; (ii) exit fees to be charged to large wholesale or industrial customers switching to an alternate supplier; (iii) writing down over-valued generation assets and writing up transmission and distribution assets; (iv) accelerating depreciation of generation assets while decelerating depreciation of transmission and distribution assets; and (v) freezing rates at current levels and applying any additional earnings from efficiency gains, decreases in fuel prices, or service area growth against the stranded costs allocated to customers. The Utility Commission, whose mandate under PURA with respect to stranded cost issues was limited to preparing the report, has requested that the legislature provide it further direction on these matters.

HI ENERGY

HI Energy participates primarily in the development and acquisition of foreign independent power projects and the privatization of foreign generating and distribution facilities. At December 31, 1996, HI Energy's investments in these projects amounted to approximately $567 million. In May 1996, HI Energy purchased for $45 million an additional interest in an Argentine utility. In May 1996, HI Energy also purchased for $392 million an 11.35 percent ownership interest in Light Servicos de Eletricidade S.A. (Light), an integrated electric power and distribution system that serves a portion of the state of Rio de Janeiro, Brazil, including the City of Rio de Janeiro.

During 1996, HI Energy satisfied its cash requirements primarily through equity contributions and intercompany borrowings from the Company. As of December 31, 1996, the balance of such intercompany borrowings was approximately $162 million. Following the Merger, Houston will become subject to limitations under the 1935 Act and applicable state regulations concerning the financing, directly or indirectly, of foreign utility company and EWG investments by a public utility. HI Energy intends to fund future cash requirements for foreign investments through non-recourse borrowings, dividends from its investments, equity contributions and permitted intercompany borrowings.

For additional information regarding HI Energy, see "--Results of Operations--Earnings--The Company " above and the discussion of non-regulated electric power project expenditures and advances contained in "--Liquidity and Capital Resources--Overview " below and Note 4 to the Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

The liquidity and capital requirements of the Company and its subsidiaries are affected primarily by capital programs and debt service requirements. The capital requirements for 1996 were, and as estimated for 1997 through 1999 are, as follows:

	Millions of Dollars			
	1996	1997	1998	1999
Electric capital and nuclear fuel (excluding Allowance for Funds Used During Construction) (AFUDC) (1)	$ 315	$ 239	$ 253	$ 276
Non-regulated electric power project expenditures and advances (excluding capitalized interest) (2) ..	493	42		
Maturities of long-term debt, preferred stock and minimum capital lease payments	379	254	5	171
Total	$1,187	$ 535	$ 258	$ 447

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(1) During 1996, HL&P made a payment toward the purchase of its corporate headquarters building. Such payment is not reflected in the Company's electric capital and nuclear fuel expenditures because it is an intercompany transaction eliminated upon consolidation.

(2) Expenditures in the table reflect only expenditures made or to be made under existing contractual commitments entered into by HI Energy. Additional capital expenditures are dependent upon the nature and extent of future project commitments (some of which may be substantial) entered into by HI Energy. Expenditures for 1996 include a $392 million investment in Light, a Brazilian electric utility.

The foregoing estimates are based on numerous assumptions, some of which may prove to be incorrect. Actual liquidity and capital requirements will also vary because of changes in governmental regulations, the resolution of various litigation and other contingencies and changes in economic conditions.

COMPANY CONSOLIDATED CAPITAL REQUIREMENTS

The cash requirements of the Company and its subsidiaries stem primarily from operating expenses, capital expenditures, payment of common and HL&P's preferred stock dividends, and interest and principal payments on debt. In 1996, net cash provided by operating activities totaled $914 million. Investing activities resulted in a net outflow of $833 million, primarily due to construction and nuclear fuel expenditures, and additional investments in non-regulated foreign electric power projects. Financing activities for 1996 resulted in a net cash outflow of $85 million primarily due to open market purchases of common stock of the Company, the extinguishment of long-term debt, redemption of preferred stock and payment of common stock dividends offset by additional commercial paper borrowings.

During 1996, the Company purchased 16,042,027 shares of its common stock for an aggregate purchase price (including commissions) of $361 million. The purchases were financed with short-term borrowings. For additional information on the Company's stock repurchase program, see Note 5(c) to the Financial Statements.

In the fourth quarter of 1996, the Company repaid at maturity $200 million of its 7 1/4% debentures. The retirement was funded using proceeds from short-term borrowings.

HL&P CAPITAL REQUIREMENTS

Cash Requirements. HL&P's cash requirements stem primarily from operating expenses, capital expenditures, payment of common and preferred stock dividends, interest and principal payments on debt, and redemptions of preferred stock. In 1996, HL&P's net cash provided by operating activities totaled approximately $917 million, and net cash used in HL&P's investing activities totaled $395 million, including allowance for borrowed funds used during construction. HL&P's financing activities for 1996 resulted in a net cash outflow of $597 million. Included in these activities were the payment of dividends, the extinguishment of long-term debt, the redemption of preferred stock and the payment of matured bonds. For information with respect to these matters, see Notes 6 and 7(b) to the Financial Statements.

Capital Program. In 1996, HL&P's capital and nuclear fuel expenditures (excluding AFUDC) totaled approximately $383 million with estimated expenditures for 1997, 1998 and 1999 totaling $239 million, $253 million and $276 million, respectively. HL&P's capital programs for the next three years, which are expected to relate to costs for production, transmission, distribution and general plant, are subject to periodic review and may be revised at any time due to changes in load forecasts, regulatory and environmental standards, and other factors.

During the next three years, it is anticipated that HL&P will require approximately $430 million for repayment of maturing long-term debt, preferred stock subject to mandatory redemption and capital leases. These expenditures are anticipated to be $254 million in 1997, $5 million in 1998 and $171 million in 1999.

Environmental Expenditures. The Federal Clean Air Act (Clean Air Act) has required, and will continue to require, HL&P to increase its environmental expenditures. It is estimated that requirements under the Clean Air Act for modifications to existing facilities to reduce emissions of nitrogen oxides (NOx) may result in expenditures of $40 million through 1999. No significant expenditure is currently planned for the installation of continuous emissions monitoring systems for 1997; however, approximately $1 million was incurred for this equipment in 1996.

The Environmental Protection Agency (EPA) identified HL&P as a "potentially responsible party" (PRP) under the Comprehensive Environmental Response, Compensation, and Liability Act for the costs of cleaning up a site located adjacent to one of HL&P's transmission lines. HL&P believes that the EPA took this action solely on the basis of information indicating that HL&P in the 1950s acquired record title to a portion of the land on which the site is located. HL&P does not believe that it now nor previously has had any ownership interest in the land in question and has obtained a judgment from a court in Galveston County, Texas to that effect. Accordingly, HL&P has not complied with this order, even though HL&P understands that other responsible parties are proceeding with site remediation. To date, neither the EPA nor any other PRP has instituted a claim against HL&P for any share of the remediation costs, but under current law if HL&P is determined to be a responsible party, HL&P could be found to be jointly and severally liable for the remediation costs (which HL&P estimates to be approximately $80 million in the aggregate) and could be subjected to substantial fines and damage claims.

There exists the possibility that additional legislation related to global climate change, electromagnetic fields and other environmental and health issues may be enacted. Compliance with such legislation could significantly affect the Company and HL&P. The precise impact of new legislation, if any, will depend on the form of the legislation and the subsequent development and implementation of applicable regulations.

COMPANY--SOURCES OF CAPITAL RESOURCES AND LIQUIDITY

As of December 31, 1996, the Company had approximately $1.1 billion of commercial paper outstanding, supported by two bank credit facilities aggregating $1.5 billion (exclusive of bank credit facilities of subsidiaries). Rates paid by the Company on its short-term borrowings are generally lower than the prime rate.

The Merger. The cash portion of the Merger consideration (estimated to be approximately $1.25 billion) is expected to be funded through bank borrowings under new bank credit facilities (Bank Facilities) to be arranged by a newly-formed finance subsidiary of Houston (Borrower) with a group of commercial banks. As of the date hereof, the structure, terms and provisions of the Bank Facilities are being negotiated with prospective lenders and have not yet been finalized.

The Bank Facilities are expected to bear interest at a rate based upon either the London Interbank Offered Rate plus a margin or a base rate plus a margin or at a rate determined through a bidding process.

The borrowings may be secured by liens on or first priority security interests in assets, which may include (i) the shares of common stock of NorAm held by Houston or its affiliates after the Merger, (ii) the shares of common and preferred stock of Time Warner currently owned by the Company, (iii) the capital stock of subsidiaries of the Borrower and (iv) intercompany notes evidencing any loans made by the Borrower to Houston or its direct or indirect subsidiaries. The obligations under the Bank Facilities will not be secured by the utility properties of HL&P or NorAm.

In order to provide liquidity to the Borrower to meet its financial obligations, Houston may issue to the Borrower a new series of preference stock of Houston and/or enter into a support agreement under which it would agree to make cash contributions or advances to the Borrower from excess cash flow (with calculations, definitions and payment mechanics to be agreed upon). Houston may also agree to certain covenants, including certain limitations on the payment of dividends on or the repurchase of Houston common stock. The net proceeds of any disposition or monetization of the Time Warner stock may be used to prepay borrowings under the Bank Facilities, subject to a corresponding release by the banks of their security interest in the Time Warner stock to the extent of any such prepayment.

The Bank Facilities are also expected to contain customary covenants and default provisions applicable to the Borrower and its subsidiaries, including limitations on the ability of the Borrower and its subsidiaries to, among other things, incur additional indebtedness (other than certain permitted indebtedness), create liens and make investments or loans.

Other Sources of Capital. The Company has registered with the SEC 10 million shares of its common stock and $250 million principal amount of its debt securities, all of which securities remain unissued. Subject to market conditions, such securities could be sold to raise additional capital for the Company prior to the Merger. Proceeds from the sale of these securities can be used for general corporate purposes, including, but not limited to, the redemption, repayment or retirement of outstanding indebtedness of the Company or the advance or contribution of funds to one or more of the Company's subsidiaries to be used for their general corporate purposes, including, without limitation, the redemption, repayment or retirement of indebtedness or preferred stock. In connection with the Merger, the Company has registered with the SEC 315 million shares of common stock for issuance upon the consummation of the Merger.

The Company owns 1 million shares of common stock and 11 million shares of non-publicly traded convertible preferred stock of Time Warner. The Time Warner preferred stock, which is entitled to cumulative annual dividends of $3.75 per share until July 6, 1999, is currently convertible at the option of the Company into 22.9 million shares of Time Warner common stock. The Company reviews its investment in Time Warner on a regular basis and does not expect to maintain its investment in Time Warner indefinitely. For additional information regarding the Company's investment in Time Warner securities, see Notes 1(j) and 13 to the Financial Statements.

Money Fund. The Company has consolidated its financing activities in order to provide a coordinated, cost-effective method of meeting short- and long-term capital requirements. As part of the consolidated financing program, the Company has established a "money fund" through which its subsidiaries can borrow or invest on a short-term basis. The funding requirements of individual subsidiaries are aggregated and borrowing or investing is conducted by the Company based on the net cash position.

In 1996, net funding requirements under the money fund were met with borrowings under the Company's commercial paper program, except that HL&P's short-term borrowing requirements were generally met with HL&P's commercial paper program. In 1997, net funding requirements of the Company and HL&P are expected to be met with a combination of commercial paper and bank borrowings.

HL&P--SOURCES OF CAPITAL RESOURCES AND LIQUIDITY

HL&P expects to finance its 1997 through 1999 capital program with funds generated internally from operations. HL&P has registered with the SEC $230 million aggregate liquidation value of its preferred stock and $580 million aggregate principal amount of its debt securities that may be issued as first mortgage bonds. Subject to market conditions, these securities could be issued as another source of capital for HL&P. Proceeds from any sale of these securities are expected to be used for general corporate purposes including the purchase, redemption (to the extent permitted by the terms of the outstanding securities), repayment or retirement of outstanding indebtedness or preferred stock of HL&P. HL&P's existing registration statements will remain in effect after the Merger.

In 1996, HL&P's interim financing requirements were met with the issuance of commercial paper. At December 31, 1996, HL&P had a commercial paper program supported by a bank line of credit of $400 million. A temporary $346 million increase in the amount of the facility was in effect during a portion of the first quarter of 1997. At December 31, 1996, HL&P had approximately $235 million of commercial paper outstanding.

In the fourth quarter of 1996, HL&P redeemed at 100 percent of their liquidation value plus accrued dividends all four series of its variable term preferred stock having an aggregate liquidation price of $220 million. The redemption was funded using proceeds from short-term borrowings. In the first quarter of 1997, HL&P repaid at maturity $40 million aggregate principal amount of its 5 1/4% series first mortgage bonds and $150 million of its 7 5/8% series first mortgage bonds. HL&P is required to redeem the remaining $25.7 million of its $9.375 series preferred stock in April 1997. In January 1997, pollution control revenue bonds aggregating $118 million were issued on behalf of HL&P by the Brazos River Authority ($50 million) and the Matagorda County Navigation District Number One ($68 million). The new bonds bear a floating interest rate, and mature in 2018 and 2028, respectively. Proceeds from these issuances were used to redeem, at 102% of their aggregate principal amount, pollution control revenue bonds aggregating $118 million.

In February 1997, two Delaware business trusts established by HL&P issued capital securities and preferred securities aggregating $350 million. The trusts sold securities to the public ($100 million 8.257% capital securities and $250 million 8.125% preferred securities) and used the proceeds to purchase subordinated debentures from HL&P. Proceeds from the sale of the subordinated debentures were used by HL&P for general corporate purposes, including the repayment of short-term debt and the redemption of three series of cumulative preferred stock having an aggregate liquidation value of $125 million. For information regarding these securities, see Note 17(b) to the Financial Statements.

NEW ACCOUNTING ISSUES

The staff of the SEC has questioned certain current accounting practices of the electric utility industry regarding the recognition, measurement and classification of decommissioning costs for nuclear generating facilities recorded on the financial statements of electric utilities. In response to these questions, the Financial Accounting Standards Board (FASB) initiated a project entitled "Accounting for Certain Liabilities Related to Closure or Removal of Long-Lived Assets." Throughout 1995, the FASB reviewed the accounting for closure or removal obligations, including decommissioning of nuclear facilities. In February 1996, FASB issued an Exposure Draft communicating the results of this project. The Exposure Draft outlines the following: (i) the requirement of recognition of a liability based on the present value of the estimated future cash outflows that will be required to satisfy the closure or removal obligations, using a risk-free interest rate (U.S. Treasury securities), (ii) an equal amount capitalized as part of the costs of the related long-lived asset, depreciated over the life of the asset and (iii) recognition of a regulatory asset or liability under Statements of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," for differences in expenses recognized under this statement and amounts charged to customers in rate-regulated entities. HL&P believes that, while the proposed standard would also significantly increase disclosure requirements, it would have minimal impact on the Company's and HL&P's financial condition or results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME
(THOUSANDS OF DOLLARS)

	Year Ended December 31,		
	1996	1995	1994
REVENUES:			
Electric utility	$ 4,025,027	$ 3,680,297	$ 3,746,085
Other	70,250	48,974	6,488
Total	4,095,277	3,729,271	3,752,573
EXPENSES:			
Electric utility:			
Fuel	1,024,945	879,148	860,936
Purchased power	322,263	233,494	408,963
Operation and maintenance	888,699	866,170	828,748
Taxes other than income taxes	246,288	245,890	251,421
Depreciation and amortization	550,038	478,034	399,341
Other operating expenses	72,578	121,085	36,112
Total	3,104,811	2,823,821	2,785,521
OPERATING INCOME	990,466	905,450	967,052
OTHER INCOME (EXPENSE):			
Litigation settlements	(95,000)		
Allowance for other funds used during construction	4,124	7,760	4,115
Time Warner dividend income	41,610	20,132	
Interest income	6,246	9,774	6,628
Other - net	(12,392)	(19,821)	(4,787)
Total	(55,412)	17,845	5,956
INTEREST AND OTHER CHARGES:			
Interest on long-term debt	276,242	279,491	265,494
Other interest	33,738	21,586	25,076
Allowance for borrowed funds used during construction	(2,598)	(4,692)	(5,554)
Preferred dividends of subsidiary	22,563	29,955	33,583
Total	329,945	326,340	318,599
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	605,109	596,955	654,409
INCOME TAXES	200,165	199,555	230,424
INCOME FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	404,944	397,400	423,985
DISCONTINUED OPERATIONS (NET OF INCOME TAXES):			
Gain on sale of cable television subsidiary		708,124	
Loss from discontinued cable television operations			(16,524)
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	404,944	1,105,524	407,461
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS (NET OF INCOME TAXES OF $4,415)			(8,200)
NET INCOME	$ 404,944	$ 1,105,524	$ 399,261

(continued on next page)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

(CONTINUED)

	Year Ended December 31,		
	1996	1995	1994
EARNINGS PER COMMON SHARE:			
CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	$ 1.66	$ 1.60	$ 1.72
DISCONTINUED OPERATIONS:			
Gain on sale of cable television subsidiary		2.86	
Loss from discontinued cable television operations			(.07)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS			(.03)
EARNINGS PER COMMON SHARE	$ 1.66	$ 4.46	$ 1.62
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (000)	244,443	247,706	245,707

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED RETAINED EARNINGS
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	Year Ended December 31,		
	1996	1995	1994
Balance at Beginning of Year	$ 1,953,672	$ 1,221,221	$ 1,191,230
Add - Net Income	404,944	1,105,524	399,261
Total	2,358,616	2,326,745	1,590,491
Common Stock Dividends: 1996, $1.50; 1995, $1.50; 1994, $1.50 (per share)	(361,126)	(371,760)	(369,270)
Stock Dividend Distribution		(1,313)	
Balance at End of Year	$ 1,997,490	$ 1,953,672	$ 1,221,221

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)

ASSETS

	December 31, 1996	December 31, 1995
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric plant:		
Production	$ 7,495,244	$ 7,423,891
Transmission	934,086	927,027
Distribution	2,818,636	2,711,482
General	1,139,409	1,027,090
Construction work in progress	251,497	320,040
Nuclear fuel	241,001	217,604
Plant held for future use	48,631	48,631
Other property	86,969	105,624
Total	13,015,473	12,781,389
Less accumulated depreciation and amortization	4,259,050	3,916,540
Property, plant and equipment - net	8,756,423	8,864,849
CURRENT ASSETS:		
Cash and cash equivalents	8,001	11,779
Special deposits	10	433
Accounts receivable - net	36,277	39,635
Accrued unbilled revenues	77,853	59,017
Time Warner dividends receivable	10,313	10,313
Fuel stock	61,795	59,699
Materials and supplies, at average cost	130,380	138,007
Prepayments	19,291	18,562
Total current assets	343,920	337,445
OTHER ASSETS:		
Investment in Time Warner securities	1,027,500	1,027,875
Deferred plant costs - net	587,352	613,134
Fuel-related debits	84,435	
Deferred debits	306,473	311,758
Unamortized debt expense and premium on reacquired debt	153,823	161,788
Regulatory tax asset - net	362,310	228,587
Recoverable project costs - net	163,630	232,775
Equity investments in and advances to foreign and non-regulated affiliates - net	501,991	41,395
Total other assets	3,187,514	2,617,312
Total	$12,287,857	$11,819,606

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)

CAPITALIZATION AND LIABILITIES

	December 31, 1996	December 31, 1995
CAPITALIZATION (STATEMENTS ON FOLLOWING PAGES):		
Common stock equity	$ 3,827,961	$ 4,123,563
Preference stock, no par; authorized, 10,000,000 shares; none outstanding		
Cumulative preferred stock of subsidiary:		
Not subject to mandatory redemption	135,179	351,345
Subject to mandatory redemption		51,055
Total cumulative preferred stock	135,179	402,400
Long-term debt	3,025,650	3,338,422
Total capitalization	6,988,790	7,864,385
CURRENT LIABILITIES:		
Notes payable	1,337,872	6,300
Accounts payable	157,682	136,008
Taxes accrued	191,011	174,925
Interest accrued	67,707	79,380
Dividends declared	92,515	98,502
Accrued liabilities to municipalities	23,228	20,773
Customer deposits	53,633	61,582
Current portion of long-term debt and preferred stock	254,463	379,451
Other	66,010	58,664
Total current liabilities	2,244,121	1,015,585
DEFERRED CREDITS:		
Accumulated deferred income taxes	2,265,031	2,067,246
Unamortized investment tax credit	373,749	392,153
Fuel-related credits	74,639	122,063
Other	341,527	358,174
Total deferred credits	3,054,946	2,939,636
COMMITMENTS AND CONTINGENCIES		
Total	$12,287,857	$11,819,606

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITALIZATION
(THOUSANDS OF DOLLARS)

	December 31, 1996	December 31, 1995
COMMON STOCK EQUITY:		
Common stock, no par; authorized, 400,000,000 shares; issued, 262,748,447 and 262,672,468 shares at December 31, 1996 and 1995, respectively	$ 2,446,754	$ 2,441,790
Treasury Stock, at cost; 16,042,027 and 0 shares at December 31, 1996 and 1995, respectively	(361,196)	
Unearned ESOP shares, 13,370,939 and 14,355,758 shares at December 31, 1996 and 1995, respectively	(251,350)	(268,405)
Retained earnings	1,997,490	1,953,672
Unrealized loss on investment in Time Warner common stock	(3,737)	(3,494)
Total common stock equity	3,827,961	4,123,563
CUMULATIVE PREFERRED STOCK, no par; authorized, 10,000,000 shares; outstanding, 1,604,397 and 4,318,397 shares at December 31, 1996 and 1995, respectively (entitled upon involuntary liquidation to $100 per share):		
Houston Lighting & Power Company:		
Not subject to mandatory redemption:		
$4.00 series, 97,397 shares	9,740	9,740
$6.72 series, 250,000 shares	25,115	25,115
$7.52 series, 500,000 shares	50,226	50,226
$8.12 series, 500,000 shares	50,098	50,098
Series A - 1992, 500,000 shares		49,094
Series B - 1992, 500,000 shares		49,104
Series C - 1992, 600,000 shares		58,984
Series D - 1992, 600,000 shares		58,984
Total	135,179	351,345
Subject to mandatory redemption:		
$9.375 series, 257,000 and 771,000 shares at December 31, 1996 and 1995, respectively	25,700	76,755
Current redemptions	(25,700)	(25,700)
Total		51,055
Total cumulative preferred stock	135,179	402,400
LONG-TERM DEBT:		
Debentures:		
7 1/4% series, due 1996		200,000
9 3/8% series, due 2001	250,000	250,000
7 7/8% series, due 2002	100,000	100,000
Unamortized discount	(902)	(1,087)
Total debentures	349,098	548,913
Houston Lighting & Power Company:		
First mortgage bonds:		
5 1/4% series, due 1996		40,000
5 1/4% series, due 1997	40,000	40,000
7 5/8% series, due 1997	150,000	150,000
6 3/4% series, due 1997	35,000	35,000
6 3/4% series, due 1998		35,000
7 1/4% series, due 2001		50,000
9.15 % series, due 2021	160,000	160,000
8 3/4% series, due 2022	62,275	62,275
7 3/4% series, due 2023	250,000	250,000
7 1/2% series, due 2023	200,000	200,000

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HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITALIZATION
(THOUSANDS OF DOLLARS)

(CONTINUED)

	December 31, 1996	December 31, 1995
4.90 % pollution control series, due 2003	$ 16,600	$ 16,600
7 % pollution control series, due 2008	19,200	19,200
6 3/8% pollution control series, due 2012	33,470	33,470
6 3/8% pollution control series, due 2012	12,100	12,100
8 1/4% pollution control series, due 2015	90,000	90,000
5.80 % pollution control series, due 2015	91,945	91,945
7 3/4% pollution control series, due 2015	68,700	68,700
5.80 % pollution control series, due 2015	58,905	58,905
7 7/8% pollution control series, due 2016	68,000	68,000
6.70 % pollution control series, due 2017	43,820	43,820
5.60 % pollution control series, due 2017	83,565	83,565
7 7/8% pollution control series, due 2018	50,000	50,000
7.20 % pollution control series, due 2018	75,000	75,000
7.20 % pollution control series, due 2018	100,000	100,000
7 7/8% pollution control series, due 2019	29,685	29,685
7.70 % pollution control series, due 2019	75,000	75,000
8 1/4% pollution control series, due 2019	100,000	100,000
8.10 % pollution control series, due 2019	100,000	100,000
7 5/8% pollution control series, due 2019	100,000	100,000
7 1/8% pollution control series, due 2019	100,000	100,000
7.60 % pollution control series, due 2019	70,315	70,315
6.70 % pollution control series, due 2027	56,095	56,095
Medium-term notes series A, 9.80%-9.85%, due 1996-1999	170,500	180,500
Medium-term notes series B, 8 5/8%, due 1996		100,000
Medium-term notes series C, 6.10%, due 2000	150,000	150,000
Medium-term notes series B, 8.15%, due 2002	100,000	100,000
Medium-term notes series C, 6.50%, due 2003	150,000	150,000
Total first mortgage bonds	2,910,175	3,145,175
Pollution control revenue bonds:		
Gulf Coast 1980-T series, floating rate, due 1998	5,000	5,000
Total pollution control revenue bonds	5,000	5,000
Unamortized premium (discount) - net	(15,134)	(16,456)
Capitalized lease obligations, discount rates of 5.2%-11.7%, due 1996-2018	4,418	8,560
Notes payable	856	981
Subtotal	(9,860)	(6,915)
Total	2,905,315	3,143,260
Total	3,254,413	3,692,173
Current maturities	(228,763)	(353,751)
Total long-term debt	3,025,650	3,338,422
Total capitalization	$ 6,988,790	$ 7,864,385

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)

	Year Ended December 31, 1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income from continuing operations	$ 404,944	$ 397,400	$ 423,985
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	550,038	478,034	399,341
Amortization of nuclear fuel	33,875	28,545	21,561
Deferred income taxes	54,098	78,382	85,547
Investment tax credit	(18,404)	(19,427)	(19,416)
Allowance for other funds used during construction	(4,124)	(7,760)	(4,115)
Fuel refund		(189,571)	
Fuel cost over (under) recovery	(137,362)	76,970	277,940
Regulatory tax asset - net	10,096	6,876	11,300
Net cash provided by discontinued cable television operations		16,391	19,349
Changes in other assets and liabilities:			
Accounts receivable - net	(15,478)	(46,299)	(19,295)
Inventory	21,624	13,901	22,428
Other current assets	(306)	(14,900)	14,710
Accounts payable	21,674	(23,217)	(45,081)
Interest and taxes accrued	4,413	11,088	(17,979)
Other current liabilities	(4,135)	(9,215)	(5,102)
Other - net	(6,633)	47,697	40,099
Net cash provided by operating activities	914,320	844,895	1,205,272
CASH FLOWS FROM INVESTING ACTIVITIES:			
Electric capital and nuclear fuel expenditures (including allowance for borrowed funds used during construction)	(317,532)	(301,327)	(418,453)
Non-regulated electric power project expenditures and advances	(495,379)	(49,835)	(7,087)
Settlement of subsidiary debt in connection with sale of cable television subsidiary		619,345	
Corporate headquarters expenditures (including capitalized interest)	(6,543)	(96,469)	(46,829)
Net cash used in discontinued cable television operations		(47,601)	(84,071)
Other - net	(13,446)	(4,643)	(13,562)
Net cash provided by (used in) investing activities	(832,900)	119,470	(570,002)

(continued on next page)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS

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

(CONTINUED)

	Year Ended December 31, 1996	1995	1994
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of treasury stock	$ (361,196)		
Proceeds from first mortgage bonds		$ 142,972	
Payment of matured bonds	(150,000)		$ (19,500)
Payment of common stock dividends	(361,126)	(371,731)	(368,790)
Redemption of preferred stock	(271,400)	(91,400)	(20,000)
Increase (decrease) in notes payable-net	1,331,572	(416,991)	(168,094)
Extinguishment of long-term debt	(285,263)	(195,224)	
Net cash used in discontinued cable television operations		(40,798)	(68,184)
Other - net	12,215	10,143	4,857
Net cash used in financing activities	(85,198)	(963,029)	(639,711)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,778)	1,336	(4,441)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,779	10,443	14,884
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 8,001	$ 11,779	$ 10,443
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash Payments:			
Interest (net of amounts capitalized)	$ 311,792	$ 342,551	$ 366,548
Income taxes	139,898	104,228	174,657

See Notes to Consolidated Financial Statements.

HOUSTON LIGHTING & POWER COMPANY

STATEMENTS OF INCOME
(THOUSANDS OF DOLLARS)

	Year Ended December 31,		
	1996	1995	1994
OPERATING REVENUES	$ 4,025,027	$ 3,680,297	$ 3,746,085
OPERATING EXPENSES:			
Fuel	1,024,945	879,148	860,936
Purchased power	322,263	233,494	408,963
Operation	640,152	615,924	580,892
Maintenance	248,547	250,246	247,856
Depreciation and amortization	545,685	475,124	398,142
Federal income taxes	264,819	245,807	254,993
Other taxes	246,288	245,890	251,421
Total	3,292,699	2,945,633	3,003,203
OPERATING INCOME	732,328	734,664	742,882
OTHER INCOME (EXPENSE):			
Litigation settlements (net of tax)	(61,750)		
Allowance for other funds used during construction	4,124	7,760	4,115
Interest income	6,998	12,218	10,000
Other - net	(20,251)	(25,901)	(12,561)
Total	(70,879)	(5,923)	1,554
INCOME BEFORE INTEREST CHARGES	661,449	728,741	744,436
INTEREST CHARGES:			
Interest on long-term debt	221,865	244,384	246,533
Other interest	12,764	8,117	8,493
Allowance for borrowed funds used during construction	(2,598)	(4,692)	(5,554)
Total	232,031	247,809	249,472
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	429,418	480,932	494,964
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS (NET OF INCOME TAXES OF $4,415)			(8,200)
NET INCOME	429,418	480,932	486,764
DIVIDENDS ON PREFERRED STOCK	22,563	29,955	33,583
INCOME AFTER PREFERRED DIVIDENDS	$ 406,855	$ 450,977	$ 453,181

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY

STATEMENTS OF RETAINED EARNINGS
(THOUSANDS OF DOLLARS)

	Year Ended December 31,		
	1996	1995	1994
Balance at Beginning of Year .	$2,150,086	$2,153,109	$2,028,924
Add - Net Income	429,418	480,932	486,764
Total	2,579,504	2,634,041	2,515,688
Deduct - Cash Dividends:			
Preferred:			
$4.00 Series	389	389	390
$6.72 Series	1,680	1,680	1,680
$7.52 Series	3,760	3,760	3,760
$8.12 Series	4,060	4,060	4,060
Series A - 1992	2,030	2,324	1,740
Series B - 1992	2,066	2,322	1,683
Series C - 1992	2,648	2,823	2,040
Series D - 1992	2,316	2,747	2,075
$8.50 Series		1,417	4,108
$9.375 Series	3,614	8,433	12,047
Common	329,000	454,000	328,996
Total	351,563	483,955	362,579
Balance at End of Year	$2,227,941	$2,150,086	$2,153,109

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY

BALANCE SHEETS
(THOUSANDS OF DOLLARS)

ASSETS

	December 31, 1996	December 31, 1995
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric plant:		
Production	$ 7,495,244	$ 7,423,891
Transmission	934,086	927,027
Distribution	2,818,636	2,711,482
General	1,139,409	1,027,090
Construction work in progress	251,497	320,040
Nuclear fuel	241,001	217,604
Plant held for future use	48,631	48,631
Total	12,928,504	12,675,765
Less accumulated depreciation and amortization	4,252,745	3,906,139
Property, plant and equipment - net	8,675,759	8,769,626
CURRENT ASSETS:		
Cash and cash equivalents	643	75,851
Special deposits	10	433
Accounts receivable - affiliated companies	1,493	2,845
Accounts receivable - others	16,996	23,858
Accrued unbilled revenues	77,853	59,017
Fuel stock	61,795	59,699
Materials and supplies, at average cost	130,281	137,584
Prepayments	10,770	11,876
Total current assets	299,841	371,163
OTHER ASSETS:		
Deferred plant costs - net	587,352	613,134
Fuel-related debits	84,435	
Deferred debits	270,381	290,012
Unamortized debt expense and premium on reacquired debt	152,524	159,962
Regulatory tax asset - net	362,310	228,587
Recoverable project costs - net	163,630	232,775
Total other assets	1,620,632	1,524,470
Total	$10,596,232	$10,665,259

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY

BALANCE SHEETS
(THOUSANDS OF DOLLARS)

CAPITALIZATION AND LIABILITIES

	December 31, 1996	December 31, 1995
CAPITALIZATION (STATEMENTS ON FOLLOWING PAGES):		
Common stock equity	$ 3,903,868	$ 3,826,013
Cumulative preferred stock:		
Not subject to mandatory redemption	135,179	351,345
Subject to mandatory redemption		51,055
Long-term debt	2,676,552	2,989,509
Total capitalization	6,715,599	7,217,922
CURRENT LIABILITIES:		
Notes payable	234,665	
Notes payable to affiliated companies	19,600	
Accounts payable	142,439	119,032
Accounts payable to affiliated companies	5,744	6,982
Taxes accrued	196,444	192,673
Interest accrued	60,234	70,823
Accrued liabilities to municipalities	23,228	20,773
Customer deposits	53,633	61,582
Current portion of long-term debt and preferred stock	254,463	179,451
Other	62,046	54,149
Total current liabilities	1,052,496	705,465
DEFERRED CREDITS:		
Accumulated deferred federal income taxes	2,124,567	1,947,488
Unamortized investment tax credit	373,749	392,153
Fuel-related credits	74,639	122,063
Other	255,182	280,168
Total deferred credits	2,828,137	2,741,872
COMMITMENTS AND CONTINGENCIES		
Total	$10,596,232	$10,665,259

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY

STATEMENTS OF CAPITALIZATION
(THOUSANDS OF DOLLARS)

	December 31, 1996	December 31, 1995
COMMON STOCK EQUITY:		
Common stock, Class A; no par; authorized and outstanding, 1,000 shares, voting	$ 1,524,949	$ 1,524,949
Common stock, Class B; no par; authorized and outstanding, 100 shares, non-voting	150,978	150,978
Retained earnings	2,227,941	2,150,086
Total common stock equity	3,903,868	3,826,013
CUMULATIVE PREFERRED STOCK, no par; authorized, 10,000,000 shares; outstanding, 1,604,397 and 4,318,397 shares at December 31, 1996 and 1995, respectively (entitled upon involuntary liquidation to $100 per share):		
Not subject to mandatory redemption:		
$4.00 series, 97,397 shares	9,740	9,740
$6.72 series, 250,000 shares	25,115	25,115
$7.52 series, 500,000 shares	50,226	50,226
$8.12 series, 500,000 shares	50,098	50,098
Series A - 1992, 500,000 shares		49,094
Series B - 1992, 500,000 shares		49,104
Series C - 1992, 600,000 shares		58,984
Series D - 1992, 600,000 shares		58,984
Total	135,179	351,345
Subject to mandatory redemption:		
$9.375 series, 257,000 and 771,000 shares at December 31, 1996 and 1995, respectively	25,700	76,755
Current redemptions	(25,700)	(25,700)
Total		51,055
Total cumulative preferred stock	135,179	402,400
LONG-TERM DEBT:		
First mortgage bonds:		
5 1/4% series, due 1996		40,000
5 1/4% series, due 1997	40,000	40,000
6 3/4% series, due 1997	35,000	35,000
7 5/8% series, due 1997	150,000	150,000
6 3/4% series, due 1998		35,000
7 1/4% series, due 2001		50,000
9.15 % series, due 2021	160,000	160,000
8 3/4% series, due 2022	62,275	62,275
7 3/4% series, due 2023	250,000	250,000
7 1/2% series, due 2023	200,000	200,000
4.90 % pollution control series, due 2003	16,600	16,600
7 % pollution control series, due 2008	19,200	19,200
6 3/8% pollution control series, due 2012	33,470	33,470
6 3/8% pollution control series, due 2012	12,100	12,100
5.80 % pollution control series, due 2015	91,945	91,945
7 3/4% pollution control series, due 2015	68,700	68,700
8 1/4% pollution control series, due 2015	90,000	90,000
5.80 % pollution control series, due 2015	58,905	58,905
7 7/8% pollution control series, due 2016	68,000	68,000
6.70 % pollution control series, due 2017	43,820	43,820
5.60 % pollution control series, due 2017	83,565	83,565
7 7/8% pollution control series, due 2018	50,000	50,000
7.20 % pollution control series, due 2018	75,000	75,000
7.20 % pollution control series, due 2018	100,000	100,000

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HOUSTON LIGHTING & POWER COMPANY

STATEMENTS OF CAPITALIZATION
(THOUSANDS OF DOLLARS)

(CONTINUED)

	December 31, 1996	December 31, 1995
7.70 % pollution control series, due 2019	$ 75,000	$ 75,000
8 1/4% pollution control series, due 2019	100,000	100,000
8.10 % pollution control series, due 2019	100,000	100,000
7 7/8% pollution control series, due 2019	29,685	29,685
7.60 % pollution control series, due 2019	70,315	70,315
7 1/8% pollution control series, due 2019	100,000	100,000
7 5/8% pollution control series, due 2019	100,000	100,000
6.70 % pollution control series, due 2027	56,095	56,095
Medium-term notes series A, 9.80%-9.85%, due 1996-1999	170,500	180,500
Medium-term notes series B, 8 5/8%, due 1996		100,000
Medium-term notes series C, 6.10%, due 2000	150,000	150,000
Medium-term notes series B, 8.15%, due 2002	100,000	100,000
Medium-term notes series C, 6.50%, due 2003	150,000	150,000
Total first mortgage bonds	2,910,175	3,145,175
Pollution control revenue bonds:		
Gulf Coast 1980-T series, floating rate, due 1998	5,000	5,000
Total pollution control revenue bonds	5,000	5,000
Unamortized premium (discount) - net	(15,134)	(16,456)
Capitalized lease obligations, discount rates of 5.2%-11.7%, due 1996-2018	4,418	8,560
Notes payable	856	981
Subtotal	(9,860)	(6,915)
Total	2,905,315	3,143,260
Current maturities	(228,763)	(153,751)
Total long-term debt	2,676,552	2,989,509
Total capitalization	$ 6,715,599	$ 7,217,922

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY

STATEMENTS OF CASH FLOWS

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

	Year Ended December 31, 1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 429,418	$ 480,932	$ 486,764
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	545,685	475,124	398,142
Amortization of nuclear fuel	33,875	28,545	21,561
Deferred federal income taxes	33,261	71,188	81,739
Investment tax credits	(18,404)	(19,427)	(19,416)
Allowance for other funds used during construction	(4,124)	(7,760)	(4,115)
Fuel refund		(189,571)	
Fuel cost over (under) recovery	(137,362)	76,970	277,940
Cumulative effect of change in accounting for postemployment benefits			8,200
Regulatory tax asset - net	10,096	6,876	11,300
Changes in other assets and liabilities:			
Accounts receivable - net	(10,622)	(34,239)	(17,827)
Materials and supplies	23,397	17,227	20,604
Fuel stock	(2,096)	(2,988)	1,874
Accounts payable	22,169	(32,964)	(40,054)
Interest and taxes accrued	(6,818)	17,721	(6,980)
Other current liabilities	4,502	(7,816)	(4,936)
Other - net	(6,331)	(12,128)	12,115
Net cash provided by operating activities	916,646	867,690	1,226,911
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital and nuclear fuel expenditures (including allowance for borrowed funds used during construction)	(385,590)	(396,242)	(418,453)
Other - net	(9,100)	(10,618)	(15,822)
Net cash used in investing activities	(394,690)	(406,860)	(434,275)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from first mortgage bonds		142,972	
Payment of matured bonds	(150,000)		(19,500)
Payment of dividends	(353,663)	(485,793)	(363,083)
Increase (decrease) in notes payable - net	234,665		(171,100)
Increase in notes payable to affiliated company	19,600		
Redemption of preferred stock	(271,400)	(91,400)	(20,000)
Extinguishment of long-term debt	(85,263)	(195,224)	
Other - net	8,897	8,599	4,501
Net cash used in financing activities	(597,164)	(620,846)	(569,182)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(75,208)	(160,016)	223,454
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	75,851	235,867	12,413
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 643	$ 75,851	$ 235,867

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

	1996	1995	1994
Cash Payments:			
Interest (net of amounts capitalized)	$ 234,003	$ 250,951	$ 253,918
Income taxes	201,986	157,400	196,655

See Notes to Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE YEARS ENDED DECEMBER 31, 1996

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of the Company and its wholly owned and majority owned subsidiaries. Certain investments in joint ventures or other entities in which the Company or its subsidiaries have a 50 percent or less interest are recorded using the equity method or the cost method. For additional information regarding investments and advances, see Notes 1(j) and 4.

All significant intercompany transactions and balances are eliminated in consolidation.

(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, 1996 (Millions of Dollars)
Deferred plant costs - net	$ 587
Malakoff and Trinity mine investments	164
Regulatory tax asset - net	362
Unamortized loss on reacquired debt	116
Deferred debits	102
Unamortized investment tax credit	(374)
Accumulated deferred income taxes-regulatory tax asset	(101)

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 Nos. 71, 101 (Accounting for the Discontinuation of Application of SFAS No. 71) and 121 (Accounting for the Impairment of Long- Lived Assets and for Long-Lived Assets to be Disposed of) 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.

(c) ELECTRIC PLANT. HL&P capitalizes at cost all additions to electric plant, betterments to existing property and replacements of units of property. Cost includes the original cost of contracted services, direct labor and material, indirect charges for engineering supervision and similar overhead items and AFUDC. AFUDC represents the estimated debt and equity cost of funds used to finance construction. Customer payments for construction reduce additions to electric plant.

HL&P computes depreciation using the straight-line method. The depreciation provision as a percentage of the depreciable cost of plant was 3.2 percent for 1994 through 1996.

(d) DEFERRED PLANT COSTS. Under a "deferred accounting" plan authorized by the Utility Commission, HL&P was permitted for regulatory purposes to accrue carrying costs in the form of AFUDC on its investment in the South Texas Project and defer and capitalize depreciation and other operating costs on its investment after commercial operation until such costs were reflected in rates. In addition, the Utility Commission authorized HL&P under a "qualified phase-in plan" to capitalize allowable costs (including return) deferred for future recovery as deferred charges.

In 1991, HL&P ceased all cost deferrals related to the South Texas Project and began amortizing such amounts on a straight-line basis. The accumulated deferrals for "deferred accounting" are being amortized over the estimated depreciable life of the South Texas Project. The accumulated deferrals for the "qualified phase-in plan" are being amortized over a ten-year phase-in period that commenced in 1991. The amortization of all deferred plant costs (which totaled $25.8 million for each of the years 1996, 1995 and 1994) is included on the Company's Statements of Consolidated Income and HL&P's Statements of Income as depreciation and amortization expense.

(e) REVENUES. HL&P records electricity sales under the full accrual method, whereby unbilled electricity sales are estimated and recorded each month. Other revenues include electricity sales of a majority owned foreign electric utility, which are also recorded under the full accrual method and the Company's equity income in unconsolidated investments of HI Energy. Also included in other revenues are management fees and other sales and services, which are recorded when earned.

(f) INCOME TAXES. The Company and its subsidiaries file a consolidated federal income tax return. The Company follows a policy of comprehensive interperiod income tax allocation. Investment tax credits were deferred and are being amortized over the estimated lives of the related property.

(g) EARNINGS PER COMMON SHARE. 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. All earnings per common share amounts reflect the two-for-one common stock split effected in the form of a stock distribution on December 9, 1995.

(h) STATEMENTS OF CONSOLIDATED CASH FLOWS. For purposes of reporting cash flows, cash equivalents are considered to be short-term, highly liquid investments readily convertible to cash.

(i) DISCONTINUED OPERATIONS. In July 1995, the Company sold KBLCOM, its cable television subsidiary. The operations of KBLCOM are reflected as discontinued operations for all periods presented. See Note 13.

(j) INVESTMENTS IN DEBT AND EQUITY SECURITIES. The Company owns one million shares of Time Warner common stock and 11 million shares of non-publicly traded Time Warner convertible preferred stock. The Company has recorded its investment in these securities at a combined value of approximately $1 billion on the Company's Consolidated Balance Sheets. Investment in the Time Warner common stock is considered an "available-for-sale" equity security under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Consequently, the Company excludes unrealized net changes in the fair value of Time Warner common stock (exclusive of dividends and write downs) from earnings and, until realized, reports such changes as a net amount in the shareholders' equity section of the Company's Consolidated Balance Sheets. Investment in the Time Warner convertible preferred stock (which is not subject to the requirements of SFAS No. 115, since it is a non-publicly traded equity security) is accounted for under the cost method.

The securities held in the Company's nuclear decommissioning trust are classified as "available-for-sale" and, in accordance with SFAS No. 115, are reported at estimated fair value of $67 million as of December 31, 1996 and $44.5 million as of December 31, 1995 on the Company's Consolidated and HL&P's Balance Sheets under deferred debits. The liability for nuclear decommissioning is reported on the Company's Consolidated and HL&P's Balance Sheets under deferred credits. Any unrealized gains or losses are accounted for in accordance with SFAS No. 71 as a regulatory asset/liability and reported on the Company's Consolidated and HL&P's Balance Sheets as a deferred debit.

(k) FUEL STOCK. Gas inventory (at average cost) was $19.6 million at December 31, 1996. Coal, lignite, and oil inventory balances (using last-in, first-out) were $27.3 million, $11.8 million and $3.0 million, respectively.

(l) DEPRECIATION. The Company and HL&P compute depreciation using the straight-line method. The Company's depreciation expense for 1996 was $360 million compared to $349 million and $338 million for 1995 and 1994, respectively. HL&P's depreciation expense for 1996 was $358 million compared to $347 million and $338 million for 1995 and 1994, respectively.

(m) RECLASSIFICATION. Certain amounts from the previous years have been reclassified to conform to the 1996 presentation of financial statements. Such reclassifications do not affect earnings.

(n) NATURE OF OPERATIONS. The Company is a holding company operating principally in the electric utility business. HL&P is engaged in the generation, transmission, distribution and sale of electric energy. HL&P's service area covers a 5,000 square mile area in the Texas Gulf Coast, including Houston. Another subsidiary of the Company, HI Energy, participates in domestic and foreign power generation projects and invests in the privatization of foreign electric utilities. The business and operations of HL&P account for substantially all of the Company's income from continuing operations and common stock equity. For a description of the Merger, see Note 16 to the Financial Statements.

(o) USE OF ESTIMATES. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) LONG-LIVED ASSETS. Effective January 1, 1996, the Company and HL&P adopted SFAS No. 121. SFAS No. 121 requires that long-lived assets and certain identifiable intangibles to be held and used or disposed of by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company and HL&P have determined that no impairment loss need be recognized for applicable assets of continuing operations as of December 31, 1996. This conclusion, however, may change in the future as competition influences wholesale and retail pricing in the electric utility industry.

(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 MW 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, 1996, HL&P's investment in the South Texas Project was $2.0 billion (net of $503 million accumulated depreciation). HL&P's investment in nuclear fuel (including AFUDC) was $65 million (net of $176 million amortization) as of such date.

(b) REGULATORY PROCEEDINGS AND LITIGATION. All litigation and arbitration claims formerly pending between HL&P and the other co-owners of the South Texas Project have been settled and dismissed with prejudice.

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. 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.

In July 1996, HL&P and the City of San Antonio, acting through the City Public Service Board of San Antonio (CPS), entered into a settlement agreement providing, among other things, for (i) the dismissal with prejudice of all pending arbitration claims and lawsuits between HL&P and CPS relating to the South Texas Project, (ii) a cash payment by HL&P to CPS of $75 million, (iii) an agreement to support formation of a new operating company to replace HL&P as project manager for the South Texas Project and (iv) 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 entered into between CPS and HL&P, HL&P guarantees CPS minimum annual savings of $10 million and 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 operating agreement. In 1996, savings generated for CPS' account for a partial year of joint operations were approximately $14 million.

The operating company (OPCO) which is being formed to replace HL&P as project manager of the South Texas Project will be a Texas non-profit corporation. Regulatory and governmental approvals are being sought for the implementation of OPCO. Once this process is completed, HL&P's employees working at the South Texas Project will become employees of OPCO and OPCO will assume responsibility for managing the South Texas Project. Oversight will be provided by an Owners' Committee and OPCO's board of directors, under the direction of directors appointed by each of the co-owners.

In 1996, the capability factor at the South Texas Project improved to 93.9 percent from 87.7 percent in 1995 (the 1995 median capability factor for U.S. nuclear facilities was 75.9 percent).

In 1996, the Nuclear Regulatory Commission (NRC) graded the South Texas Project "superior" in the areas of maintenance and support and "good" in areas of operations and engineering in the NRC's most recent Systematic Assessment of Licensees Performance. Between June 1993 and February 1995, the South Texas Project had been listed on the NRC's "watch list" of plants with weaknesses that warrant increased NRC regulatory attention.

(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 1996), HL&P and the other owners of the South Texas Project are subject to assessments, the maximum aggregate assessment under current policies being $14.8 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 of owners of nuclear power plants, such as the South Texas Project, was $8.92 billion as of December 1996. 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 currently 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.

(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.

The Rate Case Settlement gives HL&P the option to write down up to $50 million per year of its investment in the South Texas Project through December 31, 1999, which write-downs will be treated under the terms of the Rate Case Settlement as reasonable and necessary expenses for purposes of reviews of HL&P's earnings and any rate review proceeding initiated against HL&P. In both 1995 and 1996, HL&P recorded a $50 million pre-tax write down of its investment in the South Texas Project as amortization expense. In 1996, HL&P also amortized $50 million (pre-tax) of its $153 million investment in certain lignite reserves associated with a canceled generating station. In accordance with the settlement, HL&P's remaining investment in the canceled generating station and certain lignite reserves ($164 million at December 31, 1996) will be amortized fully no later than December 31, 2002.

(b) RATE CASE APPEALS. The only HL&P rate order currently under appeal is Docket No. 6668 (the Utility Commission's inquiry into the prudence of the planning and construction of the South Texas Project). 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.

In June 1996, the Supreme Court of Texas unanimously upheld the decision of the Utility Commission in Docket No. 8425 (HL&P's 1988 rate case) to include in HL&P's rate base $93 million in construction costs relating to the canceled generating station. The Supreme Court also affirmed the Utility Commission's decision granting deferred accounting treatment for Unit No. 2 of the South Texas Project and the calculation of HL&P's federal income tax expenses without taking into account deductions for expenses paid by the Company's shareholders. As a result of this decision, HL&P's 1988 rate case has now become final.

(4) INVESTMENTS OF HI ENERGY

(a) GENERAL. HI Energy, a wholly owned subsidiary of the Company formed in 1993, participates primarily in the development and acquisition of foreign independent power projects and the privatization of foreign generating and distribution companies. The Company generally accounts for affiliate investments of HI Energy under the equity method of accounting where: (i) HI Energy's ownership interest in the affiliate ranges from 20 percent to 50 percent or (ii) HI Energy exercises significant influence over operating and financial policies of such affiliate. The Company's proportionate share of the equity in net income/(loss) in these affiliates for the years ended December 31, 1996, 1995 and 1994 was $17.0 million, $0.5 million and $(1.6) million, respectively. These amounts are included on the Company's Statement of Consolidated Income as "Other Revenues." The Company's equity investments in and advances to foreign and non-regulated affiliates at December 31, 1996 and 1995 were $502 million and $41 million, respectively.

(b) FOREIGN INVESTMENTS. In May 1996, a subsidiary of HI Energy acquired 11.35 percent of the common shares of Light, a publicly held Brazilian corporation, for $392 million. Light is the operator under a 30-year concession agreement of an integrated electric power and distribution system that serves a portion of the state of Rio de Janeiro, Brazil, including the city of Rio de Janeiro. HI Energy acquired the shares as a bidder in the government-sponsored auction of 60 percent of Light's outstanding shares. Subsequent to the auction, the winning bidders, including a subsidiary of HI Energy, formed a consortium whose aggregate ownership interest of 50.44 percent represents a controlling interest in Light.

The Company has accounted for this transaction under purchase accounting and has recorded its investment and its interest in Light's operations after June 1, 1996, using the equity method. The purchase price was allocated on the basis of the estimated fair market value of the assets acquired and the liabilities assumed as of the date of acquisition.

A subsidiary of HI Energy has entered into a $167.5 million loan agreement in order to refinance a portion of the acquisition costs of Light. The full proceeds of the loan, net of a $17.5 million debt reserve account to be established for the benefit of the lenders, will not be funded until the satisfaction of various conditions precedent, including the obtaining of political risk insurance. The loan is non-recourse to the Company and HL&P. The loan is secured by, among other things, a pledge of the shares of Light and a subsidiary of HI Energy that is the indirect holder of the shares of Light.

In addition to the investment in Brazil, HI Energy had total equity investments in and advances to affiliates in Argentina of $81 million and $36 million at December 31, 1996 and 1995, respectively, representing a 49 percent interest in the capital stock of an electric utility operating in the Province of Buenos Aires. In addition, HI Energy owns a 90 percent ownership interest in an Argentine electric utility distribution system and is constructing a 160 MW cogeneration facility in San Nicolas, Argentina. HI Energy's investment in these projects was approximately $68 million and $22 million at December 31, 1996 and 1995, respectively.

HI Energy also owns a 36 percent interest in a coke calcining and power generation facility in India with an investment of approximately $8 million and $5 million at December 31, 1996 and December 31, 1995, respectively.

(c) VALUATION ALLOWANCE. In 1995, the Company recorded a $28 million valuation allowance (resulting in an $18 million after-tax charge in that year) with respect to two waste tire-to-energy projects that were being developed in reliance on the terms of a state subsidy intended to encourage development of energy production facilities for the disposal of solid waste. In March 1996, the subsidy was repealed. In 1996, the Company recorded an additional valuation allowance of $7 million with respect to these projects, which resulted in a $5 million after-tax charge to 1996 earnings.

The valuation allowance reflects the combined amounts lent to the projects on a subordinated basis by HI Energy. HI Energy also is a party to two separate note purchase agreements committing it, under certain circumstances, to lend up to an additional $16 million. The Company has entered into a support agreement to enable HI Energy to honor its obligation under these note purchase agreements. In the Company's opinion, it is unlikely that additional loans would be required to be made under the note purchase agreements, unless construction activities with respect to these projects were recommenced at some future date. In March 1996, a subsidiary of HI Energy purchased from a senior lending bank all notes relating to one of the projects (approximately $4.1 million). As a consequence, HI Energy has discretion over when, if ever, the construction activities for this project will reconvene and in turn control over future obligations of HI Energy to acquire additional subordinated notes for this project.

(5) COMMON STOCK

(a) DISTRIBUTION AND DIVIDENDS. The Company effected a two-for-one stock split in the form of a common stock distribution on December 9, 1995. All prior periods have been restated for consistency to reflect the stock distribution in terms of the number of common shares outstanding and the per share amounts for earnings, dividends and market price. The nominal consideration established by the Board of Directors for the common stock distributed ($.01 per share) is reflected as a deduction from retained earnings in the Company's Statements of Consolidated Retained Earnings.

In 1996, the Company paid four regular quarterly dividends aggregating $1.50 per share on its common stock pursuant to dividend declarations made in December 1995, March 1996, June 1996, and September 1996. In December 1996, the Company declared its regular quarterly dividend of $0.375 per share to be paid in March 1997. Dividends paid have been included in common stock dividends on the Company's Statements of Consolidated Cash Flows. Dividends declared are included in common stock dividends on the Company's Statements of Consolidated Retained Earnings.

(b) LONG-TERM INCENTIVE COMPENSATION PLANS. The Company has Long-Term Incentive Compensation Plans (LICP) providing for the issuance of stock incentives (including performance-based restricted shares and stock options) to key employees of the Company, including officers. As of December 31, 1996, 27 current and former employees participated in the plans. A maximum of five million shares of common stock may be issued under the LICP. Beginning one year after the grant date, the options become exercisable in one-third increments each year. The options expire ten years from the grant date.

Performance-based restricted shares issued were 69,905, 49,792 and 100,524 for 1996, 1995 and 1994, respectively. Stock option activity for the years 1994 through 1996 is summarized below:

	Number of Shares	Option Price at Date of Grant or Exercise
Outstanding at December 31, 1993	251,898	$ 23.25
Options Granted	131,452	
Options Canceled	(80,772)	
Outstanding at December 31, 1994	302,578	
Options Granted	133,324	$ 17.75; $21.25
Options Canceled	(24,560)	
Outstanding at December 31, 1995	411,342	
Options Granted	101,798	$ 24.375
Options Exercised	(574)	$ 17.75
Options Withheld for Taxes	(90)	
Options Canceled	(13,824)	
Outstanding at December 31, 1996	498,652	
Exercisable at:		
December 31, 1996	280,270	$ 17.75-23.25
December 31, 1995	181,924	$ 21.75-23.25
December 31, 1994	107,664	$ 21.75-23.125

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 and HL&P will continue to apply the existing rules contained in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and disclose the required pro forma effect on net income and earnings per share of the fair value based method of accounting for stock compensation as required by SFAS No. 123.

The following pro forma summary of the Company's consolidated results of operations have been prepared as if the fair value based method of accounting for employee stock compensation as required by SFAS No. 123 had been applied:

		Year Ended December 31, 1996	Year Ended December 31, 1995
		(Thousands of Dollars)	
Net income as reported		$ 404,944	$ 1,105,524
SFAS 123 adjustment		(1,098)	(244)
Pro forma net income		$ 403,846	$ 1,105,280
Earnings per Common Share	As Reported	$ 1.66	$ 4.46
	Pro forma	$ 1.65	$ 4.46

(c) REPURCHASE PROGRAM. The Company repurchased a total of 16,042,027 shares of common stock in 1996 for an aggregate purchase price of approximately $361 million. The Company's Board of Directors has authorized additional stock purchases of approximately $89 million. Additional repurchases of common stock are subject to the discretion of management, market conditions, applicable legal requirements, available cash and other factors.

(d) SHAREHOLDER RIGHTS PLAN. In July 1990, the Company adopted a shareholder rights plan and declared a dividend of one right for each outstanding share of the Company's common stock (including shares of common stock issued in the Company's 1995 two-for-one stock split). The rights, which under certain circumstances entitle their holders to purchase one two-hundredth of a share of Series A Preference Stock for an exercise price of $42.50, will expire on July 11, 2000. The rights will become exercisable only if a person or entity acquires 20 percent or more of the Company's outstanding common stock or if a person or entity commences a tender offer or exchange offer for 20 percent or more of the outstanding common stock. At any time after the occurrence of such events, the Company may exchange unexercised rights at an exchange ratio of one share of common stock, or equity securities of the Company of equivalent value, per right. The rights are redeemable by the Company for $.01 per right at any time prior to the date the rights become exercisable.

When the rights become exercisable, each right will entitle the holder to receive, in lieu of the right to purchase Series A Preference Stock, upon the exercise of such right, a number of shares of the Company's common stock (or under certain circumstances cash, property, other equity securities or debt of the Company) having a current market price (as defined in the plan) equal to twice the exercise price of the right, except pursuant to an offer for all outstanding shares of common stock which a majority of the independent directors of the Company determines to be a price which is in the best interests of the Company and its shareholders (Permitted Offer).

In the event that the Company is a party to a merger or other business combination (other than a merger that follows a Permitted Offer), rights holders will be entitled to receive, upon the exercise of a right, a number of shares of common stock of the acquiring company having a current market price (as defined in the plan) equal to twice the exercise price of the right.

(6) PREFERRED STOCK OF HL&P

The following table sets forth, at December 31, 1996, the per share redemption prices of HL&P's outstanding cumulative preferred stock. The per share redemption prices do not include accrued dividends upon the date of redemption.

Series	Redemption Price Per Share
Not Subject to Mandatory Redemption:	
$4.00	$ 105.00
$6.72	102.51
$7.52	102.35
$8.12	102.25
Subject to Mandatory Redemption:	
$9.375 (a)	--

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(a) HL&P is required to redeem all remaining 257,000 outstanding shares of $9.375 cumulative preferred stock at $100 per share (plus accrued dividends) in April 1997.

In 1996, HL&P redeemed 514,000 of its $9.375 cumulative preferred stock at $100 per share. The redemption included 257,000 shares in satisfaction of mandatory sinking fund requirements and an additional 257,000 shares as an optional redemption. In 1996, HL&P redeemed all issued and outstanding shares of its Variable Term Preferred Stock at a redemption price of $100 per share plus accrued dividends as follows:

Series	Number of Shares	Redemption Date
A	500,000	12/11/96
B	500,000	12/18/96
C	600,000	12/26/96
D	600,000	12/27/96

For information with respect to the redemption in 1997 of three series of preferred stock and the related issuances of trust securities, see Note 17(b). In 1995, HL&P redeemed 514,000 shares of its $9.375 cumulative preferred stock at $100 per share and the remaining 400,000 shares of its $8.50 cumulative preferred stock at $100 per share. In 1994, HL&P redeemed 200,000 shares of its $8.50 cumulative preferred stock at $100 per share.

(7) LONG-TERM DEBT

(a) COMPANY. In December 1996, the Company repaid at maturity $200 million aggregate principal amount of its outstanding 7 1/4% debentures using short-term borrowings under its existing credit facilities. Consolidated annual maturities of long-term debt and minimum capital lease payments for the Company are approximately $254 million in 1997, $5 million in 1998, $171 million in 1999, $150 million in 2000 and $250 million in 2001.

(b) HL&P. Sinking or improvement fund requirements of HL&P's first mortgage bonds outstanding will be approximately $37 million for each of the years 1997 through 2001. Of such requirements, approximately $35 million for each of the years 1997 through 2001 may be satisfied by certification of property additions at 100 percent of the requirements, and the remainder through certification of such property additions at 166 2/3 percent of the requirements. Sinking or improvement fund requirements for 1996 and prior years have been satisfied by certification of property additions.

HL&P has agreed to expend an amount each year for replacements and improvements in respect of its depreciable mortgaged utility property equal to $1,450,000 plus 2 1/2 percent of net additions to such mortgaged property made after March 31, 1948 and before July 1 of the preceding year. Such requirement may be met with cash, first mortgage bonds, gross property additions or expenditures for repairs or replacements, or by taking credit for property additions at 100 percent of the requirements. With respect to first mortgage bonds of a series subject to special redemption, HL&P has the option to use deposited cash to redeem first mortgage bonds of such series at the applicable special redemption price. The replacement fund requirement to be satisfied in 1997 is approximately $305 million.

The amount of HL&P's first mortgage bonds is unlimited as to issuance, but limited by property, earnings and other provisions of the Mortgage and Deed of Trust dated as of November 1, 1944, between HL&P and South Texas Commercial National Bank of Houston (Texas Commerce Bank National Association, as Successor Trustee) and the supplemental indentures thereto. Substantially all properties of HL&P are subject to liens securing HL&P's long-term debt under the mortgage.

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 April 1996, HL&P repaid upon maturity $40 million principal amount of its 5 1/4% first mortgage bonds plus accrued interest. In May 1996, HL&P redeemed $50 million of its 7 1/4% first mortgage bonds due February 1, 2001 at a redemption price of 100.42%, plus accrued interest, and $35 million of its 6 3/4% first mortgage bonds due April 1, 1998 at a redemption price of 100.15%, plus accrued interest. HL&P's annual maturities of long-term debt and the present value of minimum capital lease payments are approximately $228 million in 1997, $5 million in 1998, $171 million in 1999, $150 million in 2000, and $0.1 million in 2001.

(8) SHORT-TERM FINANCING

The interim financing requirements of the Company and its subsidiaries are met through short-term bank loans, the issuance of commercial paper and short-term advances from the Company. The Company and its subsidiaries had bank credit facilities aggregating $1.9 billion at December 31, 1996 and $1.5 billion at December 31, 1995, under which borrowings are classified as short-term indebtedness. These bank facilities limit total short-term borrowings and provide for interest at rates generally less than the prime rate. The Company's weighted average short-term borrowing rates for commercial paper for the years ended December 31, 1996 and 1995 were 5.67% and 6.33%, respectively. Outstanding commercial paper of the Company and its subsidiaries was $1.3 billion at December 31, 1996 and $6 million at December 31, 1995. Facility fees are required on the credit facilities.

(9) RETIREMENT PLANS

(a) PENSION. The Company has a noncontributory retirement plan covering substantially all employees. The plan provides retirement benefits based on years of service and compensation. The Company's funding policy is to contribute amounts annually in accordance with applicable regulations in order to achieve adequate funding of projected benefit obligations. The assets of the plan consist principally of common stocks and high-quality, interest-bearing obligations.

Net pension cost for the Company attributable to continuing operations includes the following components:

	Year Ended December 31, 1996	1995	1994
	(Thousands of Dollars)		
Service cost - benefits earned during the period	$ 24,392	$ 22,852	$ 21,977
Interest cost on projected benefit obligation	51,560	49,317	46,091
Actual (return) loss on plan assets	(75,326)	(96,004)	5,357
Net amortization and deferrals	17,514	50,889	(51,491)
Net pension cost	18,140	27,054	21,934
SFAS No. 88 - curtailment expense	12,871	5,645	
Total pension cost	$ 31,011	$ 32,699	$ 21,934

The funded status of the Company's retirement plans attributable to continuing operations was as follows:

	December 31, 1996	1995
	(Thousands of Dollars)	
Actuarial present value of:		
Vested benefit obligation	$ 542,714	$ 504,655
Accumulated benefit obligation	$ 578,786	$ 541,278
Plan assets at fair value	$ 675,401	$ 595,192
Projected benefit obligation	756,597	704,871
Assets less than projected benefit obligation	(81,196)	(109,679)
Unrecognized transitional asset	(11,502)	(13,421)
Unrecognized prior service cost	31,154	46,627
Unrecognized net loss	19,405	22,522
Accrued pension cost	$ (42,139)	$ (53,951)

Net pension cost and funding attributable to discontinued operations was not material.

The projected benefit obligation was determined using an assumed discount rate of 7.25 percent in 1996 and 7.5 percent in 1995. A long-term annual rate of compensation increase ranging from 4 percent to 6 percent was assumed for both 1996 and 1995. The assumed long-term rate of return on plan assets was 9.5 percent in 1996 and 1995. The transitional asset at January 1, 1986, is being recognized over approximately 17 years, and the prior service cost is being recognized over approximately 15 years.

In 1995, the Company offered eligible employees (excluding officers) of the Company, HL&P and HI Energy, who were 55 years of age or older and had at least 10 years of service as of July 31, 1995, an incentive program to retire early. For employees electing early retirement, the program added five years of service credit and five years in age up to 35 years of service and age 65, respectively, in determining an employee's pension. Each participating employee (under age 62) would also receive a supplemental benefit to age 62. During July 1995, the early retirement incentive was accepted by approximately 300 employees.

Pension benefits and supplemental benefits (if applicable) are being paid out from the Houston Industries Incorporated Retirement Trust. Based on the projected costs associated with the program, HL&P increased its retirement plan and supplemental benefits in 1995 by approximately $28 million and $5 million, respectively. Pursuant to SFAS No. 71, HL&P deferred the costs associated with the increases in these benefit obligations and is amortizing the costs through the period ending December 31, 1997. In 1996 and 1995, the Company and HL&P amortized $12.9 million and $5.6 million, respectively, of those costs as a curtailment under SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," with regards to the Company's and HL&P's early retirement program.

(b) SAVINGS PLAN. The Company has an employee savings plan that qualifies as cash or deferred arrangements under Section 401(k) of the Internal Revenue Code of 1986, as amended (IRC). Under the plan, participating employees may contribute a portion of their compensation, pretax or after-tax, up to a maximum of 16 percent of compensation limited by an annual deferral limit ($9,500 for calendar year 1996) prescribed by IRC Section 402(g) and the IRC Section 415 annual additions limits. The Company matches 70 percent of the first 6 percent of each employee's compensation contributed, subject to a vesting schedule which entitles the employee to a percentage of the matching contributions depending on years of service. Substantially all of the Company's match is invested in the Company's common stock.

In October 1990, the Company amended its savings plan to add a leveraged Employee Stock Ownership Plan (ESOP) component. The Company may use ESOP shares to satisfy its obligation to make matching contributions under the savings plan. Debt service on the ESOP loan is paid using all dividends on shares in the ESOP, interest earnings on funds held in the ESOP and cash contributions by the Company. Shares of the Company's common stock are released from the encumbrance of the ESOP loan based on the proportion of debt service paid during the period.

The Company adopted Statement of Position (SOP) 93-6, effective January 1, 1994, which requires that the Company recognize benefit expense for the ESOP equal to the fair value of the ESOP shares committed to be released. In accordance with SOP 93-6, the Company credits to unearned ESOP shares the original purchase price of ESOP shares committed to be released to plan participants with the difference between the fair value of the shares and the original purchase price recorded to common stock. Dividends on allocated ESOP shares are recorded as a reduction to retained earnings; dividends on unallocated ESOP shares are recorded as a reduction of debt or accrued interest on the ESOP loan. SOP 93-6 is effective only with respect to financial statements for periods after January 1, 1994.

The Company's savings plan benefit expense attributable to continuing operations was $16.0 million, $18.9 million and $17.0 million in 1996, 1995 and 1994, respectively. HL&P's portion of the savings plan benefit expense was $15.3 million, $18.3 million and $16.5 million in 1996, 1995 and 1994, respectively. Savings plan benefit expense attributable to discontinued operations was not material.

The ESOP shares (after restatement for the two-for-one stock dividend distribution) were as follows:

	December 31, 1996	December 31, 1995
Allocated shares	5,391,245	4,406,426
Unearned shares	13,370,939	14,355,758
Total ESOP shares	18,762,184	18,762,184
Fair value of unearned ESOP shares	$302,517,495	$348,127,132

(c) POSTRETIREMENT BENEFITS. The Company and HL&P record the liability for post-retirement benefit plans other than pensions (primarily healthcare) under SFAS No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions." In accordance with SFAS No. 106, the Company and HL&P are amortizing over a 22 year period approximately $213 million ($211 million for HL&P) to cover the "transition cost" of adopting SFAS No. 106 (i.e., the Company and HL&P's liability for postretirement benefits payable with respect to employee service years accrued prior to the adoption of SFAS No. 106).

As provided in the Rate Case Settlement, HL&P is required to fund during each year in an irrevocable external trust approximately $22 million of postretirement benefit costs which are included in rates. In December 1995, HL&P commenced funding by contributing a total of $15.1 million to three Voluntary Employees' Beneficiary Association trusts and one Section 401(h) account of the retirement plan. This contribution represented the amount of postretirement benefits included in HL&P's rates (which included HL&P's interest in the South Texas Project costs) less the estimated pay-as-you-go amounts for 1995 plus interest as if the contributions had been made on a monthly basis during the year. Beginning in 1996, HL&P funded postretirement benefits costs on a monthly basis for the amount included in its rates. The Company, excluding HL&P, will continue funding its postretirement benefits on a pay-as-you-go basis. The net postretirement benefit cost for the Company includes the following components:

	Year Ended December 31, 1996	1995	1994
	(Thousands of Dollars)		
Service cost - benefits earned during the period	$ 8,242	$ 9,093	$ 9,131
Interest cost on accumulated benefit obligation	12,265	11,143	10,265
Actual return on plan assets	(2,342)		
Net amortization and deferrals	5,983	6,061	7,868
Net postretirement benefit cost	$ 24,148	$ 26,297	$ 27,264

The funded status of the Company's postretirement benefit costs was as follows:

	December 31, 1996	December 31, 1995
	(Thousands of Dollars)	
Accumulated benefit obligation:		
Retirees	$(107,642)	$(127,653)
Fully eligible active plan participants	(16,340)	(13,307)
Other active plan participants	(26,090)	(27,492)
Total	(150,072)	(168,452)
Plan assets at fair market value	38,493	18,310
Assets less than accumulated benefit obligation	(111,579)	(150,142)
Unrecognized transitional obligation	173,954	183,727
Unrecognized net gain	(99,417)	(73,613)
Accrued postretirement benefit cost	$ (37,042)	$ (40,028)

The assumed health care cost trend rates used in measuring the accumulated postretirement benefit obligation in 1996 are as follows:

Medical - under 65	7.3%
Medical - 65 and over	8.1%
Dental	7.0%

The assumed healthcare rates gradually decline to 5.4 percent for both medical categories and 3.7 percent for dental by 2001. The accumulated postretirement benefit obligation was determined using an assumed discount rate of 7.25 percent for 1996 and 7.5 percent for 1995.

If the healthcare cost trend rate assumptions were increased by 1 percent, the accumulated postretirement benefit obligation as of December 31, 1996 would be increased by approximately 8 percent. The annual effect of the 1 percent increase on the total of the service and interest costs would be an increase of approximately 11 percent.

(d) POSTEMPLOYMENT BENEFITS. Effective January 1, 1994, the Company and HL&P adopted SFAS No. 112, "Employer's Accounting for Postemployment Benefits," which requires the recognition of a liability for benefits, not previously accounted for on the accrual basis, provided to former or inactive employees, their beneficiaries and covered dependents, after employment but before retirement (primarily health care and life insurance benefits for participants in the long-term disability plan). As required by SFAS No. 112, the Company and HL&P expensed the transition obligation (liability from prior years) upon adoption and recorded a one-time, after-tax charge to income of $8.2 million in the first quarter of 1994. Ongoing charges to income are not material.

(10) INCOME TAXES

The Company and HL&P record income taxes under SFAS No. 109, "Accounting for Income Taxes," which, among other things, (i) requires the liability method be used in computing deferred taxes on all temporary differences between book and tax bases of assets other than nondeductible goodwill; (ii) requires that deferred tax liabilities and assets be adjusted for an enacted change in tax laws or rates; and (iii) prohibits net-of-tax accounting and reporting. SFAS No. 109 requires that regulated enterprises recognize such adjustments as regulatory assets or liabilities if it is probable that such amounts will be recovered from or returned to customers in future rates.

The Company's current and deferred components of income tax expense from continuing operations are as follows:

	Year Ended December 31, 1996	1995	1994
	(Thousands of Dollars)		
Current	$150,658	$141,076	$153,440
Deferred	49,507	58,479	76,984
Income taxes for continuing operations before cumulative effect of change in accounting	$200,165	$199,555	$230,424

The Company's effective income tax rates are lower than statutory corporate rates for each year as follows:

	Year Ended December 31, 1996	1995	1994
	(Thousands of Dollars)		
Income from continuing operations before income taxes and cumulative effect of change in accounting	$ 605,109	$ 596,955	$ 654,409
Preferred dividends of subsidiary	22,563	29,955	33,583
Total	627,672	626,910	687,992
Statutory rate	35%	35%	35%
Income taxes at statutory rate	219,685	219,419	240,797
Net reduction in taxes resulting from:			
AFUDC - other included in income	1,443	2,716	1,440
Amortization of investment tax credit	18,404	19,427	19,416
Excess deferred taxes	4,331	4,384	3,537
Difference between book and tax depreciation for which deferred taxes have not been normalized	(22,638)	(15,211)	(15,455)
Equity dividend exclusion	10,194	4,932	
Equity income - foreign affiliates	5,936		
Other - net	1,850	3,616	1,435
Total	19,520	19,864	10,373
Income taxes before cumulative effect of change in accounting	$ 200,165	$ 199,555	$ 230,424
Effective rate	31.9%	31.8%	33.5%

Following are the Company's tax effects of temporary differences attributable to continuing operations resulting in deferred tax assets and liabilities:

	December 31, 1996	December 31, 1995
	(Thousands of Dollars)	
Deferred Tax Assets:		
Alternative minimum tax	$ 19,014	$ 46,516
Internal Revenue Service (IRS) audit assessment	74,966	74,966
Disallowed plant cost - net	23,237	22,687
Other	94,139	96,628
Total deferred tax assets - net	211,356	240,797
Deferred Tax Liabilities:		
Depreciation	1,450,894	1,391,573
Deferred plant costs - net	194,243	200,028
Regulatory assets - net	362,310	228,587
Capitalized taxes, employee benefits and removal costs	108,530	110,065
Gain on sale of cable television subsidiary	228,449	227,515
Other	131,961	150,275
Total deferred tax liabilities	$2,476,387	$2,308,043
Accumulated deferred income taxes - net	$2,265,031	$2,067,246

See Note 13 for income taxes related to discontinued operations.

In July 1990, the Company paid approximately $104.5 million to the Internal Revenue Service (IRS) in connection with an IRS audit of the Company's 1983 and 1984 federal income tax returns. In November 1991, the Company filed a refund suit in the U.S. Court of Federal Claims seeking the return of $52.1 million of tax and $36.3 million of accrued interest, plus interest on both of those amounts accruing after July 1990. The major contested issue in the refund case involved the IRS's allegation that certain amounts related to the over-recovery of fuel costs should have been included as taxable income in 1983 and 1984 even though HL&P had an obligation to refund the over-recoveries to its ratepayers. In October 1994, the Court granted the Company's Motion for Partial Summary Judgment on the fuel cost over-recovery issue, and in October 1996 entered final judgment in favor of the Company. The government has appealed this decision. If the government does not prevail on appeal, the Company would be entitled to a refund of overpaid tax, interest paid on the overpaid tax through July 1990 and interest on both of those amounts from July 1990. If the government prevails on appeal, the Company's ultimate financial exposure should be immaterial because of offsetting tax deductions to which the Company is entitled for the year the over-recovery was refunded to ratepayers.

(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 cancelation 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 $194 million in 1997, $200 million in 1998 and $204 million in 1999. Additionally, minimum payment obligations for lignite mining and lease agreements are approximately $8 million for 1997, $9 million for 1998 and $9 million for 1999. Collectively, the fixed price gas supply contracts, which expire in 1997, could amount to 9 percent of HL&P's annual natural gas requirements for 1997. Minimum payment obligations for both natural gas purchase and storage contracts are approximately $38 million in 1997, $9 million in 1998 and $9 million in 1999.

HL&P also has commitments to purchase firm capacity from cogenerators of approximately $22 million in each of the years 1997 through 1999. 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. 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.

In February 1996, the cities of Wharton, Galveston and Pasadena filed suit, for themselves and a proposed class, against HL&P and Houston Industries Finance Inc., (formerly a wholly-owned subsidiary of the Company), citing underpayment of municipal franchise fees. The principal claim contends that, from 1957 to the present, franchise fees should have been paid on sales taxes collected by HL&P and on non-electric receipts as well as on electric sales. Plaintiffs advance such assertion notwithstanding that no such claim had been noticed over the previous four decades. Because all of the franchise ordinances affecting HL&P expressly impose fees only on electric sales, the Company regards plaintiffs' allegations as spurious and is aggressively contesting the matter. With regard to damages, the pleadings make no specific dollar claim, although one plaintiff-sponsored witness claims to have calculated damages of $220 million on the theory that franchise fees are owed on all sales taxes and receipts, electric or otherwise. The class action aspects of this case are currently under a stay order by the Texas Supreme Court pending its review of the class action certifications of the lower courts. The Company and HL&P cannot estimate a range of possible loss, if any, from this lawsuit, nor can any assurance be given as to its ultimate outcome. The case is pending in the District Court of Harris County, Texas.

(12) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and estimated fair value of the Company's financial instruments are as follows:

	December 31, 1996		December 31, 1995	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(THOUSANDS OF DOLLARS)			
Financial assets:				
Cash and short-term investments	$ 8,001	$ 8,001	$ 11,779	$ 11,779
Investment in Time Warner securities	1,027,500	1,027,500	1,027,875	1,027,875
Investments held by HL&P's nuclear decommissioning trust	67,229	67,229	44,540	44,540
Financial liabilities:				
Short-term notes payable	1,337,872	1,337,872	6,300	6,300
Cumulative preferred stock of subsidiary (subject to mandatory redemption)	25,700	25,957	76,755	79,250
Debentures	349,098	380,455	548,913	599,575
Long-term debt of subsidiaries:				
Electric:				
First mortgage bonds	2,895,041	3,045,833	3,128,719	3,397,295
Pollution control revenue bonds	5,000	5,000	5,000	5,000
Other notes payable	856	856	981	981

The fair values of cash and short-term investments, investment in equity securities and short-term and other notes payable are estimated to be equivalent to the carrying amounts.

The fair values of the Company's debentures, HL&P's cumulative preferred stock subject to mandatory redemption, HL&P's first mortgage bonds and pollution control revenue bonds issued on behalf of HL&P are estimated using rates currently available for securities with similar terms and remaining maturities.

(13) CABLE TELEVISION--DISCONTINUED OPERATIONS

The Company's 1995 earnings include a one-time, after-tax gain of $708 million related to the sale of the Company's cable television subsidiary to Time Warner in July 1995. Effective January 1, 1995, the operations of KBLCOM were accounted for as discontinued and prior periods were restated for consistency in reflecting KBLCOM as a discontinued operation.

As consideration for the sale of KBLCOM, the Company received 1 million shares of Time Warner common stock and 11 million shares of non-publicly traded convertible preferred stock. Time Warner also purchased from the Company for cash approximately $619 million (after post-closing adjustments) of KBLCOM's intercompany indebtedness and assumed approximately $650 million of KBLCOM's external debt and other liabilities. The convertible preferred stock has an aggregate liquidation preference (redeemable after July 6, 2000) of $100 per share (plus accrued and unpaid dividends), is entitled to cumulative annual dividends of $3.75 per share until July 6, 1999, is currently convertible by the Company and after four years is exchangeable by Time Warner into approximately 22.9 million shares of Time Warner common stock. Each share of preferred stock is entitled to two votes (voting together with the holders of the Time Warner common stock as a single class). Subject to certain exceptions, the terms of the sale prohibit the Company from acquiring additional shares of Time Warner securities or selling shares of Time Warner securities to any holder of more than 5 percent of the outstanding Time Warner voting securities (including any person who becomes such a holder after giving effect to the sale).

Dividends on the Time Warner securities are recognized as income at the time they are earned. The Company recorded pre-tax dividend income of $41.6 million and $20.1 million in 1996 and 1995, respectively.

Operating results from discontinued operations for the years ended December 31, 1995 and 1994 were as follows:

	Year Ended December 31,	
	1995	1994
	(Thousands of Dollars)	
Revenues	$ 143,925	$ 255,772
Operating expenses (a)	86,938	156,084
Gross operating margin (a)	56,987	99,688
Depreciation, amortization, interest and other	81,409	128,023
Income taxes (benefit)	(4,997)	(11,811)
Deferred loss (b)	19,425	
Loss from discontinued operations (c)	$ 0	$ (16,524)

(a) Exclusive of depreciation and amortization.

(b) The net loss for discontinued operations of KBLCOM through the date of sale (July 6, 1995) was deferred by the Company. Upon closing of the sale, the deferred loss was included as an adjustment to the gain on sale of cable television subsidiary on the Company's Statements of Consolidated Income.

(c) Loss from discontinued operations of KBLCOM excludes the effects of corporate overhead charges and includes interest expense relating to the amount of intercompany debt that Time Warner purchased from the Company.

(14) RAILROAD SETTLEMENT PAYMENTS

In July 1994, HL&P contributed to a wholly owned subsidiary the right of HL&P to receive certain receivables relating to a litigation settlement. This subsidiary transferred the receivables to a trust, which in turn sold certificates evidencing a senior interest in the trust to a commercial bank for $66.1 million. The subsidiary retained a subordinate interest in the trust. HL&P recorded the transaction as a $66.1 million reduction to reconcilable fuel expense in July 1994. The reduction to reconcilable fuel expense had no effect on earnings.

(15) UNAUDITED QUARTERLY INFORMATION

The following unaudited quarterly financial information includes, in the opinion of management, all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation. Quarterly results are not necessarily indicative of a full year's operations because of seasonality and other factors, including rate increases and variations in operating expense patterns.

	Year Ended December 31, 1995			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Thousands of Dollars, except per share amounts)			
Revenues (a)	$ 755,668	$ 989,397	$ 1,184,311	$ 799,895
Operating income (a)	115,581	283,571	421,904	84,394
Income from continuing operations	23,849	133,260	235,861	4,430
Gain (loss) on sale of cable television subsidiary	90,607		618,088	(571)
Net income	114,456	133,260	853,949	3,859
Earnings per common share (b):				
Income from continuing operations	$ .10	$ .54	$ .95	$ .02
Net income	.46	.54	3.44	.02

	Year Ended December 31, 1996			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Thousands of Dollars, except per share amounts)			
Revenues (a)	$ 823,507	$1,113,719	$1,252,090	$ 905,961
Operating income (a)	137,139	286,926	441,699	124,702
Net income (loss)	(16,740)	145,334	240,024	36,326
Earnings (loss) per common share (b)	$ (.07)	$ .58	$ .98	$ .15

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(a) Reflects a reclassification of HI Energy's equity income from Other Income (Expense) to Revenues.

(b) Quarterly earnings per common share are based on the weighted average number of shares outstanding during the quarter, and the sum of the quarters may not equal annual earnings per common share. See Note 5(a).

(16) NORAM MERGER

On December 17, 1996, the shareholders of the Company and NorAm approved the Merger Agreement under which the Company will merge into HL&P, and NorAm will merge into a subsidiary of the Company. Upon consummation of the Merger, HL&P, the surviving corporation of the Company/HL&P merger, will be renamed "Houston Industries Incorporated" (Houston) and will continue to conduct HL&P's electric utility business under HL&P's name. Merger Sub, the surviving corporation of the NorAm/Merger Sub merger, will be renamed "NorAm Energy Corp." and will continue to conduct NorAm's natural gas distribution and transmission business under NorAm's name. As a result of the Merger, NorAm will become a wholly owned subsidiary of Houston.

The closing of the Merger is subject to the satisfaction or waiver of various conditions precedent contained in the Merger Agreement, including the obtaining of all required governmental authorizations and consents.

Consideration for the purchase of NorAm shares will be a combination of cash and shares of Houston common stock. The transaction is valued at $3.9 billion, consisting of $2.5 billion for NorAm's common stock and equivalents and $1.4 billion of NorAm debt. If the closing does not occur by May 11, 1997, the cash consideration (but not the stock consideration) will increase thereafter by two percent per quarter until the consummation of the Merger. The increase, if any, will be calculated pro rata on a daily basis for the period from May 11, 1997, until consummation. The Merger Agreement contains provisions generally designed to result in 50 percent of the outstanding shares of NorAm common stock being converted into stock consideration and 50 percent being converted into cash consideration.

The Company intends to finance the cash portion of the Merger consideration (estimated to be approximately $1.25 billion) through bank borrowings under new bank credit facilities to be arranged by a newly formed subsidiary of Houston with a group of commercial banks. As of the date hereof, the term, structure and provisions of these facilities are being negotiated with potential lenders and have not been finalized.

The Company and HL&P will account for the Merger as a purchase and, following consummation of the Merger, will include the results of operation of NorAm in Houston's consolidated statement of income.

Unless otherwise stated, the information presented in the Financial Statements and Notes in this Form 10-K relates solely to the Company and HL&P without giving effect to the Merger.

(17) SUBSEQUENT EVENTS

(a) POLLUTION CONTROL BONDS. In January 1997, pollution control bonds aggregating $118 million were issued on behalf of HL&P by the Brazos River Authority (BRA) and the Matagorda County Navigation District Number One (MCND). Proceeds of $50 million from the BRA Series 1997 bonds, maturing 2018, were used to redeem, at 102% of the aggregate principal amount, the BRA Series 1986A pollution control revenue bonds issued in November 1986. Proceeds of $68 million from the MCND Series 1997 bonds, maturing 2028, were used to redeem, at 102% of the aggregate principal amount, the MCND Series 1986A pollution control revenue bonds issued in November 1986. The new bonds initially will bear interest at a floating rate. Bond tenders are permitted. Proceeds from the remarketing of tendered bonds are expected to be available to pay for tendered bonds. However, liquidity facilities aggregating approximately $120 million have been established with banks for the purchase of tendered bonds in the event such proceeds are not available. Facility fees are payable in connection with the liquidity facilities.

(b) TRUST SECURITIES. In February 1997, two Delaware statutory business trusts established by HL&P issued (i) $100 million of capital securities having a distribution rate of 8.257% and maturing February 1, 2037 and (ii) $250 million of preferred securities having a distribution rate of 8.125% and maturing March 31, 2046. For financial reporting purposes, the trusts will be treated as subsidiaries of HL&P. The trusts sold securities to the public and used the proceeds to purchase subordinated debentures from HL&P having the same amounts, rates and maturity dates as the securities issued by the trusts. The subordinated debentures purchased by the trusts constitute substantially all the assets of the trusts. Proceeds from the sale of the debentures were used by HL&P for general corporate purposes, including the repayment of short-term debt and the redemption of three series of HL&P's outstanding cumulative preferred stock at the following redemption prices, plus accrued dividends:

Series	Number of Shares	Redemption Price Per Share
$ 6.72	250,000	$ 102.51
$ 7.52	500,000	$ 102.35
$ 8.12	500,000	$ 102.25

Subject to certain limitations, HL&P has the option of deferring payment of interest on the subordinated debentures held by the trust. If and for so long as payments on HL&P's subordinated debentures have been deferred, or HL&P has defaulted on the indenture relating thereto, HL&P may not pay dividends on its capital stock.

HOUSTON LIGHTING & POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEARS ENDED DECEMBER 31, 1996

Except as modified below, the Notes to the Company's Consolidated Financial Statements are incorporated herein by reference insofar as they relate to HL&P: (1) Summary of Significant Accounting Policies, (2) Jointly-Owned Nuclear Plant, (3) Rate Matters, (6) Preferred Stock of HL&P, (7) Long-Term Debt, (9) Retirement Plans, (10) Income Taxes, (11) Commitments and Contingencies, (12) Estimated Fair Value of Financial Instruments, (14) Railroad Settlement Payments, (16) NorAm Merger and (17) Subsequent Events.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(g) EARNINGS PER COMMON SHARE. All issued and outstanding Class A voting common stock of HL&P is held by the Company and all issued and outstanding Class B non-voting common stock of HL&P is held by Houston Industries (Delaware) Incorporated, a wholly owned subsidiary of the Company. Accordingly, earnings per share are not computed.

(h) STATEMENTS OF CASH FLOWS. At December 31, 1996, HL&P did not have any affiliate investments (considered to be cash equivalents). At December 31, 1995 and 1994, HL&P had affiliate investments of $75.5 million and $227.6 million, respectively.

(8) SHORT-TERM FINANCING

In 1996 and 1995, the interim financing requirements of HL&P were primarily met through the issuance of commercial paper. HL&P had bank credit facilities of $400 million at December 31, 1996 and 1995, which limited total short-term borrowings and provided for interest at rates generally less than the prime rate. A temporary $346 million increase in the amount of the facility was in effect during a portion of the first quarter of 1997. HL&P's weighted average short-term borrowing rates for commercial paper for the years ended December 31, 1996 and 1995 were 5.52% and 6.21%, respectively. HL&P had approximately $234.7 million of commercial paper outstanding at December 31, 1996 and no commercial paper outstanding at December 31, 1995. Facility fees are required on HL&P's bank credit facility.

(9) RETIREMENT PLANS

(a) PENSION. Net pension cost for HL&P includes the following components:

	December 31,		
	1996	1995	1994
	(Thousands of Dollars)		
Service cost - benefits earned during the period	$ 23,583	$ 22,264	$ 21,335
Interest cost on projected benefit obligation	50,268	48,144	45,064
Actual (return) loss on plan assets	(73,089)	(93,023)	4,737
Net amortization and deferrals	16,677	48,696	(50,012)
Net pension cost	17,439	26,081	21,124
SFAS No. 88 - curtailment expense	12,871	5,645	
Total pension cost	$ 30,310	$ 31,726	$ 21,124

The funded status of HL&P's retirement plan was as follows:

	December 31, 1996	December 31, 1995
	(Thousands of Dollars)	
Actuarial present value of:		
Vested benefit obligation	$ 528,608	$ 493,006
Accumulated benefit obligation	$ 563,398	$ 528,467
Plan assets at fair value	$ 658,285	$ 581,194
Projected benefit obligation	735,727	687,420
Assets less than projected benefit obligation	(77,442)	(106,226)
Unrecognized transitional asset	(11,348)	(13,252)
Unrecognized prior service cost	31,006	46,462
Unrecognized net loss	15,247	19,343
Accrued pension cost	$ (42,537)	$ (53,673)

(c) POSTRETIREMENT BENEFITS. The net postretirement benefit cost for HL&P includes the following components:

	December 31, 1996	1995	1994
	(Thousands of Dollars)		
Service cost - benefits earned during the period	$ 7,922	$ 8,779	$ 8,904
Interest cost on projected benefit obligation	11,860	10,794	9,946
Actual return on plan assets	(2,342)	--	--
Net amortization and deferrals	5,766	5,893	7,757
Net postretirement benefit cost	$ 23,206	$ 25,466	$ 26,607

The funded status of HL&P's postretirement benefit costs was as follows:

	December 31, 1996	1995
	(Thousands of Dollars)	
Accumulated benefit obligation:		
Retirees	$(105,638)	$(125,925)
Fully eligible active plan participants	(13,468)	(10,532)
Other active plan participants	(25,169)	(26,515)
Total	(144,275)	(162,972)
Plan assets at fair market value	38,493	18,310
Assets less than accumulated benefit obligation	(105,782)	(144,662)
Unrecognized transitional obligation	171,909	181,567
Unrecognized net gain	(100,880)	(75,451)
Accrued postretirement benefit cost	$ (34,753)	$ (38,546)

(10) INCOME TAXES

HL&P's current and deferred components of income tax expense are as follows:

	Year Ended December 31,		
	1996	1995	1994
	(Thousands of Dollars)		
Current	$ 242,695	$ 188,104	$ 184,669
Deferred	22,124	57,703	70,324
Federal income tax expense	264,819	245,807	254,993
Federal income taxes charged to other income (a)	(32,410)	(851)	(836)
Income taxes before cumulative effect of change in accounting	$ 232,409	$ 244,956	$ 254,157

(a) The tax effect of litigation settlements of $33,250 is included for the year ended December 31, 1996.

The following table sets forth the reconciliation of HL&P's statutory income tax rate to the effective income tax rate:

	Year Ended December 31,		
	1996	1995	1994
	(Thousands of Dollars)		
Income before income taxes, preferred dividends and cumulative effect of change in accounting	$ 661,827	$ 725,888	$ 749,121
Statutory rate	35%	35%	35%
Income taxes at statutory rate	231,639	254,061	262,192
Net reduction in taxes resulting from:			
AFUDC - other included in income	1,443	2,716	1,440
Amortization of investment tax credit	18,404	19,427	19,416
Difference between book and tax depreciation for which deferred taxes have not been normalized	(22,638)	(15,211)	(15,455)
Excess deferred taxes	4,331	4,384	3,537
Other - net	(2,310)	(2,211)	(903)
Total	(770)	9,105	8,035
Income taxes before cumulative effect of change in accounting	$ 232,409	$ 244,956	$ 254,157
Effective rate	35.1%	33.7%	33.9%

The following table sets forth HL&P's tax effects of temporary differences resulting in deferred tax assets and liabilities:

	December 31, 1996	December 31, 1995
	(Thousands of Dollars)	
Deferred Tax Assets:		
IRS audit assessment	$ 48,513	$ 48,513
Disallowed plant cost - net	23,237	22,687
Other	49,628	59,558
Total deferred tax assets	121,378	130,758
Deferred Tax Liabilities:		
Depreciation	1,450,434	1,391,277
Regulatory assets - net	362,310	228,587
Deferred plant costs - net	194,243	200,028
Capitalized taxes, employee benefits and removal costs	108,638	110,177
Other	130,320	148,177
Total deferred tax liabilities	2,245,945	2,078,246
Accumulated deferred income taxes - net	$2,124,567	$1,947,488

(12) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and estimated fair value of HL&P's cash and short-term investments was $643 thousand for 1996 and $75.9 million for 1995.

(15) UNAUDITED QUARTERLY INFORMATION

The following unaudited quarterly financial information includes, in the opinion of management, all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation. Quarterly results are not necessarily indicative of a full year's operations because of seasonality and other factors, including rate increases and variations in operating expense patterns.

Quarter Ended	Revenues	Operating Income	Income (Loss) After Preferred Dividends
	(Thousands of Dollars)		
1995			
March 31	$ 746,166	$ 104,566	$ 33,909
June 30	978,225	217,419	141,873
September 30	1,171,789	308,258	241,159
December 31	784,117	104,421	34,036
1996			
March 31	$ 811,965	$ 119,654	$ (10,187)
June 30	1,099,971	210,880	144,327
September 30	1,230,298	304,400	239,989
December 31	882,793	97,394	32,726

(18) PRINCIPAL AFFILIATE TRANSACTIONS

Affiliated Company	Description	1996	1995	1994
		Year Ended December 31,		
		(Thousands of Dollars)		
Houston Industries (Delaware) Incorporated	Dividends	$329,000	$454,000	$328,996
Houston Industries Incorporated	Service Fees (a)	36,785	26,582	26,913
	Money Fund Income (b)	2,013	10,837	6,025
Houston Industries Building, Inc.	Purchase of Corporate Headquarters (c)	$ 68,058	$ 94,915	
	Corporate Headquarters Operating Expenses (a)	3,025	416	

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(a) Included in Operating Expenses.
(b) Included in Other Income (Expense).
(c) Included in Electric Plant in Service.

INDEPENDENT AUDITORS' REPORT

HOUSTON INDUSTRIES INCORPORATED:

We have audited the accompanying consolidated balance sheets and the consolidated statements of capitalization of Houston Industries Incorporated and its subsidiaries as of December 31, 1996 and 1995, and the related statements of consolidated income, consolidated retained earnings and consolidated cash flows for each of the three years in the period ended December 31, 1996. Our audits also included the Company's financial statement schedule listed in Item 14(a)(2). These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 9(b) and 9(d), respectively, to the consolidated financial statements, the Company changed its method of accounting in 1994 for (i) the Employee Stock Ownership Plan to conform with AICPA Statement of Position 93-6 and (ii) postemployment benefits to conform with Statement of Financial Accounting Standards No. 112.

DELOITTE & TOUCHE LLP

Houston, Texas
February 21, 1997

INDEPENDENT AUDITORS' REPORT

HOUSTON LIGHTING & POWER COMPANY:

We have audited the accompanying balance sheets and the statements of capitalization of Houston Lighting & Power Company (HL&P) as of December 31, 1996 and 1995, and the related statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1996. Our audits also included the financial statement schedule of HL&P listed in Item 14(a)(2). These financial statements and the financial statement schedule are the responsibility of HL&P's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of HL&P at December 31, 1996 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 9(d) to the financial statements, HL&P changed its method of accounting for postemployment benefits to conform with Statement of Financial Accounting Standards No. 112 in 1994.

DELOITTE & TOUCHE LLP

Houston, Texas
February 21, 1997

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY AND HL&P.

(a) The Company

The information called for by Item 10, to the extent not set forth under Item 1 "Business- Executive Officers of The Company", is or will be set forth in the definitive proxy statement relating to the Company's 1997 annual meeting of shareholders pursuant to the Commission's Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 10 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

(b) HL&P

The information set forth under Item 1. "Business-Executive Officers of HL&P" is incorporated herein by reference.

Information is set forth below with respect to the business experience for the last five years of each person who currently serves as a member of the board of directors of HL&P, certain other directorships held by each such person and certain other information. Unless otherwise indicated, each person has had the same principal occupation for at least five years.

CHARLES R. CRISP, age 49, has been a director since 1996. Mr. Crisp is Senior Vice President of the Company, having served in that capacity since January 1997, and Executive Vice President and General Manager-Energy Production of HL&P, having served in that capacity since September 1996. Prior to joining HL&P, Mr. Crisp served as President, Chief Operating Officer and Director of Tejas Gas Corporation from November 1988 to September 1996. In January 1997, Mr. Crisp was appointed President and Chief Operating Officer of the HI Power Generation Division, a newly created division of the Company.

WILLIAM T. COTTLE, age 51, has been a director since 1996. Mr. Cottle is Executive Vice President and General Manager - Nuclear for HL&P, having served in that capacity since February 1996. From April 1993 through February 1996, he served as Group Vice President - Nuclear of HL&P. Prior to joining HL&P, Mr. Cottle served as Vice President, Operations, Grand Gulf Nuclear Station, Entergy Operations, Inc. from March 1987 through April 1993. In January 1997, Mr. Cottle was appointed Executive Vice President and General Manager of the Nuclear (STP) Division, a newly created division of the Company.

JACK D. GREENWADE, age 57, has been a director since 1996. Mr. Greenwade is Senior Vice President and Assistant to the President of HL&P, having served in that capacity since February 1996. From 1990 through February 1996, he served as Group Vice President - Operations of HL&P.

LEE W. HOGAN, age 52, has been a director since 1995. Mr. Hogan is Executive Vice President of the Company, having served in that capacity since January 1997. Previously, he served as Senior Vice President of the Company, having served in that capacity since February 1996 and as Vice President of the Company and as Chief Operating Officer of HI Energy, having served in those capacities since 1993. From 1990 to 1993 he served as Group Vice President - External Affairs for HL&P. In January 1997, Mr. Hogan was appointed President and Chief Executive Officer of the HI Retail Energy Group, a newly created division of the Company.

DON D. JORDAN, age 64, has been a director since 1974. Mr. Jordan is Chairman and Chief Executive Officer of the Company and Chairman and Chief Executive Officer of HL&P. He also serves as an advisory director of Texas Commerce Bank National Association and a director of BJ Services Company, Inc.

HUGH RICE KELLY, age 54, has been a director since 1996. Mr. Kelly is Executive Vice President, General Counsel and Corporate Secretary of the Company and HL&P, having served in those capacities since

January 1997. He previously served as Senior Vice President, General Counsel and Corporate Secretary of HL&P from 1984 through 1997, as Senior Vice President, General Counsel and Corporate Secretary of the Company from 1994 through January 1997 and as Vice President, General Counsel and Corporate Secretary of the Company from 1984 through 1994.

R. STEVE LETBETTER, age 48, has been a director since 1995. Mr. Letbetter is President and Chief Operating Officer of the Company, having served in that capacity since January 1997 and President and Chief Operating Officer of HL&P, having served in that capacity since 1993. He has served in various positions as an officer of HL&P since 1978 and also served as a Senior Vice President of the Company from 1993 to January 1997.

DAVID M. MCCLANAHAN, age 47, has been a director since 1996. He is Executive Vice President and General Manager - Energy Delivery and Customer Service of HL&P, having served in that capacity since February 1996. He has previously served as Group Vice President - Finance and Regulatory Relations of HL&P from 1993 through February 1996 and as Senior Vice President and Chief Financial Officer of KBLCOM from 1991 through 1993. In January 1997, Mr. McClanahan was appointed President and Chief Operating Officer of the Houston Lighting & Power Division, a newly created division of the Company.

STEPHEN W. NAEVE, age 49, has been a director since 1996. He is Executive Vice President and Chief Financial Officer of the Company, having served in that capacity since January 1997. He previously served as Senior Vice President and Chief Financial Officer of the Company from February 1996 through January 1997, Vice President, Strategic Planning and Administration of the Company from 1993 through February 1996 and as Vice President, Corporate Planning and Treasurer of HL&P from 1990 through 1993.

STEPHEN C. SCHAEFFER, age 49, has been a director since 1996. He is Executive Vice President Shared Services and Finance and Regulatory Affairs of HL&P, having served in that capacity since February 1996. He previously served as Senior Vice President - Analysis and Finance and Treasurer of HI Energy from June 1994 through February 1996, Senior Vice President - Planning and Operations and Treasurer of HI Energy from June 1993 through June 1994, Group Vice President - Administration and Support of HL&P from 1992 through 1993 and Vice President - Regulatory Relations of HL&P from 1989 through 1992. In January 1997, Mr. Schaeffer was appointed Executive Vice President-Retail Energy Regulation of the HI Retail Energy Group, a newly created division of the Company.

ROBERT L. WALDROP, age 49, has been a director since 1996. He is Senior Vice President Communications of the Company, having served in that capacity since January 1997 and Senior Vice President - External Affairs of HL&P, having served in that capacity since May 1996. He previously served as Senior Vice President -- Marketing and Customer Service of HL&P from February to May 1996, Group Vice President - External Affairs of HL&P from 1993 through February 1996, Vice President - Public and Customer Relations of HL&P from 1992 to 1993 and Vice President - Public Affairs of HL&P from 1990 to 1992.

ITEM 11. EXECUTIVE COMPENSATION.

(a) The Company

The information called for by Item 11 with respect to the Company is or will be set forth in the definitive proxy statement relating to the Company's 1997 annual meeting of shareholders pursuant to the Commission's Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 11 (excluding any information required by paragraphs (i), (k) and (l) of Item 402 of Regulation S-K) are incorporated herein by reference pursuant to Instruction G to Form 10-K.

(b) HL&P

SUMMARY COMPENSATION TABLE. The following table shows, for the years ended December 31, 1994, 1995 and 1996, the annual, long-term and certain other compensation paid by the Company and its subsidiaries to the chief executive officer and the other four most highly compensated executive officers of HL&P that served as executive officers during 1996 (Named Officers).

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensation Awards	Long-Term Compensation Payouts	
Name and Principal Position	Year	Salary(1)	Bonus(1)	Other Annual Compensation	Securities Underlying Options(#)	LTIP Payouts(2)	All Other Compensation(3)
Don D. Jordan Chairman and Chief Executive Officer of the Company and HL&P	1996	$ 962,292	$1,050,000	$ 13,300	27,985	$ 767,440	$ 819,105
	1995	884,500	907,226	3,969	36,316	407,437	734,023
	1994	859,500	734,873	114,648	27,726	550,567	717,261
R. Steve Letbetter President and Chief Operating Officer of the Company and HL&P	1996	416,000	330,750	228	7,815	138,831	45,151
	1995	363,500	285,750	190	9,746	84,201	47,242
	1994	321,000	246,525	31,133	6,366	117,607	43,818
Hugh Rice Kelly Executive Vice President, General Counsel and Corporate Secretary of the Company and of HL&P	1996	344,833	209,400	705	5,563	176,311	37,495
	1995	334,000	195,773	637	7,414	100,925	44,245
	1994	323,500	190,820	42,147	5,470	145,107	50,546
William T. Cottle Executive Vice President and General Manager - Nuclear of HL&P	1996	269,000	164,400	450	4,299	121,217	18,547
	1995	254,500	157,200	401	5,566	0	16,711
	1994	241,000	129,675	337	4,044	0	13,126
David M. McClanahan Executive Vice President and General Manager - Energy Delivery and Customer Services of HL&P	1996	263,017	143,518	361	4,153	67,221	26,297
	1995	238,100	151,860	317	5,028	35,806	23,162
	1994	208,100	129,398	12,195	3,322	41,512	23,376

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(1) The amounts shown include salary and bonus earned as well as earned but deferred by the Named Officers.

(2) The amounts shown for 1996 represent the dollar value of shares of the Company's Common Stock paid out in 1996 under the Company's 1989 long-term incentive compensation plan (LICP) based on the achievement of certain performance goals for the 1993-1995 performance cycle, plus dividend equivalent accruals during the performance period.

(3) The amounts shown for 1996 include (i) Company contributions to the Company's savings plan and accruals under its savings restoration plan on behalf of the Named Officers, as follows: Mr. Jordan, $19,416; Mr. Letbetter, $29,474; Mr. Kelly, $14,289; Mr. Cottle, $17,900; and Mr. McClanahan, $15,830; (ii) the term portion of the premiums paid by the Company under split-dollar life insurance policies purchased in 1994 in connection with the Company's executive life insurance plan, as follows: Mr. Jordan, $19,100; Mr. Letbetter, $327; Mr. Kelly, $1,012; Mr. Cottle, $647; and Mr. McClanahan, $519; and (iii) the portion of accrued interest on amounts of compensation deferred under the Company's deferred compensation plan and executive incentive compensation plan that exceeds 120 percent of the applicable federal long-term rate provided under Section 1274(d) of the Internal Revenue Code, as follows: Mr. Jordan, $780,589; Mr. Letbetter, $15,350; Mr. Kelly, $22,194; Mr. Cottle, none; and Mr. McClanahan, $9,948.

STOCK OPTION GRANTS. The following table contains information concerning grants of stock options during 1996 under the Company's 1994 LICP to the Named Officers.

OPTION GRANTS IN 1996

	Individual Grants				Grant Date Value
Name	Number of Securities Underlying Options Granted(#)(1)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price Per Share	Expiration Date	Grant Date Present Value(2)
Don D. Jordan..................	27,985	27.49%	$24.375	01/01/06	$67,724
R. Steve Letbetter.............	7,815	7.68%	24.375	01/01/06	18,912
Hugh Rice Kelly................	5,563	5.46%	24.375	01/01/06	13,462
William T. Cottle..............	4,299	4.22%	24.375	01/01/06	10,404
David M. McClanahan............	4,153	4.08%	24.375	01/01/06	10,050

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(1) The nonstatutory options for shares of the Company's Common Stock included in the table were granted on January 2, 1996, have a ten-year term and generally become exercisable annually in one-third increments commencing one year after date of grant, so long as employment with the Company or its subsidiaries continues. A change in control of the Company would result in all options becoming immediately exercisable. For the purposes of the LICP, a "change in control" generally is deemed to have occurred if (i) any person or group becomes the direct or indirect beneficial owner of 30 percent or more of the Company's outstanding voting securities; (ii) the majority of the Board changes as a result of, or in connection with, certain transactions; (iii) as a result of the Company merging or consolidating with another corporation, less than 70 percent of the surviving corporation's outstanding voting securities is owned by the former shareholders of the Company (excluding any party to such a transaction or any affiliates of any such party); (iv) a tender offer or exchange offer is made and consummated for the ownership of 30 percent or more of the Company's outstanding voting securities; or (v) the Company transfers all or substantially all of its assets to another corporation that is not wholly-owned by the Company.

(2) The values are based on the Black-Scholes option pricing model adjusted for the payment of dividends. The calculations were based on the following assumptions: volatility of 15.713 percent (based on daily closing prices of the Company's Common Stock for the one-year period prior to grant date); risk-free interest rate of 5.65 percent (interest rate on a U.S. Treasury security with a maturity date corresponding to that of the option term); option price of $24.375 (fair market value of the underlying stock on the date of grant); current dividend rate of $1.50 per share per year; and option term equal to the full ten-year period until the stated expiration date. No reduction has been made in the valuations on account of non-transferability of the options or vesting or forfeiture provisions. Valuations would change if different assumptions were made. Option values are dependent on general market conditions and the performance of the Company's Common Stock. There can be no assurance that the values in this table will be realized.

STOCK OPTION VALUES. The following table sets forth information on the unexercised options to purchase Common Stock held by each of the Named Officers as of December 31, 1996. No options were exercised by the Named Officers during 1996.

1996 YEAR-END OPTION VALUES

Name	Number of Securities Underlying Unexercised Options at December 31, 1996 Exercisable/ Unexercisable		Value of Unexercised In-the-Money Options at December 31, 1996 (1) Exercisable/ Unexercisable	
Don D. Jordan.......................	82,900	/ 61,437	$77,289	/ $114,998
R. Steve Letbetter..................	16,070	/ 16,435	18,670	/ 30,866
Hugh Rice Kelly.....................	16,694	/ 12,329	15,743	/ 23,475
William T. Cottle...................	4,552	/ 9,357	8,816	/ 17,623
David M. McClanahan.................	8,038	/ 8,613	9,565	/ 15,922

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(1) Based on the average of the high and low sales prices of the Company's Common Stock on the New York Stock Exchange Composite Tape, as reported in The Wall Street Journal for December 31, 1996.

LONG-TERM INCENTIVE COMPENSATION. The following table sets forth, for each of the Named Officers, information concerning awards made during 1996 for the 1996-1998 performance cycle under the Company's 1994 LICP. The amounts shown represent potential payouts of awards of shares of Common Stock based on the achievement of performance goals over a three year performance cycle. The performance goals include a Company consolidated goal and subsidiary or business unit goals, weighted 25 percent on consolidated performance and 75 percent on subsidiary or business unit performance. The Company consolidated goal is achieving a certain level of total shareholder return in relation to a group of other companies. The subsidiary or business unit goals are achieving certain cash flow performance in relation to a group of other companies and improving competitive position through a combination of cost reduction and revenue growth. An additional goal applicable to Messrs. Jordan and Kelly is based on the success of HI Energy in closing certain transactions and its achievement of specified internal rates of return. If a change in control of the Company occurs before the end of a performance cycle, the payout of awards for performance shares will occur without regard to achievement of the performance goals. See Note 1 to the Option Grants in 1996 table for information regarding the definition of a change in control under the LICP.

LONG-TERM INCENTIVE PLAN AWARDS IN 1996

			ESTIMATED FUTURE PAYOUTS UNDER NON-STOCK PRICE-BASED PLANS(1)		
Name	Number of Shares	Performance or Other Period Until Maturation or Payout	Threshold Number of Shares	Target Number of Shares	Maximum Number of Shares
Don D. Jordan....................	27,359	12/31/98	13,680	27,359	41,039
R. Steve Letbetter...............	8,187	12/31/98	4,094	8,187	12,281
Hugh Rice Kelly..................	5,827	12/31/98	2,914	5,827	8,741
William T. Cottle................	4,504	12/31/98	2,252	4,504	6,756
David M. McClanahan..............	4,351	12/31/98	2,176	4,351	6,527

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(1) The table does not reflect dividend equivalent accruals during the performance period.

RETIREMENT PLANS, RELATED BENEFITS AND OTHER AGREEMENTS. The following table shows the estimated annual benefit payable under the Company's retirement plan, benefit restoration plan and, in certain cases, supplemental agreements, to officers in various compensation classifications upon retirement at age 65 after the indicated periods of service, determined on a single-life annuity basis. The benefits listed in the table are not subject to any deduction for Social Security or other offsetting amounts.

PENSION PLAN TABLE

Final Average Annual Compensation At Age 65	Estimated Annual Pension Based on Years of Service (1) 15	20	25	30	Greater than or equal to 35
$ 300,000	$ 85,480	$113,973	$142,467	$ 170,960	$ 199,453
400,000	114,580	152,773	190,967	229,160	267,353
500,000	143,680	191,573	239,467	287,360	335,253
600,000	172,780	230,373	287,967	345,560	403,153
700,000	201,880	269,173	336,467	403,760	471,053
800,000	230,980	307,973	384,967	461,960	538,953
900,000	260,080	346,773	433,467	520,160	606,853
1,000,000	289,180	385,573	481,967	578,360	674,753
1,200,000	347,380	463,173	578,967	694,760	810,553
1,400,000	405,580	540,773	675,967	811,160	946,353
1,600,000	463,780	618,373	772,967	927,560	1,082,153
1,800,000	521,980	695,973	869,967	1,043,960	1,217,953
2,000,000	580,180	773,573	966,967	1,160,360	1,353,753

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(1) The qualified pension plan limits compensation in accordance with Section 401(a)(17) of the Internal Revenue Code and also limits benefits in accordance with Section 415 of the Internal Revenue Code. Pension benefits based on compensation above the qualified plan limit or in excess of the limit on annual benefits are provided through the benefit restoration plan.

For the purpose of the pension table above, final average annual compensation means the average of covered compensation for 36 consecutive months out of the 120 consecutive months immediately preceding retirement in which the participant's covered compensation was the highest. Covered compensation includes only the amounts shown in the "Salary" and "Bonus" columns of the Summary Compensation Table. At December 31, 1996, the credited years of service for the following persons are: 35 years for Mr. Jordan; 23 years for Mr. Letbetter; 22 years for Mr. Kelly, 10 of which result from a supplemental agreement; 4 years for Mr. Cottle; and 22 years for Mr. McClanahan.

The Company maintains an executive benefits plan that provides certain salary continuation, disability and death benefits to key officers of the Company and certain of its subsidiaries, including

HL&P. The Named Officers participate in this plan pursuant to individual agreements that generally provide for (i) a salary continuation benefit of 100 percent of the officer's current salary for twelve months after death during active employment and then 50 percent of salary for nine years or until the deceased officer would have attained age 65, if later, and (ii) if the officer retires after attainment of age 65, an annual post-retirement death benefit of 50 percent of the officer's preretirement annual salary payable for six years. This benefit plan is no longer being offered to new officers.

The Company has an executive life insurance plan providing split-dollar life insurance in the form of a death benefit for certain officers of the Company and its subsidiaries. The death benefit coverage varies but in each case is based on coverage (either single life or second to die) that is available for the same amount of premium that could purchase coverage equal to four times current salary for Mr. Letbetter; two times current salary for Messrs. Kelly, Cottle and McClanahan;and thirty million dollars for Mr. Jordan. The plan also provides that the Company may make payments to the covered individuals to compensate for tax consequences of imputed income that they must recognize for federal income tax purposes based on the term portion of the annual premiums. If a covered executive retires at age 65 or at an earlier age under circumstances approved by the Board of Directors, rights under the plan vest so that coverage is continued based on the same death benefit in effect at the time of retirement. Upon death, the Company will receive the balance of the insurance proceeds payable in excess of the specified death benefit which is expected to be at least sufficient to cover the Company's cumulative outlays to pay premiums and the after-tax cost to the Company of the tax reimbursement payments. There is no arrangement or understanding under which any covered individuals will receive or be allocated any interest in any cash surrender value under the policy.

The Company and its subsidiaries HL&P and HI Energy have entered into a trust agreement with an independent trustee establishing a "rabbi trust" for the purpose of funding benefits payable to participants (which include each of the Named Officers) under the Company's deferred compensation plans, executive incentive compensation plans, benefits restoration plan and savings restoration plan (Designated Plans). The trust is a grantor trust, irrevocable except in the event of an unfavorable ruling by the Internal Revenue Service as to the tax status of the trust or certain changes in tax law. It is currently funded with a nominal amount of cash. The Company, HL&P and HI Energy are required to make future contributions to the grantor trust when required by the provisions of the Designated Plans or when required by the Company's benefits committee. The benefits committee consists of officers of the Company designated by the board of directors and has general responsibility for funding decisions and selection of investment managers for the Company's retirement plan and other administrative matters in connection with other employee benefit plans of the Company. If there is a change in control (defined in a manner generally the same as the comparable definition in the Company's long-term incentive compensation plan), the Company, HL&P and HI Energy are required to fully fund the grantor trust, within 15 days following the change in control, with an amount equal to the entire benefit which each participant would be entitled under the Designated Plans as of the date of the change in control (calculated on the basis of the present value of the projected future benefits payable under the Designated Plans). The assets of the grantor trust are required to be held separate and apart from the other funds of the Company and its subsidiaries, but remain subject to claims of general creditors under applicable state and federal law.

In February 1997, the Company entered into an amended and restated employment agreement (Agreement) with Mr. Jordan extending his employment for two years beyond his normal retirement date (June 1, 1997). The restated agreement replaces an original agreement entered in 1994 which provided for benefits in the event of termination of employment following a change of control and for extension of Mr. Jordan's employment until he reaches age 67 if he remained employed by the Company at age 65. The agreement, as restated, provides for the employment of Mr. Jordan at his present position with the Company during the two and one-half year period commencing January 8, 1997 and ending June 1, 1999 (Employment Period). During the Employment Period, Mr. Jordan will receive benefits including (i) base salary in an amount not less than his salary in effect on January 8, 1997, (ii) annual bonus awards based on amounts payable under the Company's executive incentive compensation plan (EICP) and LICP, and (iii) participation in other employee benefit plans and programs on generally the same basis as other peer executives, except that Mr. Jordan will not receive any LICP Award for performance cycles commencing in 1998 and 1999 but will instead receive an award of 300,000 restricted shares of Common Stock. The award of restricted shares of Common Stock is implemented through bookkeeping entry until applicable vesting conditions are satisfied, at which time shares of Common Stock will be delivered out of shares held in the Company's treasury, together with accumulated dividends.

Mr. Jordan's right to 150,000 of the restricted shares of Common Stock (Vested Shares) shall vest on June 1, 1999 if he has remained in the continuous employment of the Company during the Employment Period. If, during the Employment Period, the Company terminates Mr. Jordan's employment for Cause (as defined in the Agreement) or he voluntarily terminates employment without Good Reason (as defined in the Agreement), Mr. Jordan will forfeit all rights to the Vested Shares as of the date of termination. If, during the Employment Period, the Company terminates Mr. Jordan's employment without Cause, he terminates employment for Good Reason, or Mr. Jordan's employment terminates by reason of death, Disability (as defined in the Agreement) or retirement with consent of the Company, his right to the Vested Shares will vest as of the date of termination.

Mr. Jordan's right to an additional 150,000 restricted shares of Common Stock (Performance Shares) is generally subject to vesting provisions based on achievement of certain performance goals (the same performance goals that are applicable to Mr. Jordan's restricted stock award under the LICP for the 1997 performance cycle); provided that (1) if, during the Employment Period, the Company terminates Mr. Jordan's employment without Cause or he terminates employment for Good Reason, Mr. Jordan's right to the Performance Shares will vest as of the date of termination, (2) if, during the Employment Period, the Company terminates Mr. Jordan's employment for Cause or he voluntarily terminates employment without Good Reason, Mr. Jordan will forfeit all right to the Performance Shares as of the date of termination, and (3) if, prior to the end of the Employment Period and during calendar year 1997, Mr. Jordan terminates employment by reason of death, Disability or retirement with the consent of the Company, he will forfeit all right to the Performance Shares as of the date of termination. If Mr. Jordan terminates employment prior to the end of the Employment Period and during calendar year 1998 or 1999, he will have a vested right to a portion of the Performance Shares, based on the Compensation Committee's determination of the extent to which the performance goals for the 1997 LICP performance cycle are, based on information then available, expected to be achieved and prorated based on time elapsed in the performance cycle. Upon Mr. Jordan's completion of the Employment Period without termination of employment, he will have a vested right to all or a portion of the Performance Shares, based on the Compensation Committee's determination of the extent to which the performance goals for the 1997 LICP performance cycle are, based on information then available, expected to be achieved.

The restated agreement provides that Mr. Jordan has the right to receive payments of salary and bonus previously deferred under the Company's deferred compensation plan in fifteen annual installments and that the Company may not exercise any right it otherwise has to make payment in a lump sum. In addition, the agreement provides for an extension of the commencement date of the deferred payments under the deferred compensation plan from June 1, 1999 until June 1, 2000 in consideration of Mr. Jordan's agreement to make himself available for up to 40 hours per month as a consultant from June 2, 1999, until June 1, 2000.

Upon the Company's termination of Mr. Jordan without Cause or his termination of employment for Good Reason following a Change of Control (as defined below), the Company will pay Mr. Jordan a cash payment equal to 2.99 times Mr. Jordan's base amount (generally, his average taxable compensation received from the Company for the five calendar years prior to the Change of Control) under Internal Revenue Code (Code) Section 280G, in addition to fulfillment of certain other obligations generally applicable upon termination of employment, and any unvested portion of the 300,000 restricted shares of Common Stock will vest. To the extent that payments made to Mr. Jordan upon a Change of Control would result in the application of an excise tax (and related loss of deduction to the Company) under the Code, such payments will be reduced as necessary to avoid this result. In the event that an overpayment is made, such payment will be recharacterized as a loan that Mr. Jordan is obligated to repay with interest in order to avoid the excise tax and lost deduction. Generally, a Change of Control will be deemed to occur under the Agreement if (i) an individual, entity or group acquires beneficial ownership of 30 percent or more of the Company's Common Stock, (ii) the individuals constituting the Board of Directors of the Company on January 1, 1997, including their designated successors (Incumbent Board) cease to constitute a majority of the Board or (iii) a merger or other business combination to which the Company is a party is consummated unless (1) the Company's stockholders prior to the business combination own more than 70 percent of the resulting parent entity, (2) there is not a 30 percent stockholder of the resulting parent entity except to the extent such ownership existed prior to the business combination and (3) a majority of the board of the resulting parent entity after the transaction were members of the Incumbent Board at the time of the initial agreement or board action providing for the business combination.

HL&P and Mr. Cottle entered into an employment agreement in 1993 that continues indefinitely, subject to termination by either party on 30 days' notice (Employment Period). The agreement generally provides for employment of Mr. Cottle as a group vice president - nuclear or in such other executive capacities as may be determined from time to time, a minimum annual base salary ($235,000), bonuses and participation in those employee benefit plans and programs available to similarly situated employees during the Employment Period. In addition, if the Employment Period terminates after April 5, 2003, Mr. Cottle will be eligible for supplemental pension, disability or death benefits determined as if his employment had commenced ten years prior to the initial date of the Employment Period.

The Company and Mr. McClanahan entered into a benefits agreement in 1991 which provided for the treatment of his employee benefits while he served as an officer of the Company's cable television subsidiary from 1991 to 1993 (sold in July 1995). The agreement provided that Mr. McClanahan would be compensated for the difference between the cable television subsidiary benefits and the Company benefits he would have received if he had been an employee of the Company during his period of employment with the subsidiary. Such amounts will be paid to Mr. McClanahan at such time benefits are due to him under the terms of the Company's pension and savings plans.

COMPENSATION OF DIRECTORS. The directors of HL&P do not receive any separate compensation for their service on the HL&P board of directors.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

(a) The Company

The information called for by Item 12 with respect to the Company is or will be set forth in the definitive proxy statement relating to the Company's 1997 annual meeting of shareholders pursuant to the Commission's Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 12 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

(b) HL&P

As of the date of this Report, the Company owned all 1,000 authorized, issued and outstanding shares of HL&P's Class A voting common stock, without par value.

The following table sets forth information as of March 1, 1997, with respect to the beneficial ownership of shares of the Company's Common Stock by each current director, the Named Officers and, as a group, by such persons and other executive officers of HL&P. No person or member of the group listed owns any equity securities of HL&P or any other subsidiary of the Company. Unless otherwise indicated, each person or member of the group listed has sole voting and sole investment power with respect to the shares of Common Stock listed. No ownership shown in the table represents 1 percent or more of the outstanding shares of Common Stock.

Name	Shares of Common Stock Beneficially Owned
William T. Cottle	19,445(1)(2)
Charles Crisp	0
Jack Greenwade	52,906(1)(2)(3)
Lee W. Hogan	31,719(1)(2)(3)
Don D. Jordan	279,905(1)(2)(4)
Hugh Rice Kelly	73,992(1)(2)(3)
R. Steve Letbetter	66,911(1)(2)(3)
David M. McClanahan	32,696(1)(2)(3)
Stephen W. Naeve	32,658(1)(2)
Stephen C. Schaeffer	39,855(1)(2)
Robert L. Waldrop	25,998(1)(2)(5)
All of the above and other executive officers as a group (12 persons)	668,912(1)(2)(3)

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(1) Includes shares held under the Company's savings plan, as to which the participant has sole voting power (subject to such power being exercised by the plan's trustee in the same proportion as directed shares in the savings plan are voted in the event the participant does not exercise voting power). The shares held under the plan are reported as of December 31, 1996.

(2) The ownership shown in the table includes shares which may be acquired within 60 days on exercise of outstanding stock options granted under the Company's long-term incentive compensation plan by each of the Named Officers and the group, as follows: Mr. Cottle - 9,187 shares; Mr. Jordan - 113,574 shares; Mr. Kelly - 22,842 shares; Mr. Letbetter - 24,047 shares; Mr. McClanahan - 12,206 shares; and the group -234,106 shares.

(3) Includes shares held under the Company's Investor's Choice dividend reinvestment and stock purchase plan as of December 31, 1996.

(4) Voting power and investment power with respect to 1,152 of the shares listed are shared with Mr. Jordan's spouse.

(5) Mr. Waldrop disclaims beneficial ownership of 126 of the shares listed, which are owned by his wife.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

(a) The Company

The information called for by Item 13 is or will be set forth in the definitive proxy statement relating to the Company's 1996 annual meeting of shareholders pursuant to the Commission's Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 13 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

(b) HL&P

As of March 16, 1997 Mr. Crisp, one of HL&P's directors, was indebted to HL&P in the amount of $300,000. The indebtedness arose from a cash payment to Mr. Crisp in 1996 in connection with his acceptance of employment with HL&P. The terms of the loan provide that it does not bear interest and that one-half of the principal will be forgiven six months after Mr. Crisp's initial employment date of September 23, 1996 and the balance twelve months after such date, except in the event of his voluntary termination of employment.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a)(1) FINANCIAL STATEMENTS.

(a)(2) FINANCIAL STATEMENT SCHEDULES FOR THE THREE YEARS ENDED DECEMBER 31, 1996.

The following schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements:

I, III, IV and V.

See Index of Exhibits on page 105, which also includes the management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(10)(iii) of Regulation S-K.

(b) REPORTS ON FORM 8-K.
Form 8-K of the Company and HL&P dated August 11, 1996.
Form 8-K of HL&P dated February 4, 1997.
Form 8-K of the Company and HL&P dated February 5, 1997.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
SCHEDULE II - RESERVES

FOR THE THREE YEARS ENDED DECEMBER 31, 1996
(THOUSANDS OF DOLLARS)

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions from Reserves	Balance at End of Period
Year Ended December 31, 1996:					
Accumulated provisions deducted from related assets on balance sheet:					
Uncollectible advances	$ 27,412	$ 5,015	$ 732		$ 33,159
Reserves other than those deducted from assets on balance sheet:					
Property insurance	(2,117)	2,187			70
Injuries and damages	1,523	3,156		$ 3,551	1,128
Non-regulated project contingencies		2,929	(633)		2,296
Year Ended December 31, 1995:					
Accumulated provisions deducted from related assets on balance sheet:					
Uncollectible advances		$ 27,412			$ 27,412
Net assets of discontinued cable television operations ...	$ 282,958			$ 282,958	
Reserves other than those deducted from assets on balance sheet:					
Property insurance	(3,468)	2,187		836	(2,117)
Injuries and damages	2,241	2,327		3,045	1,523
Year Ended December 31, 1994:					
Accumulated provisions deducted from related assets on balance sheet:					
Net assets of discontinued cable television operations ...	$ 243,400	$ 44,319	$ 1,799	$ 6,560	$ 282,958
Reserves other than those deducted from assets on balance sheet:					
Property insurance	(2,891)	2,187		2,764	(3,468)
Injuries and damages	2,891	3,099		3,749	2,241

Notes:

(A) Deductions from reserves represent losses or expenses for which the respective reserves were created. In the case of the uncollectible accounts reserve, such deductions are net of recoveries of amounts previously written off.

(B) The uncollectible advances reflect the combined amounts lent by HI Energy on a subordinated basis to the Ford Heights and Fulton Projects as of December 31, 1996. If the two projects no longer receive or qualify to receive the operating subsidy provided by the Illinois Retail Rate Law, the projects would be unable to repay such amounts.

HOUSTON LIGHTING & POWER COMPANY
SCHEDULE II - RESERVES

FOR THE THREE YEARS ENDED DECEMBER 31, 1996
(THOUSANDS OF DOLLARS)

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions from Reserves	Balance at End of Period
Year Ended December 31, 1996:					
Reserves other than those deducted from assets on balance sheet:					
Property insurance	$ (2,117)	$ 2,187			$ 70
Injuries and damages	1,523	3,156		$ 3,551	1,128
Year Ended December 31, 1995:					
Reserves other than those deducted from assets on balance sheet:					
Property insurance	$ (3,468)	$ 2,187		$ 836	$(2,117)
Injuries and damages	2,241	2,327		3,045	1,523
Year Ended December 31, 1994:					
Reserves other than those deducted from assets on balance sheet:					
Property insurance	$ (2,891)	$ 2,187		$ 2,764	$(3,468)
Injuries and damages	2,891	3,099		3,749	2,241

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Notes:

(A) Deductions from reserves represent losses or expenses for which the respective reserves were created.
(B) HL&P has no reserves for uncollectible accounts due to sales of accounts receivable.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) 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, IN THE CITY OF HOUSTON AND STATE OF TEXAS, ON THE 20TH DAY OF MARCH, 1997.

HOUSTON INDUSTRIES INCORPORATED (Registrant)

By DON D. JORDAN

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

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES INDICATED ON MARCH 20, 1997.

SIGNATURE	TITLE
DON D. JORDAN (Don D. Jordan)	Chairman and Chief Executive Officer and Director (Principal Executive Officer)
STEPHEN W. NAEVE (Stephen W. Naeve)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
MARY P. RICCIARDELLO (Mary P. Ricciardello)	Vice President and Comptroller (Principal Accounting Officer)
JAMES A. BAKER (James A. Baker)	Director
RICHARD E. BALZHISER (Richard E. Balzhiser)	Director
MILTON CARROLL (Milton Carroll)	Director
JOHN T. CATER (John T. Cater)	Director
ROBERT J. CRUIKSHANK (Robert J. Cruikshank)	Director
LINNET F. DEILY (Linnet F. Deily)	Director
LEE W. HOGAN (Lee W. Hogan)	Director
HOWARD W. HORNE (Howard W. Horne)	Director
R. STEVE LETBETTER (R. Steve Letbetter)	Director
ALEXANDER F. SCHILT (Alexander F. Schilt)	Director
JACK T. TROTTER (Jack T. Trotter)	Director
BERTRAM WOLFE	

- -------------------------------
(Bertram Wolfe) Director

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) 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, IN THE CITY OF HOUSTON AND STATE OF TEXAS, ON THE 20TH DAY OF MARCH, 1997. THE SIGNATURE OF HOUSTON LIGHTING & POWER COMPANY SHALL BE DEEMED TO RELATE ONLY TO MATTERS HAVING REFERENCE TO SUCH COMPANY AND ANY SUBSIDIARIES THEREOF.

HOUSTON INDUSTRIES INCORPORATED (Registrant)

By DON D. JORDAN

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

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES INDICATED ON MARCH 20, 1997. THE SIGNATURE OF EACH OF THE UNDERSIGNED SHALL BE DEEMED TO RELATE ONLY TO MATTERS HAVING REFERENCE TO HOUSTON LIGHTING & POWER COMPANY AND ANY SUBSIDIARIES THEREOF.

SIGNATURE	TITLE
DON D. JORDAN (Don D. Jordan)	Chairman and Chief Executive Officer and Director (Principal Executive Officer and Principal Financial Officer)
MARY P. RICCIARDELLO (Mary P. Ricciardello)	Vice President and Comptroller (Principal Accounting Officer)
CHARLES R. CRISP (Charles R. Crisp)	Director
WILLIAM T. COTTLE (William T. Cottle)	Director
JACK D. GREENWADE (Jack D. Greenwade)	Director
LEE W. HOGAN (Lee W. Hogan)	Director
HUGH RICE KELLY (Hugh Rice Kelly)	Director
R. STEVE LETBETTER (R. Steve Letbetter)	Director
DAVID M. MCCLANAHAN (David M. McClanahan)	Director
STEPHEN W. NAEVE (Stephen W. Naeve)	Director
STEPHEN C. SCHAEFFER (Stephen C. Schaeffer)	Director

ROBERT L. WALDROP - ------------------------------- (Robert L. Waldrop)	Director

HOUSTON INDUSTRIES INCORPORATED
HOUSTON LIGHTING & POWER COMPANY

EXHIBITS TO THE ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

INDEX OF EXHIBITS

Exhibits not incorporated by reference to a prior filing are designated by a cross (+); all exhibits not so designated are incorporated herein by reference to a prior filing as indicated. Exhibits designated by an asterisk (*) are management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(10)(iii) of Regulation S-K.

(a) Houston Industries Incorporated

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
2(a)	Agreement and Plan of Merger among the Company, HL&P, HI Merger, Inc. and NorAm dated August 11, 1996	Form 8-K for the quarter dated August 11, 1996	1-7629	2
2(b)	Amendment to Agreement and Plan of Merger among the Company, HL&P, HI Merger, Inc. and NorAm dated August 11, 1996	Registration Statement on Form S-4	333-11329	2(c)
3(a)	Restated Articles of Incorporation of the Company (Restated as of May 1993)	Form 10-Q for the quarter ended June 30, 1993	1-7629	3
3(b)	Amended and Restated Bylaws of the Company (as of May 22, 1996)	Form 10-Q for the quarter ended June 30, 1996	1-7629	3
4(a)(1)	Mortgage and Deed of Trust dated November 1, 1944 between HL&P and South Texas Commercial National Bank of Houston (Texas Commerce Bank National Association, as successor trustee), as Trustee, as amended and supplemented by 20 Supplemental Indentures thereto	Form S-7 of HL&P filed on August 25, 1977	2-59748	2(b)

4(a)(2)	Twenty-First through Fiftieth Supplemental Indentures to HL&P Mortgage and Deed of Trust	HL&P's Form 10-K for the year ended December 31, 1989	1-3187	4(a)(2)
4(a)(3)	Fifty-First Supple-mental Indenture dated March 25, 1991 to HL&P Mortgage and Deed of Trust	HL&P's Form 10-Q for the quarter ended June 30, 1991	1-3187	4(a)
4(a)(4)	Fifty-Second through Fifty-Fifth Supplemental Indentures, each dated March 1, 1992, to HL&P Mortgage and Deed of Trust	HL&P's Form 10-Q for the quarter ended March 31, 1992	1-3187	4
4(a)(5)	Fifty-Sixth and Fifty-Seventh Supplemental Indentures, each dated October 1, 1992, to HL&P Mortgage and Deed of Trust	HL&P's Form 10-Q for the quarter ended September 30, 1992	1-3187	4
4(a)(6)	Fifty-Eighth and Fifty-Ninth Supplemental Indenture, each dated as of March 1, 1993 to HL&P Mortgage and Deed of Trust	HL&P's Form 10-Q for the quarter ended March 31, 1993	1-3187	4
4(a)(7)	Sixtieth Supplemental Indenture dated as July 1, 1993 to HL&P Mortgage and Deed of Trust	HL&P's Form 10-Q for the quarter ended June 30, 1993	1-3187	4
4(a)(8)	Sixty-First through Sixty-Third Supplemental Indentures to HL&P Mortgage and Deed of Trust	HL&P's Form 10-K for the year ended December 31, 1993	1-3187	4(a)(8)

4(a)(9)	Sixty-Fourth and Sixty-Fifth Supplemental Indentures, each dated as of July 1, 1995, to HL&P Mortgage and Deed of Trust	HL&P's Form 10-K for the year ended December 31, 1995	1-3187	4(a)(9)
4(b)(1)	Rights Agreement dated July 11, 1990 between the Company and Texas Commerce Bank National Association, as Rights Agent (Rights Agent), which includes form of Statement of Resolution Establishing Series of Shares designated Series A Preference Stock and form of Rights Certificate	Form 8-K dated July 11, 1990	1-7629	4(a)(1)
4(b)(2)	Agreement and Appointment of Agent dated as of July 11, 1990 between the Company and the Rights Agent	Form 8-K dated July 11, 1990	1-7629	4(a)(2)
4(b)(3)	Form of Amended and Restated Rights Agreement to be executed upon the closing of the Merger, including form of Statement of Resolution Establishing Series Shares Designated Series A Preference Stock and Form of Rights Agreement	Registration Statement on Form 4	333-11329	4(b)(1)
4(c)(1)	Indenture dated as of April 1, 1991 between the Company and NationsBank of Texas, National Association, as Trustee	Form 10-Q for the quarter ended June 30, 1991	1-7629	4(b)

Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Company has not filed as exhibits to this Form 10-K certain long-term debt instruments, under which the total amount of securities authorized do not exceed 10 percent of the total assets of the Company and its subsidiaries on a consolidated basis. The Company hereby agrees to furnish a copy of any such instrument to the SEC upon request.

*10(a)	Executive Benefit Plan of the Company and First and Second Amendments thereto (effective as of June 1, 1982, July 1, 1984, and May 7, 1986, respectively)	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(a)(1) 10(a)(2) and 10(a)(3)
*10(b)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1982)	Form 10-K for the year ended December 31, 1991	1-7629	10(b)
*10(b)(2)	First Amendment to Exhibit 10(b)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(a)
*10(b)(3)	Second Amendment to Exhibit 10(b)(1) (effective as of November 4, 1992)	Form 10-K for the year ended December 31, 1992	1-7629	10(b)(3)
*10(b)(4)	Third Amendment to Exhibit 10(b)(1) (effective as of September 7, 1994)	Form 10-K for the year ended December 31, 1994	1-7629	10(b)(4)
*10(c)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1985)	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(b)(1)
*10(c)(2)	First Amendment to Exhibit 10(c)(1) (effective as of January 1, 1985)	Form 10-K for the year ended December 31, 1988	1-7629	10(b)(3)
*10(c)(3)	Second Amendment to Exhibit 10(c)(1) (effective as of January 1, 1985)	Form 10-K for the year ended December 31, 1991	1-7629	10(c)(3)
*10(c)(4)	Third Amendment to Exhibit 10(c)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(b)

*10(c)(5)	Fourth Amendment to Exhibit 10(c)(1) (effective as of November 4, 1992)	Form 10-K for the year ended December 31, 1992	1-7629	10(c)(5)
*10(c)(6)	Fifth Amendment to Exhibit 10(c)(1) (effective as of September 7, 1994)	Form 10-K for the the year ended December 31, 1994	1-7629	10(c)(6)
*10(d)	Executive Incentive Compensation Plan of HL&P (effective as of January 1, 1985)	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(b)(2)
*10(e)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1989)	Form 10-Q for the quarter ended June 30, 1989	1-7629	10(b)
*10(e)(2)	First Amendment to Exhibit 10(e)(1) (effective as of January 1, 1989)	Form 10-K for the year ended December 31, 1991	1-7629	10(e)(2)
*10(e)(3)	Second Amendment to Exhibit 10(e)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(c)
*10(e)(4)	Third Amendment to Exhibit 10(e)(1) (effective as of November 4, 1992)	Form 10-K for the year ended December 31, 1992	1-7629	10(c)(4)
*10(e)(5)	Fourth Amendment to Exhibit 10(e)(1) (effective as of September 7, 1994)	Form 10-K for the year ended December 31, 1994	1-7629	10(e)(5)
*10(f)(1)	Executive Incentive Compensation Plan of the Company (effec-tive as of January 1, 1991)	Form 10-K for the year ended December 31, 1990	1-7629	10(b)
*10(f)(2)	First Amendment to Exhibit 10(f)(1) (effective as of January 1, 1991)	Form 10-K for the year ended December 31, 1991	1-7629	10(f)(2)

*10(f)(3)	Second Amendment to Exhibit 10(f)(1) (effective as of March 30, 1982)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(d)
*10(f)(4)	Third Amendment to Exhibit 10(f)(1) (effective as of November 4, 1992)	Form 10-K for the year ended December 31, 1992	1-7629	10(f)(4)
*10(f)(5)	Fourth Amendment to Exhibit 10(f)(1) (effective as of January 1, 1993)	Form 10-K for the year ended December 31, 1992	1-7629	10(f)(5)
*10(f)(6)	Fifth Amendment to Exhibit 10(f)(1) (effective in part as of January 1, 1995 and in part as of September 7, 1994)	Form 10-K for the year ended December 31, 1994	1-7629	10(f)(6)
*10(f)(7)	Sixth Amendment to Exhibit 10(f)(1) (effective as of August 1, 1995)	Form 10-Q for the quarter ended June 30, 1995	1-7629	10(a)
*10(f)(8)	Seventh Amendment to Exhibit 10(f)(1) (effective as of January 1, 1996)	Form 10-Q for the quarter ended June 30, 1996	1-7629	10(a)
*10(g)(1)	Benefit Restoration Plan of the Company (effective as of June 1, 1985)	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(c)
*10(g)(2)	Benefit Restoration Plan of the Company, as amended and re-stated (effective as of January 1, 1988)	Form 10-K for the year ended December 31, 1991	1-7629	10(g)(2)
*10(g)(3)	Benefit Restoration Plan of the Company, as amended and re-stated (effective as of July 1, 1991)	Form 10-K for the year ended December 31, 1991	1-7629	10(g)(3)
*10(h)(1)	Deferred Compensation Plan of the Company (effective as of September 1, 1985)	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(d)
*10(h)(2)	First Amendment to Exhibit 10(h)(1) (effective as of September 1, 1985)	Form 10-K for the year ended December 31, 1990	1-7629	10(d)(2)

*10(h)(3)	Second Amendment to Exhibit 10(h)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(e)
*10(h)(4)	Third Amendment to Exhibit 10(h)(1) (effective as of June 2, 1993)	Form 10-K for the year ended December 31, 1993	1-7629	10(h)(4)
*10(h)(5)	Fourth Amendment to Exhibit 10(h)(1) (effective as of September 7, 1994)	Form 10-K for the year ended December 31, 1994	1-7629	10(h)(5)
*10(h)(6)	Fifth Amendment to Exhibit 10(h)(1) (effective as of August 1, 1995)	Form 10-Q for the the quarter ended June 30, 1995	1-7629	10(d)
*10(h)(7)	Sixth Amendment to Exhibit 10(h)(1) (effective as of December 1, 1995)	Form 10-Q for the quarter ended June 30, 1995	1-7629	10(b)
*10(i)(1)	Deferred Compensation Plan of the Company (effective as of January 1, 1989)	Form 10-Q for the quarter ended June 30, 1989	1-7629	10(a)
*10(i)(2)	First Amendment to Exhibit 10(i)(1) (effective as of January 1, 1989)	Form 10-K for the year ended December 31, 1989	1-7629	10(e)(3)
*10(i)(3)	Second Amendment to Exhibit 10(i)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(f)
*10(i)(4)	Third Amendment to Exhibit 10(i)(1) (effective as of June 2, 1993)	Form 10-K for the year ended December 31, 1993	1-7629	10(i)(4)
*10(i)(5)	Fourth Amendment to Exhibit 10(i)(1) (effective as of September 7, 1994)	Form 10-K for the year ended December 31, 1994	1-7629	10(i)(5)

*10(i)(6)	Fifth Amendment to Exhibit 10(i)(1) (effective as of August 1, 1995)	Form 10-Q for the quarter ended June 30, 1995	1-7629	10(c)
*10(i)(7)	Sixth Amendment to Exhibit 10(i)(1) (effective December 1, 1995)	Form 10-Q for the quarter ended June 30, 1995	1-7629	10(c)
*10(j)(1)	Deferred Compensation Plan of the Company (effective as of January 1, 1991)	Form 10-K for the year ended December 31, 1990	1-7629	10(d)(3)
*10(j)(2)	First Amendment to Exhibit 10(j)(1) (effective as of January 1, 1991)	Form 10-K for the year ended December 31, 1991	1-7629	10(j)(2)
*10(j)(3)	Second Amendment to Exhibit 10(j)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(g)
*10(j)(4)	Third Amendment to Exhibit 10(j)(1) (effective as of June 2, 1993)	Form 10-K for the year ended December 31, 1993	1-7629	10(j)(4)
*10(j)(5)	Fourth Amendment to Exhibit 10(j)(1) (effective as of December 1, 1993)	Form 10-K for the year ended December 31, 1993	1-7629	10(j)(5)
*10(j)(6)	Fifth Amendment to Exhibit 10(j)(1) (effective as of September 7, 1994)	Form 10-K for the year ended December 31, 1994	1-7629	10(j)(6)
*10(j)(7)	Sixth Amendment to Exhibit 10(j)(1) (effective as of August 1, 1995)	Form 10-Q for the quarter ended June 30, 1995	1-7629	10(b)
*10(j)(8)	Seventh Amendment to Exhibit 10(j)(1) (effective as of December 1, 1995)	Form 10-Q for the quarter ended June 30, 1996	1-7629	10(d)
*10(k)(1)	Long-Term Incentive Compensation Plan of the Company (effective as of January 1, 1989)	Form 10-Q for the quarter ended June 30, 1989	1-7629	10(c)

*10(k)(2)	First Amendment to Exhibit 10(k)(1) (effective as of January 1, 1990)	Form 10-K for the year ended December 31, 1989	1-7629	10(f)(2)
*10(k)(3)	Second Amendment to Exhibit 10(k)(1) (effective as of December 22, 1992)	Form 10-K for the year ended December 31, 1992	1-7629	10(k)(3)
*10(l)	Form of stock option agreement for nonqual-ified stock options granted under the Company's 1989 Long-Term Incentive Compensation Plan	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(h)
*10(m)	Forms of restricted stock agreement for restricted stock granted under the Company's 1989 Long-Term Incentive Compensation Plan	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(i)
*10(n)(1)	1994 Long-Term Incentive Compensation Plan of the Company (effective as of January 1, 1994)	Form 10-K for the year ended December 31, 1993	1-7629	10(n)(1)
*10(n)(2)	Form of stock option agreement for non-qualified stock options granted under the Company's 1994 Long-Term Incentive Com-pensation Plan	Form 10-K for the year ended December 31, 1993	1-7629	10(n)(2)
*10(o)(1)	Savings Restoration Plan of the Company (effective as of January 1, 1991)	Form 10-K for the year ended December 31, 1990	1-7629	10(f)
*10(o)(2)	First Amendment to Exhibit 10(o)(1) (effective as of January 1, 1992)	Form 10-K for the year ended December 31, 1991	1-7629	10(l)(2)

*10(p)	Director Benefits Plan, (effective as of January 1, 1992)	Form 10-K for the year ended December 31, 1991	1-7629	10(m)
*10(q)(1)	Executive Life Insurance Plan of the Company (effective as of January 1, 1994)	Form 10-K for the year ended December 31, 1993	1-7629	10(q)
*10(q)(2)	First Amendment to Exhibit 10(q)(1) (effective as of January 1, 1994)	Form 10-Q for the quarter ended June 30, 1995	1-7629	10
*10(r)	Employment and Supplemental Benefits Agreement between HL&P and Hugh Rice Kelly	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(f)
10(s)(1)	Houston Industries Incorporated Savings Trust between the Company and The Northern Trust Company, as Trustee. (As Amended and Restated Effective July 1, 1995)	Form 10-K for year ended December 31, 1995	1-7629	10(s)(4)
10(s)(2)	Note Purchase Agree-ment between the Company and the ESOP Trustee, dated as of October 5, 1990	Form 10-K for the year ended December 31, 1990	1-7629	10(j)(3)
*10(t)	Agreement dated June 6, 1994 between the Company and Don D. Jordan	Form 10-Q for the quarter ended June 30, 1994	1-7629	10(a)
*10(u)	Agreement dated June 6, 1994 between the Company and Don D. Sykora	Form 10-Q for the quarter ended June 30, 1994	1-7629	10(b)
*10(v)	Letter Agreement between the Company and Jack Trotter	Form 10-K for the year ended December 31, 1994	1-7629	10(v)

*10(w)	Employment Agreement dated April 5, 1993 between HL&P and William T. Cottle	Form 10-K for the year ended December 31, 1994	1-3187	10(t)
10(x)(1)	Stockholder's Agreement dated as of July 6, 1995 between the Company and Time Warner Inc.	Schedule 13-D dated July 6, 1995	5-19351	2
10(x)(2)	Registration Rights Agreement dated as of July 6, 1995 between the Company and Time Warner Inc.	Schedule 13-D dated July 6, 1995	5-19351	3
+10(x)(3)	Amendment to Exhibits 10(x)(1) and 10(x)(2) dated November 18, 1996.			
10(x)(4)	Certificate of Voting Powers, Designations, Preferences and Relative Participating, Optional or Other Special rights, and Qualifications, Limitations or Restrictions Thereof of Series D. Convertible Preferred Stock of Time Warner Inc.	Schedule 13-D dated July 6, 1995	5-19351	4
*10(y)	Houston Industries Incorporated Executive Deferred Compensation Trust, effective as of December 19, 1995	Form 10-K for the year ended December 31, 1995	1-7629	10(7)
*10(z)	Agreement dated June 14, 1991 between the Company and David M. McClanahan	Form 10-K for the year ended December 31, 1995	1-7629	10(aa)
*10(aa)	Supplemental Pension Agreement dated July 17, 1996, between the Company and Lee W. Hogan	Registration Statement on Form S-4	333-11329	10(aa)

*+10(bb)	Consulting Agreement dated January 14, 1997, between the Company and Milton Carroll
*+10(cc)	Employment Agreement dated February 25, 1997, between the Company and Don D. Jordan
+11	Computation of Earnings Per Common Share and Common Equivalent Share
+12	Computation of Ratios of Earnings to Fixed Charges
+21	Subsidiaries of the Company
+23	Consent of Deloitte & Touche LLP
+27	Financial Data Schedule

(b) Houston Lighting & Power Company

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
2(a)	Agreement and Plan of Merger among the Company, HL&P, HI Merger, Inc. and NorAm dated August 11, 1996	Form 8-K dated August 11, 1996	1-3187	2
2(b)	Amendment to Agreement and Plan of Merger among the Company, HL&P, HI Merger, Inc. and NorAm dated August 11, 1996	Registration Statement on Form S-4	333-11329	2(c)
3(a)	Restated Articles of Incorporation of HL&P dated May 11, 1993	Form 10-Q for the quarter ended June 30, 1993	1-3187	3
3(b)	Articles of Amendment to Exhibit 3(a) dated August 9, 1996	Registration Statement on Form S-4	333-11329	3(b)
+3(c)	Articles of Amendment of HL&P dated as of December 3, 1996			
3(d)	Amended and Restated Bylaws of HL&P (as of June 5, 1996)	Form 10-Q for the quarter ended June 30, 1996	1-3187	3
4(a)(1)	Mortgage and Deed of Trust dated November 1, 1944 between HL&P and South Texas Commercial National Bank of Houston (Texas Commerce Bank National Association, as successor trustee), as Trustee, as amended and supplemented by 20 Supplemental Indentures thereto	Form S-7 filed on August 25, 1977	2-59748	2(b)
4(a)(2)	Twenty-First through Fiftieth Supplemental Indentures to HL&P Mortgage and Deed of Trust	Form 10-K for the year ended December 31, 1989	1-3187	4(a)(2)

4(a)(3)	Fifty-First Supplemental Indenture dated March 25, 1991 to HL&P Mortgage and Deed of Trust	Form 10-Q for the quarter ended June 30, 1991	1-3187	4(a)
4(a)(4)	Fifty-Second through Fifty-Fifth Supplemental Indentures, each dated March 1, 1992, to HL&P Mortgage and Deed of Trust	Form 10-Q for the quarter ended March 31, 1992	1-3187	4
4(a)(5)	Fifty-Sixth and Fifty-Seventh Supplemental Indentures, each dated October 1, 1992, to HL&P Mortgage and Deed of Trust	Form 10-Q for the quarter ended September 30, 1992	1-3187	4
4(a)(6)	Fifty-Eighth and Fifty-Ninth Supplemental Indentures, each dated March 1, 1993, to HL&P Mortgage and Deed of Trust	Form 10-Q for the quarter ended March 31, 1993	1-3187	4
4(a)(7)	Sixtieth Supplemental Indenture dated as of July 1, 1993 to HL&P Mortgage and Deed of Trust	Form 10-Q for the quarter ended June 30, 1993	1-3187	4
4(a)(8)	Sixty-First through Sixty-Third Supplemental Indentures to HL&P Mortgage and Deed of Trust	HL&P's Form 10-K for the year ended December 31, 1993	1-3187	4(a)(8)
4(a)(9)	Sixty-Fourth and Sixty-Fifth Supplemental Indentures, each dated as of July 1, 1995, to HL&P Mortgage and Deed of Trust	HL&P's Form 10-K for the year ended December 31, 1995	1-3187	4(a)(9)
4(a)(10)	Junior Subordinated Trust Debenture Indenture between HL&P and The Bank of New York, as Trustee dated as of February 1, 1997	HL&P Form 8-K dated February 4, 1997	1-3187	4.1

4(a)(11)	Supplemental Indenture No. 1 to Junior Subordin-ated Indenture dated as of February 1, 1997, providing for the issuance of HL&P's 8.125% Junior Subordinated Deferrable Interest Debentures, Series A due March 31, 2046, including form of 8.125% junior subordinated interest debenture, Series A	HL&P Form 8-K dated February 4, 1997	1-3187	4.2A
4(a)(12)	Supplemental Indenture to Junior Subordinated Indenture dated as of February 1, 1997, providing for the issuance of 8.257% Junior Subordinated Deferrable Interest Debentures, Series B (due February 1, 2037) including form of junior subordinated interest debenture, Series B	HL&P Form 8-K dated February 4, 1997	1-3187	4.1
4(a)(13)	Amended and Restated Trust Agreement dated as of February 4, 1997 of HL&P Capital Trust 1, including form of Preferred Security	HL&P Form 8-K dated February 4, 1997	1-3187	4.5-A
4(a)(14)	Amended and Restated Trust Agreement dated as of February 4, 1997 of HL&P Capital Trust II, including form of Capital Security of HL&P Capital Trust II	HL&P Form 8-K dated February 4, 1997	1-3187	4.5-B
4(a)(15)	Guarantee Agreement relating to Capital Trust I, including Agreement as to Expenses and Liabilities	HL&P Form 8-K dated February 4, 1997	1-3187	4.8-A
4(a)(16)	Guarantee Agreement relating to Capital Trust II, including Agreement as to Expenses and Liabilities	HL&P Form 8-K dated February 4, 1997	1-3187	4.8-B

There have not been filed as exhibits to this Form 10-K certain long-term debt instruments, including indentures, under which the total amount of securities do not exceed 10 percent of the total assets of HL&P. HL&P hereby agrees to furnish a copy of any such instrument to the SEC upon request.

*10(a)	Executive Benefit Plan of the Company and First and Second Amendments thereto (effective as of June 1, 1982, July 1, 1984, and May 7, 1986, respectively)	The Company's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(a)(1) 10(a)(2) and 10(a)(3)
*10(b)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1982)	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(b)
*10(b)(2)	First Amendment to Exhibit 10(b)(1) (effective as of March 30, 1992)	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(a)
*10(b)(3)	Second Amendment to Exhibit 10(b)(1) (effective as of November 4, 1992)	The Company's Form 10-K for the year ended December 31, 1992	1-7629	10(b)(3)
*10(b)(4)	Third Amendment to Exhibit 10(b)(1) (effective as of September 7, 1994)	The Company's Form 10-K for the year ended December 31, 1994	1-7629	10(b)(4)
*10(c)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1985)	The Company's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(b)(1)
*10(c)(2)	First Amendment to Exhibit 10(c)(1) (effective as of January 1, 1985)	The Company's Form 10-K for the year ended December 31, 1988	1-7629	10(b)(3)
*10(c)(3)	Second Amendment to Exhibit 10(c)(1) (effective as of January 1, 1985)	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(c)(3)
*10(c)(4)	Third Amendment to Exhibit 10(c)(1) (effective as of March 30, 1992)	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(b)
*10(c)(5)	Fourth Amendment to Exhibit 10(c)(1) (effective as of November 4, 1992)	The Company's Form 10-K for the year ended December 31, 1992	1-7629	10(c)(5)

*10(c)(6)	Fifth Amendment to Exhibit 10(c)(1) (effective as of September 7, 1994)	The Company's Form 10-K for the year ended December 31, 1994	1-7629	10(c)(6)
*10(d)	Executive Incentive Compensation Plan of HL&P (effective as of January 1, 1985)	The Company's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(b)(2)
*10(e)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1989)	The Company's Form 10-Q for the quarter ended June 30, 1989	1-7629	10(b)
*10(e)(2)	First Amendment to Exhibit 10(e)(1) (effective as of January 1, 1989)	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(e)(2)
*10(e)(3)	Second Amendment to Exhibit 10(e)(1) (effective as of March 30, 1992)	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(c)
*10(e)(4)	Third Amendment to Exhibit 10(e)(1) (effective as of November 4, 1992)	The Company's Form 10-K for the year ended December 31, 1992	1-7629	10(c)(4)
*10(e)(5)	Fourth Amendment to Exhibit 10(e)(1) (effective as of September 7, 1994)	The Company's Form 10-K for the year ended December 31, 1994	1-7629	10(e)(5)
*10(f)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1991)	The Company's Form 10-K for the year ended December 31, 1990	1-7629	10(b)
*10(f)(2)	First Amendment to Exhibit 10(f)(1) (effective as of January 1, 1991)	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(f)(2)
*10(f)(3)	Second Amendment to Exhibit 10(f)(1) (effective as of March 30, 1992)	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(d)
*10(f)(4)	Third Amendment to Exhibit 10(f)(1) (effective as of November 4, 1992)	The Company's Form 10-K for the year ended December 31, 1992	1-7629	10(f)(4)
*10(f)(5)	Fourth Amendment to Exhibit 10(f)(1) (effective as of January 1, 1993)	The Company's Form 10-K for the year ended December 31, 1992	1-7629	10(f)(5)

*10(f)(6)	Fifth Amendment to Exhibit 10(f)(1) (effective in part as of January 1, 1995 and in part, as of September 7, 1994)	The Company's Form 10-K for the year ended December 31, 1994	1-7629	10(f)(6)
*10(f)(7)	Sixth Amendment to Exhibit 10(f)(1) (effective as of August 1, 1995)	The Company's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(a)
*10(f)(8)	Seventh Amendment to Exhibit 10(f)(1) (effective as of January 1, 1996)	The Company's Form 10-Q for the quarter ended June 30, 1996	1-7629	10(c)
*10(g)(1)	Benefit Restoration Plan of the Company (effective as of June 1, 1985)	The Company Form 10-Q for the quarter ended March 31, 1987	1-7629	10(c)
*10(g)(2)	Benefit Restoration Plan of the Company as amended and restated (effective as of January 1, 1988)	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(g)(2)
*10(g)(3)	Benefit Restoration Plan of the Company as amended and restated (effective as of July 1, 1991)	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(g)(3)
*10(h)(1)	Deferred Compensation Plan of the Company (effective as of September 1, 1985)	The Company's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(d)
*10(h)(2)	First Amendment to Exhibit 10(h)(1) (effective as of September 1, 1985)	The Company's Form 10-K for the year ended December 31, 1990	1-7629	10(d)(2)
*10(h)(3)	Second Amendment to Exhibit 10(h)(1) (effective as of March 30, 1992)	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(e)
*10(h)(4)	Third Amendment to Exhibit 10(h)(1) (effective as of June 2, 1993)	The Company's Form 10-K for the year ended December 31, 1993	1-7629	10(h)(4)
*10(h)(5)	Fourth Amendment to Exhibit 10(h)(1) effective as of September 7, 1994	The Company's Form 10-K for the year ended December 31, 1994	1-7629	10(h)(5)

*10(h)(6)	Fifth Amendment to Exhibit 10(h)(1) (effective as of August 1, 1995)	The Company's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(d)
*10(h)(7)	Sixth Amendment to Exhibit 10(h)(1) (effective as of December 1, 1995)	The Company's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(b)
*10(i)(1)	Deferred Compensation Plan of the Company (effective as of January 1, 1989)	The Company's Form 10-Q for the quarter ended June 30, 1989	1-7629	10(a)
*10(i)(2)	First Amendment to Exhibit 10(i)(1) (effective as of January 1, 1989)	The Company's Form 10-K for the year ended December 31, 1989	1-7629	10(e)(3)
*10(i)(3)	Second Amendment to Exhibit 10(i)(1) (effective as of March 30, 1992)	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(f)
*10(i)(4)	Third Amendment to Exhibit 10(i)(1) (effective as of June 2, 1993)	The Company's Form 10-K for the year ended December 31, 1993	1-7629	10(i)(4)
*10(i)(5)	Fourth Amendment to Exhibit 10(i)(1) (effective as of September 7, 1994)	The Company's Form 10-K for the year ended December 31, 1994	1-7629	10(i)(5)
*10(i)(6)	Fifth Amendment to Exhibit 10(i)(1) (effective as of August 1, 1995)	The Company's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(c)
*10(i)(7)	Sixth Amendment to Exhibit 10(i)(1) (effective as of December 1, 1995)	The Company's Form 10-Q for the quarter ended June 30, 1996	1-7629	10(c)
*10(j)(1)	Deferred Compensation Plan of the Company (effective as of January 1, 1991)	The Company's Form 10-K for the year ended December 31, 1990	1-7629	10(d)(3)
*10(j)(2)	First Amendment to Exhibit 10(j)(1) (effective as of January 1, 1991)	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(j)(2)
*10(j)(3)	Second Amendment to Exhibit 10(j)(1) (effective as of March 30, 1992)	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(g)

*10(j)(4)	Third Amendment to Exhibit 10(j)(1) (effective as of June 2, 1993)	The Company's Form 10-K for the year ended December 31, 1993	1-7629	10(j)(4)
*10(j)(5)	Fourth Amendment to Exhibit 10(j)(1) (effective as of December 1, 1993)	The Company's Form 10-K for the year ended December 31, 1993	1-7629	10(j)(5)
*10(j)(6)	Fifth Amendment to Exhibit 10(j)(1) (effective as of September 7, 1994)	The Company's Form 10-K for the year ended December 31, 1994	1-7629	10(j)(6)
*10(j)(7)	Sixth Amendment to Exhibit 10(j)(1) (effective as of August 1, 1995)	The Company's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(b)
*10(j)(8)	Seventh Amendment to Exhibit 10(j)(i) (effective as of December 1, 1995)	The Company's Form 10-Q for the quarter ended June 30, 1996	1-7629	10(d)
*10(k)(1)	Long-Term Incentive Compensation Plan of the Company (effective as of January 1, 1989)	The Company's Form 10-Q for the quarter ended June 30, 1989	1-7629	10(c)
*10(k)(2)	First Amendment to Exhibit 10(k)(1) (effective as of January 1, 1990)	The Company's Form 10-K for the year ended December 31, 1989	1-7629	10(f)(2)
*10(k)(3)	Second Amendment to Exhibit 10(k)(1) (effective as of December 22, 1992)	The Company's Form 10-K for the year ended December 31, 1992	1-7629	10(k)(3)
*10(l)	Form of stock option agreement for nonqualified stock options granted under the Company's 1989 Long-Term Incentive Compensation Plan	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(h)
*10(m)	Forms of restricted stock agreement for restricted stock granted under the Company's 1989 Long-Term Incentive Compensation Plan	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(i)

*10(n)(1)	1994 Long-Term Incentive Compensation Plan of the Company (effective as of January 1, 1994)	The Company's Form 10-K for the year ended December 31, 1993	1-7629	10(n)(1)
*10(n)(2)	Form of Stock Option Agreement for Nonqualified Stock Options Granted under the Company's 1994 Long-Term Incentive Compen- sation Plan	The Company's Form 10-K for the year ended December 31, 1993	1-7629	10(n)(2)
*10(o)(1)	Savings Restoration Plan of the Company (effective as of January 1, 1991)	The Company's Form 10-K for the year ended December 31, 1990	1-7629	10(f)
*10(o)(2)	First Amendment to Exhibit 10(o)(1) (effective as of January 1, 1992)	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(l)(2)
*10(p)	Director Benefits Plan, effective as of January 1, 1992	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(m)
*10(q)(1)	Executive Life Insurance Plan of the Company (effective as of January 1, 1994)	The Company's Form 10-K for the year ended December 31, 1993	1-7629	10(q)
*10(q)(2)	First Amendment to Exhibit 10(q) (effective as of January 1, 1994)	The Company's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(e)
*10(r)	Employment and Supplemental Benefits Agreement between HL&P and Hugh Rice Kelly	The Company's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(f)
10(s)(1)	Houston Industries Incorporated Savings Trust (As Amended and Restated Effective July 1, 1995)	The Company's Form 10-K for the year ended December 31, 1995	1-7629	10(s)(4)
10(s)(2)	Note Purchase Agreement between the Company and the ESOP Trustee, dated as of October 5, 1990	The Company's Form 10-K for the year ended December 31, 1990	1-7629	10(j)(3)

*10(t)	Employment Agreement dated April 5, 1993 between HL&P and William T. Cottle	Form 10-K for the year ended December 31, 1994	1-3187	10(t)
*10(u)	Houston Industries Incorporated Executive Deferred Compensation Trust, effective as of December 19, 1995	The Company's Form 10-K for the year ended December 31, 1995	1-7629	10(z)
*10(v)	Agreement dated June 14, 1991 between the Company and David M. McClanahan	The Company's Form 10-K for the year ended December 31, 1995	1-7629	10(aa)
*10(w)	Employment Agreement dated September 16, 1996 between HL&P and Charles R. Crisp	Form 10-Q for the quarter ended September 30, 1996	1-3187	10
+12	Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Fixed Charges and Preferred Dividends			
+23	Consent of Deloitte & Touche LLP			
+27	Financial Data Schedule			

EXHIBIT 10(X)(3)

TIME WARNER INC.
75 Rockefeller Plaza
New York, NY 10019

November 18, 1996

Houston Industries Incorporated (the "Stockholder")
1111 Louisiana
Houston, TX 77002

Re: Certain Amendments and Agreements

Dear Sirs:

Reference is made to (i) the Registration Rights Agreement dated as of July 6, 1995 (as amended from time to time, the "Registration Rights Agreement"), among Time Warner Companies Inc., formerly named Time Warner Inc. ("Buyer") and the Stockholder, (ii) the Stockholder's Agreement dated as of July 6, 1995 (as amended from time to time, the "Stockholder's Agreement"), among Buyer and the Stockholder and (iii) the Agreement and Plan of Merger dated as of January 26, 1995 (as amended from time to time, the "Merger Agreement"), among Buyer, KBLCOM Incorporated, Houston Industries Incorporated and TW KBLCOM Acquisition Corp. Capitalized terms used but not defined in any of the numbered paragraphs of this letter agreement have the meanings assigned thereto in the applicable agreement referred to in such numbered paragraph (as it may be amended by this letter agreement).

This letter agreement is being entered into in connection with Buyer's acquisition of Turner Broadcasting System, Inc. ("TBS"), in which Buyer and TBS have merged (the "Holding Company Transaction") with separate subsidiaries of Time Warner Inc., formerly named TW Inc. (the "Holding Company").

As part of the Holding Company Transaction, the Holding Company has issued a share of Series D Convertible Preferred Stock, par value $0.10 per share (the "Holdco Preferred Stock"), in exchange for each outstanding share of Buyer Preferred Stock, par value $1.00 per share (the "Buyer Preferred Stock"), and one share of common stock, par value $.0l per share, of the Holding Company in exchange for each outstanding share of common stock, par value $1.00 per share, of Buyer. The Holdco Preferred Stock has terms which are the same as those of the Buyer Preferred Stock (other than being convertible for the common stock of the Holding Company rather than the common stock of Buyer).

Effective as of the execution of this Agreement, the following agreements shall be amended as provided below:

1. Registration Rights Agreement. In as much as the Holding Company Transaction resulted in the Stockholder receiving capital stock of the Holding Company in exchange for capital stock of Buyer in a transaction that was registered under the Securities Act of 1933, the parties have

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concluded that the Registration Rights Agreement is no longer necessary. Accordingly, the Registration Rights Agreement is hereby terminated.

2. Stockholder's Agreement. The Stockholder's Agreement shall be amended as follows:

a. The following definitions shall be amended and restated as follows:

"Parent" means Time Warner Inc., a Delaware corporation, which was formerly named TW Inc. and is the public holding company of Old Time Warner as a result of the Holding Company Transaction.

"Parent Common Stock" means the common stock, par value $.01 per share, of Parent.

"Parent Series D Preferred Stock" means the Series D Convertible Preferred Stock, par value $0.10 per share, of Parent.

"Parent Stock" means the Parent Common Stock and the Parent Series D Preferred Stock.

b. The following definitions shall be added:

"Certificate of Designations" means the Certificate of the Voting Powers, Designations, Preferences and Relative, Participating, Optional or Other Special Rights, and Qualifications, Limitations or Restrictions Thereof, of Series D Convertible Preferred Stock of Parent as filed with the Secretary of State of the State of Delaware pursuant to Section 151 of the DGCL.

"Holding Company Transaction" means the mergers of Old Time Warner and Turner Broadcasting System, Inc. ("TBS") with separate subsidiaries of the Company pursuant to the Amended and Restated Agreement and Plan of Merger dated as of September 22, 1995 (as amended prior to October 10, 1996), among Old Time Warner, Parent, Time Warner Acquisition Corp., TW Acquisition Corp. and TBS.

"Old Time-Warner" means the corporation known immediately prior to the Holding Company Transaction as Time Warner Inc., a Delaware corporation (which was renamed Time Warner Companies Inc. as part of the Holding Company Transaction).

c. Section 2.02 shall be amended and restated as follows:

SECTION 2.02. Restrictions on Transfer. (a) Subject to paragraph (b) of this Section 2.02, the Stockholder agrees that it shall not (and shall use commercially reasonable efforts to cause its Affiliates not to), without the prior written consent of the board of directors of Parent, sell, transfer, pledge, encumber or otherwise dispose of, or agree to sell, transfer, pledge, encumber or otherwise dispose of, any securities of Parent, or any rights or options to acquire such securities, in a transaction or series of related transactions with a third party where the senior executives of Stockholder, at the time the Stockholder agrees to make (or if earlier with respect to a particular third party, at the time it acquires the right to make) such disposition, know, or after reasonable inquiry should have known, that such third party would, after giving effect to such transaction (including the exercise of any option or right that is the subject of the transaction), beneficially own directly or indirectly more than 5% of the aggregate Voting Power of all classes and series of Voting Securities of Parent that vote together as a single class on matters on which holders of Parent Common Stock are entitled to vote.

(b) Without limiting the generality of Section 2.02(a), the restrictions of Section 2.02(a) shall in no event be applicable to (i) any disposition pursuant to a firm commitment underwriting of securities conducted in a manner designed to effect a broad distribution of securities, (ii) a transaction that complies with the volume and manner of sale provisions of Rule 144(e) and (f) as in effect on the date hereof, (iii) a distribution or exchange offer by Stockholder that is intended in good faith to be reasonably available to all holders of Stockholder's equity securities or all holders of its common equity securities, (iv) any disposition pursuant to a bona fide pledge to a financial institution as security for money borrowed or the foreclosure of any such pledge, (v) any disposition pursuant to the terms of any tender or exchange offer for Voting Securities of Parent approved by the board of directors of Parent, (vi) any disposition to an Affiliate of the Stockholder that agrees in writing substantially in the form of Annex I hereto to be bound by the terms of this Section 2.02, (vii) any transfer of Voting Securities of Parent to Parent, (viii) transactions by one or more employee benefit plans (or trusts for such plans) of Stockholder and its Subsidiaries, provided that all decisions whether to purchase or sell Voting Securities of Parent are made by Persons independent of Stockholder and its Affiliates, (ix) shares of Parent Common Stock held by individuals that are Affiliates of the Stockholder within the limits set forth in clause (vii) of the last sentence of Section 2.01, (x) any shares of Parent Common Stock issued to the Stockholder pursuant to Section 8.01(g)(iii) of the Merger Agreement and (xi) any shares of Parent Common Stock issued to the Stockholder pursuant to Section 3.1 or 4.1 of the Certificate of Designations in payment of accrued and unpaid dividends on Parent Preferred Stock. Except as set forth in the immediately preceding sentence, no transferee will be required to be bound by this Agreement.

(c) For purposes of this Section 2.02, all determinations of the total number of outstanding shares of Parent Common Stock or the total number of

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outstanding Voting Securities of Parent shall be made on the basis of Parent's most recently filed Annual Report on Form 10-K, Quarterly Report on Form 10-Q or Current Report on Form 8-K, as applicable.

d. Upon the Stockholder's surrender to Parent of its certificates for shares of Parent Stock (as defined in the Stockholder's Agreement prior to these amendments) issued pursuant to the Merger Agreement, Parent shall deliver to the Stockholder certificates for the same number and type of shares of Parent Stock without the legend referred to in Section 3.01(b) of the Stockholder's Agreement (as in effect prior to the amendments effected hereby), but which shares shall otherwise comply with the provisions of the Stockholder's Agreement as amended hereby.

e. Sections 3.01(b), (d) and (e) of the Stockholder's Agreement shall be deleted in their entirety and Sections 3.01 (c) and (f) shall be redesignated as Sections 3.01(a) and (b) and shall be amended and restated as follows:

SECTION 3.01. Legends on Certificates for Parent Stock.

(a) The Stockholder agrees that each certificate for shares of Parent Stock (other than shares of Parent Common Stock issued to the Stockholder pursuant to (i) Section 8.01(g)(ii) of the Merger Agreement or (ii) Section 3.1 or 4.1 of the Certificate of Designations in payment of accrued and unpaid dividends on the Parent Preferred Stock) issued to or held (directly or indirectly, including through a nominee) by a Person that is subject to the provisions of this Agreement shall bear the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A STOCKHOLDER'S AGREEMENT DATED AS OF JULY 6, 1995, AS AMENDED BY LETTER DATED NOVEMBER 18, 1996 (AS SO AMENDED, THE "STOCKHOLDER'S AGREEMENT"), BETWEEN THE CORPORATION AND THE ORIGINAL HOLDER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE. A COPY OF THE STOCKHOLDER'S AGREEMENT MAY BE OBTAINED FROM THE CORPORATION FREE OF CHARGE. BY ITS ACCEPTANCE HEREOF, THE HOLDER OF THIS CERTIFICATE AGREES TO COMPLY IN ALL RESPECTS WITH THE REQUIREMENTS OF THE STOCKHOLDER'S AGREEMENT.

(b) Parent shall deliver new certificates for the Parent Preferred Stock and shares of Parent Common Stock without the legend specified by paragraph (a) of this Section 3.01, (x) after the termination of this Agreement (other than the covenants and agreements of this Article III) and (y) in connection with any transaction not prohibited by Section 2.02. In the case of a transaction covered by the foregoing clause (y), the Stockholder shall upon request provide a certificate signed by an executive officer (i) certifying as to the Stockholder's compliance with the condition specified in such clause and (ii) setting forth the basis therefor.

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f. The form of Annex I hereto shall be deemed to constitute Annex I to the Stockholder's Agreement.

g. The Holding Company shall become a party to the Stockholder's Agreement and hereby agrees to assume the rights and obligations of Old Time Warner thereunder; provided, however, that Old Time Warner shall remain a party thereto and remain bound by all its obligations thereunder.

3. Merger Agreement. The Merger Agreement shall be amended as follows:

a. The following definitions shall be added:

"Holding Company" means Time Warner Inc., a Delaware corporation, which was formerly named TW Inc. and is the public holding company of Buyer as a result of the Holding Company Transaction.

"Holding Company Common Stock" means the Common Stock, par value $.01 per share, of the Holding Company.

"Holding Company Transaction" means the mergers of Buyer and Turner Broadcasting System, Inc. ("TBS") with separate subsidiaries of the Holding Company pursuant to the Amended and Restated Agreement and Plan of Merger dated as of September 22, 1995 (as amended prior to October 10, 1996), among Buyer, the Holding Company, Time Warner Acquisition Corp., TW Acquisition Corp. and TBS.

b. Section 8.01(g)(ii) shall be amended to read as follows:

(ii) The amount payable by the Indemnity Obligor to an Indemnified Party with respect to a Loss shall be reduced by the amount of any insurance proceeds received by the Indemnified Party with respect to the Loss, and each of the parties hereby agrees to use its best efforts to collect any and all insurance proceeds to which it may be entitled in respect of any Loss. Any amount payable by Parent as an Indemnity Obligor shall, at the option of Parent, be paid either in cash or by delivering Holding Company Common Stock of equal value calculated on the basis of the Current Market Price as of the date such payment is made. If reasonably required by Stockholder, any such payment by Parent shall be made in shares of Holding Company Common Stock, valued as provided in the preceding sentence. For purposes of this section the definition of the term "Current Market Price" shall be deemed to refer to Holding Company Common Stock, rather than Parent Common Stock.

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c. The Holding Company shall become a party to the Merger Agreement, and shall agree to be bound thereby, for the sole purpose of ensuring that the obligations of Parent under Article X thereof are performed as set forth in said Article X.

4. No Other Amendment. Except as expressly amended by this letter agreement, the Stockholders Agreement and the Merger Agreement shall in all respects be ratified and confirmed and the terms of each thereof (as so expressly amended) shall remain in full force and effect in accordance with their terms.

5. Governing Law; Counterparts; Entire Agreement. This letter agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed wholly within that State (other than its rules of conflicts of laws to the extent that the application of the laws of another jurisdiction would be required thereby). This letter agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. This letter agreement and the agreements expressly referred to herein constitute the entire agreement between the parties hereto pertaining to the subject matter hereof, and supersede all prior and contemporaneous agreements and understandings between the parties with respect to such subject matter.

Please indicate your agreement to the foregoing terms of this letter agreement by executing it in the applicable space provided below and returning it to us.

Sincerely,

TIME WARNER, INC.,

by /s/ Spencer B. Hays

Name:
Title:

TIME WARNER COMPANIES INC.,

by /s/ Spencer B. Hays

Name:
Title:

TW/KBLCOM INC.
(formerly named KBLCOM
INCORPORATED),

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by /s/ Spencer B. Hays

Name:
Title:

Accepted and agreed to
as of the date first written
above:

HOUSTON INDUSTRIES INCORPORATED,
by /s/ Stephen W. Naeve

Name:
Title:

ANNEX I

FORM OF LETTER AGREEMENT

Time Warner Inc.
Time Warner Companies, Inc.
75 Rockefeller Plaza
New York, NY 10019

Houston Industries Incorporated
1111 Louisiana
Houston, TX 77002

Ladies and Gentlemen:

Reference is made to the Stockholder's Agreement dated as of July 6, 1995, as amended (the "Stockholder's Agreement"), by and among Time Warner Inc., formerly TW Inc., Time Warner Companies, Inc., and Houston Industries Incorporated. Capitalized terms used but not defined herein are used as defined in the Stockholder's Agreement.

In consideration of the assignment by [Stockholder] to ________________________ ("Assignee") of _____________ shares of Parent Common Stock and/or ____________ shares of Parent Preferred Stock on _____________, 19___, Assignee hereby agrees to be bound by the provisions of the Stockholder's Agreement applicable to Stockholder with respect to such Parent Stock as fully as if it were the Stockholder signatory thereto.

Dated: ___________________

____

By: ___________________________________
Name:
Title:

EXHIBIT 10(bb)

CONSULTING AGREEMENT

THIS AGREEMENT, made effective as of January 14, 1997, by and between Houston Industries Incorporated, a Texas corporation (the "Company"), and Milton Carroll ("Mr. Carroll"),

W I T N E S S E T H:

WHEREAS, Mr. Carroll is a Director of the Company and a knowledgeable and experienced businessman having significant background and qualifications in public affairs and government; and

WHEREAS, the Company is engaged in a critical regulatory, legislative and public issue debate concerning deregulation of the electric utility industry as well as other issues; and

WHEREAS, the Company desires to retain the services of Mr. Carroll as a Consultant to assist the Company in dealing with local, state and federal governmental and communications issues affecting the Company, and Mr. Carroll desires to serve the Company in such consulting capacity under the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties agree as follows:

1. Consulting Services. Pursuant to requests by relevant Company executive officers, Mr. Carroll agrees to perform consulting services in connection with deregulation issues, to include counseling with the Company and its officers concerning same; and participating in such negotiations, evaluations and personal contacts as may seem appropriate and advisable to advance the Company's goals in connection with deregulation and other issues. It is anticipated that such service will require extensive travel and substantial allocation of time. The principal location of work will be in Houston, Austin and Washington, D.C., but it is expected that work in other locations will arise.

The parties agree that Mr. Carroll shall render consulting services under this Agreement as an independent contractor and not as an employee of the Company. The Company will not exercise supervision over Mr. Carroll as to the details of the performance of his consulting services under this Agreement, or the means by which he performs such services, but rather will agree upon plans or projects as provided in this Agreement. Mr. Carroll agrees to avoid any other substantial personal service engagement for any other corporation during the term hereof, and shall at all times refrain from action or from participation in any transaction which would create any conflict of interest with the business or interests of the Company.

2. Fees for Consulting Services. In consideration of Mr. Carroll's consulting services to be performed pursuant to this Agreement, the Company hereby agrees to pay Mr. Carroll a flat fee of $20,000 per month.

3. Term. This Agreement shall commence as of January 14, 1997, and shall have an initial term of one year; provided, however, that either party may terminate this Consulting Agreement by giving written notice of termination to the other party at least thirty (30) days before the date upon which the termination is to take place.

4. Expenses. The Company shall pay or reimburse Mr. Carroll, upon his submission of appropriate expense vouchers or other documentation, for all expenses for travel, meals, lodging accommodations and other expenses incurred by him in the performance of his consulting services under this Agreement.

5. Lobby Registration. Mr. Carroll is not now and has no intention of becoming a professional lobbyist. However, the Company has informed him that his duties hereunder may require technical registration under the greatly expanded state and federal lobby laws. If so required, Mr. Carroll agrees to make such lobby filings as the law may require. The Company shall advise Mr. Carroll as to relevant requirements, prepare all necessary paperwork and provide legal advice as required to assure proper compliance with any lobby or related laws as may be applicable. The Company will defend and indemnify Mr. Carroll from any liability resulting from errors or claims thereunder to the full extent of the Company's bylaws applicable to Directors. Mr. Carroll will not be requested to nor shall he give, furnish or contribute monies, materials, supplies or make loans to or in support of any candidate or to any political committee, through or in the name of the Company, directly or indirectly.

6. Notices. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and if sent by first class mail, postage prepaid, to 11 Greenway Plaza, Suite 1418, Houston, Texas 77046 in the case of Mr. Carroll, and to P.O. Box 1700, Houston, Texas 77251 in the case of the Company.

7. Prohibition Against Assignment. Mr. Carroll agrees on behalf of himself, his heirs and personal representatives, that this Agreement and the rights, interests, benefits and other obligations of Mr. Carroll hereunder shall not be assigned, transferred, pledged, or hypothecated and shall not be subject to execution, attachment or similar process. Any attempt at assignment, pledge, hypothecation or other disposition of this Agreement or of the rights, interests, benefits and obligations of Mr. Carroll hereunder contrary to the foregoing provisions shall be null and void and without effect.

8. Waiver. The waiver by the Company or Mr. Carroll of a breach of any of the provisions of this Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach.

9. Controlling Law. This Agreement shall be interpreted and construed in accordance with the laws of the State of Texas.

10. Binding Effect. This Agreement shall be binding upon and inure to the benefit of any successor of the Company and any such successor shall be deemed substituted for the Company

under the terms of this Agreement. As used in this Agreement, the term "successor" shall include any person, corporation, or other business entity which at any time, whether by merger, purchase, or otherwise, acquires all or substantially all of the assets or business of the Company or gains control of the Company.

11. Entire Agreement. This instrument contains the entire agreement of the parties. It may not be changed orally but may be changed only by agreement in writing signed by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

Houston Industries Incorporated

By /s/ Bruce Gibson

Bruce Gibson
Senior Vice President, Governmental Affairs

/s/ Milton Carroll

Milton Carroll

EXHIBIT 10(cc)

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "Agreement") by and between HOUSTON INDUSTRIES INCORPORATED, a Texas corporation (said corporation, together with its successors and assigns permitted under this Agreement, hereinafter referred to as the "Company"), and DON D. JORDAN (the "Executive"), dated this 25th day of February, 1997.

W I T N E S S E T H:

WHEREAS, on June 4, 1994, the Company and the Executive entered into an Amended and Restated Employment Agreement (the "Prior Agreement") under which the Executive would receive certain employment rights and benefits; and

WHEREAS, the parties to said Prior Agreement desire to completely amend and restate said Prior Agreement to provide for the employment of the Executive through June 1, 1999 and for the consulting services of the Executive thereafter through June 1, 2000 on such terms and conditions as are set forth herein; and

WHEREAS, Section 15(A) of the Prior Agreement contemplates the amendment of the Prior Agreement with the mutual consent of the parties and the parties desire to amend and restate the Prior Agreement;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree that the Prior Agreement shall be amended and restated in its entirety to read as follows:

1. Certain Definitions:

"ACCRUED OBLIGATIONS" shall have the meaning set forth in Section 5(A)(i).

"AFFILIATED COMPANIES" shall mean and include any company controlled by, controlling or under common control with the Company within the meaning of Section 414(o) of the Code.

"ANNUAL BASE SALARY" shall mean the salary of the Executive provided for in Section 3(B)(i), as adjusted and in effect from time to time.

"BASE AMOUNT" shall mean the Executive's base amount, at the time of a Change of Control, within the meaning of Code Section 280G.

"BENEFICIARY" shall mean the person or persons, trustee or trustees of a trust, partnership, corporation, limited liability partnership, limited liability company or other entity named, in a writing filed with the Company, to receive any compensation or benefit payable hereunder following the Executive's death or, in the event no such person or entity is named or survives the Executive, his estate. In the event of the Executive's death or a judicial determination of his incompetence, reference in this Agreement to the Executive shall be deemed, where appropriate, to refer to his Beneficiary, estate or other legal representative.

"BOARD" shall mean the Board of Directors of the Company.

"CAUSE" shall mean (i) repeated violations by the Executive of the Executive's obligations under Section 3(A) (other than as a result of incapacity due to physical or mental illness) which are demonstrably willful and deliberate on the Executive's part, which are committed in bad faith or without reasonable belief that such violations are in the best interests of the Company and which are not remedied in a reasonable period of time after receipt of written notice from the Company specifying such violations or (ii) the conviction of the Executive of a felony involving moral turpitude.

A "CHANGE OF CONTROL" shall be deemed to have occurred upon the occurrence of any of the following events:

(a) Any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% 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 directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this paragraph (a), the following shall not in and of themselves constitute a Change of Control: (i) any acquisition of securities of the Company made directly from the Company and approved by a majority of the directors then comprising the Incumbent Board (as defined below), (ii) any increase in the percentage of the Outstanding Company Common Stock or the Outstanding Company Voting Securities beneficially owned by such Person that results solely from the acquisition, purchase or redemption of securities of the Company by the Company so long as such action by the Company was approved by a majority of the directors then comprising the Incumbent Board, unless and until such Person shall thereafter otherwise acquire or become the beneficial owner of additional shares of Outstanding Company Common Stock or Outstanding Company Voting Securities, or (iii) any acquisition by any corporation pursuant to a transaction that complies with clauses (i), (ii) and (iii) of paragraph (c) hereof; or

(b) Individuals who, as of January 1, 1997, constituted 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 subsequent to January 1, 1997 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 as though such individual were 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 (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) Consummation of a reorganization, merger or consolidation to which the Company is a party or sale or other disposition of all or substantially all the assets of the Company (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities that were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially owned, directly or indirectly, more than 70% 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 parent corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all the Company's assets either directly or through one or more subsidiaries) in substantially the same relative proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the then outstanding shares of common stock of the parent corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all the Company's assets either directly or through one or more subsidiaries) or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the parent corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the initial action of the Board, providing for such Business Combination; or

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company, unless such liquidation or dissolution is approved as a part of a plan of liquidation and dissolution involving a sale or other disposition of all or substantially all the assets of the Company that complies with clauses (i), (ii) and (iii) of paragraph (c) hereof.

"CODE" shall mean the Internal Revenue Code of 1986, as in effect on the Effective Date and as thereafter amended.

"CONSULTING PERIOD" shall mean the period commencing on June 2, 1999 and ending on June 1, 2000.

"DATE OF TERMINATION" shall mean (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the date on which the Company notifies the Executive of such termination, and (iii) if the Executive's employment is terminated by reason of death or Disability, the date of death of the Executive or the Disability Effective Date, as the case may be.

"DISABILITY" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative, such agreement as to acceptability by the Executive not to be withheld unreasonably.

"DISABILITY EFFECTIVE DATE" shall mean the date so described in Section 4(A).

"EFFECTIVE DATE" shall mean January 8, 1997.

"EICP" shall mean the Company's Executive Incentive Compensation Plan, as in effect from time to time, or any similar successor plan adopted by the Company.

"EMPLOYMENT PERIOD" shall mean the period commencing on the Effective Date and ending on June 1, 1999.

"GOOD REASON" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 3(A), or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to comply with any of the provisions of Section 3(B), other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) the Company's requiring the Executive to be based at any office or location other than that described in Section 3(A)(i) or the Company's failure to provide the residence required by Section 3(A)(i);

(iv) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(v) any failure by the Company to comply with and satisfy Section 11(C), provided that the successor described in Section 11(C) has received at least ten days' prior written notice from the Company or the Executive of the requirements of Section 11(C).

"LICP" shall mean the Company's Long-Term Incentive Compensation Plan, as in effect from time to time, or any similar successor plan adopted by the Company.

"NOTICE OF TERMINATION" shall mean a written notice that (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) if the Date of Termination is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 15 days after the giving of such notice except in the case of a Disability Effective Date).

"OTHER BENEFITS" shall mean the amounts so described in Section 5(A)(v).

"PERFORMANCE SHARES" shall mean the shares of Stock so described in Section 3(B)(ii).

"SERP" shall mean the Benefit Restoration Plan of the Company.

"SPOUSE" shall mean the person who is legally married to the Executive.

"STOCK AWARD" shall mean the award made to the Executive pursuant to Section 3(B)(ii).

"SUPPLEMENTAL RETIREMENT BENEFIT" shall mean the benefit so described in Section 5(A)(iii).

"VESTED SHARES" shall mean the shares of Stock so described in Section 3(B)(ii).

"WELFARE BENEFIT CONTINUATION" shall mean the continuation of benefits so described in Section 5(A)(iv).

2. Employment Period: The Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company, in accordance with the terms and provisions of this Agreement, for the Employment Period.

3. Terms of Employment:

A. Position and Duties: During the Employment Period:

(i) The Executive shall be employed as the Chairman of the Board and Chief Executive Officer of the Company and shall be responsible for the general management of the affairs of the Company. The Executive, in carrying out his duties under this Agreement, shall report only to the Board. The Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held by, exercised by or assigned to the Executive at the Effective Date. The Executive's services shall be performed at the location where the Executive was employed immediately preceding the Effective Date or any office which is the headquarters of the Company and is less than 50 miles from such location. It is hereby agreed and understood that the Executive may be required by the Company to move his business office (within the 50-mile limit set forth above) but not his principle place of residence. In the event that the Company requires the Executive to move his main office outside of Harris County, the Company shall provide, at no expense to the Executive, an apartment or townhome in the new location which is commensurate with the Executive's standard of living.

(ii) Excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. It shall not be a violation of this Agreement for the Executive to (a) serve on corporate, civic or charitable boards or committees, (b) deliver lectures, fulfill speaking engagements or teach at educational institutions and (c) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

B. Compensation:

(i) Annual Base Salary: During the Employment Period, the Executive shall receive an Annual Base Salary at a monthly rate at least equal to the monthly base salary paid to the Executive by the Company at the Effective Date. Annual Base Salary shall not be reduced.

(ii) Stock Award: The Executive shall be granted, subject to the terms and conditions herein set forth, an award (the "Stock Award") with respect to 300,000 shares of Common Stock, without par value, of the Company ("Stock"), effective as of the Effective Date. The Stock Award shall be implemented by a credit to a bookkeeping account maintained by the Company evidencing the accrual in favor of the Executive of the unfunded right to receive shares of Stock of the Company, subject to the following terms and conditions:

(a) Executive shall not have any rights as a stockholder in respect of the Stock Award, and the rights of Executive in respect of the shares of Stock deliverable thereunder may not be sold, assigned, transferred, pledged or otherwise encumbered, from the Effective Date unless and until the Executive is registered as the holder of such Stock on the records of the Company following the vesting of the Executive's rights with respect to such Stock Award as provided herein.

(b) The Executive's right to 150,000 shares of Stock (the "Vested Shares") shall vest on June 1, 1999, provided that the Executive has remained in the continuous employment of the Company during the Employment Period. If, during the Employment Period, the Company terminates the Executive's employment for Cause or the Executive voluntarily terminates employment without Good Reason, the Executive shall forfeit all right to receive the Vested Shares as of the Date of Termination. If, during the Employment Period, the Company terminates the Executive's employment without Cause, or the Executive terminates employment for Good Reason, or the Executive's employment terminates by reason of death, Disability or retirement pursuant to Section 5(F), the Executive's right to receive the Vested Shares shall vest as of the Date of Termination.

(c) The Executive's right to 150,000 shares of Stock (the "Performance Shares") shall generally be subject to achievement of certain performance goals as described in this paragraph (c); provided, however, that (1) if, during the Employment Period, the Company terminates the Executive's employment without Cause or the Executive terminates employment for Good Reason, the Executive's right to the Performance Shares shall vest as of the Date of Termination, (2) if, during the Employment Period, the Company terminates the Executive's employment for Cause or the Executive voluntarily terminates employment without Good Reason, the Executive shall forfeit all right to the Performance Shares as of the Date of Termination, and (3) if, prior to the end of the Employment Period and during calendar year 1997, the Executive's employment terminates by reason of death, Disability or retirement pursuant to Section 5(F), the Executive shall forfeit all right to Performance Shares as of the Date of Termination.

If, prior to the end of the Employment Period and during calendar year 1998 or 1999, the Executive's employment terminates by reason of death, Disability or retirement pursuant to Section 5(F), (x) the Committee will determine the degree to which the performance goals applicable to the Executive for the LICP performance cycle commencing in 1997 are expected to be achieved through the end of the year of termination of employment and the number (if any) of Performance Shares to which the Executive would be entitled based upon that level of performance if the Performance Shares had been the Executive's restricted stock award under the LICP for the 1997 LICP performance cycle (without regard to the potential for any award of "Opportunity Shares" under the LICP), (y) effective as of the Date of Termination, the Executive's right to receive a portion of the number of Performance Shares determined under part (x) of this sentence shall vest in the same proportion as the number of days elapsed from and including January 1, 1997 through and including the Date of Termination bears to 881 (the number of days from and including January 1, 1997 through and including May 31, 1999), and (z) effective as of the Date of Termination, the Executive shall forfeit all right to receive the remaining Performance Shares.

Upon Executive's completion of the Employment Period without termination of employment, (1) the Committee (within the meaning of the LICP) will determine the degree to which the performance goals applicable to the Executive for the LICP performance cycle commencing in 1997 are expected to be achieved through the end of that performance cycle and (2) effective as of June 1, 1999, the Executive shall have a vested right to receive the number (if any) of Performance Shares to which the Executive would be entitled, based upon the level of performance determined under part (1) of this sentence, if the Performance Shares had been the Executive's restricted stock award for the 1997 LICP performance cycle (without regard to the potential for any award of "Opportunity Shares" under the LICP).

The determinations of the Committee under this Section 3(B)(ii)(c) shall be final and binding on all parties.

(d) Shares of Stock shall be registered in the name of the Executive and certificates representing such shares of Stock shall be delivered to the Executive as soon as practicable following the date on which Executive's right to receive such shares vests. Unless the Company determines otherwise, shares of Stock delivered to the Executive shall consist of shares of Stock theretofore held by the Company in its treasury or by a subsidiary of the Company.

(e) Dividends shall not be paid to the Executive with respect to any share of Stock prior to the date that such share is registered in the name of the Executive on the books of the Company; provided, however, that an amount equal to the total amount of dividends payable with respect to such share from the Effective Date through the date that such share is delivered to the Executive (taking into account any adjustments pursuant to the following paragraph (f)) shall be paid to the Executive in cash on the date that the share of Stock is registered in the name of the Executive on the books of the Company.

(f) The issuance of Stock pursuant to the Stock Award made hereunder shall be subject to the provisions of Sections 13.1, 13.2 and 13.3 of the LICP as though the Stock Award had been granted as a Stock Incentive thereunder. The Company shall make all appropriate adjustments with respect to the Stock Award under Section 13.3 of the LICP on a basis no less favorable to the Executive than corresponding adjustments made with respect to any comparable award or incentive under the LICP or any other incentive plan of the Company in which peer executives participate. Notwithstanding any provision of this Section 3(B)(ii), the Performance Shares shall not in any respect be deemed an award under the LICP.

(iii) Benefit and Bonus Plans: During the Employment Period, except as otherwise set forth in this paragraph (iii), the Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Company and its Affiliated Companies. The Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its Affiliated Companies (including, without limitation, medical, prescription, dental, disability, the Executive salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its Affiliated Companies. Notwithstanding the foregoing:

(a) The Executive shall not be granted awards under the Company's Long-Term Incentive Compensation Plan for performance cycles commencing in 1998 or 1999; and

(b) The Executive shall be entitled to receive a separate monthly supplemental retirement benefit from the Company equal to the excess, if any, of (1) the benefit payable under the Retirement Plan and the SERP based on the benefit accrual formulas and actuarial assumptions in effect at the Effective Date over (2) the Executive's actual benefit (paid or payable) under the Retirement Plan and the SERP. Any such benefit shall commence at the same time and be payable in the same form as the amounts paid under the Retirement Plan and the SERP.

(iv) Expenses: During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the policies, practices and procedures of the Company and its Affiliated Companies to the extent applicable generally to other peer executives of the Company and its Affiliated Companies.

(v) Vacation and Fringe Benefits: During the Employment Period, the Executive shall be entitled to paid vacation and fringe benefits in accordance with the plans, practices, programs and policies of the Company and its Affiliated Companies to the extent applicable generally to other peer executives of the Company and its Affiliated Companies.

(vi) Other Perquisites: During the Employment Period, the Executive shall continue to be provided with such perquisites as were provided to the Executive on the Effective Date of this Agreement. Such perquisites shall be reviewed annually by the Compensation Committee of the Board.

4. Termination of Employment:

A. Death or Disability: The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period, it may give to the Executive written notice in accordance with Section 15(B) of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties.

B. Cause: The Company may terminate the Executive's employment during the Employment Period for Cause.

C. Good Reason: The Executive's employment may be terminated during the Employment Period by the Executive for Good Reason. For purposes of this Section 4(C), any good faith determination of Good Reason made by the Executive shall be conclusive.

D. Notice of Termination: Any termination by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 15(B). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

5. Obligations of the Company Upon Termination during Employment Period:

A. Good Reason, Other Than for Cause, Death or Disability: If, during the Employment Period, the Executive shall terminate employment for Good Reason or the Company shall terminate the Executive's employment (excluding a termination for Cause, for Disability or following a Change of Control as described in Section 5(E)), then:

(i) the Company shall pay to the Executive in a lump sum in cash (or common stock of the Company with respect to certain payments under the LICP), within 30 days after the Date of Termination, determined without any reduction for the present value of such lump-sum payment, the aggregate of:

(a) the Annual Base Salary payable to the Executive for the remainder of the Employment Period as if there had been no termination of employment;

(b) all bonuses payable to the Executive for the remainder of the Employment Period as if there had been no termination of employment (including, but not by way of limitation, all bonuses awarded to the Executive under the EICP and the LICP and all bonuses that would have been awarded to the Executive under the EICP and LICP during the remainder of the Employment Period), assuming, for purposes of determining the amount of any bonus, (i) that bonus awards continued to be granted at the levels most recently granted to the Executive prior to the Date of Termination (unless a reduction in the level of any bonus award was the basis for a termination for Good Reason, in which case reference shall be made to the level in effect prior to such reduction) and (ii) that any applicable performance objectives were met at the "target" level; and

(c) any accrued vacation pay;

in each case to the extent not theretofore paid (the sum of the amounts described in clauses (a) - (c) above shall be hereinafter referred to as the "Accrued Obligations");

(ii) the benefits accrued up to the Date of Termination under the Retirement Plan and the SERP or any successor plan thereto shall commence thereunder in such form and at such time as elected by the Executive in accordance with the terms of said Plans, subject to the requirements of Section 16;

(iii) the Company shall pay a separate monthly supplemental retirement benefit equal to the difference between (1) the benefit payable under the Retirement Plan and the SERP or any other successor supplemental and/or excess retirement plan of the Company and its Affiliated Companies providing benefits for the Executive which the Executive would receive if the Executive's employment continued at the compensation level provided for in Section 3(B) for the remainder of the Employment Period, assuming for this purpose that (a) all accrued benefits are fully vested and (b) benefit accrual formulas and actuarial assumptions are no less advantageous to the Executive than those in effect at the Effective Date, and (2) the Executive's actual benefit (paid or payable), if any, under the Retirement Plan and the SERP (the amount of such benefit calculated under this Section 5(A)(iii), which shall commence at the same time and be payable in the same form as the amounts described in Section 5(A)(ii), shall be hereinafter referred to as the "Supplemental Retirement Benefit");

(iv) for the remainder of the Employment Period, or such longer period as any plan, program, practice or policy may provide, the Company shall continue benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the welfare benefit plans, programs, practices and policies described in Section 3(B)(iii) if the Executive's employment had not been terminated; provided, however, that if the Executive becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility (such continuation of such benefits for the applicable period herein set forth shall be hereinafter referred to as "Welfare Benefit Continuation");

(v) to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive and/or the Executive's family any other amounts or benefits required to be paid or provided or which the Executive and/or the Executive's family is eligible to receive pursuant to this Agreement and under any plan, program, policy or practice or contract or agreement of the Company and its Affiliated Companies as in effect and applicable generally to other peer executives and their families (such other amounts and benefits, payable as described in this paragraph, shall be hereinafter referred to as the "Other Benefits"); provided, however, that the Company and the Board hereby agree to cause the Deferred Compensation Plan to be administered or amended so that any and all amounts of salary and/or bonus theretofore deferred by the Executive and held under the Deferred Compensation Plan of the Company with instructions from the Executive to pay in 15 annual installments shall be paid in said 15 installments commencing on June 1, 2000, notwithstanding any provision of the Deferred Compensation Plan to the contrary; and

(vi) the Company shall pay to the Executive in a lump sum in cash, within 30 days after the Date of Termination, the amount it would have contributed as an employer contribution to the tax-qualified Savings Plan of the Company for the remainder of the Employment Period had the Executive contributed at the maximum rate during said period and had the terms of said Savings Plan as in effect on the Effective Date remained unchanged during said remainder of the Employment Period;

(vii) the Company shall timely deliver to the Executive all shares of Stock to which he has a vested right pursuant to Section 3(B)(ii), together with a cash amount equal to all dividends that were payable with respect to such shares of Stock from the Effective Date through the date of delivery as provided in Section 3(B)(ii); and

(viii) the Company shall fulfill the requirements of Section 3(B)(iii)(b), Section 5(G)-(I) and Section 16.

B. Death: If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the Executive's Beneficiary or other legal representatives under this Agreement, other than for (i) payment of Accrued Obligations (which shall be paid to the Executive's Beneficiary in a lump sum in cash (or common stock of the Company with respect to certain payments under the LICP) within 30 days of the Date of Termination), (ii) the timely payment or provision of the Welfare Benefit Continuation and Other Benefits in accordance with Section 5(A), (iii) the timely delivery of all shares of Stock to which the Executive has a vested right pursuant to Section 3(B)(ii), together with a cash amount equal to all dividends that were payable with respect to such shares of Stock from the Effective Date through the date of delivery as provided in Section 3(B)(ii), and (iv) fulfillment of the requirements of Section 3(B)(iii)(b), Section 5(H) and Section 16.

C. Disability: If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, this Agreement shall terminate without further obligations to the Executive under this Agreement, other than for (i) payment of Accrued Obligations (which shall be paid to the Executive in a lump sum in cash (or common stock of the Company with respect to certain payments under the LICP) within 30 days of the Date of Termination), (ii) the timely payment or provision of the Welfare Benefit Continuation and Other Benefits in accordance with Section 5(A), (iii) the timely delivery of all shares of Stock to which the Executive has a vested right pursuant to Section 3(B)(ii), together with a cash amount equal to all dividends that were payable with respect to such shares of Stock from the Effective Date through the date of delivery as provided in Section 3(B)(ii), and (iv) fulfillment of the requirements of Section 3(B)(iii)(b), Section 5(G)-(I) and Section 16.

D. Cause; Other than for Good Reason: If the Executive's employment shall be terminated for Cause during the Employment Period or if the Executive voluntarily terminates employment during the Employment Period (excluding a termination for Good Reason, retirement pursuant to Section 5(F) or termination by reason of death or Disability), this Agreement shall terminate without further obligations to the Executive other than (i) the obligation to pay to the Executive the Annual Base Salary through the Date of Termination plus the amount of any compensation previously deferred by the Executive, in each case to the extent theretofore unpaid, (ii) the timely provision of Other Benefits without regard to the June 1, 2000 installment payment commencement date required by Section 5(A)(v), and (iii) fulfillment of the requirements of Section 3(B)(iii)(b), Sections 5(G)-(I) and Section 16. Accordingly, the Executive shall forfeit all right to the Stock in accordance with Section 3(b)(ii) and the Executive shall have no right to receive the dividend-related payment described in Section 3(B)(ii). Any unpaid but due Annual Base Salary shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination under this paragraph.

E. Change of Control: In the event that (i) the Company terminates the employment of the Executive (excluding a termination for Cause or for Disability), or (ii) the Executive terminates his employment for Good Reason, during the Employment Period and after consummation of a Change of Control, (a) the Company shall pay the Executive, within 30 days after the Date of Termination, an amount equal to the Executive's Base Amount multiplied by 2.99 and (b) the Company shall timely deliver to the Executive all shares of Stock to which he has a vested right pursuant to Section 3(B)(ii), together with a cash amount equal to all dividends that were payable with respect to such shares of Stock from the Effective Date through the date of delivery as provided in Section 3(B)(ii). Upon such payment and delivery of Stock, this Agreement shall terminate without further obligations to the Executive other than (a) the obligation to pay to the Executive the Annual Base Salary through the Date of Termination to the extent theretofore unpaid, (b) the timely provision of Other Benefits in accordance with Section 5(A), and (c) fulfillment of the requirements of Section 3(B)(iii)(b), Section 5(G)-(I) and Section 16. Any unpaid but due Annual Base Salary shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination under this paragraph.

F. Retirement: If the Executive terminates his employment with the Company by reason of retirement with the consent of the Company during the Employment Period, he shall be entitled to receive under this Agreement, in addition to all other benefits otherwise due from the Company upon retirement, the prompt payment of all benefits due under Section 5(A) had the Executive terminated employment for Good Reason; provided, however, that Executive's rights with respect to the Performance Shares shall be governed by the applicable provisions of Section 3(B)(ii). Furthermore, the Executive shall be entitled until the end of the Employment Period to the prompt reimbursement of all expenses incurred for civic or industry activities undertaken on behalf of the Company which are of a similar nature and scope to those expenses reimbursable by the Company to the Executive on the Effective Date. In this connection, the Executive shall also be afforded reasonable use of any Company aircraft.

G. Group Life Insurance: Upon a termination of employment during or at the end of the Employment Period for any reason other than death or for Cause, the Executive may elect to retain the group life insurance coverage provided to the Executive and other employees of the Company under the Group Life Insurance Plan of the Company, and, if the election is made, the Executive shall pay, or reimburse the Company for the cost of, the premiums for such insurance paid by the Company at the same rate charged active employees of the Company for similar coverage utilizing the same method or procedure for calculating the premium as in effect and applicable for the Executive as of the date of execution hereof. Such right to maintain group coverage shall be in the minimum amount of three times Annual Base Salary and shall continue for the life of the Executive. It is hereby understood and agreed that there shall be no increase in said premium because of any reallocation due to age or risk that may occur after the date of execution hereof.

H. Salary Continuation Plan: Upon a termination of employment during the Employment Period for any reason, the Company hereby agrees that the Executive shall be fully vested in the benefit provided under the Salary Continuation Plan, as in effect on the Effective Date, and that the benefit payable thereunder shall be based on his Annual Base Salary as provided in Section 3(B)(i).

I. Office: Upon a termination of employment during the Employment Period for any reason other than death or for Cause, the Company shall provide the Executive with suitable executive office space and secretarial help at an acceptable location outside the premises of any Company location. Such office and secretary shall be provided the Executive until such time as mutually agreed by the parties to be no longer necessary.

6. Consulting Period and Duties: The Company and the Executive agree that, upon completion of the Employment Period, the Company shall retain the services of the Executive as a consultant during the Consulting Period in accordance with the terms and provisions of this Agreement. During the Consulting Period, the Executive shall provide such consultation and advice in connection with the Company's business as the Company may reasonably request; provided, however, that the Executive shall have no obligation to devote more than 40 hours per month to such consultation. In consideration of the Executive's agreement to make himself available to provide the consulting services described herein, the Company and the Board hereby agree to cause the Deferred Compensation Plan to be administered or amended so that any and all amounts of salary and/or bonus theretofore deferred by the Executive and held under the Deferred Compensation Plan of the Company with instructions from the Executive to pay in 15 annual installments shall commence on June 1, 2000, notwithstanding any provision of the Deferred Compensation Plan to the contrary. Should the Executive refuse to provide such consulting services at any time during the Consulting Period for any reason not beyond the control of the Executive, such installments shall immediately commence upon the expiration of 60 days following the Executive's receipt of written notice from the Company of his failure to fulfill his obligations hereunder during which the Executive does not cure such failure.

7. Non-Exclusivity of Rights: Except as provided in Section 5, nothing in this Agreement shall prevent or limit the Executive's continuing or further participation in any plan, program, policy or practice provided by the Company or any of its Affiliated Companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its Affiliated Companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its Affiliated Companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

8. Full Settlement; Resolution of Disputes:

A. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as provided in Section 5(A)(iv), such amounts shall not be reduced whether or not the Executive obtains other employment. The Company agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code. In addition and to the extent not already provided by the terms of any insurance policy owned by the Company, the Company hereby agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any litigation or other legal action filed against the Executive or his estate arising out of, or in any way connected with or resulting from, actions taken or omitted to be taken by the Executive during his employment with the Company.

B. If there shall be any dispute between the Company and the Executive regarding (i) in the event of any termination of the Executive's employment by the Company, whether such termination was for Cause, or (ii) in the event of any termination of employment by the Executive, whether Good Reason existed, then, unless and until there is a final, nonappealable judgment by a court of competent jurisdiction declaring that such termination was for Cause or that the determination by the Executive of the existence of Good Reason was not made in good faith, the Company shall pay all amounts, and provide all benefits, to the Executive and/or the Executive's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide pursuant to Section 5(A) as though such termination were by the Company without Cause or by the Executive with Good Reason; provided, however, that the Company shall not be required to pay any disputed amounts pursuant to this paragraph except upon receipt of an undertaking by or on behalf of the Executive to repay all such amounts to which the Executive is ultimately adjudged by such court not to be entitled.

9. Certain Reduction of Payments by the Company:

A. Notwithstanding anything to the contrary in this Agreement, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any reduction required under this Section 9) (a "Payment") would be non-deductible by the Company for Federal income tax purposes because of Section 280G of the Code, then the aggregate present value of all Payments shall be reduced (but not below zero) such that such aggregate present value of Payments equals the Reduced Amount. The "Reduced Amount" shall be an amount expressed in present value which maximizes the aggregate present value of Payments without causing any Payment to be non-deductible by the Company because of Section 280G of the Code. For purposes of this Section 9, present value shall be determined in accordance with Section 280G(d)(4) of the Code.

B. All determinations required to be made under this Section 9 (excluding determinations of any legal issues relevant to this Section 9, which shall be made by regular outside counsel to the Company) shall be made by Deloitte &Touche (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the Date of Termination. In the event that the Accounting Firm is serving as accountant or auditor for any individual, entity or group (other than the Company) effecting the Change of Control, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). Any such determination by the Accounting Firm (and any such legal determination by regular outside counsel to the Company) shall be binding upon the Company and the Executive. All fees and expenses of the Accounting Firm and regular outside counsel to the Company shall be borne by the Company. The Executive shall determine which and how much of the Payments shall be eliminated or reduced consistent with the requirements of this Section 9, provided that, if the Executive does not make such determination within 10 business days of the receipt of the calculations made by the Accounting Firm, the Company shall elect which and how much of the Payments shall be eliminated or reduced consistent with the requirements of this Section 9 and shall notify the Executive promptly of such election. Within five business days thereafter, the Company shall pay to or distribute to or for the benefit of the Executive such Payments as are then due to the Executive and shall promptly pay to or distribute to or for the benefit of the Executive such Payments as become due to the Executive.

C. As a result of the uncertainty in the application of Section 280G of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Payments will have been made by the Company that should not have been made ("Overpayment") or that additional Payments which will have not have been made by the Company could have been made ("Underpayment"), in each case, consistent with the calculations required to be made hereunder. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to the Executive which the Executive shall repay to the Company together with interest at the applicable Federal rate provided for in Section 7872(f)(2) of the Code; provided, however, that no amount shall be payable by the Executive to the Company (or if paid by the Executive to the Company shall be returned to the Executive) if and to the extent such payment would not reduce the amount which is subject to taxation under Section 4999 of the Code. In the event that the Accounting Firm determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive together with interest at the applicable Federal rate provided for in Section 7872(f)(2) of the Code.

10. Confidential Information: The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its Affiliated Companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its Affiliated Companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 10 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

11. Successors:

A. This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

B. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

C. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

12. Source of Payments: All payments provided in this Agreement shall, unless the plan or program pursuant to which they are made provide otherwise, be paid in cash from the general funds of the Company, and no special or separate funds shall be established and no other segregation of assets shall be made to assure payment. The Executive shall have no right, title or interest whatever in or to any investments which the Company may make to aid the Company in meeting its obligations hereunder. Nothing contained in this Agreement, and no action taken pursuant to this provision, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Company and the Executive or any other person. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

13. Effect of Prior Agreements: This Agreement contains the entire understanding between the parties hereto and supersedes any prior employment agreement between the Company or any predecessor of the Company and the Executive, except that this Agreement shall not affect or operate to reduce (a) any benefit or compensation inuring to the Executive of a kind elsewhere provided and not expressly provided or modified in this Agreement or (b) the agreements of the Company set forth in that certain letter to the Executive from John T. Cater, as Chairman of the Compensation Committee of the Board, dated November 28, 1995, regarding the Executive's service with the World Energy Council. Specifically, but not by way of limitation, this Agreement supersedes and replaces that certain amended and restated Employment Agreement between the parties, dated June 4, 1994.

14. Consolidation, Merger or Sale of Assets: Nothing in this Agreement shall preclude the Company from consolidating or merging into or with, or transferring all or substantially all of its assets to, another corporation which assumes this Agreement and all obligations and undertakings of the Company hereunder; provided that no such action shall diminish the Executive's rights hereunder, including, without limitation, rights under Section 4(C). Upon such a consolidation, merger or transfer of assets in assumption, the term "Company" as used herein shall mean such other corporation.

15. Miscellaneous:

A. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

B. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified-mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:	Don D. Jordan 5 Stayton Circle Houston, Texas 77024
If to the Company:	Houston Industries Incorporated P.O. Box 4567 Houston, Texas 77210 ATTENTION: Mr. Hugh Rice Kelly Vice President, General Counsel and Secretary

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

C. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

D. The Company may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

E. The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 4(C), shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

F. The headings of paragraphs herein are included solely for convenience and reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

G. Contemporaneously with execution of this Agreement, the Executive shall be furnished a certified copy of a resolution of the Board of Directors authorizing the execution and delivery of this Agreement.

16. Deferred Compensation Plan and SERP Payments: Notwithstanding any provision herein or any provision of the Deferred Compensation Plan of the Company to the contrary, the Company and the Board hereby agree to cause the Deferred Compensation Plan to be administered so that any and all amounts of salary and/or bonus theretofore deferred by the Executive and held under the Deferred Compensation Plan with instructions from the Executive to pay in 15 annual installments (a) shall be paid in said 15 installments, (b) shall remain in said Plan earning interest at the rate prescribed therein until installment distributions commence, (c) shall commence at the time provided herein (or, if not provided for herein, at the time provided in said Plan) and (d) shall not be commuted and paid in a lump sum. Notwithstanding any provision of this Agreement or any provision of the SERP to the contrary, the Company and the Board hereby agree to cause the SERP to be administered so that no benefit payable to or on behalf of the Executive under the SERP may be commuted and paid in a lump sum.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name and on its behalf, all as of the day and year first above written.

HOUSTON INDUSTRIES INCORPORATED

By /s/ John T. Cater

John T. Cater, Chairman of Compensation Committee of the Board of Directors

EXECUTIVE

/s/ Don D. Jordan

Don D. Jordan

EXHIBIT 11

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
COMPUTATION OF EARNINGS PER COMMON SHARE
AND COMMON EQUIVALENT SHARE
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

		Year Ended December 31,		
		1996	1995	1994
Primary Earnings Per Share:				
(1)	Weighted average shares of common stock outstanding	244,443,110	247,706,457	245,706,746
(2)	Effect of issuance of shares from assumed exercise of stock options (treasury stock method)	23,878	47,098	(79,048)
(3)	Weighted average shares	244,466,988	247,753,555	245,627,698
(4)	Net income	$ 404,944	$ 1,105,524	$ 399,261
(5)	Primary earnings per share (line 4/line 3)	$ 1.66	$ 4.46	$ 1.62
Fully Diluted Earnings Per Share:				
(6)	Weighted average shares per computation on line 3 above	244,466,988	247,753,555	245,627,698
(7)	Shares applicable to options included on line 2 above	(23,878)	(47,098)	79,048
(8)	Dilutive effect of stock options (treasury stock method) based on higher of the average price for the year or year-end price of $22.88, $24.25 and $18.00 for 1996, 1995 and 1994, respectively	23,878	52,730	(79,048)
(9)	Weighted average shares	244,466,988	247,759,187	245,627,698
(10)	Net income	$ 404,944	$ 1,105,524	$ 399,261
(11)	Fully diluted earnings per share (line 10/line 9)	$ 1.66	$ 4.46	$ 1.62

Notes:

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

The calculations for year ended December 31, 1994 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.

All share amounts reflect the two-for-one stock split, effective December 1995.

EXHIBIT 12

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

	Twelve Months Ended December 31,				
	1996	1995	1994	1993	1992
Fixed Charges as Defined:					
(1) Interest on Long-Term Debt	$276,242	$279,491	$ 265,494	$ 304,462	$338,771
(2) Other Interest	33,738	21,586	25,076	15,145	23,323
(3) Preferred Dividends Factor of Subsidiary (line 12)	33,619	44,933	51,718	52,399	58,204
(4) Interest Component of Rentals Charged to Operating Expense	942	3,102	3,951	4,449	5,116
(5) Total Fixed Charges	$344,541	$349,112	$ 346,239	$ 376,455	$425,414
Earnings as Defined:					
(6) Income from Continuing Operations Before Cumulative Effect of Change in Accounting	$404,944	$397,400	$ 423,985	$ 440,531	$370,031
(7) Income Taxes for Continuing Operations Before Cumulative Effect of Change in Accounting	200,165	199,555	230,424	228,863	177,276
(8) Fixed Charges (line 5)	344,541	349,112	346,239	376,455	425,414
(9) Earnings from Continuing Operations Before Cumulative Effect of Change in Accounting, Income Taxes and Fixed Charges	$949,650	$946,067	$1,000,648	$1,045,849	$972,721
Preferred Dividends Factor of Subsidiary:					
(10) Preferred Stock Dividends of Subsidiary	$ 22,563	$ 29,955	$ 33,583	$ 34,473	$ 39,327
(11) Ratio of Pre-Tax Income from Continuing Operations to Income from Continuing Operations(line 6 plus line 7 divided by line 6)	1.49	1.50	1.54	1.52	1.48
(12) Preferred Dividends Factor of Subsidiary (line 10 times line 11)	$ 33,619	$ 44,933	$ 51,718	$ 52,399	$ 58,204
Ratio of Earnings from Continuing Operations to Fixed Charges Before Cumulative Effect of Change in Accounting (line 9 divided by line 5)	2.76	2.71	2.89	2.78	2.29

Exhibit 21

SUBSIDIARIES OF THE COMPANY*
(as of December 31, 1996)

NAME	JURISDICTION
Houston Lighting & Power Company	Texas
Houston Industries (Delaware) Incorporated	Delaware

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*The names of certain subsidiaries of the Company are omitted pursuant to Item 601(b)(21)(ii) of Regulation S-K.

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

HOUSTON INDUSTRIES INCORPORATED:

We consent to the incorporation by reference in Houston Industries Incorporated's (i) Registration Statement on Form S-4 No. 333-11329, (ii) Registration Statements on Form S-3 Nos. 33-39921, 33-60756, 33-51431, 33-52207 and 33-55445 and (iii) Registration Statements on Form S-8 Nos. 33-37493, 33-50629, 33-52279, 33-55391, 33-56855 and 333-04411 of our report dated February 21, 1997, appearing in this Annual Report on Form 10-K of Houston Industries Incorporated for the year ended December 31, 1996.

DELOITTE & TOUCHE LLP

HOUSTON, TEXAS
MARCH 20, 1997

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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.

0000202131
HOUSTON INDUSTRIES INCORPORATED
1,000

YEAR
DEC-31-1996
DEC-31-1996
PRO-FORMA
8,675,759
1,610,155
343,920
1,141,890
516,133
12,287,857
1,834,208
0
1,997,490
3,827,961
0
135,179
3,024,865
0
5,561
1,332,311
225,130
25,700
785
3,633
3,706,732
12,287,857
4,095,277
200,165
3,104,811
3,104,811
990,466
(55,412)
935,054
307,382
427,507
22,563
404,944
361,126
221,814
914,320
1.66
1.66

EXHIBIT 3(c)

ARTICLES OF AMENDMENT TO THE ARTICLES OF INCORPORATION OF HOUSTON LIGHTING & POWER COMPANY

Pursuant to and in accordance with the provisions of Article 4.04 of the Texas Business Corporation Act (the "TBCA"), Houston Lighting & Power Company, a Texas corporation (the "Corporation"), hereby adopts the following Articles of Amendment to its Articles of Incorporation:

ARTICLE ONE

The name of the Corporation is Houston Lighting & Power Company.

ARTICLE TWO

The following amendments to the articles of incorporation were adopted (i) by the sole holder of Class A Common Stock of the Corporation on November 22, 1996 and (ii) by the sole holder of Class B Common Stock of the Corporation on November 22, 1996 in order to create a class of Preference Stock ranking junior to the Preferred Stock of the Corporation and, pursuant to Article 2.28(D) of the TBCA, to provide that the vote of holders of Common Stock and Preference Stock required for approval of certain matters shall be the affirmative vote of the holders of a majority of the outstanding shares of Common Stock and Preference Stock entitled to vote on such matters.

ARTICLE THREE

The first amendment alters or changes the first paragraph of ARTICLE VI of the Restated Articles of Incorporation and the full text of such altered paragraph is as follows:

"The number of shares of the total authorized capital stock of the Company is 20,001,100 shares, of which 10,000,000 shares are classified as Preferred Stock, without par value, 10,000,000 shares are classified as Preference Stock, without par value, 1,000 shares are classified as Class A Common Stock, without par value ("Class A Common Stock"), and 100 shares are classified as Class B Common Stock, without par value ("Class B Common Stock" and, together with the Class A Common Stock, "Common Stock")."

ARTICLE FOUR

The second amendment alters or changes "Division C -- The Common Stock" and "Division D -- Provisions Applicable to All Classes of Stock" and creates a new "Division C -- Preference Stock" of ARTICLE VI of the Restated Articles of Incorporation and the full text of such altered or created divisions are as follows:

"DIVISION C -- PREFERENCE STOCK

The shares of Preference Stock may be divided into and issued in one or more series, the relative rights and preferences of which series may vary in any and all respects. The Board of Directors of the Company is hereby vested with the authority to establish series of Preference Stock by fixing and determining all the relative rights and preferences of the shares of any series so established, to the extent not provided for in these Articles of Incorporation or any amendment hereto, and with the authority to increase or decrease the number of shares within each such series; provided, however, that the relative rights and preferences of any series of Preference Stock must rank junior to the relative rights and preferences of the Preferred Stock; and, provided further, that the Board of Directors may not decrease the number of shares within a series of Preference Stock below the number of shares within such series that is then issued. The authority of the Board of Directors with respect to such series of Preference Stock shall include, but not be limited to, determination of the following:

(1) the distinctive designation and number of shares of that series;

(2) the rate of dividend (or the method of calculation thereof) payable with respect to shares of that series, the dates, terms and other conditions upon which such dividends shall be payable, and the relative rights of priority of such dividends to dividends payable on any other class or series of capital stock of the Company; provided, however, that the relative rights of priority of that series must rank junior to the relative rights of priority of Preferred Stock;

(3) the nature of the dividend payable with respect to shares of that series as cumulative, noncumulative or partially cumulative, and if cumulative or partially cumulative, from which date or dates and under what circumstances;

(4) whether shares of that series shall be subject to redemption, and, if made subject to redemption, the times, prices, rates, adjustments and other terms and conditions of such redemption (including the manner of selecting shares of that series for redemption if fewer than all shares of such series are to be redeemed);

(5) the rights of the holders of shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Company (which rights may be different if such action is voluntary than if it is involuntary), including the relative rights of priority in such event as to the rights of the holders of any other class or series of capital stock of the Company; provided,

however, that the relative rights of priority of that series must rank junior to the relative rights of priority of Preferred Stock;

(6) the terms, amounts and other conditions of any sinking or similar purchase or other fund provided for the purchase or redemption of shares of that series;

(7) whether shares of that series shall be convertible into or exchangeable for shares of capital stock or other securities of the Company or of any other corporation or entity, and, if provision be made for conversion or exchange, the times, prices, rates, adjustments, and other terms and conditions of such conversion or exchange;

(8) the extent, if any, to which the holders of shares of that series shall be entitled (in addition to any voting rights provided by law) to vote as a class or otherwise with respect to the election of directors or otherwise;

(9) the restrictions and conditions, if any, upon the issue or reissue of any additional Preference Stock ranking on a parity with or prior to shares of that series as to dividends or upon liquidation, dissolution or winding up;

(10) any other repurchase obligations of the Company, subject to any limitations of applicable law; and

(11) any other designations, preferences, limitations or relative rights of shares of that series.

Any of the designations, preferences, limitations or relative rights (including the voting rights) of any series of Preference Stock may be dependent on facts ascertainable outside these Articles of Incorporation.

Shares of any series of Preference Stock shall have no voting rights except as required by law or as provided in the relative rights and preferences of such series.

DIVISION D -- COMMON STOCK

1. Dividends. Dividends may be paid on either or both classes of Common Stock, as the Board of Directors shall from time to time determine, out of any assets of the Company available for such dividends after full cumulative dividends on all outstanding shares of capital stock of all series ranking senior to the Common Stock in respect of dividends and liquidation rights (referred to in this Division D as "stock ranking senior to the Common Stock") have been paid, or declared and a sum sufficient for the payment thereof set apart, for all past quarterly dividend periods, and after or concurrently with making payment of or provision for dividends on the stock ranking senior to the Common Stock for the then current quarterly dividend period.

2. Distribution of Assets. In the event of any liquidation, dissolution or winding up of the Company, or any reduction or decrease of its capital stock resulting in a distribution of assets to the holders of its Common Stock, after there shall have been paid to or set aside for the holders of the stock ranking senior to the Common Stock the full preferential amounts to which they are respectively entitled, the holders of the Common Stock shall be entitled to receive, pro rata, all of the remaining assets of the Company available for distribution to its stockholders. The Board of Directors, by vote of a majority of the members thereof, may distribute in kind to the holders of the Common Stock such remaining assets of the Company, or may sell, transfer or otherwise dispose of all or any of the remaining property and assets of the Company to any other corporation or other purchaser and receive payment thereof wholly or partly in cash or property, and/or in stock of any such corporation, and/or in obligations of such corporation or other purchaser, and may sell all or any part of the consideration received therefor and distribute the same or the proceeds thereof to the holders of the Common Stock.

3. Voting Rights. Subject to the voting rights expressly conferred under prescribed conditions upon the stock ranking senior to the Common Stock, the holders of the Class A Common Stock shall exclusively possess full voting power for the election of directors and for all other purposes. The holders of the Class B Common Stock shall not be entitled to vote except as may from time to time be mandatorily provided by the laws of the State of Texas.

DIVISION E -- PROVISIONS APPLICABLE TO ALL CLASSES OF STOCK

1. Preemptive Rights. No holder of any stock of the Company shall be entitled as of right to purchase or subscribe for any part of any unissued or treasury stock of the Company, or of any additional stock of any class, to be issued by reason of any increase of the authorized capital stock of the Company, or to be issued from any unissued or additionally authorized stock, or of bonds, certificates of indebtedness, debentures or other securities convertible into stock of the Company, but any such unissued or treasury stock, or any such additional authorized issue of new stock or securities convertible into stock, may be issued and disposed of by the Board of Directors to such persons, firms, corporations or associations, and upon such terms as the Board of Directors may, in its discretion, determine, without offering to the stockholders then of record, or any class of stockholders, any thereof, on the same terms or any terms.

2. Votes Per Share. Any stockholder of the Company having the right to vote at any meeting of the stockholders or of any class or series thereof, shall be entitled to one vote for each share of stock held by him, provided that no holder of Common Stock of the Company shall be entitled to cumulate his votes for the election of one or more directors or for any other purpose."

ARTICLE FIVE

The third amendment creates a new ARTICLE X of the Restated Articles of Incorporation and the full text of such new Article is as follows:

"ARTICLE X

To the extent permitted by applicable law and except as expressly provided in the relative rights and preferences of any series of Preference Stock, the vote of stockholders required for approval of any action that is recommended to stockholders by the Board of Directors and for which applicable law requires a stockholder vote, including without limitation (1) any such plan of merger, consolidation or exchange, (2) any such disposition of assets, (3) any such dissolution of the Company, and (4) any such amendment of these Articles of Incorporation, shall, if a greater vote of stockholders is provided for by the Texas Business Corporation Act or other applicable law, instead be the affirmative vote of the holders of a majority of the outstanding shares entitled to vote thereon, unless any class or series of shares is entitled to vote as a class thereon, in which event the vote required shall be the affirmative vote of the holders of a majority of the outstanding shares within each class or series of shares entitled to vote thereon as a class and at least a majority of the outstanding shares otherwise entitled to vote thereon; provided, however, that the voting rights of the holders of Preferred Stock are not affected by this ARTICLE X. The foregoing shall not apply to any action or stockholder vote authorized or required by any addition, amendment or modification to applicable law that becomes effective after November 30, 1996 if and to the extent a bylaw adopted by the Board of Directors or the stockholders so provides. Any repeal, amendment or modification of any such bylaw so adopted shall require the same vote of stockholders as would be required to approve the action or vote subject to such bylaw had the first sentence of this Article X not applied to such action or vote."

ARTICLE SIX

The number of shares of the Corporation outstanding at the time of such adoption was 3,805,497 (3,804,397 shares of Preferred Stock, 1,000 shares of Class A Common Stock and 100 shares of Class B Common Stock); and the number of shares entitled to vote thereon was 1,100 (Class A Common Stock and Class B Common Stock).

The holders of all of the shares outstanding and entitled to vote on said amendment have signed a consent(s) in writing pursuant to Article 9.10 of the TBCA adopting said amendment and any written notice required by Article 9.10 of the TBCA has been given.

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment to the Articles of Incorporation to be duly executed as of the 3rd day of December, 1996.

HOUSTON LIGHTING & POWER COMPANY

By: /s/ Hugh Rice Kelly

Title: Senior Vice President and Secretary

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)

	Twelve Months Ended December 31,				
	1996	1995	1994	1993	1992
Fixed Charges as Defined:					
(1) Interest on Long-Term Debt	$ 221,865	$ 244,384	$ 246,533	$ 276,049	$ 311,208
(2) Other Interest	12,764	8,117	8,493	12,317	19,548
(3) Amortization of (Premium) Discount	9,059	8,762	8,484	7,234	5,346
(4) Interest Component of Rentals Charged to Operating Expense	942	3,102	3,951	4,449	5,116
(5) Total Fixed Charges	$ 244,630	$ 264,365	$ 267,461	$ 300,049	$ 341,218
Earnings as Defined:					
(6) Net Income	$ 429,418	$ 480,932	$ 486,764	$ 484,223	$ 509,462
(7) Cumulative Effect of Change in Accounting			8,200		(94,180)
(8) Income Before Cumulative Effect of Change in Accounting	$ 429,418	480,932	494,964	484,223	415,282
Income Taxes:					
(9) Current	$ 207,296	186,010	181,109	113,394	129,611
(10) Deferred (Net)	25,113	58,946	68,633	123,077	92,575
(11) Cumulative Effect of Change in Accounting			4,415		(48,517)
(12) Total Income Taxes Before Cumulative Effect of Change in Accounting	232,409	244,956	254,157	236,471	173,669
(13) Total Fixed Charges (line 5)	244,630	264,365	267,461	300,049	341,218
(14) Earnings Before Income Taxes and Fixed Charges (line 8 plus line 12 plus line 13)	$ 906,457	$ 990,253	$1,016,582	$1,020,743	$ 930,169
Ratio of Earnings to Fixed Charges (line 14 divided by line 5)	3.71	3.75	3.80	3.40	2.73
Preferred Dividend Requirements:					
(15) Preferred Dividends	$ 22,563	$ 29,955	$ 33,583	$ 34,473	$ 39,327
(16) Less Tax Deduction for Preferred Dividends	54	54	54	54	56
(17) Total	22,509	29,901	33,529	34,419	39,271
(18) Ratio of Pre-Tax Income to Net Income (line 8 plus line 12 divided by line 8)	1.54	1.51	1.51	1.49	1.42
(19) Line 17 times line 18	34,664	45,151	50,629	51,284	55,765
(20) Add Back Tax Deduction (line 16)	54	54	54	54	56
(21) Preferred Dividends Factor	$ 34,718	$ 45,205	$ 50,683	$ 51,338	$ 55,821
(22) Total Fixed Charges (line 5)	244,630	$ 264,365	$ 267,461	$ 300,049	$ 341,218
(23) Preferred Dividends Factor (line 21)	$ 34,718	45,205	50,683	51,338	55,821
(24) Total	$ 279,348	$ 309,570	$ 318,144	$ 351,387	$ 397,039
Ratio of Earnings to Fixed Charges and Preferred Dividends Requirements (line 14 divided by line 24)	3.24	3.20	3.20	2.90	2.34

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

HOUSTON LIGHTING & POWER COMPANY:

We consent to the incorporation by reference in Houston Lighting & Power Company's (i) Registration Statement on Form S-4 No. 333-11329, (ii) Registration Statements on Form S-3 Nos. 33-46368, 33-54228, 333-20069, 333-20069-01, 333-20069-02, 333-20069-03, 333-20069-04 and (iii) Post-Effective Amendment No. 1 to Registration Statement No. 33-51417 on Form S-3 of our report dated February 21, 1997, appearing in this Annual Report on Form 10-K of Houston Lighting & Power Company for the year ended December 31, 1996.

DELOITTE & TOUCHE LLP

HOUSTON, TEXAS
MARCH 20, 1997

OPUR1

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

YEAR
DEC-31-1996
DEC-31-1996
PRO-FORMA
8,675,759
0
299,841
1,105,798
514,834
10,596,232
1,675,927
0
2,227,941
3,903,868
0
135,179
2,675,767
19,600
0
234,665
225,130
25,700
785
3,633
3,371,905
10,596,232
4,025,027
264,819
3,027,880
3,292,699
732,328
(70,879)
661,449
232,031
429,418
22,563
406,855
329,000
221,814
916,646
0
0