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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, 1997

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 1-3187

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

TEXAS (State or other jurisdiction of incorporation or organization)	74-0694415 (I.R.S. employer identification number)
1111 LOUISIANA HOUSTON, TEXAS 77002 (Address and zip code of principal executive offices)	(713) 207-3000 (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,	New York Stock Exchange
and associated rights to purchase preference stock	Chicago Stock Exchange
7% Automatic Common Exchange Securities due July 1, 2000	New York Stock Exchange
HL&P Capital Trust I 8.125% Trust Preferred Securities, Series A	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: Preferred Stock, cumulative, no par -- $4 series

COMMISSION FILE NUMBER 1-13265

NORAM ENERGY CORP.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	76-0511406 (I.R.S. employer identification number)
1111 LOUISIANA HOUSTON, TEXAS 77002 (Address and zip code of principal executive offices)	(713) 207-3000 (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
NorAm Financing I 6 1/4%	New York Stock Exchange
Convertible Trust Originated Preferred Securities	
6% Convertible Subordinated Debentures due 2012	New York Stock Exchange

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

NORAM ENERGY CORP. MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM 10-K WITH THE REDUCED DISCLOSURE FORMAT.

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 [ ]

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]

The aggregate market value of the voting stock held by non-affiliates of

Houston Industries Incorporated was $7,598,982,925 as of March 2, 1998, 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 2, 1998, Houston Industries Incorporated had 295,698,228 shares of Common Stock outstanding, including 12,138,551 ESOP shares not deemed outstanding for financial statement purposes. Excluded from the number of shares of Common Stock outstanding are 98,866 shares held by Houston Industries Incorporated as treasury stock. As of March 2, 1998, all 1,000 outstanding shares of NorAm Energy Corp.'s Common Stock were held by Houston Industries Incorporated.

Portions of the definitive proxy statement relating to the 1998 Annual Meeting of Shareholders of Houston Industries Incorporated, which will be filed within 120 days of December 31, 1997, are incorporated by reference in Item 10, Item 11, Item 12 and Item 13 of Part III of this Form 10-K.

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

HOUSTON INDUSTRIES INCORPORATED
AND
NORAM ENERGY CORP.
FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1997

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PART I

ITEM 1. BUSINESS.

Houston Industries Incorporated (Company) is a diversified international energy services company. Its Houston Lighting & Power Company division is an electric utility serving approximately 1.6 million customers in the City of Houston, Texas, and surrounding areas on the Texas Gulf Coast. NorAm Energy Corp., the Company's largest subsidiary (NorAm), is a natural gas utility serving over 2.8 million customers in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas. NorAm, through its subsidiaries, is also a major interstate natural gas pipeline company and a provider of energy marketing services.

The Company's other principal subsidiaries include Houston Industries Energy, Inc. (HI Energy), which participates in the privatization of foreign generating and distribution facilities and the development and acquisition of foreign independent power projects, and Houston Industries Power Generation, Inc. (HIPG), which participates in the acquisition, development and operation of domestic non-rate regulated power generation facilities.

The Company acquired NorAm in August 1997 in a transaction (Merger) involving the merger of the Company's former parent corporation, Houston Industries Incorporated (Former HI), into the Company, and the merger of NorAm's predecessor corporation (Former NorAm) into a newly formed subsidiary of Former HI. As a result of the Merger, the Company's operating activities include the following segments: Electric Operations, Natural Gas Distribution, Interstate Pipeline, Energy Marketing, International and Corporate. Information regarding these segments is set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Results of Operations by Business Segment" and Note 15 to the Company's Consolidated Financial Statements, which note is incorporated herein by reference. NorAm's principal operating segments include Natural Gas Distribution, Interstate Pipeline and Energy Marketing.

The Company, subject to certain limited exceptions, is exempt from regulation as a public utility holding company pursuant to Section 3(a)(2) of the Public Utility Holding Company Act of 1935, as amended (1935 Act). For additional information regarding the Company's status under the 1935 Act, see "-- Regulation -- Public Utility Holding Company Act."

The Company, incorporated in 1906, is a Texas corporation. NorAm, incorporated in 1996, is a Delaware corporation. The executive offices of the Company and NorAm are located at Houston Industries Plaza, 1111 Louisiana, Houston, Texas 77002 (telephone number: 713-207-3000).

CERTAIN FACTORS AFFECTING THE ENERGY SERVICES INDUSTRY

Various factors are currently affecting the energy services industry, including increasing levels of competition, legislative and regulatory changes, stringent environmental regulations, contingencies associated with nuclear plant ownership, and diversification into businesses outside of traditional rate-regulated utility operations. The effects of these and other factors on the business and operations of Company and its subsidiaries are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries."

FORWARD-LOOKING STATEMENTS

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. Forward-looking statements are based on management's beliefs as well as assumptions made by and information currently available to management. Because such statements are based on assumptions as to future economic performance and are not statements of fact, actual results may differ materially from those projected. Important factors that could cause future results to differ include (i) the effects of competition in the electric power and natural gas industries, (ii) legislative and regulatory changes, (iii) fluctuations in the weather, (iv) fluctuations in energy commodity

prices, (v) environmental liabilities, (vi) changes in the economy and (vii) other factors discussed in this and other filings by the Company and NorAm with the Securities and Exchange Commission. When used in the Company's or NorAm's documents or oral presentations, the words "anticipate," "estimate," "expect," "intend," "objective," "projection," "forecast," "goal" or similar words are intended to identify forward-looking statements.

The following sections of this Form 10-K contain forward-looking statements: "Business -- Electric Operations -- System Capability," "Business -- Electric Operations -- Capital Expenditures," "Business -- Electric Operations -- Fuel," "Business -- Energy Marketing -- Energy Marketing and Risk Management -- Electric Power Marketing," "Business -- International," "Business -- Corporate," "Business -- Regulation" and "Business -- Environmental Matters" in Item 1 of the Form 10-K; "Legal Proceedings" in Item 3 of this Form 10-K; "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Results of Operations by Business Segment -- Energy Marketing," "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Results of Operations by Business Segment -- Corporate," "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries," and "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Liquidity and Capital Resources -- Company Consolidated Capital Requirements" in Item 7 of this Form 10-K and "Quantitative and Qualitative Disclosures about Market Risk" in Item 7A of this Form 10-K.

ELECTRIC OPERATIONS

The Company generates, purchases, transmits and distributes electricity to approximately 1.6 million residential, commercial and industrial customers in a 5,000 square-mile service area on the Texas Gulf Coast, including the City of Houston, Texas, the nation's fourth largest city. The Company's electric utility operations are conducted through an unincorporated division of the Company known as "Houston Lighting & Power Company" or "HL&P" (HL&P). All references in this Form 10-K to "Electric Operations" refer to the electric utility operations conducted by HL&P. Electric Operations does not include the development, acquisition and operation of independent power generation facilities by HIPG. These activities are discussed in "Corporate" below.

For the year ended December 31, 1997, Electric Operations represented approximately 62% of the Company's total consolidated revenues and 93% of its operating income. For additional financial and operating data regarding Electric Operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Results of Operations by Business Segment -- Electric Operations" and Note 15 to the Company's Consolidated Financial Statements, which information is incorporated herein by reference.

All projections and other forward looking data set forth under "Electric Operations," including projections regarding System Capability and Capital Expenditures, assume the continued existence of a cost-based regulatory system.

SERVICE AREA

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, 1997, energy sector industries accounted for approximately 34% of Electric Operations' industrial electric base revenues and 8% 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.

The Company is a member of the Electric Reliability Council of Texas, Inc. (ERCOT) and is interconnected to a transmission grid encompassing most of the State of Texas.

ELECTRIC UTILITY ASSETS

All of the electric generating stations and other operating properties used in the business of Electric Operations are located in the State of Texas.

The Company owns and operates (i)12 electric generating stations with a combined turbine nameplate rating of 13,554,608 kilowatts (KW) and (ii) 213 major substations having a total installed rated transformer capacity of 59,407 megavolts (Mva). The Company is also one of four co-owners of the South Texas Project Electric Generating Station (South Texas Project), a nuclear generating plant consisting of two 1,250 megawatt (MW) nuclear generating units in which the Company has a 30.8% ownership interest. For additional information regarding the assets used in Electric Operations' business, see "Properties" in Item 2 of this Report.

SYSTEM CAPABILITY

The following table sets forth information regarding the system capability of Electric Operations:

				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 (%)
1993.....	13,679	945	14,624	Aug. 19	11,336	5.1	29.0
1994.....	13,666	720	14,386	Jun. 28	11,126	(1.9)	29.3
1995.....	13,921	445	14,366	Jul. 27	11,452	2.9	25.4
1996.....	13,960	445	14,405	Jul. 23	11,694	2.1	23.2
1997.....	14,040	445	14,485	Aug. 21	12,194	4.3	18.1

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

(2) Excludes loads on interruptible service tariffs, residential direct load control and commercial/industrial load cooperative capability. Including these loads, the maximum hourly demand served in 1997 was 13,407 MW compared to 12,667 MW in 1996.

Based on present trends, the Company estimates that the maximum hourly firm demand for electricity in the service area of Electric Operations will grow at a compound annual rate of approximately 1.6% over the next ten years. Assuming average weather conditions and including the net effects of demand-side management programs, the Company projects that the reserve margin of Electric Operations will decrease to an estimated 15% by 2001. For long-term planning purposes, the Company intends to maintain the reserve margin for Electric Operations at approximately 15% in excess of maximum hourly firm demand load requirements.

Electric Operations 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 in the service territory of Electric Operations.

CAPITAL EXPENDITURES

The Company has an ongoing program to maintain the existing production, transmission and distribution facilities of Electric Operations and to expand its physical plant in response to customer needs. Assuming a target reserve margin of 15%, the Company does not currently forecast a need for additional capacity until 2002.

In 1997, Electric Operations' capital expenditures were approximately $234 million, excluding Allowance for Funds Used During Construction (AFUDC). Electric Operations' capital program (excluding AFUDC) is currently estimated to be approximately $331 million in 1998, $343 million in 1999 and $308 million in 2000. These expenditures relate primarily to improvements to Electric Operations' existing electric generating, distribution and general plant facilities. For the three-year period ending December 31, 2000, the aggregate capital program for Electric Operations is estimated to be:

	AMOUNT (MILLIONS)	PERCENT OF TOTAL EXPENDITURES
Generating facilities	$207	21%
Transmission facilities	34	4%
Distribution facilities	443	45%
Substation facilities	65	7%
General plant facilities	161	16%
Nuclear fuel	72	7%
Total	$982	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 nuclear fuel costs and environmental programs, see "-- Fuel -- Nuclear Fuel Supply" and "-- Environmental Matters" below.

Under the Public Utility Regulatory Act of 1995 (PURA) and the integrated resource planning rules adopted in 1996 by the Public Utility Commission of Texas (Texas Utility Commission), Texas electric utilities are required to conduct public solicitations for all resources (e.g., generating capacity, demand-side management programs, etc.) to satisfy future capacity needs. In May 1998, Electric Operations will file a preliminary integrated resource plan as required under the rules.

FUEL

Based upon current assumptions regarding fuel (cost and availability), plant operation schedules, load growth, load management and environmental protection requirements, the projected future energy mix to be used by Electric Operations in the generation of electricity is as follows:

	ENERGY MIX (%)		
		ESTIMATED	
	HISTORICAL 1997	1998	2001
Gas	30	30	29
Coal and Lignite	41	42	43
Nuclear	9	8	8
Purchased Power	20	20	20
Total	100	100	100

For information regarding current and historical fuel costs, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Results of Operations by Business Segment -- Electric Operations -- Fuel and Purchased Power Expense" in Item 7 of this Report, which information is incorporated herein by reference.

Natural Gas Supply. During 1997, Electric Operations purchased approximately 46% of its natural gas requirements pursuant to long-term contracts with two suppliers (Midcon Texas Pipeline Company and Tejas Gas Corporation). Electric Operations purchased an additional 23% of its natural gas requirements under long-term contracts with other suppliers, and the remaining 31% of natural gas requirements on the spot

market. Substantially all of Electric Operations' natural gas contracts contain pricing provisions based on fluctuating spot market prices.

Based on the current market for and availability of natural gas, the Company believes that Electric Operations will be able to replace the supplies of natural gas covered under any expiring long-term contracts with (i) gas purchased on the spot market or (ii) under long-term or short-term contracts. The average daily gas consumption of Electric Operations during 1997 was 601 billion British thermal units (BBtu) with peak daily consumption of 1,349 BBtu. Electric Operations' average cost of natural gas was $2.60 per million British thermal units (MMBtu) in 1997, $2.31 per MMBtu in 1996 and $1.69 per MMBtu in 1995.

Although natural gas has been relatively plentiful in recent years, available supplies are vulnerable to disruption due to weather conditions, transportation constraints 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. Electric Operations purchases approximately 80% 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. Electric Operations obtains the remaining coal required to operate these units under short-term contracts. The majority of the coal purchased for W. A. Parish is currently transported under an existing long-term rail transportation contract with Burlington Northern Santa Fe Railroad. In 1997, Electric Operations completed construction of a 10-mile rail line to connect its W. A. Parish coal-handling facilities to Union Pacific Railroad Company. During 1997 and 1998, Union Pacific Railroad Company experienced significant delays in completing shipments of materials in and through the City of Houston. To date, these delays have not had a material adverse impact on Electric Operations' generation capability or its financial results of operations. However, delays in rail shipments have reduced Electric Operations' coal inventories below customary levels.

Electric Operations obtains the lignite used to fuel the two units of its Limestone Electric Generating Station (Limestone) from a surface mine adjacent to the plant. The Company owns the mining equipment, facilities and a portion of the lignite reserves. The lignite reserves currently under lease and contract are expected to be sufficient to provide substantially all of the lignite requirements for Limestone through 2013.

Nuclear Fuel Supply. Fuel supply requirements for the South Texas Project consist of (i) the acquisition of uranium concentrates, (ii) the conversion of such concentrates into uranium hexafluoride, (iii) the enrichment of uranium hexafluoride and (iv) the fabrication of nuclear fuel assemblies. The South Texas Project has contracted for the raw materials and services necessary to operate the plant through at least the following years:

Uranium	2002(1)
Conversion	2002
Enrichment	2014(2)
Fabrication	2005

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(1) Contracts provide for over 50% 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 and September 2007 pursuant to an option available under such contract. During this period, the Company understands that the South Texas Project intends to obtain enrichment services through a competitive bidding process. At present, the South Texas Project has obtained competitive bids and is finalizing contracts for enrichment services through 2004.

Although the Company and the other South Texas Project owners cannot predict the future availability of uranium and related services, it is not anticipated, based on current market conditions, that the South Texas Project will have difficulty in obtaining fuel requirements for its remaining years of operation. For information

regarding assessments for spent fuel disposal, decontamination and decommissioning costs, see Note 4 to the Company's Consolidated Financial Statements.

Purchased Power. At December 31, 1997, Electric Operations 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 firm purchased power commitments for the next three years are approximately $22 million per year. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Results of Operations by Business Segment -- Electric Operations -- Fuel and Purchased Power Expense" and Note 12(b) to the Company's Consolidated Financial Statements.

Recovery of Fuel Costs. Texas Utility Commission rules provide for the recovery of certain fuel and purchased power energy costs through a fixed fuel factor included in electric rates. For information on recovery of fuel costs, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Results of Operations by Business Segment -- Electric Operations -- Operating Revenues." The Company's two principal firm capacity contracts (covering 320 MW of firm capacity) contain provisions allowing Electric Operations to suspend or reduce purchased power payments in the event that the Texas Utility Commission disallows future recovery of these costs through Electric Operations' rates for electric service.

COMPETITION AND REGULATORY MATTERS

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. In recent years, 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 accelerating the electric utility industry's movement toward more competition. These issues, as they affect the Company, including without limitation, the Company's ability to recover its existing investment in certain electric utility facilities, are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Competition -- Electric Operations," which section is incorporated herein by reference.

For information regarding regulatory matters affecting Electric Operations, see "-- Regulation -- Public Utility Holding Company Act", "-- Regulation -- State and Local Utility Regulations -- Electric Operations," "-- Regulation -- Nuclear Regulatory Commission," "-- Environmental Matters" below, "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Rate Proceedings -- Electric Operations" and Note 3 to the Company's Consolidated Financial Statements.

OPERATING STATISTICS OF ELECTRIC OPERATIONS

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Electric Energy Generated and Purchased (Megawatt-Hours (MWH)):			
Generated -- Net Station Output	56,066,845	55,170,841	53,447,128
Purchased	14,008,452	12,540,172	10,452,818
Net Interchange	841	1,486	(1,488)
Total	70,076,138	67,712,499	63,898,458
Company Use, Lost and Unaccounted for Energy	(3,075,143)	(3,350,400)	(2,822,876)
Total Energy Sold	67,000,995	64,362,099	61,075,582
Electric Sales (MWH):			
Residential	19,365,892	19,048,238	18,103,209
Commercial	15,474,761	14,640,762	14,233,413
Small Industrial(1)	11,439,753	11,727,500	11,174,404
Large Industrial(1)	14,380,499	13,519,845	12,493,029
Street Lighting -- Government and Municipal	127,761	119,339	117,253
Total Firm Retail Sales	60,788,666	59,055,684	56,121,308
Other Electric Utilities	190,878	205,463	169,750
Total Firm Sales	60,979,544	59,261,147	56,291,058
Interruptible	4,278,458	4,038,277	4,093,385
Off-System	1,742,993	1,062,675	691,139
Total	67,000,995	64,362,099	61,075,582
Number of Customers (End of Period):(2)			
Residential	1,378,658	1,353,631	1,327,168
Commercial	190,437	185,031	175,998
Small Industrial(1)	1,526	1,692	1,543
Large Industrial (Including Interruptible)(1)	132	126	127
Street Lighting -- Government and Municipal	86	83	82
Other Electric Utilities (Including Off-System)	20	15	11
Total	1,570,859	1,540,578	1,504,929
Operating Revenue (Thousands of Dollars):			
Residential	$1,662,177	$1,603,591	$1,471,702
Commercial	1,065,917	986,591	923,223
Small Industrial(1)	616,419	611,495	564,609
Large Industrial(1)	529,718	473,451	431,499
Street Lighting -- Government and Municipal	24,868	22,125	20,679
Total Electric Revenue -- Firm Retail Sales	3,899,099	3,697,253	3,411,712
Other Electric Utilities	11,330	18,841	22,207
Total Electric Revenue -- Firm Sales	3,910,429	3,716,094	3,433,919
Interruptible	108,053	97,164	81,707
Off-System	36,798	25,995	12,250
Total Electric Revenue	4,055,280	3,839,253	3,527,876
Miscellaneous Electric Revenues	195,963	185,774	152,421
Total	$4,251,243	$4,025,027	$3,680,297
Installed Net Generating Capability (Kilowatts (KW)) (End of Period)	14,040,370	13,960,370	13,921,370
Cost of Fuel (Cents per MMBtu):			
Gas	259.9	231.3	168.5
Coal	201.8	210.8	202.5
Lignite	108.4	111.1	124.8
Nuclear	54.2	61.6	58.2
Average	186.8	181.6	159.3

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

(2) In 1996, the Company began calculating the number of customers based on the number of active customers at month-end (as opposed to the 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.

NATURAL GAS DISTRIBUTION

NorAm, through its natural gas distribution division (Natural Gas Distribution), purchases, transports, stores and distributes natural gas and provides natural gas utility services to over 2.8 million residential, commercial and industrial customers in six states, including the metropolitan areas of Minneapolis, Minnesota; Houston, Texas; Little Rock, Arkansas; and Shreveport, Louisiana.

Financial and operating data regarding Natural Gas Distribution are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Results of Operations by Business Segment -- Natural Gas Distribution," in Note 15 to the Company's Consolidated Financial Statements, in NorAm's "Management's Narrative Analysis of the Results of Operations -- Results of Operations by Business Unit -- Natural Gas Distribution" and in Note 9 to NorAm's Consolidated Financial Statements, which information is incorporated herein by reference.

LOCAL DISTRIBUTION DIVISIONS

The natural gas utility operations of NorAm are conducted through three of its unincorporated divisions: Arkla, Entex and Minnegasco.

Arkla. Arkla provides natural gas distribution services in approximately 621 communities in the States of Arkansas, Louisiana, Oklahoma and Texas. The largest metropolitan areas served by Arkla are Little Rock, Arkansas and Shreveport, Louisiana. In 1997, approximately 72% of Arkla's total throughput was composed of retail sales of gas and approximately 28% was attributable to transportation services. Sales to residential and commercial customers in 1997 accounted for approximately 91% of Arkla's total gas revenues and 64% of natural gas volumes sold or transported.

Entex. Entex provides natural gas distribution services in approximately 502 communities in the States of Louisiana, Mississippi and Texas. The largest metropolitan area served by Entex is Houston, Texas. In 1997, approximately 97% of Entex's total throughput was composed of retail sales of gas and approximately 3% was attributable to transportation services. Sales to residential and commercial customers in 1997 accounted for approximately 83% of Entex's total gas revenues and 81% of natural gas volumes sold.

Minnegasco. Minnegasco provides natural gas distribution services in approximately 243 communities in the State of Minnesota. The largest metropolitan area served by Minnegasco is Minneapolis, Minnesota. In 1997, approximately 98% of Minnegasco's total throughput was composed of retail sales of gas and approximately 2% was attributable to transportation services. Sales to residential and commercial customers in 1997 accounted for approximately 89% of Minnegasco's total gas revenues and 87% of natural gas volumes sold.

The demand for natural gas distribution services is seasonal in nature. In 1997, approximately 67%, 70% and 54%, respectively, of Arkla's, Minnegasco's and Entex's revenues were reported in the months of January, February, March, November and December. In each case, these patterns reflect the higher demand for natural gas for use in heating during winter months.

SUPPLY AND TRANSPORTATION

Arkla. In 1997, Arkla purchased approximately 13% of its natural gas supply from a NorAm subsidiary, NorAm Energy Services, Inc. (NES), 17% pursuant to third party contracts and 70% on the spot market. Arkla transports its natural gas supplies by interstate and intrastate pipelines under long-term contracts with terms varying from five to sixteen years.

Entex. In 1997, Entex purchased approximately 80% of its natural gas supply pursuant to term contracts (having terms varying from one to five years) and 20% on the spot market. During 1997, Entex's major natural gas suppliers were Enron Corp. (29.4%), Tejas Gas Corporation (29.0%), Cokinos Natural Gas Company Inc. (9.1%) and Midcon Texas Pipeline Company (7.6%). Entex transports its natural gas supplies on both interstate and intrastate pipelines under long-term contracts with terms varying from one to five years.

Minnegasco. In 1997, Minnegasco purchased approximately 73% of its natural gas supply pursuant to term contracts (having terms varying from one to ten years) with 17 different suppliers and 27% on the spot market. Most of the natural gas volumes under long-term contracts are committed under terms providing for delivery during the winter heating season, November through March. During 1997, Minnegasco purchased approximately 50% of its natural gas requirements from three suppliers, Pan-Alberta Gas Ltd., TransCanada Gas Services Inc. and NES. Minnegasco transports its natural gas supplies on various interstate pipelines under long-term contracts with terms varying from five to ten years.

Each of Arkla and Minnegasco makes use of various leased and owned natural gas storage facilities to meet peak-day requirements and to manage the daily changes in demand due to changes in weather. Contracted supplies and storage for Minnegasco are also supplemented from time to time with stored liquefied natural gas and propane-air plant production.

Although natural gas supplies have been relatively plentiful in recent years, available supplies are vulnerable to disruption due to weather conditions, transportation constraints 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.

CAPITAL EXPENDITURES

For information regarding Natural Gas Distribution's historical and projected capital expenditures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Liquidity and Capital Resources -- Company Consolidated Capital Requirements."

COMPETITION AND REGULATORY MATTERS

For information regarding the impact of competition on Natural Gas Distribution, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Competition -- Other Operations," which section is incorporated herein by reference.

For information regarding regulatory matters affecting Natural Gas Distribution, see " -- Regulation -- State and Local Utility Regulations -- Natural Gas Distribution Operations" and " -- Environmental Matters" below.

INTERSTATE PIPELINE

NorAm's interstate natural gas pipeline business is conducted through two wholly-owned subsidiaries of NorAm, NorAm Gas Transmission Company (NGT) and Mississippi River Transmission Corporation (MRT). The business and operations of NGT and MRT are collectively referred to in this Form 10-K as "Interstate Pipeline."

Financial and operating data regarding Interstate Pipeline are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Results of Operations by Business Segment -- Interstate Pipeline," in Note 15 to the Company's Consolidated Financial Statements and in "Management's Narrative Analysis of the Results of Operations of NorAm -- Results of Operations by Business Unit -- Interstate Pipeline" and in Note 9 to NorAm's Consolidated Financial Statements, which information is incorporated herein by reference.

Interstate Pipeline owns and operates approximately 8,200 miles of transmission lines and six natural gas storage facilities located across the following eight states in the south-central United States: Arkansas, Kansas, Louisiana, Mississippi, Missouri, Oklahoma, Tennessee and Texas. Interstate Pipeline transports and delivers natural gas on behalf of various shippers primarily to utilities, industrial customers, and third party pipeline interconnects.

In 1997, approximately 41% of Interstate Pipeline's total operating revenues was attributable to services provided by NGT and MRT to Arkla, approximately 13% of its operating revenues was attributable to services

provided by MRT to Laclede Gas Company (Laclede), a local distribution company that provides natural gas utility service to the greater St. Louis metropolitan area in Illinois and Missouri, and approximately 9% was attributable to gas marketed by NES to other parties. Interstate Pipeline provides service to Arkla and Laclede under several long-term firm storage and transportation agreements. The expiration dates for the service agreements with Laclede range from October 1999 through May 2000. These agreements are currently under negotiation for renewal. The service agreement with Arkla is for a term of five and one-half years and is scheduled to expire in March 2002.

The business and operations of Interstate Pipeline are affected by seasonal changes in the demand for natural gas, the relative price of natural gas in the Mid-Continent and Gulf Coast Natural Gas supply regions and, to a lesser extent, general economic conditions.

CAPITAL EXPENDITURES

For information regarding Interstate Pipeline's historical and projected capital expenditures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Liquidity and Capital Resources -- Company Consolidated Capital Requirements."

COMPETITION AND REGULATORY MATTERS

For information regarding the impact of competition on Interstate Pipeline's operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company and Its Subsidiaries -- Competition -- Other Operations," which section is incorporated herein by reference.

Interstate Pipeline is subject to regulation by the Federal Energy Regulatory Commission (FERC). For information regarding regulatory matters affecting Interstate Pipeline, see " -- Regulation -- Federal Energy Regulatory Commission" below.

ENERGY MARKETING

NorAm's Energy Marketing and Gathering division (Energy Marketing) markets natural gas and electric power and provides price risk management services to various energy sector customers. In addition, the division provides natural gas gathering services and retail energy marketing services. The division's energy marketing and risk management services are conducted by NES. The division's natural gas gathering operations are conducted by NorAm Field Services Corp. (NFS), and its retail energy marketing services are conducted by NorAm Energy Management, Inc. (NEM).

Financial and operating data regarding Energy Marketing are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Results of Operations by Business Segment -- Energy Marketing," in Note 15 to the Company's Consolidated Financial Statements and in "Management's Narrative Analysis of the Results of Operations of NorAm -- Results of Operations by Business Unit -- Energy Marketing" and in Note 9 to NorAm's Consolidated Financial Statements, which information is incorporated herein by reference.

ENERGY MARKETING AND RISK MANAGEMENT

NES, a wholly owned subsidiary of NorAm, supplies, markets and trades natural gas and electricity. In addition, it offers physical and financial wholesale energy marketing products and services to a variety of customers, including natural gas distribution companies, municipalities, power plants, marketers, aggregators and large volume industrial customers. The operations of NES are not subject to traditional cost of service rate regulation.

Natural Gas Marketing. NES' natural gas marketing activities consist of contracting to buy specified volumes of natural gas from suppliers at various points of receipt to be supplied over a specified period of time; aggregating natural gas supplies and arranging for their transportation; negotiating the sale of specific volumes

of natural gas over a specified period of time; and matching natural gas receipts and deliveries based on volumes required by customers.

NES purchases natural gas from a variety of suppliers under daily, monthly, variable load and base load and term contracts that include either market sensitive or fixed pricing provisions. NES sells natural gas under sales agreements that have varying terms and conditions intended to match seasonal and other changes in demand. In 1997, NES sold 958 Bcf of natural gas, substantially all of which sales were to non-affiliates.

NES also enters into various short-term and long-term firm and interruptible agreements for natural gas storage in order to offer peak delivery services to satisfy winter heating and summer electric generating demands. Such services are also intended to provide an additional level of performance security and backup services to NES' customers.

NES from time to time arranges for the transportation of the natural gas it markets from the supplier receipt point to the delivery point requested by the purchasers. Transportation arrangements are made with affiliated and non-affiliated interstate and intrastate pipelines through a variety of means, including short-term and long-term firm and interruptible agreements with pipelines. NES generally retains title to the natural gas it transports from the receipt point to the delivery point.

Electric Power Marketing. NES sold over 25 million megawatt-hours of electric power in 1997 and 2.7 million megawatt-hours of electric power in 1996. NES sells electric power primarily to electric utilities and other marketing companies. NES intends to participate in the California power market upon the deregulation of wholesale and retail electric power sales in such state, which is anticipated to occur in the spring of 1998. NES will seek to supply natural gas to, and purchase electricity for resale from, non-regulated power plants in the California market, including generating plants to be developed, acquired or operated by HIPG.

Price Risk Management. In 1997, NES invested in personnel, software and trading systems in order to expand its capacity to trade in fixed-price forward purchase and sales contracts (involving the physical delivery of energy commodities), swap agreements, futures and option contracts traded on securities and commodities exchanges and in the over-the-counter financial markets.

NES uses derivative financial instruments to manage and hedge its fixed-price purchase and sale commitments, to provide fixed-price commitments as a service to its customers and suppliers, to reduce its exposure relative to the volatility of the cash market prices and to protect its investment in storage inventories. Although NES generally attempts to balance its fixed-price physical and financial purchase and sale obligations, commodity price exposure often exists or is created due to the origination of new transactions and the assessment of, and response to, changing market conditions. NES is accordingly exposed in such transactions to the risk that fluctuating market prices may adversely affect its, the Company's and NorAm's financial position or results of operations. For additional information with respect to the Company's and NorAm's financial exposure to derivative financial instruments, see Item 7A of this Form 10-K, Note 2 to the Company's Consolidated Financial Statements and Note 2 to NorAm's Consolidated Financial Statements.

In addition to the risk associated with price movements, credit risk is also inherent in NES' risk management activities. Credit risk relates to the risk of loss resulting from the nonperformance of contractual obligations by a counterparty. NES maintains credit policies intended to minimize overall credit risk with regard to its counterparties.

The Company has established a Risk Oversight Committee to oversee all corporate price and credit risks, including NES' risk management and trading activities. The Risk Oversight Committee's responsibilities include reviewing the Company's and its subsidiaries' overall risk management strategy and monitoring risk management activities to ensure compliance with the Company's risk management limitations, policies and procedures. For additional information regarding risk management accounting policies, see Note 2 to the Company's Consolidated Financial Statements and Note 2 to NorAm's Consolidated Financial Statements.

NATURAL GAS GATHERING

NFS, a wholly owned subsidiary of NorAm, provides natural gas gathering services, including related liquids extraction and marketing activities. NFS operates approximately 4,000 miles of gathering pipelines which collect natural gas from more than 200 separate systems located in major producing fields in Arkansas, Louisiana, Oklahoma and Texas. NFS is not subject to traditional cost-of-service regulation.

RETAIL ENERGY MARKETING

NEM, a wholly owned subsidiary of NorAm, markets natural gas and related energy services to industrial customers served by large local distribution companies and connected to interstate and intrastate pipelines offering unbundled transportation services. Included in NEM's retail marketing operations are three intrastate pipeline subsidiaries of NorAm that market and deliver natural gas to large volume customers at market-based rates.

CAPITAL EXPENDITURES

For information regarding Energy Marketing's capital expenditures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Liquidity and Capital Resources -- Company Consolidated Capital Requirements."

COMPETITION AND REGULATORY MATTERS

For information regarding the impact of competition on Energy Marketing's operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Competition -- Other Operations," which section is incorporated herein by reference.

For information regarding regulatory matters affecting Energy Marketing, see "-- Regulation -- Federal Energy Regulatory Commission" below.

INTERNATIONAL

The Company's international operations (International) are conducted through HI Energy, a subsidiary of the Company that participates in the privatization of foreign generating and distribution facilities and the development and acquisition of foreign independent power projects. International includes the international operations of NorAm, which are managed by HI Energy.

As of December 31, 1997, the Company's Consolidated Balance Sheets reflected $803 million of foreign investments, a substantial portion of which represent equity investments in foreign utility companies. Financial and operating data regarding International are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Results of Operations by Business Segment -- International" and Notes 5 and 15 to the Company's Consolidated Financial Statements, which information is incorporated herein by reference. The international operations of NorAm were not material to NorAm's 1997 results of operations.

For a discussion of certain risks associated with overseas operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Risks of Overseas Operations."

MAJOR FOREIGN INVESTMENTS

Argentina. As of December 31, 1997, approximately 26% of International's foreign investments were located in Argentina. HI Energy owns, through its subsidiaries, interests in two Argentine electric distribution companies and a 100% ownership interest in a 160-MW cogeneration facility. The electric distribution company investments consist of (i) a 63% ownership interest in the electric utility company serving La Plata, Argentina and (ii) a 90% ownership interest in an electric utility in north-central Argentina (EDESE).

A subsidiary of HI Energy had expected to complete development of the 160-MW cogeneration facility in late 1997 at an estimated cost of $100 million. The commercial operation date for the project has been significantly delayed because of major damage to the turbine blade during pre-operational testing. Based on the representations by the project contractor as to the projected completion date for repairs, it is not anticipated that such delay will have a material adverse financial impact on HI Energy or the Company.

Brazil. As of December 31, 1997, approximately 52% of International's foreign investments were located in Brazil. In May 1996, a subsidiary of HI Energy acquired 11.35% of the common stock of Light -- Servicos de Eletricidade S.A., a publicly held Brazilian corporation (Light) for $393 million (which includes the direct costs of the acquisition) in a government-sponsored auction of 60% of Light's outstanding shares. 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. The winning bidders in the government-sponsored auction of Light, including a subsidiary of HI Energy, formed a consortium whose aggregate ownership interest of 50.44% represents a controlling interest in Light. In November 1997, another subsidiary of HI Energy purchased approximately $7 million of Light shares (less than 1% of outstanding Light shares) on the open market.

Colombia. As of December 31, 1997, approximately 20% of International's foreign investments were located in Colombia. In June 1997, a consortium of investors which included a subsidiary of HI Energy acquired for $496 million a 56.7% controlling ownership interest in Empresa de Energia del Pacifico S.A.E.S.P., (EPSA) an electric utility system serving the Valle de Cauca region of Colombia, including the area surrounding the City of Cali. EPSA was the first electric distribution system to be privatized by the Colombian government. HI Energy contributed $152 million of the purchase price for a 28% ownership interest in EPSA. In addition to its distribution facilities, EPSA owns 850 MW of electric generation capacity. HI Energy's co-investor in this project is Electricidad de Caracas, the electric utility serving Caracas, Venezuela.

In February 1997, a subsidiary of NorAm acquired interests in four natural gas distribution concessions in Colombia. As of December 31, 1997, aggregate expenditures incurred with respect to these concessions were approximately $3 million. Based on current projections, total additional expenditures for these systems over the next four years are estimated to be approximately $11 million.

Mexico and India. In January 1998, a subsidiary of NorAm and a local investor accepted an award of a 30-year concession from the Mexican government to build, operate and maintain a natural gas distribution system in northeastern Mexico. Based on current projections, International will invest approximately $18 million in the project through 2002.

In 1998, a subsidiary of HI Energy, together with various other investors, expects to complete development of a coke calcining and power generation facility in India. Based on current projections, it is estimated that International's total investment in this project through 1998 will be approximately $11 million.

CAPITAL EXPENDITURES

For information regarding International's capital expenditures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Company Consolidated Capital Requirements."

COMPETITION AND REGULATION

For information regarding the impact of competition on International's operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company and Its Subsidiaries -- Competition -- Other Operations," which section is incorporated herein by reference.

For information regarding regulatory matters affecting International, see "-- Regulation -- Public Utility Holding Company Act -- Regulation of Foreign Utility Company Investments."

CORPORATE

Corporate. The Company's corporate business segment (Corporate) includes (i) the operations of HIPG, which is engaged in the acquisition, development and operation of domestic non-rate regulated power generation facilities; (ii) various office buildings and other real estate used in the Company's and its subsidiaries' business operations; (iii) corporate costs, and (iv) inter-unit eliminations. Corporate also includes the Company's retail marketing operations, which offer energy products and services to customers in and outside the Company's and NorAm's regulated service areas.

HIPG was formed in March 1997 to pursue the acquisition, development and operation of domestic non-rate regulated power generation facilities. Since its formation, HIPG has participated in a number of bid processes involving electric utility generation plants. In November 1997, HIPG was awarded the right to purchase four generating stations (2,276 MW of generating capacity) located in southern California for $237 million. The closing of this acquisition is anticipated to occur in the spring of 1998, subject to the commencement of operations of the California Independent System Operator and Power Exchange for the California market.

HIPG is participating in the development of several non-rate regulated power generation facilities, including among others, (i) a 480 MW gas-fired power plant located in Boulder City, Nevada (El Dorado Project), which is being developed jointly by HIPG and the parent company of San Diego Gas & Electric Co., and (ii) a 100 MW cogeneration plant located in southeast Texas. Upon completion of construction and subject to the successful negotiation of various project development agreements, it is expected that the output of these projects will be sold on the wholesale market. Based on current projections, it is anticipated that HIPG will spend in connection with these facilities approximately $59.4 million in 1998 and an additional $26.2 million in 1999.

HIPG intends to evaluate and possibly participate in a wide range of non-rate regulated power generation projects. In February 1998, HIPG made an offer, subject to completion of due diligence and the satisfaction of certain other conditions, to purchase another independent power generation facility. If HIPG elects to pursue the offer, the project is expected to result in additional expenditures during 1998 of approximately $43 million.

The Company believes HIPG's efforts to develop or acquire generation assets will complement the Company's other operations, including the trading and marketing activities of NES. For example, it is currently anticipated that NES will supply approximately 50% of the gas requirements of the El Dorado Project and will purchase approximately 50% of the electric output of the project for resale and that NES will manage the fuel procurement and power trading and marketing for the generating assets to be acquired by HIPG in southern California.

REGULATION

The Company and NorAm and their respective subsidiaries are subject to regulation by various federal, state, local and, in the case of HI Energy, foreign governmental agencies, including those regulations described below.

PUBLIC UTILITY HOLDING COMPANY ACT

Holding Company Status. The Company is both a holding company and an electric utility as defined in the 1935 Act; however, it is exempt from regulation as a holding company based upon an order granted in July 1997 by the Securities and Exchange Commission (SEC) under Section 3(a)(2) of the 1935 Act. Although NorAm is a natural gas utility company as defined under the 1935 Act, it is not a holding company within the meaning of the 1935 Act. The Company and NorAm remain subject to regulation under the 1935 Act with respect to the acquisition of certain voting securities of other domestic public utility companies and utility holding companies.

Regulation of Investments in Exempt Wholesale Power Generation Facilities. Companies, like HIPG, which own facilities used exclusively for the generation of electricity for sale at wholesale are not deemed electric utility companies under the 1935 Act, provided certain conditions are met.

Regulation of Foreign Utility Company Investments. Section 33(a)(1) of the 1935 Act exempts foreign utility company affiliates of the Company and NorAm from regulation as "public utility companies," thereby permitting the Company and NorAm to invest in foreign utility companies without registration under the 1935 Act as a holding company. The exemption, however, is subject to the SEC's having received from each state commission having jurisdiction over the retail rates of any electric or gas utility company affiliated with the Company or NorAm, 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 Texas Utility Commission and the state regulatory commissions exercising jurisdiction over NorAm (Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas) have provided such a certification to the SEC subject, however, to the right of such commissions to revise or withdraw their certifications as to any future acquisition of a foreign utility company.

Subject to certain limited exceptions, Section 33(f)(1) of the 1935 Act also prohibits any public utility (such as the Company or NorAm) 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.

Proposals to Repeal the 1935 Act. Several bills have been introduced in Congress that would repeal the 1935 Act. Repeal or significant modification to the 1935 Act could have a significant impact on the Company and the electric utility industry. At this time, however, the Company is not able to predict the outcome of bills to repeal the 1935 Act or the outlook for additional legislation in 1998.

FEDERAL ENERGY REGULATORY COMMISSION

The transportation and sale for resale of natural gas in interstate commerce is subject to regulation by the Federal Energy Regulatory Commission (FERC) under the Natural Gas Act (NGA) and, to a lesser extent, the Natural Gas Policy Act of 1978, as amended (NGPA). Interstate transportation and storage services by interstate pipelines, and the rates charged for such services, are regulated by the FERC. The FERC also has jurisdiction over, among other things, the construction of pipeline and related facilities used in the transportation, storage and sale of natural gas in interstate commerce, including the extension, expansion or abandonment of such facilities.

NGT and MRT periodically file applications with the FERC for changes in their rates and charges designed to allow them to recover their costs of providing service to customers (to the extent allowed by prevailing market conditions), including a reasonable rate of return. These rates are normally allowed to become effective after a suspension period, and in certain cases are subject to refund under applicable law, until such time as FERC issues an order on the allowable level of rates. NGT is currently operating under

rates approved by the FERC and effective in February 1995, and MRT is currently providing services pursuant to a negotiated rate settlement approved by the FERC in October 1997.

Historically, NGT and MRT, like most other interstate pipelines, operated primarily as merchants of natural gas. Commencing in 1985, the FERC issued a series of orders and regulations that significantly altered the business of transporting and marketing natural gas by fostering competition. Pursuant to those Orders, NGT and MRT are now primarily engaged in the transportation and storage of natural gas and no longer serve a bundled merchant function.

The FERC regulates NES under both the NGA and the Federal Power Act. As a gas marketer, NES makes sales of natural gas in interstate commerce at wholesale pursuant to a blanket certificate issued by the FERC, but the FERC does not otherwise regulate the rates, terms or conditions of these gas sales. NES is deemed to be a "public utility" under the Federal Power Act, and its wholesale sales of electricity in interstate commerce are subject to a FERC-filed rate schedule that authorizes NES to make sales at negotiated, market-based rates. NES market-based rate tariffs are filed with the FERC. The FERC also imposes certain restrictions on NES' transactions with Electric Operations, including a prohibition on the receipt of goods or services on a preferential basis. Similar restrictions apply to transactions between NES and Electric Operations under PURA.

STATE AND LOCAL UTILITY REGULATIONS

Electric Operations. The Company conducts its electric utility operations under a certificate of convenience and necessity granted by the Texas Utility Commission. The certificate of convenience and necessity covers the present service area and facilities of Electric Operations. In addition, the Company holds non-exclusive franchises to provide electric service within the incorporated municipalities in the service territory of Electric Operations. None of these franchises expires before 2007.

Under PURA, the Texas 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 Electric Operations is exercised by such municipalities, including the City of Houston, but the Texas Utility Commission has appellate jurisdiction over electric rates and services within those incorporated municipalities. For additional information, including information about current rate proceedings, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Rate Proceedings -- Electric Operations" and Note 3 to the Company's Consolidated Financial Statements.

Natural Gas Distribution Operations. In almost all communities in which Natural Gas Distribution provides service, NorAm operates under franchises, certificates or licenses obtained from state and local authorities. The terms of the franchises, with various expiration dates, typically range from ten to thirty years. None of Natural Gas Distribution's material franchises expires before 2005. In most cases, franchises to provide natural gas utility services are not exclusive.

Substantially all of Natural Gas Distribution's retail sales are subject to traditional cost-of-service regulation at rates regulated by the relevant state public service commissions and, in Texas, by municipalities served by Natural Gas Distribution. None of Natural Gas Distribution's local distribution companies is currently a party to any pending rate proceeding.

The Oklahoma Corporation Commission recently approved natural gas utility rules that, if implemented, would require the separation of integrated gas delivery services, currently provided by natural gas utilities, into individual components of gas supply, gathering, transmission, distribution and storage services. The rules would also require gas utilities to buy natural gas through a competitive bidding process administered by the Oklahoma commission and to set a time table for implementing retail competition. Final implementation of the rule is dependent on action by the Oklahoma legislature. The Company and NorAm are not able at this time to predict the ultimate outcome of this legislation or the likelihood of adoption of similar proposals by governmental agencies or legislatures exercising jurisdiction in the service area of Natural Gas Distribution.

NUCLEAR REGULATORY COMMISSION

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, 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.

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 the U.S. Congress for regional compacts to construct and operate low-level nuclear waste sites. Only two sites (the Envirocare facility in Utah and the Barnwell facility in South Carolina) are currently licensed and available to the South Texas Project for low-level waste disposal. The South Texas Project has entered into a contract with the operator of the Barnwell facility to dispose of all of the South Texas Project's low-level nuclear waste through December 1998.

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 has been approved by the U.S. Senate and is expected to be considered by the House of Representatives in 1998. 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.

The Waste Disposal Authority is authorized to assess a planning and implementation fee upon waste generators to fund development of the proposed Texas disposal facility. For the authority's fiscal year commencing in September 1998, the Company's share of this assessment fee is expected to be approximately $2.5 million. Licensing hearings are currently underway and, subject to receipt of the license, construction is expected to commence in late 1998. The Waste Disposal Authority estimates that the Texas site 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.

ENVIRONMENTAL MATTERS

The Company and its subsidiaries are subject to a number of federal, state and local environmental requirements that govern the discharge of emissions into the air and water and regulate the handling of solid and hazardous waste. The Company and its subsidiaries have incurred substantial expenditures in the past to comply with these requirements and anticipate that further expenditures will be incurred in the future.

Air Quality. A provision of the Federal Clean Air Act (Clean Air Act) affecting electric power producers is the Acid Rain Program, which is designed to reduce emissions of sulfur dioxide (SO2) from generating units. The program requires that after a certain date an electric power producer must have been granted a regulatory "allowance" for each ton of SO2 emitted from its facilities. Allowances have been distributed to utilities by the Environmental Protection Agency (EPA) based on their historical operations. If a utility is not allocated sufficient allowances to cover its future SO2 emissions, it must either purchase allowances or reduce its emissions of SO2. The Company believes it holds sufficient allowances for continued operations of its facilities for the foreseeable future, including the Phase II (2000 and later) portion of the Clean Air Act.

Provisions of the Clean Air Act dealing with urban air pollution require establishing new emission limitations for oxides of nitrogen (NOx) from existing sources. Initial limitations were established by the Texas Natural Resources Conservation Commission (TNRCC) applicable to the Company's generating units in the Houston, Texas area. Implementation of these limitations have been delayed until 1999. In addition,

Governor Bush of Texas has proposed that all "grandfathered" emission units (units constructed prior to permitting requirements) voluntarily secure permits from the TNRCC and accomplish emission reductions. The Company has voluntarily committed to seek permits for three such units, and will reduce NOx emissions from these units accordingly.

Although the Company did not incur additional NOx reduction costs in 1997, the Company estimates that, based on the new regulations and its voluntary commitments, it will expend up to $10 million between 1998 and 1999 for NOx reductions. Current TNRCC analyses indicate that even further NOx reductions will be required after 1999 to attain the prescribed ozone standard in the Houston area. However, neither the timing nor the magnitude of possible future reduction requirements has been identified at this time.

The Ozone Transport Assessment Group (OTAG) was established in 1995. It is composed of state air directors from 37 states, including some of the states in which the Company and NorAm have facilities. OTAG is responsible for (i) evaluation of long-range transport of pollutants related to ozone formation, which includes NOx, and for (ii) identification of NOx emission reductions deemed necessary for attainment of the current standard. Based on the results of the OTAG effort, EPA has issued proposed regulations for State Implementation Plan (SIP) development to implement NOx reductions in 22 of the 37 states represented in the OTAG evaluation. The states from which a NOx reduction plan is proposed to be required by EPA include Missouri and Illinois; however, it is not anticipated that implementation of these plans would have a material impact on the Company's or NorAm's facilities.

The Clean Air Act also required a study to determine if additional regulations are needed to improve visibility in the southwestern United States. It is not anticipated, however, that this study will require the installation of additional pollution controls on the Company's and its subsidiaries' generating units, including the generating units to be acquired by HIPG in the southern California area, the El Dorado Energy project and HIPG's cogeneration project in southeast Texas.

The Clean Air Act also requires the EPA to perform a study of the risk to public health from emissions of toxic air pollutants from power plants, and to regulate such emissions as necessary. The EPA issued a report to Congress in February 1998. The report makes no determination as to the need to issue regulations applicable to the utility industry, but states an intent to make such a determination at a later but unspecified date. It is, therefore, not possible to make any determination as to the potential need for additional controls on emissions from the Company's or NorAm's facilities.

The Company and NorAm have obtained or applied for all necessary permits, registrations and authorizations necessary for operation of their facilities under the various federal, state and local statutes regulating the discharge of pollutants into surface water, and for the handling and disposal of solid wastes. The expenditures associated with these programs have not been, and are not expected to be material.

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 regulations affecting the Company or NorAm or their respective subsidiaries. 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.

For a discussion of specific environmental contingencies, projected expenditures in connection with environmental matters and a quantification of costs associated with these matters, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Environmental Expenditures" and Note 8(g) to NorAm's Consolidated Financial Statements.

EMPLOYEES

As of December 31, 1997, the Company and its subsidiaries had 12,711 full-time employees. The following table sets forth information about the Company's and NorAm's employees by business segment as of such date:

Electric Operations	6,131
Natural Gas Distribution	5,220
Interstate Pipeline	600
International	64
Energy Marketing	318
Corporate	378
Total	12,711

The number of employees of the Company and its subsidiaries who are represented by unions or other collective bargaining groups include (i) Electric Operations, 2,696; (ii) Natural Gas Distribution, 1,538; and (iii) Corporate, 12.

EXECUTIVE OFFICERS OF THE COMPANY(1)
AS OF MARCH 2, 1998

NAME	AGE(2)	OFFICER SINCE	BUSINESS EXPERIENCE AND POSITIONS 1993-1998	
Don D. Jordan.....	65	1971	Chairman and Chief Executive Officer and Director	1997-
			Chairman and Chief Executive Officer and Director -- Former HI	1997
			Chairman, Chief Executive Officer and President and Director -- Former HI	1996-1997
			Chairman and Chief Executive Officer and Director -- Former HI	1993-1996
			Chairman, President and Chief Executive Officer and Director -- Former HI	1993
			Chairman and Chief Executive Officer and Director -- Former HL&P	1993-1997
R. Steve Letbetter.....	49	1978	President and Chief Operating Officer and Director	1997-
			President and Chief Operating Officer and Director -- Former HI	1997
			Senior Vice President and Director -- Former HI	1996-1997
			Vice President and Director -- Former HI	1995-1996
			Vice President -- Former HI	1993-1995
			President and Chief Operating Officer -- Former HL&P	1993-1997
			Group Vice President -- Finance and Regulatory Relations -- Former HL&P	1993
Lee W. Hogan.....	53	1990	Executive Vice President and Director	1997-
			Executive Vice President and Director -- Former HI	1997
			Senior Vice President and Director -- Former HI	1996-1997
			Vice President and Director -- Former HI	1995-1996
			Vice President -- Former HI	1993-1995
			President and Chief Operating Officer -- HI Energy	1993-1997
			Group Vice President -- External Affairs -- Former HL&P	1993
Hugh Rice Kelly.....	55	1984	Executive Vice President, General Counsel and Corporate Secretary	1997-
			Executive Vice President, General Counsel and Corporate Secretary -- Former HI	1997
			Senior Vice President, General Counsel and Corporate Secretary -- Former HI	1994-1997
			Vice President, General Counsel and Corporate Secretary -- Former HI	1993-1994
			Executive Vice President, General Counsel and Corporate Secretary -- Former HL&P	1997
			Senior Vice President, General Counsel and Corporate Secretary -- Former HL&P	1993-1997

NAME	AGE(2)	OFFICER SINCE	BUSINESS EXPERIENCE AND POSITIONS 1993-1998	
Stephen W. Naeve.....	50	1988	Executive Vice President and Chief Financial Officer	1997-
			Executive Vice President and Chief Financial Officer -- Former HI	1997
			Senior Vice President and Chief Financial Officer -- Former HI	1996-1997
			Vice President -- Strategic Planning and Administration -- Former HI	1993-1996
			Vice President -- Corporate Planning and Treasurer -- Former HL&P	1993
Charles M. Oglesby.....	44	1997	Senior Vice President	1997-
			President -- NorAm Trading and Transportation Group, Inc.	1995-1997
			Vice President of Coastal Corporation and President and Chief Executive Officer of Coastal Gas Services Company	1993-1995
Bruce Gibson.....	44	1994	Senior Vice President -- Governmental Affairs	1997-
			Senior Vice President -- Governmental Affairs -- Former HI	1997
			Vice President -- Government and Regulatory Affairs -- Former HI	1996-1997
			Vice President -- Government and Regulatory Affairs -- Former HL&P	1996-1997
			Vice President -- Governmental Relations -- Former HI	1994-1996
			President and CEO, Texas Chamber of Commerce	1994
			Executive Assistant to the Texas Lt. Governor	1993-1994
Robert L. Waldrop.....	50	1988	Senior Vice President -- Communications	1997-
			Senior Vice President -- Communications -- Former HI	1997
			Senior Vice President -- External Affairs -- Former HL&P	1996-1997
			Senior Vice President -- Marketing and Customer Service -- Former HL&P	1996
			Group Vice President -- External Affairs -- Former HL&P	1993-1996
			Vice President -- Public and Customer Relations -- Former HL&P	1993
Mary P. Ricciardello.....	42	1993	Vice President and Comptroller	1997-
			Vice President and Comptroller -- Former HI	1996-1997
			Vice President and Comptroller -- Former HL&P	1996-1997
			Comptroller -- Former HI	1993-1996
			Assistant Corporate Secretary and Assistant Treasurer -- Former HL&P	1993

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(1) Executive officer list includes the Comptroller of the Company and all other officers of the Company holding the title of Senior Vice President, Executive Vice President and above. On August 6, 1997, the directors and officers of Former HI became by operation of the Merger the initial directors and officers of the Company and will serve in such capacities until their successors are elected and qualify at the annual meeting of the shareholders and Board of Directors of the Company on May 6, 1998.

(2) At December 31, 1997.

ITEM 2. PROPERTIES.

CHARACTER OF OWNERSHIP

The principal properties of the Company, NorAm and their respective subsidiaries are owned in fee, except that most electric lines and gas mains are located, pursuant to easements and other rights, in public roads or on land owned by others.

Substantially all of the real estate, electric distribution system properties, buildings and franchises owned directly by the Company (excluding real estate and other properties of subsidiaries of the Company) are subject to a lien created under a Mortgage and Deed of Trust dated as of November 1, 1944 (as supplemented, Mortgage) between the Company and South Texas Commercial National Bank of Houston (Chase Bank of Texas, National Association, as Successor Trustee). The lien of the Mortgage excludes cash, stock in subsidiaries and certain other assets. Substantially all properties of the subsidiaries of HI Energy and HIPG that own interests in operating plants are subject to liens of creditors of the respective subsidiaries.

ELECTRIC OPERATIONS

All of the electric generating stations and other operating properties of Electric Operations are located in the State of Texas.

Electric Generating Stations. As of December 31, 1997, the Company owned 12 electric generating stations (62 generating units) with a combined turbine nameplate rating of 13,554,608 KW, including a 30.8% interest in one nuclear generating station (two units) with a combined turbine nameplate rating of 2,623,676 KW.

Substations. As of December 31, 1997, the Company owned 213 major substations (with capacities of at least 5 megavolt amperes (Mva)) having a total installed rated transformer capacity of 59,407 Mva (exclusive of spare transformers), including a 30.8% interest in one major substation with an installed rated transformer capacity of 3,080 Mva.

Electric Lines -- Overhead. As of December 31, 1997, the Company owned 25,541 pole miles of overhead distribution lines and 3,567 circuit miles of overhead transmission lines, including 502 circuit miles operated at 69,000 volts, 2,021 circuit miles operated at 138,000 volts and 1,044 circuit miles operated at 345,000 volts.

Electric Lines -- Underground. As of December 31, 1997, the Company owned 10,198 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.

For additional information regarding the properties of Electric Operations, see "Business -- Electric Operations -- Electric Utility Assets" in Item 1 of this Form 10-K.

NATURAL GAS DISTRIBUTION

NorAm's approximately 55,000 linear miles of gas distribution mains vary in size from one-half inch to 24 inches in diameter. Generally, in each of the cities, towns and rural areas served by Natural Gas Distribution, NorAm owns the underground gas mains and service lines, metering and regulating equipment located on customers' premises, and the district regulating equipment necessary for pressure maintenance. With a few exceptions, the measuring stations at which NorAm receives gas from its suppliers are owned, operated and maintained by others, and the distribution facilities of NorAm begin at the outlet of the measuring equipment. These facilities, including odorizing equipment, are usually located on the land owned by suppliers and district regulator installations.

INTERSTATE PIPELINE

Interstate Pipeline owns and operates, through NGT and MRT, approximately 8,200 miles of transmission lines and transportation service to various shippers across eight states in the south-central United States.

Interstate Pipeline also owns and operates six storage fields with a combined daily deliverability of approximately 1.2 billion cubic feet (BCF) per day and a combined working gas capacity of approximately 51.8 BCF. Most of Interstate Pipeline's storage operations are in north Louisiana and Oklahoma.

ENERGY MARKETING

Energy Marketing owns and operates gathering pipelines which collect gas from more than 200 separate systems located in major producing fields in Arkansas, Louisiana, Oklahoma and Texas.

INTERNATIONAL

For information regarding the properties of HI Energy, see "Business -- International" in Item 1 of this Form 10-K.

OTHER

For information regarding the properties of Corporate (including HIPG), see "Business -- Corporate" in Item 1 of this Form 10-K.

ITEM 3. LEGAL PROCEEDINGS.

(a) Company and NorAm.

NorAm Merger Lawsuit. In August 1996, a purported NorAm stockholder 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 was consummated. In February 1998, the plaintiffs withdrew their lawsuit and the court issued an order of non-suit dismissing the litigation.

(b) Company.

Environmental. The Company 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 the Company neither operated nor owned the site, certain transformers and other equipment originally sold by the Company may have been delivered to the site by third parties. The Company and others have remediated the site pursuant to a plan approved by appropriate state agencies and a federal court. To date, the Company has recovered or has commitments to recover from other responsible parties $2.2 million of the more than $3 million it has spent on remediation.

In Dumes, et al. v. Company, et al. (filed in December 1991 and pending in the U.S. District Court for the Southern District of Texas, Corpus Christi Division), landowners near the Corpus Christi 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 scheduled for trial in June 1998. Although the ultimate outcome of this case cannot be predicted at this time, the Company does not believe that this case will have a material adverse effect on the Company's financial condition, liquidity or results of operations.

Notification of PRP Status. In 1992, the EPA (i) identified the Company, along with several other parties, as "potentially responsible parties" (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) for the costs of cleaning up a site located adjacent to one of the Company's transmission lines and (ii) issued an administrative order for the remediation of the site. The Company believes that the EPA took this action solely on the basis of information indicating that the Company in the 1950s acquired record title to a portion of the land on which the site is located. The Company does not believe that it now or previously has held any ownership interest in the site covered by the order and has obtained a judgment to that effect from a court in Galveston County, Texas. Based on this judgment and other defenses that the Company believes to be meritorious, the Company has elected not to adhere to the EPA's administrative order, even though the Company understands that other PRPs

are proceeding with site remediation. To date, neither the EPA nor any other PRP has instituted a claim against the Company for any share of the remediation costs for the site. However, if the Company was determined to be a responsible party, the Company could be jointly and severally liable along with the other PRPs for the aggregate remediation costs of the site (which the Company currently estimates to be approximately $80 million in the aggregate) and could be assessed substantial fines and damage claims. Although the ultimate outcome of this matter cannot currently be predicted at the time, the Company does not believe that this case will have a material adverse effect on the Company's financial condition, liquidity or results of operations.

For a description of certain other legal and regulatory proceedings affecting the Company, see Notes 3, 5 and 12(h) to the Company's Consolidated Financial Statements, which notes are incorporated herein by reference.

(c) NorAm.

For a description of certain other legal and regulatory proceedings affecting NorAm, see Note 12(h) of the Notes to the Company's Consolidated Financial Statements and Note 8 to NorAm's Consolidated Financial Statements, which notes are incorporated herein by reference.

Although the ultimate outcome of the foregoing matters cannot currently be predicted, the Company and NorAm believe that none of these matters will have a material adverse effect on their respective financial positions or results of operations.

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

None.

PART II

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

The Company's Common Stock, which at March 2, 1998 was held of record by approximately 89,330 shareholders, is listed on the New York and Chicago Stock Exchanges (symbol: HOU). All of NorAm's common stock is held by the Company.

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. Dividend payout was $1.50 per share for 1997 and 1996, respectively. The dividend declared during the fourth quarter of 1997 is payable in March 1998.

	MARKET PRICE		DIVIDEND DECLARED
	HIGH	LOW	PER SHARE
1997			
First Quarter			$0.375
February 25	$23 5/8		
March 21		$20 5/8	
Second Quarter			$0.375
April 18		$18 7/8	
May 6	$23 5/8		
Third Quarter			$0.375
August 7	$22 1/8		
August 28		$20 1/8	
Fourth Quarter			$0.375
December 31	$27 1/4		
October 28		$20 3/4	
1996			
First Quarter			$0.375
January 17		$21 1/2	
March 15	$25 5/8		
Second Quarter			$0.375
April 19		$20 1/2	
June 25	$24 3/4		
Third Quarter			$0.375
September 5		$21 1/8	
July 1	$24 3/4		
Fourth Quarter			$0.375
December 6		$20 3/4	
November 11	$24 1/8		

The closing market price of the Company's Common Stock on December 31, 1997 was $26 3/4 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 in the Company's credit agreements, see Note 8(c) of the Notes to the Company's Consolidated Financial Statements.

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 Company's Consolidated Financial Statements and the related notes in Item 8 of this Report. Certain amounts from prior years have been reclassified to conform with the 1997 presentation. Such reclassifications do not affect earnings. On July 6, 1995, the Company closed the sale of its cable television operations. The operations of the Company's former cable television subsidiary (KBLCOM) have been accounted for as discontinued operations.

	YEAR ENDED DECEMBER 31,				
	1997(1)	1996	1995	1994	1993
	(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)				
Revenues	$ 6,873,385	$ 4,095,277	$ 3,729,271	$ 3,752,573	$ 4,083,238
Income from continuing operations before cumulative effect of change in accounting(2)	$ 421,110	$ 404,944	$ 397,400	$ 423,985	$ 440,531
Gain on sale of cable television subsidiary			708,124		
Loss from discontinued operations				(16,524)	(24,495)
Cumulative effect of change in accounting(3)				(8,200)	
Preferred Dividends	162				
Net income(2)	$ 420,948	$ 404,944	$ 1,105,524	$ 399,261	$ 416,036
Earnings per common share(4):					
Continuing operations before cumulative effect of change in accounting(2)	$ 1.66	$ 1.66	$ 1.60	$ 1.72	$ 1.69
Gain on sale of cable television subsidiary			2.86		
Loss from discontinued operations				(.07)	(.09)
Cumulative effect of change in accounting(3)				(.03)	
Basic Earnings per common share(2)	$ 1.66	$ 1.66	$ 4.46	$ 1.62	$ 1.60
Diluted Earnings per common share(2)	1.66	1.66	4.46	1.62	1.60
Cash dividends declared per common share(4)(5)	$ 1.50	$ 1.50	$ 1.50	$ 1.50	$ 1.875
Dividend pay-out ratio from continuing operations	96%	89%	94%	87%	89%
Return on average common equity(6)	9.7%	10.2%	29.5%	12.0%	12.71%
Ratio of earnings from continuing operations to fixed charges before cumulative effect of change in accounting	2.41	2.76	2.71	2.89	2.78
At year-end:					
Book value per common share(2)(4)	$ 17.28	$ 16.41	$ 16.61	$ 13.64	$ 12.53
Market price per common share(4)	$ 26.75	$ 22.63	$ 24.25	$ 17.82	$ 23.82
Market price as a percent of book value(2)	155%	138%	146%	131%	190%
At year-end:					
Total assets of continuing operations	$18,414,555	$12,287,857	$11,819,606	$10,784,095	$10,867,581
Net assets of discontinued operations				618,982	487,026
Total assets	$18,414,555	$12,287,857	$11,819,606	$11,403,077	$11,354,607
Long-term obligations including current maturities -- continuing operations(7)	$ 5,831,356	$ 3,280,113	$ 3,768,928	$ 3,905,518	$ 3,950,576
Long-term obligations including current maturities included in net assets of discontinued operations				504,580	514,964
Capitalization from continuing operations:					
Common stock equity	46%	53%	50%	44%	43%
Cumulative preferred stock of HL&P (including current maturities)		2%	5%	7%	7%
Long-term debt (including current maturities)	54%	45%	45%	49%	50%
Capital expenditures:					
Purchase of NorAm, net of cash acquired	$ 1,422,672				
HL&P electric capital and nuclear fuel expenditures (excluding AFUDC)(8)	234,068	$ 314,934	$ 296,635	$ 412,899	$ 329,016
Natural Gas Distribution	61,078				
Interstate Pipeline	16,304				
Energy Marketing	14,365				
International project expenditures and advances (excluding capitalized interest)	223,807	493,179	49,835	7,087	35,796
HIPG project expenditures	3,324				
Corporate (excluding HIPG)	20,247	13,446	4,643	13,562	5,295
Cable television additions and other cable-related investments -- discontinued			47,601	84,071	61,856
Corporate headquarters expenditures (excluding capitalized interest)(8)		5,308	89,627	44,250	26,034

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(1) Includes the results of NorAm since its August 1997 acquisition, which was accounted for under the purchase method. See Note 1(b) to the Company's Consolidated Financial Statements.

(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 10(c) to the Company's Consolidated 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 10(e) to the Company's Consolidated Financial Statements.

(4) All common share data reflect a two-for-one common stock dividend distribution in December 1995. 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) Includes Cumulative Preferred Stock subject to mandatory redemption and Company/NorAm obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely junior subordinated debentures of Company/NorAm.

(8) During 1995 and 1996, Electric Operations 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 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE COMPANY.

The following discussion and analysis should be read in combination with the Company's consolidated financial statements and notes contained in Item 8 of this Form 10-K (Company's Consolidated Financial Statements).

HOUSTON INDUSTRIES INCORPORATED

Houston Industries Incorporated (Company) is a diversified international energy services company. It operates the nation's tenth largest electric utility in terms of kilowatt-hour (KWH) sales, and its three natural gas distribution divisions together form the nation's third largest natural gas distribution operation in terms of customers served. The Company also invests in international and domestic electric utility privatizations, gas distribution projects and the development of unregulated power generation projects. The Company is also a major interstate natural gas pipeline and energy services company, providing gas transportation, supply, gathering and storage, and wholesale natural gas and electric power marketing services.

The Company is exempt from regulation as a public utility holding company pursuant to Section 3(a)(2) of the Public Utility Holding Company Act of 1935, as amended (1935 Act), except with respect to the acquisition of certain voting securities of other domestic public utility companies and utility holding companies.

CONSOLIDATED RESULTS OF OPERATIONS

On August 6, 1997, the Company completed its acquisition (Merger) of NorAm Energy Corp. (NorAm), a natural gas gathering, transmission, marketing and distribution company. The Merger was accounted for as a purchase; accordingly, the Company's results of operations for 1997 include NorAm's results of operations beginning on August 6, 1997 (Acquisition Date).

To enhance comparability between reporting periods, certain information below is presented on a pro forma basis and reflects the acquisition of NorAm as if it had occurred at the beginning of the 1996 and 1997 reporting periods presented. Pro forma purchase-related adjustments include amortization of goodwill and the revaluation on a preliminary basis of the fair value of certain NorAm assets and liabilities. The pro forma results of operations are not necessarily indicative of the combined results of operations that actually would have occurred had the acquisition occurred on such dates. The Company, however, believes that the presentation of pro forma data provides a more meaningful comparative standard for assessing changes in the Company's consolidated financial condition and results of operations during the years ended December 31, 1997 and 1996, since the pro forma presentation combines a full year of results of the Company and its acquired NorAm operations.

In general, the Company's 1997 results of operations and prior year pro forma amounts reflect the effects of the acquisition of NorAm, which include (i) significant increases in amortization attributable to purchase accounting, (ii) increases in shares outstanding and interest expense, and (iii) the impact of revenues and operating expenses attributable to the newly acquired NorAm business units.

CONSOLIDATED RESULTS OF OPERATIONS

	ACTUAL			UNAUDITED PRO FORMA		
	TWELVE MONTHS ENDED DECEMBER 31,			TWELVE MONTHS ENDED DECEMBER 31,		
	1997	1996	PERCENT CHANGE	1997	1996	PERCENT CHANGE
	(IN MILLIONS, EXCEPT PER SHARE DATA)					
Revenues	$6,873	$4,095	68%	$10,210	$8,884	15%
Operating Expenses	5,809	3,105	87%	8,991	7,612	18%
Operating Income	1,065	990	8%	1,219	1,272	(4%)
Other Expenses, Net(1)	437	385	14%	546	595	(8%)
Income Taxes	206	200	3%	234	245	(4%)
Net Income(2)	421	405	4%	439	432	2%
Basic Earnings Per Share	1.66	1.66		1.56	1.48	5%
Diluted Earnings Per Share	1.66	1.66		1.56	1.48	5%

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(1) Includes a $121 million unrealized accounting loss incurred in the fourth quarter of 1997 relating to the Company's 7% Automatic Common Exchange Securities (ACES). See Note 1(n) to the Company's Consolidated Financial Statements.

(2) Includes $37 million of interest income attributable to a tax refund in 1997.

	ACTUAL		
	TWELVE MONTHS ENDED DECEMBER 31,		
	1996	1995	PERCENT CHANGE
Revenues	$4,095	$3,729	10%
Operating Expenses	3,105	2,824	10%
Operating Income	990	905	9%
Other Expenses, Net	385	308	25%
Income Taxes	200	200	
Income from Continuing Operations	405	397	2%
Gain from Discontinued Operations		708	
Net Income	405	1,105	(63%)
Basic Earnings Per Share	1.66	1.60	4%
Diluted Earnings Per Share	1.66	1.60	4%

1997 Compared to 1996 (Actual). The Company's actual consolidated net income from continuing operations for 1997 was $421 million ($1.66 per share) compared to $405 million ($1.66 per share) in 1996. Although income increased by $16 million, the Company's basic and diluted earnings per share remained the same due to the issuance of approximately 47.8 million additional shares of the Company's common stock as a portion of the consideration paid in connection with the Merger. The Company's income from continuing operations reflects net non-recurring and other after-tax charges amounting to $42 million in 1997 and $67 million in 1996. Charges in 1997 included a non-cash, unrealized accounting loss of $79 million on the ACES, which were issued in July 1997, partially offset by $37 million of interest income related to a refund of federal income taxes in 1997. For a discussion of the accounting loss in connection with the ACES, see "-- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Accounting Treatment of ACES." The non-recurring, after-tax charges in 1996 included a $62 million charge taken in connection with the settlement of South Texas Project Electric Generating Station (South Texas Project) litigation claims and a $5 million loss associated with Houston Industries Energy, Inc.'s (HI Energy) investment in two tire-to-energy plants in Illinois.

After adjusting for non-recurring and other charges in both years, income from continuing operations for 1997 would have been $463 million ($1.83 per share) compared to $472 million ($1.93 per share) in 1996. The decrease is due in part to the additional amortization of certain lignite reserves by the Company's electric operations division (Electric Operations), the amortization of goodwill recorded upon the Merger and increased interest expense. The increase in interest on long-term debt and other interest on the Company's Statements of Consolidated Income reflect both (i) the $1.4 billion indebtedness incurred by the Company to fund a portion of the cost of the Merger and (ii) the consolidation of NorAm's existing indebtedness with that of the Company. Partially offsetting these effects were increased Electric Operations' sales due to customer growth, improved results at HI Energy and the additional operating income generated by the new business units acquired in the Merger.

1997 Compared to 1996 (Pro Forma). The Company's pro forma consolidated earnings for 1997 were $439 million ($1.56 per share) compared with $432 million ($1.48 per share) in 1996.

Excluding the non-recurring and other charges described above, the Company's 1997 pro forma income from continuing operations would have been $481 million ($1.71 per share) compared to $499 million ($1.71 per share) in 1996. This decrease in pro forma earnings, as adjusted for non-recurring and other charges, is principally the result of (i) hedging-related losses incurred in the first quarter of 1997 (prior to the Merger) by a subsidiary of NorAm, which losses are not reflected in the Company's actual results of operations since they were incurred prior to the Merger, (ii) a weather-related decline in sales volumes from the natural gas distribution segment, and (iii) increased administrative and general expenses associated with increased staffing and marketing in connection with increasing the scope of energy marketing activities.

Pro forma consolidated net income for 1997 and 1996 exceeds actual consolidated net income for such years because purchase-related costs were more than offset on a pro forma basis by NorAm's earnings for the periods prior to the Acquisition Date. Such earnings were not part of the reported actual results.

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

The Company's net income includes non-recurring, after-tax charges amounting to $67 million described above in 1996 and $24 million primarily related to the write-down of HI Energy's Illinois tire-to-energy plant investment in 1995. After adjusting for non-recurring gains and charges in both years, consolidated basic and diluted per share earnings from continuing operations rose nearly 14% 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 Electric Operations, 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.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

In order to reflect the changes in the Company's business resulting from the acquisition of NorAm, the Company has organized its financial reporting segments into Electric Operations, Natural Gas Distribution, Interstate Pipeline, Energy Marketing, International and Corporate. The business and operations of each of these segments are described below and are shown for comparative purposes on a pro forma basis.

All business segment data (other than data relating to Electric Operations) are presented on a pro forma basis as if the acquisition of NorAm had occurred on January 1 of the period presented. Pro forma results of operations are not necessarily indicative of the combined results of operations that actually would have occurred had the acquisition occurred on such date. The Company, however, believes that the presentation of pro forma data provides a more meaningful comparative standard for assessing changes in the results of operations of the business segments, because the pro forma presentation gives retroactive effect to the purchase-related adjustments, including amortization of goodwill and the revaluation on a preliminary basis of the fair market value of certain NorAm assets and liabilities.

The following table presents operating income on (i) an actual basis for the year ended December 31, 1997 and (ii) a pro forma basis for each of the Company's business segments for the years ended December 31, 1997 and 1996.

OPERATING INCOME (LOSS) BY BUSINESS SEGMENT

	ACTUAL YEAR ENDED DECEMBER 31,	UNAUDITED PRO FORMA YEAR ENDED DECEMBER 31,	
	1997(1)	1997	1996
	(IN MILLIONS)		
Electric Operations	$ 995	$ 995	$ 997
Natural Gas Distribution	55	153	160
Interstate Pipeline	32	100	109
Energy Marketing	16	15	49
International	20	17	(1)
Corporate	(53)	(61)	(42)
Total Consolidated	$1,065	$1,219	$1,272

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(1) Includes NorAm business segments beginning on the Acquisition Date.

ELECTRIC OPERATIONS

Electric Operations are conducted under the name "Houston Lighting & Power Company" or "HL&P" (HL&P), an unincorporated division of the Company. Electric Operations provides electric generation, transmission, distribution and sales to approximately 1.6 million customers in a 5,000 square mile area on the Texas Gulf Coast, including Houston (the nation's fourth largest city). Electric Operations constitutes the Company's largest business segment, representing 82% of the Company's consolidated pro forma operating income for 1997.

The following table provides summary data, before income taxes, regarding the actual results of operations of Electric Operations for 1997, 1996 and 1995.

	YEAR ENDED DECEMBER 31,		
	1997	1996	PERCENT CHANGE
	(IN MILLIONS)		
Base Revenues(1)	$2,839	$2,743	3%
Reconcilable Fuel Revenues(2)	1,413	1,282	10%
Fuel and Purchased Power Expense	1,477	1,347	10%
Operation Expense	737	640	15%
Maintenance Expense	228	249	(8%)
Depreciation and Amortization Expense	569	546	4%
Other Operating Expenses	246	246	--
Operating Income	$ 995	$ 997	--

	YEAR ENDED DECEMBER 31,		
	1996	1995	PERCENT CHANGE
	(IN MILLIONS)		
Base Revenues(1)	$2,743	$2,645	4%
Reconcilable Fuel Revenues(2)	1,282	1,035	24%
Fuel and Purchased Power Expense	1,347	1,113	21%
Operation Expense	640	616	4%
Maintenance Expense	249	250	--
Depreciation and Amortization Expense	546	475	15%
Other Operating Expense	246	246	--
Operating Income	$ 997	$ 980	2%

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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 -- Electric Operations."

OPERATING INCOME -- ELECTRIC OPERATIONS

1997 Compared to 1996. Electric Operations' operating income (before income taxes) was $995 million in 1997 compared with $997 million the previous year. The decrease in operating income was due to increases in operations expense and depreciation and amortization expense, partially offset by increased revenues from electric sales growth and decreases in maintenance expense, as described below. Total KWH sales rose 3% during 1997, with increases of 1% in residential sales, 6% in commercial sales and 2% in firm industrial sales.

1996 Compared to 1995. Electric Operations' operating income (before income taxes) was $997 million in 1996 compared with $980 million in 1995. Increased sales resulting from favorable weather and economic conditions helped offset the effects of the increases in operations expense and depreciation and amortization expense discussed below. Total KWH sales rose 6% during 1996, with increases of 4% in residential sales, 3% in commercial sales and 7% in firm industrial sales.

OPERATING REVENUES -- ELECTRIC OPERATIONS

1997 Compared to 1996. Electric Operations' 3% increase in base revenues (which includes electric sales, miscellaneous revenues and certain non-reconcilable fuel) is primarily the result of newly recorded transmission revenues. Electric Operations' transmission revenues (which are considered miscellaneous revenues) in 1997 were $86 million but were offset by related transmission expenses of $88 million which are included in operation and maintenance expenses. For information regarding these transmission revenues, see "-- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Competition -- Electric Operations -- Competition in Wholesale Market" below.

Electric Operations' 10% increase in reconcilable fuel revenue resulted primarily from increased natural gas prices. The Public Utility Commission of Texas (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 actual fuel costs; 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 the Company's Consolidated 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. Electric Operations filed a fuel reconciliation proceeding with the Texas Utility Commission on January 30, 1998 for the three year period ending July 31, 1997.

In 1997, Electric Operations implemented (i) a $70 million temporary fuel surcharge (inclusive of interest) effective for the first six months of 1997 and (ii) a $62 million temporary fuel surcharge (inclusive of interest) effective for the last six months of 1997. As of December 31, 1997, Electric Operations' cumulative under-recovery of fuel costs was $172 million, including interest. In December 1997, the Texas Utility Commission approved the implementation of a $102 million (inclusive of interest) temporary fuel surcharge which was implemented by Electric Operations on January 1, 1998, with recovery extending from 8 months to 16 months depending on the customer class. Electric Operations requested the surcharge in order to recover its under-recovery of fuel expenses for the period March 1997 through August 1997.

FUEL AND PURCHASED POWER EXPENSE -- ELECTRIC OPERATIONS

Fuel costs constitute the single largest expense for Electric Operations. 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 Electric Operations in 1997 was $1.87 per million British Thermal Units

(MMBtu) ($2.60 for natural gas, $2.02 for coal, $1.08 for lignite and $0.54 for nuclear). In 1996, the average cost of fuel was $1.82 per MMBtu ($2.31 for natural gas, $2.11 for coal, $1.11 for lignite and $0.62 for nuclear). Fuel costs are reconciled to fuel revenues resulting in no effect on earnings unless fuel costs are determined not to be recoverable.

1997 Compared to 1996. Fuel expenses in 1997 increased by $66 million or 6% over 1996 expenses. The increase was driven by significant increases in the average unit cost of natural gas, which rose to $2.60 per MMBtu in 1997 from $2.31 per MMBtu in 1996. Purchased power expenses also increased in 1997 by $63 million or 20% over 1996 expenses. This change was primarily due to higher prices paid to qualifying facilities for purchased electric energy principally as a result of increases in gas prices, energy purchased under Electric Operations' joint dispatching agreement with the City of San Antonio (See Note 12(c) to the Company's Consolidated Financial Statements), and Electric Operations participating in the newly deregulated Texas wholesale energy market in order to buy and sell energy at lower costs to its customers.

1996 Compared to 1995. Fuel expenses in 1996 increased by $146 million or 17% over 1995 expenses. The increase was driven by significant increases in the average unit cost of natural gas, which rose to $2.31 per MMBtu 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 primarily by the unit cost paid for purchased electric energy which rose as a result of the increase in natural gas prices.

OPERATION AND MAINTENANCE EXPENSES, DEPRECIATION, AMORTIZATION AND OTHER -- ELECTRIC OPERATIONS

1997 Compared to 1996. Operation and maintenance expense increased $76 million in 1997, including $88 million due to transmission tariffs within the Electric Reliability Council of Texas (ERCOT). These expenses are largely offset by $86 million of revenue associated with wholesale transmission services. The additional expenses do not reflect a significant increase in Electric Operations' cost of providing transmission service, but only a change in the pricing and billing of wholesale transmission services among providers in Texas.

In 1997, Electric Operations incurred $17.4 million in work force severance costs as a result of its efforts to streamline and improve certain business activities. In 1996, Electric Operations incurred severance costs of $30 million.

Depreciation and amortization expense increased $23 million in 1997 compared to 1996. The increase is primarily due to the additional accelerated amortization of $16 million over 1996 of Electric Operations' investment in lignite reserves. In 1996, Electric Operations began amortizing its $153 million investment in these lignite reserves, which are associated with a canceled generation project. The lignite reserves will be fully amortized no later than 2002. In each of 1997 and 1996, Electric Operations wrote down its investment in the South Texas Project by $50 million in addition to ordinary depreciation associated with the South Texas Project. The additional amortization of the lignite reserves and the South Texas Project is allowed pursuant to Electric Operations' most recent rate order. For additional information regarding these amortizations, see Note 1(f) to the Company's Consolidated Financial Statements.

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

In 1995, Electric Operations incurred $15 million in work force severance as a result of its efforts to streamline and improve certain business activities as compared to $30 million in 1996.

NATURAL GAS DISTRIBUTION

Domestic natural gas distribution operations (Natural Gas Distribution) are conducted through the Arkla, Entex and Minnegasco divisions of NorAm and are included in the Company's actual consolidated results of operations beginning on the Acquisition Date. These operations consist of natural gas sales to, and

natural gas transportation for, residential, commercial and certain industrial customers in six states: Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas.

The following table provides summary data regarding the unaudited pro forma financial results of operations of Natural Gas Distribution, including operating statistics, for 1997 and 1996. Results of operations data for prior periods are not presented because the Company had no operations in this segment prior to the Merger.

	UNAUDITED PRO FORMA YEAR ENDED DECEMBER 31,		
	1997	1996	PERCENT CHANGE
	($ IN MILLIONS)		
Operating Revenues	$2,202	$2,113	4%
Operating Expenses:			
Natural Gas	1,441	1,348	7%
Operation and Maintenance	247	250	(1%)
Depreciation and Amortization	123	120	3%
Other Operating Expenses(1)	238	235	1%
Total Operating Expenses	2,049	1,953	5%
Operating Income	$ 153	$ 160	(4%)
Throughput Data (in Bcf):			
Residential and Commercial Sales	326	333	(2%)
Industrial Sales	59	58	2%
Transportation	42	42	--
Total Throughput	427	433	(1%)

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(1) Before a $6 million one-time charge incurred in 1996 for early retirement and severance costs.

1997 Compared to 1996 (Pro Forma). The increase of approximately $89 million (4%) in pro forma Natural Gas Distribution operating revenue for the year ended December 31, 1997 in comparison to the corresponding period of 1996 is principally due to the increase in purchased gas costs.

Pro forma operating income was $153 million in 1997 compared with $160 million (before a one-time charge of $6 million for early retirement and severance) in 1996. The decrease of approximately $7 million (4%) in 1997 pro forma operating income was principally due to decreased Minnegasco customer usage due to warmer weather and customer conservation, decreased Arkla customer usage due to warmer weather (primarily in the first quarter of 1997) and Arkla's charges associated with the applicable state regulatory commission's methodology of calculating the price of gas charged to customers (the purchased gas adjustment) primarily in Louisiana. Partially offsetting the decrease is an increase in Minnegasco's performance based rate incentive recoveries and customer growth and increased revenues from Entex due to rate relief granted in 1996 and fully reflected in 1997.

The $93 million (7%) increase in gas purchased costs in 1997 compared to 1996 primarily reflects the increase in Natural Gas Distribution's average cost of gas in 1997 (consistent with the overall increase in the market price of gas) along with the purchased gas adjustment described above.

INTERSTATE PIPELINE

Interstate natural gas pipeline operations (Interstate Pipeline) are conducted through NorAm Gas Transmission Company (NGT) and Mississippi River Transmission Corporation (MRT), two wholly owned subsidiaries of NorAm. The NGT system consists of approximately 6,200 miles of natural gas transmission lines located in portions of Arkansas, Kansas, Louisiana, Mississippi, Missouri, Oklahoma, Tennessee and Texas. The MRT system consists of approximately 2,000 miles of pipeline serving principally the greater

St. Louis metropolitan area in Illinois and Missouri. The results of operations of Interstate Pipeline are included in the Company's actual consolidated results of operations beginning on the Acquisition Date.

The following table provides summary data regarding the unaudited pro forma results of operations of Interstate Pipeline including operating statistics for 1997 and 1996. Results of operations data for prior periods are not presented because the Company had no operations in this segment prior to the Merger.

	UNAUDITED PRO FORMA YEAR ENDED DECEMBER 31,		PERCENT
	1997	1996	CHANGE
	($ IN MILLIONS)		
Operating Revenues	$295	$347	(15%)
Operating Expenses:			
Natural Gas	42	76	(45%)
Operation and Maintenance	45	49	(8%)
Depreciation and Amortization	46	45	2%
Other Operating Expenses(1)	62	68	(9%)
Total Operating Expenses	195	238	(18%)
Operating Income	$100	$109	(9%)
Throughput Data (in million MMBtu):			
Natural Gas Sales	18	33	(45%)
Transportation	911	952	(4%)
Elimination(2)	(17)	(31)	45%
Total Throughput	912	954	(4%)

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(1) Before a $17 million one-time charge incurred in 1996 for early retirement and severance costs.

(2) Elimination of volumes both transported and sold.

1997 Compared to 1996 (Pro Forma). Pro forma operating revenues for Interstate Pipeline decreased by $52 million (15%) for the year ended December 31, 1997 in comparison to the corresponding period of 1996. The decrease in revenues primarily reflects a decline in natural gas sales revenue resulting from the expiration in 1996 of an unbundled natural gas sales contract between Interstate Pipeline and Arkla. Natural gas sales to Natural Gas Distribution were $60 million in 1996 and none in 1997. It is anticipated that substantially all future revenues for Interstate Pipeline will be from natural gas transportation only.

Pro forma operating income was $100 million in 1997 compared to $109 million (before a one-time charge of $17 million for early retirement and severance) in 1996. This decrease of approximately $9 million (9%) in Interstate Pipeline's pro forma operating income between 1997 and 1996 results primarily from three factors: (i) a 6% decrease in transportation revenues, (ii) a 43% decrease in natural gas sales revenue (as described above) and (iii) lower demand for natural gas transportation as a result of lower natural gas consumption (primarily weather-related) in the eastern markets served by the segment. These factors were offset partially by an approximately 18% decline in operating expenses primarily due to decreases in gas purchased.

The decline in transportation revenues are largely attributable to price differentials between the average spot price for Mid-continent natural gas (Interstate Pipeline's primary supply area) and Gulf Coast natural gas in 1997. When prices of Gulf Coast gas decrease significantly relative to Mid-continent gas, downward pressure on transportation prices occurs when selling in west to east markets like those of NGT. This competitive pressure, in turn, results in a decline in average transportation rates under contracts that contain market-sensitive pricing provisions.

The $34 million (45%) decrease in gas purchased costs in 1997 compared to 1996 is largely attributable to the expiration of long-term supply contracts entered into prior to unbundling, as discussed above. Other operating expenses decreased $4 million (9%) in 1997 compared to 1996 primarily due to the elimination of non-recurring costs combined with cost reductions related to the 1996 early retirement and severance program and reductions in costs allocated from NorAm.

During 1997, Interstate Pipeline's largest unaffiliated customer was a natural gas utility that serves the greater St. Louis metropolitan area. Revenues from this customer are generated pursuant to several long-term firm transportation and storage contracts that currently are scheduled to expire at various dates between October 1999 and May 2000. Interstate Pipeline is currently negotiating with the natural gas utility to renew these agreements.

ENERGY MARKETING

Energy marketing and gathering business (Energy Marketing) includes the operations of the Company's wholesale and selected retail energy marketing businesses and natural gas gathering activities conducted, respectively, by NorAm Energy Services, Inc. (NES), NorAm Energy Management, Inc. (NEM) and NorAm Field Services Corp. (NFS), three wholly owned subsidiaries of NorAm.

The following table provides summary data regarding the unaudited pro forma results of operations of Energy Marketing, including operating statistics for 1997 and 1996. Results of operations data for prior periods are not presented because the Company had no operations in this segment prior to the Merger.

	UNAUDITED PRO FORMA YEAR ENDED DECEMBER 31		
	1997	1996	PERCENT CHANGE
	(IN MILLIONS)		
Operating Revenues	$3,589	$2,645	36%
Operating Expenses:			
Natural Gas and Purchased Power, net	3,477	2,489	40%
Operation and Maintenance	46	68	(32%)
Depreciation and Amortization	11	10	10%
Other Operating Expenses	40	29	38%
Total Operating Expenses	3,574	2,596	38%
Operating Income	$ 15	$ 49	(69%)
Operations Data:			
Natural Gas (in Bcf):			
Sales	1,185	1,076	10%
Transportation	24	26	(8%)
Gathering	242	231	5%
Total	1,451	1,333	9%
Electricity (in thousand MWH):			
Wholesale Power Sales	24,997	2,776	800%

1997 Compared to 1996 (Pro Forma). Pro forma operating revenues for Energy Marketing increased by $944 million (36%) for 1997 in comparison to 1996 due to increased natural gas and electricity trading volumes. Increased volumes in 1997 had minimal effect on operating income due to low operating margins in both periods.

Pro forma operating income for 1997 was $15 million compared to $49 million in 1996. This decrease of approximately $34 million (69%) was primarily attributed to: (i) hedging losses associated with anticipated first quarter 1997 sales under peaking contracts and (ii) losses from the sale of natural gas held in storage and

unhedged in the first quarter of 1997 totaling $17 million. In addition, other operating expenses increased $11 million largely due to increased staffing and marketing activities made in support of the increased sales and expanded marketing efforts. Partially offsetting these unfavorable impacts were increased margins from natural gas gathering activities.

Natural gas and purchased power expense increased $988 million (40%) in 1997 compared to 1996 primarily due to increased gas and electricity marketing activities but also included hedging losses and losses from the sale of natural gas, as discussed above.

To minimize fluctuations in the price of natural gas and transportation, NorAm, primarily through NES, enters into futures transactions, swaps and options in order to hedge against market price changes affecting (i) certain commitments to buy, sell and transport natural gas, (ii) existing gas storage inventory and (iii) certain anticipated transactions, some of which carry off-balance sheet risk. NES also enters into natural gas derivatives for trading purposes and electricity derivatives for hedging and trading purposes. For a discussion about the Company's accounting treatment of derivative instruments, see Note 2 to the Company's Consolidated Financial Statements and "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this report.

The Company believes that NES' energy marketing and risk management services have the potential of complementing the Company's strategy of developing and/or acquiring unregulated generation assets in other markets. As a result, the Company has made, and expects to continue to make, significant investments in developing NES' internal software, trading and personnel resources.

INTERNATIONAL

The Company's international business segment (International) includes the results of operations of HI Energy, a wholly owned subsidiary of the Company that participates in the development and acquisition of foreign independent power projects and the privatization of foreign generation and distribution facilities, and of the international operations of NorAm. Substantially all of the Company's International operations to date have been in Central and South America.

Results of operations data for International are presented in the following table on an unaudited pro forma basis as if the Merger had occurred as of January 1, 1997 and 1996, as applicable. The primary pro forma adjustment made to this segment in connection with the Merger is to give effect to the development costs and other expenditures incurred by certain NorAm subsidiaries on international projects prior to the Acquisition Date. The adjustment had no effect on operating revenues. Results of operations for International for the years ended December 31, 1996 and 1995 are presented on an actual basis as the related NorAm operations for such years were immaterial.

	UNAUDITED PRO FORMA YEAR ENDED			ACTUAL YEAR ENDED		
	1997	1996	PERCENT CHANGE	1996	1995	PERCENT CHANGE
	(IN MILLIONS)			(IN MILLIONS)		
Operating Revenues	$92	$62	48%	$62	$ 47	32%
Operating Expenses:(1)						
Fuel	21	19	11%	19	18	6%
Operation and Maintenance	50	42	19%	39	76	(49%)
Depreciation and Amortization	4	2	100%	2	1	100%
Total Operating Expenses	75	63	19%	60	95	(37%)
Operating Income (Loss)	$17	$(1)		$ 2	$(48)	

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(1) International operating expenses are included in other operating expenses on the Company's Consolidated Statements of Income. The above detail is provided for informational purposes only.

1997 Compared to 1996 (Pro Forma). Pro forma operating income for 1997 was $17 million compared to an operating loss of approximately $1 million for the same period in 1996. The first quarter of 1996 includes an $8 million pre-tax non-recurring charge related to the write-off of a portion of HI Energy's investment in two tire-to-energy plants in 1996. Excluding non-recurring charges, International would have had operating income in 1996 of $7 million. The increase in 1997 operating income is due to increased equity earnings of $32 million partially offset by higher operation expenses resulting from increased corporate and project development costs. Equity earnings increased primarily due to investments in Brazil and Colombia. Light Servicos de Eletricidade S.A. (Light) reported enhanced results in 1997 and a full year of operations compared to only eight months in 1996. HI Energy's investment in EPSA, a Colombian electric utility, in which HI Energy acquired a 28% interest in June 1997, also contributed to the increase in equity income.

Excluding after-tax nonrecurring charges of $5 million for 1996, International's pro forma net income was $23 million and $3 million for 1997 and 1996, respectively. Generally, HI Energy's net income exceeds its operating income because of tax benefits and because equity income is reflected net of tax. However, in 1996 net income did not exceed operating income primarily due to lower equity earnings in 1996.

1996 Compared to 1995 (Actual). Operating income for the year ended December 31, 1996 was $2 million compared to an operating loss of $48 million for the same period in 1995. The increase is primarily due to (i) equity earnings of approximately $16 million from Light which was acquired in May 1996, (ii) a $20 million reduction in non-recurring charges associated with the investment in two tire-to-energy plants (included in operation and maintenance expenses) and (iii) reduced project development costs (included in operation and maintenance expenses). International's actual net income in 1996 was $.2 million compared to a loss of $33 million in 1995.

International intends to evaluate and consider a wide array of potential business strategies, including possible acquisitions, restructurings, reorganizations and/or dispositions of currently owned properties or investments. Pursuit of any of the above strategies, or any combination thereof could have a significant impact on the business operations and financial condition of International.

For additional information about the accounting treatment of certain of HI Energy's foreign investments, see Note 5 to the Company's Consolidated Financial Statements.

CORPORATE

Corporate. The Company's corporate and other business segment (Corporate) includes the operations of HI Power Generation, Inc. (HIPG), which is engaged in the acquisition, development, and operation of domestic non-rate regulated power generation facilities, the Company's unregulated retail electric services business, certain real estate holdings of the Company, corporate costs and inter-unit eliminations.

In 1997, Corporate's pro forma operating loss of $61 million which reflects an increase of $19 million when compared to 1996. The increase in pro forma operating losses was primarily due to (i) losses associated with the Company's non-regulated utility services business; (ii) consumer services business; (iii) unregulated retail electric services business; and (iv) expenses related to the development of domestic power generation projects.

HIPG. HIPG was formed in March 1997 to pursue the acquisition of domestic electric generation assets as well as the development of new domestic non-rate regulated power generation facilities. The Company has invested approximately $3 million in HIPG development activities since its formation. HIPG currently has entered into commitments associated with various generation projects amounting to $338 million, including certain commitments that remain subject to due diligence and other conditions. The Company currently expects to finance these commitments primarily with the proceeds from bank borrowings obtained by one or more subsidiaries of the Company. The Company expects that HIPG will continue to participate as a bidder in future sales of generating assets. Depending on the timing and success of HIPG's future bidding efforts resulting expenditures could be substantial.

CERTAIN FACTORS AFFECTING FUTURE EARNINGS OF THE COMPANY AND ITS SUBSIDIARIES

Earnings for the past three years are not necessarily indicative of future earnings and results. The level of future earnings depends on numerous factors including (i) the Company's ability to successfully integrate the operations of NorAm into the Company's operations; (ii) the future growth in the Company and its subsidiaries' energy sales; (iii) weather; (iv) the success of the Company's and its subsidiaries' entry into non-rate regulated businesses such as energy marketing and international and domestic power projects; (v) the Company's and its subsidiaries' ability to respond to rapid changes in a competitive environment and in the legislative and regulatory framework under which it has traditionally operated; (vi) rates of economic growth in the Company's and its subsidiaries' service areas; (vii) the ability of the Company and its subsidiaries to control costs and to maintain pricing structures that are both attractive to customers and profitable; (viii) the outcome of future rate proceedings; and (ix) future legislative initiatives.

In order to adapt to the increasingly competitive environment in which the Company and its subsidiaries operate, the Company intends 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. Pursuit of any of the above strategies, or any combination thereof, may significantly affect the business operations and financial condition of the Company.

RATE PROCEEDINGS -- ELECTRIC OPERATIONS

The Texas Utility Commission has jurisdiction (or, in some cases, appellate jurisdiction) over the electric rates of Electric Operations and as such monitors Electric Operations' earnings to ensure that Electric Operations is not earning in excess of a reasonable rate of return.

In 1997, the Texas legislature considered but did not pass legislation intended to address various issues concerning the restructuring of the electric utility industry, including proposals that would permit Texas retail electric customers to choose their own electric suppliers beginning on December 31, 2001. The legislative proposals included provisions relating to full stranded cost recovery; rate reductions; rate freezes; the unbundling of generation operations, transmission and distribution and customer service operations; securitization of regulatory assets; and consumer protections. Although the Company and certain other parties (including the Texas Utility Commission) supported the bill, it was not enacted prior to the expiration of the legislative session.

In October 1997, the Company presented a proposed transition to competition plan intended to address certain aspects of the proposals contained in the legislation formerly pending before the Texas legislature. By mid-December 1997, negotiations resulted in a settlement agreement (Settlement Agreement) among the Company and representatives of the state's consumer and industrial groups, the staffs of the City of Houston, the Texas Utility Commission and others that was presented to the Texas Utility Commission, where it is currently under consideration.

Under the terms of the proposal, residential customers will receive a 4% credit to the base cost of electricity in 1998, increasing to 6% in 1999. Small and mid-sized businesses will receive a 2% credit to their base costs beginning in 1998. The combined effect of these reductions is expected to be a $166 million decrease in base revenues over a two year period. In addition, the Company (over the next two years) will be permitted to mitigate its potentially stranded costs by (i) redirecting to production property all of its current depreciation expenses that would otherwise be credited to accumulated depreciation for transmission and distribution property, and (ii) applying any and all earnings above a rate of return cap of 9.95% to additional depreciation of production property. The Company estimates that redirected depreciation over the two-year period of 1998 and 1999 will be approximately $364 million. As part of the Settlement Agreement, the Company will support proposed legislation in the 1999 Texas legislative session that includes provisions providing for retail customer choice effective December 31, 2001 and other provisions consistent with those in the 1997 proposed legislation.

The Settlement Agreement is currently under consideration by the Texas Utility Commission, the City of Houston and other cities served by HL&P. In December 1997, the Texas Utility Commission approved the petition filed by the Company to implement the requested base rate credits on a temporary basis beginning January 1, 1998, pending final Texas Utility Commission consideration. The approval also included the accounting order necessary to permit the Company to begin redirecting depreciation from its transmission and distribution facilities to production property on a temporary basis pending final Texas Utility Commission consideration. A procedural schedule has been developed by the Texas Utility Commission whereby a final decision regarding the Settlement Agreement would be reached by the end of March 1998.

Although the Company believes that the proposal has strong support from many groups active in the debate over deregulation of the electric industry, it is not in a position at this time to predict whether the proposal will be adopted, and if adopted, what form it ultimately may take.

COMPETITION -- ELECTRIC OPERATIONS

Due to changing government regulations, technological developments and the availability of alternative energy sources, the U.S. electric utility industry has become increasingly competitive.

Long-Term Trends in Electric Utility Industry. Based on a strategic review of the Company'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 on a state-by-state basis. As of December 31, 1997, 16 states are considering legislative proposals to restructure electricity markets. The Company's management also believes the businesses of electricity and natural gas are converging and consolidating and 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 ratemaking for regulated transmission and distribution operations. This trend should provide incentives for electric utilities to become more efficient.

Competition in Wholesale Market. The Energy Policy Act of 1992 and the Texas Public Utility Regulatory Act of 1995 (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% of its total revenues, the expansion of competition in the wholesale electric market is significant in that it has increased the range of nonutility 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 Texas 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 Texas 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 Texas Utility Commission approved interim transmission cost of service rates under the new transmission access pricing rules. The associated 1997 revenue was $86 million offset by transmission expenses of $88 million.

In August 1996, the Texas Utility Commission approved the creation of an Independent System Operator (ISO) to manage the electric grid of the Electric Reliability Council of Texas (ERCOT). The ISO is a key component of implementing the Texas 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 ERCOT electric transmission system. The ERCOT 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 in Retail Market. The Company has agreed pursuant to the Settlement Agreement to support legislation in 1999 that is intended to permit Texas retail electric customers to choose their own suppliers beginning on December 31, 2000.

In January 1997, the Texas 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 Texas 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. The Texas Utility Commission is currently updating this report for the 1999 legislative session.

For information about the Company's proposed transition to competition plan, see "-- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Rate Proceedings -- Electric Operations."

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 would not command the same price for their output as they have in a regulated environment.

In January 1997, the Texas Utility Commission delivered a report to the Texas legislature on stranded investments in the electric utility 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. Electric Operations' estimated stranded costs as set forth in the Texas Utility Commission report, calculated based on various sets of assumptions provided by the Texas Utility Commission, ranged from non-existent to $6 billion. The broad range of estimates illustrates the inherent uncertainty in calculating these costs. The Texas Utility Commission is currently updating this report for the 1999 legislative session.

Regulatory Assets and Liabilities. Electric Operations applies the accounting policies established in SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71). In general, SFAS No. 71 permits a company with cost-based rates to defer certain costs that would otherwise be expensed to the extent that the utility is recovering or expects to recover such costs in rates charged to customers. If, as a result of changes in regulation or competition, Electric Operations' ability to recover these assets and/or liabilities would not be assured, then pursuant to SFAS No. 101, "Accounting for Discontinuation of Application of SFAS No. 71 (SFAS No. 101) and SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (SFAS No. 121), Electric Operations would be required to write off or write down such net regulatory assets to the extent that they ultimately were determined not to be recoverable. For further information concerning regulatory assets or the Company's balance sheet and discussion of the accounting for regulatory assets and liabilities, see Note 1(c) to the Company's Consolidated Financial Statements.

COMPETITION -- OTHER OPERATIONS

Natural Gas Distribution competes primarily with alternate energy sources such as electricity and other fuel sources as well as with providers of energy conservation products. In addition, as a result of federal regulatory changes affecting interstate pipelines, it has become possible for other natural gas suppliers and distributors to bypass Natural Gas Distribution's facilities and market, sell and/or transport natural gas directly to small commercial and/or large volume customers.

Interstate Pipeline competes with other interstate and intrastate pipelines in the transportation and storage of natural gas. The principal elements of competition among pipelines are rates, terms of service, and flexibility and reliability of service. Interstate Pipeline competes indirectly with other forms of energy available to its customers, including electricity, coal and fuel oils. The primary competitive factor is price. Changes in

the availability of energy and pipeline capacity, the level of business activity, conservation and governmental regulations, the capability to convert to alternative fuels, and other factors, including weather, affect the demand for natural gas in areas served by Interstate Pipeline and the level of competition for transport and storage services.

Energy Marketing competes for sales in its gas marketing business with other natural gas merchants, producers and pipelines based on its ability to aggregate supplies at competitive prices from different sources and locations and to utilize efficiently transportation from third-party pipelines. Energy Marketing also competes against other energy marketers on the basis of its relative financial position and access to credit sources. This competitive factor reflects the tendency of energy customers, natural gas suppliers and natural gas transporters to seek financial guarantees and other assurances that their energy contracts will be satisfied. As pricing information becomes increasingly available in the energy marketing business and as deregulation in the electricity markets continues to accelerate, the Company anticipates that Energy Marketing will experience greater competition and downward pressure on per-unit profit margins in the energy marketing industry.

Competition for acquisition of international and domestic non-rate regulated power projects is intense. HI Energy and HIPG compete against a number of other participants in the non-utility power generation industry, some of which have greater financial resources and have been engaged in non-utility power projects for periods longer than the Company and have accumulated greater portfolios of projects. Competitive factors relevant to the non-utility power industry include financial resources, access to non-recourse funding and regulatory factors.

FLUCTUATIONS IN COMMODITY PRICES AND DERIVATIVE INSTRUMENTS

For information regarding the Company's exposure to risk as a result of fluctuations in commodity prices and derivative instruments, see Item 7A of this Report.

ACCOUNTING TREATMENT OF ACES

The Company accounts for its investment in Time Warner Convertible Preferred Stock (TW Preferred) under the cost method. As a result of the Company's issuance of the ACES, certain increases in the market value of Time Warner common stock (the security into which the TW Preferred is convertible) could result in an accounting loss to the Company, pending the conversion of the Company's TW Preferred into Time Warner common stock.

Prior to the conversion of the TW Preferred into Time Warner common stock, when the market price of Time Warner common stock increases above $55.5844, the Company records in Other Income (Expense) an accounting loss equal to the aggregate amount of such increase as applicable to all ACES multiplied by 0.8264. In accordance with generally accepted accounting principles, this accounting loss (which reflects the unrealized increase in the Company's indebtedness with respect to the ACES) may not be offset by accounting recognition of the increase in the market price of the Time Warner common stock that underlies the TW Preferred. Upon conversion of the TW Preferred, the Company will begin recording unrealized net changes in the market prices of the Time Warner common stock and the ACES as a component of common stock equity.

As of December 31, 1997, the market price of Time Warner common stock was $62.00 per share. Accordingly, the Company recognized an increase of $121 million in the unrealized liability relating to its ACES indebtedness (which resulted in an after tax earnings reduction of $79 million or $.31 per share). The Company believes that this unrealized loss for the ACES is more than economically hedged by the approximately $430 million unrecorded unrealized gain at December 31, 1997 relating to the increase in the fair value of the Time Warner common stock underlying the investment in TW Preferred since the date of its acquisition. Any gain related to the increase in the fair value of Time Warner Common Stock would be recognized upon the sale of the TW Preferred or the shares of common stock into which such TW Preferred is converted. As of February 28, 1998, the price of Time Warner common stock was $67.50 per share which would have resulted in the Company recognizing an additional increase of $104 million in the unrealized

liability represented by its indebtedness under the ACES. The related unrecorded unrealized gain as of February 28, 1998 would have been computed as an additional $126 million.

IMPACT OF THE YEAR 2000 ISSUE AND OTHER SYSTEM IMPLEMENTATION ISSUES

The Company is currently evaluating its computer and software requirements in light of changes in the electric utility and energy services industries and the acquisition of NorAm and resulting expansions of the Company into energy trading activities.

In September 1997, the Company entered into an agreement with SAP America, Inc. (SAP) to license SAP's proprietary R/3 enterprise software. The licensed software includes finance and accounting, human resources, materials management and service delivery components. Based on the current timetable for completion of the SAP implementation and integration project (Project), the Company estimates that the third-party cost (including software license fees, fees for consulting and other services and hardware acquisition costs) plus internal costs of the Project will be approximately $130 million. It is currently projected that these costs would be incurred over a three-year period. All business process reengineering costs associated with the Project will be expensed by the Company when incurred. It is anticipated that the implementation of SAP will negate the need to modify many of the Company's computer systems to accommodate the year 2000. The Company is also considering installing a new customer information system; expenditures for the installation of such a system have not been determined but could be significant.

The Company is also evaluating various alternatives intended to permit its existing computer programs (those not anticipated to be replaced by SAP) to accommodate the year 2000 and beyond. Based on current internal cost and productivity studies as well as bids recently solicited from various computer software contractors, the Company estimates that the cost of resolving the year 2000 issue for its current operations (other than those anticipated to be replaced by SAP) will range between $20 million to $25 million.

The costs of becoming year 2000 compliant and the dates by which the Company plans to complete the year 2000 modifications are based on management's estimates, which were derived utilizing numerous assumptions regarding future events, including the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these cost or time estimates will be achieved, and actual results could differ materially. Specific factors that might cause such material differences include, but are not limited to, the availability of personnel trained in this area and the ability to locate and correct all relevant computer codes.

RISKS OF OVERSEAS OPERATIONS

As of December 31, 1997, the Company's Consolidated Balance Sheets reflected $803 million of foreign investments, a substantial portion of which represent equity investments in foreign utility companies.

Foreign power projects entail certain political and financial risks, distinct from those associated with domestic power projects. Such risks include (i) expropriation, (ii) political instability, (iii) currency exchange rate fluctuations and repatriation restrictions and (iv) regulatory and legal uncertainties. Although HI Energy seeks to minimize these risks in a variety of ways, including co-investing with local partners, financing investments with nonrecourse debt and reviewing the potential return of any investment against related political and other risks, there can be no assurance that HI Energy's efforts to minimize overseas operational risks will be successful.

As of December 31, 1997, HI Energy held a 11.35% ownership interest in Light. Equity earnings from Light constitute a substantial portion of International's operating income. In December 1997, Light experienced numerous power outages in its service territory during a period of record peaks in electrical demand. The Brazilian electricity service regulatory agency (ANEEL) in February 1998 assessed against Light a $1.2 million penalty because of these outages. Light has protested the assessment of the fines.

In February 1998, HI Energy and certain of its Argentine subsidiaries initiated an arbitration proceeding before the International Centre for Settlement of Investment Disputes against the Republic of Argentina, relating to alleged violations by the Province of Santiago del Estero and others of certain provisions of the

concession contract held by EDESE. HI Energy and its subsidiaries are seeking recovery of damages in an amount to be determined, but estimated to be no less than $10 million.

ENVIRONMENTAL EXPENDITURES

The Federal Clean Air Act (Clean Air Act) and other federal and state laws and regulations have required, and will continue to require, the Company to make significant expenditures in order to comply with environmental standards.

Clean Air Act Expenditures. In 1996, the Company incurred costs of approximately $1 million and less than $1 million in 1997, in order to comply with requirements applicable to Electric Operations under the Clean Air Act, which requirements mandate that electric utilities install continuous emission monitoring equipment. Installation of the new systems was completed in 1996, and, based on existing regulatory requirements, the Company forecasts no additional significant expenditures for the installation of continuous emissions monitoring systems for 1998.

The Clean Air Act also requires establishing new emission limitations for oxides of nitrogen (NOx). However, implementation of these limitations has been delayed until 1999. The Company did not incur NOx reduction costs in 1997 but it estimates that it will expend up to $10 million between 1998 and 1999 for NOx reductions. Current Texas Natural Resource Conservation Commission evaluations indicate NOx reductions will be required subsequent to 1999, however the magnitude and timing of such reductions have not been established.

Expenditures Associated with Planned HIPG Acquisitions. The California South Coast Air Quality Management District updated the Air Quality Management Plan for attainment of the federal ozone standard in 1997. The plan included provisions for future year reductions in NOx emissions. Various emission reduction initiatives and emission credit purchases are being evaluated in association with the proposed acquisitions of generation assets by HIPG in California. The estimated capital expenditures associated with such reductions and/or purchases have not yet been determined.

EPA Proceedings. In 1992, the EPA (i) identified the Company, along with several other parties, as "potentially responsible parties" (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act for the costs of cleaning up a site located adjacent to one of the Company's transmission lines and (ii) issued an administrative order for the remediation of the site. The Company believes that the EPA took this action solely on the basis of information indicating that the Company in the 1950s acquired record title to a portion of the land on which the site is located. The Company does not believe that it now or previously held any ownership interest in the site covered by the order and has obtained a judgment to that effect from a court in Galveston County, Texas. Based on this judgment and other defenses that the Company believes to be meritorious the Company has elected not to adhere to the EPA's administrative order, even though the Company understands that other PRPs are proceeding with site remediation. To date, neither the EPA nor any other PRP has instituted a claim against the Company for any share of the remediation costs for the site. However, if the Company was determined to be a responsible party, the Company could be found to be jointly and severally liable along with the other PRPs, for the aggregate remediation costs of the site (which the Company estimates to be approximately $80 million in the aggregate) and could be subjected to substantial fines and damage claims. Although the ultimate outcome of this proceeding cannot be predicted at this time, the Company does not believe that this case will have a material adverse effect on the Company's financial condition, liquidity or results of operations.

Litigation Involving Site Remediation. The Company 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 the Company neither operated nor owned the site, certain transformers and other equipment originally sold by the Company may have been delivered to the site by third parties. The Company and others have remediated the site pursuant to a plan approved by appropriate state agencies and a federal court. To date, the Company has recovered, or has commitments to recover from other responsible parties $2.2 million of the more than $3 million it has spent on remediation.

In Dumes, et al. v. Company, et al. (filed in December 1991 and pending in the U.S. District Court for the Southern District of Texas, Corpus Christi Division), landowners near the Corpus Christi 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 scheduled for trial in June 1998. Although the ultimate outcome of this case cannot be predicted at this time, the Company does not believe that this case will have a material adverse effect on the Company's financial condition, liquidity or results of operations.

Manufactured Gas Plant Sites. NorAm and its predecessors operated a manufactured gas plant (MGP) adjacent to the Mississippi River in Minnesota formerly known as Minneapolis Gas Works (FMGW) until 1960. NorAm has completed remediation of the main site other than ongoing water monitoring and treatment. There are six other former MGP sites in the Minnesota service territory. Remediation has been completed on one site. Of the remaining five sites, NorAm believes that two were neither owned nor operated by NorAm; two were owned by NorAm at one time but were operated by others and are currently owned by others; and one site was previously operated by NorAm but was owned by others. NorAm believes it has no liability with respect to the sites it neither owned nor operated.

At December 31, 1997, NorAm had estimated a range of $15 million to $77 million for possible remediation of the Minnesota sites. The low end of the range was determined based on only those sites presently owned or known to have been operated by NorAm, assuming use of NorAm's proposed remediation methods. The upper end of the range was determined based on the sites once owned by NorAm, whether or not operated by NorAm. The cost estimates for the FMGW site are based on studies of that site. The remediation costs for other sites are based on industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites remediated, the participation of other potentially responsible parties, if any, and the remediation methods used.

In its 1995 rate case, NorAm's Minnegasco division was allowed to recover approximately $7 million annually for remediation costs. Such costs are subject to a true-up mechanism whereby any over or under recovered amounts, net of certain insurance recoveries, plus carrying charges, would be deferred for recovery or refund in the next rate case. At December 31, 1997 and 1996, Minnegasco had recorded a liability of $20.6 million and $35.9 million, respectively, to cover the cost of future remediation. In addition, at December 31, 1997, Minnegasco had receivables from insurance settlements of $2.9 million. These insurance settlements will be collected through 1999. Minnegasco expects that approximately half of its accrual as of December 31, 1997 will be expended within the next five years. The remainder will be expended on an ongoing basis for an estimated 40 years. In accordance with the provisions of SFAS No. 71, a regulatory asset has been recorded equal to the liability accrued. Minnegasco is continuing to pursue recovery of at least a portion of these costs from insurers. Minnegasco believes the difference between any cash expenditures for these costs and the amount recovered in rates during any year will not be material to the Company's or NorAm's overall cash requirements, results of operations or cash flows.

Issues relating to the identification and remediation of MGPs are common in the utility industry. NorAm has received notices from the EPA and others regarding its status as a potentially responsible party for other sites. The Company and NorAm have not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP sites.

Mercury Contamination. Like other natural gas pipelines, NorAm's pipeline operations have in the past employed elemental mercury in meters used on its pipelines. Although the mercury has now been removed from the meters, it is possible that small amounts of mercury have been spilled at some of those sites in the course of normal maintenance and replacement operations and that such spills have contaminated the immediate area around the meters with elemental mercury. Such contamination has been found by NorAm at some sites in the past, and NorAm has conducted remediation at sites found to be contaminated. Although NorAm is not aware of additional specific sites, it is possible that other contaminated sites exist and that remediation costs will be incurred for such sites. Although the total amount of such costs cannot be known at this time, based on experience by NorAm and others in the natural gas industry to date and on the current

regulations regarding remediation of such sites, the Company and NorAm believe that the cost of any remediation of such sites will not be material to the Company or NorAm's financial position, results of operation or cash flows.

Other. From time to time the Company and/or its subsidiaries have received notice from regulatory authorities or others that they are considered to be potentially responsible parties in connection with sites found to require remediation due to the presence of environmental contaminants. In addition, the Company has been named as a defendant in litigation related to such sites and in recent years has been named, along with numerous others, as a defendant in several lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos while working at sites along the Texas Gulf Coast. Most of these claimants have been workers who participated in construction of various industrial facilities, including power plants, and some of the claimants have worked at locations owned by the Company. The Company anticipates that additional claims like those received may be asserted in the future and intends to continue its practice of vigorously contesting claims which it does not consider to have merit. Although their ultimate outcome cannot be predicted at this time, the Company does not believe, based on its experience to date, that these matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial position, results of operation or cash flows.

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 its subsidiaries. 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.

OTHER CONTINGENCIES

For a description of certain other legal and regulatory proceedings affecting the Company and its subsidiaries, see Notes 3, 4, 5 and 12 to the Company's Consolidated Financial Statements, which notes are incorporated herein by reference.

LIQUIDITY AND CAPITAL RESOURCES

COMPANY CONSOLIDATED CAPITAL REQUIREMENTS

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 1997 were, and as estimated for 1998 through 2000 are, as follows:

	MILLIONS OF DOLLARS			
	1997	1998	1999	2000
Electric capital and nuclear fuel (excluding Allowance for funds used during construction) (AFUDC)	$234	$ 331	$343	$ 308
Natural Gas Distribution(1)	61	138	146	150
Interstate Pipeline(1)	16	73	17	17
Energy Marketing(1)	14	8	7	8
International project expenditures (excluding capitalized interest)(2)	224	8	2	4
Corporate (excluding HIPG)	20	13	16	12
HIPG project expenditures (excluding capitalized interest)(2)	3	311	26	
Maturities of long-term debt, preferred stock and minimum capital lease payments	282	233	380	1,430
Total(3)	$854	$1,115	$937	$1,929

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(1) The 1997 capital expenditures for Natural Gas Distribution, Interstate Pipeline and Energy Marketing are reported on an actual basis and reflect expenditures only for the period from the effective date of the

Merger, August 6, 1997, through December 31, 1997. On a pro forma basis after giving effect to the Merger on January 1, 1997, the capital expenditures for these business segments would have been: Natural Gas Distribution ($131 million), Interstate Pipeline ($26 million) and Energy Marketing ($24 million).

(2) Expenditures in the table reflect only expenditures made or to be made under existing contractual commitments entered into by International and HIPG. International and HIPG capital requirements are expected to be met through advances from the Company, the proceeds of project financings and the proceeds of borrowings at the Company's financial subsidiaries. Additional capital expenditures are dependent upon the nature and extent of future project commitments (some of which may be substantial). Expenditures for 1998 include a $237 million commitment by HIPG to purchase four power plants from Southern California Edison, which commitment was entered into in the fourth quarter of 1997.

(3) Expenditures in the table do not reflect expenditures associated with the Year 2000 issue and other system integration issues. For a discussion of these expenditures, see "-- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Impact of Year 2000 Issue and Other System Implementation Issues."

The foregoing estimates are forward looking statements and 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.

The Company and its subsidiaries generated $1.1 billion in cash flow from operations in 1997. Substantially all of the Company's and its subsidiaries' cash flow resulted from $421 million of income from continuing operations and $652 million of non-cash depreciation and amortization expense. The Company used this cash flow to reinvest in its existing businesses, to meet its dividend requirements and to contribute to the financing of business expansion.

Overall, the Company's cash flow from operating activities in 1997 exceeded its cash flow from non-acquisition investing activities by $787 million. With respect to acquisition activities, the Company invested $1.4 billion of cash in the acquisition of NorAm and $235 million of cash in non-rate regulated electric power project expenditures in 1997.

In the first quarter of 1997, the Company repaid at maturity $40 million aggregate principal amount of its 5 1/4% first mortgage bonds and $150 million aggregate principal amount of its 7 5/8% first mortgage bonds.

In April 1997, the Company redeemed all remaining 257,000 shares of its $9.375 cumulative preferred stock pursuant to mandatory sinking fund requirements at a cost of $25.7 million, plus accrued dividends. For additional information, see Note 7(a) to the Company's Consolidated Financial Statements.

In June 1997, the Company purchased $57.6 million aggregate principal amount of its 9.15% first mortgage bonds due 2021 for a total price of $69.6 million, plus accrued interest. In November 1997, the Company repaid at maturity $35 million aggregate principal amount of its 6 3/4% first mortgage bonds.

In the fourth quarter of 1997, NorAm purchased $101.4 million aggregate principal amount of its 10% Debentures due 2019 at an average price of 111.976% plus accrued interest. In December 1997, NorAm repaid at maturity $52 million aggregate principal amount of its medium term notes.

COMPANY CONSOLIDATED SOURCES OF CAPITAL RESOURCES AND LIQUIDITY

In 1997, two Delaware business trusts established by the Company issued capital securities and preferred securities aggregating $350 million. The trusts sold securities to the public ($100 million of 8.257% capital securities and $250 million of 8.125% preferred securities) and used the proceeds to purchase subordinated debentures from the Company. The Company used the proceeds from the sale of the subordinated debentures 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 further discussion, see Note 9(a) to the Company's Consolidated Financial Statements.

In 1997, the Company sold in open market transactions 550,000 shares of Time Warner common stock for approximately $25 million and transferred the remaining 450,000 shares of its Time Warner common stock (having a market value of $21.9 million) to Houston Industries Incorporated Foundation, a charitable foundation not included in the Company's consolidated results, which was formed to fund certain charitable activities in communities where the Company conducts its business.

In April 1997, a subsidiary of HI Energy borrowed $162.5 million under a $167.5 million five-year term loan facility. The proceeds of the loan, net of a $17.5 million debt reserve account established for the benefit of the lenders, were used to refinance a portion of the acquisition costs of Light.

In July 1997, the Company issued $1.052 billion aggregate face amount of ACES. The Company used the proceeds from the sale of ACES for general corporate purposes, including the retirement of then outstanding commercial paper. For additional information regarding the ACES, see Note 8(e) to the Company's Consolidated Financial Statements.

In August 1997, FinanceCo, a limited partnership subsidiary of the Company, entered into a five-year, $1.6 billion revolving credit facility (FinanceCo Facility). At December 31, 1997, the FinanceCo Facility supported $1.4 billion in commercial paper borrowings having a weighted average interest rate of 6.15%. Proceeds from the initial issuances of commercial paper by FinanceCo were used to fund the cash portion of the consideration paid to stockholders of NorAm under the terms of the Merger. For additional information regarding the FinanceCo Facility, see Note 8(c) to the Company's Consolidated Financial Statements.

At December 31, 1997, the Company, exclusive of NorAm and other subsidiaries, had a revolving credit facility of $200 million with no borrowings outstanding. In addition, at December 31, 1997, the Company had shelf registration statements providing for the future issuance, subject to market and other conditions, of $230 million aggregate liquidation value of its preferred stock and $580 million aggregate principal amount of its debt securities.

At December 31, 1997, NorAm had (i) a $400 million revolving credit facility under which loans of $340 million were outstanding, (ii) uncommitted lines of credit under which loans of $50 million were outstanding, (iii) a trade receivables facility of $300 million under which receivables of $300 million had been sold and (iv) a shelf registration statement, filed with the Securities and Exchange Commission in November 1997, providing for the future issuance of debt securities of up to $500 million (NorAm Shelf Registration). For information regarding the Company's maturing long-term debt (including NorAm's long-term debt), see Note 8 to the Company's Consolidated Financial Statements.

In January 1998, pollution control revenue bonds aggregating $104.7 million were issued on behalf of the Company by the Matagorda County Navigation District Number One (MCND). Proceeds from the issuance were used in February 1998 to redeem, at 102% of the aggregate principal amount, pollution control revenue bonds aggregating $104.7 million.

In February 1998, pursuant to the NorAm Shelf Registration, NorAm issued $300 million of 6.5% debentures due February 1, 2008. The proceeds from the sale of the debentures were used to repay short-term indebtedness of NorAm, including the indebtedness incurred in connection with the purchase of $101.4 million of its 10% debentures and the repayment of $53 million aggregate principal amount of NorAm debt that matured in December 1997 and January 1998.

In February 1998, pollution control revenue bonds aggregating $290 million were issued on behalf of the Company by the Brazos River Authority (BRA). Proceeds from the issuance will be used to redeem, at 102% of the aggregate principal amount, pollution control revenue bonds aggregating $290 million.

The Company owns 11 million shares of non-publicly traded TW Preferred. The TW Preferred, 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's ability to transfer, sell or pledge the shares of TW Preferred is not restricted pursuant to the terms of the ACES. 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(n) and 8(e) to the Company's Consolidated Financial Statements.

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 based on the net cash position. In 1997, net funding requirements under the money fund were met with commercial paper.

Although the Company believes that its current level of cash and borrowing capability along with future cash flows from operations are sufficient to meet the needs of its existing businesses, the Company may, when it deems necessary, supplement its available cash resources by seeking funds in the equity or debt markets.

NEW ACCOUNTING ISSUES

In February 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 128, "Earnings per Share" (SFAS No. 128) which is required to be implemented for financial statements issued for fiscal years ending after December 15, 1997. In 1997, the Company adopted SFAS No. 128 and retroactively restated prior periods. For further discussion, see Note 1(j) to the Company's Consolidated Financial Statements.

The FASB recently issued SFAS No. 130, "Reporting Comprehensive Income" (SFAS No. 130), SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131) and SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" (SFAS No. 132) effective for financial statements issued for fiscal periods beginning after December 15, 1997. SFAS No. 130 requires that all items that meet the definition of a component of comprehensive income be reported in a financial statement for the period in which they are recognized and the total amount of comprehensive income be prominently displayed in that same financial statement. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Currently, the Company does not have any material items which require reporting of comprehensive income. SFAS No. 131 requires that companies report financial and descriptive information about reportable operating segments in financial statements. Segments are to be defined based upon the way in which management reviews its operations in order to assess performance and allocate its resources. SFAS No. 132 revises employers' disclosures about pension and other postretirement benefit plans. The Company will adopt SFAS No. 130, SFAS No. 131 and SFAS No. 132 in 1998.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion of the Company and its subsidiaries' exposure to various market risks contains "forward looking statements" that involve risks and uncertainties. These projected results have been prepared utilizing certain assumptions considered reasonable in the circumstances and in light of information currently available to the Company and its subsidiaries. Nevertheless, because of the inherent unpredictability of interest rates, equity market prices and energy commodity prices as well as other factors, actual results could differ materially from those projected in such forward-looking information. For a description of the Company's significant accounting policies associated with these activities, see Notes 1 and 2 to the Company's Consolidated Financial Statements and Notes 1 and 2 to NorAm's Consolidated Financial Statements.

INTEREST RATE RISK

The Company and its subsidiaries have long-term debt, Company/NorAm obligated mandatorily redeemable securities of subsidiary trusts holding solely subordinated debentures of the Company/NorAm (Trust Securities), securities held in the Company's nuclear decommissioning trust, short-term credit lines and facilities, certain lease obligations and interest rate swaps which subject the Company and certain of its subsidiaries to the risk of loss associated with movements in market interest rates.

At December 31, 1997, the Company and certain of its subsidiaries had fixed-rate long-term debt (excluding ACES) and Trust Securities aggregating $4.2 billion in principal amount and having a fair value of $4.4 billion. These instruments are fixed-rate and, therefore, do not expose the Company and its subsidiaries to the risk of earnings loss due to changes in market interest rates (see Notes 8 and 9 to the Company's Consolidated Financial Statements). However, the fair value of these instruments would increase by approximately $247.5 million if interest rates were to decline by 10% from their levels at December 31, 1997. In general, such an increase in fair value would impact earnings and cash flows only if the Company and its subsidiaries were to reacquire all or a portion of these instruments in the open market prior to their maturity.

The Company and certain of its subsidiaries' floating-rate obligations aggregated $2.6 billion at December 31, 1997 (see Note 8 to the Company's Consolidated Financial Statements), inclusive of (i) amounts borrowed under short-term and long-term credit lines and facilities of the Company and its subsidiaries, (ii) borrowings underlying NorAm's receivables facility and (iii) amounts subject to a master leasing agreement under which lease payments vary depending on short-term interest rates, which expose the Company and its subsidiaries to the risk of increased interest and lease expense in the event of increases in short-term interest rates. If the floating rates were to increase by 10% from December 31, 1997 levels, the Company's consolidated interest expense and expense under operating leases would increase by a total of approximately $1.4 million each month in which such increase continued.

As discussed in Notes 1, 4 and 13 to the Company's Consolidated Financial Statements, the Company contributes $14.8 million per year to a trust established to fund the Company's share of the decommissioning costs for the South Texas Project. The securities held by the trust for decommissioning costs had an estimated fair value of $92.9 million as of December 31, 1997, of which approximately 50 percent were fixed-rate debt securities that subject the Company to risk of loss of fair value with movements in market interest rates. If interest rates were to increase by 10% from their levels at December 31, 1997, the decrease in fair value of the fixed-rate debt securities would not be material to the Company. In addition, the risk of an economic loss is mitigated as a result of the Company's regulated status. Any unrealized gains or losses are accounted for in accordance with SFAS No. 71 as a regulatory asset/liability because the Company believes that its future contributions which are currently recovered through the rate making process will be adjusted for these gains and losses.

Certain subsidiaries of the Company have entered into interest rate swaps for the purpose of decreasing the amount of debt subject to interest rate fluctuations. At December 31, 1997, these interest rate swaps had an aggregate notional amount of $281.1 million, which the Company could terminate at a cost of $2.4 million (see Notes 2 and 13 to the Company's Consolidated Financial Statements). An increase of 10% in the December 31, 1997 level of interest rates would not increase the cost of termination of the swaps by a material

amount to the Company. Swap termination costs would impact the Company and its subsidiaries' earnings and cash flows only if all or a portion of the swap instruments were terminated prior to their expiration.

EQUITY MARKET RISK

The Company holds an investment in TW Preferred which is convertible into Time Warner common stock as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Accounting Treatment of ACES" in Item 7 of this Form 10-K. As a result, the Company is exposed to losses in the fair value of this security. For purposes of analyzing market risk in this Item 7A, the Company assumed that the TW Preferred was converted into Time Warner common stock. In addition, NorAm's investment in the common stock of Itron, Inc. (Itron) exposes the Company and NorAm to losses in the fair value of Itron Common Stock. A 10% decline in the per share price of Itron and Time Warner common stock from the December 31, 1997 levels would result in a loss of approximately $2.7 million and $142.0 million, respectively, in fair value.

The Company and its subsidiaries' ability to realize gains and losses related to TW Preferred and Itron is limited by the following: (i) the TW Preferred is not publicly traded and its sale is subject to certain limitations and (ii) the market for the common stock of Itron is fairly illiquid.

The ACES expose the Company to accounting losses as the accounting for the ACES requires the Company to record in Other Income (Expense) an unrealized accounting loss equal to (i) the aggregate amount of the increase in the market price of Time Warner common stock above $55.5844 as applicable to all ACES multiplied by (ii) 0.8264. Prior to the conversion of the TW Preferred into Time Warner common stock, such loss would effect earnings. After conversion such loss would be recognized as an adjustment to common stock equity. See further discussion of the accounting for the ACES in Notes 1 and 8 to the Company's Consolidated Financial Statements. An increase of 15% in the price of the Time Warner common stock above its December 31, 1997 market value of $62.00 per share, would result in the recognition of an additional unrealized accounting loss (net of tax) of approximately $114.4 million. The Company believes that this additional unrealized loss for the ACES would be more than economically hedged by the unrecorded unrealized gain relating to the increase in the fair value of the Time Warner common stock underlying the investment in TW Preferred since the date of its acquisition.

As discussed above under "Interest Rate Risk," the Company contributes to a trust established to fund the Company's share of the decommissioning costs for the South Texas Project which held debt and equity securities in approximately equal proportions as of December 31, 1997. The equity securities expose the Company to losses in fair value. If the market prices of the individual equity securities were to decrease by 10% from their levels at December 31, 1997, the resulting loss in fair value of these securities would not be material to the Company. Currently, the risk of an economic loss is mitigated as a result of the Company's regulated status as discussed above under "Interest Rate Risk."

ENERGY COMMODITY PRICE RISK

As further described in Note 2 to the Company's Consolidated Financial Statements, certain of the Company's subsidiaries utilize a variety of derivative financial instruments (Derivatives), including swaps and exchange-traded futures and options, as part of the Company's overall risk management strategies and for trading purposes. To reduce the risk from the adverse effect of market fluctuations in the price of electric power, natural gas and related transportation, NorAm and certain of its subsidiaries enter into futures transactions, swaps and options (Energy Derivatives) in order to hedge certain natural gas in storage, as well as certain expected purchases, sales and transportation of natural gas and electric power (a portion of which are firm commitments at the inception of the hedge). The Company's policies prohibit the use of leveraged financial instruments. In addition, a subsidiary of NorAm maintains a portfolio of Energy Derivatives for trading purposes (Trading Derivatives).

The Company uses a sensitivity analysis method for determining the market risk of its Energy Derivatives, except for its Trading Derivatives, for which it uses a value-at-risk method.

With respect to the Energy Derivatives (other than for trading purposes) held by subsidiaries of NorAm as of December 31, 1997, a decrease of 10% in the market price of natural gas from the December 31, 1997 levels would decrease the fair value of these instruments by approximately $7.0 million.

The above analysis of the Energy Derivatives utilized for risk management purposes does not include the favorable impact that the same hypothetical price movement would have on the Company and its subsidiaries' physical purchases and sales of natural gas and electric power. The portfolio of Energy Derivatives held for risk management purposes approximates the notional quantity of the expected or committed transaction volume of physical commodities with commodity price risk for the same time periods. Furthermore, the Energy Derivative portfolio is managed to complement the physical transaction portfolio, reducing overall risks within limits. Therefore, the adverse impact to the fair value of the portfolio of Energy Derivatives held for risk management purposes associated with the hypothetical changes in commodity prices referenced above would be offset by a favorable impact on the underlying hedged physical transactions, assuming (i) the Energy Derivatives are not closed out in advance of their expected term, (ii) the Energy Derivatives continue to function effectively as hedges of the underlying risk, and (iii) as applicable, anticipated transactions occur as expected.

The disclosure with respect to the Energy Derivatives relies on the assumption that the contracts will exist parallel to the underlying physical transactions. If the underlying transactions or positions are liquidated prior to the maturity of the Energy Derivatives, a loss on the financial instruments may occur, or the options might be worthless as determined by the prevailing market value on their termination or maturity date, whichever comes first.

With respect to the Trading Derivatives held by a subsidiary of NorAm, consisting of natural gas and electric power swaps, options and exchange-traded futures, this subsidiary is exposed to losses in fair value due to price movement. During the year ended December 31, 1997, the highest, lowest and average quarterly value-at-risk in the Trading Derivative portfolio was less than $5.0 million at a 95-percent confidence level and for a holding period of one business day. The Company uses the variance/covariance method for calculating the value-at-risk and includes the delta approximation for options positions.

The Company has established a Corporate Risk Oversight Committee that oversees all corporate price and credit risk, including derivative trading activities discussed above. The committee's duties are to establish the Company's policies and to monitor and ensure compliance with risk management limitations, policies and procedures.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA OF THE COMPANY.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME
(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Revenues:			
Electric Operations	$4,251,243	$4,025,027	$3,680,297
Natural Gas Distribution	892,569		
Interstate Pipeline	108,333		
Energy Marketing	1,604,999		
International	92,028	62,059	46,789
Other	47,851	8,191	2,185
Eliminations	(123,638)		
Total	6,873,385	4,095,277	3,729,271
Expenses:			
Electric and natural gas utilities:			
Fuel and cost of gas sold	2,819,512	1,024,945	879,148
Purchased power	698,823	322,263	233,494
Operation and maintenance	1,205,993	888,699	866,170
Taxes other than income taxes	296,668	246,288	245,890
Depreciation and amortization	651,875	550,038	478,034
Other operating expenses	136,014	72,578	121,085
Total	5,808,885	3,104,811	2,823,821
Operating Income	1,064,500	990,466	905,450
Other Income (Expense):			
Unrealized loss on ACES	(121,402)		
Litigation settlements		(95,000)	
Time Warner dividend income	41,340	41,610	20,132
Interest income	6,636	6,246	9,774
Interest income -- IRS refund	56,269		
Other -- net	3,711	(8,268)	(12,061)
Total	(13,446)	(55,412)	17,845
Interest and Other Charges:			
Interest on long-term debt	320,845	276,242	279,491
Other interest	77,112	33,738	21,586
Distribution on trust securities	26,230		
Allowance for borrowed funds used during construction	(2,872)	(2,598)	(4,692)
Preferred dividends of subsidiary	2,255	22,563	29,955
Total	423,570	329,945	326,340
Income from Continuing Operations Before Income Taxes	627,484	605,109	596,955
Income Taxes	206,374	200,165	199,555
Income from Continuing Operations	421,110	404,944	397,400
Discontinued Operations (Net of Income Taxes):			
Gain on sale of cable television subsidiary			708,124
Preferred Dividends	162		
Net Income	$ 420,948	$ 404,944	$1,105,524

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HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME
(CONTINUED)

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Basic Earnings Per Common Share:			
Continuing Operations	$ 1.66	$ 1.66	$ 1.60
Discontinued Operations:			
Gain on sale of cable television subsidiary			2.86
Basic Earnings Per Common Share	$ 1.66	$ 1.66	$ 4.46
Diluted Earnings Per Common Share:			
Continuing Operations	$ 1.66	$ 1.66	$ 1.60
Discontinued Operations:			
Gain on sale of cable television subsidiary			2.86
Diluted Earnings Per Common Share	$ 1.66	$ 1.66	$ 4.46

See Notes to the Company's Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

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

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Balance at Beginning of Year	$1,997,490	$1,953,672	$1,221,221
Add -- Net Income	420,948	404,944	1,105,524
Total	2,418,438	2,358,616	2,326,745
Common Stock Dividends:			
1997, $1.50; 1996, $1.50; 1995, $1.50 (per share)	(405,383)	(361,126)	(371,760)
Stock Dividend Distribution			(1,313)
Balance at End of Year	$2,013,055	$1,997,490	$1,953,672

See Notes to the Company's Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)

ASSETS

	DECEMBER 31,	
	1997	1996
Property, Plant and Equipment -- At Cost:		
Electric plant:		
Plant in service	$12,614,000	$12,387,375
Construction work in progress	224,959	251,497
Nuclear fuel	255,567	241,001
Plant held for future use	48,631	48,631
Gas plant and pipelines:		
Natural gas distribution	1,326,442	
Interstate pipelines	1,258,087	
Energy marketing	162,519	
Other property	149,019	86,969
Total	16,039,224	13,015,473
Less accumulated depreciation and amortization	4,770,179	4,259,050
Property, plant and equipment -- net	11,269,045	8,756,423
Current Assets:		
Cash and cash equivalents	51,712	8,001
Accounts receivable -- net	962,974	36,277
Accrued unbilled revenues	205,860	77,853
Time Warner dividends receivable	10,313	10,313
Fuel stock and petroleum products	88,819	61,795
Materials and supplies, at average cost	156,160	130,380
Prepayments and other current assets	42,169	19,301
Total current assets	1,518,007	343,920
Other Assets:		
Goodwill -- net	2,026,395	
Investment in Time Warner securities	990,000	1,027,500
Deferred plant costs -- net	561,569	587,352
Fuel-related debits	197,304	84,435
Deferred debits	510,686	306,473
Unamortized debt expense and premium on reacquired debt	202,453	153,823
Regulatory tax asset -- net	356,509	362,310
Recoverable project costs -- net	78,485	163,630
Equity investments in foreign and non-rate regulated affiliates -- net	704,102	501,991
Total other assets	5,627,503	3,187,514
Total	$18,414,555	$12,287,857

See Notes to the Company's Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)

CAPITALIZATION AND LIABILITIES

	DECEMBER 31,	
	1997	1996
Capitalization (statements on following pages):		
Common stock equity	$ 4,886,805	$ 3,827,961
Preference stock, none outstanding		
Cumulative preferred stock, not subject to mandatory redemption	9,740	135,179
Company/NorAm obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely junior subordinated debentures of Company/NorAm	362,172	
Long-term debt	5,218,015	3,025,650
Total capitalization	10,476,732	6,988,790
Current Liabilities:		
Notes payable	2,124,956	1,337,872
Accounts payable	879,612	157,682
Taxes accrued	240,739	191,011
Interest accrued	109,901	67,707
Dividends declared	110,716	92,515
Customer deposits	82,437	53,633
Current portion of long-term debt and preferred stock	251,169	254,463
Other	193,384	89,238
Total current liabilities	3,992,914	2,244,121
Deferred Credits:		
Accumulated deferred income taxes	2,792,781	2,265,031
Benefit liabilities	397,586	249,875
Unamortized investment tax credit	349,072	373,749
Fuel-related credits	75,956	74,639
Other	329,514	91,652
Total deferred credits	3,944,909	3,054,946
Commitments and Contingencies (Note 12)		
Total	$18,414,555	$12,287,857

See Notes to the Company's Consolidated Financial Statements

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITALIZATION
(THOUSANDS OF DOLLARS)

	DECEMBER 31,	
	1997	1996
Common Stock Equity:		
Common stock, no par; authorized, 700,000,000 shares; issued, 295,357,276 and 262,748,447 shares at December 31, 1997 and 1996, respectively	$ 3,112,098	$2,447,117
Foreign currency translation loss	(821)	(363)
Treasury stock, at cost; 93,459 and 16,042,027 shares at December 31, 1997 and 1996, respectively	(2,066)	(361,196)
Unearned ESOP shares, 12,388,551 and 13,370,939 shares at December 31, 1997 and 1996, respectively	(229,827)	(251,350)
Retained earnings	2,013,055	1,997,490
Unrealized loss on marketable equity securities	(5,634)	(3,737)
Total common stock equity	4,886,805	3,827,961
Preference Stock, no par; authorized, 10,000,000 shares; none outstanding		
Cumulative Preferred Stock, no par; authorized, 10,000,000 shares; outstanding, 97,397 and 1,604,397 shares at December 31, 1997 and 1996, 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
$7.52 series, 500,000 shares		50,226
$8.12 series, 500,000 shares		50,098
Total	9,740	135,179
Subject to mandatory redemption:		
$9.375 series, 257,000 shares at December 31, 1996		25,700
Current redemptions		(25,700)
Total		
Total cumulative preferred stock	9,740	135,179
Company/NorAm obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely junior subordinated debentures of Company/NorAm:		
8.125% Trust Preferred Securities, Series A	250,000	
8.257% Trust Capital Securities, Series B	100,000	
6 1/4% Convertible Trust Originated Preferred Securities	21,730	
Unamortized Issuance Costs	(9,558)	
Total Company/NorAm obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely junior subordinated debentures of Company/NorAm-net	362,172	
Long-Term Debt:		
7% Automatic common exchange securities, due 2000	1,173,786	

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HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITALIZATION -- (CONTINUED)
(THOUSANDS OF DOLLARS)

	DECEMBER 31, 1997	DECEMBER 31, 1996
Debentures:		
9 3/8% series, due 2001	$ 250,000	$ 250,000
7 7/8% series, due 2002	100,000	100,000
8.9% series, due 2006	165,055	
6% convertible subordinated, due 2012	107,180	
10% series, due 2019	47,773	
Unamortized discount	(717)	(902)
Total debentures	669,291	349,098
First Mortgage Bonds:		
5 1/4% series, due 1997		40,000
7 5/8% series, due 1997		150,000
6 3/4% series, due 1997		35,000
9.15% series, due 2021	102,442	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
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
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
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 1999	170,500	170,500
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
Unamortized discount	(14,158)	(15,134)
Total first mortgage bonds	2,495,459	2,895,041

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HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITALIZATION -- (CONTINUED)
(THOUSANDS OF DOLLARS)

	DECEMBER 31,	
	1997	1996
Pollution Control Revenue Bonds:		
Gulf Coast 1980-T series, floating rate, due 1998	$ 5,000	$ 5,000
1997 pollution control series, variable rate revenue due 2028	68,000	
1997 pollution control series, variable rate revenue due 2018	50,000	
Total pollution control revenue bonds	123,000	5,000
Medium-Term Notes:		
Series A, 9.30%-9.39%, due 1998-2000	24,838	
Series B, 8.43%-9.23%, due 1998-2001	236,367	
Total medium-term notes	261,205	
Capitalized lease obligations, discount rates of 5.2%-11.7%, due 1998-2018	16,166	4,418
Notes payable	730,277	856
Subtotal	746,443	5,274
Total	5,469,184	3,254,413
Current maturities	(251,169)	(228,763)
Total long-term debt	5,218,015	3,025,650
Total capitalization	$10,476,732	$6,988,790

See Notes to the Company's 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,		
	1997	1996	1995
Cash Flows from Operating Activities:			
Income from continuing operations	$ 421,110	$ 404,944	$ 397,400
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	651,875	550,038	478,034
Amortization of nuclear fuel	28,237	33,875	28,545
Deferred income taxes	35,523	54,098	78,382
Investment tax credit	(19,777)	(18,404)	(19,427)
Unrealized loss on ACES	121,402		
Contribution of marketable equity securities to charitable trust	19,463		
Fuel (refund)/surcharge	128,864		(189,571)
Fuel cost over (under) recovery	(212,683)	(137,362)	76,970
Net cash provided by discontinued cable television operations			16,391
Changes in other assets and liabilities, net of the effects of the acquisition:			
Accounts receivable -- net	(436,580)	(15,478)	(46,299)
Inventory	55,111	21,624	13,901
Other current assets	6,966	(306)	(14,900)
Accounts payable	191,840	21,674	(23,217)
Interest and taxes accrued	18,425	4,413	11,088
Other current liabilities	2,985	(4,135)	(9,215)
Other -- net	97,998	(661)	46,813
Net cash provided by operating activities	1,110,759	914,320	844,895
Cash Flows from Investing Activities:			
Capital expenditures (including allowance for borrowed funds used during construction)	(328,724)	(317,532)	(301,327)
Purchase of NorAm net of cash acquired	(1,422,672)		
Non-rate regulated electric power project expenditures (including capitalized interest)	(234,852)	(495,379)	(49,835)
Settlement of subsidiary debt in connection with sale of cable television subsidiary			619,345
Sale of investment in Time Warner common stock	25,043		
Corporate headquarters expenditures (including capitalized interest)		(6,543)	(96,469)
Net cash used in discontinued cable television operations			(47,601)
Other -- net	(20,248)	(13,446)	(4,643)
Net cash provided by (used in) investing activities	(1,981,453)	(832,900)	119,470

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HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS -- (CONTINUED)

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

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Cash Flows from Financing Activities:			
Proceeds from sale of ACES -- net	$ 1,020,777		
Proceeds from sale of Company obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely junior subordinated debentures of Company -- net	340,785		
Purchase of treasury stock		$(361,196)	
Proceeds from issuance of pollution control bonds	115,739		
Proceeds from first mortgage bonds			$ 142,972
Payment of matured debt	(277,000)	(150,000)	
Payment of common stock dividends	(405,288)	(361,126)	(371,731)
Redemption of preferred stock	(153,628)	(271,400)	(91,400)
Increase (decrease) in notes payable-net	587,791	1,331,572	(416,991)
Extinguishment of long-term debt	(303,893)	(285,263)	(195,224)
Redemption of convertible securities	(9,504)		
Net cash used in discontinued cable television operations			(40,798)
Other -- net	(1,374)	12,215	10,143
Net cash provided by (used in) financing activities	914,405	(85,198)	(963,029)
Net Increase (Decrease) in Cash and Cash Equivalents	43,711	(3,778)	1,336
Cash and Cash Equivalents at Beginning of Year	8,001	11,779	10,443
Cash and Cash Equivalents at End of Year	$ 51,712	$ 8,001	$ 11,779
Supplemental Disclosure of Cash Flow Information:			
Cash Payments:			
Interest (net of amounts capitalized)	$ 437,952	$ 311,792	$ 342,551
Income taxes	171,539	139,898	104,228

The aggregate consideration paid to Former NorAm stockholders in connection with the Merger consisted of $1.4 billion in cash and 47.8 million shares of the Company's common stock valued at approximately $1.0 billion. The overall transaction was valued at $4.0 billion consisting of $2.4 billion for Former NorAm's common stock and common stock equivalents and $1.6 billion of Former NorAm debt.

See Notes to the Company's Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED DECEMBER 31, 1997

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations.

The Company (defined below), together with its subsidiaries, is a diversified international energy services company. The Company is both an electric utility company and a utility holding company. The Company's wholly owned subsidiary, NorAm, operates in various phases of the natural gas industry, including distribution, transmission, marketing and gathering.

(b) NorAm Acquisition.

On August 6, 1997 (Acquisition Date), Houston Industries Incorporated (Former HI) merged with and into Houston Lighting & Power Company, which was renamed "Houston Industries Incorporated" (Company), and NorAm Energy Corp., a natural gas gathering, transmission, marketing and distribution company (Former NorAm) merged with and into a subsidiary of the Company, HI Merger, Inc., which was renamed "NorAm Energy Corp." (NorAm). Effective upon the mergers (collectively, the Merger), each outstanding share of common stock of Former HI was converted into one share of common stock (including associated preference stock purchase rights) of the Company, and each outstanding share of common stock of Former NorAm was converted into the right to receive $16.3051 cash or 0.74963 shares of common stock of the Company. The aggregate consideration paid to Former NorAm stockholders in connection with the Merger consisted of $1.4 billion in cash and 47.8 million shares of the Company's common stock valued at approximately $1.0 billion. The overall transaction was valued at $4.0 billion consisting of $2.4 billion for Former NorAm's common stock and common stock equivalents and $1.6 billion of Former NorAm debt ($1.3 billion of which was long-term debt).

The Company has recorded the acquisition of NorAm under the purchase method of accounting with assets and liabilities of NorAm reflected at their estimated fair values as of the Acquisition Date. The Company has recorded the $2.0 billion excess of the acquisition cost over the fair value of the net assets acquired as goodwill and is amortizing this amount over 40 years. On a preliminary basis, the Company's fair value adjustments included increases in property, plant and equipment, long-term debt, unrecognized pension and postretirement benefits liabilities and related deferred taxes. The Company expects to finalize these fair value adjustments during 1998; however, it is not anticipated that any additional adjustments will be material.

The Company's results of operations incorporate NorAm's results of operations only for the period beginning on the Acquisition Date. The following table presents certain unaudited pro forma information for the years ended December 31, 1997 and 1996, as if the Merger had occurred on January 1, 1997 and 1996, respectively.

PRO FORMA COMBINED RESULTS OF OPERATIONS
(IN MILLIONS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31,			
	1997		1996	
	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA
		(UNAUDITED)		(UNAUDITED)
Revenues	$6,873	$10,210	$4,095	$8,884
Net Income Available for Common Stock	$ 421	$ 439	$ 405	$ 432
Basic Earnings Per Share	$ 1.66	$ 1.56	$ 1.66	$ 1.48
Diluted Earnings Per Share	$ 1.66	$ 1.56	$ 1.66	$ 1.48

These and other pro forma results appearing in this Form 10-K are based on assumptions deemed appropriate by the Company's management, have been prepared for informational purposes only and are not necessarily indicative of the combined results that would have resulted had the Merger occurred at the beginning of the 1996 and 1997 reporting periods presented. Purchase related adjustments to results of operations include amortization of goodwill and the effects on depreciation, amortization, interest expense and deferred income taxes of the revaluation, on a preliminary basis, of the fair value of certain NorAm assets and liabilities.

As a result of the Merger, the Company has organized its financial reporting into the following segments: Electric Operations, Natural Gas Distribution, Interstate Pipeline, Energy Marketing, International and Corporate. For segment information, see Note 15.

(c) Regulatory Assets and Other Long-Lived Assets.

The Company and certain subsidiaries of NorAm apply the accounting policies established in SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," to the accounts of Electric Operations, Natural Gas Distribution and the Interstate Pipeline operations of MRT. In general, SFAS No. 71 permits a company with cost-based rates to defer certain costs that would otherwise be expensed to the extent that the rate regulated company is recovering or expects to recover such costs in rates charged to its customers.

The following is a list of regulatory assets and liabilities reflected on the Company's Consolidated Balance Sheet as of December 31, 1997, detailed by Electric Operations and other segments.

	ELECTRIC OPERATIONS	OTHER	TOTAL COMPANY
	(MILLIONS OF DOLLARS)		
Deferred plant costs -- net	$ 562		$ 562
Recoverable project costs -- net	78		78
Regulatory tax asset -- net	357		357
Unamortized loss on reacquired debt	127		127
Deferred debits	71	$48	119
Accumulated deferred income taxes -- regulatory tax asset	(99)		(99)
Total	$1,096	$48	$1,144

If, as a result of changes in regulation or competition, the Company and NorAm's ability to recover these assets and/or liabilities would not be assured, then pursuant to SFAS No. 101, "Accounting for the Discontinuation of Application of SFAS No. 71" and SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company and NorAm would be required to write off or write down such net regulatory assets to the extent that they ultimately were determined not to be recoverable.

Effective January 1, 1996, the Company and NorAm 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. Adoption of the standard did not result in a write-down of the carrying amount of any asset on the books of the Company or NorAm.

In July 1997, the Emerging Issues Task Force (EITF) of the FASB reached a consensus on Issue No. 97-4, "Deregulation of the Pricing of Electricity -- Issues Related to the Application of FASB Statements No. 71, Accounting for the Effects of Certain Types of Regulation, and No. 101, Regulated Enterprises -- Accounting for the Discontinuation of Application of FASB Statement No. 71" (EITF 97-4). EITF 97-4 concluded that the application of SFAS No. 71 to a segment which is subject to a deregulation

plan should cease when the legislation and enabling rate order contain sufficient detail for the utility to reasonably determine what the transition plan will entail. In addition, EITF 97-4 requires the regulatory assets and liabilities to be allocated to the applicable portion of the electric utility from which the source of the regulated cash flows will be derived. On June 2, 1997, the Texas legislature adjourned without having adopted or taken any formal action with respect to various proposals concerning the restructuring of the Texas electric utility industry, including proposals related to retail electric competition and stranded cost recovery. At this time, the Company cannot predict what, if any, action the Texas legislature may take in the next legislative session (scheduled to commence in 1999) with respect to any of these proposals or the ultimate form in which such proposals may be adopted, if at all. Although the Company has determined that no impairment loss or write-offs of regulatory assets need be recognized for applicable assets of continuing operations as of December 31, 1997, this conclusion may change in the future (i) as competition influences wholesale and retail pricing in the electric utility industry, (ii) depending on regulatory action, if any and (iii) depending on legislation, if any, that is passed.

(d) Principles of Consolidation.

The consolidated financial statements include the accounts of the Company and its wholly owned and majority owned subsidiaries including, effective as of the Acquisition Date, the accounts of NorAm and its wholly owned and majority owned subsidiaries.

Investments in entities in which the Company or its subsidiaries have an ownership interest between 20% and 50% or are able to exercise significant influence are accounted for using the equity method. For additional information regarding investments recorded using the equity method or the cost method of accounting, see Note 5.

All significant intercompany transactions and balances are eliminated in consolidation.

(e) Property, Plant and Equipment and Goodwill.

Property, plant and equipment are stated at original cost of the acquirer. Repair and maintenance costs are expensed as incurred. Depreciation is computed using the straight-line method.

Goodwill is being amortized on a straight-line basis over 40 years. The Company will periodically compare the carrying value of its goodwill to the anticipated undiscounted future operating income from the businesses whose acquisition gave rise to the goodwill and as of yet no impairment is indicated or expected.

(f) Depreciation and Amortization Expense.

The Company's 1997 depreciation and amortization expenses included $50 million of additional depreciation in connection with the South Texas Project and $21.6 million for goodwill amortization associated with the acquisition of NorAm. For additional information regarding the amortization of goodwill in connection with the Merger, see Note 1(b) above. The amortization expenses recorded in connection with the South Texas Project are being made pursuant to the terms of the Company's most recent rate case settlement (1995 Rate Case Settlement), which permits the Company to write down up to $50 million per year of its investment in the South Texas Project through December 31, 1999. These write-downs are treated under the settlement as reasonable and necessary expenses for purposes of any future earnings reviews or other proceedings. In each of 1997, 1996 and 1995, the Company recorded the maximum $50 million pre-tax write-down permitted under the 1995 Rate Case Settlement.

In 1996 and 1997, the Company, as permitted by the 1995 Rate Case Settlement, also amortized $50 million and $66 million (pre-tax), respectively, of its $153 million investment in certain lignite reserves associated with a canceled generating station. The Company's remaining investment in the canceled

generating station and certain lignite reserves ($78 million at December 31, 1997) will be amortized fully no later than December 31, 2000.

The Company's consolidated depreciation expense for 1997 was $475 million compared to $410 million for 1996 and $399 million for 1995.

(g) Deferred Plant Costs.

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

In 1991, Electric Operations 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 1997, 1996 and 1995) is included on the Company's Statements of Consolidated Income as depreciation and amortization expense.

(h) Fuel Stock.

Gas inventory (primarily using the average cost method) was $71.7 million and $19.6 million at December 31, 1997 and 1996, respectively. Coal, lignite, and oil inventory balances (using last-in, first-out) were $7.5 million, $6.4 million and $3.3 million, respectively, at December 31, 1997 and $27.3 million, $11.8 million and $3.0 million, respectively, at December 31, 1996.

(i) Revenues.

The Company records electricity sales under the full accrual method, whereby unbilled electricity sales are estimated and recorded each month. NorAm's rate-regulated divisions/subsidiaries bill customers on a monthly cycle billing basis. Revenues are recorded on an accrual basis, including an estimate for gas delivered but unbilled at the end of each accounting period. International revenues include electricity sales of a majority owned foreign electric utility, which are also recorded under the full accrual method, and equity income (net of foreign taxes) in unconsolidated investments of HI Energy. Included in other revenues are management fees and other sales and services, which are recorded when earned.

Revenue eliminations of $124 million represent intersegment sales of natural gas and transportation services. For the five month period ended December 31, 1997, Interstate Pipeline had intersegment revenues of $59 million from Natural Gas Distribution and Energy Marketing. For the same period, Energy Marketing had intersegment sales of $61 million to Interstate Pipeline and Natural Gas Distribution. The remaining intercompany revenue balances were between Corporate and other segments.

(j) Earnings Per Common Share.

In February 1997, the FASB issued SFAS No. 128, "Earnings per Share", which is required to be implemented for fiscal years ending after December 15, 1997. This statement requires restatement of all prior period earnings per share (EPS) data presented herein. SFAS No. 128 requires dual presentation of basic and diluted EPS on the face of the Statements of Consolidated Income and requires a reconciliation of the numerators and denominators used in the basic and diluted earnings per share calculations.

Following is a reconciliation of the Company's numerators and denominators of basic and diluted earnings per share calculations:

	FOR THE YEAR ENDED		
	1997	1996	1995
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Basic EPS Calculation:			
Income from continuing operations	$421,110	$404,944	$ 397,400
Gain on sale of cable television subsidiary			708,124
Less: Preferred dividends	162		
Net income available for common stock	$420,948	$404,944	$1,105,524
Weighted average shares outstanding	253,599	244,443	247,706
Basic EPS:			
Income from continuing operations	$ 1.66	$ 1.66	$ 1.60
Gain on sale of cable television subsidiary			2.86
Less: Preferred dividends	.00		
Net income available for common stock	$ 1.66	$ 1.66	$ 4.46
Diluted EPS Calculation:			
Income from continuing operations	$421,110	$404,944	$ 397,400
Plus: Income impact of assumed conversions			
Interest on 6 1/4% convertible debentures	668		
Income from continuing operations assuming dilution	421,778	404,944	397,400
Gain on sale of cable television subsidiary			708,124
Less: Preferred dividends	162		
Net income available for common stock assuming dilution	$421,616	$404,944	$1,105,524
Weighted average shares outstanding	253,599	244,443	247,706
Plus: Incremental shares from assumed conversions:			
Stock options	89	33	21
6 1/4% convertible debentures	510		
Weighted average shares assuming dilution	254,198	244,476	247,727
Diluted EPS:			
Income from continuing operations	$ 1.66	$ 1.66	$ 1.60
Gain on sale of cable television subsidiary			2.86
Less: Preferred dividends	.00		
Net income available for common stock	$ 1.66	$ 1.66	$ 4.46

Options to purchase 405,684 shares of common stock at prices ranging from $22.09 to $35.18 per share were outstanding during 1997 but were not included in the computation of diluted EPS because, during the

reporting period, the options' exercise prices were greater than the average market price of the common shares of $21.875 and would thus be anti-dilutive if conversion were assumed.

(k) 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.

(l) Derivative Financial Instruments (Risk Management).

For information regarding the Company's accounting for derivative financial instruments associated with its subsidiaries' natural gas, electric power and transportation risk management activities, see Note 2.

(m) 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. For additional information regarding income taxes, see Note 11.

(n) Investments in Time Warner Securities.

The Company owns 11 million shares of non-publicly traded Time Warner convertible preferred stock (TW Preferred). The TW Preferred is redeemable after July 6, 2000, has an aggregate liquidation preference of $100 per share (plus accrued and unpaid dividends), is entitled to annual dividends of $3.75 per share until July 6, 1999, is currently convertible by the Company and after July 6, 1999 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).

The Company has recorded its investment in these securities at a value of $990 million on the Company's Consolidated Balance Sheets. Investment in the TW Preferred is accounted for under the cost method. Dividends on these securities are recognized as income at the time they are earned. The Company recorded pre-tax dividend income with respect to the Time Warner securities of $41.3 million, $41.6 million and $20.1 million in 1997, 1996 and 1995, respectively.

To monetize its investment in the TW Preferred, the Company sold in July 1997, 22.9 million of its unsecured 7% ACES. For additional information about the offering of ACES, see Note 8(e). As a result of the issuance of the ACES, a portion of the increase in the market value above $55.5844 per share of Time Warner common stock (the security into which the TW Preferred is convertible) results in unrealized accounting losses to the Company for the ACES, pending the conversion of the Company's TW Preferred into Time Warner common stock. For example, prior to the conversion of the TW Preferred into Time Warner common stock, when the market price of Time Warner common stock increases above $55.5844, the Company records in Other Income (Expense) an accounting loss for the ACES equal to (i) the aggregate amount of such increase as applicable to all ACES multiplied by (ii) 0.8264. In accordance with generally accepted accounting principles, this accounting loss (which reflects the unrealized increase in the Company's indebtedness with respect to the ACES) may not be offset by accounting recognition of the increase in the market value of the Time Warner common stock that underlies the TW Preferred. Upon conversion of the TW Preferred, the Company will begin recording unrealized net changes in the market prices of the Time Warner common stock and the ACES as a component of common stock equity.

As of December 31, 1997, the market price of Time Warner common stock was $62.00 per share. Accordingly, the Company recognized an increase of $121 million in the unrealized liability relating to its ACES indebtedness (which resulted in an after-tax earnings reduction of $79 million or $.31 per share). The

Company believes that this unrealized loss for the ACES is more than economically hedged by the approximately $430 million unrecorded unrealized gain at December 31, 1997 relating to the increase in the fair value of the Time Warner common stock underlying the investment in TW Preferred since the date of its acquisition. As of February 28, 1998, the price of Time Warner common stock was $67.50 per share which would have resulted in the Company recognizing an additional increase of $104 million in the unrealized liability represented by its indebtedness under the ACES. The related unrecorded unrealized gain as of February 28, 1998 would have been computed as an additional $126 million.

(o) Investment in Other Debt and Equity Securities.

The securities held in the Company's nuclear decommissioning trust are classified as "available-for-sale" and, in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," (SFAS No. 115) are reported at estimated fair value of $92.9 million as of December 31, 1997 and $67 million as of December 31, 1996 on the Company's Consolidated Balance Sheets under deferred debits. The liability for nuclear decommissioning is reported on the Company's Consolidated 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 Balance Sheets as a deferred debit/ credit.

The Company, through its subsidiary, NorAm, holds certain equity securities classified as "available-for-sale" and in accordance with SFAS No. 115 reports such investments at estimated fair values on the Company's Consolidated Balance Sheets as deferred debits and any unrealized gain or loss, net of tax, as a separate component of stockholders' equity. At December 31, 1997, the unrealized loss relating to these equity securities was approximately $5.6 million, net of tax.

(p) Discontinued Operations.

In July 1995, the Company sold KBLCOM, its cable television subsidiary. The Company's 1995 earnings include a one-time after-tax gain of $708 million related to the sale, which includes the net loss for discontinued operations of KBLCOM through the date of sale (July 6, 1995).

(q) Reclassifications and Use of Estimates.

Certain amounts from the previous years have been reclassified to conform to the 1997 presentation of financial statements. Such reclassifications do not affect earnings.

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.

(r) Other.

For information regarding executive incentive compensation, pensions and other benefits, see Note 10.

(2) DERIVATIVE FINANCIAL INSTRUMENTS (RISK MANAGEMENT)

(a) Trading Activities.

The Company, through NES, a subsidiary of NorAm, offers price risk management services primarily in the natural gas and electric industries. NES provides these services through, and by utilizing, a variety of derivative financial instruments, including fixed-price swap agreements, variable-price swap agreements,

exchange-traded energy futures and option contracts, and swaps and options traded in the over-the-counter financial markets. Fixed-price swap agreements require payments to, or receipts of payments from, counterparties based on the differential between a fixed and variable price for the commodity. Variable-price swap agreements require payments to, or receipts of payments from, counterparties based on the differential between either industry pricing publications or exchange quotations.

Certain trading transactions qualify for hedge accounting and accordingly unrealized gains and losses associated with these transactions are deferred. For trading transactions that do not qualify for hedge accounting, NES uses mark-to-market accounting. Accordingly, such financial instruments are recorded at fair value with realized and unrealized gains (losses) recorded as a component of operating revenues in the Company's Consolidated Statements of Income. The recognized, unrealized balance is recorded as a deferred debit on the Company's Consolidated Balance Sheets.

The notional quantities and maximum terms of derivative financial instruments held for trading purposes at December 31, 1997 are presented below (volumes in billions of British thermal units equivalent (Bbtue)):

	VOLUME-FIXED PRICE PAYOR	VOLUME-FIXED PRICE RECEIVER	MAXIMUM TERM (YEARS)
Natural gas	85,701	64,890	4
Electricity	40,511	42,976	1

In addition to the fixed-price notional volumes above, NES also has variable-price swap agreements, as discussed above, totaling 101,465 Bbtue. Notional amounts reflect the volume of transactions but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure the Company's exposure to market or credit risks.

The estimated fair value of derivative financial instruments held for trading purposes at December 31, 1997 are presented below (dollars in millions):

	FAIR VALUE		AVERAGE FAIR VALUE(A)	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Natural gas	$46	$39	$56	$48
Electricity	$ 6	$ 6	$ 3	$ 2

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(a) Computed using the ending balance of each month.

Substantially all of the fair value shown in the table above at December 31, 1997 has been recognized in income. The fair value as of and for the year ended December 31, 1997 was estimated using quoted prices where available and considering the liquidity of the market for the derivative financial instruments. The prices are subject to significant changes based on changing market conditions. The derivative financial instruments included in the NES trading portfolio as of and for the year ended December 31, 1996 were immaterial.

The weighted-average term of the trading portfolio, based on volumes, is less than one year. The maximum and average terms disclosed herein are not indicative of likely future cash flows as these positions may be changed by new transactions in the trading portfolio at any time in response to changing market conditions, market liquidity and the Company's risk management portfolio needs and strategies. Terms regarding cash settlements of these contracts vary with respect to the actual timing of cash receipts and payments.

(b) Non-Trading Activities.

To reduce the risk from market fluctuations in the price of electric power, natural gas and related transportation, NorAm and certain of its subsidiaries enter into futures transactions, swaps and options (Energy Derivatives) in order to hedge certain natural gas in storage, as well as certain expected purchases, sales and transportation of natural gas and electric power (a portion of which are firm commitments at the inception of the hedge). Energy Derivatives are also utilized to fix the price of compressor fuel or other future operational gas requirements, although usage to date for this purpose has not been material. Usage of electricity derivative financial instruments by the Company and its subsidiaries for purposes other than trading is immaterial.

Certain subsidiaries of the Company also utilize interest-rate derivatives (principally interest-rate swaps) in order to adjust the portion of its overall borrowings which are subject to interest-rate risk, and also utilize such derivatives to effectively fix the interest rate on debt expected to be issued for refunding purposes.

For transactions involving either Energy Derivatives or interest-rate derivatives, hedge accounting is applied only if the derivative (i) reduces the price risk of the underlying hedged item and (ii) is designated as a hedge at its inception. Additionally, the derivatives must be expected to result in financial impacts which are inversely correlated to those of the item(s) to be hedged. This correlation (a measure of hedge effectiveness) is measured both at the inception of the hedge and on an ongoing basis, with an acceptable level of a correlation of at least 80% for hedge designation. If and when correlation ceases to exist at an acceptable level, hedge accounting ceases and mark-to-market accounting is applied.

In the case of interest-rate swaps associated with existing obligations, cash flows and expenses associated with the interest-rate derivative transactions are matched with the cash flows and interest expense of the obligation being hedged, resulting in an adjustment to the effective interest rate. When interest rate swaps are utilized to effectively fix the interest rate for an anticipated debt issuance, changes in the market value of the interest-rate derivatives are deferred and recognized as an adjustment to the effective interest rate on the newly issued debt.

Unrealized changes in the market value of Energy Derivatives utilized as hedges are not generally recognized in the Company's Consolidated Statements of Income until the underlying hedged transaction occurs. Once it becomes probable that an anticipated transaction will not occur, deferred gains and losses are recognized. In general, the financial impact of transactions involving these Energy Derivatives is included in the Company's Statement of Consolidated Income under the captions (i) fuel expenses, in the case of natural gas transactions, and (ii) purchased power, in the case of electric power transactions. Cash flows resulting from these transactions in Energy Derivatives are included in the Company's Statements of Consolidated Cash Flows in the same category as the item being hedged.

At December 31, 1997, subsidiaries of NorAm were fixed-price payors and fixed-price receivers in Energy Derivatives covering 38,754 Bbtu and 7,647 Bbtu of natural gas, respectively. Also, at December 31, 1997 subsidiaries of NorAm were parties to variable-priced Energy Derivatives totaling 3,630 Bbtu of natural gas. The weighted average maturity of these instruments is less than one year.

The notional amount is intended to be indicative of the Company and its subsidiaries' level of activity in such derivatives, although the amounts at risk are significantly smaller because, in view of the price movement correlation required for hedge accounting, changes in the market value of these derivatives generally are offset by changes in the value associated with the underlying physical transactions or in other derivatives. When Energy Derivatives are closed out in advance of the underlying commitment or anticipated transaction, however, the market value changes may not offset due to the fact that price movement correlation ceases to exist when the positions are closed as further discussed below. Under such circumstances, gains (losses) are deferred and recognized as a component of income when the underlying hedged item is recognized in income.

The average maturity discussed above and the fair value discussed in Note 13 are not necessarily indicative of likely future cash flows as these positions may be changed by new transactions in the trading portfolio at any time in response to changing market conditions, market liquidity and the Company's risk management portfolio needs and strategies. Terms regarding cash settlements of these contracts vary with respect to the actual timing of cash receipts and payments.

(c) Trading and Non-trading -- General Policy.

In addition to the risk associated with price movements, credit risk is also inherent in the Company and its subsidiaries' risk management activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. While, as yet, the Company and its subsidiaries have experienced no significant losses due to the credit risk associated with these arrangements, the Company has off-balance sheet risk to the extent that the counterparties to these transactions may fail to perform as required by the terms of each such contract. In order to minimize this risk, the Company and/or its subsidiaries, as the case may be, enter into such contracts primarily with those counterparties with a minimum Standard & Poor's or Moody's rating of BBB- or Baa3, respectively. For long-term arrangements, the Company and its subsidiaries periodically review the financial condition of such firms in addition to monitoring the effectiveness of these financial contracts in achieving the Company's objectives. Should the counterparties to these arrangements fail to perform, the Company would seek to compel performance at law or otherwise, or obtain compensatory damages in lieu thereof. The Company might be forced to acquire alternative hedging arrangements or be required to honor the underlying commitment at then current market prices. In such event, the Company might incur additional loss to the extent of amounts, if any, already paid to the counterparties. In view of its criteria for selecting counterparties, its process for monitoring the financial strength of these counterparties and its experience to date in successfully completing these transactions, the Company believes that the risk of incurring a significant financial statement loss due to the non-performance of counterparties to these transactions is minimal.

The Company's policies prohibit the use of leveraged financial instruments.

The Company has established a Risk Oversight Committee to oversee all corporate price and credit risk, including NES' risk management and trading activities. The Risk Oversight Committee's responsibilities include reviewing the Company and its subsidiaries' overall risk management strategy and monitoring risk management activities to ensure compliance with the Company's risk management limitations, policies and procedures.

(3) RATE MATTERS

(a) Electric Proceedings.

The Texas Utility Commission has original (or in some cases appellate) jurisdiction over Electric Operations' electric rates and services. 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 Texas Utility Commission, such matters are remanded to the Texas Utility Commission for action in light of the courts' orders.

(b) Transition and Price Reduction Plan.

In 1997, the Texas legislature considered but did not pass legislation intended to address various issues concerning the restructuring of the electric utility industry, including proposals that would permit Texas retail electric customers to choose their own electric suppliers beginning on December 31, 2001. The legislative proposals included provisions relating to full stranded cost recovery; rate reductions; rate freezes; the

unbundling of generation operations, transmission and distribution and customer service operations; securitization of regulatory assets; and consumer protections. Although the Company and certain other parties (including the Texas Utility Commission) supported the bill, it was not enacted prior to the expiration of the legislative session.

In October 1997, the Company announced a proposed transition to competition plan intended to address certain aspects of the proposals contained in the legislation formerly pending before the Texas legislature. By mid December 1997, negotiations resulted in a settlement agreement (Settlement Agreement) executed by the Company, the staffs of the Texas Utility Commission and the City of Houston, representatives of the state's principal consumer and industrial groups and others. The Settlement Agreement was subsequently filed with the Texas Utility Commission, where it is currently under consideration.

Under the terms of the Settlement Agreement, residential customers will receive a 4% credit to the base cost of electricity in 1998, increasing to 6% in 1999. Small and mid-sized businesses will receive a 2% credit to their base costs beginning in 1998. The combined effect of these reductions is expected to decrease base revenues by $166 million over a two year period. In addition, the Company (over the next two years) will be permitted, as a way to assist the Company in mitigating its potentially stranded costs, to (i) redirect to production property all of its current depreciation expenses that would otherwise be credited to accumulated depreciation for transmission and distribution property, and (ii) apply any and all earnings above a rate of return cap of 9.95% to increase the depreciation of production property. The Company estimates that redirected depreciation over the two-year period of 1998 and 1999 will be approximately $364 million. As part of the Settlement Agreement, the Company agreed to support proposed legislation in the 1999 Texas legislative session that includes provisions providing for retail customer choice effective December 31, 2001 and other provisions consistent with those in the 1997 proposed legislation.

The Settlement Agreement is currently under consideration by the Texas Utility Commission, the City of Houston and other cities served by HL&P. In December 1997, the Texas Utility Commission approved the petition filed by the Company to implement the requested base rate credits on a temporary basis beginning January 1, 1998, and pending final Texas Utility Commission consideration. The approval also included the accounting order necessary to permit the Company to begin redirecting depreciation from its transmission and distribution facilities to production property on a temporary basis pending final Texas Utility Commission consideration. A procedural schedule has been developed by the Texas Utility Commission whereby a final decision regarding the Settlement Agreement would be reached by the end of March 1998.

(c) 1995 Rate Case.

In August 1995, the Texas Utility Commission unanimously approved a settlement resolving the Company's most recent rate case (Docket No. 12065) as well as a separate proceeding (Docket No. 13126) regarding the prudence of operation of the South Texas Project.

See Note 1(f) regarding additional depreciation and amortization that is permitted under the 1995 Rate Case Settlement with respect to the South Texas Project and the Company's investment in certain lignite reserves associated with a canceled generating station.

(d) Docket No. 6668.

In September 1997, the Company received a judgment dismissing all outstanding appeals of the Texas Utility Commission's order in Docket No. 6668, an inquiry into the prudence of the planning and construction of the South Texas Project. In that order, the Texas Utility Commission had determined that $375.5 million of the Company's $2.8 billion investment in the South Texas Project had been imprudently incurred. That ruling was incorporated into Electric Operations' 1988 and 1991 rate cases. As a result of this judgment, all

outstanding appeals of prior rate cases involving the Company have now been dismissed and the orders granted in such cases are now final.

(4) JOINTLY OWNED ELECTRIC UTILITY PLANT

(a) Investment in South Texas Project.

The Company has a 30.8% interest in the South Texas Project, which consists of two 1,250 MW nuclear generating units, and bears a corresponding 30.8% share of capital and operating costs associated with the project. As of December 31, 1997, the Company's investment in the South Texas Project was $1.8 billion (net of $714 million accumulated depreciation). The Company's investment in nuclear fuel (including AFUDC) was $51 million (net of $205 million amortization) as of such date.

Effective November 1997, the Company and the other three owners of the South Texas Project completed the transfer of the Company's responsibilities for operation of the South Texas Project to a new Texas non-profit corporation formed by the four owners and known as the STP Nuclear Operating Company (STPNOC). STPNOC was formed exclusively for the purpose of operating the South Texas Project, and the Company's officers and employees who had been responsible for day-to-day operation and management of the South Texas Project were transferred to the operating company in October, 1997 and the related employee benefit obligations were transferred in December, 1997. The operating company is managed by a board of directors composed of one director from each of the four owners, along with the chief executive officer of STPNOC. Formation of STPNOC did not affect the underlying ownership of the South Texas Project, which continues as a tenancy in common among the four owners, with each owner retaining its undivided ownership interest in the two nuclear-fueled generating units and the electrical output from those units. The four owners continue to provide overall oversight of the operations of the South Texas Project through an owners' committee composed of representatives of each of the owners and through the board of directors of STPNOC.

(b) 1996 Settlement of South Texas Project Litigation.

In 1996, the Company recorded an aggregate $95 million ($62 million net of tax) charge in connection with various settlements of lawsuits filed by co-owners of the South Texas Project. The formation of STPNOC by the four co-owners (including the Company) of the South Texas Project was contemplated by these settlements. For information about the execution of an operations agreement with the City of San Antonio in connection with one of these settlements, see Note 12(c).

(c) Nuclear Insurance.

The Company 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. With respect to excess property insurance, the Company and the other owners of the South Texas Project are subject to assessments, the maximum aggregate assessment under current policies being $11.5 million during any one policy year. The application of the proceeds of such property insurance is subject to the priorities established by the Nuclear Regulatory Commission (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 $8.72 billion as of December 1997. 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 $79.3 million per reactor, subject to indexing for inflation, a possible 5% surcharge (but no more than $10 million per reactor per incident in any one year) and a 3% state premium tax. The Company 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 the Company's financial condition and results of operations.

(d) Nuclear Decommissioning.

The Company contributes $14.8 million per year to a trust established to fund its 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(o). In May 1994, an outside consultant estimated the Company'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 Units 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.

(e) Assessment Fees for Spent Fuel Disposal and Enrichment and Decommission

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. 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 KWH sold. This fee is subject to adjustment to ensure full cost recovery by the DOE. The Energy Policy Act also includes a provision that assesses a fee upon domestic utilities that purchased nuclear fuel enrichment services from the DOE before October 24, 1992. The South Texas Project's assessment is approximately $2 million per year (subject to escalation for inflation). The Company has a remaining estimated liability of $5.5 million for such assessments.

(5) EQUITY INVESTMENTS IN FOREIGN AFFILIATES

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 accounts for affiliate investments of its subsidiaries under the equity method of accounting where: (i) the subsidiary's ownership interest in the affiliate ranges from 20% to 50%, (ii) the ownership interest is less than 20% but the subsidiary exercises significant influence over operating and financial policies of such affiliate or (iii) the subsidiary's ownership interest in the affiliate exceeds 50% but the subsidiary does not exercise control over the affiliate. The Company's proportionate share of the equity in net income in these affiliates for the years ended December 31, 1997, 1996 and 1995 was $48.6 million, $17 million and $.5 million, respectively, which amounts are included on the Company's Statements of Consolidated Income in Revenues -- International.

The Company's and its subsidiaries' equity investments in foreign and non-regulated affiliates at December 31, 1997 and 1996 were $704 million and $502 million, respectively.

(a) Acquisitions.

In May 1996, a subsidiary of HI Energy acquired 11.35% of the common stock of Light, a publicly held Brazilian corporation, for $393 million which includes the direct costs of the acquisition. 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. The winning bidders in the government-sponsored auction of Light, including a subsidiary of HI Energy, formed a consortium whose aggregate ownership interest of 50.44% represents a controlling interest in Light.

In June 1997, a consortium of investors which included a subsidiary of HI Energy, acquired for $496 million a 56.7% controlling ownership interest in Empresa de Energia del Pacifico S.A.E.S.P. (EPSA), an electric utility system serving the Valle de Cauca region of Colombia, including the area surrounding the city of Cali. HI Energy contributed $152 million of the purchase price for a 28% ownership interest in EPSA. In addition to its distribution facilities, EPSA owns 850 MW of electric generation capacity.

In May 1997, HI Energy increased its indirect ownership interest in Empresa de la Plata S.A. (EDELAP), an Argentina electric utility, from 48% to 63%. The purchase price of the additional interest was $28 million. HI Energy has recorded its investment in EDELAP using the equity method because of the significance of the participatory rights held by a minority shareholder.

HI Energy has accounted for these transactions under purchase accounting and has recorded its investments and its interest in the affiliates' earnings after the acquisition dates using the equity method. The purchase prices were allocated on the basis of the estimated fair market values of the assets acquired and the liabilities assumed as of the dates of acquisition. The differences between the amounts paid and the underlying fair values of the net assets acquired are being amortized as a component of earnings attributable to unconsolidated affiliates over the estimated lives of the projects ranging from 30 to 40 years. Purchase price adjustments to fixed assets are being amortized over the underlying assets' estimated useful lives.

(b) Valuation Allowance.

HI Energy is an investor in two waste tire-to-energy projects in the State of Illinois. The projects had been developed by HI Energy in reliance upon a state subsidy intended to encourage development of energy project facilities for the disposal of solid waste. In March 1996, the State of Illinois repealed the subsidy. As a result of the loss of the subsidy, the Company recorded (i) a $28 million valuation allowance effective in the fourth quarter of 1995 (resulting in an $18 million after-tax charge in that year) and (ii) an additional $8 million valuation allowance in the first quarter of 1996 (resulting in a $5 million after-tax charge in that year). At the time of the Illinois legislature's actions, construction work on one of the waste-to-energy projects had been substantially completed.

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 relating to the facility for which construction had been substantially completed (Ford Heights Project). In March 1996, a subsidiary of HI Energy purchased from a senior lending bank all notes relating to the project for which construction had not yet commenced (Fulton Project) (approximately $4.1 million). As a consequence, HI Energy has discretion over when, if ever, the construction activities for the Fulton project will

resume and, in turn, control over future obligations of HI Energy to acquire additional subordinated notes for the Fulton project.

The Company and HI Energy are defendants in various lawsuits filed in connection with the Ford Heights Project. CGE Ford Heights, L.L.C., (CGE Ford Heights) the owner of the project, has filed for reorganization under Chapter 11 of the Federal Bankruptcy Code. In October 1997, CGE Ford Heights filed a lawsuit against First Trust National Association, HI Energy and Zurn Industries, Inc. (Zurn). CGE Ford Heights is seeking a determination of the funding obligations of HI Energy and Zurn. In addition, the trustee for the holders of the bonds issued to finance the project has filed suit against the Company, HI Energy and Zurn. The trustee alleges that the Company and HI Energy are obligated to contribute to CGE Ford Heights approximately $15 million in the form of subordinated debt obligations. The Company and HI Energy are vigorously contesting the matter. The Company does not believe that the litigation will have a material adverse impact on the Company's or HI Energy's financial statements.

(6) COMMON STOCK

At December 31, 1997, the Company had 282,875,266 shares of common stock issued and outstanding (out of a total of 700,000,000 authorized shares). At December 31, 1996, the number of shares of outstanding common stock of Former HI was 233,335,481.

Outstanding common shares excluded (i) shares pledged to secure a loan to the Company's Employee Stock Ownership Plan (12,388,551 and 13,370,939 at December 31, 1997 and 1996, respectively) and (ii) treasury shares (93,459 and 16,042,027 at December 31, 1997 and 1996, respectively). Treasury shares at December 31, 1996 represent shares purchased under a common stock repurchase program prior to the Merger. In connection with the Merger, these treasury shares were canceled and retired in August 1997. At December 31, 1997, the Company held 93,459 shares, which shares were received from holders of Company stock options, who surrendered shares of Company stock as partial payment for the exercise price of their stock options.

In 1997, the Company paid four regular quarterly dividends aggregating $1.50 per share on its common stock pursuant to dividend declarations made in December 1996, March 1997, June 1997 and September 1997. In December 1997, the Company declared its regular quarterly dividend of $0.375 per share to be paid in March 1998. For information regarding certain restrictions on payments of dividends, see Note 8(c).

(7) PREFERRED AND PREFERENCE STOCK

(a) Preferred Stock.

At December 31, 1997, the Company had 10,000,000 authorized shares of preferred stock, of which 97,397 shares were outstanding. As of such date, the Company's only outstanding series of preferred stock was its $4.00 Preferred Stock. The $4.00 Preferred Stock pays an annual dividend of $4.00 per share, is redeemable at $105 per share and has a liquidation price of $100 per share.

In April 1997, the Company redeemed all remaining 257,000 shares of its $9.375 cumulative preferred stock pursuant to mandatory sinking fund requirements at a cost of $25.7 million, plus accrued dividends. In February 1997, the Company redeemed the following three series of its cumulative preferred stock at the redemption prices, plus accrued dividends, indicated:

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

(b) Preference Stock.

At December 31, 1997, the Company had 10,000,000 authorized shares of preference stock, of which 700,000 shares are classified as Series A Preference Stock and 27,000 shares are classified as Series B Preference Stock. As of December 31, 1997, there were no shares of Series A Preference Stock issued and outstanding (such shares being issuable in accordance with the Company's Shareholder Rights Agreement upon the occurrence of certain events). The number of shares of Series B Preference Stock issued and outstanding as of December 31, 1997 was 17,000. The sole holder of the Series B Preference Stock is a wholly owned financing subsidiary of the Company. See Note 8(c).

Each share of common stock of the Company includes one associated preference stock purchase right (Company Right). Under certain circumstances, each Company Right entitles the registered holder to purchase from the Company a unit consisting of one-thousandth of a share (Fractional Share) of Series A Preference Stock, without par value (Series A Preference Stock), at a purchase price of $42.50 per Fractional Share, subject to adjustments. The shareholder rights plan was adopted by the shareholders of Former HI in August 1990 and was assumed by the Company, with certain amendments, effective upon the Merger.

(8) LONG-TERM DEBT AND SHORT-TERM FINANCING

(a) Consolidated Debt.

The Company's consolidated long-term and short-term debt outstanding is summarized in the following table. Of the amount of long-term and short-term debt outstanding as of December 31, 1997, $1.8 billion represents debt of NorAm which was assumed and adjusted to fair market value as of the Acquisition Date.

CONSOLIDATED LONG-TERM DEBT AND SHORT-TERM BORROWINGS
(IN MILLIONS)

	DECEMBER 31, 1997		DECEMBER 31, 1996	
	LONG-TERM	CURRENT	LONG-TERM	CURRENT
Short-Term Borrowings:				
Commercial Paper		$1,435		$1,338
Lines of Credit		390		
NorAm Receivables Facility		300		
Total Short-Term Borrowings		2,125		1,338
Long-Term Debt -net:				
ACES	$1,174			
Debentures(1)(2)	669		$ 349	
First Mortgage Bonds(1)	2,495		2,670	225
Pollution Control Bonds	118	5	5	
NorAm Medium-Term Notes(2)	182	79		
Notes Payable(2)	565	166	1	
Capital Leases	15	1	1	4
Total Long-Term Debt	5,218	251	3,026	229
Total Long-Term and Short-Term Debt	$5,218	$2,376	$3,026	$1,567

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(1) Includes unamortized discount related to debentures of approximately $1 million at December 31, 1997 and 1996 and unamortized discount related to first mortgage bonds of approximately $14 million and $15 million at December 31, 1997 and 1996, respectively.

(2) Includes unamortized premium related to fair value adjustments of approximately $15.8 million for Debentures at December 31, 1997. The unamortized premium for NorAm long-term and current medium-term notes at December 31, 1997 was approximately $16.7 million and $2.8 million, respectively. The unamortized premium for long-term and current notes payable was approximately $13.7 million and $3.3 million, respectively, at December 31, 1997. See Note 1(b).

Consolidated maturities of long-term debt and sinking fund requirements for the Company (including NorAm) are approximately $251 million in 1998, $378 million in 1999, $1.430 billion in 2000, $401 million in 2001 and $207 million in 2002.

(b) First Mortgage Bonds.

As of December 31, 1997, the Company had an aggregate of $2.5 billion principal amount of its first mortgage bonds issued and outstanding.

In the first quarter of 1997, the Company repaid at maturity $40 million aggregate principal amount of its 5 1/4% first mortgage bonds and $150 million aggregate principal amount of its 7 5/8% first mortgage bonds. In June 1997, the Company purchased $57.6 million aggregate principal amount of its 9.15% first mortgage bonds due 2021 for a total purchase price of $69.6 million, plus accrued interest. In November 1997, the Company repaid at maturity $35 million aggregate principal amount of its 6 3/4% first mortgage bonds.

Sinking or improvement fund requirements of the Company's first mortgage bonds outstanding will be approximately $28.3 million for each of the years 1998 through 2002. Such requirements may be satisfied by certification of property additions at 100% of the requirements. Sinking or improvement fund requirements for 1997 and prior years have been satisfied by certification of property additions.

The Company 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% 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% of the requirements. With respect to first mortgage bonds of a series subject to special redemption, the Company 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 1998 is approximately $310.3 million.

The amount of the first mortgage bonds that may be issued by the Company 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 the Company and South Texas Commercial National Bank of Houston (Chase Bank of Texas, National Association, as Successor Trustee) and the supplemental indentures thereto. Substantially all properties used in the conduct of the business and operations of Electric Operations are subject to liens securing the long-term debt under the mortgage.

(c) FinanceCo Credit Facility.

In August 1997, a limited partnership special purpose subsidiary of the Company (FinanceCo) established a five-year, $1.644 billion revolving credit facility with a consortium of commercial banks (FinanceCo Facility). The FinanceCo Facility supported $1.435 billion in commercial paper borrowings by FinanceCo at December 31, 1997 recorded as notes payable on the Consolidated Balance Sheet. The weighted average interest rate of these borrowings at December 31, 1997 was 6.15%. Proceeds from the initial issuances of commercial paper were used to purchase newly issued shares of Series B Preference Stock of the Company. The Company, in turn, used the proceeds from such stock issuance to fund the cash portion of the consideration paid to Former NorAm stockholders under the terms of the Merger.

Borrowings under the FinanceCo Facility bear interest at a rate based upon the London interbank offered rate (LIBOR) plus a margin, a base rate or at a rate determined through a bidding process. The FinanceCo Facility may be used (i) to support the issuance of commercial paper or other short-term indebtedness of FinanceCo, (ii) subject to certain limitations, to finance repurchases of Company common stock and (iii) subject to certain limitations, to provide funds for general purposes of FinanceCo, including the making of intercompany loans to, or securing letters of credit for the benefit of, FinanceCo's affiliates.

The FinanceCo Facility requires the Company to maintain a ratio of consolidated indebtedness for borrowed money to consolidated capitalization (as defined) that does not exceed 0.62:1.00 from January 1, 1998 through December 31, 1998 and 0.60:1.00 from January 1, 1999 until termination of the FinanceCo Facility. The FinanceCo Facility also contains restrictions applicable to the Company and certain of its subsidiaries with respect to, among other things, (i) liens, (ii) consolidations, mergers and dispositions of assets, (iii) dividends and repurchases of common stock, (iv) certain types of investments and (v) certain changes in its business. The FinanceCo Facility contains customary covenants and default provisions applicable to FinanceCo and its subsidiaries, including limitations on, among other things, additional indebtedness (other than certain permitted indebtedness), liens and certain investments or loans.

Subject to certain conditions and limitations, the Company is required to make cash payments from time to time to FinanceCo from excess cash flow (as defined in the FinanceCo Facility) to the extent necessary to enable FinanceCo to meet its financial obligations. At December 31, 1997, commercial paper supported by the FinanceCo Facility was secured by pledges of (i) the shares of common stock of NorAm held by the Company, (ii) all of the limited and general partner interests of FinanceCo and all of the Company's interest in the general partner of FinanceCo, (iii) the capital stock of HI Energy, (iv) the Series B Preference Stock and (v) certain intercompany notes held by FinanceCo. The obligations under the FinanceCo Facility are not secured by the utility assets of the Company or NorAm or by the Company's investment in Time Warner securities.

The Company's outstanding commercial paper balance at December 31, 1996 was $1.3 billion. The weighted average interest rate at December 31, 1996 was 5.90%.

(d) Company Bank Facility.

The Company meets its short-term financing needs primarily through sales of commercial paper supported by a $200 million revolving credit facility. Borrowings under the facility are unsecured and a facility fee is paid. At December 31, 1997, there was no outstanding commercial paper and there were no outstanding borrowings under the bank facility.

(e) ACES.

The Company owns 11 million shares of non-publicly traded TW Preferred. See Note 1(n). To monetize its investment in these securities, the Company sold in July 1997, 22,909,040 of its unsecured 7% ACES having a face amount of $45.9375 per security.

At maturity, the principal amount of the ACES will be mandatorily exchangeable by the Company into either (i) a number of shares of common stock of Time Warner based on an exchange rate or (ii) cash having an equal value. Subject to adjustments that may result from certain dilution events, the exchange rate for each ACES is determined as follows: (i) 0.8264 shares of Time Warner common stock if the price of Time Warner common stock at maturity (Maturity Price) is at least $55.5844 per share, (ii) a fractional share of Time Warner common stock such that the fractional share will have a value equal to $45.9375 if the Maturity Price is less than $55.5844 but greater than $45.9375 and (iii) one share of Time Warner common stock if the Maturity Price is not more than $45.9375.

Prior to maturity, the Company has the option of redeeming the ACES if (i) changes in federal tax regulations require recognition of a taxable gain on the Company's TW Preferred and (ii) the Company could defer such gain by redeeming the ACES. The redemption price is 105% of the closing sales price of the ACES as determined over a period prior to the redemption notice. The redemption price may be paid in cash or in shares of Time Warner common stock or a combination of the two.

The Company used the net proceeds of the sale of the ACES (approximately $1.021 billion) to retire in 1997 an equivalent amount of the Company's then outstanding commercial paper.

For information regarding the Company's accounting treatment of the ACES, including certain accounting losses that may result upon increases in the price of Time Warner common stock, see Note 1(n).

(f) Pollution Control Revenue Refunding Bonds.

In January 1997, the Brazos River Authority (BRA) and the Matagorda County Navigation District Number One (MCND) issued, on behalf of the Company, $118 million aggregate principal amount of pollution control revenue bonds. The BRA and MCND bonds will mature in 2018 and 2028, respectively. The proceeds from the sale of these securities were used to redeem all outstanding 7 7/8% BRA Series 1986A pollution control revenue bonds ($50 million) and 7 7/8% MCND Series 1986A pollution control revenue bonds ($68 million) at a redemption price of 102% of the aggregate principal amount of each series. In 1997, the bonds bore interest at a floating rate. The weighted average interest rate at December 31, 1997 was 5.01%. Subject to certain conditions, the Company may change the method of determining the interest rate on the bonds from a daily to a weekly, commercial paper or long-term interest rate. The bonds are subject to a mandatory tender for purchase upon certain events, including changes in the method of determining interest rates on the bonds. When a daily or weekly rate is in effect for the bonds, holders of the bonds of such issue have the option to have their bonds purchased at 100% of their principal amount plus accrued interest to the date of the purchase. Bonds tendered prior to maturity may be remarketed. Although it is anticipated that all bonds tendered will be purchased with proceeds from the subsequent offer and sale of the tendered bonds, the Company has entered into standby purchase agreements with commercial banks to provide approximately $120 million for the purchase of tendered bonds in the event such proceeds are not available. Facility fees are payable in connection with these facilities.

(g) NorAm Bank Facilities.

In 1997, NorAm met its short-term financing needs primarily through a bank facility, bank lines of credit and a receivables facility. NorAm's principal short-term credit facility (NorAm Credit Facility) of $400 million expires in December 1998. Unsecured borrowings under the NorAm Credit Facility at December 31, 1997 aggregated $340 million and had a weighted average interest rate of 6.30%. A facility fee of .14% per annum is payable on the $400 million commitment. In addition, NorAm had $50 million of outstanding loans under uncommitted lines of credit at December 31, 1997 having a weighted average interest rate of 6.82%.

Under a trade receivables facility (Receivables Facility) which expires in August 1999, NorAm sells, with limited recourse, an undivided interest (limited to a maximum of $300 million) in a designated pool of accounts receivable. The amount of receivables sold and uncollected was $300 million at December 31, 1997. The weighted average interest rate at December 31, 1997 was approximately 5.65%. Certain of NorAm's remaining receivables serve as collateral for receivables sold and represent the maximum exposure to NorAm should all receivables sold prove ultimately uncollectible. NorAm has retained servicing responsibility under the Receivables Facility for which it is paid a servicing fee. Beginning in 1997 and pursuant to SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities", NorAm accounts for amounts transferred pursuant to the Receivables Facility as collateralized borrowings. As a result,

these receivables are recorded as assets on the Company's December 31, 1997 Consolidated Balance Sheet and amounts received by NorAm pursuant to this facility are recorded as notes payable.

In May 1997, NorAm obtained an unsecured, 18-month bank term loan in the amount of $150 million (included in Notes Payable). The term loan carries a LIBOR-based floating interest rate. Proceeds from the term loan were used to refund a portion of NorAm's 9.875% Notes which matured in April 1997. NorAm has entered into two interest rate swaps, each with a term of 19 months, having an aggregate notional amount of $150 million which, as of December 31, 1997, effectively fixed the interest rate on borrowings under the term loan agreement at approximately 6.775%.

(h) NorAm Long-Term Debt.

At December 31, 1997, NorAm has issued and outstanding $116 million aggregate principal amount ($107 million after Merger fair value adjustments) of its 6% Convertible Subordinated Debentures due 2012 (Subordinated Debentures). The holders of the Subordinated Debentures receive interest quarterly and have the right at any time on or before the maturity date thereof to convert each Subordinated Debenture into 0.65 shares of Company common stock and $14.24 in cash. NorAm is required to make annual sinking fund payments of $6.5 million on the Subordinated Debentures beginning on March 15, 1997 and on each succeeding March 15 up to and including March 15, 2011. NorAm (i) may credit against the sinking fund requirements any Subordinated Debentures redeemed by NorAm and Subordinated Debentures which have been converted at the option of the holder and (ii) may deliver purchased Subordinated Debentures in satisfaction of the sinking fund requirements. Since the Acquisition Date, Subordinated Debentures aggregating $27,250 were converted.

In the fourth quarter of 1997, NorAm purchased $101.4 million aggregate principal amount of its 10% Debentures due 2019 at an average price of 111.98% plus accrued interest. Because NorAm's debt was stated at fair market value as of the date of the acquisition, the loss on the reacquisition of these debentures was not material. In December 1997, NorAm repaid at maturity $52 million aggregate principal amount of its medium-term notes.

(i) Restrictions on NorAm's Stockholders' Equity and Debt.

Under the provisions of NorAm's revolving credit facility or certain other NorAm financial arrangements, NorAm's total debt is limited to 72% of its total capitalization and NorAm is required to maintain a minimum level of stockholders' equity. In addition, NorAm's total debt would be limited to $2.055 billion if its ratio of total debt to total capitalization increased to 60%. The minimum level of stockholders' equity was initially set at $700 million at December 31, 1995, increasing annually thereafter by (1) 50% of positive consolidated net income and (2) 50% of the proceeds from any incremental equity offering made after June 30, 1996. At December 31, 1997, these provisions did not significantly restrict NorAm's ability to issue debt or to pay dividends.

(j) HI Energy Notes Payable.

In 1996, a subsidiary of HI Energy 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 established for the benefit of the lenders, was funded in April 1997. The loan (included in Notes Payable) is secured by, among other things, a pledge of the shares of Light and of a subsidiary of HI Energy that is the indirect holder of the shares of Light.

(9) TRUST SECURITIES

(a) Company.

In February 1997, two Delaware statutory business trusts (HI Trusts) established by the Company issued (i) $250 million of preferred securities and (ii) $100 million of capital securities, respectively. The preferred securities have a distribution rate of 8.125% payable quarterly in arrears, a stated liquidation amount of $25 per preferred security and must be redeemed by March 2046. The capital securities have a distribution rate of 8.257% payable quarterly in arrears, a stated liquidation amount of $1,000 per capital security and must be redeemed by February 2037.

The HI Trusts sold the preferred and capital securities to the public and used the proceeds to purchase $350 million aggregate principal amount of subordinated debentures (Debentures) from the Company having interest rates corresponding to the distribution rates of the securities and maturity dates corresponding to the mandatory redemption dates of the securities. The HI Trusts are accounted for as wholly owned consolidated subsidiaries of the Company. The Debentures are the HI Trusts' sole assets. Proceeds from the sale of the Debentures were used by the Company for general corporate purposes, including the repayment of short-term debt and the redemption of three series of the Company'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

The Company has fully and unconditionally guaranteed, on a subordinated basis, each Trust's obligations, including the payment of distributions and all other payments due with respect to the respective preferred and capital securities.

The preferred and capital securities are mandatorily redeemable upon the repayment of the related Debentures at their stated maturity or earlier redemption.

Subject to certain limitations, the Company has the option of deferring payments of interest on the Debentures held by the HI Trusts. If and for as long as payments on the Debentures have been deferred, or an event of default under the indenture relating thereto has occurred and is continuing, the Company may not pay dividends on its capital stock. As of December 31, 1997, no interest payments on the Debentures had been deferred.

(b) NorAm.

In June 1996, a Delaware statutory business trust (NorAm Trust) established by NorAm issued $172.5 million of convertible preferred securities and sold approximately $5.3 million of NorAm Trust common securities (106,720 securities, representing 100% of the NorAm Trust's common equity) to NorAm . The convertible preferred securities have a distribution rate of 6.25% payable quarterly in arrears, a stated liquidation amount of $50 per convertible preferred security and must be redeemed by 2026. The NorAm Trust sold the convertible preferred securities to the public and used the proceeds, in addition to the common stock proceeds, to purchase $177.8 million of 6.25% Convertible Junior Subordinated Debentures from NorAm having an interest rate corresponding to the distribution rate of the convertible preferred securities and a maturity date corresponding to the mandatory redemption date of the convertible preferred securities. The NorAm Trust is accounted for as a wholly owned consolidated subsidiary of NorAm. The junior subordinated debentures are the sole assets of the NorAm Trust. NorAm has fully and unconditionally guaranteed, on a subordinated basis, the NorAm Trust's obligations, including the payment of distributions and all other

payments, with respect to the convertible preferred securities. The convertible preferred securities are mandatorily redeemable upon the repayment of the related junior subordinated debentures at their stated maturity or earlier redemption. Following the Merger, each convertible preferred security is convertible at the option of the holder into $33.62 of cash and 1.55 shares of Company common stock. Since the Acquisition Date, convertible preferred securities aggregating $14.1 million were converted, leaving $16.4 million principal amount (unamortized fair value of $21.3 million, net of issuance costs) of convertible preferred securities outstanding at December 31, 1997.

(10) STOCK-BASED INCENTIVE COMPENSATION PLANS AND RETIREMENT PLANS

(a) Incentive Compensation Plans.

The Company has Long-Term Incentive Compensation plans (LICP) and other incentive compensation plans that provide for the issuance of stock-based incentives (including performance-based stock compensation and restricted shares, stock options and stock appreciation rights) to key employees of the Company, including officers. As of December 31, 1997, 96 current and former employees participated in the plans. A maximum of approximately 9 million shares of common stock may be issued under these plans. Under the LICP, beginning one year after the grant date, the options become exercisable in one-third increments each year. Performance-based stock compensation issued and restricted shares granted were 704,865 in 1997, 69,905 in 1996, and 49,792 in 1995.

Stock option activity for the years 1995 through 1997 is summarized below:

	NUMBER OF SHARES	WEIGHTED AVERAGE PRICE AT DATE OF GRANT OR EXERCISE
Outstanding at December 31, 1994	302,578	$ 22.7025
Options Granted	133,324	$ 17.8277
Options Canceled	(24,560)	
Outstanding at December 31, 1995	411,342	$ 21.1414
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	$ 21.7796
Options Granted	382,954	$ 21.0673
Options Converted at Acquisition(1)	622,504	$ 12.9002
Options Exercised(1)	(281,053)	$ 9.2063
Options Withheld for Taxes	(72)	
Options Canceled	(148,418)	
Outstanding at December 31, 1997	1,074,567	$ 19.0728
Exercisable at:		
December 31, 1997	645,304	$ 7.00-35.18
December 31, 1996	280,270	$17.75-23.25
December 31, 1995	181,924	$21.75-23.25

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(1) Effective upon the Merger, each holder of an unexpired NorAm stock option, whether or not then exercisable, was entitled to elect to either (i) have all or any portion of their NorAm stock options canceled and "cashed out" or (ii) have all or any portion of their NorAm stock options converted to the Company's stock options. There were 622,504 NorAm stock options converted into the Company's stock

options at the Acquisition Date. Options exercised during 1997 included approximately 277,000 shares related to NorAm stock options which were converted at the Merger.

Effective January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation." (SFAS No. 123) In accordance with SFAS No. 123, the Company will continue to apply the existing rules contained in Accounting Principles 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:

	1997	1996	1995
	(THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)		
Net Income as reported	$420,948	$404,944	$1,105,524
SFAS No. 123 effect	(2,374)	(1,098)	(244)
Pro forma Net Income	$418,574	$403,846	$1,105,280
Basic and Diluted Earnings per Common Share As reported	$ 1.66	$ 1.66	$ 4.46
	$ 1.65	$ 1.66	$ 4.46

The fair value of options granted during 1995, 1996 and 1997 were calculated using the Black-Scholes model. The significant assumptions incorporated in the Black-Scholes model in estimating the fair value of the options include (i) an interest rate of 7.78% for 1995 and 5.65% for 1996 and an interest rate of 6.58% for 1997 that represents the interest rate on a U.S. Treasury security with a maturity date corresponding with the option term, (ii) an option term of ten years, (iii) volatility of 19.647% for 1995, 15.713% for 1996 and a volatility of 22.06% for 1997 calculated using daily stock prices for the period prior to the grant date, and (iv) expected common dividends of $1.50 per share representing annualized dividends at the date of grant.

(b) Pension.

The Company has a noncontributory retirement plan which covers the employees of the Company and its subsidiaries other than NorAm. NorAm has two noncontributory retirement plans: (i) the plan which covers the employees of NorAm other than Minnegasco employees and (ii) the plan which covers Minnegasco employees. The plans provide retirement benefits based on years of service and compensation. The Company and NorAm'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 plans 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,		
	1997	1996	1995
	(THOUSAND OF DOLLARS)		
Service cost -- benefits earned during the period	$ 26,848	$ 24,392	$ 22,852
Interest cost on projected benefit obligation	67,640	51,560	49,317
Actual (return) loss on plan assets	(100,390)	(75,326)	(96,004)
Net amortization and deferrals	14,025	17,514	50,889
Net pension cost	8,123	18,140	27,054
Transfer of obligation to STPNOC	(6,077)		
SFAS No. 88 -- curtailment expense	12,947	12,698	7,096
Total pension cost	$ 14,993	$ 30,838	$ 34,150

The funded status of the Company's retirement plans was as follows:

	DECEMBER 31,	
	1997	1996
	(THOUSANDS OF DOLLARS)	
Actuarial present value of:		
Vested benefit obligation	$ 948,017	$542,714
Accumulated benefit obligation	$1,017,190	$578,786
Plan assets at fair value(1)	$1,304,023	$675,401
Projected benefit obligation(1)	1,246,582	756,597
Assets in excess of (less than) projected benefit obligation	57,441	(81,196)
Unrecognized transitional asset	(9,008)	(11,502)
Unrecognized prior service cost	14,735	31,154
Unrecognized net loss	8,750	19,405
(Accrued) prepaid pension cost	$ 71,918	$(42,139)

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(1) Includes transfer of approximately $40 million of assets and related liabilities of plans related to STPNOC. See Note 4(a).

The projected benefit obligation was determined using an assumed discount rate of 7.25% in 1997 and in 1996. A long-term annual rate of compensation increase ranging from 4% to 6% was assumed for both the Company and NorAm plans in 1997 and 1996. The assumed long-term rate of return on plan assets was 9.5% in 1997 and 1996 (10% for the NorAm plans in 1997). 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 for the Company's plan. The unrecognized transitional asset, prior service cost and net (gain) or loss related to the NorAm plans were recognized at the Acquisition Date.

In 1995, the Company offered eligible employees (excluding officers) of the Company 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, the Company increased its retirement plan and supplemental benefits in 1995 by approximately $28 million and $5 million, respectively. Pursuant to SFAS No. 71, the Company deferred the costs associated with the increases in its benefit obligations and amortized the costs through the period ending December 31, 1997. In 1997, 1996 and 1995, the Company amortized $12.9 million, $12.7 million and $7.1 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 early retirement program.

(c) 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% of compensation limited by an annual deferral limit ($9,500 for calendar year 1997) prescribed by IRC Section 402(g) and the IRC Section 415 annual additions limits. The Company matches 70% of the first 6% 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.

The Company's savings plan benefit expense attributable to continuing operations was $18.4 million, $16.0 million, and $18.9 million in 1997, 1996 and 1995, respectively. Savings plan benefit expense attributable to discontinued operations was not material.

The ESOP shares were as follows:

	DECEMBER 31,	
	1997	1996
Allocated shares transferred/distributed from the Savings Plan(1)	1,920,406	580,132
Allocated shares	4,453,227	4,811,113
Unearned shares	12,388,551	13,370,939
Total Original ESOP shares	18,762,184	18,762,184
Fair value of unearned ESOP shares	$331,393,739	$302,517,495

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(1) 1,102,203 allocated shares transferred are related to shares transferred to STPNOC in December, 1997.

NorAm has an employee savings plan (NorAm Savings Plan) which covers substantially all employees other than Minnegasco employees. Under the terms of the NorAm Savings Plan, employees may contribute up to 12% of total compensation, which contributions up to 6% are matched by the Company. The Minnegasco employees are covered by a savings plan, the terms of which are somewhat similar to the NorAm Savings Plan. Employer contributions related to the NorAm and Minnegasco Savings Plan of $3.7 million have been expensed since the Acquisition Date.

(d) Postretirement Benefits.

The Company and NorAm record the liability for post-retirement benefit plans other than pensions (primarily health care) under SFAS No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions" (SFAS No. 106). The Company is amortizing over a 22 year period approximately $213 million to cover the "transition cost" of adopting SFAS No. 106 (i.e., the Company's liability for postretirement benefits payable with respect to employee service years accrued prior to the adoption of SFAS No. 106). The unrecognized transitional asset and net (gain) loss related to the NorAm plans were recognized at the Acquisition Date.

As provided in the Rate Case Settlement, the Company is required to fund during each year in an irrevocable external trust approximately $22 million of postretirement benefit costs which are included in Electric Operations' rates. In December 1995, the Company 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 Electric Operations' rates (which included the Company'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, the Company funded postretirement benefits costs on a monthly basis for the amount included in Electric Operations' rates. Minnegasco is required to fund postretirement benefit costs for the amount included in its rates. The Company and NorAm, excluding Electric Operations and Minnegasco, will continue funding their postretirement benefits on a pay-as-you-go basis. The net postretirement benefit cost for the Company and its subsidiaries includes the following components:

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(THOUSANDS OF DOLLARS)		
Service cost -- benefits earned during the period.....	$ 8,927	$ 8,242	$ 9,093
Interest cost on accumulated benefit obligation.....	14,176	12,265	11,143
Actual return on plan assets.....	(5,063)	(2,342)	
Net amortization and deferrals.....	4,732	5,983	6,061
Net postretirement benefit cost.....	$22,772	$24,148	$26,297

The funded status of the Company's and its subsidiaries' postretirement benefit costs were as follows:

	DECEMBER 31,	
	1997	1996
	(THOUSANDS OF DOLLARS)	
Accumulated benefit obligation:		
Retirees	$ 220,436	$ 107,642
Fully eligible active plan participants	22,150	16,340
Other active plan participants	26,945	26,090
Total	269,531	150,072
Plan assets at fair market value	56,340	38,493
Assets (less than) accumulated benefit obligation	(213,191)	(111,579)
Unrecognized transitional obligation	155,107	173,954
Unrecognized net gain	(96,463)	(99,417)
(Accrued) postretirement benefit cost	$(154,547)	$ (37,042)

The assumed health care cost trend rates used in measuring the accumulated postretirement benefit obligation in 1997 are as follows:

Medical -- under 65	6.6%
Medical -- 65 and over	7.3%
Dental	6.0%

The assumed health care rates gradually decline to 5.4% for both medical categories and 3.7% for dental by 2001. The accumulated postretirement benefit obligation was determined using an assumed discount rate of 7.25% for 1997 and 1996.

If the healthcare cost trend rate assumptions were increased by 1%, the accumulated postretirement benefit obligation as of December 31, 1997 would be increased by approximately 8%. The annual effect of the 1% increase on the total of the service and interest costs would be an increase of approximately 11%.

The discount rate used in determining the accumulated postretirement benefit obligation for the NorAm plan was 7.25% in 1997. The cost of covered health care benefits (for those participants entitled to a defined benefit as a result of having retired prior to July 1, 1992) is assumed to increase by 8.5% per year initially and then increase at a decreasing rate to an annual and continuing increase of 4.5% by 2006. Based on these assumptions, a one percentage point increase in the assumed health care cost trend rate would increase the total of the service plus interest costs (before any deferral for regulatory reasons) and the accumulated postretirement benefit obligation related to the NorAm plan at December 31, 1997 by 9.2% and 10.8%, respectively.

(e) Postemployment Benefits.

Effective January 1, 1994, the Company 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). Net postemployment benefit costs were not material in 1997, 1996 and 1995.

(11) INCOME TAXES

The Company records income taxes under SFAS No. 109, "Accounting for Income Taxes," (SFAS No. 109) 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,		
	1997	1996	1995
	(THOUSANDS OF DOLLARS)		
Current	$199,011	$150,658	$141,076
Deferred	7,363	49,507	58,479
Income taxes for continuing operations	$206,374	$200,165	$199,555

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

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(THOUSANDS OF DOLLARS)		
Income from continuing operations before income taxes	$627,484	$605,109	$596,955
Preferred dividends of subsidiary	2,255	22,563	29,955
Total	629,739	627,672	626,910
Statutory rate	35%	35%	35%
Income taxes at statutory rate	220,409	219,685	219,419
Net reduction (addition) in taxes resulting from:			
Amortization of investment tax credit	19,777	18,404	19,427
Excess deferred taxes	5,570	4,331	4,384
Difference between book and tax depreciation for which deferred taxes have not been normalized	(27,466)	(22,638)	(15,211)
Equity dividend exclusion	5,075	10,194	4,932
Equity income -- foreign affiliates	17,011	5,936	
Goodwill	(7,242)		
Other -- net	1,310	3,293	6,332
Total	14,035	19,520	19,864
Income taxes	$206,374	$200,165	$199,555
Effective rate	32.8%	31.9%	31.8%

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

	DECEMBER 31,	
	1997	1996
	(THOUSANDS OF DOLLARS)	
Deferred Tax Assets:		
Alternative minimum tax credit carryforwards	$ 60,669	$ 19,014
Employee benefits	145,794	68,078
Internal Revenue Service (IRS) audit assessment		74,966
Disallowed plant cost -- net	22,378	23,237
ACES	42,491	
State operating loss carryforwards	29,515	
Deferred state income taxes	14,460	
Other	69,235	26,061
Valuation allowance	(6,353)	
Total deferred tax assets -- net	378,189	211,356
Deferred Tax Liabilities:		
Depreciation	2,115,717	1,450,894
Deferred plant costs -- net	186,472	194,243
Regulatory assets -- net	356,509	362,310
Capitalized taxes, employee benefits and removal costs	46,584	108,530
Gain on sale of cable television subsidiary	222,942	228,449
Deferred state income taxes	70,000	
Deferred gas costs	34,113	
Other	138,633	131,961
Total deferred tax liabilities	3,170,970	2,476,387
Accumulated deferred income taxes -- net	$2,792,781	$2,265,031

Tax Refund Case. In July 1990, Former HI paid approximately $104.5 million to the Internal Revenue Service (IRS) following an IRS audit of Former HI's 1983 and 1984 federal income tax returns. In November 1991, Former HI 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 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 the Company had an obligation to refund the over-recoveries to its ratepayers.

In September 1997, the United States Court of Appeals for the Federal Circuit upheld a lower court ruling that the Company (as successor corporation to Former HI) was due a refund of federal income taxes assessed on fuel over-recoveries during 1983 and 1984 that subsequently were refunded to HL&P's customers.

In February 1998, the Company received a refund of approximately $142 million in taxes and interest paid by Former HI in July 1990, including interest accrued since 1990 in the amount of approximately $57 million. After giving effect to the Company's deferred recognition of the 1990 tax payment and payment of federal income taxes due on the accrued interest on the refund, the refund had the effect of increasing the Company's earnings in the fourth quarter of 1997 by $37 million (after-tax).

Tax Attribute Carryforwards. At December 31, 1997, NorAm has approximately $439 million of state net operating losses available to offset future state taxable income through the year 2012. Based on the Company's assessment of its ability to use such loss carryforwards in future tax years, a valuation allowance of

$6.4 million was recorded at the Acquisition Date. In addition, NorAm has approximately $58 million of federal alternative minimum tax credits which are available to reduce future federal income taxes payable, if any, over an indefinite period (although not below the tentative minimum tax otherwise due in any year), and approximately $2.6 million of state alternative minimum tax credits which are available to reduce future state income taxes payable, if any, through the year 2001.

(12) COMMITMENTS AND CONTINGENCIES

(a) Commitments.

The Company has various commitments for capital expenditures, fuel, purchased power, cooling water and operating leases. Commitments in connection with Electric Operations' capital program are generally revocable by the Company, subject to reimbursement to manufacturers for expenditures incurred or other cancellation penalties. The Company's and its subsidiaries' 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.

The Company 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 $200 million in 1998, $203 million in 1999 and $177 million in 2000. Additionally, minimum payment obligations for lignite mining and lease agreements are approximately $9 million for 1998, $9 million for 1999 and $10 million for 2000. Minimum payment obligations for both natural gas purchase and storage contracts associated with Electric Operations are approximately $9 million annually in 1998, 1999 and 2000.

The Company also has commitments to purchase firm capacity from cogenerators of approximately $22 million in both 1998 and 1999. Texas Utility Commission rules currently allow recovery of these costs through Electric Operations' base rates for electric service and additionally authorize the Company 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 Texas 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 the Company to suspend or reduce payments and seek repayment for amounts disallowed.

(c) Operations Agreement with City of San Antonio.

As part of the settlement with the City of San Antonio, the Company entered into a 10-year joint operations agreement under which the Company and the City of San Antonio, acting through the City Public Service Board of San Antonio (CPS), 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 Electric Operations, the Company has guaranteed CPS minimum annual savings of $10 million and a minimum cumulative savings of $150 million over the 10-year term of the agreement. Based on current forecasts and other assumptions regarding the combined operation of the two generating systems, the Company 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. In 1997, savings generated for CPS' account for a full year of operation were approximately $22 million.

(d) Transportation Agreement.

NorAm had an agreement (the ANR Agreement) with ANR Pipeline Company (ANR) which contemplated a transfer to ANR of an interest in certain of NorAm's pipeline and related assets, representing

capacity of 250 Mmcf/day, and pursuant to which ANR had advanced $125 million to the Company. The ANR Agreement has been restructured and, after refunds of $84 million through December 31, 1997, NorAm currently retains $41 million (recorded as a liability) in exchange for ANR's or its affiliates' use of 130 Mmcf/ day of capacity in certain of NorAm's transportation facilities. The level of transportation will decline to 100 Mmcf/day in the year 2003 with a refund of $5 million to ANR and the ANR Agreement will terminate in 2005 with a refund of the remaining balance.

(e) Lease Commitments.

The following table sets forth certain information concerning NorAm's obligations under operating leases:

Minimum Lease Commitments at December 31, 1997(1)

	(MILLIONS OF DOLLARS)
1998	$ 24
1999	19
2000	16
2001	15
2002	9
2003 and beyond	22
Total	$105

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(1) Principally consisting of rental agreements for building space and data processing equipment and vehicles (including major work equipment).

NorAm has a master leasing agreement which provides for the lease of vehicles, construction equipment, office furniture, data processing equipment and other property. For accounting purposes, the lease is treated as an operating lease. At December 31, 1997, NorAm had leased assets with a value of approximately $58.1 million under this lease with a basic term of one year. NorAm does not expect to lease additional property under this lease agreement.

Lease payments related to NorAm's master leasing agreement are included in the preceding table for only their basic term. Total rental expense for all leases since the Acquisition Date was approximately $15 million in 1997.

(f) Letters of Credit.

At December 31, 1997, NorAm had letters of credit incidental with its ordinary business operations totaling approximately $42 million under which NorAm is obligated to reimburse drawings, if any.

(g) Indemnity Provisions.

At December 31, 1997, NorAm has $11.4 million accounting reserve on the Company's Consolidated Balance Sheet in Other Deferred Credits for possible indemnity claims asserted in connection with its disposition of NorAm's former subsidiaries or divisions, including the sale of (i) Louisiana Intrastate Gas Corporation, a former NorAm subsidiary engaged in the intrastate pipeline and liquids extraction business; (ii) Arkla Exploration Company, a former NorAm subsidiary engaged in oil and gas exploration and production activities; and (iii) Dyco Petroleum Company, a former NorAm subsidiary engaged in oil and gas exploration and production.

(h) Other.

Electric Operations' 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. The Company and NorAm 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. The Company's management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. The Company's management believes that the effect on the Company's and NorAm's respective financial statements, if any, from the disposition of these matters will not be material.

In February 1996, the cities of Wharton, Galveston and Pasadena filed suit, for themselves and a proposed class, against the Company and Houston Industries Finance Inc. (formerly a wholly owned subsidiary of the Company) citing underpayment of municipal franchise fees. The plaintiffs claim, among other things, that from 1957 to the present, franchise fees should have been paid on sales taxes collected by HL&P on non-electric receipts as well as electric sales. Plaintiffs advance their claims notwithstanding their failure to notice such claims 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 vigorously contesting the matter. The plaintiffs' pleadings assert that their damages exceed $250 million. No trial date is currently set. Although the Company believes the claims to be without merit, the Company cannot at this time estimate a range of possible loss, if any, from the lawsuit, nor can any assurance be given as to its ultimate outcome

The Company is a party to litigation (other than that specifically noted) which arises in the normal course of business. Management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. Management believes that the effect on the Company's financial statements, if any, from the disposition of these matters will not be material.

(13) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

	DECEMBER 31,			
	1997		1996	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(THOUSANDS OF DOLLARS)			
Financial Assets:				
Company:				
Investment in Time Warner securities.....	$ 990,000	$1,420,360	$1,027,500	$1,027,500
NorAm:				
Energy derivatives.....	9,399	13,060		
Financial Liabilities:				
Company:				
First mortgage bonds.....	2,495,459	2,651,260	2,895,041	3,045,833
Debentures.....	349,283	379,490	349,098	380,455
ACES.....	1,173,786	1,307,247	--	--
Cumulative preferred stock (subject to mandatory redemption).....	--	--	25,700	25,957
Trust preferred and capital securities.....	340,882	366,220	--	--
NorAm:				
Long-term debt.....	1,148,848	1,147,344		
Trust preferred securities.....	21,290	24,569		
Interest rate swaps.....	--	755		
HI Energy:				
Interest rate swaps.....	--	1,679	--	--

The fair values of cash and short-term investments, investment in the Company's nuclear decommissioning trust, short-term and other notes payable, floating rate debt of HI Energy, and floating rate pollution control revenue bonds are estimated to be equivalent to carrying amounts. The remaining fair values have been determined using quoted market prices of the same or similar securities when available or other estimation techniques.

(14) 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. Results of operations of the newly acquired NorAm businesses are included beginning on the Acquisition Date.

	YEAR ENDED DECEMBER 31, 1997			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)			
Revenues.....	$878,101	$1,064,448	$2,158,551	$2,772,285
Operating Income.....	156,216	247,172	462,716	198,396
Net Income.....	59,620	121,463	243,898	(4,033)
Basic Earnings (loss) per common share(a).....	.26	.52	.93	(.01)
Diluted earnings (loss) per common share(a).....	.26	.52	.93	(.01)

	YEAR ENDED DECEMBER 31, 1996			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)			
Revenues	$823,507	$1,113,763	$1,251,025	$ 906,982
Operating Income	137,139	286,280	441,069	125,978
Net income (loss)	(16,740)	145,334	240,024	36,326
Basic Earnings (loss) per common share(a)	(.07)	.58	.98	.15
Diluted earnings (loss) per common share(a)	(.07)	.58	.98	.15

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(a) 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.

(15) REPORTABLE SEGMENTS

Upon the acquisition of NorAm, the Company organized its business into the following segments: Electric Operations, Natural Gas Distribution, Interstate Pipeline, Energy Marketing, International and Corporate segments. Consistent with the purchase accounting treatment of the Merger, financial information for the Natural Gas Distribution, Interstate Pipeline and Energy Marketing segments are presented only for periods beginning on the Acquisition Date. In 1996 and 1995, the Company's Electric Operations accounted for in excess of 90% of the Company's total revenues, income and identifiable assets and as such, the required segment information for those periods is provided on the face of the Company's consolidated financial statements and in the related notes thereto. The Company has presented the following summary of financial information by business segment for 1997 and has included supplemental comparative information for 1996.

	YEAR ENDED DECEMBER 31,	
	1997(1)	1996
Revenues:		
Electric Operations	$ 4,251,243	$ 4,025,027
Natural Gas Distribution	892,569	
Interstate Pipeline	108,333	
Energy Marketing	1,604,999	
International	92,028	62,059
Corporate and Other	47,851	8,191
Eliminations	(123,638)	
Total Revenues	$ 6,873,385	$ 4,095,277
Operating Income (Loss):		
Electric Operations	$ 994,938	$ 997,147
Natural Gas Distribution	54,502	
Interstate Pipeline	31,978	
Energy Marketing	16,407	
International	19,510	2,339
Corporate and Other	(52,835)	(9,020)
Total Operating Income	1,064,500	990,466
Other income (expenses)	(13,446)	(55,412)
Interest and Other Charges	423,570	329,945
Income from Continuing Operations Before Tax	$ 627,484	$ 605,109
Depreciation and Amortization:		
Electric Operations	$ 568,541	$ 545,685
Natural Gas Distribution	51,883	
Interstate Pipeline	19,088	
Energy Marketing	4,448	
International	3,470	1,648
Corporate and Other	4,445	2,705
Total Depreciation and Amortization	$ 651,875	$ 550,038
Identifiable Assets:		
Electric Operations	$ 10,540,849	$10,596,232
Natural Gas Distribution	3,047,195	
Interstate Pipeline	3,055,610	
Energy Marketing	1,267,867	
International	869,485	607,103
Corporate and Other	12,837,302	5,771,648
Eliminations	(13,203,753)	(4,687,126)
Total Identifiable Assets	$ 18,414,555	$12,287,857
Capital Expenditures:		
Electric Operations	$ 236,977	$ 317,532
Natural Gas Distribution	61,078	
Interstate Pipeline	16,304	
Energy Marketing	14,365	
International	231,528	495,379
Corporate and Other	23,572	19,989
Total Capital Expenditures	$ 583,824	$ 832,900

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(1) New categories for segments in 1997 result from the NorAm Merger. See Note 1(b).

(16) SUBSEQUENT EVENTS

In January 1998, the MCND issued on behalf of the Company $104.7 million aggregate principal amount of pollution control revenue refunding bonds with $29.7 million at 5.25% and $75 million at 5.15%. The MCND bonds will mature in 2029. The Company used the proceeds from the sale of these securities to redeem all outstanding 7 7/8% MCND Series 1989A pollution control revenue bonds ($29.7 million) and 7.70% MCND Series 1989B pollution control revenue bonds ($75 million) at a redemption price of 102% of the aggregate principal amount of each series.

In February 1998, the BRA issued on behalf of the Company $290 million aggregate principal amount of pollution control revenue refunding bonds. The BRA bonds will mature in May 2019 ($200 million at 5 1/8%) and November 2020 ($90 million at 5 1/8%). The Company will use the proceeds from the sale of these securities to redeem all the outstanding 8.25% BRA 1988A Series pollution control revenue bonds ($100 million), the 8.25% BRA 1988B Series pollution control revenue bonds ($90 million), and the 8.10% BRA 1988C Series pollution control revenue bonds ($100 million) at a redemption price of 102% of the aggregate principal amount of each series.

In February 1998, NorAm issued $300 million principal amount of 6.5% debentures due February 1, 2008. The debentures are not redeemable prior to maturity and are not subject to any sinking fund requirements. The proceeds from the sale of the debentures were used to repay short-term indebtedness of NorAm, including the indebtedness incurred in connection with the 1997 purchase of $101 million aggregate principal amount of its 10% Debentures and the repayment of $53 million aggregate principal amount of NorAm debt that matured in December 1997 and January 1998. In connection with the issuance of the 6.5% debentures NorAm received approximately $1 million upon unwinding a $300 million treasury rate lock agreement, which was tied to the interest rate on 10-year treasury bonds. The rate lock agreement was executed in January 1998, and proceeds from the unwind will be amortized over the 10 year life of NorAm's 6.5% debentures.

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 (Company) as of December 31, 1997 and 1996, 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, 1997. Our audits also included the Company's financial statement schedule listed in Item 14(a)(3). 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 Houston Industries Incorporated and its subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 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.

DELOITTE & TOUCHE LLP

Houston, Texas
February 20, 1998

NORAM ENERGY CORP.
AND SUBSIDIARY COMPANIES

ITEM 7. MANAGEMENT'S NARRATIVE ANALYSIS OF THE RESULTS OF OPERATIONS OF NORAM ENERGY CORP. AND CONSOLIDATED SUBSIDIARIES.

The following narrative and analysis should be read in combination with NorAm's consolidated financial statements and notes (NorAm's Consolidated Financial Statements) contained in Item 8 of the Form 10-K of NorAm.

NORAM ENERGY CORP.

NorAm conducts operations primarily in the natural gas industry, including gathering, transmission, marketing, storage and distribution. Collectively, these operations accounted for in excess of 90% of NorAm's total revenues, income or loss and identifiable assets during 1997. Accordingly, NorAm is not required to report on a "segment" basis, although NorAm is organized into, and the following business description focuses on, the operating units described below. NorAm also makes sales of electricity, non-energy sales and provides certain non-energy services, primarily to retail gas distribution customers. In recognition of the manner in which NorAm manages its portfolio of businesses, NorAm has segregated its results of operations into: Natural Gas Distribution, Interstate Pipeline, Energy Marketing and Corporate.

On August 6, 1997 (Acquisition Date), NorAm became a wholly owned subsidiary of Houston Industries Incorporated (Houston Industries) in a transaction involving the merger (Merger) of NorAm Energy Corp. (Former NorAm) with and into a subsidiary of Houston Industries. For additional information regarding Houston Industries' acquisition of NorAm, see Note 1(b) to NorAm's Consolidated Financial Statements.

NorAm meets the conditions specified in General Instruction I to Form 10-K and is thereby permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies specified therein. Accordingly, NorAm has omitted from this Combined Annual Report the information called for by Item 4 (submission of matters to a vote of security holders), Item 10 (directors and executive officers), Item 11 (executive compensation), Item 12 (security ownership of certain beneficial owners and management) and Item 13 (related party transactions) of Form 10-K. In lieu of the information called for by Item 6 (selected financial data) and Item 7 (management's discussion and analysis of financial condition and results of operations) of Form 10-K, NorAm has included the following Management's Narrative Analysis of the Results of Operations to explain material changes in the amount of revenue and expense items of NorAm between 1997 and 1996. Reference is hereby made to Item 1 (business), Item 2 (properties), Item 3 (legal proceedings), Item 5 (NorAm common stock), Item 7A (market risk disclosure) and Item 9 (changes in and disagreements with accountants) of this Combined Annual Report for additional information regarding NorAm required by the reduced disclosure format of General Instruction I to Form 10-K.

CONSOLIDATED RESULTS OF OPERATIONS

Seasonality and Other Factors. NorAm's results of operations are seasonal due to seasonal fluctuations in the demand for and, to a lesser extent, the price of natural gas. NorAm's results of operations are also affected by, among other things, the actions of various federal and state governmental authorities having jurisdiction over rates charged by NorAm and its subsidiaries, competition in NorAm's various business operations, debt service costs and income tax expense. For a discussion of certain other factors that may affect NorAm's future earnings see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Competition -- Electric Operations -- Regulatory Assets"; " -- Competition -- Other Operations"; "-- Impact of the Year 2000 Issue and Other System Implementation Issues"; "-- Environmental Expenditures -- Manufactured Gas Plant Sites"; and "-- Environmental Expenditures -- Mercury Contamination" in Item 7 of Houston Industries' Form 10-K.

Accounting Impact of the Merger. The Merger created a new basis of accounting for NorAm, resulting in new carrying values for certain of NorAm's assets, liabilities and equity commencing upon the Acquisition

Date. NorAm's financial statements for periods subsequent to the Acquisition Date are not comparable to prior periods because of the following purchase accounting adjustments:

1. The impact ($21.6 million) of the amortization of newly-recognized goodwill;

2. The amortization (to interest expense) of the revaluation of long-term debt ($9.8 million);

3. The removal of the amortization (to operating expense) previously associated with the pension and post-retirement obligations ($2.1 million); and

4. The deferred income tax expense ($4.9 million) associated with these adjustments.

Interest expense and related debt incurred by Houston Industries to fund the cash portion of the purchase consideration has not been pushed down to NorAm and its subsidiaries.

Because results of operations and other financial information for periods before and after the Acquisition Date are not comparable, NorAm is presenting certain financial data on: (i) an actual basis for NorAm for 1997 and 1996 and (ii) a pro forma basis for 1997 and 1996 as if the Merger had taken place at the beginning of each period presented. These results do not necessarily reflect the results which would have been obtained if the Merger had actually occurred on the dates indicated or the results that may be expected in the future.

1997 Compared to 1996 (Pro Forma). NorAm had pro forma operating revenues of $5.9 billion in 1997 compared to $4.8 billion in 1996. Pro forma operating expenses for 1997 were $5.6 billion compared to $4.5 billion for 1996. Pro forma operating income for 1997 decreased $59.0 million (19%) in comparison to 1996 (before a one time charge of $22.3 million for early retirement and severance in 1996). This decrease is principally the result of (i) hedging-related losses of approximately $17.4 million incurred in the first quarter of 1997 (prior to the Merger) by a subsidiary of NorAm, (ii) a weather-related decline in sales volumes of approximately $18.0 million from Natural Gas Distribution, and (iii) increased administrative and general expense of approximately $10.0 million associated with increased staffing and marketing in connection with increasing the scope of energy marketing activities. For a more detailed comparative discussion regarding pro forma operating revenue and expense items, see "Results of Operations By Business Unit" below.

1997 Compared to 1996 (Actual). NorAm had actual operating revenues of $5.9 billion in 1997 compared to $4.8 billion in 1996. Actual operating expenses for 1997 were $5.6 billion compared to $4.5 billion for 1996. The increase in operating revenues and expenses was caused primarily by increases in trading activities in NorAm's Energy Marketing business unit. The decrease in operating income was caused by the same factors referenced in the discussion of pro forma operating income.

During the first quarter of 1996, NorAm instituted a reorganization plan affecting its NorAm Gas Transmission Company (NGT) and Mississippi River Transmission Corporation (MRT) subsidiaries, pursuant to which a total of approximately 275 positions were eliminated, resulting in expense for severance payments and enhanced retirement benefits. Also during the first quarter of 1996, (1) NorAm's Entex division instituted an early retirement program which was accepted by approximately 100 employees and (2) NorAm's Minnegasco division reorganized certain functions, resulting in the elimination of approximately 25 positions. Collectively, these programs resulted in a non-recurring pre-tax charge of approximately $22.3 million (approximately $13.4 million after tax), which pre-tax amount is reported in the accompanying Statements of Consolidated Income as "Early retirement and severance".

The following table sets forth selected financial and operating data on an actual and pro forma basis for the year ended December 31, 1997 and 1996, followed by a discussion of significant variances in period-to-period results:

SELECTED FINANCIAL RESULTS:

	ACTUAL(1) YEAR ENDED DECEMBER 31,		PRO FORMA(2) YEAR ENDED DECEMBER 31,		
	1997	1996	1997	1996	% CHANGE
	UNAUDITED (THOUSANDS OF DOLLARS)				
Operating Revenues:					
Natural Gas Distribution	$2,202,301	$2,113,589	$2,202,301	$2,113,589	4%
Interstate Pipeline	295,044	346,762	295,044	346,762	(15%)
Energy Marketing	3,589,118	2,645,106	3,589,118	2,645,106	36%
Corporate and Other	81,694	55,403	81,694	55,403	47%
Elimination of Inter-unit Revenues(5)	(309,767)	(372,398)	(309,767)	(372,398)	(17%)
	5,858,390	4,788,462	5,858,390	4,788,462	(22%)
Operating Income (loss):					
Natural Gas Distribution	166,435	183,972	152,463	160,020	(5%)
Interstate Pipeline	108,708	124,417	99,927	109,362	(9%)
Energy Marketing	19,288	55,693	15,295	48,848	(69%)
Corporate and Other	(30,235)	(27,272)	(22,613)	(14,204)	59%
	264,196	336,810	245,072	304,026	(19%)
Merger Transaction Costs(3)	18,400				
Early Retirement and Severance(4)		22,344		22,344	(100%)
Consolidated	245,796	314,466	245,072	281,682	(13%)
Interest Expense, Net	126,150	132,557	112,482	109,128	3%
Distributions on Subsidiary Trust Securities	6,596	5,842	1,479	1,110	33%
Other (Income) and Deductions	(9,453)	14,577	(9,453)	14,577	(165%)
Income Tax Expense	55,781	66,352	72,261	79,973	(10%)
Extraordinary (Gain) Loss, Less Taxes	(237)	4,280	--	--	--
Net Income	$ 66,959	$ 90,858	$ 68,303	$ 76,894	(11%)

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(1) Actual results for 1997 combine Former NorAm's results for the seven months ended July 31, 1997 with Current NorAm's results for the five months ended December 31, 1997.

(2) Pro forma results reflect purchase accounting adjustments as if the Merger had occurred on January 1, 1996 and 1997, as applicable. Adjustments for goodwill have been allocated to the respective business units.

(3) For expenses associated with the completion of the business combination with Houston Industries, see Note 1(o) to NorAm's Financial Statements.

(4) Expenses associated with an early retirement and severance plan, see Note 1(n) to NorAm's Financial Statements.

(5) Elimination of operating revenues derived from sales to affiliated business units.

RESULTS OF OPERATIONS BY BUSINESS UNIT

NATURAL GAS DISTRIBUTION

NorAm's domestic natural gas distribution operations (Natural Gas Distribution) are conducted through its Arkla, Entex and Minnegasco divisions. These operations consist of natural gas sales to, and natural gas transportation for, residential, commercial and certain industrial customers in six states: Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas.

The following table provides summary data regarding the unaudited pro forma financial results of operations of Natural Gas Distribution, including operating statistics, for 1997 and 1996.

	UNAUDITED PRO FORMA YEAR ENDED DECEMBER 31,		
	1997	1996	PERCENT CHANGE
	($ IN MILLIONS)		
Operating Revenues	$2,202	$2,113	4%
Operating Expenses:			
Natural Gas	1,441	1,348	7%
Operation and Maintenance	247	250	(1%)
Depreciation and Amortization	123	120	3%
Other Operating Expenses(1)	238	235	1%
Total Operating Expenses	2,049	1,953	5%
Operating Income	$ 153	$ 160	(4%)
Throughput Data (in Bcf):			
Residential and Commercial Sales	326	333	(2%)
Industrial Sales	59	58	2%
Transportation	42	42	--
Total Throughput	427	433	(1%)

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(1) Before a $6 million one-time charge incurred in 1996 for early retirement and severance costs.

1997 Compared to 1996 (Pro Forma). The increase of approximately $89 million (4%) in pro forma Natural Gas Distribution operating revenue for the year ended December 31, 1997 in comparison to the corresponding period of 1996 is principally due to the increase in purchased gas costs.

Pro forma operating income was $153 million in 1997 compared with $160 million (before a one-time charge of $6 million for early retirement and severance) in 1996. The decrease of approximately $7 million (4%) in 1997 pro forma operating income was principally due to decreased Minnegasco customer usage due to warmer weather and customer conservation, decreased Arkla customer usage due to warmer weather (primarily in the first quarter of 1997) and Arkla's charges associated with the applicable state regulatory commission's methodology of calculating the price of gas charged to customers (the purchased gas adjustment) primarily in Louisiana. Partially offsetting the decrease is an increase in Minnegasco's performance based rate incentive recoveries and customer growth and increased revenues from Entex due to rate relief granted in 1996 and fully reflected in 1997.

The $93 million (7%) increase in gas purchased costs in 1997 compared to 1996 primarily reflects the increase in Natural Gas Distribution's average cost of gas in 1997 (consistent with the overall increase in the market price of gas) along with the purchased gas adjustment described above.

INTERSTATE PIPELINE

NorAm's interstate natural gas pipeline operations (Interstate Pipeline) are conducted through NorAm Gas Transmission Company (NGT) and Mississippi River Transmission Corporation (MRT), two wholly

owned subsidiaries of NorAm. The NGT system consists of approximately 6,200 miles of natural gas transmission lines located in portions of Arkansas, Kansas, Louisiana, Mississippi, Missouri, Oklahoma, Tennessee and Texas. The MRT system consists of approximately 2,000 miles of pipeline serving principally the greater St. Louis area in Missouri and Illinois.

The following table provides summary data regarding the unaudited pro forma results of operations of Interstate Pipeline including operating statistics for 1997 and 1996.

	UNAUDITED PRO FORMA YEAR ENDED DECEMBER 31,		PERCENT
	1997	1996	CHANGE
	($ IN MILLIONS)		
Operating Revenues	$295	$347	(15%)
Operating Expenses:			
Natural Gas	42	76	(45%)
Operation and Maintenance	45	49	(8%)
Depreciation and Amortization	46	45	2%
Other Operating Expenses(1)	62	68	(9%)
Total Operating Expenses	195	238	(18%)
Operating Income	$100	$109	(9%)
Throughput Data (in million MMBtu):			
Natural Gas Sales	18	33	(45%)
Transportation	911	952	(4%)
Elimination(2)	(17)	(31)	45%
Total Throughput	912	954	(4%)

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(1) Before a $17 million one-time charge incurred in 1996 for early retirement and severance costs.

(2) Elimination of volumes both transported and sold.

1997 Compared to 1996 (Pro Forma). Pro forma operating revenues for Interstate Pipeline decreased by $52 million (15%) for the year ended December 31, 1997 in comparison to the corresponding period of 1996. The decrease in revenues primarily reflects a decline in natural gas sales revenue resulting from the expiration in 1996 of an unbundled natural gas sales contract between Interstate Pipeline and Arkla. Natural gas sales to Natural Gas Distribution were $60 million in 1996 and none in 1997. It is anticipated that substantially all future revenues for Interstate Pipeline will be from natural gas transportation only.

Pro forma operating income was $100 million in 1997 compared to $109 million (before a one-time charge of $17 million for early retirement and severance) in 1996. This decrease of approximately $9 million (9%) in Interstate Pipeline's pro forma operating income between 1997 and 1996 results primarily from three factors: (i) a 6% decrease in transportation revenues, (ii) a 43% decrease in natural gas sales revenue (as described above) and (iii) lower demand for natural gas transportation as a result of lower natural gas consumption (primarily weather-related) in the eastern markets served by Interstate Pipeline. These factors were offset partially by an approximately 18% decline in operating expenses primarily due to decreases in gas purchased.

The decline in transportation revenues are largely attributable to price differentials between the average spot price for Mid-continent natural gas (Interstate Pipeline's primary supply area) and Gulf Coast natural gas in 1997. When prices of Gulf Coast gas decrease significantly relative to Mid-continent gas, downward pressure on transportation prices occurs when selling in west to east markets like those of NGT. This competitive pressure, in turn, results in a decline in average transportation rates under contracts that contain market-sensitive pricing provisions.

The $34 million (45%) decrease in gas purchased costs in 1997 compared to 1996 is largely attributable to the expiration of long-term supply contracts entered into prior to unbundling, as discussed above. Other operating expenses decreased $4 million (9%) in 1997 compared to 1996 primarily due to the elimination of non-recurring costs combined with cost reductions related to the 1996 early retirement and severance program and reductions in costs allocated from NorAm.

During 1997, Interstate Pipeline's largest unaffiliated customer was a natural gas utility that serves the greater St. Louis metropolitan area. Revenues from this customer are generated pursuant to several long-term firm transportation and storage contracts that currently are scheduled to expire at various dates between October 1999 and May 2000. Interstate Pipeline is currently negotiating with the natural gas utility to renew these agreements.

ENERGY MARKETING

NorAm's energy marketing and gathering business (Energy Marketing) includes the operations of NorAm's wholesale and retail energy marketing businesses and natural gas gathering activities (conducted, respectively, by NorAm Energy Services, Inc. (NES), NorAm Energy Management, Inc., and NorAm Field Services Corp., three wholly owned subsidiaries of NorAm).

The following table provides summary data regarding the unaudited pro forma results of operations of Energy Marketing, including operating statistics for 1997 and 1996.

	UNAUDITED PRO FORMA YEAR ENDED DECEMBER 31		
	1997	1996	PERCENT CHANGE
	(IN MILLIONS)		
Operating Revenues	$3,589	$2,645	36%
Operating Expenses:			
Natural Gas and Purchased Power, net	3,477	2,489	40%
Operation and Maintenance	46	68	(32%)
Depreciation and Amortization	11	10	10%
Other Operating Expenses	40	29	38%
Total Operating Expenses	3,574	2,596	38%
Operating Income	$ 15	$ 49	(69%)
Operations Data:			
Natural Gas (in Bcf):			
Sales	1,185	1,076	10%
Transportation	24	26	(8%)
Gathering	242	231	5%
Total	1,451	1,333	9%
Electricity:			
Wholesale Power Sales (in thousand MWH)	24,997	2,776	800%

1997 Compared to 1996 (Pro Forma). Pro forma operating revenues for Energy Marketing increased by $944 million (36%) for 1997 in comparison to 1996 due to increased natural gas and electricity trading volumes. Increased volumes in 1997 had minimal effect on operating income due to low operating margins in both periods.

Pro forma operating income for 1997 was $15 million compared to $49 million in 1996. This decrease of approximately $34 million (69%) was primarily attributed to: (i) hedging losses associated with anticipated first quarter 1997 sales under peaking contracts and (ii) losses from the sale of natural gas held in storage and unhedged in the first quarter of 1997 totaling $17 million. In addition, other operating expenses increased

$11 million largely due to increased staffing and marketing activities made in support of the increased sales and expanded marketing efforts. Partially offsetting these unfavorable impacts were increased margins from natural gas gathering activities.

Natural gas and purchased power expense increased $988 million (40%) in 1997 compared to 1996 primarily due to increased gas and electricity marketing activities but also included hedging losses and losses from the sale of natural gas, as discussed above.

To minimize fluctuations in the price of natural gas and transportation, NorAm, primarily through NES, enters into futures transactions, swaps and options in order to hedge against market price changes affecting (i) certain commitments to buy, sell and transport natural gas, (ii) existing gas storage inventory and (iii) certain anticipated transactions, some of which carry off-balance sheet risk. NES also enters into natural gas derivatives for trading purposes and electricity derivatives for hedging and trading purposes. For a discussion about NorAm's accounting treatment of derivative instruments, see Note 2 to NorAm's Consolidated Financial Statements and Quantitative and Qualitative Disclosure About Market Risk in Item 7A of this report.

NorAm believes that NES' energy marketing and risk management services have the potential of complementing Houston Industries' strategy of developing and/or acquiring unregulated generation assets in other markets. As a result, NorAm has made, and expects to continue to make, significant investments in developing NES' internal software, trading and personnel resources.

CORPORATE

NorAm's corporate and other business (Corporate) includes the operations of NorAm's unregulated retail services business, international operations, certain real estate investments, corporate costs, and elimination of transactions between affiliated business units.

While pro forma operating revenues for Corporate increased $26.3 million (47%) from 1996 to 1997, pro forma operating loss increased by $8.4 million (59%). The increased revenues and operating loss were principally due to 1997 increased activities and development costs associated with NorAm's utility services and consumer services businesses.

NON-OPERATING INCOME AND EXPENSE

The $3.4 million increase in Interest Expense, Net on a pro forma basis for the year ended December 31, 1997 in comparison to the corresponding period of 1996 reflects the impact of the inclusion in 1997 results of $15 million of expense associated with NorAm's receivables facility, for which the corresponding costs in 1996 ($10 million) are included with Other (Income) and Deductions; see Note 4(a) to NorAm's Consolidated Financial Statements. Apart from the impact of this reclassification, the $11.3 million decrease in interest expense in 1997 reflected $5.4 million and $5.9 million of reduction due to a decrease in the average interest rate and a decrease in the average level of debt, respectively.

After adjusting for the costs associated with NorAm's receivables facility as described above, there was a favorable variance of $14 million in other (income) and deductions on a pro forma basis from the year ended December 31, 1996 to the corresponding period of 1997. A portion of this favorable variance was due to the close-out of certain interest rate swaps; see Note 4(b) to NorAm's Consolidated Financial Statements.

The net favorable variance of $7.7 million in pro forma income tax expense from the year ended December 31, 1996 to the corresponding period of 1997 is primarily due to decreased 1997 pre-tax income.

Reference is made to Note 4 of NorAm's Consolidated Financial Statements for a discussion of NorAm's short and long-term debt.

NEW ACCOUNTING ISSUES

Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- New Accounting Issues" in Item 7 of the Form 10-K of Houston Industries, which has been jointly filed with the NorAm Form 10-K, for a discussion of certain new accounting issues.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA OF NORAM.

NORAM ENERGY CORP. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME
(THOUSANDS OF DOLLARS)

	CURRENT NORAM	FORMER NORAM		
	FIVE MONTHS ENDED DECEMBER 31, 1997	SEVEN MONTHS ENDED JULY 31, 1997	TWELVE MONTHS ENDED DECEMBER 31, 1996	TWELVE MONTHS ENDED DECEMBER 31, 1995
Operating Revenues	$2,521,342	$3,337,048	$4,788,462	$2,964,679
Operating Expenses				
Natural gas and purchased power, net	2,041,504	2,636,340	3,571,411	1,857,166
Operation and maintenance	259,315	370,369	621,279	564,790
Depreciation and amortization	78,207	84,901	142,362	147,109
Taxes other than income taxes	50,416	73,142	116,600	108,309
Merger transaction costs	1,144	17,256	--	--
Early retirement and severance	--	--	22,344	--
	2,430,586	3,182,008	4,473,996	2,677,374
Operating Income	90,756	155,040	314,466	287,305
Other (Income) and Deductions				
Interest expense, net	47,490	78,660	132,557	157,959
Dividend requirement on preferred securities of subsidiary trust	279	6,317	5,842	--
Other, net	(2,243)	(7,210)	3,078	(1,333)
Loss on sale of accounts receivable	--	--	11,499	9,771
	45,526	77,767	152,976	166,397
Income Before Income Taxes	45,230	77,273	161,490	120,908
Income Tax Expense	24,383	31,398	66,352	55,379
Income Before Extraordinary Item	20,847	45,875	95,138	65,529
Extraordinary gain(loss) on early retirement of debt, less taxes	--	237	(4,280)	(52)
Net Income	20,847	46,112	90,858	65,477
Preferred dividend requirement	--	--	3,597	7,800
Earnings Available to Common Stock	$ 20,847	$ 46,112	$ 87,261	$ 57,677

See Notes to NorAm's Consolidated Financial Statements.

NORAM ENERGY CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(DOLLARS IN THOUSANDS)

	COMMON STOCK(1)		PREFERRED STOCK(2)		PAID-IN	RETAINED EARNINGS	UNREALIZED INVESTMENT GAIN (LOSS) NET OF TAX	TOTAL
	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL	(DEFICIT)		
FORMER NORAM:								
Balance at January 1, 1995	122,530,248	$ 76,581	2,600,000	$ 130,000	$ 868,289	$(360,079)	$ 2,586	$ 717,377
Net Income						65,477		65,477
Cash Dividends:								
Preferred stock -- $3.00 per share						(7,800)		(7,800)
Common stock -- $0.28 per share						(34,538)		(34,538)
Change in Market Value of Marketable Equity Securities, net of tax							12,730	12,730
Issuance of Common stock under Direct Stock Purchase Plan	1,610,148	1,006			8,795			9,801
Other Issuances	663,297	415			3,801			4,216
Balance at December 31, 1995	124,803,693	78,002	2,600,000	130,000	880,885	(336,940)	15,316	767,263
Net Income						90,858		90,858
Cash Dividends:								
Preferred stock -- $1.50 per share						(3,900)		(3,900)
Common stock -- $0.28 per share						(36,721)		(36,721)
Change in Market Value of Marketable Equity Securities, net of tax							(15,311)	(15,311)
Conversion to Subordinated Debentures			(2,600,000)	(130,000)				(130,000)
Issuance of Common Stock under Direct Stock Purchase Plan	937,193	586			9,668			10,254
Public Issuance of Common Stock	11,500,000	7,188			101,775			108,963
Other Issuances	667,287	417			8,725			9,142
Balance at December 31, 1996	137,908,173	86,193	--	--	1,001,053	(286,703)	5	800,548
Net Income						46,112		46,112
Cash Dividends:								
Common stock -- $0.14 per share						(19,281)		(19,281)
Change in Market Value of Marketable Equity Securities, net of tax							5,874	5,874
Conversion of NorAm-Obligated Mandatorily Redeemable Convertible Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debentures of NorAm to Common Stock	11,428,262	7,143			131,425			138,568
Other Issuances	347,527	216			5,796			6,012
Balance at July 31, 1997	149,683,962	93,552	--	--	1,138,274	(259,872)	5,879	977,833
CURRENT NORAM (POST MERGER):								
Adjustments due to Merger: Eliminate Former NorAm Balances	(149,683,962)	(93,552)			(1,138,274)	259,872	(5,879)	(977,833)
Capital contribution from Parent	1,000	1			2,463,831			2,463,832
Net Income						20,847		20,847
Change in Market Value of Marketable Equity Securities, net of tax							(5,634)	(5,634)
Balance at December 31, 1997	1,000	$ 1	--	$ --	$ 2,463,831	$ 20,847	$(5,634)	$2,479,045

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(1) $.625 par, authorized 250,000,000 shares. On the Acquisition Date, NorAm's pre-merger common stock was canceled and replaced with 1,000 shares of common stock (all of which are owned by Houston Industries); see Note 1(b).

(2) $3.00 Convertible exchangeable preferred stock, Series A ($50 liquidation preference), cumulative, non-voting; authorized 10,000,000 shares. On the Acquisition Date, NorAm's pre-merger preferred stock was canceled.

See Notes to NorAm's Consolidated Financial Statements.

NORAM ENERGY CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)

ASSETS

	CURRENT NORAM DECEMBER 31, 1997	FORMER NORAM DECEMBER 31, 1996
Property, Plant and Equipment		
Natural gas distribution	$1,326,442	$2,158,013
Interstate pipeline	1,258,087	1,685,959
Energy marketing	162,519	252,509
Other	14,972	20,150
Total	2,762,020	4,116,631
Less accumulated depreciation and amortization	59,531	1,675,576
Property, plant and equipment -- net	2,702,489	2,441,055
Current Assets		
Cash and cash equivalents	35,682	27,981
Accounts and notes receivable, principally customer	969,248	696,982
Accounts receivable from parent	10,161	
Deferred income taxes	8,309	10,495
Gas in underground storage	63,702	70,651
Materials and supplies	29,611	30,595
Gas purchased in advance of delivery	6,200	6,200
Other current assets	24,386	15,423
Total current assets	1,147,299	858,327
Other Assets		
Goodwill, net	2,026,395	466,938
Prepaid pension asset	92,064	45,390
Investment in marketable equity securities	27,046	26,670
Regulatory asset for environmental costs	21,745	39,152
Gas purchased in advance of delivery	29,048	34,895
Deferred debits, net	23,954	32,200
Total other assets	2,220,252	645,245
Deferred Charges, net	69,056	72,850
Total Assets	$6,139,096	$4,017,477

See Notes to NorAm's Consolidated Financial Statements

NORAM ENERGY CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS -- (CONTINUED)
(THOUSANDS OF DOLLARS)

LIABILITIES AND STOCKHOLDERS' EQUITY

	CURRENT NORAM DECEMBER 31, 1997	FORMER NORAM DECEMBER 31, 1996
Stockholders' Equity:		
Common stock	$ 1	$ 86,193
Paid-in capital	2,463,831	1,001,053
Retained earnings (deficit)	20,847	(286,703)
Unrealized gain (loss) on marketable equity securities, net of tax	(5,634)	5
Total	2,479,045	800,548
NorAm-Obligated Mandatorily Redeemable Convertible Preferred Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of NorAm, net	21,290	167,768
Long-Term Debt, less Current Maturities	916,703	1,054,221
Current Liabilities:		
Current maturities of long-term debt	232,145	277,000
Notes payable to banks	390,000	115,000
Notes payable to parent	22,100	
Receivables facility	300,000	
Accounts payable, principally trade	668,269	762,164
Income taxes payable		11,684
Interest payable	27,273	31,928
General taxes	41,315	51,082
Customer deposits	36,626	35,711
Other current liabilities	133,278	113,628
Total current liabilities	1,851,006	1,398,197
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	483,039	320,506
Estimated environmental remediation costs	21,745	39,152
Payable under capacity lease agreement	41,000	41,000
Benefit liabilities	182,687	90,544
Estimated obligations under indemnification provisions of sale agreements	11,391	29,098
Refundable excess deferred income taxes	13,569	17,946
Other	117,621	58,497
Total	871,052	596,743
Commitments and Contingencies (Note 8)		
Total Liabilities and Stockholders' Equity	$6,139,096	$4,017,477

See Notes to NorAm's Consolidated Financial Statements

NORAM ENERGY CORP. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
(THOUSANDS OF DOLLARS)

	CURRENT NORAM	FORMER NORAM		
	FIVE MONTHS ENDED DECEMBER 31, 1997	SEVEN MONTHS ENDED JULY 31, 1997	TWELVE MONTHS ENDED DECEMBER 31, 1996	TWELVE MONTHS ENDED DECEMBER 31, 1995
Cash Flows from Operating Activities:				
Net income	$ 20,847	$ 46,112	$ 90,858	$ 65,477
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	78,207	84,901	142,362	147,109
Deferred income taxes	36,770	14,589	28,809	34,883
Early retirement and severance, less cash costs			12,941	
Extraordinary (gain)loss, less taxes		(237)	4,280	52
Utilization of tax loss carryforwards			(2,405)	(19,797)
Changes in other assets and liabilities, net of the effects of the acquisition:				
Accounts and notes receivable-net	(361,285)	313,586	(353,703)	(119,933)
Inventories	(2,250)	9,980	(14,895)	25,112
Deferred gas costs	8,655	(7,715)	12,788	(19,831)
Other current assets	(1,298)	(1,128)	10,935	10,661
Accounts payable	148,071	(224,590)	266,446	162,595
Interest and taxes accrued	(13,402)	(19,996)	4,712	19,597
Other current liabilities	42,284	(22,633)	10,483	5,151
Recoveries under gas contract disputes	2,600	5,500	10,900	24,200
Other-net	10,557	903	3,642	3,633
Net cash provided by (used in) operating activities	(30,244)	199,272	228,153	338,909
Cash Flows from Investing Activities:				
Purchase of Former NorAm, net of cash acquired	(1,422,672)			
Capital expenditures	(93,414)	(88,638)	(172,200)	(173,600)
Cash surrender value of life insurance				12,276
Other, net	(1,079)	(6,424)	(4,957)	(4,403)
Net cash used in investing activities	(1,517,165)	(95,062)	(177,157)	(165,727)

(continued on next page)

NORAM ENERGY CORP. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
(THOUSANDS OF DOLLARS)
(CONTINUED)

	CURRENT NORAM	FORMER NORAM		
	FIVE MONTHS ENDED DECEMBER 31, 1997	SEVEN MONTHS ENDED JULY 31, 1997	TWELVE MONTHS ENDED DECEMBER 31, 1996	TWELVE MONTHS ENDED DECEMBER 31, 1995
Cash Flows from Financing Activities:				
Cash portion of capital contribution from Houston Industries	$1,426,067			
Proceeds from issuance of 7 1/2% notes				$ 200,000
Retirements and reacquisitions of long-term debt	(165,808)	$(230,667)	$(396,733)	(335,352)
Proceeds from bank term loan		150,000		150,000
Public issuance of common stock			108,963	
Public issuance of convertible preferred securities by subsidiary trust			167,756	
Other debt borrowings (repayments)	317,500	(42,500)	105,000	(100,000)
Return of advance received under contingent sales agreement				(50,000)
Increase in receivables facility	24,000	41,000		
Issuance of common stock under direct stock purchase plan, net			10,254	9,801
Common and preferred stock dividends		(19,281)	(40,621)	(42,338)
Redemption of convertible securities	(9,504)			
Increase (decrease) in overdrafts	(9,164)	(27,348)	9,055	(9,614)
Net cash provided by (used in) financing activities	1,583,091	(128,796)	(36,326)	(177,503)
Net Increase (Decrease) in Cash and Cash Equivalents	35,682	(24,586)	14,670	(4,321)
Cash and Cash Equivalents at Beginning of the Period		27,981	13,311	17,632
Cash and Cash Equivalents at End of the Period	$ 35,682	$ 3,395	$ 27,981	$ 13,311
Supplemental Disclosure of Cash Flow Information:				
Cash Payments:				
Interest (net of amounts capitalized)	$ 55,951	$ 67,100	$ 140,751	$ 154,866
Income taxes, net	714	20,900	29,657	19,970

The aggregate consideration paid to Former NorAm stockholders in connection with the Merger consisted of $1.4 billion in cash and 47.8 million shares of Houston Industries common stock valued at approximately $1.0 billion. The overall transaction was valued at $4.0 billion consisting of $2.4 billion for Former NorAm's common stock and common stock equivalents and $1.6 billion of Former NorAm debt. A significant portion ($139 million) of NorAm obligated mandatorily redeemable convertible preferred securities of subsidiary trust holding solely subordinated debentures of NorAm was converted to NorAm Common Stock in non-cash transactions prior to the Merger; see Note 5.

See Notes to NorAm's Consolidated Financial Statements.

NORAM ENERGY CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED DECEMBER 31, 1997

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations.

NorAm Energy Corp. (NorAm), a Delaware corporation, is a wholly owned subsidiary of Houston Industries defined below. NorAm is principally engaged in the natural gas industry, including gathering, transmission, marketing, storage and distribution. Collectively, these operations accounted for in excess of 90% of NorAm's total revenues, income or loss and identifiable assets during 1997.

NorAm's natural gas distribution operations (Natural Gas Distribution) are conducted by three of its unincorporated divisions: Entex, Minnegasco and Arkla. NorAm's interstate pipeline operations (Interstate Pipeline) are conducted by its wholly owned subsidiaries, NorAm Gas Transmission Company (NGT) and Mississippi River Transmission Corporation (MRT). NorAm's energy marketing activities are conducted primarily by NorAm Energy Services, Inc. (NES) and NorAm Energy Management, Inc. (NEM) and its gathering activities are conducted by NorAm Field Services Corp. (NFS) (collectively Energy Marketing). NorAm's principal operations are located in Arkansas, Louisiana, Minnesota, Mississippi, Missouri and Texas.

As of December 31, 1997, all shares of NorAm's common stock were pledged as collateral under a $1.64 billion loan arrangement entered into by a subsidiary of Houston Industries in connection with the Merger (defined below). Under the provisions of this facility, Houston Industries may become obligated to pledge additional stock of subsidiaries of NorAm if such subsidiaries should become "significant subsidiaries" (as defined under the facility) of Houston Industries.

(b) Merger With Houston Industries Incorporated.

On August 6, 1997 (Acquisition Date), Houston Industries Incorporated (Former HI) merged with and into Houston Lighting & Power Company, which was renamed "Houston Industries Incorporated" (Houston Industries), and NorAm Energy Corp., (Former NorAm) merged with and into a subsidiary of Houston Industries, HI Merger, Inc., which was renamed "NorAm Energy Corp." (NorAm). Effective upon the mergers (collectively, the Merger), each outstanding share of common stock of Former HI was converted into one share of common stock (including associated preference stock purchase rights) of Houston Industries, and each outstanding share of common stock of Former NorAm was converted into the right to receive $16.3051 cash or 0.74963 shares of common stock of Houston Industries. The aggregate consideration paid to Former NorAm stockholders in connection with the Merger consisted of $1.4 billion in cash and 47.8 million shares of Houston Industries' common stock valued at approximately $1.0 billion. The overall transaction was valued at $4.0 billion consisting of $2.4 billion for Former NorAm's common stock and common stock equivalents and $1.6 billion of Former NorAm debt ($1.3 billion of which was long-term debt).

The Merger was recorded under the purchase method of accounting with assets and liabilities of NorAm reflected at their estimated fair values as of the Acquisition Date, resulting in a "new basis" of accounting. In NorAm's consolidated financial statements (NorAm's Consolidated Financial Statements), periods which reflect the new basis of accounting are labeled as "Current NorAm" and periods which do not reflect the new basis of accounting are labeled "Former NorAm". Former NorAm's Statement of Consolidated Income for the seven months ended July 31, 1997 include certain adjustments from August 1, 1997 to the Acquisition Date for pre-merger transactions.

NorAm's Consolidated Balance Sheets for periods after the Acquisition Date reflect adjustments associated with Houston Industries' assignment of the purchase price, principally consisting of (1) the revaluation of certain property, plant and equipment and long-term debt to their estimated fair market value, (2) the recognition of certain pension and postretirement benefit obligations previously being recognized through amortization, (3) the recognition of goodwill as described above, (4) the elimination of NorAm's historical goodwill, (5) the elimination of NorAm's historical stockholders' equity balances and accumulated

depreciation and amortization as of the Acquisition Date and (6) the recognition of the associated deferred income tax effects. In addition, NorAm's pre-merger common stock was canceled and replaced with 1,000 shares of common stock (all of which are owned by Houston Industries), rendering presentation of per share data no longer meaningful. Houston Industries' debt to fund the cash portion of the purchase consideration has not been allocated or "pushed down" to NorAm and is not reflected on NorAm's Financial Statements.

NorAm's Statements of Consolidated Income for periods after the Acquisition Date are principally affected by (1) the amortization (over 40 years) of the newly-recognized goodwill, partially offset by the elimination of the amortization of NorAm's historical goodwill, (2) the amortization (to interest expense) of the revaluation of long-term debt, (3) the removal of the amortization (to operating expense) previously associated with the pension and postretirement obligations as described preceding and (4) the deferred income tax expense associated with these adjustments. Interest expense on Houston Industries' debt which was used to fund the cash portion of the acquisition has not been allocated or "pushed down" to NorAm and is not reflected on NorAm's Financial Statements. For these reasons, among others, certain financial information for periods before and after the Acquisition Date is not comparable.

If the Merger had occurred on January 1, 1997 and 1996, NorAm's unaudited pro forma net income for 1997 and 1996 would have been $68.3 million and $76.9 million, respectively. Pro forma results are based on assumptions deemed appropriate by NorAm's management, have been prepared for informational purposes only and are not necessarily indicative of the results which would have resulted had the Merger actually taken place on the date indicated.

(c) Regulatory Assets and Regulation.

In general, NorAm's interstate pipelines are subject to regulation by the Federal Energy Regulatory Commission, while its natural gas distribution operations are subject to regulation at the state or municipal level. Historically, all of NorAm's rate-regulated businesses have followed the accounting guidance contained in Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" . NorAm discontinued application of SFAS No. 71 to NGT in 1992. As a result of the continued application of SFAS No. 71 to MRT and the natural gas distribution operations, NorAm's financial statements contain assets and liabilities which would not be recognized by unregulated entities.

At December 31, 1997 approximately $48 million in regulatory assets are reflected on NorAm's Consolidated Balance Sheet as deferred debits. These assets represent probable future revenue to NorAm associated with certain incurred costs as these costs are recovered through the rate making process. These costs are being recovered through rates over varying periods up to 40 years.

(d) Principles of Consolidation.

NorAm's Consolidated Financial Statements include the accounts of NorAm and its wholly owned subsidiaries (NorAm). All significant intercompany transactions and balances are eliminated in consolidation.

(e) Property, Plant and Equipment.

Property, plant and equipment have been revalued to estimated fair market value as of the Acquisition Date in accordance with the purchase method of accounting, and depreciated or amortized on a straight-line basis over their estimated useful lives; see Note 1(b) above. Prior to the Acquisition Date, such assets were carried at cost. Additions to and betterments of utility property are charged to property accounts at cost, while the costs of maintenance, repairs and minor replacements are charged to expense as incurred. Upon normal retirement of units of utility property, plant and equipment, the cost of such property, together with cost of removal less salvage, is charged to accumulated depreciation.

(f) Depreciation and Amortization Expense.

Goodwill, none of which is being recovered in regulated service rates, is amortized on a straight-line basis over 40 years. Approximately $29.9 million of goodwill was amortized during 1997. Of this amount, $21.6 million represents amortization related to the Merger and incurred during the period from the Acquisition Date through December 31, 1997. Goodwill amortization for 1996 was approximately $14.2 million. NorAm periodically compares the carrying value of its goodwill to the anticipated undiscounted future operating income from the businesses whose acquisition gave rise to the goodwill and, as yet, no impairment is indicated or expected. For additional information regarding the amortization of goodwill in connection with the Merger, see Note 1(b) above.

(g) Fuel Stock and Other Inventories.

Inventories principally follow the average cost method. Gas inventory (at average cost) was $63.7 million and $70.7 million at December 31, 1997 and 1996, respectively. All non-utility inventories held for resale are valued at the lower of cost or market.

(h) Revenues.

NorAm's rate-regulated divisions/subsidiaries bill customers on a monthly cycle billing basis. Revenues are recorded on an accrual basis, including an estimate for gas delivered but unbilled at the end of each accounting period.

(i) Statements of Consolidated Cash Flows.

For purposes of reporting cash flows, cash equivalents are considered to be short-term, highly liquid investments readily convertible into cash.

(j) Derivative Financial Instruments (Risk Management).

For information regarding NorAm's accounting for derivative financial instruments associated with natural gas, electric power and transportation risk management activities, see Note 2.

(k) Income Taxes.

Houston Industries files a consolidated federal income tax return, in which NorAm and its subsidiaries are included (as of the Acquisition Date). Houston Industries follows a policy of comprehensive interperiod income tax allocation. For additional information regarding income taxes, see Note 7.

(l) Investments in Marketable Equity Securities.

A subsidiary of NorAm holds certain equity securities classified as "available-for-sale" and, in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," reports such investments at estimated fair value with any unrealized gain or loss, net of tax, as a separate component of stockholders' equity. At December 31, 1997, NorAm's unrealized loss relating to these marketable equity securities was approximately $5.6 million, net of tax of $3.0 million.

(m) Reclassifications and Use of Estimates.

Certain amounts from the previous years have been reclassified to conform to the 1997 presentation of financial statements. Such reclassifications do not affect earnings.

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.

(n) Early Retirement and Severance.

During the first quarter of 1996, NorAm instituted several early retirement and reorganization plans, pursuant to which a total of approximately 400 positions were eliminated resulting in expense for severance payments and enhanced retirement benefits reported as a non-recurring pre-tax charge of approximately $22.3 million (approximately $13.4 million after tax).

(o) Merger Transaction Costs.

"Merger transaction costs" include expenses associated with completion of the business combination with Houston Industries (see Note 1(b)), principally consisting of investment banking and legal fees.

(p) Allowance for Doubtful Accounts.

Accounts and notes receivable, principally customer as presented on NorAm's Consolidated Balance Sheets are net of an allowance for doubtful accounts of $15.3 million and $13.0 million at December 31, 1997 and 1996, respectively.

(q) Accounts Payable.

Certain of NorAm's cash balances reflect credit balances to the extent that checks written have not yet been presented for payment. Such balances included in accounts payable, principally trade on the NorAm Consolidated Balance Sheets were approximately $17.0 million and $53.5 million at December 31, 1997 and 1996, respectively.

(2) DERIVATIVE FINANCIAL INSTRUMENTS (RISK MANAGEMENT)

(a) Trading Activities.

NorAm, through NES, offers price risk management services primarily in the natural gas and electric industries. NES provides these services through, and by utilizing, a variety of derivative financial instruments, including fixed-price swap agreements, variable-price swap agreements, exchange-traded energy futures and option contracts, and swaps and options traded in the over-the-counter financial markets. Fixed-price swap agreements require payments to, or receipts of payments from, counterparties based on the differential between a fixed and variable price for the commodity. Variable-price swap agreements require payments to, or receipts of payments from, counterparties based on the differential between either industry pricing publications or exchange quotations.

Certain trading transactions qualify for hedge accounting and accordingly unrealized gains and losses associated with these transactions are deferred. For trading transactions that do not qualify for hedge accounting, NES uses mark-to-market accounting. Accordingly, such financial instruments are recorded at fair value with realized and unrealized gains (losses) recorded as a component of revenues in NorAm's Statements of Consolidated Income. The recognized, unrealized balance is recorded as a deferred debit on NorAm's Consolidated Balance Sheets.

The notional quantities and maximum terms of derivative financial instruments held for trading purposes at December 31, 1997 are presented below (volumes in billions of British thermal units equivalent (Bbtue)):

	VOLUME-FIXED PRICE PAYOR	VOLUME-FIXED PRICE RECEIVER	MAXIMUM TERM (YEARS)
Natural gas	85,701	64,890	4
Electricity	40,511	42,976	1

In addition to the fixed-price notional volumes above, NES also has variable-price swap agreements, as discussed above, totaling 101,465 Bbtue. Notional amounts reflect the volume of transactions but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure NorAm's exposure to market or credit risks.

The estimated fair value of derivative financial instruments held for trading purposes at December 31, 1997 are presented below (dollars in millions):

	FAIR VALUE		AVERAGE FAIR VALUE(A)	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Natural gas	$46	$39	$56	$48
Electricity	$ 6	$ 6	$ 3	$ 2

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(a) Computed using the ending balance of each month.

Substantially all of the fair value shown in the table above at December 31, 1997 has been recognized in income. The fair value as of and for the year ended December 31, 1997 was estimated using quoted prices where available and considering the liquidity of the market for the derivative financial instruments. The prices are subject to significant changes based on changing market conditions. The derivative financial instruments included in the NES trading portfolio as of and for the year ended December 31, 1996 were immaterial.

The weighted-average term of the trading portfolio, based on volumes, is less than one year. The maximum and average terms disclosed herein are not indicative of likely future cash flows as these positions may be changed by new transactions in the trading portfolio at any time in response to changing market conditions, market liquidity and NorAm's risk management portfolio needs and strategies. Terms regarding cash settlements of these contracts vary with respect to the actual timing of cash receipts and payments.

(b) Non-Trading Activities.

To reduce the risk from market fluctuations in the price of electric power, natural gas and related transportation, NorAm and certain of its subsidiaries enter into futures transactions, swaps and options (Energy Derivatives) in order to hedge certain natural gas in storage, as well as certain expected purchases, sales and transportation of natural gas and electric power (a portion of which are firm commitments at the inception of the hedge). Energy Derivatives are also utilized to fix the price of compressor fuel or other future operational gas requirements, although usage to date for this purpose has not been material. Usage of electricity derivative financial instruments by NorAm and its subsidiaries for purposes other than trading is immaterial.

NorAm also utilizes interest-rate derivatives (principally interest-rate swaps) in order to adjust the portion of its overall borrowings which are subject to interest-rate risk, and also utilizes such derivatives to effectively fix the interest rate on debt expected to be issued for refunding purposes.

For transactions involving either Energy Derivatives or interest-rate derivatives, hedge accounting is applied only if the derivative (i) reduces the price risk of the underlying hedged item and (ii) is designated as a hedge at its inception. Additionally, the derivatives must be expected to result in financial impacts which are

inversely correlated to those of the item(s) to be hedged. This correlation (a measure of hedge effectiveness) is measured both at the inception of the hedge and on an ongoing basis, with an acceptable level of correlation of 80% for hedge designation. If and when correlation ceases to exist at an acceptable level, hedge accounting ceases and mark-to-market accounting is applied.

In the case of interest-rate swaps associated with existing obligations, cash flows and expenses associated with the interest-rate derivative transactions are matched with the cash flows and interest expense of the obligation being hedged, resulting in an adjustment to the effective interest rate. When interest rate swaps are utilized to effectively fix the interest rate for an anticipated debt issuance, changes in the market value of the interest-rate derivatives are deferred and recognized as an adjustment to the effective interest rate on the newly issued debt.

Unrealized changes in the market value of Energy Derivatives utilized as hedges are not generally recognized in NorAm's Statements of Consolidated Income until the underlying hedged transaction occurs. Once it becomes probable that an anticipated transaction will not occur, deferred gains and losses are recognized. In general, the financial impact of transactions involving these Energy Derivatives is included in NorAm's Statements of Consolidated Income under the caption natural gas and purchased power, net. Cash flows resulting from these transactions in Energy Derivatives are included in NorAm's Statements of Consolidated Cash Flows in the same category as the item being hedged.

At December 31, 1997, subsidiaries of NorAm were fixed-price payors and fixed-price receivers in Energy Derivatives covering 38,754 Bbtu and 7,647 Bbtu of natural gas, respectively. At December 31, 1996, subsidiaries of NorAm were fixed-price payors and fixed-price receivers in Energy Derivatives covering approximately 150,300 Bbtu and 66,500 Bbtu of natural gas, respectively. Also, at December 31, 1997, subsidiaries of NorAm were parties to variable-priced Energy Derivatives totaling 3,630 Bbtu of natural gas. The weighted average maturity of these instruments at December 31, 1997 and 1996, respectively, is less than one year.

NorAm has entered into options with various third parties which principally serve to limit the year-to-year escalation from January 1998 to April 1999 in the purchase price of gas which NorAm is committed to deliver to a distribution affiliate. These options, which covered 9,800 Bbtu and 2,400 Bbtu at December 31, 1997 and 1996, respectively, expired in January 1998 unexercised. NorAm previously established a reserve equal to its projected maximum exposure to losses during the term of this commitment and, accordingly, no impact on earnings is expected.

The notional amount is intended to be indicative of NorAm and its subsidiaries' level of activity in such derivatives, although the amounts at risk are significantly smaller because, in view of the price movement correlation required for hedge accounting, changes in the market value of these derivatives generally are offset by changes in the value associated with the underlying physical transactions or in other derivatives. When Energy Derivatives are closed out in advance of the underlying commitment or anticipated transaction, however, the market value changes may not offset due to the fact that price movement correlation ceases to exist when the positions are closed as further discussed below. Under such circumstances gains (losses) are deferred and recognized as a component of income when the underlying hedged item is recognized in income.

The average maturity discussed above and the fair value discussed in Note 10 are not necessarily indicative of likely future cash flows as these positions may be changed by new transactions in the trading portfolio at any time in response to changing market conditions, market liquidity and NorAm's risk management portfolio needs and strategies. Terms regarding cash settlements of these contracts vary with respect to the actual timing of cash receipts and payments.

(c) Trading and Non-trading -- General Policy.

In addition to the risk associated with price movements, credit risk is also inherent in NorAm and its subsidiaries' risk management activities. Credit risk relates to the risk of loss resulting from non performance

of contractual obligations by a counterparty. While, as yet, NorAm and its subsidiaries have experienced no significant losses due to the credit risk associated with these arrangements, NorAm has off-balance sheet risk to the extent that the counterparties to these transactions may fail to perform as required by the terms of each such contract. In order to minimize this risk, NorAm and/or its subsidiaries, as the case may be, enter into such contracts primarily with those counterparties with a minimum Standard & Poor's or Moody's rating of BBB- or Baa3, respectively. For long-term arrangements, NorAm and its subsidiaries periodically review the financial condition of such firms in addition to monitoring the effectiveness of these financial contracts in achieving NorAm's objectives. Should the counterparties to these arrangements fail to perform, NorAm would seek to compel performance at law or otherwise, or obtain compensatory damages in lieu thereof. NorAm might be forced to acquire alternative hedging arrangements or be required to honor the underlying commitment at then-current market prices. In such event, NorAm might incur additional loss to the extent of amounts, if any, already paid to the counterparties. In view of its criteria for selecting counterparties, its process for monitoring the financial strength of these counterparties and its experience to date in successfully completing these transactions, NorAm believes that the risk of incurring a significant financial statement loss due to the non-performance of counterparties to these transactions is minimal.

NorAm's policies prohibit the use of leveraged financial instruments.

Houston Industries has established a Risk Oversight Committee that oversees all price and credit risk, including NES's risk management and trading activities. The Risk Oversight Committee's responsibilities include reviewing NorAm's overall risk management strategy and monitoring risk management activities to ensure compliance with Houston Industries' risk management limitations, policies and procedures.

(3) CAPITAL STOCK

(a) Earnings Per Share.

As a result of the Merger, NorAm is no longer required to present earnings per share (EPS) data as its common shares (all of which are owned by Houston Industries) are not publicly held. EPS data for 1996 and 1995 has not been included because NorAm believes it is no longer meaningful.

(b) Equity Transactions Prior to the Merger.

In June 1996, NorAm issued 11,500,000 shares of NorAm common stock to the public at a price of $9.875 per share, yielding net cash proceeds of approximately $109 million. The net proceeds from the offering principally were used to retire debt as described in Note 4(b).

(c) Direct Stock Purchase Plan and Dividend Reinvestment Plan.

The Direct Stock Purchase Plan and Dividend Reinvestment Plan were suspended and canceled in connection with the Merger.

(4) LONG-TERM AND SHORT-TERM FINANCING

(a) Short-Term Financing.

In 1997 and 1996, NorAm met its short-term financing needs primarily through a bank facility, bank lines of credit and a receivables facility. NorAm's principal short-term credit facility (NorAm Credit Facility) of $400 million expires in December 1998. Borrowings under the NorAm Credit Facility are unsecured. The weighted average interest rate at December 31, 1997 and 1996 was 6.3%. NorAm pays a facility fee on the $400 million facility of .14% per annum which is subject to increase based on NorAm's debt rating. Borrowings under the credit facility at December 31, 1997 and 1996 were $340 million and $115 million, respectively. In addition, NorAm had $50 million of outstanding loans under uncommitted lines of credit at December 31, 1997 having a weighted average interest rate of 6.82%.

Under a trade receivables facility (Receivables Facility) which expires in August 1999, NorAm sells, with limited recourse, an undivided interest (limited to a maximum of $300 million) in a designated pool of accounts receivable. The amount of receivables sold and uncollected was $300 million and $235 million at December 31, 1997 and 1996, respectively. The weighted average interest rate at December 31, 1997 and 1996 was 5.65% and 5.41%, respectively. Certain of NorAm's remaining receivables serve as collateral for receivables sold and represent the maximum exposure to NorAm should all receivables sold prove ultimately uncollectible. NorAm has retained servicing responsibility under the Receivables Facility for which it is paid a servicing fee. Beginning in 1997 and pursuant to SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities", NorAm accounts for amounts transferred pursuant to the Receivables Facility as collateralized borrowings. As a result, these receivables are recorded as assets on NorAm's December 31, 1997 Consolidated Balance Sheet and amounts received by NorAm pursuant to this facility are recorded as a current liability under the caption Receivables facility. In 1996, pursuant to SFAS No. 77, "Reporting by Transferors for Transfers of Receivables with Recourse", the receivables sold were deducted from "Accounts and notes receivable, principally customers" in the accompanying Consolidated Balance Sheet. Additionally, amounts reported in 1996 and 1995 in NorAm's Statements of Consolidated Income as "Loss on sale of accounts receivables" are recorded as interest expense in NorAm's 1997 Statement of Consolidated Income.

(b) Long-Term Debt.

NorAm's consolidated long-term debt outstanding, which is summarized in the following table, is noncallable and without sinking fund requirements except as noted. Carrying amounts and amounts due in one year reflect $46.3 million and $6.1 million, respectively, for fair value adjustments recorded in connection with the Merger.

	CURRENT NORAM DECEMBER 31, 1997			
			CARRYING AMOUNTS	
	EFFECTIVE RATE	PRINCIPAL AMOUNT	NON-CURRENT PORTION	CURRENT PORTION
		(MILLIONS OF DOLLARS)		
Medium-term notes, Series A and B due through 2001, weighted average rate of 8.90% at December 31, 1997	8.23%	$ 241.6	$182.4	$ 78.8
Bank Term Loan due 1998	6.54%	150.0		153.3
8.875% Series due 1999	8.54%	200.0	207.8	
7.5% Series due 2000	7.32%	200.0	205.0	
8.9% Series due 2006	7.82%	145.1	165.1	
6% Convertible Subordinated Debentures due 2012	6.51%	116.3	107.2	
10% Series due 2019(1)	8.95%	42.8	47.8	
Other	4.10%	0.6	1.4	
		$1,096.4	$916.7	$232.1

	FORMER NORAM DECEMBER 31, 1996	
	CARRYING AMOUNTS	
	NON-CURRENT PORTION	CURRENT PORTION
	(MILLIONS OF DOLLARS)	
Medium-term notes, Series A and B due through 2001, weighted average rate of 8.96% at December 31, 1996	$ 241.6	$ 52.0
9.875% Series due 1997		225.0
8.875% Series due 1999	200.0	
7.5% Series due 2000	200.0	
8.9% Series due 2006	145.1	
6% Convertible Subordinated Debentures due 2012	122.7	
10% Series due 2019(1)	144.2	
Other	0.6	
	$1,054.2	$277.0

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(1) In the fourth quarter of 1997 NorAm purchased $101.4 million aggregate principal amount of its 10% Debentures due 2019 at an average price of 111.98% plus accrued interest. Because NorAm's debt was stated at fair market value as of the Acquisition Date, the loss on the reacquisition of these debentures was not material.

Consolidated maturities of long-term debt and sinking fund requirements for NorAm are approximately $232 million for 1998, $201 million in 1999, $222 million in 2000, $144 million in 2001 and $0 in 2002.

NorAm's retirements and reacquisitions of long-term debt are summarized in the following table. In cases where premiums were paid or discounts were realized in association with these reacquisitions and retirements, such amounts are reported in NorAm's Statements of Consolidated Income as "Extraordinary gain (loss) on early retirement of debt, less taxes" and are net of taxes of $0.1 million, ($2.5) million and ($0.03) million in 1997, 1996 and 1995, respectively. For retirements and reacquisitions after the Acquisition Date, gains or losses on early retirement are immaterial since the carrying amounts reflect the fair value adjustments described above.

	YEAR ENDED DECEMBER 31,		
	1997(1)	1996	1995
	(MILLIONS OF DOLLARS)		
Reacquisition of 8% Series due 1997			$150.0
Reacquisition of 9.875% Debentures due 2018		$ 7.4	5.7
Reacquisition of 10% Debentures due 2019	$101.4		15.0
Reacquisition of 6% Convertible Subordinated Debentures due 2012(2)	5.8	7.2	
Retirement, at maturity, of Medium Term Notes(3)	52.0	118.8	1.0
Retirement of Bank Term Loan due 2000		150.0	
Retirement of 9.45% Series due 1995			150.0
Retirement of 9.875% Notes due 1997	225.0		
Retirement of 9.875% Debentures due 2018		109.0	
Retirement of Note Payable to Gas Supplier			13.6
Net (gain) loss on reacquisition of debt, less taxes	(0.2)	4.3	0.1
	$384.0	$396.7	$335.4

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(1) Excludes the conversion of 6% Convertible Subordinated Debentures due 2012 in the amount of approximately $1.0 million.

(2) These reacquired debentures may be credited against sinking fund requirements.

(3) Weighted average interest rate of 9.25%, 9.06% and 9.0% in 1997, 1996 and 1995, respectively.

In June 1996, NorAm exercised its right to exchange the $130 million principal amount of its $3.00 Convertible Exchangeable Preferred Stock, Series A for its 6% Convertible Subordinated Debentures due 2012 (Subordinated Debentures). The holders of the Subordinated Debentures receive interest quarterly and have the right at any time on or before the maturity date thereof to convert each Subordinated Debenture into 0.65 shares of common stock of Houston Industries and $14.24 in cash. The Subordinated Debentures are callable beginning in 1999 at redemption prices beginning at 105.0% and declining to par in November 2009. NorAm is required to make annual sinking fund payments of $6.5 million on the Subordinated Debentures which began on March 15, 1997 and will continue on each succeeding March 15 up to and including March 15, 2011. NorAm (i) may credit against the sinking fund requirements any Subordinated Debentures redeemed by NorAm and Subordinated Debentures which have been converted at the option of the holder and (ii) may deliver purchased Subordinated Debentures in satisfaction of the sinking fund requirements. NorAm satisfied its 1997 sinking fund requirement of $6.5 million by delivering a portion of the $7.2 million principal amount of Subordinated Debentures purchased in 1996.

In May 1997, NorAm obtained an unsecured, 18-month bank term loan in the amount of $150 million. The term loan carries a LIBOR-based floating interest rate. Proceeds from the term loan were used to refund a portion of NorAm's 9.875% Notes which matured in April 1997. NorAm has entered into two interest rate swaps, each with a term of 19 months, having an aggregate notional amount of $150 million which effectively fixed the interest rate on borrowings under the term loan agreement at approximately 6.775%.

At December 31, 1996 NorAm had a portfolio of six interest rate swaps with a total notional amount of $300 million. Five of these swaps were terminated during 1997 representing a total notional amount of $250 million. The remaining $50 million was terminated in January 1998.

(c) Restrictions on Stockholders' Equity and Debt.

Under the provisions of NorAm's revolving credit facility or certain other NorAm financial arrangements, NorAm's total debt is limited to 72% of its total capitalization and NorAm is required to maintain a minimum level of stockholders' equity. In addition, NorAm's total debt would be limited to $2.055 billion if its ratio of total debt to total capitalization increased to 60%. The minimum level of stockholders' equity was initially set at $700 million at December 31, 1995, increasing annually thereafter by (1) 50% of positive consolidated net income and (2) 50% of the proceeds from any incremental equity offering made after June 30, 1996. At December 31, 1997, these provisions did not significantly restrict NorAm's ability to issue debt or to pay dividends.

(5) TRUST SECURITIES

In June 1996, a Delaware statutory business trust (NorAm Trust) established by NorAm issued in a public offering $172.5 million of convertible preferred securities and sold approximately $5.3 million of NorAm Trust common stock (106,720 shares, representing 100% of the NorAm Trusts common equity) to NorAm. The convertible preferred securities have a distribution rate of 6.25% payable quarterly in arrears, a stated liquidation amount of $50 per convertible preferred security and must be redeemed by 2026. The proceeds from the sale of the preferred and common securities were used by NorAm Trust to purchase $177.8 million of 6.25% Convertible Junior Subordinated Debentures from NorAm having an interest rate corresponding to the distribution rate of the convertible preferred securities and a maturity date corresponding to the mandatory redemption date of the convertible preferred securities. Under existing law, interest payments made by NorAm for the junior subordinated debentures are deductible for federal income tax purposes. NorAm has the right at any time and from time to time to defer interest payments on the junior subordinated debentures for successive periods not to exceed 20 consecutive quarters for each such extension period. In such case, (1) quarterly distributions on the junior subordinated debentures would also be deferred

and (2) NorAm has agreed to not declare or pay any dividend on any common or preferred stock, except in certain instances.

The NorAm Trust is accounted for as a wholly owned consolidated subsidiary of NorAm. The junior subordinated debentures are the sole assets of the NorAm Trust. NorAm has fully and unconditionally guaranteed, on a subordinated basis, NorAm Trust's obligations, including the payment of distributions and all other payments, with respect to the convertible preferred securities. The convertible preferred securities are mandatorily redeemable upon the repayment of the related junior subordinated debentures at their stated maturity or earlier redemption. Following the Merger, each convertible preferred security is convertible at the option of the holder into $33.62 of cash and 1.55 shares of Houston Industries common stock. In 1997, convertible preferred securities aggregating $156.1 million were converted, leaving $16.4 million principal amount (unamortized fair value of $21.3 million, net of issuance costs) of convertible preferred securities outstanding at December 31, 1997.

Utilizing, in large part, the proceeds from the offerings previously discussed, in June 1996, NorAm (1) retired the $109.0 million principal amount then outstanding of its 9.875% Debentures due 2018 at a price equal to 105.93% of face value, recognizing an extraordinary pre-tax loss of approximately $6.5 million (approximately $3.9 million after tax) and (2) retired its $150 million bank term loan due 2000 at face value.

(6) STOCK-BASED INCENTIVE COMPENSATION PLANS AND EMPLOYEE BENEFIT PLANS

(a) Incentive Compensation Plans.

Prior to the Merger, NorAm had several incentive compensation plans which provide for the issuance of stock-based incentives (including restricted shares, stock options and stock appreciation rights) to directors and key employees of NorAm, including officers. The charge to earnings in 1997, 1996 and 1995 related to the incentive compensation plans was $1.4 million, $4.4 million and $0.5 million, respectively. All stock options granted under such plans were either converted into similar Houston Industries options or "cashed out" prior to the Merger. All restricted stock and substantially all stock appreciation rights were "cashed out" with the Merger. NorAm granted 463,856 shares of restricted stock in 1996 with a weighted average fair value at the grant date of $11.86. At December 31, 1996, there were 77,371 stock appreciation rights outstanding. As of the Acquisition Date, less than 1,000 stock appreciation rights were outstanding. The following is certain information relating to options issued pursuant to NorAm's incentive compensation plans.

	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE PER SHARE
Outstanding at December 31, 1994	650,938	$12.89
Options Granted(2)	546,550	$ 5.54
Options Forfeited/Expired	(164,469)	$14.05
Outstanding at December 31, 1995	1,033,019	$ 8.82
Options Granted(2)	579,749	$ 8.69
Options Exercised	(28,019)	$ 6.44
Options Forfeited/Expired	(76,821)	$11.99

	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE PER SHARE
Outstanding at December 31, 1996	1,507,928	$ 8.65
Options Exercised	(147,092)	$ 6.47
Options Forfeited/Expired	(10,682)	$12.42
Options Cashed Out Upon Merger	(521,857)	
Options Converted at Acquisition(1)	(828,297)	
Outstanding at December 31, 1997	0	
Exercisable at:		
December 31, 1997	0	
December 31, 1996	911,660	$ 9.48
December 31, 1995	431,615	$16.14

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(1) Effective upon the Merger, each holder of an unexpired NorAm stock option, whether or not then exercisable, was entitled to elect to either (i) have all or any portion of their NorAm stock options canceled and "cashed out" or (ii) have all or any portion of their NorAm stock options converted to the Houston Industries stock options. There were 828,297 NorAm stock options converted into 622,504 Houston Industries stock options at the Acquisition Date.

(2) The weighted average grant date fair value of the options granted in 1995 and 1996 was $1.64 and $2.39, respectively.

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). SFAS No. 123 provides for the disclosure of certain information concerning the "fair value" of securities issued pursuant to stock-based employee compensation plans, and gives NorAm the option of calculating and recording compensation expense utilizing either (1) SFAS No. 123's "fair value" methodology which measures compensation expense as the "fair value" of all securities at the date on which they are granted to the employee or (2) the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25) which, in general, do not require the recording of compensation expense for options and stock appreciation rights issued pursuant to plans structured similarly to those of NorAm. NorAm elected to continue to apply the provisions of APB No. 25 for the purpose of computing compensation expense associated with the relevant plan, although certain additional required disclosure has been made in accordance with the provisions of SFAS No. 123.

The "fair value" as applied to restricted stock represents the quoted NYSE closing market price of the shares on the grant date. The term "fair value" as applied to stock options granted in 1996 and 1995 is a statistical calculation made utilizing a methodology generally referred to as the Black-Scholes option pricing model (BS model). The BS model yields a value for each option which is dependent on a number of variables which are inputs to the relevant calculations. For the purposes of determining the "fair value" of stock options in the preceding table, NorAm assumed (i) a risk free interest rate (based on U.S. Treasury strips with a remaining term of five years) of 5.24% to 7.84%, (ii) an expected option life (duration) of five years, (iii) an expected volatility of 31.6% to 36.4% and (iv) an expected dividend yield of 3.4%. To the extent that actual conditions during the post-grant, pre-exercise period differ from these assumptions, the actual value of the options to the employee will differ from the calculated "fair value" at grant date (see above regarding the effect of the Merger). Had compensation cost been determined in accordance with the provisions of SFAS No. 123, the impact on NorAm's earnings for 1995 and 1996 would have been immaterial.

(b) Employee Benefit Plans.

NorAm has two qualified pension plans (the Qualified Plans) which cover substantially all employees: (1) the plan which covers NorAm's employees other than Minnegasco employees and (2) the plan which covers Minnegasco employees. The Qualified Plans provide benefits based on the participants' years of service and highest average compensation. The funding policy for the Qualified Plans is to contribute at least the minimum amount required to be funded as determined by NorAm's consulting actuaries. Plan assets are made up of marketable equity and high-grade fixed income securities.

In addition to the Qualified Plans, NorAm maintains certain non-qualified plans which principally consist of (1) a retirement restoration plan which allows participants to retain the benefit to which they would have been entitled under the Qualified Plans except for the federally mandated limits on such benefits or on the level of salary on which such benefits may be calculated and (2) certain supplemental benefit plans which, in the past, were entered into with individual employees or with small groups of employees. Participants in these non-qualified plans are general creditors of NorAm with respect to these benefits, as these plans are not funded by NorAm in advance of the cash payment of benefits. Expense of approximately $3.1 million, $2.0 million and $2.1 million associated with these non-qualified plans was recorded during 1997, 1996, and 1995, respectively.

Net Pension cost (qualified plans only) for NorAm includes the following components:

	CURRENT NORAM	FORMER NORAM		
	FIVE MONTHS ENDED DECEMBER 31, 1997	SEVEN MONTHS ENDED JULY 31, 1997	TWELVE MONTHS ENDED DECEMBER 31, 1996	TWELVE MONTHS ENDED DECEMBER 31, 1995
	(THOUSANDS OF DOLLARS)			
Service cost -- benefits earned during the period	$ 5,095	$ 7,220	$ 11,817	$ 9,900
Interest cost on projected benefit obligation	15,014	20,313	29,946	27,097
Actual return on plan assets	(1,851)	(90,148)	(41,800)	(36,909)
Amortization and deferrals (a)	(22,004)	63,498	(641)	(1,388)
Net pension cost (credit)	$ (3,746)	$ 883	$ (678)	$ (1,300)

Following is the funded status of NorAm's pension plans.

	CURRENT NORAM		FORMER NORAM	
	DECEMBER 31,			
	1997		1996	
	QUALIFIED PLANS	NON-QUALIFIED PLANS	QUALIFIED PLANS	NON-QUALIFIED PLANS
	(THOUSANDS OF DOLLARS)			
Net assets available for benefits	$569,718	--	$500,452	--
Actuarial present value of accumulated plan benefits:				
Vested (assuming immediate separation)	401,468	$ 34,578	325,461	$ 30,554
Non-vested	36,359	973	30,096	1,663
Accumulated benefit obligation	437,827	35,551	355,557	32,217
Additional amount related to projected pay increases	75,420	746	79,933	712
Total projected benefit obligation	513,247	36,297	435,490	32,929
Funded status	56,471	(36,297)	64,962	(32,929)
Unrecognized transition obligation at January 1(a)	--	--	(8,290)	--
Unrecognized prior service costs(a)	--	--	(2,222)	5,004
Unrecognized net loss (gain) from past experience different from that assumed and effects of changes in actuarial assumptions(a)	35,593	646	(9,060)	(1,506)
(Accrued) prepaid pension cost	$ 92,064	$(35,651)	$ 45,390	$(29,431)

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(a) The unrecognized transition obligation, unrecognized prior service costs and net actuarial gain were recognized on the Acquisition Date pursuant to the purchase method of accounting for the Merger. Amortization and deferrals after the Acquisition Date represents deferral of net loss from past experience identified after the Acquisition Date. For further discussion of the accounting for the Merger; see Note 1(b).

The assumed rate of increase in future compensation levels utilized in the above calculations was 4.5% in 1997 and 4% in 1996. The expected long-term rate of return on fund assets utilized in the above calculations was 10% for 1997 and 1996. The weighted average discount rate was 7.5% for 1997 and 1995 and 7.25% for 1996.

NorAm has an employee savings plan (the ESP) which covers substantially all employees other than Minnegasco employees. Under the terms of the ESP, employees may contribute up to 12% of total compensation, of which contributions up to 6% are matched by NorAm. Employer contributions to the ESP of $9.3 million, $8.9 million and $8.9 million were expensed during 1997, 1996 and 1995, respectively. The Minnegasco employees are covered by various thrift and profit sharing plans, the terms of which vary from plan to plan. Expense of approximately $1.5 million, $1.4 million and $1.4 million related to these plans was recorded during 1997, 1996, and 1995, respectively.

NorAm records the liability for post-retirement benefit plans other than pensions (primarily health care) under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions". NorAm provides these benefits under a defined benefit plan for all eligible former employees who retired prior to July 1, 1992, and under a defined contribution plan for all others. A substantial number of NorAm's employees may become eligible for postretirement benefits if they are participating in such plans when they reach normal retirement age. As of December 31, 1997, NorAm had contributed a total of $4.5 million to an

external fund (associated with Minnegasco employees) to provide for these benefits. NorAm currently expects that it will fund these benefits utilizing external funding techniques for additional employees in the future.

The net postretirement benefit cost includes the following components:

	CURRENT NORAM	FORMER NORAM		
	FIVE MONTHS ENDED DECEMBER 31, 1997	SEVEN MONTHS ENDED JULY 31, 1997	TWELVE MONTHS ENDED DECEMBER 31, 1996	TWELVE MONTHS ENDED DECEMBER 31, 1995
	(THOUSANDS OF DOLLARS)			
Service cost	$ 115	$ 164	$ 306	$ 291
Interest cost on accumulated benefit obligation	3,561	4,948	9,234	10,183
Actual (return) loss on plan assets	(143)	142	(108)	
Amortization of transition obligation on a straight line basis over 20 years(a)		3,886	6,662	6,663
Amortization of actuarial loss(a)	70	(249)	1,321	
Deferral of asset loss		(11)		(195)
Net periodic cost	$3,603	$8,880	$17,415	$16,942

Following is the funded status of NorAm's postretirement benefit plans:

	CURRENT NORAM	FORMER NORAM
	DECEMBER 31,	
	1997	1996
	(THOUSANDS OF DOLLARS)	
Accumulated postretirement benefit obligation		
Retirees	$110,579	$ 121,183
Fully-eligible active plan participants	3,349	3,711
Other active plan participants	4,544	4,487
Total	118,472	129,381
Fair value of plan assets	4,502	3,051
Total	113,970	126,330
Unrecognized transition obligation(a)		(106,599)
Unrecognized net actuarial (gain) loss	(1,563)	14,292
Accrued postretirement benefit cost	$112,407	$ 34,023

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(a) The unrecognized transition obligation and unrecognized prior service costs were recognized on the Acquisition Date pursuant to the purchase method of accounting for the Merger. Amortization after the Acquisition Date represents amortization of unrecognized actuarial loss incurred after the Acquisition Date. For further discussion of the accounting for the Merger, see Note 1(b).

The weighted average discount rate used in determining the accumulated benefit obligation for postretirement benefits was 7.25% for 1997, 7.5% for 1996 and 7.25% for 1995. The cost of covered health care benefits (for those participants entitled to a defined benefit as a result of having retired prior to July 1, 1992) is assumed to increase by 8.5% per year initially and then increase at a decreasing rate to an annual and continuing increase of 4.5% by 2006. Based on these assumptions, a one percentage point increase in the assumed health care cost trend rate would increase the annual net periodic postretirement benefit cost (before

any deferral for regulatory reasons) and the accumulated benefit obligation at December 31, 1997 by approximately 9.2% and 10.8%, respectively.

(7) INCOME TAXES

Prior to the Acquisition Date, NorAm and its subsidiaries filed a consolidated federal income tax return. Such returns have been audited and settled through the year 1986. Subsequent to the Acquisition Date, Houston Industries files a consolidated federal income tax return, in which NorAm and its subsidiaries are included. Investment tax credits are generally deferred and amortized over the lives of the related assets. The unamortized investment tax credit in deferred credits on the accompanying Consolidated Balance Sheets was $5.2 million and $4.5 million for 1997 and 1996, respectively.

Following are the components of NorAm's income tax provision:

	CURRENT NORAM	FORMER NORAM		
	FIVE MONTHS ENDED DECEMBER 31, 1997	SEVEN MONTHS ENDED JULY 31, 1997	TWELVE MONTHS ENDED DECEMBER 31, 1996	TWELVE MONTHS ENDED DECEMBER 31, 1995
	(THOUSANDS OF DOLLARS)			
Federal				
Current	$(12,005)	$16,339	$33,654	$18,760
Deferred	36,673	12,795	25,760	24,377
Investment tax credit	(262)	(363)	(636)	(639)
State				
Current	536	833	4,525	2,375
Deferred	(559)	1,794	3,049	10,506
Income tax expense	$ 24,383	$31,398	$66,352	$55,379

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate of 35% to income from continuing operations. The reasons for this difference are as follows:

	CURRENT NORAM	FORMER NORAM		
	FIVE MONTHS ENDED DECEMBER 31, 1997	SEVEN MONTHS ENDED JULY 31, 1997	TWELVE MONTHS ENDED DECEMBER 31, 1996	TWELVE MONTHS ENDED DECEMBER 31, 1995
	(THOUSANDS OF DOLLARS)			
Income before income taxes	$45,230	$77,273	$161,490	$120,908
Statutory rate	35%	35%	35%	35%
Income taxes at statutory rate	15,831	27,046	56,522	42,318
Increase (decrease) in tax resulting from:				
State income taxes, net of federal income tax benefit(1)	(9)	1,708	4,923	8,373
Investment tax credit	(262)	(363)	(636)	(639)
Research and experimentation credit			(188)	(375)
Adjustment to prior year accruals	106	(34)	301	510
Goodwill amortization	7,242	2,430	4,163	4,163
Other, net	1,475	611	1,267	1,029
Provision for income taxes	$24,383	$31,398	$ 66,352	$ 55,379

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(1) Calculation of the accrual for state income taxes at the end of each year requires that NorAm estimate the manner in which its income for that year will be allocated and/or apportioned among the various

states in which it conducts business, which states have widely differing tax rules and rates. These allocation/apportionment factors change from year to year and the amount of taxes ultimately payable may differ from that estimated as a part of the accrual process. For these reasons, the amount of state income tax expense may vary significantly from year-to-year, even in the absence of significant changes to state income tax valuation allowances or changes in individual state income tax rates.

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and liabilities as of December 31, 1997 and 1996, were as follows:

	CURRENT NORAM	FORMER NORAM
	DECEMBER 31,	
	1997	1996
	(THOUSANDS OF DOLLARS)	
Deferred Tax Assets:		
Employee benefit accruals	$ 53,277	$ 27,282
Inventory revaluation and capitalization	466	552
Gas purchase contract accruals	8,267	15,495
Regulatory obligations		7,469
Indemnifications and other reserves	3,497	9,332
Deferred state income taxes	14,460	13,799
Other	53,546	29,295
State operating loss carryforwards	29,515	28,517
Alternative minimum tax credit carryforwards	60,669	76,089
Valuation allowance	(6,353)	(6,761)
Total deferred tax assets -- net	217,344	201,069
Deferred Tax Liabilities:		
Property, plant and equipment, principally due to depreciation methods and lives	558,758	458,506
Deferred gas costs	34,113	25,043
Employee benefit accruals		5,807
Deferred state income taxes	70,000	
Regulatory obligations	6,690	
Other	22,513	21,724
Total deferred tax liabilities	692,074	511,080
Net deferred tax liabilities	$474,730	$310,011

At December 31, 1997, NorAm has approximately $439 million of state net operating losses available to offset future state taxable income through the year 2012. In addition, NorAm has approximately $58 million of federal alternative minimum tax credits which are available to reduce future federal income taxes payable, if any, over an indefinite period (although not below the tentative minimum tax otherwise due in any year), and approximately $2.6 million of state alternative minimum tax credits which are available to reduce future state income taxes payable, if any, through the year 2001. The change in the valuation allowance during 1997 was a net reduction of $0.4 million, resulting from a reassessment of NorAm's ability to use state net operating loss carryforwards and state alternative minimum tax credit carryforwards in future tax years, offset by expiring state net operating losses for which valuation allowances had been provided in prior years.

(8) COMMITMENTS AND CONTINGENCIES

(a) Lease Commitments.

The following table sets forth certain information concerning NorAm's obligations under operating leases:

Minimum Lease Commitments at December 31, 1997(1)

	(MILLIONS OF DOLLARS)
1998	$ 24
1999	19
2000	16
2001	15
2002	9
2003 and beyond	22
Total	$105

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(1) Principally consisting of rental agreements for building space and data processing equipment and vehicles (including major work equipment).

NorAm has a master leasing agreement which provides for the lease of vehicles, construction equipment, office furniture, data processing equipment and other property. For accounting purposes, the lease is treated as an operating lease. At December 31, 1997, NorAm had leased assets with a value of approximately $58.1 million under this lease with a basic term of one year. NorAm does not expect to lease additional property under this lease agreement.

Lease payments related to NorAm's leasing agreements are included in the preceding table for only their basic term. Total rental expense for all leases was $24.0 million, $33.4 million and $48.9 million in 1997, 1996 and 1995, respectively.

(b) Letters of Credit.

At December 31, 1997, NorAm had letters of credit incidental to its ordinary business operations totaling approximately $42 million under which NorAm is obligated to reimburse drawings, if any.

(c) Indemnity Provisions.

At December 31, 1997, NorAm has an $11.4 million accounting reserve on its Consolidated Balance Sheets in "Estimated obligations under indemnification provisions of sale agreements" for possible indemnity claims asserted in connection with its disposition of former subsidiaries or divisions, including the sale of (i) Louisiana Intrastate Gas Corporation, a former subsidiary engaged in the intrastate pipeline and liquids extraction business (1992); (ii) Arkla Exploration Company, a former subsidiary engaged in oil and gas exploration and production activities (June 1991); and (iii) Dyco Petroleum Company, a former subsidiary engaged in oil and gas exploration and production (1991).

(d) Sale of Receivables.

Certain of NorAm's receivables are collateral for receivables which have been sold pursuant to the terms of NorAm's receivables facility, see "Receivables Facility" included in Note 4(a).

(e) Gas Purchase Claims.

In conjunction with settlements of "take-or-pay" claims, NorAm has prepaid for certain volumes of gas, which prepayments have been recorded at their net realizable value and, to the extent that NorAm is unable to realize at least the carrying amount as the gas is delivered and sold, NorAm's earnings will be reduced, although such reduction is not expected to be material. In addition to these prepayments, NorAm is a party to a number of agreements which require it to either purchase or sell gas in the future at prices which may differ from then prevailing market prices or which require it to deliver gas at a point other than the expected receipt point for volumes to be purchased. To the extent that NorAm expects that these commitments will result in losses over the contract term, NorAm has established reserves equal to such expected losses.

(f) Transportation Agreement.

NorAm had an agreement (ANR Agreement) with ANR Pipeline Company (ANR) which contemplated a transfer to ANR of an interest in certain of NorAm's pipeline and related assets, representing capacity of 250 Mmcf/day, and pursuant to which ANR had advanced $125 million to NorAm. The ANR Agreement has been restructured and, after refunds of $50 million and $34 million in 1995 and 1993, respectively, NorAm currently retains $41 million (recorded as a liability) in exchange for ANR's or its affiliates' use of 130 Mmcf/ day of capacity in certain of NorAm's transportation facilities. The level of transportation will decline to 100 Mmcf/day in the year 2003 with a refund of $5 million to ANR and the ANR Agreement will terminate in 2005 with a refund of the remaining balance.

(g) Environmental Matters.

To the extent that potential environmental remediation costs are quantified within a range, NorAm establishes reserves equal to the most likely level of costs within the range and adjusts such accruals as better information becomes available. In determining the amount of the liability, future costs are not discounted to their present value and the liability is not offset by expected insurance recoveries. If justified by circumstances within NorAm's business subject to SFAS No. 71, corresponding regulatory assets are recorded in anticipation of recovery through the rate making process.

Manufactured Gas Plant Sites. NorAm and its predecessors operated a manufactured gas plant (MGP) adjacent to the Mississippi River in Minnesota formerly known as Minneapolis Gas Works (FMGW) until 1960. NorAm has completed remediation of the main site other than ongoing water monitoring and treatment. There are six other former MGP sites in the Minnesota service territory. Remediation has been completed on one site. Of the remaining five sites, NorAm believes that two were neither owned nor operated by NorAm; two were owned by NorAm at one time but were operated by others and are currently owned by others; and one site was previously operated by NorAm but was owned by others. NorAm believes it has no liability with respect to the sites it neither owned nor operated.

At December 31, 1997, NorAm had estimated a range of $15 million to $77 million for possible remediation of the Minnesota sites. The low end of the range was determined based on only those sites presently owned or known to have been operated by NorAm, assuming use of NorAm's proposed remediation methods. The upper end of the range was determined based on the sites once owned by NorAm, whether or not operated by NorAm. The cost estimates for the FMGW site are based on studies of that site. The remediation costs for other sites are based on industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites remediated, the participation of other potentially responsible parties, if any, and the remediation methods used.

In its 1995 rate case, NorAm's Minnegasco division was allowed to recover approximately $7 million annually for remediation costs. Such costs are subject to a true-up mechanism whereby any over or under recovered amounts, net of certain insurance recoveries, plus carrying charges, would be deferred for recovery

or refund in the next rate case. At December 31, 1997 and 1996, Minnegasco had recorded a liability of $20.6 million and $35.9 million, respectively, to cover the cost of future remediation. In addition, at December 31, 1997, Minnegasco had receivables from insurance settlements of $2.9 million. These insurance settlements will be collected through 1999. Minnegasco expects that approximately half of its accrual as of December 31, 1997 will be expended within the next five years. The remainder will be expended on an ongoing basis for an estimated 40 years. In accordance with the provisions of SFAS No. 71, a regulatory asset has been recorded equal to the liability accrued. Minnegasco is continuing to pursue recovery of at least a portion of these costs from insurers. Minnegasco believes the difference between any cash expenditures for these costs and the amount recovered in rates during any year will not be material to NorAm's overall cash requirements, results of operations or cash flows.

At December 31, 1997 and 1996, NorAm had recorded an accrual of $3.3 million (with a maximum estimated exposure of approximately $18 million) and an offsetting regulatory asset for environmental matters in connection with a former fire training facility and a landfill for which future remediation may be required. This accrual is in addition to the accrual for MGP sites as previously discussed.

Issues relating to the identification and remediation of MGPs are common in the natural gas distribution industry. NorAm has received notices from the EPA and others regarding its status as a potentially responsible party for other sites. Based on current information, NorAm has not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP sites.

Mercury Contamination. Like other natural gas pipelines, NorAm's pipeline operations have in the past employed elemental mercury in meters used on its pipelines. Although the mercury has now been removed from the meters, it is possible that small amounts of mercury have been spilled at some of those sites in the course of normal maintenance and replacement operations and that such spills have contaminated the immediate area around the meters with elemental mercury. Such contamination has been found by NorAm at some sites in the past, and NorAm has conducted remediation at sites found to be contaminated. Although NorAm is not aware of additional specific sites, it is possible that other contaminated sites exist and that remediation costs will be incurred for such sites. Although the total amount of such costs cannot be known at this time, based on experience by NorAm and others in the natural gas industry to date and on the current regulations regarding remediation of such sites, NorAm believes that the cost of any remediation of such sites will not be material to NorAm's financial position, results of operation or cash flows.

Potentially Responsible Party Notifications. From time to time NorAm and its subsidiaries have been notified that they are potentially responsible parties with respect to properties which environmental authorities have determined warrant remediation under state or federal environmental laws and regulations. In October 1994 the United States Environmental Protection Agency issued such a notice with respect to a landfill site in West Memphis, Arkansas, and in December 1995, the Louisiana Department of Environmental Quality advised that one of NorAm subsidiaries had been identified as a potentially responsible party with respect to a hazardous waste site in Shreveport, Louisiana. Considering the information currently known about such sites and the involvement of NorAm or its subsidiaries in activities at these sites, NorAm does not believe that these matters will have a material adverse effect on NorAm's financial position, results of operation or cash flows.

(h) Other

NorAm Merger Lawsuit. In August 1996, a purported NorAm stockholder 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 was consummated. In February 1998, the plaintiffs withdrew their lawsuit and the court issued an order of non-suit dismissing the litigation.

NorAm is a party to litigation (other than that specifically noted) which arises in the normal course of business. Management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. Management believes that the effect on NorAm's financial statements, if any, from the disposition of these matters will not be material.

(9) BUSINESS UNITS REPORTING

Because NorAm's operations in the natural gas industry account for in excess of 90% of NorAm's total revenues, income or loss and identifiable assets during 1997, NorAm is not required to report on a "segment" basis. However, in recognition of the manner in which NorAm manages its portfolio of businesses now that it is a wholly owned subsidiary of Houston Industries, NorAm has presented for supplemental comparative purposes the following summary of financial information by business unit:

	CURRENT NORAM	FORMER NORAM	
	FIVE MONTHS ENDED DECEMBER 31, 1997	SEVEN MONTHS ENDED JULY 31, 1997	TWELVE MONTHS ENDED DECEMBER 31, 1996
		(THOUSANDS OF DOLLARS)	(UNAUDITED)
Revenues:			
Natural Gas Distribution	$ 892,569	$1,309,732	$ 2,113,589
Interstate Pipeline	108,333	186,711	346,762
Energy Marketing	1,604,999	1,984,119	2,645,106
Corporate	39,079	42,615	55,403
Eliminations(1)	(123,638)	(186,129)	(372,398)
Total Revenues	$ 2,521,342	$3,337,048	$ 4,788,462
Operating Income:			
Natural Gas Distribution	$ 54,502	$ 111,933	$ 178,141
Interstate Pipeline	31,978	76,730	107,904
Energy Marketing	16,407	2,881	55,693
Corporate	(12,131)	(36,504)	(27,272)
Total Operating Income	90,756	155,040	314,466
Other Income (Expense)	2,243	7,210	(14,577)
Interest and Other Charges	47,769	84,977	138,399
Income Before Income Taxes	$ 45,230	$ 77,273	$ 161,490
Depreciation and Amortization:			
Natural Gas Distribution	$ 51,883	$ 56,626	$ 94,853
Interstate Pipeline	19,088	17,229	29,172
Energy Marketing	4,448	2,115	2,931
Corporate	2,788	8,931	15,406
Total Depreciation and Amortization	$ 78,207	$ 84,901	$ 142,362
Identifiable Assets:			
Natural Gas Distribution	$ 3,047,195		$ 1,920,601
Interstate Pipeline	3,055,610		2,151,092
Energy Marketing	1,267,867		778,348
Corporate	4,517,953		4,580,845
Eliminations	(5,749,529)		(5,413,409)
Total Identifiable Assets(2)	$ 6,139,096		$ 4,017,477
Capital Expenditures:			
Natural Gas Distribution	$ 61,078	$ 69,422	$ 116,400
Interstate Pipeline	16,304	9,619	39,900
Energy Marketing	14,365	9,637	12,300
Corporate	1,667	(40)	3,600
Total Capital Expenditures	$ 93,414	$ 88,638	$ 172,200

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(1) Elimination of operating revenues derived from sales to affiliated business units.

(2) As of the Acquisition Date, NorAm's assets and liabilities are reflected at their estimated fair market value; see Note 1(b).

(10) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

	CURRENT NORAM		FORMER NORAM	
	DECEMBER 31,			
	1997		1996	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(THOUSANDS OF DOLLARS)			
Financial Assets of NorAm:				
Interest rate swaps				$ 6,700
Energy Derivatives(1)	$ 9,399	$ 13,060	$ 800	9,800
Financial Liabilities of NorAm:				
Long-term debt	1,148,848	1,147,344	1,331,200	1,389,500
Trust preferred securities	21,290	24,569	167,800	219,100
Interest rate swaps		755		

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(1) At December 31, 1996, NorAm had deferred losses of approximately $11.9 million associated with expected sales under "peaking" contracts with certain customers which, in effect, give the customer a "call" on certain volumes of gas. All such losses were recognized in January 1997 when the anticipated transactions were scheduled to occur.

The fair values of cash and short-term investments, marketable equity securities, short-term and other notes payable are estimated to be equivalent to carrying amounts. The remaining fair values have been determined using quoted market prices of the same or similar securities when available or other estimation techniques.

(11) 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.

The merger in 1997 was recorded under the purchase method of accounting, resulting in new carrying values for certain of NorAm's assets, liabilities and equity based on preliminary analysis. The new basis is reflected in NorAm's Consolidated Financial Statements beginning with the Acquisition Date. For additional information; see Note 1(b).

	YEAR ENDED DECEMBER 31, 1997				
	FORMER NORAM			CURRENT NORAM	
	FIRST QUARTER	SECOND QUARTER	ONE MONTH ENDED JULY 31, 1997	TWO MONTHS ENDED SEPTEMBER 30, 1997	FOURTH QUARTER
	(THOUSANDS OF DOLLARS)			(THOUSANDS OF DOLLARS)	
Operating Revenues	$1,924,182	$1,015,998	$396,868	$749,412	$1,771,930
Operating Income (loss)	145,221	36,616	(26,797)	10,781	79,975
Income (loss) before extraordinary item	68,410	702	(23,237)	(6,646)	27,493
Extraordinary item, less taxes(1)	237	--	--	--	--
Net income (loss)(3)	$ 68,647	$ 702	$(23,237)	$ (6,646)	$ 27,493

	FORMER NORAM YEAR ENDED DECEMBER 31, 1996			
	FIRST QUARTER(2)	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(THOUSANDS OF DOLLARS)			
Operating revenues	$1,417,663	$891,325	$899,283	$1,580,191
Operating income	146,582	39,673	18,634	109,577
Income (loss) before extraordinary item	61,197	2,335	(8,183)	39,789
Extraordinary Item, less taxes(1)	(278)	(4,455)	477	(24)
Net income (loss)(3)	$ 60,919	($ 2,120)	($ 7,706)	$ 39,765

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(1) Net gain (loss) on early retirement of debt, less taxes.

(2) Includes a pre-tax charge of $22.3 million associated with early retirement and severance costs.

(3) Before preferred dividend requirement.

(12) SUBSEQUENT EVENTS

In February 1998, NorAm issued $300 million principal amount of 6.5% debentures due February 1, 2008. The debentures are not redeemable prior to maturity and are not subject to any sinking fund requirements. The proceeds from the sale of the debentures were used to repay short-term indebtedness of NorAm, including the indebtedness incurred in connection with the 1997 purchase of $101 million aggregate principal amount of its 10% Debentures and the repayment of $53 million aggregate principal amount of NorAm debt that matured in December 1997 and January 1998. In connection with the issuance of the 6.5% debentures NorAm received approximately $1 million upon unwinding a $300 million treasury rate lock agreement, which was tied to the interest rate on 10-year treasury bonds. The rate lock agreement was executed in January 1998, and proceeds from the unwind will be amortized over the 10 year life of NorAm's 6.5% debentures.

INDEPENDENT AUDITORS' REPORT

NorAm Energy Corp.:

We have audited the accompanying consolidated balance sheet of NorAm Energy Corp. and its subsidiaries (NorAm) as of December 31, 1997, and the related statements of consolidated income, consolidated stockholders' equity and consolidated cash flows for the five months ended December 31, 1997 and the seven months ended July 31, 1997. Our audit also included the Company's financial statement schedule listed in Item 14(a)(4) for the year ended December 31, 1997. These financial statements and the financial statement schedule are the responsibility of NorAm's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of NorAm Energy Corp. and its subsidiaries at December 31, 1997, and the results of their operations and their cash flows for the five months ended December 31, 1997 and the seven months ended July 31, 1997 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.

DELOITTE & TOUCHE LLP

Houston, Texas
February 20, 1998

REPORT OF INDEPENDENT ACCOUNTANTS

NorAm Energy Corp.

We have audited the consolidated financial statements and financial statement schedule of NorAm Energy Corp. and Subsidiaries (NorAm) as of December 31, 1996 and for the two years in the period ended December 31, 1996 as listed in Item 14(a)(2) and Item 14(a)(4) of this Form 10-K. These financial statements and the financial statement schedule are the responsibility of NorAm'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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NorAm Energy Corp. and Subsidiaries as of December 31, 1996 and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 1996, in conformity with general accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND L.L.P.

Houston, Texas
March 25, 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 NORAM.

(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 1998 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) NorAm. The information called for by Item 10 with respect to NorAm is omitted pursuant to Instruction I(2)(a) to Form 10-K (Omission of Information by Certain Wholly-Owned Subsidiaries).

ITEM 11. EXECUTIVE COMPENSATION.

(a) The Company. The information called for by Item 11 is or will be set forth in the definitive proxy statement relating to the Company's 1998 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 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

(b) NorAm. The information called for by Item 11 with respect to NorAm is omitted pursuant to Instruction I(2)(a) to Form 10-K (Omission of Information by Certain Wholly-Owned Subsidiaries).

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

(a) The Company. The information called for by Item 12 is or will be set forth in the definitive proxy statement relating to the Company's 1998 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) NorAm. The information called for by Item 12 with respect to NorAm is omitted pursuant to Instruction I(2)(a) to Form 10-K (Omission of Information by Certain Wholly-Owned Subsidiaries).

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 1998 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) NorAm. The information called for by Item 13 with respect to NorAm is omitted pursuant to Instruction I(2)(a) to Form 10-K (Omission of Information by Certain Wholly-Owned Subsidiaries).

PART IV

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

The following schedules are omitted for each of the Company and NorAm 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 for the Company (page 148) and NorAm (page 159), which indexes also include 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.

COMPANY: None

NORAM: None

HOUSTON INDUSTRIES INCORPORATED

SCHEDULE II -- RESERVES
FOR THE THREE YEARS ENDED DECEMBER 31, 1997
(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, 1997:					
Accumulated provisions deducted from related assets on balance sheet:					
Uncollectible accounts		$ 5,625	$15,404	$ 5,685	$15,344
Uncollectible advances	$ 33,159			33,159	0
Reserves other than those deducted from assets on balance sheet:					
Property insurance	70	2,187		5,824	(3,567)
Injuries and damages	1,128	5,215		3,162	3,181
Non-regulated project contingencies	2,296			516	1,780
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

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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) Charged to other account represents the provision for uncollectible accounts acquired in the August 1997 merger with NorAm.

NORAM ENERGY CORP. AND SUBSIDIARIES

SCHEDULE II -- RESERVES
FOR THE THREE YEARS ENDED DECEMBER 31, 1997
(THOUSANDS OF DOLLARS)

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO INCOME	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS FROM RESERVES	BALANCE AT END OF PERIOD
Reserves which are deducted in the balance sheet from assets to which they apply:					
(a) Allowance for Doubtful Accounts Receivable					
Year ended December 31, 1997.....	$13,023	$13,245	$2,383	$13,307	$15,344
Year ended December 31, 1996.....	$11,117	$12,364	$3,189	$13,647	$13,023
Year ended December 31, 1995.....	$12,604	$10,315	$ (470)	$11,332	$11,117
(b) Deferred Tax Assets Valuation Allowance					
Year ended December 31, 1997.....	$ 6,761	$ 2,539		$ 2,947	$ 6,353
Year ended December 31, 1996.....	$ 6,188	$ 573			$ 6,761
Year ended December 31, 1995.....	$ 5,974	$ 214			$ 6,188

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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.

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 23rd day of March, 1998.

HOUSTON INDUSTRIES INCORPORATED
(Registrant)

By: /s/ 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 23, 1998.

SIGNATURE	TITLE
/s/ DON D. JORDAN (Don D. Jordan)	Chairman and Chief Executive Officer and Director (Principal Executive Officer)
/s/ STEPHEN W. NAEVE (Stephen W. Naeve)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ MARY P. RICCIARDELLO (Mary P. Ricciardello)	Vice President and Comptroller (Principal Accounting Officer)
/s/ JAMES A. BAKER (James A. Baker)	Director
/s/ RICHARD E. BALZHISER (Richard E. Balzhiser)	Director
/s/ MILTON CARROLL (Milton Carroll)	Director
/s/ JOHN T. CATER (John T. Cater)	Director
/s/ O. HOLCOMBE CROSSWELL (O. Holcombe Crosswell)	Director
/s/ ROBERT J. CRUIKSHANK (Robert J. Cruikshank)	Director
/s/ LINNET F. DEILY (Linnet F. Deily)	Director
/s/ JOSEPH M. GRANT (Joseph M. Grant)	Director

SIGNATURE	TITLE
/s/ ROBERT C. HANNA (Robert C. Hanna)	Director
/s/ LEE W. HOGAN (Lee W. Hogan)	Director
/s/ T. MILTON HONEA (T. Milton Honea)	Director
/s/ R. STEVE LETBETTER (R. Steve Letbetter)	Director
/s/ ALEXANDER F. SCHILT (Alexander F. Schilt)	Director
/s/ 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 23rd day of March, 1998.

NORAM ENERGY CORP.
(Registrant)

By: /s/ 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 23, 1998.

SIGNATURE	TITLE
/s/ DON D. JORDAN (Don D. Jordan)	Chairman and Chief Executive Officer (Principal Executive Officer and Principal Financial Officer)
/s/ MARY P. RICCIARDELLO (Mary P. Ricciardello)	Vice President and Comptroller (Principal Accounting Officer)
/s/ STEPHEN W. NAEVE (Stephen W. Naeve	Sole Director

HOUSTON INDUSTRIES INCORPORATED
NORAM ENERGY CORP.

EXHIBITS TO THE COMBINED ANNUAL REPORT ON FORM 10-K
FOR FISCAL YEAR ENDED DECEMBER 31, 1997

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)(1)	Agreement and Plan of Merger among the Company, Former HL&P, HI Merger, Inc. and Former NorAm dated August 11, 1996	Former HI's Form 8-K dated August 11, 1996	1-7629	2
2(a)(2)	Amendment to Agreement and Plan of Merger among the Company, Former HL&P, HI Merger, Inc. and Former 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 September 1997			
+3(b)	Amended and Restated Bylaws of the Company, as of December 1996			
4(a)(1)	Mortgage and Deed of Trust dated November 1, 1944 between the Company and Chase Bank of Texas, National Association (formerly, South Texas Commercial National Bank of Houston), as Trustee, as amended and supplemented by 20 Supplemental Indentures thereto	Form S-7 of Former HL&P filed on August 25, 1977	2-59748	2(b)
4(a)(2)	Twenty-First through Fiftieth Supplemental Indentures to Exhibit 4(a)(1)	Former HL&P's Form 10-K for year ended December 31, 1989	1-3187	4(a)(2)
4(a)(3)	Fifty-First Supplemental Indenture to Exhibit 4(a)(1) dated as of March 25, 1991	Former HL&P's Form 10-Q for quarter ended June 30, 1991	1-3187	4(a)
4(a)(4)	Fifty-Second through Fifty-Fifth Supplemental Indentures to Exhibit 4(a)(1) each dated as of March 1, 1992	Former HL&P's Form 10-Q for quarter ended March 31, 1992	1-3187	4

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4(a)(5)	Fifty-Sixth and Fifty-Seventh Supplemental Indentures to Exhibit 4(a)(1) each dated as of October 1, 1992	Former HL&P's Form 10-Q for quarter ended September 30, 1992	1-3187	4
4(a)(6)	Fifty-Eighth and Fifty-Ninth Supplemental Indenture to Exhibit 4(a)(1) each dated as of March 1, 1993	Former HL&P's Form 10-Q for quarter ended March 31, 1993	1-3187	4
4(a)(7)	Sixtieth Supplemental Indenture to Exhibit 4(a)(1) dated as of July 1, 1993	Former HL&P's Form 10-Q for quarter ended June 30, 1993	1-3187	4
4(a)(8)	Sixty-First through Sixty-Third Supplemental Indentures to Exhibit 4(a)(1) each dated as of December 1, 1993	Former HL&P's Form 10-K for year ended December 31, 1993	1-3187	4
4(a)(9)	Sixty-Fourth and Sixty-Fifth Supplemental Indentures to Exhibit 4(a)(1) each dated as of July 1, 1995	Former HL&P's Form 10-K for year ended December 31, 1995	1-3187	4(a)(9)
4(a)(10)	Junior Subordinated Trust Debenture Indenture between the Company and The Bank of New York, as Trustee, dated as of February 1, 1997	Former HL&P's Form 8-K dated February 4, 1997	1-3187	4.1
4(a)(11)	Supplemental Indenture No. 1 to Junior Subordinated Indenture, dated as of February 1, 1997, providing for issuance of the Company'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	Former HL&P's Form 8-K dated February 4, 1997	1-3187	4.2-A
4(a)(12)	Supplemental Indenture No. 2 to Junior Subordinated Indenture, dated as of February 1, 1997, providing for issuance of 8.257% Junior Subordinated Deferrable Interest Debentures, Series B (due February 1, 2037) including form of junior subordinated interest debenture, Series B	Former HL&P's Form 8-K dated February 4, 1997	1-3187	4.2-B
4(a)(13)	Amended and Restated Trust Agreement, dated as of February 4, 1997, of HL&P Capital Trust I, including form of Preferred Security and Agreement as to Expenses and Liabilities	Former HL&P's Form 8-K dated February 4, 1997	1-3187	4.3-A

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
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 and Agreement as to Expenses and Liabilities	Former HL&P's Form 8-K dated February 4, 1997	1-3187	4.3-B
4(a)(15)	Guarantee Agreement relating to Capital Trust I dated as of February 4, 1997	Former HL&P's Form 8-K dated February 4, 1997	1-3187	4.6-A
4(a)(16)	Guarantee Agreement relating to Capital Trust II dated as of February 4, 1997	Former HL&P's Form 8-K dated February 4, 1997	1-3187	4.6-B
4(a)(17)	Form of Indenture governing 7% Automatic Common Exchange Securities due July 1, 2000 between the Company and the First National Bank of Chicago, as Trustee	Former HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	4
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	Former HI's 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 S-4	333-11329	4(b)(1)
4(c)	Indenture, dated as of April 1, 1991, between the Company and NationsBank of Texas, National Association, as Trustee	Former HI's Form 10-Q for the quarter ended June 30, 1991	1-7629	4(b)

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4(d)	Credit Agreement, dated as of August 6, 1997, by and among Houston Industries FinanceCo LP, the Company, Chase Manhattan Bank and the other banks named therein	Former HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	10(f)
+4(d)(1)	First Amendment to Exhibit 4(d) dated as of December 27, 1997			
+4(d)(2)	Second Amendment to Exhibit 4(d) dated as of February 27, 1998			

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, including indentures, 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.

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
*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	Former HI'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	Former HI'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	Former HI'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	Former HI's Form 10-K for the year ended December 31, 1992	1-7629	10(b)
*10(b)(4)	Third Amendment to Exhibit 10(b)(1) effective as of September 7, 1994	Former HI's Form 10-K for the year ended December 31, 1994	1-7629	10(b)(4)
+*10(b)(5)	Fourth Amendment to Exhibit 10(b)(1) effective as of August 6, 1997			
*10(c)(1)	Executive Incentive Compensation Plan of the Company effective as of January 1, 1985	Former HI's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(b)(1)

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
*10(c)(2)	First Amendment to Exhibit 10(c)(1) effective as of January 1, 1985	Former HI'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	Former HI'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	Former HI'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	Former HI'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	Former HI's Form 10-K for the year ended December 31, 1994	1-7629	10(c)(6)
+*10(c)(7)	Sixth Amendment to Exhibit 10(c)(1) effective as of August 6, 1997			
*10(d)	Executive Incentive Compensation Plan of HL&P effective as of January 1, 1985	Former HI'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	Former HI'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	Former HI's 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	Former HI'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	Former HI'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	Former HI'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	Former HI's Form 10-K for the year ended December 31, 1990	1-7629	10(b)

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
*10(f)(2)	First Amendment to Exhibit 10(f)(1) effective as of January 1, 1991	Former HI'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	Former HI'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	Former HI'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	Former HI'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, January 1, 1995 and in part, September 7, 1994	Former HI'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	Former HI'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	Former HI's Form 10-Q for the quarter ended June 30, 1996	1-7629	10(a)
*10(f)(9)	Eighth Amendment to Exhibit 10(f)(1) effective as of January 1, 1997	Former HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	10(a)
+*10(f)(10)	Ninth Amendment to Exhibit 10(f)(1) effective in part, January 1, 1997, and in part, January 1, 1998			
*10(g)	Benefit Restoration Plan of the Company, effective as of June 1, 1985	Former HI's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(c)
*10(h)	Benefit Restoration Plan of the Company as amended and restated effective as of January 1, 1988	Former HI's Form 10-K for the year ended December 31, 1991	1-7629	10(g)(2)
*10(i)(1)	Benefit Restoration Plan of the Company, as amended and restated effective as of July 1, 1991	Former HI's Form 10-K for the year ended December 31, 1991	1-7629	10(g)(3)

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
+*10(i)(2)	First Amendment to Exhibit 10(i)(1) effective in part, August 6, 1997, and in part, September 3, 1997 and in part, October 1, 1997			
*10(j)(1)	Deferred Compensation Plan of the Company effective as of September 1, 1985	Former HI's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(d)
*10(j)(2)	First Amendment to Exhibit 10(j)(1) effective as of September 1, 1985	Former HI's Form 10-K for the year ended December 31, 1990	1-7629	10(d)(2)
*10(j)(3)	Second Amendment to Exhibit 10(j)(1) effective as of March 30, 1992	Former HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(e)
*10(j)(4)	Third Amendment to Exhibit 10(j)(1) effective as of June 2, 1993	Former HI's Form 10-K for the year ended December 31, 1993	1-7629	10(h)(4)
*10(j)(5)	Fourth Amendment to Exhibit 10(j)(1) effective as of September 7, 1994	Former HI's Form 10-K for the year ended December 31, 1994	1-7629	10(h)(5)
*10(j)(6)	Fifth Amendment to Exhibit 10(j)(1) effective as of August 1, 1995	Former HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(d)
*10(j)(7)	Sixth Amendment to Exhibit 10(j)(1) effective as of December 1, 1995	Former HI's 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 January 1, 1997	Former HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	10(b)
+*10(j)(9)	Eighth Amendment to Exhibit 10(j)(1) effective as of September 1, 1997			
+*10(j)(10)	Ninth Amendment to Exhibit 10(j)(1) effective as of September 3, 1997			
*10(k)(1)	Deferred Compensation Plan of the Company effective as of January 1, 1989	Former HI's Form 10-Q for the quarter ended June 30, 1989	1-7629	10(a)
*10(k)(2)	First Amendment to Exhibit 10(k)(1) effective as of January 1, 1989	Former HI's Form 10-K for the year ended December 31, 1989	1-7629	10(e)(3)

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
*10(k)(3)	Second Amendment to Exhibit 10(k)(1) effective as of March 30, 1992	Former HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(f)
*10(k)(4)	Third Amendment to Exhibit 10(k)(1) effective as of June 2, 1993	Former HI's Form 10-K for the year ended December 31, 1993	1-7629	10(i)(4)
*10(k)(5)	Fourth Amendment to Exhibit 10(k)(1) effective as of September 7, 1994	Former HI's Form 10-K for the year ended December 31, 1994	1-7629	10(i)(5)
*10(k)(6)	Fifth Amendment to Exhibit 10(k)(1) effective as of August 1, 1995	Former HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(c)
*10(k)(7)	Sixth Amendment to Exhibit 10(k)(1) effective as of December 1, 1995	Former HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(c)
*10(k)(8)	Seventh Amendment to Exhibit 10(k)(1) effective as of January 1, 1997	Former HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	10(c)
+*10(k)(9)	Eighth Amendment to Exhibit 10(k)(1) effective as in part October 1, 1997 and in part January 1, 1998			
+*10(k)(10)	Ninth Amendment to Exhibit 10(k)(1) effective as of September 3, 1997			
*10(l)(1)	Deferred Compensation Plan of the Company effective as of January 1, 1991	Former HI's Form 10-K for the year ended December 31, 1990	1-7629	10(d)(3)
*10(l)(2)	First Amendment to Exhibit 10(l)(1) effective as of January 1, 1991	Former HI's Form 10-K for the year ended December 31, 1991	1-7629	10(j)(2)
*10(l)(3)	Second Amendment to Exhibit 10(l)(1) effective as of March 30, 1992	Former HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(g)
*10(l)(4)	Third Amendment to Exhibit 10(l)(1) effective as of June 2, 1993	Former HI's Form 10-K for the year ended December 31, 1993	1-7629	10(j)(4)
*10(l)(5)	Fourth Amendment to Exhibit 10(l)(1) effective as of December 1, 1993	Former HI's Form 10-K for the year ended December 31, 1993	1-7629	10(j)(5)

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
*10(l)(6)	Fifth Amendment to Exhibit 10(l)(1) effective as of September 7, 1994	Former HI's Form 10-K for the year ended December 31, 1994	1-7629	10(j)(6)
*10(l)(7)	Sixth Amendment to Exhibit 10(l)(1) effective as of August 1, 1995	Former HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(b)
*10(l)(8)	Seventh Amendment to Exhibit 10(l)(1) effective as of December 1, 1995	Former HI's Form 10-Q for the quarter ended June 30, 1996	1-7629	10(d)
*10(l)(9)	Eighth Amendment to Exhibit 10(l)(1) effective as of January 1, 1997	Former HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	10(d)
+*10(l)(10)	Ninth Amendment to Exhibit 10(l)(1) effective in part August 6, 1997, in part October 1, 1997 and in part January 1, 1998			
+*10(l)(11)	Tenth Amendment to Exhibit 10(l)(1) effective as of September 3, 1997			
*10(m)(1)	Long-Term Incentive Compensation Plan of the Company effective as of January 1, 1989	Former HI's Form 10-Q for the quarter ended June 30, 1989	1-7629	10(c)
*10(m)(2)	First Amendment to Exhibit 10(m)(1) effective as of January 1, 1990	Former HI's Form 10-K for the year ended December 31, 1989	1-7629	10(f)(2)
*10(m)(3)	Second Amendment to Exhibit 10(m)(1) effective as of December 22, 1992	Former HI's Form 10-K for the year ended December 31, 1992	1-7629	10(k)(3)
+*10(m)(4)	Third Amendment to Exhibit 10(m)(1) effective as of August 6, 1997			
*10(n)	Form of stock option agreement for nonqualified stock options granted under the Company's 1989 Long-Term Incentive Compensation Plan	Former HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(h)
*10(o)	Forms of restricted stock agreement for restricted stock granted under the Company's 1989 Long-Term Incentive Compensation Plan	Former HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(i)

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
*10(p)(1)	1994 Long-Term Incentive Compensation Plan of the Company effective as of January 1, 1994	Former HI's Form 10-K for the year ended December 31, 1993	1-7629	10(n)(1)
*10(p)(2)	Form of stock option agreement for non-qualified stock options granted under the Company's 1994 Long-Term Incentive Compensation Plan	Former HI's Form 10-K for the year ended December 31, 1993	1-7629	10(n)(2)
*10(p)(3)	First Amendment to Exhibit 10(p)(1) effective as of May 9, 1997	Former HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	10(e)
+*10(p)(4)	Second Amendment to Exhibit 10(p)(1) effective as of August 6, 1997			
*10(q)(1)	Savings Restoration Plan of the Company effective as of January 1, 1991	Former HI's Form 10-K for the year ended December 31, 1990	1-7629	10(f)
*10(q)(2)	First Amendment to Exhibit 10(q)(1) effective as of January 1, 1992	Former HI's Form 10-K for the year ended December 31, 1991	1-7629	10(l)(2)
+*10(q)(3)	Second Amendment to Exhibit 10(q)(1) effective in part, August 6, 1997, and in part, October 1, 1997			
*10(r)	Director Benefits Plan, effective as of January 1, 1992	Former HI's Form 10-K for the year ended December 31, 1991	1-7629	10(m)
*10(s)(1)	Executive Life Insurance Plan of the Company effective as of January 1, 1994	Former HI's Form 10-K for the year ended December 31, 1993	1-7629	10(q)
*10(s)(2)	First Amendment to Exhibit 10(s)(1) effective as of January 1, 1994	Former HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10
+*10(s)(3)	Second Amendment to Exhibit 10(s)(1) effective as of August 6, 1997			
*10(t)	Employment and Supplemental Benefits Agreement between HL&P and Hugh Rice Kelly	Former HI's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(f)

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
10(u)(1)	Houston Industries Incorporated Savings Trust between the Company and The Northern Trust Company, as Trustee (as amended and restated effective July 1, 1995)	Former HI's Form 10-K for the year ended December 31, 1995	1-7629	10(s)(4)
10(u)(2)	Note Purchase Agreement between the Company and the ESOP Trustee, dated as of October 5, 1990	Former HI's Form 10-K for the year ended December 31, 1990	1-7629	10(j)(3)
10(v)(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(v)(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(v)(3)	Amendment to Exhibits 10(v)(1) and 10(v)(2) dated November 18, 1996	Former HI's Form 10-K for the year ended December 31, 1996	1-7629	10(x)(4)
10(v)(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(w)	Houston Industries Incorporated Executive Deferred Compensation Trust, effective as of December 19, 1995	Former HI's Form 10-K for the year ended December 31, 1995	1-7629	10(7)
*10(x)	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(y)	Consulting Agreement, dated January 14, 1997, between the Company and Milton Carroll	Former HI's Form 10-K for the year ended December 31, 1996	1-7629	10(bb)
*10(z)(1)	Employment Agreement, dated February 25, 1997, between the Company and Don D. Jordan	Former HI's Form 10-K for the year ended December 31, 1996	1-7629	10(cc)
+*10(z)(2)	Amended and Restated Employment Agreement, dated November 7, 1997, between the Company and Don D. Jordan			

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
+*10(aa)(1)	Executive Severance Benefits Plan of the Company and Summary Plan Description effective as of September 3, 1997			
+*10(aa)(2)	Form of Severance Agreements, dated September 3, 1997, between the Company and each of the following executive officers: Lee W. Hogan, Hugh Rice Kelly, R. Steve Letbetter, and Stephen W. Naeve			
+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) NORAM ENERGY CORP.

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
2(a)(1)	Agreement and Plan of Merger among the Company, Former HL&P, HI Merger, Inc. and Former NorAm dated August 11, 1996	Former HI's Form 8-K dated August 11, 1996	1-7629	2
2(b)(2)	Amendment to Agreement and Plan of Merger among the Company, Former HL&P, HI Merger, Inc. and Former NorAm dated August 11, 1996	Registration Statement on Form S-4	333-11329	2(c)
+3(a)(1)	Certificate of Incorporation of NorAm			
+3(a)(2)	Certificate of Merger merging NorAm Energy Corp. with and into HI Merger, Inc. dated August 6, 1997			
+3(b)	Bylaws of NorAm			
4(a)(1)	Indenture, dated as of December 1, 1986, between NorAm and Citibank, N.A., as Trustee	Former NorAm's Form 10-K for the year ended December 31, 1986	1-13265	4.14
+4(a)(2)	First Supplemental Indenture to Exhibit 4(a)(1) dated as of September 30, 1988			

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
+4(a)(3)	Second Supplemental Indenture to Exhibit 4(a)(1) dated as of November 15, 1989			
+4(a)(4)	Third Supplemental Indenture to Exhibit 4(a)(1) dated as of August 6, 1997			
4(b)(1)	Indenture, dated as of March 31, 1987, between NorAm and Chase Manhattan Bank, N.A., as Trustee, authorizing 6% Convertible Subordinated Debentures due 2012	Former NorAm's Registration Statement on Form S-3	33-14586	4.20
+4(b)(2)	Supplemental Indenture to Exhibit 4(b)(1) dated as of August 6, 1997			
4(c)(1)	Indenture, dated as of April 15, 1990, between NorAm and Citibank, N.A. as Trustee	Former NorAm's Registration Statement on Form S-3	33-23375	4.1
+4(c)(2)	Supplemental Indenture to Exhibit 4(c)(1) dated as of August 6, 1997			
4(d)(1)	Form of Indenture between NorAm and The Bank of New York as Trustee	Former NorAm's Registration Statement on Form S-3	33-64001	4.8
4(d)(2)	Form of First Supplemental Indenture to Exhibit 4(d)(1)	Former NorAm's Form 8-K dated as of June 10, 1996	1-13265	4.01
+4(d)(3)	Second Supplemental Indenture to Exhibit 4(d)(1) dated as of August 6, 1997			
4(e)	Indenture between NorAm and Chase Bank of Texas, National Association, dated as of December 1, 1997	Registration Statement on Form S-3	333-41017	4.1

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 NorAm. NorAm hereby agrees to furnish a copy of any such instrument to the SEC upon request.

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
10(a)	Service Agreement by and between Mississippi River Transmission Corporation and Laclede Gas Company dated August 22, 1989	Former NorAm Form 10-K for the year ended December 31, 1989	1-13265	10.20
+12	Computation of Ratios of Earnings to Fixed Charges			
+23(a)	Consent of Deloitte & Touche LLP			
+23(b)	Consent of Coopers & Lybrand L.L.P.			
+27	Financial Data Schedule			

EXHIBIT 3a

RESTATED ARTICLES OF INCORPORATION

OF

HOUSTON INDUSTRIES INCORPORATED

Houston Industries Incorporated, a Texas corporation (hereinafter referred to as the "Company" or the "Corporation"), pursuant to the provisions of Article 4.07 of the Texas Business Corporation Act, hereby adopts the following Restated Articles of Incorporation which accurately copy the articles of incorporation and all amendments thereto that are in effect to date and such Restated Articles of Incorporation contain no change in any provision thereof.

The articles of incorporation and all amendments thereto that are in effect to date are hereby superseded by the following Restated Articles of Incorporation which accurately copy the entire text thereof:

ARTICLE I

The name of this corporation is "Houston Industries Incorporated."

ARTICLE II

The purposes for which the Company is formed are: the generation, manufacture, purchase, transportation, distribution, supply and sale of electric current, light, heat and power to the public; the production, manufacture and purchase of gas and the transportation, distribution, sale and supply of gas to the public; the purchase, generation, manufacture, transportation, distribution and sale of steam to the public; the generation, manufacture, purchase, transportation, distribution, supply and sale of any other form or source of light, heat, energy or power; the manufacture, production, purchase and sale of machinery and equipment and goods, wares and merchandise of every description; the acquiring, holding, development and utilization of patent rights, licenses, trademarks and trade names relative to or useful in connection with any business of the Company; to engage in any lawful act or activity for which corporations may be organized under the Texas Business Corporation Act; and the doing of all such things as may be necessary or convenient in carrying out the foregoing purposes, having and exercising all the powers conferred by the laws of Texas upon corporations formed for such purposes.

The objects and purposes specified in the foregoing clauses shall, except as otherwise expressed, be in nowise limited or restricted by reference to, or inference from, the terms of any

other clauses in these Articles of Incorporation, but each such object and purpose shall be regarded as an independent object and purpose.

ARTICLE III

The post office address of the registered office of the Company is 1111 Louisiana, Houston, Texas 77002 and the name of its registered agent at such address is Hugh Rice Kelly.

ARTICLE IV

The period of duration of the Company is perpetual.

ARTICLE V

The number of directors of the corporation shall be such number as determined from time to time by a majority of the board of directors, but shall not be less than three. The directors of the Company shall be divided into three classes, designated Class I, Class II and Class III, each class to be as nearly equal as possible. The initial terms of office of the directors of Class I shall expire at the annual meeting of shareholders in 1997, of Class II shall expire at the annual meeting of shareholders in 1998 and of Class III shall expire at the annual meeting of shareholders in 1999. At each annual meeting the number of directors equal to the number constituting the class whose term expires at the time of such meeting shall be elected to hold office until the third succeeding annual meeting.

The number of directors currently constituting the board of directors is fifteen. The persons whose names and addresses are set forth below are now serving as directors of the corporation, and they are divided into the classes specified below:

Name	Address
CLASS I	
Robert J. Cruikshank	Houston, Texas
Linnet F. Deily	Houston, Texas
Lee W. Hogan	Houston, Texas
T. Milton Honea	Houston, Texas
Alexander F. Schilt	Houston, Texas
CLASS II	
Milton Carroll	Houston, Texas
John T. Cater	Houston, Texas
Robert C. Hanna	Houston, Texas
R. Steve Letbetter	Houston, Texas
Bertram Wolfe	Houston, Texas
CLASS III	
James A. Baker, III	Houston, Texas
Richard E. Balzhiser	Houston, Texas
O. Holcombe Crosswell	Houston, Texas
Joseph M. Grant	Houston, Texas
Don D. Jordan	Houston, Texas

ARTICLE VI

The number of shares of the total authorized capital stock of the Company is 720,000,000 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, and the balance of 700,000,000 shares are classified as Common Stock, without par value.

The descriptions of the different classes of capital stock of the Company and the preferences, designations, relative rights, privileges and powers, and the restrictions, limitations and qualifications thereof, of said classes of stock are as follows:

DIVISION A -- PREFERRED STOCK

1. Series and Limits of Variations between Series. The Preferred Stock may be divided into and issued in one or more series from time to time as herein provided, each series to be so designated as to distinguish the shares thereof from the shares of all other series and classes. The authorized number of shares of any such series, the designation of such series and the terms and characteristics thereof (in those respects in which the shares of one series may vary from the shares of other series as herein provided) shall be fixed or, if any such terms and characteristics shall vary from time to time, the method by which such terms and characteristics shall be determined shall be established at any time prior to the issuance thereof by resolution or resolutions of the Board of Directors of the Company. All shares of each series shall be alike in every particular. The Preferred Stock of all series shall be of the same class and of equal rank and shall be identical in all respects, except that there may be variations in the following particulars:

(a) The rate at which dividends are to accrue on the shares of such series or, if such rate shall vary from time to time, the method by which such variable rate shall be determined, hereinafter referred to as the "fixed dividend rate";

(b) The periods of time during which dividends shall accrue and the dates on which accrued dividends shall become payable on the shares of such series;

(c) The terms and conditions on which the shares of such series may be redeemed, and the amount payable in respect of the shares of such series in case of the redemption thereof at the option of the Company (the amount so fixed being hereinafter referred to as the "fixed redemption price"), and the amount payable in respect of the shares of such series in case of

the redemption thereof for any sinking fund of such series, which amounts in respect of any series may, but need not, vary according to the time or circumstances of such action;

(d) The amount payable in respect of the shares of such series in case of liquidation, dissolution or winding up of the Company, or reduction or decrease of its capital stock resulting in any distributions of its assets to its Common Stockholders (the amount so fixed being hereinafter referred to as the "fixed liquidation price"), and the amount payable, if any, in addition to the fixed liquidation price for each series in case such liquidation, dissolution, winding up, reduction or decrease be voluntary (the amount so fixed being hereinafter referred to as the "fixed liquidation premium"), which amounts in respect of any series may, but need not, vary according to the time or circumstances of such action;

(e) Any requirement as to any sinking fund or purchase fund for, or the redemption, purchase or other retirement by the Company of, the shares of such series; and

(f) The right, if any, to exchange or convert the shares of such series into shares of any other series of the Preferred Stock or, to the extent permitted by law, into shares of any other class of stock of the Company, and the rate or basis, time, manner and conditions of exchange or conversion or the method by which the same shall be determined.

2. Dividends. Out of the assets of the Company available for dividends, the holders of the Preferred Stock of each series shall be entitled to receive, if and when declared payable by the Board of Directors, dividends in lawful money of the United States of America at, but not exceeding, the fixed dividend rate for such series, payable quarterly on January 1, April 1, July 1 and October 1 in each year, or at such intervals and on such dates as otherwise are expressly set forth in the resolution of the Board of Directors creating such series or, if such intervals and dividend payment dates shall vary from time to time for such series, such resolution shall set forth the method by which such intervals and such dates shall be determined, before any dividends (other than a dividend payable in Common Stock of the Company) shall be paid upon or set apart for any shares of capital stock ranking junior to the Preferred Stock in respect of dividends or liquidation rights (referred to in this Division A as "stock ranking junior to the Preferred Stock"), and such dividends on the Preferred Stock shall be cumulative, so that, if in any past dividend period or periods full dividends upon each series of the outstanding Preferred Stock at the fixed dividend rate or rates therefor shall not have been paid, the deficiency (without interest) shall be paid or declared and set apart for payment before any dividend shall be paid upon or set apart for any stock ranking junior to the Preferred Stock. Dividends on all shares of the Preferred Stock of each series shall commence to accrue and be cumulative from the date of issue of such shares. Any dividends paid on the Preferred Stock in an amount less than full cumulative dividends in arrears upon all Preferred Stock outstanding shall, if more than one series be outstanding, be divided between the different series in proportion to the aggregate amounts which would be distributable to the Preferred Stock of each series if full cumulative dividends were simultaneously declared and paid thereon without regard to the applicable dividend payment dates.

3. Preference on Liquidation, etc. In the event of any liquidation, dissolution, or winding up of the Company, or reduction or decrease of its capital stock resulting in a distribution of assets to its Common Stockholders other than by way of dividends out of the net profits or out of the surplus of the Company, the holders of the Preferred Stock of each series shall be entitled to

receive, for each share thereof, the fixed liquidation price for such series, plus, in case such liquidation, dissolution, winding up, reduction or decrease shall have been voluntary, the fixed liquidation premium for such series, if any, together in all cases with all dividends accrued or in arrears thereon, before any distribution of the assets shall be made to the holders of any stock ranking junior to the Preferred Stock; but the holders of the Preferred Stock shall be entitled to no further participation in such distribution. If upon any such liquidation, dissolution, winding up, reduction or decrease, the assets distributable among the holders of the Preferred Stock shall be insufficient to permit the payment of the full preferential amounts aforesaid, then the entire assets of the Company to be distributed shall be distributed among the holders of each series of the Preferred Stock then outstanding, ratably in proportion to the full preferential amounts to which they are respectively entitled. As used in this Division A, the expression "dividends accrued or in arrears" means, in respect of each share of the Preferred Stock of any series, that amount which shall be equal to simple interest upon the sum of one hundred dollars ($100) at an annual rate equal to the percentage that the fixed dividend rate for such series is of one hundred dollars ($100), from the date from which cumulative dividends thereon commence to accrue to the date as of which the computation is to be made, less the aggregate amount (without interest thereon) of all dividends theretofore paid (or deemed to have been paid) or declared and set apart for payment in respect thereof. Nothing in this Section 3 shall be deemed to prevent the purchase or redemption of Preferred Stock in any manner permitted by Section 4 of this Division A. Neither shall anything in this Section 3 be deemed to prevent the purchase or redemption by the Company of shares of its stock ranking junior to the Preferred Stock if the requirements of Section 4 of this Division A shall be complied with, and no such purchase or redemption in compliance with such requirements shall be deemed to be a reduction or decrease of capital stock resulting in a distribution of assets to its Common Stockholders within the meaning of this Section 3 whether or not shares of Common Stock so redeemed or purchased shall be retired. A consolidation or merger of the Company or a sale or transfer of substantially all of its assets as an entirety shall not be regarded as a "liquidation, dissolution, or winding up of the Company, or reduction or decrease of its capital stock resulting in a distribution of assets to its Common Stockholders other than by way of dividends out of the net profits or out of the surplus of the Company" within the meaning of Section 3.

4. Redemption and Repurchase. The Company may at any time or from time to time, by resolution of the Board of Directors, redeem the whole or any part of the Preferred Stock, or of any series thereof, at the redemption price fixed for such stock plus the amount of any dividends accrued or in arrears thereon to the date of such redemption. If less than all of one series of Preferred Stock is to be redeemed, the shares to be redeemed shall be selected ratably or by lot, as prescribed by resolution of the Board of Directors. Notice of such redemption shall be mailed to each holder of redeemable shares being called not less than twenty (20) nor more than fifty (50) days before the date fixed for redemption at his address as it appears on the stock transfer books of the Company, with postage thereon prepaid. Such notice of redemption of such shares shall set forth the series or portion thereof to be redeemed, the date fixed for redemption, the redemption price, and the place at which the stockholders may obtain payment of the redemption price upon surrender of their respective share certificates. From and after the date fixed in any such notice as the date of redemption, unless default shall be made by the Company in providing funds sufficient for such redemption at the time and place specified for the payment thereof pursuant to said notice, all dividends on the shares called for redemption shall cease to accrue, and all rights

of the holders of such shares as stockholders of the Company, except only the right to receive the redemption funds to which they are entitled, shall cease and determine.

The Company may, on or prior to the date fixed for any redemption, deposit with any bank or trust company in the State of Texas, or any bank or trust company in the United States duly appointed and acting as a transfer agent of the Company, as a trust fund, a sum sufficient to redeem the shares called for redemption, with irrevocable instructions and authority to such bank or trust company to give or complete the notice of redemption thereof and to pay, on or after the date fixed for such redemption, to the respective holders of shares, as evidenced by a list of holders of such shares certified by the Company by its President or a Vice President and by its Secretary or an Assistant Secretary, the redemption price upon the surrender of their respective share certificates. Thereafter, from and after the date fixed for redemption, such shares shall be deemed to have been redeemed, and such deposit shall be deemed to constitute full payment of such shares to their holders, and all rights with respect to the holders of such shares shall cease and determine except the right to receive from the bank or trust company payment of the redemption price of such shares, without interest, upon the surrender of their respective certificates therefor, and any right to convert such shares which may exist. In case the holders of such shares shall not, within six (6) years after such deposit, claim the amount deposited for redemption thereof, such bank or trust company shall upon demand pay over to the Company the balance of such amount so deposited, together with any interest accrued thereon, which shall become the property of the Company, and such bank or trust company shall thereupon be relieved of all responsibility to the holders thereof.

The Company, except as hereinafter provided, may also from time to time purchase shares of Preferred Stock, in any amounts and of any series, at not exceeding the price at which the same may be redeemed, so long as full cumulative dividends on all series of the Preferred Stock have been paid, or declared and a sum sufficient for the payment thereof set apart, for all past quarterly dividend periods. If the Company shall be in default in the payment of any dividends on the Preferred Stock, as set out above, it shall not purchase or otherwise acquire for value any shares of Preferred Stock except in accordance with an offer made to all holders thereof, and shall not purchase or otherwise acquire for value any shares of stock ranking junior to the Preferred Stock.

Shares of Preferred Stock of the Company redeemed or purchased by the Company shall be restored to the status of authorized but unissued shares of Preferred Stock without designation, and may from time to time be reissued as provided in Section 1 of this Division A. All such redemptions and purchases of Preferred Stock of the Company shall be effected in accordance with the laws of the State of Texas governing redemption or purchase of redeemable shares.

5. Restrictions on Certain Corporate Action. So long as any shares of any series of the Preferred Stock shall remain outstanding, the Company shall not, without the authorization of the holders of not less than two-thirds of the issued and outstanding shares of Preferred Stock, voting as a class at a meeting called for the purpose of approving such action:

(a) Create, authorize or issue any class of stock ranking prior to the Preferred Stock in respect to dividends or liquidation rights (other than stock issuable upon conversion of obligations or securities, or upon the exercise of warrants, rights or options to purchase, authorized pursuant to (b) below);

(b) Create, authorize or issue any obligation or security convertible into, or any warrants, rights or options to purchase or subscribe to, any stock ranking prior to the Preferred Stock in respect to dividends or liquidation rights;

(c) Alter, amend or repeal the provisions hereof relative to the Preferred Stock, or any series thereof, which would change the express terms and provisions of such stock in any manner prejudicial to the holders thereof, including any change in the provisions of Sections 5 and 6 of this Division A; provided, however, that if such prejudicial change appertains to outstanding shares of one or more, but not all, of such series, then for the purposes of this Section 5 such change shall be deemed to be authorized if holders of two-thirds of the shares prejudicially affected shall vote favorably with respect thereto; or

(d) Issue additional shares of Preferred Stock, or issue any shares of any stock ranking on a parity with the Preferred Stock as to dividends or liquidation rights, unless

(1) the par value and/or the capital represented by shares without par value of the Company's stock ranking junior to the Preferred Stock to be outstanding immediately after such issuance (plus, if the Company so elects, its surplus as shown by its books to the extent that distribution of such surplus to the holders of such junior stock is prohibited while such additional shares are outstanding) shall be at least equal to the fixed liquidation price of its Preferred Stock of all series and of any other stock ranking on a parity with or in priority to the Preferred Stock as to dividends or liquidation rights to be outstanding immediately after the issuance of such additional shares; and

(2) for a period of twelve (12) consecutive calendar months within the fifteen (15) calendar months immediately preceding the issuance of such additional shares or the contracting for the issuance and sale thereof, (i) the net earnings of the Company available for dividends, as determined in accordance with sound accounting practice, are at least two and one-half (2 1/2) times the annual dividend requirements on all Preferred Stock of all series and all other stock ranking on a parity with or in priority to the Preferred Stock as to dividends or liquidation rights to be outstanding immediately after the issuance of such additional shares; and (ii) the earnings of the Company available (after taxes and depreciation) for interest, amortization and dividends, as determined in accordance with sound accounting practice, are at least one and one-half (1 1/2) times the aggregate of the annual interest requirements on its indebtedness and the annual dividend requirements on all Preferred Stock of all series and all other stock ranking on a parity with or in priority to the Preferred Stock as to dividends or liquidation rights to be outstanding immediately after the issuance of such additional shares.

6. Voting Rights. The holders of the Preferred Stock shall not be entitled to vote except (a) as provided in the preceding Section 5, or (b) as may from time to time be mandatorily provided by the laws of Texas, or (c) for the election of one-third of the Board of Directors when and as dividends on any of the outstanding Preferred Stock shall be in arrears in an amount equivalent to the aggregate dividends required to be paid on such Preferred Stock in any period of twelve (12) months, and thereafter (i) until no dividends on any Preferred Stock shall be in arrears or (ii) until dividends on any of the outstanding Preferred Stock shall be in arrears in an amount equivalent to the aggregate dividends required to be paid on such Preferred Stock in any period

of twenty-four (24) months, whichever event shall first occur, or (d) for the election of the smallest number of directors necessary to constitute a majority of the full Board of Directors when and as dividends on any of the outstanding Preferred Stock shall be in arrears in an amount equivalent to the aggregate dividends required to be paid on such Preferred Stock in any period of twenty-four (24) months, and thereafter until no dividends on any Preferred Stock shall be in arrears.

During the continuance of any right of the holders of Preferred Stock to elect members of the Board of Director, as above provided, the remaining members of the Board of Directors shall be elected by the holders of such other stock ranking junior to the Preferred Stock as may be entitled to vote therefor. At all meetings of stockholders held for the purpose of electing directors, during a period when the Preferred Stockholders shall have a right to elect members of the Board of Directors, a majority of the then issued and outstanding Preferred Stock as a class and of the stock ranking junior to the Preferred Stock entitled to vote as a class for the election of directors shall constitute a quorum of those classes, respectively, for the purpose of such meetings, and lack of a quorum as to any of such classes at any such meeting shall not interfere with the holding of such meeting and the election of its allotted number of directors by the class having a quorum present, in which event such class shall specifically designate each director to be succeeded by those directors who it elects.

The terms of office of all persons who may be directors of the Company at any time when a right to elect members of the Board of Directors shall accrue to the holders of the Preferred Stock shall terminate upon the election of their successors. Such election may be held at a special meeting of all stockholders of the Company to be convened at any time after the accrual of such a right, upon notice similar to that provided in the Bylaws of the Company for the calling of the annual meeting of stockholders, at the request in writing of the holders of record of at least 5% of the number of shares of Preferred Stock of all series then outstanding. In default of the calling of said meeting by a proper officer of the Company within five days after the making of such request, such meeting may be called, on like notice, by any holder of record of Preferred Stock for which purpose any such holder of Preferred Stock shall have access to the stock books of the Company. If such special meeting be not called prior to the next annual meeting after the accrual of such a right to the holders of Preferred Stock, then at such annual meeting (unless prior thereto all dividend defaults on the Preferred Stock shall have been made good) the holders of the Preferred Stock and the holders of the stock ranking junior to the Preferred Stock entitled to vote as a class for the election of directors, voting as separate classes as provided in the preceding paragraph, shall have the right to elect the number of directors to which they are respectively entitled.

Whenever, by reason of the resignation, death or removal of any director or directors or any increase in the number of directors, at any time while the holders of the Preferred Stock are entitled to elect members of the Board of Directors, the number of directors in office who have been elected by either the holders of Preferred Stock as a class or the holders of any stock ranking junior to the Preferred Stock entitled to vote as a class shall become less than the total number subject to such election by such respective classes, the vacancy or vacancies so resulting may be filled by the vote of such respective classes of stockholders, in the manner provided in the second paragraph of this Section 6, at a meeting thereof called for the purpose, upon notice similar to that provided in the Bylaws for calling the annual meeting of stockholders, either by the holder or

holders of record of at least 5% of the outstanding shares of the class entitled to vote thereat or in such other manner as may be provided in the Bylaws for the calling of a special meeting of stockholders. Pending such action, any vacancy may be filled by the affirmative vote of a majority of the directors at the time in office who were elected by the class of stockholders entitled to fill such vacancy, although such directors shall be less than a quorum of the Board of Directors, at a meeting called by any such director in the manner provided in the Bylaws for the calling of special meetings of the Board of Directors. At any time while the holders of the Preferred Stock are entitled to elect members of the Board of Directors a director elected by the holders of the Preferred Stock of stock ranking junior to the Preferred Stock entitled to vote as a class (or a director elected to fill a vacancy) shall be subject to removal by the vote (and only by such vote) of the holders of a majority of the Preferred Stock or such other stock ranking junior to the Preferred Stock entitled to vote as a class for the election of directors, as the case may be, at the time outstanding, at a special meeting of such class of stockholders called for the purpose, upon notice similar to that provided in the Bylaws for calling the annual meeting of stockholders, by the holders of at least 5% of the outstanding shares of such class.

Upon termination at any time of a right of the holders of the Preferred Stock to elect members of the Board of Directors, the term of office of all directors elected by vote of the holders of the Preferred Stock as a class (or elected by such directors to fill a vacancy) shall end upon the election and qualification of their successors. Such election may be held at a special meeting of holders of all capital stock of the Company then entitled to vote for the election of directors convened, upon notice similar to that provided in the Bylaws for calling the annual meeting of stockholders, at the request of the holders of at least 2% of the total number of shares of all such capital stock then outstanding, or, if such special meeting is not called prior to the next annual meeting, at such annual meeting. In default of the calling of said meeting by a proper officer of the Company within five days after the making of such request, such meeting may be called on like notice by any holder of record of any such capital stock, for which purpose any such holder shall have access to the stock books of the Company.

DIVISION B -- SERIES OF PREFERRED STOCK

$4 PREFERRED STOCK

1. 97,397 shares of authorized stock classified as Preferred Stock as provided in Division A of this Article VI shall constitute the first series of Preferred Stock and are designated as $4 Preferred Stock; the fixed dividend on the shares of such series is Four Dollars ($4) per share per annum, and such dividends are cumulative from March 3, 1944, the initial date of issuance thereof, with the first quarterly dividend payable on May 1, 1944 in respect of the period from the date of the initial issuance of such shares to said May 1, 1944, the quarterly dividend payment dates being February 1, May 1, August 1 and November 1 in each year; the fixed redemption price on the shares of such series is $107 per share on or prior to February 1, 1954 and $105 per share thereafter; the fixed liquidation price on the shares of such series is $100 per share. The $4 Preferred Stock has no exchange or conversion rights or fixed liquidation premium.

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.

SERIES A PREFERENCE STOCK

1. Designation and Amount. There shall be a series of Preference Stock that shall be designated as "Series A Preference Stock," and the number of shares constituting such series shall be 700,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, however, that no decrease shall reduce the number of shares of Series A Preference Stock to less than the number of shares then issued and outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Corporation.

2. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of (i) any shares of any series of Preference Stock ranking prior and superior to the shares of Series A Preference Stock with respect to dividends and (ii) any shares of Preferred Stock, the holders of shares of Series A Preference Stock, in preference to the holders of shares of any class or series of stock of the Corporation ranking junior to the Series A Preference Stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of assets of the Corporation legally available for the purpose, quarterly dividends payable in cash on the first day of January, April, July and October in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preference Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $2.00 or (b) the Adjustment Number (as defined below) times the aggregate per share amount of all cash dividends, and the Adjustment Number times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of

Common Stock (by reclassification or otherwise), declared on the Common Stock, without par value, of the Corporation (the "Common Stock") since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preference Stock. The "Adjustment Number" shall initially be 1000. In the event the Corporation shall at any time after the effectiveness of the merger of Houston Industries Incorporated with and into the Corporation (the "Effective Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Preference Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $2.00 per share on the Series A Preference Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preference Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Preference Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preference Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preference Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preference Stock entitled to receive payment of a dividend or distribution declared thereon.

3. Voting Rights. The holders of shares of Series A Preference Stock shall have the following voting rights:

(A) Each share of Series A Preference Stock shall entitle the holder thereof to a number of votes equal to the Adjustment Number on all matters submitted to a vote of the shareholders of the Corporation.

(B) Except as otherwise provided herein, in the Restated Articles of Incorporation or by law, the holders of shares of Series A Preference Stock, the holders of shares of any other

class or series entitled to vote with the Common Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

(C)(i) If at any time dividends on any Series A Preference Stock shall be in arrears in an amount equal to six quarterly dividends thereon, the occurrence of such contingency shall mark the beginning of a period (herein called a "default period") that shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series A Preference Stock then outstanding shall have been declared and paid or set apart for payment. During each default period, (1) the number of Directors shall be increased by two, effective as of the time of election of such Directors as herein provided, and (2) the holders of Preference Stock (including holders of the Series A Preference Stock) upon which these or like voting rights have been conferred and are exercisable (the "Voting Preference Stock") with dividends in arrears in an amount equal to six quarterly dividends thereon, voting as a class, irrespective of series, shall have the right to elect such two Directors.

(ii) During any default period, such voting right of the holders of Series A Preference Stock may be exercised initially at a special meeting called pursuant to subparagraph (iii) of this Section 3(C) or at any annual meeting of shareholders, and thereafter at annual meetings of shareholders, provided that such voting right shall not be exercised unless the holders of at least one-third in number of the shares of Voting Preference Stock outstanding shall be present in person or by proxy. The absence of a quorum of the holders of Common Stock shall not affect the exercise by the holders of Voting Preference Stock of such voting right.

(iii) Unless the holders of Voting Preference Stock shall, during an existing default period, have previously exercised their right to elect Directors, the Board of Directors may order, or any shareholder or shareholders owning in the aggregate not less than ten percent of the total number of shares of Voting Preference Stock outstanding, irrespective of series, may request, the calling of a special meeting of the holders of Voting Preference Stock, which meeting shall thereupon be called by the Chairman of the Board, the President, a Vice President or the Secretary of the Corporation. Notice of such meeting and of any annual meeting at which holders of Voting Preference Stock are entitled to vote pursuant to this paragraph (C)(iii) shall be given to each holder of record of Voting Preference Stock by mailing a copy of such notice to him at his last address as the same appears on the books of the Corporation. Such meeting shall be called for a time not earlier than 20 days and not later than 60 days after such order or request or, in default of the calling of such meeting within 60 days after such order or request, such meeting may be called on similar notice by any shareholder or shareholders owning in the aggregate not less than ten percent of the total number of shares of Voting Preference Stock outstanding. Notwithstanding the provisions of this paragraph (C)(iii), no such special meeting shall be called during the period within 60 days immediately preceding the date fixed for the next annual meeting of the shareholders.

(iv) In any default period, after the holders of Voting Preference Stock shall have exercised their right to elect Directors voting as a class, (x) the Directors so elected by the holders of Voting Preference Stock shall continue in office until their successors shall have been elected by such holders or until the expiration of the default period, and (y) any vacancy in the Board of

Directors may be filled by vote of a majority of the remaining Directors theretofore elected by the holders of the class or classes of stock which elected the Director whose office shall have become vacant. References in this paragraph (C) to Directors elected by the holders of a particular class or classes of stock shall include Directors elected by such Directors to fill vacancies as provided in clause (y) of the foregoing sentence.

(v) Immediately upon the expiration of a default period, (x) the right of the holders of Voting Preference Stock as a class to elect Directors shall cease, (y) the term of any Directors elected by the holders of Voting Preference Stock as a class shall terminate and (z) the number of Directors shall be such number as may be provided for in the Restated Articles of Incorporation or Bylaws irrespective of any increase made pursuant to the provisions of paragraph (C) of this Section 3 (such number being subject, however, to change thereafter in any manner provided by law or in the Restated Articles of Incorporation or Bylaws). Any vacancies in the Board of Directors effected by the provisions of clauses (y) and (z) in the preceding sentence may be filled by a majority of the remaining Directors.

(D) Except as set forth herein, holders of Series A Preference Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preference Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preference Stock outstanding shall have been paid in full, the Corporation shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preference Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preference Stock, except dividends paid ratably on the Series A Preference Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled; or

(iii) redeem or purchase or otherwise acquire for consideration any shares of Series A Preference Stock, or any shares of stock ranking on a parity with the Series A Preference Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of Series A Preference Stock, or to all such holders and the holders of any such shares ranking on a parity therewith, upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

5. Reacquired Shares. Any shares of Series A Preference Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preference Stock and may be reissued as part of a new series of Preference Stock to be created by resolution or resolutions of the Board of Directors, subject to any conditions and restrictions on issuance set forth herein.

6. Liquidation, Dissolution or Winding Up. (A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preference Stock unless, prior thereto, the holders of shares of Series A Preference Stock shall have received $1000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series A Liquidation Preference"). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Preference Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series A Liquidation Preference by (ii) the Adjustment Number. Following the payment of the full amount of the Series A Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series A Preference Stock and Common Stock, respectively, holders of Series A Preference Stock and holders of shares of Common Stock shall, subject to the prior rights of all other series of Preference Stock, if any, ranking prior thereto, receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Series A Preference Stock and Common Stock, on a per share basis, respectively.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other series of Preference Stock, if any, that rank on a parity with the Series A Preference Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however, that there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(C) Neither the merger or consolidation of the Corporation into or with another corporation nor the merger or consolidation of any other corporation into or with the Corporation shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Section 6, but the sale, lease or conveyance all or substantially all of the Corporation's assets shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Section 6.

7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination, share exchange or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series A Preference Stock shall at the same time be similarly exchanged or changed in an amount per share equal to the Adjustment Number times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged.

8. Redemption. (A) The Corporation, at its option, may redeem shares of the Series A Preference Stock in whole at any time and in part from time to time, at a redemption price equal to the Adjustment Number times the current per share market price (as such term is hereinafter defined) of the Common Stock on the date of the mailing of the notice of redemption, together with unpaid accumulated dividends to the date of such redemption. The "current per share market price" on any date shall be deemed to be the average of the closing price per share of such Common Stock for the ten consecutive Trading Days (as such term is hereinafter defined) immediately prior to such date; provided, however, that in the event that the current per share market price of the Common Stock is determined during a period following the announcement of (A) a dividend or distribution on the Common Stock other than a regular quarterly cash dividend or (B) any subdivision, combination or reclassification of such Common Stock and the ex-dividend date for such dividend or distribution, or the record date for such subdivision, combination or reclassification, shall not have occurred prior to the commencement of such ten Trading Day period, then, and in each such case, the current per share market price shall be properly adjusted to take into account ex-dividend trading. The closing price for each day shall be the last sales price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange, or, if the Common Stock is not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which the Common Stock is listed or admitted to trading, or, if the Common Stock is not listed or admitted to trading on any national securities exchange but sales price information is reported for such security, as reported by the National Association of Securities Dealers, Inc. Automated Quotations System ("Nasdaq") or such other self-regulatory organization or registered securities information processor (as such terms are used under the Securities Exchange Act of 1934, as amended) that then reports information concerning the Common Stock, or, if sales price information is not so reported, the average of the high bid and low asked prices in the over-the-counter market on such day, as reported by Nasdaq or such other entity, or, if on any such date the Common Stock is not quoted by any such entity, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Common Stock selected by the Board of Directors of the Corporation. If on any such date no such market maker is making a market in the Common Stock, the fair value of the Common Stock on such date as determined in good faith by the Board of Directors of the Corporation shall be used. The term "Trading Day" shall mean a day on which the principal national securities exchange on which the Common Stock is listed or admitted to trading is open for the transaction of business, or, if the Common Stock is not listed or admitted to trading on any national securities exchange but is quoted by Nasdaq, a day on which Nasdaq reports trades, or, if the Common Stock is not so quoted, a Monday, Tuesday, Wednesday, Thursday or Friday on which banking institutions in the State of Texas are not authorized or obligated by law or executive order to close.

(B) In the event that fewer than all the outstanding shares of the Series A Preference Stock are to be redeemed, the number of shares to be redeemed shall be determined by the Board of Directors and the shares to be redeemed shall be determined by lot or pro rata as may be determined by the Board of Directors or by any other method that may be determined by the Board of Directors in its sole discretion to be equitable.

(C) Notice of any such redemption shall be given by mailing to the holders of the shares of Series A Preference Stock to be redeemed a notice of such redemption, first class postage prepaid, not later than the twentieth day and not earlier than the sixtieth day before the date fixed for redemption, at their last address as the same shall appear upon the books of the Corporation. Each such notice shall state: (i) the redemption date; (ii) the number of shares to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accrue on the close of business on such redemption date. Any notice that is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the shareholder received such notice, and failure duly to give such notice by mail, or any defect in such notice, to any holder of Series A Preference Stock shall not affect the validity of the proceedings for the redemption of any other shares of Series A Preference Stock that are to be redeemed. On or after the date fixed for redemption as stated in such notice, each holder of the shares called for redemption shall surrender the certificate evidencing such shares to the Corporation at the place designated in such notice and shall thereupon be entitled to receive payment of the redemption price. If fewer than all the shares represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(D) The shares of Series A Preference Stock shall not be subject to the operation of any purchase, retirement or sinking fund.

9. Ranking. The Series A Preference Stock shall rank junior to all series of the Corporation's Preferred Stock and to all other series of the Corporation's Preference Stock (other than any such series of Preference Stock the terms of which shall provide otherwise) in respect to dividend and liquidation rights and shall rank senior to the Common Stock as to such matters.

10. Amendment. At any time that any shares of Series A Preference Stock are outstanding, the Restated Articles of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preference Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series A Preference Stock, voting separately as a class.

11. Fractional Shares. Series A Preference Stock may be issued in fractions of a share that shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Preference Stock.

SERIES B PREFERENCE STOCK

1. Designation and Amount. There shall be a series of Preference Stock that shall be designated as "Series B Preference Stock," and the number of shares constituting such series shall be 27,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, however, that no decrease shall reduce the number of shares of Series B Preference Stock to less than the number of shares then issued and outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Corporation.

2. Certain Defined Terms.

Capitalized terms not otherwise defined herein shall have the respective meanings ascribed to them in that certain Credit Agreement (the "Credit Agreement") to be entered into among Houston Industries FinanceCo LP, a Delaware limited partnership to be the Borrower thereunder, Houston Industries Incorporated, a Texas corporation, the Banks parties thereto, and The Chase Manhattan Bank, as in effect at the time of the initial funding thereunder, and as such terms may be amended in the Credit Agreement to the extent approved by the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series B Preference Stock, voting separately as a class. In addition, the following terms are used herein as defined below:

(i) "Computed Dividend Portion" means, within any Dividend Interval Period, an amount equal to the interest expense accrued on the indebtedness for borrowed money of the Borrower from the prior Dividend Payment Date to the Determination Date for the current Dividend Interval Period.

(ii) "Determination Date" means the date occurring five Business Days prior to a Dividend Declaration Date.

(iii) "Dividend" means the dividend on the Series B Preference Stock declared by the Corporation's Board of Directors with respect to a Dividend Interval Period.

(iv) "Dividend Declaration Amount" means, as of any Determination Date, the Preliminary Dividend Amount, less the sum of (a) the Interest Reconciliation Amount, (b) the Support Agreement Reconciliation Amount, and (c) the Other Sources Reconciliation Amount. The Dividend Declaration Amount may be greater than or less than the Preliminary Dividend Amount.

(v) "Dividend Declaration Date" means the date on which Dividends on the Series B Preference Stock are declared during a Dividend Interval Period by the Corporation's Board of Directors.

(vi) "Dividend Interval Period" means the period beginning on a Dividend Payment Date and extending to the next Dividend Payment Date.

(vii) "Dividend Payment Date" means the date occurring five Business Days after a Dividend Declaration Date.

(viii) "Interest Reconciliation Amount" means an amount equal to (a) the Preliminary Dividend Amount computed for the prior Dividend Interval Period, less (b) the actual interest expense accrued on the indebtedness for borrowed money of the Borrower during such period.

(ix) "Other Sources Reconciliation Amount" means the sum of (a) to the extent applied to pay interest on the indebtedness for borrowed money of the Borrower or available in cash on the current Determination Date therefor, the amount of income or cash proceeds received by the Borrower from sources other than pursuant to the Support Agreement (including, without limitation, interest received on loans to Affiliates), and (b) the cash proceeds of new borrowings under the Credit Agreement that are utilized to pay interest on outstanding borrowings thereunder, from the Determination Date occurring in the Prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

(x) "Preliminary Dividend Amount" means the sum of the Computed Dividend Portion and the Projected Dividend Portion.

(xi) "Projected Dividend Portion" means, within any Dividend Interval Period, an amount equal to the projected interest expense that will be accrued on the indebtedness for borrowed money of the Borrower from the Determination Date for such Dividend Interval Period to the Dividend Payment Date.

(xii) "Support Agreement Reconciliation Amount" means the amount of cash payments made pursuant to the Support Agreement by the Corporation to the Borrower from the Determination Date occurring in the immediately prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

3. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of (i) any shares of any series of Preference Stock ranking prior and superior to the shares of Series B Preference Stock with respect to dividends and (ii) any shares of Preferred Stock, the holders of shares of Series B Preference Stock, in preference to the holders of shares of any class or series of stock of the Corporation ranking junior to the Series B Preference Stock, shall be entitled to receive the amounts set forth below, when, as and if declared by the Board of Directors in the manner described below out of assets of the Corporation legally available for the purpose:

(a) On every regularly scheduled meeting of the Corporation's Board of Directors while any shares of Series B Preference Stock remain outstanding, the Board of Directors shall declare an aggregate Dividend equal to the lesser of (i) the Dividend Declaration Amount or (ii) the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date with respect to the then current Dividend Interval Period.

(b) If, with respect to any Dividend Interval Period, the aggregate Dividend declared by the Corporation's Board of Directors is less than the Dividend Declaration Amount for such Dividend Interval Period because the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date is less than the Dividend Declaration

Amount, the amount of such deficiency shall be added to the Dividend Declaration Amount computed for the next Dividend Interval Period and such aggregate amount shall become the Dividend Declaration Amount for such period. The Dividend for such succeeding Dividend Interval Period shall equal the Dividend Declaration Amount unless such amount would exceed the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date, in which case the Dividend shall be the amount of the projected Excess Cash Flow.

(c) The aggregate Dividends paid on the shares of Series B Preference Stock in accordance with this Section 3(A) shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

(B) Accrued but unpaid dividends shall not bear interest. The Board of Directors may fix a record date for the determination of holders of shares of Series B Preference Stock entitled to receive payment of a dividend or distribution declared thereon.

4. Voting Rights. Except as otherwise required by law or the Restated Articles of Incorporation of the Corporation or as otherwise provided herein, the holders of shares of Series B Preference Stock shall have no voting rights.

5. Certain Restrictions. At any time when dividends or distributions payable on the Series B Preference Stock as provided in Section 3 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series B Preference Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare dividends on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series B Preference Stock; or

(ii) declare dividends on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series B Preference Stock, except dividends declared ratably on the Series B Preference Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled.

6. Reacquired Shares. Any shares of Series B Preference Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preference Stock and may be reissued as part of a new series of Preference Stock to be created by resolution or resolutions of the Board of Directors, subject to any conditions and restrictions on issuance set forth herein.

7. Liquidation, Dissolution or Winding Up.

(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series B Preference Stock unless, prior thereto, the holders of shares of Series B Preference Stock shall have received

$100,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series B Liquidation Preference"). Following the payment of the full amount of the Series B Liquidation Preference, no additional distributions shall be made to the holders of Series B Preference Stock.

(B) In the event that there are not sufficient assets available to permit payment in full of the Series B Liquidation Preference and the liquidation preferences of all other series of Preference Stock, if any, that rank on a parity with the Series B Preference Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences.

(C) Neither the merger or consolidation of the Corporation into or with another corporation nor the merger or consolidation of any other corporation into or with the Corporation shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Section 7, but the sale, lease or conveyance of all or substantially all of the Corporation's assets shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Section 7.

8. Redemption.

(A) The Corporation, at its option, may redeem shares of the Series B Preference Stock in whole at any time and in part from time to time, at a redemption price equal to $100,000 per share, plus, in the event all outstanding shares of the Series B Preference Shares are to be redeemed, unpaid accumulated dividends to the date of redemption.

(B) In the event that fewer than all the outstanding shares of the Series B Preference Stock are to be redeemed, (i) the number of shares to be redeemed shall be determined by the Board of Directors and the shares to be redeemed shall be determined by lot or pro rata as may be determined by the Board of Directors or by any other method that may be determined by the Board of Directors in its sole discretion to be equitable.

(C) Except to the extent notice is waived in accordance with applicable law, notice of any such redemption shall be given by mailing to the holders of the shares of Series B Preference Stock to be redeemed a notice of such redemption, first class postage prepaid, not later than the twentieth day and not earlier than the sixtieth day before the date fixed for redemption, at their last address as the same shall appear upon the books of the Corporation. Each such notice shall state: (i) the redemption date; (ii) the number of shares to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accrue on the close of business on such redemption date. Any notice that is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the shareholder received such notice, and failure duly to give such notice by mail, or any defect in such notice, to any holder of Series B Preference Stock shall not affect the validity of the proceedings for the redemption of any other shares of Series B Preference Stock that are to be redeemed. On or after the date fixed for redemption as stated in such notice, each holder of the shares called for redemption shall surrender the certificate evidencing such shares

to the Corporation at the place designated in such notice and shall thereupon be entitled to receive payment of the redemption price. If fewer than all the shares represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(D) The shares of Series B Preference Stock shall not be subject to the operation of any purchase, retirement or sinking fund.

9. Ranking. The Series B Preference Stock shall rank junior to all series of the Corporation's Preferred Stock and pari passu with all other series of the Corporation's Preference Stock (other than any such series of Preference Stock the terms of which shall provide otherwise) in respect to dividend and liquidation rights and shall rank senior to the Common Stock as to such matters.

10. Amendment. At any time that any shares of Series B Preference Stock are outstanding, the Restated Articles of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series B Preference Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series B Preference Stock, voting separately as a class.

11. Fractional Shares. Series B Preference Stock may be issued in fractions of a share that shall entitle the holder, in proportion to such holder's fractional shares, to exercise any voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series B Preference Stock.

DIVISION D -- COMMON STOCK

1. Dividends. Dividends may be paid on the 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 therefor 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 Common Stock shall exclusively possess full voting power for the election of directors and for all other purposes.

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 VII

The Company has heretofore complied with the requirements of law as to the initial minimum capital requirements without which it could not commence business under the Texas Business Corporation Act.

ARTICLE VIII

The power to alter, amend or repeal the Bylaws of the Company, or to adopt new Bylaws, is hereby delegated to the Board of Directors of the Company.

ARTICLE IX

A director of the Company shall not be liable to the Company or its shareholders for monetary damages for any act or omission in the director's capacity as a director, except that this Article IX does not eliminate or limit the liability of a director for:

(a) a breach of a director's duty of loyalty to the Company or its shareholders;

(b) an act or omission not in good faith or that involves intentional misconduct or a knowing violation of the law;

(c) a transaction from which a director received an improper benefit, whether or not the benefit resulted from an action taken within the scope of the directors' office;

(d) an act or omission for which the liability of a director is expressly provided for by statute; or

(e) an act related to an unlawful stock repurchase or payment of a dividend.

If the Texas Miscellaneous Corporation Laws Act or the Texas Business Corporation Act is amended, after approval of the foregoing paragraph by the shareholder or shareholders of the Company entitled to vote thereon, to authorize action further eliminating or limiting the personal liability of directors, then the liability of a director of the Company shall be eliminated or limited to the fullest extent permitted by such statutes, as so amended. Any repeal or modification of the foregoing paragraph shall not adversely affect any right or protection of a director of the Company existing at the time of such repeal or modification.

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.

HOUSTON INDUSTRIES INCORPORATED

/s/ HUGH RICE KELLY

Hugh Rice Kelly
Executive Vice President, General Counsel
and Corporate Secretary

CERTIFICATION

I certify that I am the duly elected and acting Executive Vice President, General Counsel and Corporate Secretary of HOUSTON INDUSTRIES INCORPORATED, a Texas corporation, and that the foregoing is a true and correct copy of the Restated Articles of Incorporation of such Company as amended, supplemented and in force as of the date hereof.

IN WITNESS WHEREOF, I have executed and sealed this Certification, this eleventh day of September, 1997.

/s/ HUGH RICE KELLY

Hugh Rice Kelly
Executive Vice President, General Counsel
and Corporate Secretary

[SEAL]

EXHIBIT 3b

AMENDED AND RESTATED BYLAWS

OF

HOUSTON INDUSTRIES INCORPORATED

Adopted and Amended by Resolution of the Board of Directors on December 4, 1996

ARTICLE I

CAPITAL STOCK

Section 1. Share Ownership. Shares for the capital stock of the Company may be certificated or uncertificated. Owners of shares of the capital stock of the Company shall be recorded in the share transfer records of the Company and ownership of such shares shall be evidenced by a certificate or book entry notation in the share transfer records of the Company. Any certificates representing such shares shall be signed by the Chairman of the Board, if there is one, the Chief Executive Officer, if there is one, the President or a Vice President and either the Secretary or an Assistant Secretary and shall be sealed with the seal of the Company, which signatures and seal may be facsimiles. In case any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Company with the same effect as if he were such officer at the date of its issuance.

Section 2. Shareholders of Record. The Board of Directors of the Company may appoint one or more transfer agents or registrars of any class of stock of the Company. The Company may be its own transfer agent if so appointed by the Board of Directors. The Company shall be entitled to treat the holder of record of any shares of the Company as the owner thereof for all purposes, and shall not be bound to recognize any equitable or other claim to, or interest in, such shares or any rights deriving from such shares, on the part of any other person, including (but without limitation) a purchaser, assignee or transferee, unless and until such other person becomes the holder of record of such shares, whether or not the Company shall have either actual or constructive notice of the interest of such other person.

Section 3. Transfer of Shares. The shares of the capital stock of the Company shall be transferable in the share transfer records of the Company by the holder of record thereof, or his duly authorized attorney or legal representative. All certificates representing shares surrendered for transfer, properly endorsed, shall be canceled and new certificates for a like number of shares shall be issued therefor. In the case of lost, stolen, destroyed or mutilated certificates representing shares

for which the Company has been requested to issue new certificates, new certificates or other evidence of such new shares may be issued upon such conditions as may be required by the Board of Directors or the Secretary for the protection of the Company and any transfer agent or registrar. Uncertificated shares shall be transferred in the share transfer records of the Company upon the written instruction originated by the appropriate person to transfer the shares.

Section 4. Shareholders of Record and Fixing of Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive a distribution by the Company (other than a distribution involving a purchase or redemption by the Company of any of its own shares) or a share dividend, or in order to make a determination of shareholders for any other proper purpose (other than determining shareholders entitled to consent to action by shareholders proposed to be taken without a meeting of shareholders), the Board of Directors may provide that the share transfer records shall be closed for a stated period of not more than sixty days, and in the case of a meeting of shareholders not less than ten days, immediately preceding the meeting, or it may fix in advance a record date for any such determination of shareholders, such date to be not more than sixty days, and in the case of a meeting of shareholders not less than ten days, prior to the date on which the particular action requiring such determination of shareholders is to be taken. If the share transfer records are not closed and no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive a distribution (other than a distribution involving a purchase or redemption by the Company of any of its own shares) or a share dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such distribution or share dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as herein provided, such determination shall apply to any adjournment thereof except where the determination has been made through the closing of the share transfer records and the stated period of closing has expired.

ARTICLE II

MEETINGS OF SHAREHOLDERS

Section 1. Place of Meetings. All meetings of shareholders shall be held at the registered office of the Company, in the City of Houston, Texas, or at such other place within or without the State of Texas as may be designated by the Board of Directors or officer calling the meeting.

Section 2. Annual Meeting. The annual meeting of the shareholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors or as may otherwise be stated in the notice of the meeting. Failure to designate a time for the annual meeting or to hold the annual meeting at the designated time shall not work a dissolution of the Company.

Section 3. Special Meetings. Special meetings of the shareholders may be called by the Chairman of the Board, if there is one, the Chief Executive Officer, if there is one, the President, the Secretary, the Board of Directors, the holders of not less than one-tenth of all of the shares outstanding and entitled to vote at such meeting or such other persons as may be authorized in the Articles of Incorporation of the Company.

Section 4. Notice of Meeting. Written or printed notice of all meetings stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten nor more than sixty days before the date of the meeting, either personally or by mail, by or at the direction of the Chairman of the Board, if there is one, the Chief Executive Officer, if there is one, the President, the Secretary or the officer or person calling the meeting to each shareholder of record entitled to vote at such meetings . If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the shareholder at his address as it appears on the share transfer records of the Company, with postage thereon prepaid.

Any notice required to be given to any shareholder, under any provision of the Texas Business Corporation Act, as amended (TBCA), the Articles of Incorporation of the Company or these Bylaws, need not be given to a shareholder if notice of two consecutive annual meetings and all notices of meetings held during the period between those annual meetings, if any, or all (but in no event less than two) payments (if sent by first class mail) of distributions or interest on securities during a 12-month period have been mailed to that person, addressed at his address as shown on the share transfer records of the Company, and have been returned undeliverable. Any action or meeting taken or held without notice to such person shall have the same force and effect as if the notice had been duly given. If such a person delivers to the Company a written notice setting forth his then current address, the requirement that notice be given to that person shall be reinstated.

Section 5. Voting List. The officer or agent having charge of the share transfer records for shares of the Company shall make, at least ten days before each meeting of shareholders, a complete list of the shareholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each, which list, for a period of ten days prior to such meeting, shall be kept on file at the registered office of the Company and shall be subject to inspection by any shareholder at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original share transfer records shall be prima facie evidence as to who are the shareholders entitled to examine such list or to vote at any meeting of shareholders. Failure to comply with any requirements of this Section 5 shall not affect the validity of any action taken at such meeting.

Section 6. Voting; Proxies. Except as otherwise provided in the Articles of Incorporation of the Company or as otherwise provided in the TBCA, each holder of shares of capital stock of the Company entitled to vote shall be entitled to one vote for each share standing in his name on the records of the Company, either in person or by proxy executed in writing by him or by his duly

authorized attorney-in-fact. A proxy shall be revocable unless expressly provided therein to be irrevocable and the proxy is coupled with an interest. At each election of directors, every holder of shares of the Company entitled to vote shall have the right to vote, in person or by proxy, the number of shares owned by him for as many persons as there are directors to be elected, and for whose election he has a right to vote, but in no event shall he be permitted to cumulate his votes for one or more directors.

Section 7. Quorum and Vote of Shareholders. Except as otherwise provided by law, the Articles of Incorporation of the Company or these Bylaws, the holders of a majority of shares entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders, but, if a quorum is not represented, a majority in interest of those represented may adjourn the meeting from time to time. Directors shall be elected by a plurality of the votes cast by the holders of shares entitled to vote in the election of directors at a meeting of shareholders at which a quorum is present. With respect to each matter other than the election of directors as to which no other voting requirement is specified by law, the Articles of Incorporation of the Company or in this Section 7 or in Article VII of these Bylaws, the affirmative vote of the holders of a majority of the shares entitled to vote on that matter and represented in person or by proxy at a meeting at which a quorum is present shall be the act of the shareholders. With respect to a matter submitted to a vote of the shareholders as to which a shareholder approval requirement is applicable under the shareholder approval policy of the New York Stock Exchange, Rule 16b-3 under the Securities Exchange Act of 1934, as amended (Exchange Act), or any provision of the Internal Revenue Code, in each case for which no higher voting requirement is specified by law, the Articles of Incorporation of the Company or these Bylaws, the affirmative vote of the holders of a majority of the shares entitled to vote on, and voted for or against, that matter at a meeting at which a quorum is present shall be the act of the shareholders, provided that approval of such matter shall also be conditioned on any more restrictive requirement of such shareholder approval policy, Rule 16b- 3 or Internal Revenue Code provision, as applicable, being satisfied. With respect to the approval of independent public accountants (if submitted for a vote of the shareholders), the affirmative vote of the holders of a majority of the shares entitled to vote on, and voted for or against, that matter at a meeting of shareholders at which a quorum is present shall be the act of the shareholders.

Section 8. Presiding Officer and Conduct of Meetings. The Chairman of the Board, if there is one, or in his absence, the Chief Executive Officer, if there is one, or in his absence, the President shall preside at all meetings of the shareholders or, if such officers are not present at a meeting, by such other person as the Board of Directors shall designate or if no such person is designated by the Board of Directors, the most senior officer of the Company present at the meeting. The Secretary of the Company, if present, shall act as secretary of each meeting of shareholders; if he is not present at a meeting, then such person as may be designated by the presiding officer shall act as secretary of the meeting. Meetings of shareholders shall follow reasonable and fair procedure. Subject to the foregoing, the conduct of any meeting of shareholders and the determination of procedure and rules shall be within the absolute discretion of the officer presiding at such meeting (Chairman of the Meeting), and there shall be no appeal from any ruling of the Chairman of the Meeting with respect to procedure or rules. Accordingly, in any meeting of shareholders or part thereof, the Chairman of

the Meeting shall have the sole power to determine appropriate rules or to dispense with theretofore prevailing rules. Without limiting the foregoing, the following rules shall apply:

(a) If disorder should arise which prevents continuation of the legitimate business of meeting, the Chairman of the Meeting may announce the adjournment of the meeting; and upon so doing, the meeting shall be immediately adjourned.

(b) The Chairman of the Meeting may ask or require that anyone not a bona fide shareholder or proxy leave the meeting.

(c) A resolution or motion shall be considered for vote only if proposed by a shareholder or a duly authorized proxy, and seconded by an individual who is a shareholder or a duly authorized proxy, other than the individual who proposed the resolution or motion, subject to compliance with any other requirements concerning such proposed resolution or motion contained in these Bylaws. The Chairman of the Meeting may propose any motion for vote.

(d) The order of business at all meetings of shareholders shall be determined by the Chairman of the Meeting.

(e) The Chairman of the Meeting may impose any reasonable limits with respect to participation in the meeting by shareholders, including, but not limited to, limits on the amount of time taken up by the remarks or questions of any shareholder, limits on the number of questions per shareholder and limits as to the subject matter and timing of questions and remarks by shareholders.

(f) Before any meeting of shareholders, the Board of Directors may appoint three persons other than nominees for office to act as inspectors of election at the meeting or its adjournment. If no inspectors of election are so appointed, the Chairman of the Meeting may, and on the request of any shareholder or a shareholder's proxy shall, appoint inspectors of election at the meeting of the shareholders and the number of such inspectors shall be three. If any person appointed as inspector fails to appear or fails or refuses to act, the Chairman of the Meeting may, and upon the request of any shareholder or a shareholder's proxy shall, appoint a person to fill such vacancy.

The duties of the inspectors shall be to:

(i) determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity and effect of proxies and ballots;

(ii) receive votes or ballots;

(iii) hear and determine all challenges and questions in any way arising in connection with the vote;

(iv) count and tabulate all votes;

(v) report to the Board of Directors the results based on the information assembled by the inspectors; and

(vi) do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

Notwithstanding the foregoing, the final certification of the results of the election or other matter acted upon at a meeting of shareholders shall be made by the Board of Directors.

All determinations of the Chairman of the Meeting shall be conclusive unless a matter is determined otherwise upon motion duly adopted by the affirmative vote of the holders of at least 80% of the voting power of the shares of capital stock of the Company entitled to vote in the election of directors held by shareholders present in person or represented by proxy at such meeting.

ARTICLE III

DIRECTORS

Section 1. Classification of Board of Directors; Qualifications. The business and affairs of the Company shall be managed by the Board of Directors.

Each director elected by the holders of Preferred Stock pursuant to Section 6 of Division A of Article VI of the Articles of Incorporation of the Company (or elected by such directors to fill a vacancy) shall serve for a term ending upon the earlier of the election of his successor or the termination at any time of a right of the holders of Preferred Stock to elect members of the Board of Directors.

At each annual election, the directors chosen to succeed those whose terms then expire shall be of the same class as the directors they succeed, unless, by reason of any intervening changes in the authorized number of directors, the Board of Directors shall designate one or more directorships whose term then expires as directorships of another class in order more nearly to achieve equality of number of directors among the classes.

Notwithstanding the rule that the three classes shall be as nearly equal in number of directors as possible, in the event of any change in the authorized number of directors, each director then continuing to serve as such shall nevertheless continue as a director of the class of which he is a

member until the expiration of his current term, or his prior death, resignation, disqualification or removal. If any newly created directorship may, consistent with the rule that the three classes shall be as nearly equal in number of directors as possible, be allocated to any of the three classes, the Board of Directors shall allocate it to that available class whose term of office is due to expire at the earliest date following such allocation. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

No person shall be eligible to serve as a director of the Company subsequent to the annual meeting of shareholders occurring on or after the first day of the month immediately following the month of such person's seventieth birthday. No person shall be eligible to stand for reelection at the annual meeting of shareholders on or immediately following the tenth anniversary of such person's initial election or appointment to the Board of Directors. Any vacancy on the Board of Directors resulting from any director being rendered ineligible to serve as a director of the Company by the immediately preceding two sentences shall be filled by the shareholders entitled to vote thereon at such annual meeting of shareholders. Any director chosen to succeed a director who is so rendered ineligible to serve as a director of the Company shall be of the same class as the director he succeeds. Notwithstanding the rule that a director may not stand for reelection at the annual meeting of shareholders on or immediately following the tenth anniversary of such person's initial election or appointment to the Board of Directors, an incumbent director may nevertheless continue as a director until the expiration of his current term, or his prior death, resignation, disqualification or removal; provided, however, that no person serving as a director as of April 1, 1992 shall be affected by such term limitation provision, nor shall such term limitation provision apply to directors who are also employees of the Company or its corporate affiliates.

The above notwithstanding, each director shall serve until his successor shall have been duly elected and qualified, unless he shall resign, become disqualified, disabled or shall otherwise be removed.

No person shall be eligible for election or reelection or to continue to serve as a member of the Board of Directors who is an officer, director, agent, representative, partner, employee, or nominee of, or otherwise acting at the direction of, or acting in concert with, (a) a "public-utility company" (other than any direct or indirect subsidiary of the Company) as such term is defined in Section 2(a)(5) of the Public Utility Holding Company Act of 1935, as in effect on May 1, 1996 (35 Act), or (b) an "affiliate" (as defined in either Section 2(a)(11) of the 35 Act or in Rule 405 under the Securities Act of 1933, as amended) of any such "public-utility company" specified in clause (a) immediately preceding.

Section 2. Newly Created Directorships and Vacancies. Newly created directorships resulting from any increase in the number of directors may be filled by the affirmative vote of a majority of the directors then in office for a term of office continuing only until the next election of one or more directors by the shareholders entitled to vote thereon, or may be filled by election at an annual or special meeting of the shareholders called for that purpose; provided, however, that the Board of Directors shall not fill more than two such directorships during the period between two

successive annual meetings of shareholders. Except as provided in Section 1 of this Article III, any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause may be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors, or may be filled by election at an annual or special meeting of the shareholders called for that purpose. Any director elected to fill any such vacancy shall hold office for the remainder of the full term of the director whose departure from the Board of Directors created the vacancy and until such newly elected director's successor shall have been duly elected and qualified.

Notwithstanding the foregoing paragraph of this Section 2, whenever holders of outstanding shares of Preference Stock are entitled to elect members of the Board of Directors pursuant to the provisions of Section 6 of Division A of Article VI of the Articles of Incorporation of the Company, any vacancy or vacancies resulting by reason of the death, resignation, disqualification or removal of any director or directors or any increase in the number of directors shall be filled in accordance with the provisions of such section.

Section 3. Nomination of Directors. Nominations for the election of directors may be made by the Board of Directors or by any shareholder (Nominator) entitled to vote in the election of directors. Such nominations, other than those made by the Board of Directors, shall be made in writing pursuant to timely notice delivered to or mailed and received by the Secretary of the Company as set forth in this Section 3. To be timely in connection with an annual meeting of shareholders, a Nominator's notice, setting forth the name and address of the person to be nominated, shall be delivered to or mailed and received at the principal executive offices of the Company not less than ninety days nor more than 180 days prior to the date on which the immediately preceding year's annual meeting of shareholders was held. To be timely in connection with any election of a director at a special meeting of the shareholders, a Nominator's notice, setting forth the name of the person to be nominated, shall be delivered to or mailed and received at the principal executive offices of the Company not less than forty days nor more than sixty days prior to the date of such meeting; provided, however, that in the event that less than forty-seven days' notice or prior public disclosure of the date of the special meeting of the shareholders is given or made to the shareholders, the Nominator's notice to be timely must be so received not later than the close of business on the seventh day following the day on which such notice of date of the meeting was mailed or such public disclosure was made. At such time, the Nominator shall also submit written evidence, reasonably satisfactory to the Secretary of the Company, that the Nominator is a shareholder of the Company and shall identify in writing (a) the name and address of the Nominator, (b) the number of shares of each class of capital stock of the Company owned beneficially by the Nominator, (c) the name and address of each of the persons with whom the Nominator is acting in concert, (d) the number of shares of capital stock beneficially owned by each such person with whom the Nominator is acting in concert, and (e) a description of all arrangements or understandings between the Nominator and each nominee and any other persons with whom the Nominator is acting in concert pursuant to which the nomination or nominations are to be made. At such time, the Nominator shall also submit in writing (i) the information with respect to each such proposed nominee that would be required to be provided in a proxy statement prepared in accordance with Regulation 14A under the Exchange Act

and (ii) a notarized affidavit executed by each such proposed nominee to the effect that, if elected as a member of the Board of Directors, he will serve and that he is eligible for election as a member of the Board of Directors. Within thirty days (or such shorter time period that may exist prior to the date of the meeting) after the Nominator has submitted the aforesaid items to the Secretary of the Company, the Secretary of the Company shall determine whether the evidence of the Nominator's status as a shareholder submitted by the Nominator is reasonably satisfactory and shall notify the Nominator in writing of his determination. The failure of the Secretary of the Company to find such evidence reasonably satisfactory, or the failure of the Nominator to submit the requisite information in the form or within the time indicated, shall make the person to be nominated ineligible for nomination at the meeting at which such person is proposed to be nominated. The presiding person at each meeting of shareholders shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded. Beneficial ownership shall be determined in accordance with Rule 13d-3 under the Exchange Act.

Section 4. Place of Meetings and Meetings by Telephone. Meetings of the Board of Directors may be held either within or without the State of Texas, at whatever place is specified by the officer calling the meeting. Meetings of the Board of Directors may also be held by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in such a meeting by means of conference telephone or similar communications equipment shall constitute presence in person at such meeting, except where a director participates in a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. In the absence of specific designation by the officer calling the meeting, the meetings shall be held at the principal office of the Company.

Section 5. Regular Meetings. The Board of Directors shall meet each year immediately following the annual meeting of the shareholders for the transaction of such business as may properly be brought before the meeting. The Board of Directors shall also meet regularly at such other times as shall be designated by the Board of Directors. No notice of any kind to either existing or newly elected members of the Board of Directors for such annual or regular meetings shall be necessary.

Section 6. Special Meetings. Special meetings of the Board of Directors may be held at any time upon the call of the Chairman of the Board, if there is one, the Chief Executive Officer, if there is one, the President or the Secretary of the Company or a majority of the directors then in office. Notice shall be sent by mail, facsimile or telegram to the last known address of the director at least two days before the meeting, or oral notice may be substituted for such written notice if received not later than the day preceding such meeting. Notice of the time, place and purpose of such meeting may be waived in writing before or after such meeting, and shall be equivalent to the giving of notice. Attendance of a director at such meeting shall also constitute a waiver of notice thereof, except where he attends for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. Except as otherwise provided by

these Bylaws, neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

Section 7. Quorum and Voting. Except as otherwise provided by law, the Articles of Incorporation of the Company or these Bylaws, a majority of the number of directors fixed in the manner provided in these Bylaws as from time to time amended shall constitute a quorum for the transaction of business. Except as otherwise provided by law, the Articles of Incorporation of the Company or these Bylaws, the affirmative vote of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. Any regular or special directors' meeting may be adjourned from time to time by those present, whether a quorum is present or not.

Section 8. Compensation. Directors shall receive such compensation for their services as shall be determined by the Board of Directors.

Section 9. Removal. No director of the Company shall be removed from his office as a director by vote or other action of the shareholders or otherwise except (a) with cause, as defined below, by the affirmative vote of the holders of at least a majority of the voting power of all outstanding shares of capital stock of the Company entitled to vote in the election of directors, voting together as a single class, or (b) without cause by (i) the affirmative vote of at least 80% of all directors then in office at any regular or special meeting of the Board of Directors called for that purpose or (ii) the affirmative vote of the holders of at least 80% of the voting power of all outstanding shares of capital stock of the Company entitled to vote in the election of directors, voting together as a single class.

Except as may otherwise be provided by law, cause for removal of a director shall be construed to exist only if: (a) the director whose removal is proposed has been convicted, or where a director is granted immunity to testify where another has been convicted, of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal; (b) such director has been found by the affirmative vote of at least 80% of all directors then in office at any regular or special meeting of the Board of Directors called for that purpose or by a court of competent jurisdiction to have been negligent or guilty of misconduct in the performance of his duties to the Company in a matter of substantial importance to the Company; or (c) such director has been adjudicated by a court of competent jurisdiction to be mentally incompetent, which mental incompetency directly affects his ability as a director of the Company.

Notwithstanding the first paragraph of this Section 9, whenever holders of outstanding shares of Preference Stock are entitled to elect members of the Board of Directors pursuant to the provisions of Section 6 of Division A of Article VI of the Articles of Incorporation of the Company, any director of the Company may be removed in accordance with the provisions of such section.

No proposal by a shareholder to remove a director of the Company, regardless of whether such director was elected by holders of outstanding shares of Preference Stock (or elected by such

directors to fill a vacancy), shall be voted upon at a meeting of the shareholders unless such shareholder shall have delivered or mailed in a timely manner (as set forth in this Section 9) and in writing to the Secretary of the Company (a) notice of such proposal, (b) a statement of the grounds, if any, on which such director is proposed to be removed, (c) evidence, reasonably satisfactory to the Secretary of the Company, of such shareholder's status as such and of the number of shares of each class of the capital stock of the Company beneficially owned by such shareholder, (d) a list of the names and addresses of other beneficial owners of shares of the capital stock of the Company, if any, with whom such shareholder is acting in concert, and of the number of shares of each class of the capital stock of the Company beneficially owned by each such beneficial owner, and (e) an opinion of counsel, which counsel and the form and substance of which opinion shall be reasonably satisfactory to the Board of Directors of the Company (excluding the director proposed to be removed), to the effect that, if adopted at a duly called special or annual meeting of the shareholders of the Company by the required vote as set forth in the first paragraph of this Section 9, such removal would not be in conflict with the laws of the State of Texas, the Articles of Incorporation of the Company or these Bylaws. To be timely in connection with an annual meeting of shareholders, a shareholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Company not less than ninety nor more than 180 days prior to the date on which the immediately preceding year's annual meeting of shareholders was held. To be timely in connection with the removal of any director at a special meeting of the shareholders, a shareholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Company not less than forty days nor more than sixty days prior to the date of such meeting; provided, however, that in the event that less than forty-seven days' notice or prior public disclosure of the date of the special meeting of shareholders is given or made to the shareholders, the shareholder's notice and other aforesaid items to be timely must be so received not later than the close of business on the seventh day following the day on which such notice of date of the meeting was mailed or such public disclosure was made. Within thirty days (or such shorter period that may exist prior to the date of the meeting) after such shareholder shall have delivered the aforesaid items to the Secretary of the Company, the Secretary and the Board of Directors of the Company shall respectively determine whether the items to be ruled upon by them are reasonably satisfactory and shall notify such shareholder in writing of their respective determinations. If such shareholder fails to submit a required item in the form or within the time indicated, or if the Secretary or the Board of Directors of the Company determines that the items to be ruled upon by them are not reasonably satisfactory, then such proposal by such shareholder may not be voted upon by the shareholders of the Company at such meeting of shareholders. The presiding person at each meeting of shareholders shall, if the facts warrant, determine and declare to the meeting that a proposal to remove a director of the Company was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare to the meeting and the defective proposal shall be disregarded. Beneficial ownership shall be determined as specified in accordance with Rule 13d-3 under the Exchange Act.

Section 10. Executive and Other Committees. The Board of Directors, by resolution or resolutions adopted by a majority of the full Board of Directors, may designate one or more members of the Board of Directors to constitute an Executive Committee, and one or more other committees,

which shall in each case be comprised of such number of directors as the Board of Directors may determine from time to time. Subject to such restrictions as may be contained in the Company's Articles of Incorporation or that may be imposed by the TBCA, any such committee shall have and may exercise such powers and authority of the Board of Directors in the management of the business and affairs of the Company as the Board of Directors may determine by resolution and specify in the respective resolutions appointing them, or as permitted by applicable law, including, without limitation, the power and authority to (a) authorize a distribution, (b) authorize the issuance of shares of the Company and (c) exercise the authority of the Board of Directors vested in it pursuant to Article 2.13 of the TBCA or such successor statute as may be in effect from time to time. Each duly-authorized action taken with respect to a given matter by any such duly-appointed committee of the Board of Directors shall have the same force and effect as the action of the full Board of Directors and shall constitute for all purposes the action of the full Board of Directors with respect to such matter.

The designation of any such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed upon it or him by law, nor shall such committee function where action of the Board of Directors cannot be delegated to a committee thereof under applicable law. The Board of Directors shall have the power at any time to change the membership of any such committee and to fill vacancies in it. A majority of the members of any such committee shall constitute a quorum. The Board of Directors shall name a chairman at the time it designates members to a committee. Each such committee shall appoint such subcommittees and assistants as it may deem necessary. Except as otherwise provided by the Board of Directors, meetings of any committee shall be conducted in accordance with the provisions of Sections 4 and 6 of this Article III as the same shall from time to time be amended. Any member of any such committee elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the Company will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of a member of a committee shall not of itself create contract rights.

ARTICLE IV

OFFICERS

Section 1. Officers. The officers of the Company shall consist of a President and a Secretary and such other officers and agents as the Board of Directors may from time to time elect or appoint, which may include, without limitation, a Chairman of the Board, a Chief Executive Officer, one or more Vice Presidents (whose seniority and titles, including Executive Vice Presidents, Senior Vice Presidents and such assistant or subordinate Vice Presidents, may be specified by the Board of Directors), a Treasurer, one or more Assistant Treasurers, and one or more Assistant Secretaries. Each officer shall hold office until his successor shall have been duly elected and shall qualify or until his death or until he shall resign or shall have been removed in the manner hereinafter provided.

Any two or more offices may be held by the same person. Except for the Chairman of the Board, if any, no officer need be a director.

Section 2. Vacancies; Removal. Whenever any vacancies shall occur in any office by death, resignation, increase in the number of offices of the Company, or otherwise, the officer so elected shall hold office until his successor is chosen and qualified. The Board of Directors may at any time remove any officer of the Company, whenever in its judgment the best interests of the Company will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

Section 3. Powers and Duties of Officers. The officers of the Company shall have such powers and duties as generally pertain to their offices as well as such powers and duties as from time to time shall be conferred by the Board of Directors.

ARTICLE V

INDEMNIFICATION

Section 1. General. The Company shall indemnify and hold harmless the Indemnitee (as this and all other capitalized words are defined in this Article or in Article 2.02-1 of the TBCA), to the fullest extent permitted, or not prohibited, by the TBCA or other applicable law as the same exists or may hereafter be amended (but in the case of any such amendment, with respect to Matters occurring before such amendment, only to the extent that such amendment permits the Company to provide broader indemnification rights than said law permitted the Company to provide prior to such amendment). The provisions set forth below in this Article are provided as means of furtherance and implementation of, and not in limitation on, the obligation expressed in this Section 1.

Section 2. Advancement or Reimbursement of Expenses. The rights of the Indemnitee provided under Section 1 of this Article shall include, but not be limited to, the right to be indemnified and to have Expenses advanced (including the payment of expenses before final disposition of a Proceeding) in all Proceedings to the fullest extent permitted, or not prohibited, by the TBCA or other applicable law. If the Indemnitee is not wholly successful, on the merits or otherwise, in a Proceeding, but is successful, on the merits or otherwise, as to any Matter in such Proceeding, the Company shall indemnify the Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf relating to each Matter. The termination of any Matter in a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such Matter. In addition, to the extent the Indemnitee is, by reason of his Corporate Status, a witness or otherwise participates in any Proceeding at a time when he is not named a defendant or respondent in the Proceeding, he shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith. The Indemnitee shall be advanced

Expenses, within ten days after any request for such advancement, to the fullest extent permitted, or not prohibited, by Article 2.02-1 of the TBCA; provided that the Indemnitee has provided to the Company all affirmations, acknowledgments, representations and undertakings that may be required of the Indemnitee by Article 2.02-1 of the TBCA.

Section 3. Determination of Request. Upon written request to the Company by an Indemnitee for indemnification pursuant to these Bylaws, a determination, if required by applicable law, with respect to an Indemnitee's entitlement thereto shall be made in accordance with Article 2.02-1 of the TBCA; provided, however, that notwithstanding the foregoing, if a Change in Control shall have occurred, such determination shall be made by Special Legal Counsel selected by the Indemnitee, unless the Indemnitee shall request that such determination be made in accordance with Article 2.02-1F (1) or (2). The Company shall pay any and all reasonable fees and expenses of Special Legal Counsel incurred in connection with any such determination. If a Change in Control shall have occurred, the Indemnitee shall be presumed (except as otherwise expressly provided in this Article) to be entitled to indemnification under this Article upon submission of a request to the Company for indemnification, and thereafter the Company shall have the burden of proof in overcoming that presumption in reaching a determination contrary to that presumption. The presumption shall be used by Special Legal Counsel, or such other person or persons determining entitlement to indemnification, as a basis for a determination of entitlement to indemnification unless the Company provides information sufficient to overcome such presumption by clear and convincing evidence or the investigation, review and analysis of Special Legal Counsel or such other person or persons convinces him or them by clear and convincing evidence that the presumption should not apply.

Section 4. Effect of Certain Proceedings. The termination of any Proceeding or of any Matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Article) of itself adversely affect the right of the Indemnitee to indemnification or create a presumption that (a) the Indemnitee did not conduct himself in good faith and in a manner which he reasonably believed, in the case of conduct in his official capacity as a director of the Company, to be in the best interests of the Company, or, in all other cases, that at least his conduct was not opposed to the Company's best interests, or (b) with respect to any criminal Proceeding, that the Indemnitee had reasonable cause to believe that his conduct was unlawful.

Section 5. Expenses of Enforcement of Article. In the event that an Indemnitee, pursuant to this Article, seeks a judicial adjudication to enforce his rights under, or to recover damages for breach of, rights created under or pursuant to this Article, the Indemnitee shall be entitled to recover from the Company, and shall be indemnified by the Company against, any and all Expenses actually and reasonably incurred by him in such judicial adjudication but only if he prevails therein. If it shall be determined in said judicial adjudication that the Indemnitee is entitled to receive part but not all of the indemnification or advancement of Expenses sought, the Expenses incurred by Indemnitee in connection with such judicial adjudication shall be reasonably prorated in good faith by counsel for the Indemnitee. Notwithstanding the foregoing, if a Change in Control shall have occurred,

Indemnitee shall be entitled to indemnification under this Section regardless of whether indemnitee ultimately prevails in such judicial adjudication.

Section 6. Nonexclusive Rights. The rights of indemnification and to receive advancement of Expenses as provided by this Article shall not be deemed exclusive of any other rights to which the Indemnitee may at any time be entitled under applicable law, the Articles of Incorporation of the Company, these Bylaws, agreement, insurance, arrangement, a vote of shareholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Article or any provision thereof shall be effective as to any Indemnitee for acts, events and circumstances that occurred, in whole or in part, before such amendment, alteration or repeal. The provisions of this Article shall continue as to an Indemnitee whose Corporate Status has ceased and shall inure to the benefit of his heirs, executors and administrators.

Section 7. Invalidity. If any provision or provisions of this Article shall be held to be invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby; and, to the fullest extent possible, the provisions of this Article shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

Section 8. Definitions. For purposes of this Article:

"Change of Control" means a change in control of the Company occurring after the date of adoption of these Bylaws in any of the following circumstances: (a) there shall have occurred an event required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Exchange Act, whether or not the Company is then subject to such reporting requirement; (b) any "person" (as such term is used in Section 13(d) and 14(d) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation or other entity owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, shall have become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding voting securities without prior approval of at least two-thirds of the members of the Board of Directors in office immediately prior to such person attaining such percentage interest; (c) the Company is a party to a merger, consolidation, share exchange, sale of assets or other reorganization, or a proxy contest, as a consequence of which members of the Board of Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors thereafter; (d) during any fifteen month period, individuals who at the beginning of such period constituted the Board of Directors (including for this purpose any new director whose election or nomination for election by the Company's shareholders was approved by a vote of at least two- thirds of the directors then still in office

who were directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board of Directors.

"Corporate Status" means the status of a person who is or was a director, officer, partner, venturer, proprietor, trustee, employee (including an employee acting in his Designated Professional Capacity), or agent or similar functionary of the Company or of any other foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise which such person is or was serving in such capacity at the request of the Company. The Company hereby acknowledges that unless and until the Company provides the Indemnitee with written notice to the contrary, the Indemnitee's service as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of an Affiliate of the Company shall be conclusively presumed to be at the Company's request. An Affiliate of the Company shall be deemed to be (a) any foreign or domestic corporation in which the Company owns or controls, directly or indirectly, 5% or more of the shares entitled to be voted in the election of directors of such corporation; (b) any foreign or domestic partnership, joint venture, proprietorship or other enterprise in which the Company owns or controls, directly or indirectly, 5% or more of the revenue interests in such partnership, joint venture, proprietorship or other enterprise; or (c) any trust or employee benefit plan the beneficiaries of which include the Company, any Affiliate of the Company as defined in the foregoing clauses (a) and (b) or any of the directors, officers, partners, venturers, proprietors, employees, agents or similar functionaries of the Company or of such Affiliates of the Company.

"Expenses" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, or being or preparing to be a witness in a Proceeding.

"Indemnitee" includes any person who is, or is threatened to be made, a witness in or a party to any Proceeding as described in Section 1 or 2 of this Article by reason of his Corporate Status.

"Matter" is a claim, a material issue, or a substantial request for relief.

"Proceeding" includes any threatened, pending or completed action, suit, arbitration, alternate dispute resolution proceeding, investigation, administrative hearing and any other proceeding, whether civil, criminal, administrative, investigative or other, any appeal in such action, suit, arbitration, proceeding or hearing, or any inquiry or investigation, whether conducted by or on behalf of the Company, a subsidiary of the Company or any other party, formal or informal, that the Indemnitee in good faith believes might lead to the institution

of any such action, suit, arbitration, proceeding, investigation or hearing, except one initiated by an Indemnitee pursuant to Section 5 of this Article.

"Special Legal Counsel" means a law firm, or member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the five years previous to his selection or appointment has been, retained to represent: (a) the Company or the Indemnitee in any matter material to either such party; (b) any other party to the Proceeding giving rise to a claim for indemnification hereunder; or (c) the beneficial owner, directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding voting securities. Notwithstanding the foregoing, the term "Special Legal Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or the Indemnitee in an action to determine the Indemnitee's rights to indemnification under these Bylaws.

For the purposes of this Article, an employee acting in his "Designated Professional Capacity" shall include, but not be limited to, a physician, nurse, psychologist or therapist, registered surveyor, registered engineer, registered architect, attorney, certified public accountant or other person who renders such professional services within the course and scope of his employment, who is licensed by appropriate regulatory authorities to practice such profession and who, while acting in the course of such employment, committed or is alleged to have committed any negligent acts, errors or omissions in rendering such professional services at the request of the Company or pursuant to his employment (including, without limitation, rendering written or oral opinions to third parties).

Section 9. Notice. Any communication required or permitted to the Company under this Article shall be addressed to the Secretary of the Company and any such communication to the Indemnitee shall be addressed to his home address unless he specifies otherwise and shall be personally delivered or delivered by overnight mail or courier delivery.

Section 10. Insurance and Self-Insurance Arrangements. The Company may procure or maintain insurance or other similar arrangements, at its expense, to protect itself and any Indemnitee against any expense, liability or loss asserted against or incurred by such person, incurred by him in such a capacity or arising out of his Corporate Status as such a person, whether or not the Company would have the power to indemnify such person against such expense or liability. In considering the cost and availability of such insurance, the Company (through the exercise of the business judgment of its directors and officers) may, from time to time, purchase insurance which provides for any and all of (a) deductibles, (b) limits on payments required to be made by the insurer, or (c) coverage which may not be as comprehensive as that previously included in insurance purchased by the Company. The purchase of insurance with deductibles, limits on payments and coverage exclusions will be deemed to be in the best interest of the Company but may not be in the best interest of certain of the persons covered thereby. As to the Company, purchasing insurance with deductibles, limits on payments, and coverage exclusions is similar to the Company's practice of self-insurance in other

areas. In order to protect the Indemnitees who would otherwise be more fully or entirely covered under such policies, the Company shall indemnify and hold each of them harmless as provided in Section 1 or 2 of this Article, without regard to whether the Company would otherwise be entitled to indemnify such officer or director under the other provisions of this Article, or under any law, agreement, vote of shareholders or directors or other arrangement, to the extent (i) of such deductibles, (ii) of amounts exceeding payments required to be made by an insurer or (iii) that prior policies of officer's and director's liability insurance held by the Company or its predecessors would have provided for payment to such officer or director. Notwithstanding the foregoing provision of this Section, no Indemnitee shall be entitled to indemnification for the results of such person's conduct that is intentionally adverse to the interests of the Company. This Section is authorized by Section 2.02-1(R) of the TBCA as in effect on May 1, 1996, and further is intended to establish an arrangement of self-insurance pursuant to that section.

ARTICLE VI

MISCELLANEOUS PROVISIONS

Section 1. Offices. The principal office of the Company shall be located in Houston, Texas, unless and until changed by resolution of the Board of Directors. The Company may also have offices at such other places as the Board of Directors may designate from time to time, or as the business of the Company may require. The principal office and registered office may be, but need not be, the same.

Section 2. Resignations. Any director or officer may resign at any time. Such resignations shall be made in writing and shall take effect at the time specified therein, or, if no time be specified, at the time of its receipt by the Chairman of the Board, if there is one, the Chief Executive Officer, if there is one, the President or the Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

Section 3. Seal. The seal of the Company shall be circular in form, with the name "HOUSTON INDUSTRIES INCORPORATED."

Section 4. Separability. If one or more of the provisions of these Bylaws shall be held to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other provision hereof and these Bylaws shall be construed as if such invalid, illegal or unenforceable provision or provisions had never been contained herein.

ARTICLE VII

AMENDMENT OF BYLAWS

Section 1. Vote Requirements. The Board of Directors shall have the power to alter, amend or repeal the Bylaws or adopt new Bylaws by the affirmative vote of at least 80% of all directors then in office at any regular or special meeting of the Board of Directors, subject to repeal or change by the affirmative vote of the holders of at least 80% of the voting power of all the shares of the Company entitled to vote in the election of directors, voting together as a single class.

Section 2. Shareholder Proposals. No proposal by a shareholder made pursuant to Section 1 of this Article VII may be voted upon at a meeting of shareholders unless such shareholder shall have delivered or mailed in a timely manner (as set forth in this Section 2) and in writing to the Secretary of the Company (a) notice of such proposal and the text of the proposed alteration, amendment or repeal, (b) evidence reasonably satisfactory to the Secretary of the Company, of such shareholder's status as such and of the number of shares of each class of capital stock of the Company of which such shareholder is the beneficial owner, (c) a list of the names and addresses of other beneficial owners of shares of the capital stock of the Company, if any, with whom such shareholder is acting in concert, and the number of shares of each class of capital stock of the Company beneficially owned by each such beneficial owner and (d) an opinion of counsel, which counsel and the form and substance of which opinion shall be reasonably satisfactory to the Board of Directors of the Company, to the effect that the Bylaws (if any) resulting from the adoption of such proposal would not be in conflict with the Articles of Incorporation of the Company or the laws of the State of Texas. To be timely in connection with an annual meeting of shareholders, a shareholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Company not less than ninety nor more than 180 days prior to the date on which the immediately preceding year's annual meeting of shareholders was held. To be timely in connection with the voting on any such proposal at a special meeting of the shareholders, a shareholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Company not less than forty days nor more than sixty days prior to the date of such meeting; provided, however, that in the event that less than forty-seven days' notice or prior public disclosure of the date of the special meeting of the shareholders is given or made to the shareholders, the shareholder's notice and other aforesaid items to be timely must be so received not later than the close of business on the seventh day following the day on which such notice of date of the meeting was mailed or such public disclosure was made. Within thirty days (or such shorter period that may exist prior to the date of the meeting) after such shareholder shall have submitted the aforesaid items, the Secretary and the Board of Directors of the Company shall respectively determine whether the items to be ruled upon by them are reasonably satisfactory and shall notify such shareholder in writing of their respective determinations. If such shareholder fails to submit a required item in the form or within the time indicated, or if the Secretary or the Board of Directors of the Company determines that the items to be ruled upon by them are not reasonably satisfactory, then such proposal by such shareholder may not be voted upon by the shareholders of the Company at such meeting of shareholders. The presiding person at each meeting of shareholders shall, if the facts warrant,

determine and declare to the meeting that a proposal made pursuant to Section 1 of this Article VII was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare to the meeting and the defective proposal shall be disregarded. Beneficial ownership shall be determined in accordance with Rule 13d-3 under the Exchange Act.

EXHIBIT 4(d)(1)
EXECUTION COPY

AMENDMENT, dated as of December 23, 1997 (this "Amendment"), to the Credit Agreement dated as of August 6, 1997 (as the same may be amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among: (i) HOUSTON INDUSTRIES FINANCECO LP, a Delaware limited partnership (the "Borrower"); (ii) HOUSTON INDUSTRIES INCORPORATED, a Texas corporation; (iii) the several banks and other financial institutions from time to time parties thereto (collectively, the "Banks," and each individually, a "Bank"); (iv) CHASE SECURITIES INC., as Arranger (in such capacity, the "Arranger"); and (v) THE CHASE MANHATTAN BANK, as Administrative Agent (in such capacity, the "Agent").

W I T N E S S E T H :

WHEREAS, pursuant to the Credit Agreement, the Banks have agreed to make certain loans and other extensions of credit to the Borrower; and

WHEREAS, the Borrower has requested, and, upon this Amendment becoming effective, the Majority Banks have agreed, that certain provisions of the Credit Agreement be amended in the manner provided for in this Amendment;

NOW, THEREFORE, the parties hereto hereby agree as follows:

SECTION 1. DEFINITIONS.

1.1 Defined Terms. Unless otherwise defined herein and except as set forth in this Amendment, terms defined in the Credit Agreement are used herein as therein defined.

SECTION 2. AMENDMENTS TO CREDIT AGREEMENT.

2.1 Amendment to Section 1.1 of the Credit Agreement. Section 1.1 of the Credit Agreement is hereby amended by adding thereto the following definition in its appropriate alphabetical order:

"Project Finance Entity" means any entity established or used primarily to acquire and/or hold assets (the "Project Finance Assets") so long as HII or a Subsidiary of HII (i) owns at least a portion of the outstanding shares of Capital Stock or other ownership interests having ordinary voting power to elect directors or other managers of such entity and (ii) has or will have a role in managing such Project Finance Assets.

2.2 Amendment to Section 8.4(g)(v) of the Credit Agreement. Section 8.4(g)(v) of the Credit Agreement is hereby amended by deleting said Section in its entirety and substituting in lieu thereof the following:

> "at any time (x) at which no Default or Event of Default has occurred and is continuing, (y) that Projected Available Cash exceeds Projected Borrower Debt Service for the fiscal quarter of HII then in effect and (z) that the long-term senior secured debt rating then in effect for HII is at least BBB by S&P or Baa2 by Moody's, HII may make HII Investments in any domestic Subsidiary of HII or any Project Finance Entity so long as such Subsidiary or Project Finance Entity (i) is a Subsidiary or Project Finance Entity domiciled and organized in the United States, having all or substantially all of its assets and operations located in the United States and (ii) is (A) directly or indirectly engaged in one or more businesses which are primarily related to the normal conduct of the domestic utility business of HL&P or NorAm in accordance with normal industry standards as generally in effect at such time or (B) formed for the purpose of providing or obtaining financing for a Subsidiary or a Project Finance Entity of the type described in clause (A); provided that the requirement of clause (y) would be satisfied after giving effect to (1) such HII Investment and (2) any sources of cash available or reasonably expected by HII at the time of the proposed investment to be available during the fiscal quarter of HII then in effect; and"

SECTION 3. MISCELLANEOUS.

3.1 Effectiveness. This Amendment shall become effective on the date upon which the Agent shall have received counterparts of this Amendment, duly executed and delivered by the Borrower, HII, the Agent and the Majority Banks.

3.2 Representations and Warranties. After giving effect to the amendments contained herein, each of the Borrower and HII hereby confirm, reaffirm and restate the representations and warranties set forth in Article VII of the Credit Agreement; provided that each reference in such Article VII to "this Agreement" shall be deemed to be a reference both to this Amendment and to the Credit Agreement as amended by this Amendment.

3.3 Payment of Expenses. The Borrower agrees to pay or reimburse the Agent for all of its out-of- pocket costs and reasonable expenses incurred in connection with this Amendment, any other documents prepared in connection herewith and the transactions contemplated hereby, including, without limitation, the reasonable fees and disbursements of counsel to the Agent.

3.4 Continuing Effect; No Other Amendments. Except as expressly amended hereby, all of the terms and provisions of the Credit Agreement and the other Loan Documents are and shall remain in full force and effect. The amendments contained herein shall not constitute an amendment or waiver of any other provision of the Credit Agreement or the other Loan Documents or for any purpose except as expressly set forth herein.

3.5 Counterparts. This Amendment may be executed in any number of counterparts by the parties hereto, each of which counterparts when so executed shall be an original, but all the counterparts shall together constitute one and the same instrument.

3.6 GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their respective duly authorized officers as of the date first above written.

HOUSTON INDUSTRIES
FINANCECO LP

By: HOUSTON INDUSTRIES
FINANCECO GP, LLC,
its General Partner

By:/s/M. Keller C.

Title: Treasurer

HOUSTON INDUSTRIES
INCORPORATED

By:/s/Stephen W. Naeve

Title: Executive Vice President and Chief
Financial Officer

THE CHASE MANHATTAN BANK, as
Agent and as a Bank

By:

Title:

BANKBOSTON, N.A.

By:

Title:

BANK OF MONTREAL

By:

Title:

THE BANK OF NEW YORK

By:

Title:

THE BANK OF NOVA SCOTIA

By:/s/ F.C.H. Ashby

F.C.H. Ashby
Title: Senior Manager Loan Operations

THE BANK OF TOKYO-MITSUBISHI,
LTD., HOUSTON AGENCY

By:

Title:

BARCLAYS BANK PLC

By:

Title:

CAISSE NATIONALE DE CREDIT
AGRICOLE

By:

Title:

CIBC INC.

By:

Title:

CITIBANK, N.A.

By:

Title:

COMERICA BANK

By:

Title:

COMMERZBANK
AKTIENGESELLSCHAFT,
ATLANTA AGENCY

By:/s/D. Suttles

Title: Vice President

By:/s/P. Mahoney

Title: Assistant Treasurer

CREDIT LYONNAIS
NEW YORK BRANCH

By:

Title:

CREDIT SUISSE FIRST BOSTON

By:

Title:

By:

Title:

THE DAI-ICHI KANGYO BANK,
LIMITED

By:

Title:

FIRST UNION NATIONAL BANK

By:

Title:

FLEET NATIONAL BANK

By:

Title:

THE FUJI BANK, LIMITED -
HOUSTON AGENCY

By:/s/David Kelley

Title: Senior Vice President

THE INDUSTRIAL BANK OF JAPAN,
LIMITED, NEW YORK BRANCH

By:

Title:

THE LONG-TERM CREDIT BANK OF
JAPAN, LTD.

By:

Title:

MELLON BANK, N.A.

By:

Title:

MORGAN GUARANTY TRUST
COMPANY OF NEW YORK

By:

Title:

NATIONSBANK OF TEXAS, N.A.

By:

Title:

THE NORTHERN TRUST COMPANY

By:

Title:

ROYAL BANK OF CANADA

By:/s/Tom J. Oberaigner

Tom J. Oberaigner
Title: Manager

THE SAKURA BANK, LIMITED

By:

Title:

SOCIETE GENERALE,
SOUTHWEST AGENCY

By:

Title:

THE SUMITOMO BANK, LIMITED

By:

Title:

THE TOKAI BANK, LTD.

By:

Title:

TORONTO DOMINION (TEXAS), INC.

By:

Title:

UNION BANK OF SWITZERLAND,
NEW YORK BRANCH

By:

Title:

By:

Title:

WACHOVIA BANK OF GEORGIA, N.A.

By:

Title:

WESTDEUTSCHE LANDESBANK
GIROZENTRALE, NEW YORK

By:

Title:

By:

Title:

THE YASUDA TRUST AND BANKING
COMPANY LIMITED
NEW YORK BRANCH

By:/s/R.M. Laudenschlager

Rohn Laudenschlager
Title: Senior Vice President

EXHIBIT 4(d)2

[Execution Copy]

SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT, dated as of February 27, 1998 (this "Amendment"), to the Credit Agreement dated as of August 6, 1997 (as amended by the First Amendment to the Credit Agreement dated as of December 23, 1997 and as the same may be amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), is made and entered into among: (i) HOUSTON INDUSTRIES FINANCECO LP, a Delaware limited partnership (the "Borrower"); (ii) HOUSTON INDUSTRIES INCORPORATED, a Texas corporation ("HII"); (iii) the several banks and other financial institutions from time to time parties thereto (collectively, the "Banks," and each individually; a "Bank"); (iv) CHASE SECURITIES INC., as Arranger (in such capacity, the "Arranger"); and (v) THE CHASE MANHATTAN BANK, as Administrative Agent (in such capacity, the "Agent").

W I T N E S S E T H:

WHEREAS, pursuant to the Credit Agreement, the Banks have agreed to make certain loans and other extensions of credit to the Borrower; and

WHEREAS, the Borrower has requested that certain provisions of the Credit Agreement be amended and certain of the collateral pledged under the HII Pledge and Collateral Agency Agreement and the Pledge and Collateral Agency Agreement be released in the manner provided for in this Amendment, and that the Pledge and Collateral Agency Agreement be terminated;

NOW, THEREFORE, the parties hereto hereby agree as follows:

SECTION 1. DEFINITIONS.

1.1 Defined Terms. Unless otherwise defined herein and except as set forth in this Amendment, terms defined in the Credit Agreement are used herein as therein defined.

SECTION 2. AMENDMENTS TO THE CREDIT AGREEMENT.

2.1 Amendment to Section 1.1 of the Credit Agreement. Section 1.1 of the Credit Agreement is hereby amended by (i) deleting therefrom the definition of "HII Aggregate Investment Amount" in its entirety, (ii) deleting from clause (ii) in the definition of "Intercompany Indebtedness" on page 13 the phrase "HII Pledged Subsidiary" and substituting in lieu thereof the phrase "Subsidiary of HII" and (iii) deleting from the definition of "Money Fund" the words "; provided that at all times any Person conducting the operations of the Money Fund, or owning and controlling the bank or investment accounts thereunder, shall be an HII Pledged Subsidiary". As so amended, the definition of "Intercompany Indebtedness" shall read in its entirety as follows:

"Intercompany Indebtedness" means (i) any Indebtedness constituting Money Fund Advances or Money Fund Obligations, (ii) any Indebtedness for Borrowed Money owed by the Borrower to HII or to any Subsidiary of HII the proceeds of which are applied upon the receipt thereof to repayment of Loans or commercial paper supported by this Agreement and (iii) any Indebtedness constituting an advance by HII to the Borrower pursuant to the Support Agreement.

2.2 Amendment to Sections 4.3(b)(i) and (ii) of the Credit Agreement. Section 4.3(b)(i) and Section 4.3(b)(ii) of the Credit Agreement are hereby amended by deleting those Sections in their entirety and substituting in lieu thereof the following:

"(i) [Intentionally Omitted.]

(ii) [Intentionally Omitted.]"

2.3 Amendment to Section 4.3(b)(iv) of the Credit Agreement. Section 4.3(b)(iv) of the Credit Agreement is hereby amended by deleting the first sentence thereof.

2.4 Amendment to Section 7.9 of the Credit Agreement. Section 7.9 of the Credit Agreement is hereby amended so that such Section shall read in its entirety as follows:

"SECTION 7.9. Investment Company Act; PUHC Act of 1935. Neither HII nor any Subsidiary of HII is (i) required to register as an "investment company" under the Investment Company Act of 1940, as amended, or (ii) subject to regulation as a public utility holding company under PUHCA except Section 9(a)(2) thereof relating to the acquisition of securities of other public utility companies or public utility holding companies."

2.5 Amendment to Section 8.2(g) of the Credit Agreement. Section 8.2(g) of the Credit Agreement is hereby amended by deleting that Section in its entirety.

2.6 Amendment to Section 8.4(a) of the Credit Agreement. Section 8.4(a) of the Credit Agreement is hereby amended by deleting from the first sentence thereof the phrase "HI Energy or".

2.7 Amendment to Section 8.4(c) of the Credit Agreement. Section 8.4(c) of the Credit Agreement is hereby amended by deleting therefrom (i) the designation "(i)" at the beginning of the first paragraph thereof, (ii) the words ", subject to Section 8.4(c)(ii)," occurring in the first paragraph after the phrase "provided, however, that" and (iii) paragraph (ii) in its entirety.

2.8 Amendment to Section 8.4.(e)(iv) of the Credit Agreement. Section 8.4(e)(iv) of the Credit Agreement is hereby amended by deleting, beginning in the fifth line thereof, the words ", so long as the Commitments are permanently reduced to the extent required pursuant to Section 4.3(b) on the date of any such repurchase", so that such Section shall read in its entirety as follows:

"(iv) at any time (x) at which no Default or Event of Default has occurred and is continuing, (y) that Projected Available Cash exceeds Projected Borrower Debt Service for the fiscal quarter of HII then in effect and (z) that the long-term senior secured debt rating in effect for HII is at least BBB by S&P or Baa2 by Moody's, HII shall be permitted to repurchase its outstanding common stock; provided that the requirements set forth in clauses (x) and (y) above would be satisfied after giving effect to (1) such repurchases and (2) any sources of cash available or reasonably expected by HII at the time of the proposed repurchase to be available during the fiscal quarter of HII then in effect; and provided further that during the period from the Closing Date through September 30, 1997, Projected Available Cash shall be deemed to exceed Projected Borrower Debt Service."

2.9 Amendment to Section 8.4.(g)(i) of the Credit Agreement. Section 8.4(g)(i) of the Credit Agreement is hereby amended by (i) deleting in the fifth line and the eighth line thereof the words "HII Pledged Subsidiaries" and substituting in lieu thereof in each place the words "Subsidiaries of HII" and (ii) deleting in the proviso thereof the words "(A) the Commitments shall be permanently reduced to the extent required pursuant to Section 4.3(b)(ii) on the date of the consummation of such HII Investment and (B)", so that such Section shall read in its entirety as follows:

"(i) at any time (x) at which no Default or Event of Default has occurred and is continuing, (y) that Projected Available Cash exceeds Projected Borrower Debt Service for the fiscal quarter of HII then in effect and (z) that the long-term senior secured debt rating in effect for HII is at least BBB by S&P or Baa2 by Moody's, HII shall be permitted to make direct or indirect HII Investments in Subsidiaries of HII, and HII Investments constituting purchases or acquisitions of assets, securities or Capital Stock that result, upon consummation thereof, in such assets, securities or Capital Stock being owned by or becoming Subsidiaries of HII (it being understood that the foregoing shall not apply to any investments, acquisitions, loans, advances or Guarantees made by any Subsidiary in accordance with this clause (i) and the other applicable provisions of this Agreement); provided that the requirements set forth in clauses (x) and (y) above would be satisfied after giving effect to (1) such HII Investments and (2) any sources of cash available or reasonably expected by HII at the time of the proposed investment to be available during the fiscal quarter of HII then in effect;"

2.10 Amendment to Section 8.4.(g)(vi) of the Credit Agreement. Section 8.4(g)(vi) of the Credit Agreement is hereby amended by deleting from the fourth line thereof the words "HII Pledged", so that such Section shall read in its entirety as follows:

"(vi) at any time at which no Default or Event of Default has occurred and is continuing, HII may make HII Investments (i) to fund operating expenses of Subsidiaries existing at the time of such HII Investment and (ii) in any Wholly-Owned domestic Subsidiary of HII so long as such Subsidiary is created, and continues, to engage in, and all or substantially all of the operations and assets of such Subsidiary are involved in the conduct of, the business of holding assets, providing services or conducting operations that,

prior to such creation or such HII Investment, were held, provided or conducted, as the case may be, by HL&P or NorAm in the ordinary course of their respective utility businesses."

2.11 Amendment to Section 11.6(c) of the Credit Agreement. Section 11.6(c) of the Credit Agreement is hereby amended by deleting the word "applicable" immediately before the word "Borrower" in the last sentence of such Section.

SECTION 3. CONSENT TO RELEASE OF CERTAIN COLLATERAL UNDER THE HII PLEDGE AND COLLATERAL AGENCY AGREEMENT AND THE PLEDGE AND COLLATERAL AGENCY AGREEMENT AND THE TERMINATION OF THE PLEDGE AND COLLATERAL AGENCY AGREEMENT.

3.1 Release and Termination. The parties hereto hereby consent to the release of all of the common stock of NorAm Energy Corp. (formerly known as HI Merger, Inc.) and all of the member interests of Houston Industries FinanceCo GP, LLC (which interests are represented by common shares) and any Proceeds (as defined in the HII Pledge and Collateral Agency Agreement) therefrom pledged pursuant to the HII Pledge and Collateral Agency Agreement from the liens created thereby. The parties hereto hereby also consent to the release of all of the common stock of Houston Industries Energy, Inc. and Houston Industries Energy II, Inc. and any Proceeds (as defined in the Pledge and Collateral Agency Agreement) therefrom pledged pursuant to the Pledge and Collateral Agency Agreement from the liens created thereby and to the termination of the Pledge and Collateral Agency Agreement.

3.2 Form of Amendments. In order to effect the release of the collateral and the termination of the Pledge and Collateral Agency Agreement described in Section 3.1 hereof, the parties hereto hereby approve the form, terms and provisions of the form of amendments to the HII Pledge and Collateral Agency Agreement and the Pledge and Collateral Agency Agreement attached hereto as Exhibit A and Exhibit B, respectively.

SECTION 4. MISCELLANEOUS.

4.1 Effectiveness. This Amendment shall become effective on the date upon which the Agent shall have received counterparts of this Amendment, duly executed and delivered by the Borrower, HII, the Agent and the Majority Banks (except with respect to the consents, releases of Collateral and amendments described in Section 3 hereof, which, to become effective, shall also require execution and delivery of counterparts of this Amendment by the Supermajority Banks, rather than merely the Majority Banks, and the expiration of five Business Days after written notice of the proposed release of the Collateral and termination described in Section 3 hereof is given to the persons and in the manner so specified in Section 21(a)(ii) of each of (i) the HII Pledge and Collateral Agency Agreement and (ii) the Pledge and Collateral Agency Agreement).

4.2 Representations and Warranties. After giving effect to the amendments contained herein, each of the Borrower and HII hereby confirm, reaffirm and restate the representations and warranties set forth in Article VII of the Credit Agreement; provided that each reference in such Article VII to "this Agreement" shall be deemed to be a reference both to this

Amendment and to the Credit Agreement as previously amended and as amended by this Amendment. On the date hereof, no Default or Event of Default has occurred or is continuing.

4.3 Payment of Expenses. The Borrower agrees to pay or reimburse the Agent for all of its out-of-pocket costs and reasonable expenses incurred in connection with this Amendment, any other documents prepared in connection herewith and the transactions contemplated hereby, including, without limitation, the reasonable fees and disbursements of counsel to the Agent.

4.4 Continuing Effect; No Other Amendments. Except as expressly amended hereby, all of the terms and provisions of the Credit Agreement and the other Loan Documents (as may have been previously amended) are and shall remain in full force and effect. The amendments contained herein shall not constitute an amendment or waiver of any other provision of the Credit Agreement or the other Loan Documents or for any purpose except as expressly set forth herein.

4.5 Counterparts. This Amendment may be executed in any number of counterparts by the parties hereto, each of which counterparts when so executed shall be an original, but all the counterparts shall together constitute one and the same instrument.

4.6 GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their respective duly authorized officers as of the date first above written.

HOUSTON INDUSTRIES
FINANCECO LP

By: HOUSTON INDUSTRIES
FINANCECO GP, LLC,
its General Partner

By: ----------
Title: ----------

HOUSTON INDUSTRIES INCORPORATED

By: ----------
Title: ----------

THE CHASE MANHATTAN BANK, as
Agent and as a Bank

By:

Title:

BANKBOSTON, N.A.

By:

Title:

BANK OF MONTREAL

By:

Title:

THE BANK OF NEW YORK

By:

Title:

THE BANK OF NOVA SCOTIA

By:

Title:

THE BANK OF TOKYO-MITSUBISHI
LTD., HOUSTON AGENCY

By:

Title:

BARCLAYS BANK PLC

By:

Title:

CAISSE NATIONALE DE CREDIT
AGRICOLE

By:

Title:

CIBC INC.

By:

Title:

CITIBANK, N.A.

By:

Title:

COMERICA BANK

By:

Title:

COMMERZBANK
AKTIENGESELLSCHAFT,
ATLANTA AGENCY

By:

Title:

By:

Title:

CREDIT LYONNAIS
NEW YORK BRANCH

By:

Title:

CREDIT SUISSE FIRST BOSTON

By:

Title:

By:

Title:

THE DAI-ICHI KANGYO BANK,
LIMITED

By:

Title:

FIRST UNION NATIONAL BANK

By:

Title:

FLEET NATIONAL BANK

By:

Title:

THE FUJI BANK, LIMITED -
HOUSTON AGENCY

By:

Title:

THE INDUSTRIAL BANK OF JAPAN,
LIMITED, NEW YORK BRANCH

By:

Title:

THE LONG-TERM CREDIT BANK OF
JAPAN, LTD.

By:

Title:

MELLON BANK, N.A.

By:

Title:

MORGAN GUARANTY TRUST
COMPANY OF NEW YORK

By:

Title:

NATIONSBANK OF TEXAS, N.A.

By:

Title:

THE NORTHERN TRUST COMPANY

By:

Title:

ROYAL BANK OF CANADA

By:

Title:

THE SAKURA BANK, LIMITED

By:

Title:

SOCIETE GENERALE,
SOUTHWEST AGENCY

By:

Title:

THE SUMITOMO BANK, LIMITED

By:

Title:

THE TOKAI BANK, LTD.

By:

Title:

TORONTO DOMINION (TEXAS), INC.

By:

Title:

UNION BANK OF SWITZERLAND,
NEW YORK BRANCH

By:

Title:

By:

Title:

WACHOVIA BANK OF GEORGIA, N.A.

By:

Title:

WESTDEUTSCHE LANDESBANK
GIROZENTRALE, NEW YORK
BRANCH

By:

Title:

By:

Title:

THE YASUDA TRUST AND BANKING
COMPANY LIMITED
NEW YORK BRANCH

By:

Title:

EXHIBIT A

FORM OF FIRST AMENDMENT TO HII PLEDGE
AND COLLATERAL AGENCY AGREEMENT

THIS FIRST AMENDMENT, dated as of February 27, 1998 (this "Amendment"), to Pledge and Collateral Agency Agreement, dated as of August 6, 1997, as the same may be amended, supplemented or otherwise modified from time to time (the "HII Pledge and Collateral Agency Agreement"), is made and entered into among HOUSTON INDUSTRIES INCORPORATED, a Texas corporation (the "Pledgor"), THE CHASE MANHATTAN BANK, as Collateral Agent for the Secured Parties (in such capacity, the "Collateral Agent"), and THE CHASE MANHATTAN BANK, as Bank Agent.

W I T N E S S E T H

WHEREAS, pursuant to the Credit Agreement, the Banks have severally agreed to make extensions of credit to the Borrower upon the terms and subject to the conditions set forth therein; and

WHEREAS, it was a condition precedent to the obligation of the Banks to make their respective extensions of credit to the Borrower under the Credit Agreement that the Pledgor shall have executed and delivered the HII Pledge and Collateral Agency Agreement to the Collateral Agent for the ratable benefit of the Secured Parties; and

WHEREAS, the Supermajority Banks have adopted an amendment to the Credit Agreement that, among other things, approves the form of this Amendment and the release of the Collateral contemplated hereby.

NOW THEREFORE, the Collateral Agent hereby enters into this Amendment to provide as follows:

SECTION 1. DEFINITIONS. Unless otherwise defined herein, terms defined in the HII Pledge and Collateral Agency Agreement and used herein shall have the meanings given to them in the HII Pledge and Collateral Agency Agreement.

SECTION 2. AMENDMENTS TO THE HII PLEDGE AND COLLATERAL AGENCY AGREEMENT. The HII Pledge and Collateral Agency Agreement is hereby amended in the following particulars only:

All of the common stock of NorAm Energy Corp. (formerly known as HI Merger, Inc.) and member interests of Houston Industries FinanceCo GP, LLC (which member interests are represented by common shares) and any Proceeds therefrom pledged pursuant to the HII Pledge and Collateral Agency Agreement are hereby released from the Liens created by the HII Pledge and Collateral Agency Agreement and shall no longer constitute Collateral or Pledged Stock thereunder. Schedule 1 to the HII Pledge and Collateral Agency Agreement is hereby amended to read in its entirety as set forth in Annex A to this Amendment. The Collateral Agent hereby agrees to promptly return the Collateral released pursuant to this Amendment to the Pledgor and to execute and deliver to the Pledgor such documents as the Pledgor shall reasonably request to evidence such release and termination of Liens.

SECTION 3. MISCELLANEOUS.

3.1 Effectiveness. This Amendment shall become effective on the later of (i) the date upon which the Collateral Agent shall have duly executed and delivered this Amendment to the Pledgor and (ii) the date upon which Section 3 of the Second Amendment to the Credit Agreement dated as of February 27, 1998 shall have become effective in accordance with its terms.

3.2 Payment of Expenses. The Pledgor agrees to pay or reimburse the Collateral Agent for all of its out-of-pocket costs and reasonable expenses incurred in connection with this Amendment, any other documents prepared in connection herewith and the transactions contemplated hereby, including, without limitation, the reasonable fees and disbursements of counsel to the Collateral Agent.

3.3 Continuing Effect; No Other Amendments. Except as expressly amended hereby, all of the terms and provisions of the HII Pledge and Collateral Agency Agreement are and shall remain in full force and effect. The amendments contained herein shall not constitute an amendment or waiver of any other provision of the HII Pledge and Collateral Agency Agreement for any purpose except as expressly set forth herein.

3.4 GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, each of the undersigned has caused this Amendment to be executed and delivered by its duly authorized officer as of the date first above written.

HOUSTON INDUSTRIES INCORPORATED

By:

Title:

THE CHASE MANHATTAN BANK, as
Collateral Agent and as Bank Agent

By:

Title:

ANNEX A

SCHEDULE 1
TO PLEDGE AND COLLATERAL
AGENCY AGREEMENT

DESCRIPTION OF PLEDGED STOCK

Issuer	Claim of Stock	Stock Certificate No.	No. of Shares
Houston Industries FinanceCo LP	All limited partnership interests in Houston Industries FinanceCo LP, including all rights of the Pledgor under the Limited Partnership Agreement of Houston Industries FinanceCo LP dated July 25, 1997, as amended from time to time	Uncertificated/N/A	99% limited partner interests

EXHIBIT B

FORM OF TERMINATING AMENDMENT TO PLEDGE
AND COLLATERAL AGENCY AGREEMENT

THIS TERMINATING AMENDMENT, dated as of February 27, 1998 (this "Terminating Amendment"), to Pledge and Collateral Agency Agreement, dated as of August 6, 1997 (the "Pledge and Collateral Agency Agreement"), is made and entered into among HOUSTON INDUSTRIES INCORPORATED, a Texas corporation ("HII"), HOUSTON INDUSTRIES ENERGY, INC., a Delaware corporation ("HI Energy" and together with HII, the "Pledgors"), THE CHASE MANHATTAN BANK, as Collateral Agent for the Secured Parties (in such capacity, the "Collateral Agent"), and THE CHASE MANHATTAN BANK, as Bank Agent.

W I T N E S S E T H

WHEREAS, pursuant to the Credit Agreement, the Banks have severally agreed to make extensions of credit to the Borrower upon the terms and subject to the conditions set forth therein; and

WHEREAS, it was a condition precedent to the obligation of the Banks to make their respective extensions of credit to the Borrower under the Credit Agreement that the Pledgors shall have executed and delivered the Pledge and Collateral Agency Agreement to the Collateral Agent for the ratable benefit of the Secured Parties; and

WHEREAS, the Supermajority Banks have adopted an amendment to the Credit Agreement that, among other things, approves the form of this Terminating Amendment, the termination of the Pledge and Collateral Agency Agreement and the release of the Collateral contemplated hereby.

NOW THEREFORE, the Collateral Agent hereby enters into this Terminating Amendment to provide as follows:

SECTION 1. DEFINITIONS. Unless otherwise defined herein, terms defined in the Pledge and Collateral Agency Agreement and used herein shall have the meanings given to them in the Pledge and Collateral Agency Agreement.

SECTION 2. AMENDMENTS TO THE PLEDGE AND COLLATERAL AGENCY AGREEMENT. The Pledge and Collateral Agency Agreement is hereby amended in the following particulars only:

The Pledge and Collateral Agency Agreement is hereby terminated and all of the common stock of Houston Industries Energy, Inc. and Houston Industries Energy II, Inc. and any Proceeds therefrom pledged pursuant to the Pledge and Collateral Agency Agreement are hereby released from the Liens created by the Pledge and Collateral Agency Agreement. The Collateral Agent hereby agrees to promptly return the Collateral released pursuant to this Terminating Amendment to the Pledgors and to execute and deliver to the Pledgors such documents as the Pledgors shall reasonably request to evidence such release and termination of Liens and the termination of the Pledge and Collateral Agency Agreement.

SECTION 3. MISCELLANEOUS.

3.1 Effectiveness. This Terminating Amendment shall become effective on the later of (i) the date upon which the Collateral Agent shall have duly executed and delivered this Terminating Amendment to the Pledgors and (ii) the date upon which Section 3 of the Second Amendment to the Credit Agreement dated as of February 27, 1998 shall have become effective in accordance with its terms.

3.2 Payment of Expenses. HII agrees to pay or reimburse the Collateral Agent for all of its out-of-pocket costs and reasonable expenses incurred in connection with this Terminating Amendment, any other documents prepared in connection herewith and the transactions contemplated hereby, including, without limitation, the reasonable fees and disbursements of counsel to the Collateral Agent.

3.3 GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, each of the undersigned has caused this Terminating Amendment to be executed and delivered by its duly authorized officer as of the date first above written.

HOUSTON INDUSTRIES INCORPORATED

By:

Title:

HOUSTON INDUSTRIES ENERGY, INC.

By:

Title:

THE CHASE MANHATTAN BANK, as
Collateral Agent and as Bank Agent

By:

Title:

EXHIBIT 10b5

HOUSTON INDUSTRIES INCORPORATED
EXECUTIVE INCENTIVE COMPENSATION PLAN

(As Established Effective January 1, 1982)

Fourth Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having adopted the Houston Lighting & Power Company Executive Incentive Compensation Plan, as established effective January 1, 1982 (the "Plan"), and having reserved the right under Section 13 thereof to amend the Plan, does hereby amend the first paragraph of the Plan, effective August 6, 1997, to read as follows:

"Houston Lighting & Power Company, a Texas corporation, and any successor thereto (the "Company"), hereby establishes and adopts the following Executive Incentive Compensation Plan (the "Plan"):"

IN WITNESS WHEREOF, the Company has caused these presents to be executed by its duly authorized officers in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 26th day of February 1998, but effective as of August 6, 1997.

HOUSTON INDUSTRIES INCORPORATED

By /s/ LEE W. HOGAN

Name: Lee W. Hogan

Title: Executive Vice President

ATTEST:

/s/ RICHARD B. DAUPHIN
- - ---

EXHIBIT 10c7

HOUSTON INDUSTRIES INCORPORATED
EXECUTIVE INCENTIVE COMPENSATION PLAN

(As Established Effective January 1, 1985)

Sixth Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having amended and restated the Houston Industries Incorporated Executive Incentive Compensation Plan, effective January 1, 1985 (the "Plan"), and having reserved the right under Section 18 thereof to amend the Plan, does hereby amend the definition of "Company" in Section 2 of the Plan, effective August 6, 1997, to read as follows:

"F. 'Company': Houston Industries Incorporated, any successor thereto, and/or any subsidiaries adopting the Plan with approval of the Board of Directors."

IN WITNESS WHEREOF, the Company has caused these presents to be executed by its duly authorized officers in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 26th day of February, 1998, but effective as of August 6, 1997.

HOUSTON INDUSTRIES INCORPORATED

By /s/ LEE W. HOGAN

Name: Lee W. Hogan

Title: Executive Vice President

ATTEST:

/s/ RICHARD B. DAUPHIN
- - ---

EXHIBIT 10f10

HOUSTON INDUSTRIES INCORPORATED
EXECUTIVE INCENTIVE COMPENSATION PLAN

(As Amended and Restated Effective January 1, 1991)

Ninth Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having amended and restated the Houston Industries Incorporated Executive Incentive Compensation Plan, effective January 1, 1991, and as thereafter amended (the "Plan"), and having reserved the right under Paragraph 18 thereof to amend the Plan, does hereby amend the Plan, effective as of the dates specified, as follows:

1. Paragraph 8 of the Plan is hereby amended, effective as of January 1, 1998, by striking the first sentence and inserting the following in lieu thereof:

"The Incentive Compensation Fund for any Plan Year shall be limited to the sum of the Maximum Annual Incentive Award Opportunities and Maximum Long-Term Incentive Award Opportunities for all Participants for that Plan Year, unless the Committee makes a specific determination pursuant to Paragraph 3D. hereinabove."

2. The first sentence of Paragraph 10B. of the Plan is hereby amended in its entirety, effective January 1, 1998, to read as follows:

"B. Payment of Vested Portion of Annual Award. A Participant who has been granted an Annual Award for a Plan Year must have been continually employed with an Employer through December 31 of such Plan Year in order to be eligible for payment of such Annual Award; provided, however, that if (i) a Participant's Agreement specifies that his Annual Award contains a vested portion and (ii) the Participant terminates employment during the Plan Year by reason of death, disability or retirement, but after completion of no less than ninety days of continuous service with an Employer, the Participant shall be eligible to receive a prorated Annual Award which shall be calculated as a fraction multiplied by the vested portion of the Participants' target Annual Award for the Plan Year, where the numerator is the number of days of completed continuous service with an Employer during the Plan Year (excluding days during which a Participant is on an unpaid leave of absence) and the denominator is the total number of days in the Plan Year."

3. Paragraph 2S. of the Plan is hereby amended, effective as of January 1, 1997, to read as follows:

"S. 'Participant': An employee who is selected to participate in the Plan; provided, however, that from and after January 1, 1997, no individual employed at the South Texas Nuclear Project shall be eligible to become a Participant."

IN WITNESS WHEREOF, Houston Industries Incorporated has caused these presents to be executed by its duly authorized officers in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 26th day of February, 1998, but effective as of the dates specified herein.

HOUSTON INDUSTRIES INCORPORATED

By /s/ LEE W. HOGAN

Name: Lee W. Hogan

Title: Executive Vice President

ATTEST:

/s/ RICHARD B. DAUPHIN
- - ---
Assistant Corporate Secretary

EXHIBIT 10i2

HOUSTON INDUSTRIES INCORPORATED
BENEFIT RESTORATION PLAN

(As Amended and Restated Effective July 1, 1991)

First Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having amended and restated the Houston Industries Incorporated Benefit Restoration Plan, effective July 1, 1991 (the "Plan"), and having reserved the right under Section 8 thereof to amend the Plan, does hereby amend the Plan, effective as of the dates specified herein as follows:

1. Paragraph 4 of the Plan is hereby amended, effective September 3, 1997, by adding the following to the end thereof:

> "If any Restoration Participant who has entered into a Severance Agreement, as defined in the Houston Industries Incorporated Executive Severance Benefits Plan, effective as of September 3, 1997, experiences a termination giving rise to a right to benefits under his Severance Agreement and complies with the conditions set forth in his Severance Agreement for the receipt of benefits thereunder, then such Restoration Participant's Retirement Plan Restoration Benefit under this section shall be calculated as if (a) the Restoration Participant were fully vested in the Retirement Plan and (b) the Restoration Participant had remained in the service of the Company or its Affiliates, as defined in his Severance Agreement, throughout the three-year period following the Change of Control, as defined in his Severance Agreement, or such other period as provided in the Restoration Participant's Severance Agreement."

2. Paragraph 5 of the Plan is hereby amended, effective September 3, 1997, by adding the following to the end thereof:

> "If any Supplemental Participant who has entered into a Severance Agreement with Company experiences a termination giving rise to a right to benefits under his Severance Agreement and complies with the conditions set forth in his Severance Agreement for the receipt of benefits thereunder, then such Supplemental Participant's Supplemental Retirement Benefit under this section shall be calculated as if (a) the Supplemental Participant were fully vested in the Retirement Plan and (b) the Supplemental Participant had remained in the service of the Company or its Affiliates, as defined in his Severance Agreement, throughout the three-year period following the Change of Control, as defined in his Severance Agreement, or such other period as provided in the Supplemental Participant's Severance Agreement."

3. Paragraph 11.c. of the Plan is hereby amended, effective August 6, 1997, to read as follows:

"c. 'Company' shall mean Houston Industries Incorporated, any successor thereto, and/or any subsidiaries adopting the Plan with approval of the Board of Directors."

4. A new paragraph 14 shall be added to the Plan, effective October 1, 1997, which shall read as follows:

"14. OPCO as Successor Employer. Effective on or about October 1, 1997, STP Nuclear Operating Company, a Texas nonprofit corporation ("OPCO" herein), assumed the responsibilities of Houston Lighting & Power Company ("HL&P herein), a division of the Company, as project manager of the South Texas Project. In connection therewith, OPCO employed substantially all of the former employees of HL&P stationed at the South Texas Project who have been engaged in the operation and management of the South Texas Project as employees of HL&P ("OPCO Employees"). Section 8.6.4 of that certain South Texas Project Transition Agreement between the Company and the remaining owners of the South Texas Project, dated effective November 17, 1997, provides that OPCO shall assume any and all liabilities for providing benefits under this Plan to the former HL&P employees who became OPCO Employees. In furtherance thereof, the liabilities for benefits accrued under this Plan as of September 30, 1997 with respect to OPCO Employees have been transferred from the books and records of the Company to the books and records of OPCO. Accordingly, from and after October 1, 1997, the Company shall have no further obligation with respect to such benefits, if any, accrued under this Plan on behalf of OPCO Employees and the OPCO Employees shall look solely to the OPCO Plan and OPCO for the payment of such benefits."

IN WITNESS WHEREOF, Houston Industries Incorporated has caused these presents to be executed by its duly authorized officers in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 26th day of February, 1998, but effective as of the dates specified herein.

HOUSTON INDUSTRIES INCORPORATED

By /s/ LEE W. HOGAN

Name: Lee W. Hogan

Title: Executive Vice President

ATTEST:

/s/ RICHARD B. DAUPHIN
- - ---
Assistant Corporate Secretary

EXHIBIT 10j9

HOUSTON INDUSTRIES INCORPORATED
DEFERRED COMPENSATION PLAN

(As Established Effective September 1, 1985)

Eighth Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having established the Houston Industries Incorporated Deferred Compensation Plan, effective September 1, 1985 and as amended (the "Plan"), and having reserved the right under Section 7.1 thereof to amend the Plan, does hereby amend Section 1.2 (n) the Plan, effective as of October 1, 1997, by inserting the following to the end thereof:

> "From and after October 1, 1997, employment with STP Nuclear Operating Company shall be deemed to constitute 'Employment' with an Employer hereunder for all purposes except any such Employee shall not be eligible to make any additional deferrals of Compensation under the Plan."

IN WITNESS WHEREOF, Houston Industries Incorporated has caused these presents to be executed by its duly authorized officers in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 13th day of November, 1997, but effective as of the date stated herein.

HOUSTON INDUSTRIES INCORPORATED

By /s/ LEE W. HOGAN

ATTEST:

/s/ RICHARD B. DAUPHIN
- - ---

EXHIBIT 10j10

HOUSTON INDUSTRIES INCORPORATED
DEFERRED COMPENSATION PLAN

(As Established September 1, 1985)

Ninth Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having established the Houston Industries Incorporated Deferred Compensation Plan, effective September 1, 1985, and as thereafter amended (the "Plan"), and having reserved the right under Section 7.1 thereof to amend the Plan, does hereby amend the Plan, effective as of September 3, 1997 as follows:

1. Sections 5.2(a), 5.2(b), and 5.2(c) of the Plan are hereby amended by adding the following sentence at the end of each section:

> "Notwithstanding the foregoing, if there is a conflict between the provisions of this section and the terms of the Participant's Severance Agreement (as described in Section 5.4), the terms of the Severance Agreement shall control."

2. Section 5.4 of the Plan is hereby amended by inserting the following paragraph at the end thereof which shall read as follows:

> "However, if any Participant who has entered into a Severance Agreement, as defined in the Houston Industries Incorporated Executive Severance Benefits Plan, effective as of September 3, 1997, experiences a termination giving rise to a right to benefits under his Severance Agreement and complies with the conditions set forth in his Severance Agreement for the receipt of benefits thereunder, then such Participant shall be treated as if his termination did not occur until after his Early Retirement Date, and the provisions of Section 5.1(c) shall apply."

IN WITNESS WHEREOF, Houston Industries Incorporated has caused these presents to be executed by its duly authorized officers in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 26th day of February, 1998, but effective as of the date specified herein.

HOUSTON INDUSTRIES INCORPORATED

By /s/ LEE W. HOGAN

Name: Lee W. Hogan

Title: Executive Vice President

ATTEST:

/s/ RICHARD B. DAUPHIN
- - ---
Assistant Corporate Secretary

EXHIBIT 10k9

HOUSTON INDUSTRIES INCORPORATED
DEFERRED COMPENSATION PLAN

(As Amended and Restated Effective January 1, 1989)

Eighth Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having established the Houston Industries Incorporated Deferred Compensation Plan, as amended and restated effective January 1, 1989 and as thereafter amended (the "Plan"), and having reserved the right under Section 7.1 thereof to amend the Plan, does hereby amend the Plan, effective as of the dates specified therein as follows:

1. Section 1.2(o) of the Plan is hereby amended, effective October 1, 1997, by adding the following to the end thereof:

> "From and after October 1, 1997, employment with STP Nuclear Operating Company shall be deemed to constitute 'Employment' with an Employer hereunder for all purposes except any such Employee shall not be eligible to make any additional deferrals of Compensation under the Plan."

2. Section 5.1(b) of the Plan is hereby amended, effective January 1, 1998, by striking the last sentence and inserting the following in lieu thereof:

> "For purposes of determining a benefit payable in the form of fifteen (15) installment payments under this Section 5.1(b), the Interest Crediting Rate shall be the greater of (i) the Interest Crediting Rate in effect for the Plan Year in which an Employee Participant attains age sixty-five (65) or a Director Participant attains age seventy (70) or (ii) the Interest Crediting Rate in effect for the Plan Year immediately prior to which an Employee Participant attains age sixty-five (65) or a Director Participant attains age seventy (70). This Interest Crediting Rate will constitute the applicable Interest Crediting Rate for all years thereafter in which the Normal Retirement Distribution is paid or payable."

IN WITNESS WHEREOF, Houston Industries Incorporated has caused these presents to be executed by its duly authorized officer in a number of copies, all of which shall constitute one

and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 13th day of November, 1997, but effective as of the dates stated herein.

HOUSTON INDUSTRIES INCORPORATED

By /s/ LEE W. HOGAN

ATTEST:

/s/ RICHARD B. DAUPHIN

EXHIBIT 10k10

HOUSTON INDUSTRIES INCORPORATED
DEFERRED COMPENSATION PLAN

(As Amended and Restated Effective January 1, 1989)

Ninth Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having amended and restated the Houston Industries Incorporated Deferred Compensation Plan, effective January 1, 1989, and as thereafter amended (the "Plan"), and having reserved the right under Section 7.1 thereof to amend the Plan, does hereby amend the Plan, effective as of September 3, 1997, as follows:

1. Sections 5.2(a), 5.2(b), and 5.2(c) of the Plan are hereby amended, by adding the following sentence at the end of each section:

> "Notwithstanding the foregoing, if there is a conflict between the provisions of this section and the terms of the Participant's Severance Agreement (as further described in Section 5.4), the terms of the Severance Agreement shall control."

2. Section 5.4 of the Plan is hereby amended by inserting the following paragraph at the end thereof which shall read as follows:

> "If any Participant who has entered into a Severance Agreement, as defined in the Houston Industries Incorporated Executive Severance Benefits Plan, effective as of September 3, 1997, experiences a termination giving rise to a right to benefits under his Severance Agreement and complies with the conditions set forth in his Severance Agreement for the receipt of benefits thereunder, then such Participant shall be treated as if his termination did not occur until after his Early Retirement Date, and the provisions of Section 5.1(d) shall apply."

IN WITNESS WHEREOF, Houston Industries Incorporated has caused these presents to be executed by its duly authorized officers in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 26th day of February, 1998, but effective as of the date specified herein.

HOUSTON INDUSTRIES INCORPORATED

By /s/ LEE W. HOGAN

Name: Lee W. Hogan

Title: Executive Vice President

ATTEST:

/s/ RICHARD B. DAUPHIN
- - ---
Assistant Corporate Secretary

EXHIBIT 10l10

HOUSTON INDUSTRIES INCORPORATED
DEFERRED COMPENSATION PLAN

(As Amended and Restated Effective January 1, 1991)

Ninth Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having established the Houston Industries Incorporated Deferred Compensation Plan, as amended and restated effective January 1, 1991 and as thereafter amended (the "Plan"), and having reserved the right under Section 7.1 thereof to amend the Plan, does hereby amend the Plan, effective as of the dates stated therein as follows:

1. Section 1.2(o) of the Plan is hereby amended, effective October 1, 1997, by adding the following to the end thereof:

"From and after October 1, 1997, employment with STP Nuclear Operating Company shall be deemed to constitute 'Employment' with an Employer hereunder for all purposes except any such Employee shall not be eligible to make any additional deferrals of Compensation under the Plan."

2. Section 3.2 of the Plan is hereby amended, effective August 6, 1997, by inserting the following immediately following the second sentence thereto:

"Notwithstanding the foregoing, effective as of August 6, 1997, any former Director of NorAm Energy Corp. who as of such date was a Director of the Company will be immediately eligible to participate under the Plan."

3. Section 5.1(b) of the Plan is hereby amended, effective January 1, 1998, by striking the last sentence and inserting the following in lieu thereof:

"For purposes of determining a benefit payable in the form of fifteen (15) installment payments under this Section 5.1(b), the Interest Crediting Rate shall be the greater of (i) the Interest Crediting Rate in effect for the Plan Year in which an Employee Participant attains age sixty-five (65) or a Director Participant attains age seventy (70) or (ii) the Interest Crediting Rate in effect for the Plan Year immediately prior to which an Employee Participant attains age sixty-five (65) or a Director Participant

attains age seventy (70). With respect to deferrals made after January 1, 1998, the Interest Crediting Rate shall be the Interest Crediting Rate in effect for the Plan Year immediately prior to which an Employee Participant attains age sixty-five (65) or a Director Participant attains age seventy (70). This Interest Crediting Rate will constitute the applicable Interest Crediting Rate for all years thereafter in which the Normal Retirement Distribution is paid or payable."

IN WITNESS WHEREOF, Houston Industries Incorporated has caused these presents to be executed by its duly authorized officer in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 13th day of November, 1997, but effective as of the dates stated herein.

HOUSTON INDUSTRIES INCORPORATED

By /s/ LEE W. HOGAN

ATTEST:

/s/ RICHARD B. DAUPHIN

EXHIBIT 10l11

HOUSTON INDUSTRIES INCORPORATED
DEFERRED COMPENSATION PLAN

(As Amended and Restated Effective January 1, 1991)

Tenth Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having amended and restated the Houston Industries Incorporated Deferred Compensation Plan, effective January 1, 1991, and as thereafter amended (the "Plan"), and having reserved the right under Section 7.1 thereof to amend the Plan, does hereby amend the Plan, effective as of September 3, 1997, as follows:

1. Sections 5.2(a), 5.2(b), and 5.2(c) of the Plan are hereby amended, by adding the following sentence at the end of each section:

"Notwithstanding the foregoing, if there is a conflict between the provisions of this section and the terms of the Participant's Severance Agreement (as further described in Section 5.4), the terms of the Severance Agreement shall control."

2. Section 5.4 of the Plan is hereby amended, by inserting the following paragraph at the end thereof which shall read as follows:

"If any Participant who has entered into a Severance Agreement, as defined in the Houston Industries Incorporated Executive Severance Benefits Plan, effective as of September 3, 1997, experiences a termination giving rise to a right to benefits under his Severance Agreement and complies with the conditions set forth in his Severance Agreement for the receipt of benefits thereunder, then such Participant shall be treated as if his termination did not occur until after his Early Retirement Date, and the provisions of Section 5.1(d) shall apply."

IN WITNESS WHEREOF, Houston Industries Incorporated has caused these presents to be executed by its duly authorized officers in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 26th day of February, 1998, but effective as of the date specified herein.

HOUSTON INDUSTRIES INCORPORATED

By /s/ LEE W. HOGAN

Name: Lee W. Hogan

Title: Executive Vice President

ATTEST:

/s/ RICHARD B. DAUPHIN
- - ---
Assistant Corporate Secretary

EXHIBIT 10m4

HOUSTON INDUSTRIES INCORPORATED
LONG-TERM INCENTIVE COMPENSATION PLAN

Third Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having established the Houston Industries Incorporated Long-Term Incentive Compensation Plan, effective January 1, 1989, and as thereafter amended (the "Plan"), and having reserved the right under Section 12.1 thereof to amend the Plan, does hereby amend Section 2.1(e) of the Plan, effective August 6, 1997, in its entirety to read as follows:

"(e) 'Company' means Houston Industries Incorporated, a Texas corporation, and any successor thereto."

IN WITNESS WHEREOF, the Company has caused these presents to be executed by its duly authorized officers in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 26th day of February, 1998, but effective as of August 6, 1997.

HOUSTON INDUSTRIES INCORPORATED

By /s/ LEE W. HOGAN

Name: Lee W. Hogan

Title: Executive Vice President

ATTEST:

/s/ RICHARD B. DAUPHIN
- - ---
Assistant Corporate Secretary

EXHIBIT 10p4

1994 HOUSTON INDUSTRIES INCORPORATED
LONG-TERM INCENTIVE COMPENSATION PLAN

Second Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having established the 1994 Houston Industries Incorporated Long-Term Incentive Compensation Plan, effective January 1, 1994, and as thereafter amended, (the "Plan"), and having reserved the right under Section 12.1 thereof to amend the Plan, does hereby amend Section 2.1(e) of the Plan, effective August 6, 1997, in its entirety to read as follows:

"(e) 'Company' means Houston Industries Incorporated, a Texas corporation, and any successor thereto."

IN WITNESS WHEREOF, the Company has caused these presents to be executed by its duly authorized officers in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 26th day of February, 1998, but effective as of August 6, 1997.

HOUSTON INDUSTRIES INCORPORATED

By /s/ LEE W. HOGAN

Name: Lee W. Hogan

Title: Executive Vice President

ATTEST:

/s/ RICHARD B. DAUPHIN
- - ---
Assistant Corporate Secretary

EXHIBIT 10q3

HOUSTON INDUSTRIES INCORPORATED
SAVINGS RESTORATION PLAN

(Effective January 1, 1991)

Second Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having established the Houston Industries Incorporated Savings Restoration Plan, effective January 1, 1991, and as thereafter amended (the "Plan"), and having reserved the right to amend the Plan under Section 6.2 thereof, does hereby amend the Plan, effective as of the dates specified therein as follows:

1. Section 1.3 of the Plan is hereby amended, effective August 6, 1997, by inserting the following sentence at the end thereof:

"For purposes of this Plan, the term "Company" shall include Houston Industries Incorporated, any successor thereto, and/or any Affiliate adopting this Plan with approval of the Board of Directors."

2. A new Section 6.3 is hereby added to Article XI of the Plan, effective October 1, 1997, to read as follows:

"6.3 OPCO as Successor Employer. Effective on or about October 1, 1997, STP Nuclear Operating Company, a Texas nonprofit corporation ("OPCO" herein), assumed the responsibilities of Houston Lighting & Power Company ("HL&P" herein), a division of the Company, as project manager of the South Texas Project. In connection therewith, OPCO employed substantially all of the former employees of HL&P stationed at the South Texas Project who have been engaged in the operation and management of the South Texas Project as employees of HL&P ("OPCO Employees"). Section 8.6.4 of that certain South Texas Project Transition Agreement between the Company and the remaining owners of the South Texas Project, dated effective November 17, 1997, provides that OPCO shall assume any and all liabilities for providing benefits under this Plan to the former HL&P employees who became OPCO Employees. In furtherance thereof, the liabilities for

benefits accrued under this Plan as of September 30, 1997 with respect to OPCO Employees have been transferred from the books and records of the Company to the books and records of OPCO. Accordingly, from and after October 1, 1997, the Company shall have no further obligation with respect to such benefits, if any, accrued under this Plan on behalf of OPCO Employees and the OPCO Employees shall look solely to the OPCO Plan and OPCO for the payment of such benefits."

IN WITNESS WHEREOF, Houston Industries Incorporated has caused these presents to be executed by its duly authorized officers in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 26th day of February, 1998, but effective as of the dates specified herein.

HOUSTON INDUSTRIES INCORPORATED

By /s/ LEE W. HOGAN

Name: Lee W. Hogan

Title: Executive Vice President

ATTEST:

/s/ RICHARD B. DAUPHIN
- - ---
Assistant Corporate Secretary

EXHIBIT 10s3

HOUSTON INDUSTRIES INCORPORATED
EXECUTIVE LIFE INSURANCE PLAN

(Effective January 1, 1994)

Second Amendment

Houston Industries Incorporated, a Texas corporation, (the "Company"), having established the Houston Industries Incorporated Executive Life Insurance Plan, effective January 1, 1994 (the "Plan"), and having reserved the right under Section 6.1 thereof to amend the Plan does hereby amend the Plan, effective August 6, 1997, as follows:

1. Section 2.6 of the Plan is hereby amended in its entirety to read as follows:

"2.6 'Company' shall mean Houston Industries Incorporated, a Texas corporation, and any successor thereto."

2. Section 2.9 of the Plan is hereby amended in its entirety to read as follows:

"2.9 'Eligible Employee' shall mean an individual who is employed by the Company or one of its wholly owned subsidiaries on or after the Effective Date who is not on the payroll of NorAm Energy Corp. or any of its divisions or subsidiaries and who (a) is (i) an officer of the Company or one of its wholly owned subsidiaries at the level of Vice President or above or (ii) a key executive of the Company or one of its wholly owned subsidiaries and has been designated by the Committee to participate in the Plan and (b) has submitted to the Insurer a properly completed application for life insurance under this Plan and such application has been approved by the Insurer. In addition to those individuals described above, all Directors of the Company on or after the Effective Date who are not otherwise eligible as Employees of the Company shall automatically participate in this Plan."

IN WITNESS WHEREOF, the Company has caused these presents to be executed by its duly authorized officers in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 26th day of February, 1998, but effective as of August 6, 1997.

HOUSTON INDUSTRIES INCORPORATED

By /s/ LEE W. HOGAN

Name: Lee W. Hogan

Title: Executive Vice President

ATTEST:

/s/ RICHARD B. DAUPHIN
- - ---

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

FOR

DON D. JORDAN

AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

FOR

DON D. JORDAN

I N D E X

AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "Agreement") is entered into 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"), this 7th day of November, 1997.

W I T N E S S E T H:

WHEREAS, on February 25, 1997, the Company and the Executive entered into an Amended and Restated Employment Agreement (the "Prior Agreement") under which the Executive would be employed by the Company through June 1, 1999; and

WHEREAS, the parties to said Prior Agreement desire to completely amend and restate said Prior Agreement to provide for the extended employment of the Executive in the event that, on June 1, 1999, the Company is a party to a binding agreement to effect a Change of Control; 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(C)(i)(a).

"AFFILIATED COMPANIES" shall mean and include any company controlled by, controlling or under common control with the Company within the meaning of Section 414 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 sum of the Executive's Annual Base Salary plus Target Bonus plus the Fair Market Value (within the meaning of the LICP) of the Performance Shares, determined as of the time of a CIC or at the time of any other event entitling the Executive or his Beneficiary to benefits under Section 5(B)(i).

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

"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" or "CIC" shall be deemed to have occurred upon the occurrence of any of the following events:

(a) 30% OWNERSHIP CHANGE: Any Person makes an acquisition of Outstanding Voting Stock and is, immediately thereafter, the beneficial owner of 30% or more of the then Outstanding Voting Stock, unless such acquisition is made directly from the Company in a transaction approved by a majority of the Incumbent Directors; or any group is formed that is the beneficial owner of 30% or more of the Outstanding Voting Stock; or

(b) BOARD MAJORITY CHANGE: Individuals who are Incumbent Directors cease for any reason to constitute a majority of the members of the Board; or

(c) MAJOR MERGERS AND ACQUISITIONS: Consummation of a Business Combination unless, immediately following such Business Combination, (i) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Voting Stock immediately prior to such Business Combination beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination in substantially the same relative proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Voting Stock, (ii) if the Business Combination involves the issuance or payment by the Company of consideration to another entity or its shareholders, the total fair market value of such consideration plus the principal amount of the consolidated long-term debt of the entity or business

being acquired (in each case, determined as of the date of consummation of such Business Combination by a majority of the Incumbent Directors) does not exceed 50% of the sum of the fair market value of the Outstanding Voting Stock plus the principal amount of the Company's consolidated long-term debt (in each case, determined immediately prior to such consummation by a majority of the Incumbent Directors), (iii) no Person (other than any corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination and (iv) a majority of the members of the board of directors of the parent corporation resulting from such Business Combination were Incumbent Directors of the Company immediately prior to consummation of such Business Combination; or

(d) MAJOR ASSET DISPOSITIONS: Consummation of a Major Asset Disposition unless, immediately following such Major Asset Disposition, (i) individuals and entities that were beneficial owners of the Outstanding Voting Stock immediately prior to such Major Asset Disposition beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) and (ii) a majority of the members of the board of directors of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) were Incumbent Directors of the Company immediately prior to consummation of such Major Asset Disposition.

For purposes of the foregoing,

(1) the term "Person" means an individual, entity or group;

(2) the term "group" is used as it is defined for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act");

(3) the term "beneficial owner" is used as it is defined for purposes of Rule 13d-3 under the Exchange Act;

(4) the term "Outstanding Voting Stock" means outstanding voting securities of the Company entitled to vote generally in the election of directors; and any specified percentage or portion of the Outstanding Voting Stock (or of other voting stock) shall be determined based on the combined voting power of such securities;

(5) the term "Incumbent Director" means a director of the Company (x) who was a director of the Company on September 1, 1997 or (y) who becomes a director subsequent to such date and whose election, or nomination for election by

the Company's shareholders, was approved by a vote of a majority of the Incumbent Directors at the time of such election or nomination, except that any such director shall not be deemed an Incumbent Director if his or her initial assumption of office occurs as a result of an actual or threatened election contest or other actual or threatened solicitation of proxies by or on behalf of a Person other than the Board;

(6) the term "election contest" is used as it is defined for purposes of Rule 14a-11 under the Exchange Act;

(7) the term "Business Combination" means (x) a merger or consolidation involving the Company or its stock or (y) an acquisition by the Company, directly or through one or more subsidiaries, of another entity or its stock or assets;

(8) the term "parent corporation resulting from a Business Combination" means the Company if its stock is not acquired or converted in the Business Combination and otherwise means the entity which as a result of such Business Combination owns the Company or all or substantially all the Company's assets either directly or through one or more subsidiaries; and

(9) the term "Major Asset Disposition" means the sale or other disposition in one transaction or a series of related transactions of 70% or more of the assets of the Company and its subsidiaries on a consolidated basis; and any specified percentage or portion of the assets of the Company shall be based on fair market value, as determined by a majority of the Incumbent Directors.

"CIC AGREEMENT" shall mean a binding agreement to effect a CIC.

"CIC RESOLUTION DATE" shall mean the date that a CIC occurs or, if earlier, the date that a CIC Agreement that was in effect on June 1, 1999 is terminated.

"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 the first day following the last day of the Employment Period and ending on the 365th day following the last day of the Employment Period.

"DATE OF TERMINATION" shall mean (a) 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, (b) 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, (c) if the Executive's employment is terminated by reason of death, Retirement or Disability, the date of death or Retirement of the Executive or the Disability Effective Date, as the case may be, and (d) if the Executive's employment is terminated by reason of the expiration of the Employment Period, the last day of the Employment Period.

"DEFERRED COMPENSATION PLAN" shall mean each of the Deferred Compensation Plan (amended restated effective January 1, 1991), the Deferred Compensation Plan (amended and restated effective January 1, 1989) and the Deferred Compensation Plan (amended and restated effective September 1, 1985), each of which is sponsored by the Company, as in effect from time to time.

"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 Base Employment Period unless (a) a CIC occurs on or before June 1, 1999, in which case the Employment Period shall end on the CIC Resolution Date, or (b) the Company is a party to a CIC Agreement on June 1, 1999, in which case the Employment Period shall continue through, and end on, the CIC Resolution Date.

"GOOD REASON" shall mean:

(a) 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;

(b) 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;

(c) 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);

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

(e) 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 (a) indicates the specific termination provision in this Agreement relied upon, (b) 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 (c) 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(C)(i)(e).

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

"RETIREMENT" shall mean the retirement of the Executive with the express consent of the Board.

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

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

"STOCK" shall have the meaning ascribed thereto in Section 3(B)(ii).

"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(C)(i)(c).

"TARGET BONUS" shall mean the Executive's target incentive opportunity under the EICP in effect for the year with respect to which the Target Bonus is being determined or, if no such plan is then in effect, for the last year in which such a plan was in effect, expressed as a dollar amount based upon the Executive's Annual Base Salary for the year of such determination.

"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(C)(i)(d).

"WITHOUT CAUSE" shall mean without Cause and for reasons other than death, Disability or Retirement.

"WITHOUT GOOD REASON" shall mean without Good Reason and for reasons other than death, Disability or Retirement.

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 has been 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 Base Employment Period. If, during the Base Employment Period, the Company terminates the Executive's employment for Cause or the Executive 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 Base 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, Retirement or the occurrence of a CIC, 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 Base 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 the occurrence of a CIC, the Executive's right to the Performance Shares shall vest as of the Date of Termination, (2) if, during the Base 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, during calendar year 1997, the Executive's employment terminates by reason of death, Disability or Retirement, the Executive shall forfeit all right to Performance Shares as of the Date of Termination.

If, during the period commencing January 1, 1998 and ending May 31, 1999, the Executive's employment terminates by reason of death, Disability or Retirement, (x) 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 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 Base 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.

E. EXPIRATION OF EMPLOYMENT PERIOD: The Executive's employment shall terminate automatically upon the expiration of the Employment Period.

5. OBLIGATIONS OF THE COMPANY UPON TERMINATION OF EMPLOYMENT:

A. FOR CAUSE OR WITHOUT GOOD REASON: If, at any time during the Employment Period, the Company terminates the Executive's employment for Cause or the Executive terminates his employment Without Good Reason, 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 installment payment commencement date required by Section 5(C)(i)(e), and (iii) fulfillment of the requirements of Section 3(B)(iii)(b), Sections 5(D) and (E) (to the extent applicable) 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) (unless such termination occurs on or after June 1, 1999, in which case the Stock and dividend-related payment shall be paid to the Executive as provided 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.

B. OTHERWISE, UPON A CIC OR WHILE THE COMPANY IS A PARTY TO A CIC AGREEMENT:

(i) Without Cause, For Good Reason or Upon a CIC: If:

(a) during the Employment Period and while the Company is a party to a CIC Agreement, the Company terminates the

employment of the Executive Without Cause or the Executive terminates his employment for Good Reason, or

(b) the Executive's employment automatically terminates upon the expiration of the Employment Period due to the occurrence of a CIC,

the Company shall (I) 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 (II) timely deliver to the Executive all shares of Stock to which the Executive has a vested right pursuant to Section 3(B)(ii) that were not previously paid thereunder, if any, 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) (unless such dividends were previously paid thereunder). Upon such payment and delivery of Stock, this Agreement shall terminate without further obligations to the Executive other than (x) the obligation to pay to the Executive the Annual Base Salary through the Date of Termination to the extent theretofore unpaid, (y) the timely payment or provision of the Welfare Benefit Continuation and Other Benefits in accordance with Section 5(C)(i), and (z) fulfillment of the requirements of Section 3(B)(iii)(b), Section 5(D) and (E) 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.

(ii) Death, Disability or Retirement: If, during the Employment Period and at a time when the Company is a party to a CIC Agreement, the Executive's employment is terminated by reason of the Executive's death, Disability or Retirement, the Executive or the Executive's Beneficiary shall be entitled to the payments and benefits that would be payable to or in respect of the Executive upon the occurrence of the corresponding event described in Section 5(C)(ii) or (iii). In addition, upon the subsequent occurrence of a CIC resulting from the CIC Agreement that was pending at the time of the Executive's death, Disability or Retirement, the Executive or the Executive's Beneficiary shall be entitled to the payments and benefits that would have been payable to or in respect of the Executive upon the occurrence of the events described in Section 5(B)(i), offset by the amount of any lump-sum cash payment made to the Executive or the Executive's Beneficiary pursuant to the foregoing provisions of this Section 5(B)(ii), and the Company shall have no further obligations to or in respect of the Executive under this Agreement. To the extent that a payment or benefit that would be payable upon the occurrence of a CIC under this Section 5(B)(ii) is or was paid or payable pursuant to this Section 5(B)(ii) due to the Executive's death, Disability or Retirement, no duplicate payment or benefit shall be paid.

C. OTHERWISE, BEFORE A CIC AND WHEN THE COMPANY IS NOT A PARTY TO A CIC AGREEMENT: If, during the Employment Period, prior to the occurrence of a CIC and at a time when

the Company is not a party to a CIC Agreement, the employment of the Executive terminates (except for Cause or Without Good Reason, which are addressed in Section 5(A)), the obligations of the Company shall be as set forth below:

(i) For Good Reason or Without Cause: If, at a time described in this Section 5(C), the Executive terminates his employment for Good Reason or the Company terminates the Executive's employment Without Cause, then:

(a) 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:

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

(II) all bonuses payable to the Executive for the remainder of the Base 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 Base Employment Period), assuming, for purposes of determining the amount of any bonus, (x) 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 (y) that any applicable performance objectives were met at the "target" level; and

(III) any accrued vacation pay;

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

(b) 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;

(c) the Company shall pay a separate monthly supplemental retirement benefit equal to the excess, if any, of (I) 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 Base Employment Period, assuming for this purpose that (x) all accrued benefits are fully vested and (y) benefit accrual formulas and actuarial assumptions are no less advantageous to the Executive than those in effect at the Effective Date, over (II) 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(C)(i)(c), which shall commence at the same time and be payable in the same form as the amounts described in Section 5(C)(i)(b), shall be referred to herein as the "Supplemental Retirement Benefit");

(d) for the remainder of the Base 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 referred to herein as "Welfare Benefit Continuation");

(e) 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 referred to herein 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 with instructions from the Executive to pay in 15 annual installments shall be paid in said 15 installments commencing on the later of June 1, 2000 or the first anniversary of the Executive's Termination Date, notwithstanding any provision of the Deferred Compensation Plan to the contrary; and

(f) 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 Base 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 Base Employment Period;

(g) 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

(h) the Company shall fulfill the requirements of Section 5(D) and (E) and Section 16.

(ii) By Reason of Death or Disability: If, at a time described in this Section 5(C), the Executive's employment is terminated by reason of the Executive's death or Disability, this Agreement shall terminate without further obligations to or in respect of the Executive under this Agreement, other than for (a) payment of Accrued Obligations (which shall be paid to the Executive or 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), (b) the timely payment or provision of the Welfare Benefit Continuation and Other Benefits in accordance with Section 5(C)(i), (c) 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 (d) fulfillment of the requirements of Section 3(B)(iii)(b), Section 5(D) and (E) (to the extent applicable), and Section 16.

(iii) Retirement: If, at a time described in this Section 5(C), the Executive terminates his employment with the Company by reason of Retirement, 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(C)(i) had the Executive terminated employment for Good Reason as described therein; 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, for the remainder of the Base 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.

D. SALARY CONTINUATION PLAN: Upon a termination of employment during or at the end of 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).

E. OFFICE: Upon a termination of employment during or at the end of 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 the Executive's continuous employment through the end 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, upon Executive's completion of the Employment Period, 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 the later of June 1, 2000 or the first anniversary of the last day of the Employment Period, 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. SET-OFF; MITIGATION; LEGAL FEES; EXPENSES; OBLIGATIONS PENDING DISPUTE RESOLUTION:

A. SET-OFF AND MITIGATION: 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(C)(i)(d), such amounts shall not be reduced whether or not the Executive obtains other employment.

B. LEGAL FEES AND EXPENSES: It is the intent of the Company that the Executive not be required to incur legal fees and the related expenses associated with the interpretation, enforcement or defense of the Executive's rights under this Agreement by litigation or otherwise because the cost and expense thereof would detract from the benefits intended to be extended to the Executive hereunder. Accordingly, if it should appear to the Executive that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, the Executive the benefits provided or intended to be provided to the Executive hereunder, the Company irrevocably authorizes the Executive from time to time to retain counsel of the Executive's choice, at the expense of the Company as hereafter provided, to advise and represent the Executive in connection with any such interpretation, enforcement or defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to the Executive entering into an attorney-client relationship with such counsel, and in that connection the Company and the Executive agree that a confidential relationship will exist between the Executive and such counsel. Without respect to whether the Executive prevails, in whole or in part, in connection with any of the foregoing, the

Company will pay and be solely financially responsible for any and all attorneys' fees and related expenses incurred by the Executive in connection with any of the foregoing except to the extent that a final judgment no longer subject to appeal finds that a claim or defense asserted by the Executive was frivolous. (In such a case, the portion of such fees and expenses incurred by the Executive as a result of such frivolous claim or defense shall become the Executive's sole responsibility and any funds advanced by the Company or by a Trust created to secure such payment shall be repaid.) The Company agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive incurs as described above, 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.

In the event a CIC occurs, the performance of the Company's obligations under this Section 8 will be funded by amounts deposited or to be deposited in trust pursuant to certain trust agreements to which the Company will be a party providing that the fees and expenses of counsel selected from time to time by the Executive pursuant to this Section 8 will be paid, or reimbursed to the Executive if paid by the Executive, either in accordance with the terms of such trust agreements, or, if not so provided, on a regular, periodic basis upon presentation by the Executive to the trustee of a statement or statements prepared by such counsel in accordance with its customary practices. In order to be eligible for payment of expenses directly from the Company, Executive must first exhaust all rights to payment under the trust agreements contemplated immediately above. The pendency of a claim by the Company that a claim or defense of the Executive is frivolous or otherwise lacking merit shall not excuse the Company (or the trustee of a Trust contemplated by this Section 8) from making periodic payments of legal fees and expenses until a final judgment is rendered as hereinabove provided. Any failure by the Company to satisfy any of its obligations under this Section 8 will not limit the rights of the Executive hereunder. Subject to the foregoing, the Executive will have the status of a general unsecured creditor of the Company and will have no right to, or security interest in, any assets of the Company or any Affiliate.

C. OBLIGATIONS PENDING DISPUTE RESOLUTION: 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 this Agreement 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 ADDITIONAL PAYMENTS BY THE COMPANY: Anything in this Agreement to the contrary notwithstanding, 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 additional payments required under this Section 9 (a "Payment")) would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment (whether through withholding at the source or otherwise) by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto), employment taxes and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

Subject to the provisions of this Section 9, all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, 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 receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the CIC, 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). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to the following provisions of this Section 9 and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up

Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(a) give the Company any information reasonably requested by the Company relating to such claim;

(b) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;

(c) cooperate with the Company in good faith in order to effectively contest such claim; and

(d) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax, employment tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation of the foregoing provisions of this Section 9, the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax, employment tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

If, after the receipt by the Executive of an amount advanced by the Company pursuant to the foregoing provisions of this Section 9, the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company complying with the requirements of this Section 9) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to the foregoing provisions of this Section 9, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

If the Company is obligated to provide the Executive with Welfare Benefit Continuation and the amount of such benefits or the value of such benefit coverage (including without limitation any insurance premiums paid by the Company to provide such benefits) is subject to any income, employment or similar tax imposed by federal, state or local law, or any interest or penalties with respect to such tax (such tax or taxes, together with any such interest and penalties, being hereafter collectively referred to as the "Income Tax") because such benefits cannot be provided under a nondiscriminatory health plan described in Section 105 of the Code or for any other reason, the Company will pay to the Executive an additional payment or payments (collectively, an "Income Tax Payment"). The Income Tax Payment will be in an amount such that, after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), the Executive retains an amount of the Income Tax Payment equal to the Income Tax imposed with respect to such Welfare Benefits Continuation.

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 February 25, 1997.

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 and 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.

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 on the day and year first above written, but effective as of the Effective Date.

HOUSTON INDUSTRIES INCORPORATED

By

Robert J. Cruikshank, Chairman of the Compensation Committee of the Board of Directors

EXECUTIVE

Don D. Jordan

EXHIBIT 10aa1

HOUSTON INDUSTRIES INCORPORATED
EXECUTIVE SEVERANCE BENEFITS PLAN
AND SUMMARY PLAN DESCRIPTION

(Effective as of September 3, 1997)

HOUSTON INDUSTRIES INCORPORATED
EXECUTIVE SEVERANCE BENEFITS PLAN
AND SUMMARY PLAN DESCRIPTION

(Effective as of September 3, 1997)

RECITALS

WHEREAS, Houston Industries Incorporated entered into Severance Agreements with 15 of its executive officers effective as of September 3, 1997, each of which obligates HI to provide certain payments and benefits to the Executive named in the agreement upon an eligible termination of employment; and

WHEREAS, a plan, fund or program maintained by an employer, to the extent that it is maintained for the purpose of providing unemployment benefits, is an employee benefit plan subject to ERISA; and

WHEREAS, the Severance Agreements are maintained by HI to provide unemployment benefits to the covered Executives; and

WHEREAS, ERISA requires that every employee benefit plan be maintained pursuant to a written instrument that provides for one or more named fiduciaries who have authority to control and manage the operation of the plan, and further requires that an employee benefit plan establish and maintain a reasonable claims procedure which meets certain minimum regulatory requirements;

NOW, THEREFORE, HI hereby establishes the Houston Industries Incorporated Executive Severance Benefits Plan to identify the fiduciaries responsible for the operation of the Severance Agreements and to establish a claims procedure for the Severance Agreements as contemplated by ERISA, which Plan shall read as follows, effective as of September 3, 1997:

ARTICLE I

DEFINITIONS

As used in this Plan, the following words and phrases shall have the following meanings unless the context clearly requires a different meaning:

"COMMITTEE" means the Compensation Committee of the Board of Directors of HI or such other person or entity as may be appointed from time to time by the Board of Directors of HI to serve as the Plan administrator.

"EXECUTIVE" means any of Charles R. Crisp, Waters S. Davis, Susan D. Fabre, B. Bruce Gibson, Lee W. Hogan, Don D. Jordan, Hugh Rice Kelly, R. Steve

Letbetter, David M. McClanahan, Edward A. Monto, Stephen W. Naeve, IV, Joe Bob Perkins, Mary P. Ricciardello, Stephen C. Schaeffer, Rufus S. Scott, Robert L. Waldrop.

"ERISA" means Public Law No. 93-406, the Employee Retirement Income Security Act of 1974, as amended from time to time.

"HI" means Houston Industries Incorporated, a Texas corporation, and its successors and assigns.

"INITIAL CLAIMS FIDUCIARY" or "ICF" means that person, committee, or other entity appointed by the Committee to perform the acts and serve in the capacity hereinafter set forth in the Plan.

"PLAN" means the Houston Industries Incorporated Executive Severance Benefits Plan, as established effective as of September 3, 1997 and set forth herein, and as hereafter amended from time to time, including the Severance Agreements collectively attached hereto as Appendix 1 and incorporated herein by reference. All references herein to the "Plan" shall expressly include references to each of the Severance Agreements.

"PLAN DOCUMENT" means the body of the Plan without Appendix 1.

"SEVERANCE AGREEMENT" means a Severance Agreement between an Executive (except for Don D. Jordan) and HI dated as of September 3, 1997, a copy of each of which is attached hereto as part of Appendix 1, and shall also mean the Amended and Restated Employment Agreement For Don D. Jordan, effective as of January 8, 1997, a copy of which is attached hereto as part of Appendix 1.

"TRUST" means the trust agreement which HI intends to enter into, as contemplated in Section 5 (or, in the case of Don D. Jordan, Section 8B) of the Severance Agreements, to provide the primary source of funding for any obligation of HI to pay legal fees and expenses under the Severance Agreements.

"TRUSTEE" means the trustee of the Trust.

Words used in this Plan in the singular shall include the plural and in the plural the singular, and the gender of words shall be construed to include whichever may be appropriate.

ARTICLE II

RELATIONSHIP AMONG PLAN DOCUMENT, SEVERANCE AGREEMENTS AND TRUST

Each Severance Agreement is intended to form an integral part of this Plan. The administration of the Severance Agreements shall be governed by the terms and provisions set forth in this Plan Document. The responsibility for administering the Plan, including the interpretation and enforcement of the terms of the Severance Agreements, shall be vested in the Committee and the ICF, and their respective agents, as more fully hereinafter set forth. The eligibility of each Executive for benefits under this Plan, and the amount and duration of such benefits, shall be governed by the terms and provisions of the Executive's Severance Agreement and the claims procedures set forth in Article III of this Plan Document.

The Trust is the trust agreement which HI intends to establish to serve as the primary funding vehicle for the payment of certain legal fees and expenses contemplated by Section 5 of the Severance Agreements.

ARTICLE III

CLAIMS FOR BENEFITS

3.1 PRESENTING CLAIMS FOR BENEFITS OTHER THAN LEGAL FEES AND EXPENSES: Any claim for the payment of a benefit under a Severance Agreement, other than a payment pursuant to Section 5 (or, in the case of Don D. Jordan, pursuant to Section 8B) of his Severance Agreement (relating to certain legal fees and expenses), shall be submitted in writing by the Executive to the ICF and shall describe in reasonable detail the basis for the Executive's claim. The Executive shall provide such additional information to the ICF as the ICF may reasonably request for the evaluation of the Executive's claim for benefits. The ICF shall notify the Executive of the benefits determination within a reasonable time after receipt of the claim, such time not to exceed 90 days unless special circumstances require an extension of time for processing the claim. If such an extension is required, written notice of the extension shall be furnished to the Executive prior to the end of the initial 90-day period. In no event shall such an extension exceed a period of 90 days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time, and the date by which a final decision is expected to be rendered.

Notice of a claim denial, in whole or in part, shall be set forth in a manner calculated to be understood by the Executive and shall contain the following:

(a) the specific reason or reasons for the denial; and

(b) specific reference to the pertinent Plan provisions on which the denial is based; and

(c) a description of any additional material or information necessary for the Executive to perfect the claim and an explanation of why such material or information is necessary; and

(d) an explanation of the Plan's claims review procedure.

Executives shall be given timely written notice of the time limits set forth herein for determinations on claims, appeals of claim denial and decisions on appeal. If notice of a claims determination is not provided within the applicable time frame described above, the claim shall be deemed denied and the Executive may appeal the denial as set forth in Section 3.3.

3.2 PRESENTING CLAIMS FOR LEGAL FEES AND EXPENSES: Section 5 (or, in the case of Don D. Jordan, Section 8B) of each Severance Agreement contains provisions relating to the payment of certain legal fees and expenses ("Expenses") on behalf of the Executive. The Trust is the primary funding vehicle for the payment of Expenses.

(a) APPROVAL AND PAYMENT FROM THE TRUST: If HI has established the Trust, an Executive must seek approval and payment of Expenses under the procedures specified in the Trust prior to seeking payment from HI as provided for in paragraph (b) below.

(b) SUBMISSION OF CLAIM TO HI: If (i) HI has not established the Trust, or (ii) an Executive follows the procedures set forth in the Trust but does not receive payment of his Expenses under the Trust, in whole or in part, then the Executive may seek payment of unpaid Expenses from HI by providing a written claim to the ICF, including copies of all correspondence between the Trustee and the Executive pursuant to the terms of the Trust. The Executive shall also provide such additional information as the ICF may reasonably request for the evaluation of the Executive's claim for Expenses.

The ICF shall notify the Executive of its determination within a reasonable time after receipt of the claim, such time not to exceed 90 days unless special circumstances require an extension of time for processing the claim. If such an extension is required, written notice of the extension shall be furnished to the Executive prior to the end of the initial 90-day period. In no event shall such an extension exceed a period of 90 days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time, and the date by which a final decision is expected to be rendered. Notice of a claim denial, in whole or in part, shall be set forth in a manner calculated to be understood by the Executive and shall contain the following:

(i) the specific reason or reasons for the denial; and

(ii) specific reference to the pertinent provisions of the Plan on which the denial is based; and

(iii) a description of any additional material or information necessary for the Executive to perfect the claim and an explanation of why such material or information is necessary; and

(iv) an explanation of the Plan's claims review procedure.

Executives shall be given timely written notice of the time limits set forth herein for determinations on claims, appeal of claim denial and decisions on appeal. If notice of a claim determination is not provided within the applicable time frame described above, the claim shall be deemed denied and the Executive may appeal the denial as set forth in Section 3.3.

3.3 CLAIMS REVIEW PROCEDURE: If a claim for benefits under Section 3.1 or 3.2(b) above shall result in a denial of the benefit applied for, either in whole or in part, an Executive shall have the right, to be exercised by written application filed with the Committee within 60 days after receipt of notice of the denial of his application or, if no such notice has been given, within 60 days after the application is deemed denied under Section 3.1 or 3.2(b), to request the review of his application and of his entitlement to the benefit applied for. Such request for review may contain such additional information and comments as the Executive may wish to present. At any stage in the appeals process, the Executive or his designated representative may review pertinent documents, including copies of the Plan document and information relating to the Executive's entitlement to such benefit, and submit issues and comments in writing.

The Committee shall render a decision no later than the date of its first meeting following receipt of the request for review, except that a decision may be rendered no later than the second such meeting if the request is received within 30 days of the first meeting. The Executive may request a formal hearing before the Committee which the Committee may grant at its discretion. Notwithstanding the foregoing, under special circumstances which require an extension of time for rendering a decision (including but not limited to the need to hold a hearing), the decision may be rendered not later than 180 days after the receipt of the request for review. If such an extension is required, the Executive will be advised in writing before the extension begins. The Committee will provide written notice of its final determination. The notice will include specific reasons for the decision, be written in a manner calculated to be understood by the Executive and make specific reference to the Plan provisions on which it is based. If a decision on an appeal is not provided within any applicable time frame described above, the claim shall be deemed denied on appeal.

No action at law or in equity shall be brought by or in respect of an Executive to recover any benefits under this Plan or the Executive's Severance Agreement prior to exhausting the administrative process of appeal available under this Section 3.3.

3.4 DISPUTED BENEFITS: If any dispute still exists between an Executive and the Committee after a review of the claim or in the event any uncertainty shall develop as to the person to whom payment of any benefit hereunder shall be made, the Committee may withhold the payment of all or any part of the benefits payable hereunder to the Executive until such dispute has been resolved by a court of competent jurisdiction or settled by the parties involved.

ARTICLE IV

ADMINISTRATION OF THE PLAN

4.1 PLAN ADMINISTRATOR: The Committee shall be the primary fiduciary with respect to the operation and administration of this Plan and shall serve as Plan administrator and named fiduciary for purposes of ERISA Section 402(a)(i).

4.2 POWERS AND DUTIES OF FIDUCIARY: In fulfillment of their respective duties hereunder, the Committee and the ICF shall enforce this Plan in accordance with its terms. The Committee and, to the extent of its duties and authority under Sections 3.1 and 3.2(b), the ICF shall have all powers necessary for the accomplishment of that purpose, including but not limited to the following powers:

(a) to employ such agents and assistants, such counsel (who may be of counsel to HI) and such clerical, administrative, medical, accounting, and investment services as the Committee or ICF may require in carrying out the provisions of the Plan; and

(b) to authorize a delegate to make payment or to execute or deliver any instrument on their behalf; and

(c) to decide all questions of eligibility and determine the amount, manner, and time of payment of any benefits hereunder; and

(d) to authorize a delegate to prescribe forms and procedures to be followed in filing applications for benefits and for other occurrences in the administration of the Plan; and

(e) to prepare and distribute information explaining the Plan; and

(f) to interpret and construe all terms, provisions, conditions, and limitations of the Plan and to reconcile any inconsistency or supply any omitted detail that may appear in the Plan in its discretion; and

(g) to make and enforce such rules and regulations for the administration of the Plan as are not inconsistent with the terms set forth herein; and

(h) in addition to all other powers herein granted, and in general consistent with the provisions of the Plan, all other rights and powers reasonably necessary to supervise and control the administration of this Plan.

The Committee or ICF may employ any individual(s) or entity(ies) to furnish administrative services to the Plan and delegate any of its powers and duties hereunder to such individuals or entities, including but not limited to the power and duty to make determinations of eligibility. The Committee and the ICF also may, generally or specifically, delegate to any

employee, division or department of HI any of its powers and duties hereunder, which delegation shall be evidenced in writing.

4.3 INFORMATION FROM HI: HI shall supply full and timely information to the Committee and the ICF as they may require in administration of the Plan.

ARTICLE V

AMENDMENT AND TERMINATION OF THE PLAN

HI shall have the right to amend or terminate this Plan Document in whole or in part at any time. Amendment or termination of the Plan Document shall be made by a written instrument of equal formality as this Plan Document, authorized by a resolution of the Board of Directors of HI and executed by an authorized officer of HI.

ARTICLE VI

ERISA INFORMATION

The following information is provided to comply with certain requirements of ERISA:

(a) PLAN SPONSOR: The Plan sponsor is Houston Industries Incorporated, P.O. Box 4567, Houston, Texas 77210; (713) 207-3000.

(b) EMPLOYER IDENTIFICATION NUMBER OF PLAN SPONSOR: 74-1885573.

(c) PLAN NUMBER: 905

(d) PLAN YEAR: The plan year for reporting to governmental agencies and employees shall be the calendar year.

(e) PLAN ADMINISTRATOR: The Compensation Committee, Board of Directors of Houston Industries Incorporated, 1111 Louisiana, Houston, Texas 77002; (713) 207-7133.

(f) AGENT FOR SERVICE OF LEGAL PROCESS: The Compensation Committee, Board of Directors of Houston Industries Incorporated, 1111 Louisiana, Houston, Texas 77002, is the agent for service of legal process.

(g) SOURCE OF BENEFITS: Payments under this Plan shall be made from the general assets of HI except to the extent that benefits are payable under the Trust as described in Section 3.2(a).

(h) EMPLOYEE RIGHTS: Each Executive has a right to information about the Plan, such as how it operates and an explanation of the benefits to which Executives will be entitled under the terms of the Plan.

This Summary Plan Description is designed to give Executives an explanation of how the Plan operates. The Plan is administered in accordance with the Plan (which is the same as this Summary Plan Description or Plan Document and its Appendices) as well as applicable laws, such as ERISA. Each Executive has the right to examine, without charge and upon proper request, all Plan documents, and copies of all documents filed by the Plan with the U.S. Department of Labor, such as annual reports. Copies of all Plan documents and other Plan information may be obtained by written request to the Plan Administrator. The Plan Administrator may make a reasonable charge for any copies requested.

Every effort will be made to provide any requested document or report within 30 days after it is requested. An Executive will be notified if more time is needed to comply with a request. Financial penalties may be imposed upon the Plan Administrator if any materials which an Executive has properly requested are not received within 30 days of a request (unless the materials were not sent because of matters beyond the control of the Plan Administrator).

Certain Plan information is made available to Executives automatically, so that no special request need be made, such as this Summary Plan Description.

ERISA imposes obligations upon the persons who are responsible for the operation of an employee benefit plan. The people who operate the Plan, who are referred to as Plan "fiduciaries," have a duty to do so prudently and in the interest of Executives and their beneficiaries. Fiduciaries who violate ERISA may be removed and required to make good any losses they may have caused to the Plan.

The law protects an Executive from being terminated, disciplined or discriminated against for attempting to obtain benefits which may be due or for exercising his or her rights under ERISA.

Occasionally, a benefit claim will be denied. When this happens, an Executive is entitled to a written explanation of the reason for denial, plus an explanation of his or her right to request an administrative review of the denied claim. The procedure for appeal of denied benefits is outlined in Article III of this Plan Document.

If an Executive has any questions about his or her ERISA rights, he or she should contact the Plan Administrator, HI's local benefits office or the nearest area office of the U.S. Labor-Management Service Administration, Department of Labor.

ARTICLE VII

MISCELLANEOUS PROVISIONS

7.1 NO EMPLOYMENT GUARANTEED: Nothing contained in this Plan shall be construed as a contract of employment between HI and any Executive, or as a right for any Executive to be continued in the employment of HI, or as a limitation of the right of HI to discharge any of the Executives with or without cause.

7.2 GOVERNING LAW: This Plan shall be construed, administered, and governed in all respects under applicable federal law, and to the extent that federal law is inapplicable, under the laws of the State of Texas. If any provision of this Plan shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

7.3 INVALIDITY OF PARTICULAR PROVISIONS: In the event any provision of this Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions of this Plan, and this Plan shall be construed and enforced as if said illegal or invalid provisions had never been a part of this Plan.

7.4 PAYMENTS DUE MINORS AND INCOMPETENTS: If the Committee determines that any person to whom a payment is due hereunder is a minor or incompetent by reason of physical or mental disability, the Committee shall have power to cause the payments becoming due such person to be made to another for the benefit of such minor or incompetent without the Committee being responsible to see to the application of such payment. Payments made pursuant to such power shall operate as a complete discharge of the Plan, Committee, the ICF and HI to the extent of such payments.

IN WITNESS WHEREOF, Houston Industries Incorporated has executed these presents as evidenced by the signature of its officers affixed hereto, in a number of copies, all of which shall constitute but one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 21st day of November, 1997, but effective as of September 3, 1997.

HOUSTON INDUSTRIES INCORPORATED

By /s/ R. S. LETBETTER

Name: R. S. Letbetter

Title: President and
Chief Operating Officer

EXHIBIT 10aa2

FORM OF SEVERANCE AGREEMENT

THIS SEVERANCE AGREEMENT ("Agreement") is made and effective as of the 3rd day of September, 1997, by and between HOUSTON INDUSTRIES INCORPORATED, a Texas corporation having its principal place of business in Houston, Harris County, Texas, and _____, an individual currently residing in _____ County, Texas ("Executive"). All terms defined in Section 1 shall, throughout this Agreement, have the meanings given therein.

1. DEFINITIONS:

"AFFILIATE" means any company controlled by, controlling or under common control with the Company within the meaning of Section 414 of the Internal Revenue Code of 1986, as amended (the "Code").

"BOARD" means the board of directors of the Company.

"CAUSE" means Executive's (a) gross negligence in the performance of Executive's duties, (b) intentional and continued failure to perform Executive's duties, (c) intentional engagement in conduct which is materially injurious to the Company or its Affiliates (monetarily or otherwise) or (d) conviction of a felony or a misdemeanor involving moral turpitude. For this purpose, an act or failure to act on the part of Executive will be deemed "intentional" only if done or omitted to be done by Executive not in good faith and without reasonable belief that his/her action or omission was in the best interest of the Company, and no act or failure to act on the part of Executive will be deemed "intentional" if it was due primarily to an error in judgment or negligence.

"CHANGE IN EMPLOYMENT" shall mean any one or more of the following:

(a) a significant reduction in the duties or responsibilities of Executive from those applicable to him/her immediately prior to the date on which a Change of Control occurs (or, in the case of an Anticipatory Change in Employment, immediately prior to the date of the Binding CIC Agreement);

(b) a reduction in Executive's total remuneration (including salary, bonus, qualified retirement benefits, nonqualified benefits, welfare benefits and any other employee benefits) from that provided to Executive immediately prior to the date on which a Change of Control occurs (or, in the case of an Anticipatory Change in Employment, immediately prior to the date of the Binding CIC Agreement); provided, however, that a contemporaneous diminution of or reduction in qualified retirement benefits and/or welfare benefits which is of general application and which uniformly and contemporaneously reduces or diminishes the benefits of all covered employees by the same percentage shall be ignored and not be considered a reduction in total remuneration for purposes of this paragraph (b);

(c) a change in the location of Executive's principal place of employment with the Company by more than 35 miles from the location where Executive was principally employed immediately prior to the date on which a Change of Control occurs (or, in the case of an Anticipatory Change in Employment, immediately prior to the date of the Binding CIC Agreement); or

(d) a failure by the Company to provide directors and officers liability insurance covering Executive comparable to that provided to Executive immediately prior to the date on which a Change of Control occurs (or, in the case of an Anticipatory Change in Employment, immediately prior to the date of the Binding CIC Agreement).

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

(a) 30% OWNERSHIP CHANGE: Any Person makes an acquisition of Outstanding Voting Stock and is, immediately thereafter, the beneficial owner of 30% or more of the then Outstanding Voting Stock, unless such acquisition is made directly from the Company in a transaction approved by a majority of the Incumbent Directors; or any group is formed that is the beneficial owner of 30% or more of the Outstanding Voting Stock; or

(b) BOARD MAJORITY CHANGE: Individuals who are Incumbent Directors cease for any reason to constitute a majority of the members of the Board; or

(c) MAJOR MERGERS AND ACQUISITIONS: Consummation of a Business Combination unless, immediately following such Business Combination, (i) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Voting Stock immediately prior to such Business Combination beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination in substantially the same relative proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Voting Stock, (ii) if the Business Combination involves the issuance or payment by the Company of consideration to another entity or its shareholders, the total fair market value of such consideration plus the principal amount of the consolidated long-term debt of the entity or business being acquired (in each case, determined as of the date of consummation of such Business Combination by a majority of the Incumbent Directors) does not exceed 50% of the sum of the fair market value of the Outstanding Voting Stock plus the principal amount of the Company's consolidated long-term debt (in each case, determined immediately prior to such consummation by a majority of the Incumbent Directors), (iii) no Person (other than any corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination and (iv) a majority of the members of the board of directors

of the parent corporation resulting from such Business Combination were Incumbent Directors of the Company immediately prior to consummation of such Business Combination; or

(d) MAJOR ASSET DISPOSITIONS: Consummation of a Major Asset Disposition unless, immediately following such Major Asset Disposition, (i) individuals and entities that were beneficial owners of the Outstanding Voting Stock immediately prior to such Major Asset Disposition beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) and (ii) a majority of the members of the board of directors of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) were Incumbent Directors of the Company immediately prior to consummation of such Major Asset Disposition.

For purposes of the foregoing,

(1) the term "Person" means an individual, entity or group;

(2) the term "group" is used as it is defined for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act");

(3) the term "beneficial owner" is used as it is defined for purposes of Rule 13d-3 under the Exchange Act;

(4) the term "Outstanding Voting Stock" means outstanding voting securities of the Company entitled to vote generally in the election of directors; and any specified percentage or portion of the Outstanding Voting Stock (or of other voting stock) shall be determined based on the combined voting power of such securities;

(5) the term "Incumbent Director" means a director of the Company (x) who was a director of the Company on September 1, 1997 or (y) who becomes a director subsequent to such date and whose election, or nomination for election by the Company's shareholders, was approved by a vote of a majority of the Incumbent Directors at the time of such election or nomination, except that any such director shall not be deemed an Incumbent Director if his or her initial assumption of office occurs as a result of an actual or threatened election contest or other actual or threatened solicitation of proxies by or on behalf of a Person other than the Board;

(6) the term "election contest" is used as it is defined for purposes of Rule 14a-11 under the Exchange Act;

(7) the term "Business Combination" means (x) a merger or consolidation involving the Company or its stock or (y) an acquisition by the Company, directly or through one or more subsidiaries, of another entity or its stock or assets;

(8) the term "parent corporation resulting from a Business Combination" means the Company if its stock is not acquired or converted in the Business Combination and otherwise means the entity which as a result of such Business Combination owns the Company or all or substantially all the Company's assets either directly or through one or more subsidiaries; and

(9) the term "Major Asset Disposition" means the sale or other disposition in one transaction or a series of related transactions of 70% or more of the assets of the Company and its subsidiaries on a consolidated basis; and any specified percentage or portion of the assets of the Company shall be based on fair market value, as determined by a majority of the Incumbent Directors.

"COMPANY" means Houston Industries Incorporated and any successor thereto.

"COMPENSATION" means the sum of Executive's annual salary plus Target Bonus plus Restricted Stock Award, determined immediately prior to (a) the date on which a Change of Control occurs (or, in the case of an Anticipatory Change in Employment, immediately prior to the date of the Binding CIC Agreement) or (b) the time of his Covered Termination, whichever is greater.

"COVERED TERMINATION" means any termination of Executive's employment with the Company or any Affiliate thereof, within three years after the date upon which a Change of Control occurs, which:

(a) results from a resignation by Executive during a Covered Termination Window; or

(b) does not result from any of (i) death, (ii) disability entitling Executive to benefits under the Company's long-term disability plan, (iii) termination on or after age 65, (iv) termination for Cause or (v) resignation by Executive (except as described in (a) above).

For this purpose, should a Change in Employment occur (x) after the execution of a binding agreement to effect a Change of Control (a "Binding CIC Agreement") and (y) in preparation for or in contemplation of the Change of Control (an "Anticipatory Change in Employment"), the Change in Employment shall be treated as if it occurred immediately after the Change of Control. Any Change in Employment occurring as described in part (x) of the preceding sentence shall be presumed to satisfy part (y) and be an Anticipatory Change in Employment unless the Company shall disprove such presumption through clear and convincing evidence.

"COVERED TERMINATION WINDOW" means the 61-day period commencing on the date the Executive is subjected to a Change in Employment or, if later, the date that the Executive becomes aware that he/she has been subjected to a Change in Employment.

"RESTRICTED STOCK AWARD" means a cash amount equal to the maximum amount (stated as a percentage of salary) granted to Executive as a Restricted Stock Award under the Company's Long Term Incentive Compensation Plan (or any successor plan) in the applicable calendar year.

"SEVERANCE AMOUNT" means an amount equal to Executive's Compensation multiplied by 3.

"TARGET BONUS" means Executive's target incentive opportunity under the Houston Industries Incorporated Executive Incentive Compensation Plan (or any successor plan) in effect for the year with respect to which the Target Bonus is being determined or, if no such plan is then in effect, for the last year in which such a plan was in effect, expressed as a dollar amount based upon Executive's annual salary for the year of such determination.

"WAIVER AND RELEASE" means a legal document, in the form attached hereto as Exhibit A or such other form as may be prescribed by the Company, but which form may not be altered, amended or modified after execution of a Binding CIC Agreement without the consent of the Executive, in which Executive, in exchange for severance benefits described in Section 2, among other things, releases the Company, the Affiliates, their directors, officers, employees and agents, their employee benefit plans and the fiduciaries and agents of said plans from liability and damages in any way related to Executive's employment with or separation from the Company or any of its Affiliates.

"WELFARE BENEFIT COVERAGE" shall mean each of life insurance, medical, dental and vision benefits.

2. SEVERANCE BENEFITS: If Executive (a) experiences a Covered Termination, (b) executes and returns to the Company a Waiver and Release within a time period prescribed by the Company following the date of Executive's Covered Termination, and (c) does not revoke such Waiver and Release within seven days after the date of execution, then Executive shall be entitled to receive, as additional compensation for services rendered to the Company (including its Affiliates), the following severance benefits:

(a) CASH LUMP SUM: A lump-sum cash payment in an amount equal to Executive's Severance Amount, which shall be made within 15 days after expiration of the seven-day Waiver and Release revocation period.

(b) WELFARE BENEFIT COVERAGES: If, at any time during the 36-month period following the date of Covered Termination, Executive is not eligible as a retiree of the Company or its Affiliates for any Welfare Benefit Coverage, Executive shall be entitled to obtain such Welfare Benefit Coverage for himself/herself and,

where applicable, his/her eligible dependents, while ineligible during such period, provided that Executive pays the premiums required of active employees from time to time for such Welfare Benefit Coverage. Such entitlement shall apply only to those Welfare Benefit Coverages that the Company has in effect from time to time for active employees. Notwithstanding the foregoing, if any Welfare Benefit Coverage to which the Executive is entitled under this paragraph cannot be continued during a period when Executive is not an employee of the Company, the Company shall pay to Executive a lump-sum cash payment in an amount equal to the economic value of such benefit as determined by Deloitte & Touche. Executive's right to any Welfare Benefit Coverage as a retiree shall be governed by the applicable plan document in effect from time to time and shall not be affected by this Agreement.

(c) OUTPLACEMENT: Reimbursement for fees, up to a maximum amount equal to 15% of Executive's annual base salary as of the date of his Covered Termination, incurred for outplacement services within twelve months of the date of Executive's Covered Termination in connection with Executive's efforts to obtain new employment.

(d) COMPANY VEHICLE: The option to purchase Executive's company vehicle, within 30 days following Executive's Covered Termination, for an amount equal to its depreciated book value as of the date of Executive's Covered Termination.

(e) BENEFITS RESTORATION PLAN: Benefits (including "Retirement Plan Restoration Benefits" and "Supplemental Retirement Benefits"), pursuant to the Benefit Restoration Plan(s) sponsored by the Company in which Executive is a participant, in an amount not less than the amount that Executive would have been entitled to receive pursuant to the underlying qualified retirement plan (a) if Executive were fully vested in the underlying qualified retirement plan benefits and (b) had Executive remained in the service of the Company or its Affiliates throughout the three-year period following the Change of Control. The Company agrees to amend the Benefit Restoration Plan(s) to the extent necessary to provide for the payment of these benefits, which shall be offset by, and not in addition to, any benefit actually payable pursuant to the qualified retirement plan.

(f) FINANCIAL PLANNING: Continued access, for the remainder of the calendar year in which the Covered Termination occurs or for 60 days (if greater), to the financial planning services available to executive employees at the time of the Change of Control to which the Covered Termination relates.

3. DEFERRED COMPENSATION PLAN ADMINISTRATION: Notwithstanding any provision herein or any provision of any Deferred Compensation Plan of the Company to the contrary, the Company and the Board hereby agree to amend the Company's Deferred Compensation Plans upon the occurrence of a Change of Control so that any and all amounts of salary and/or bonus deferred by Executive and held under the Deferred Compensation Plans shall, upon a Covered

Termination, remain in said plans earning interest at the rate prescribed therein until paid to or for the benefit of the Executive at such time and in such form as was irrevocably elected in writing by Executive.

4. CERTAIN ADDITIONAL PAYMENTS: Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 4 (a "Payment")) would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment (whether through withholding at the source or otherwise) by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto), employment taxes and Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

Subject to the provisions of this Section 4, all determinations required to be made under this Section 4, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Deloitte & Touche (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Executive within 15 business days of the receipt of notice from Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group 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). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 4, shall be paid by the Company to Executive within five days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Executive, it shall furnish Executive with a written opinion that failure to report the Excise Tax on Executive's applicable federal income tax return would not result in the imposition of negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to the following provisions of this Section 4 and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive.

Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(a) give the Company any information reasonably requested by the Company relating to such claim;

(b) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;

(c) cooperate with the Company in good faith in order to effectively contest such claim; and

(d) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax, employment tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation of the foregoing provisions of this Section 4, the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive, on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax, employment tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and

Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

If, after the receipt by Executive of an amount advanced by the Company pursuant to the foregoing provisions of this Section 4, Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to the Company complying with the requirements of this Section 4) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to the foregoing provisions of this Section 4, a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

If the Company is obligated to provide the Executive with one or more Welfare Benefit Coverages (or a payment in lieu thereof) pursuant to Section 2(b), and the amount of such benefits or the value of such benefit coverage (or the payment in lieu thereof) (including without limitation any insurance premiums paid by the Company to provide such benefits) is subject to any income, employment or similar tax imposed by federal, state or local law, or any interest or penalties with respect to such tax (such tax or taxes, together with any such interest and penalties, being hereafter collectively referred to as the "Income Tax") because such benefits cannot be provided under a nondiscriminatory health plan described in Section 105 of the Code or for any other reason, the Company will pay to the Executive an additional payment or payments (collectively, an "Income Tax Payment"). The Income Tax Payment will be in an amount such that, after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), the Executive retains an amount of the Income Tax Payment equal to the Income Tax imposed with respect to such welfare benefits or such welfare benefit coverage.

5. LEGAL FEES AND EXPENSES: It is the intent of the Company that Executive not be required to incur legal fees and the related expenses associated with the interpretation, enforcement or defense of Executive's rights under this Agreement by litigation or otherwise because the cost and expense thereof would detract from the benefits intended to be extended to Executive hereunder. Accordingly, if it should appear to Executive that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, the Executive the benefits provided or intended to be provided to Executive hereunder, the Company irrevocably authorizes the Executive from time to time to retain counsel of Executive's choice, at the expense of the Company as hereafter provided, to advise and represent Executive in connection with any such interpretation, enforcement or defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to Executive entering into an attorney-client relationship with such counsel, and

in that connection the Company and Executive agree that a confidential relationship will exist between Executive and such counsel. Without respect to whether Executive prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' fees and related expenses incurred by Executive in connection with any of the foregoing except to the extent that a final judgment no longer subject to appeal finds that a claim or defense asserted by Executive was frivolous. In such a case, the portion of such fees and expenses incurred by Executive as a result of such frivolous claim or defense shall become Executive's sole responsibility and any funds advanced by the Company or by a Trust created to secure such payment shall be repaid.

In the event a Change of Control occurs, the performance of the Company's obligations under this Section 5 will be funded by amounts deposited or to be deposited in trust pursuant to certain trust agreements to which the Company will be a party providing that the fees and expenses of counsel selected from time to time by Executive pursuant to this Section 5 will be paid, or reimbursed to Executive if paid by Executive, either in accordance with the terms of such trust agreements, or, if not so provided, on a regular, periodic basis upon presentation by Executive to the trustee of a statement or statements prepared by such counsel in accordance with its customary practices. In order to be eligible for payment of expenses directly from the Company, Executive must first exhaust all rights to payment under the trust agreements contemplated immediately above. The pendency of a claim by the Company that a claim or defense of Executive is frivolous or otherwise lacking merit shall not excuse the Company (or the trustee of a Trust contemplated by this Section 5) from making periodic payments of legal fees and expenses until a final judgment is rendered as hereinabove provided. Any failure by the Company to satisfy any of its obligations under this Section 5 will not limit the rights of Executive hereunder. Subject to the foregoing, Executive will have the status of a general unsecured creditor of the Company and will have no right to, or security interest in, any assets of the Company or any Affiliate.

6. NOTICES: For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Company: Houston Industries Incorporated
P.O. Box 4567
Houston, Texas 77210
ATTENTION: Chairman of the Board

If to Executive:

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or to such other address as either party may furnish to the other in writing in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

7. APPLICABLE LAW: The validity, interpretation, construction and performance of this Agreement will be governed by and construed in accordance with the substantive laws of the State of Texas, including the Texas statute of limitations, but without giving effect to the principles of conflict of laws of such State.

8. SEVERABILITY: If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement and all other provisions shall remain in full force and effect.

9. WITHHOLDING OF TAXES: The Company may withhold from any benefits payable under this Agreement all federal, state, city or other taxes as may be required pursuant to any law or governmental regulation or ruling.

10. NO EMPLOYMENT AGREEMENT: Nothing in this Agreement shall give Executive any rights to (or impose any obligations for) continued employment by the Company or any Affiliate thereof or successor thereto, nor shall it give the Company any rights (or impose any obligations) with respect to continued performance of duties by Executive for the Company or any Affiliate thereof or successor thereto.

11. NO ASSIGNMENT; SUCCESSORS: Executive's right to receive payments or benefits hereunder shall not be assignable or transferable, whether by pledge, creation or a security interest or otherwise, whether voluntary, involuntary, by operation of law or otherwise, other than a transfer by will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer contrary to this Section 11 the Company shall have no liability to pay any amount so attempted to be assigned or transferred. This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

This Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns (including, without limitation, any company into or with which the Company may merge or consolidate). The Company agrees that it will not effect the sale or other disposition of all or substantially all of its assets unless either (a) the person or entity acquiring such assets or a substantial portion thereof shall expressly assume by an instrument in writing all duties and obligations of the Company hereunder or (b) the Company shall provide, through the establishment of a separate reserve therefor, for the payment in full of all amounts which are or may reasonably be expected to become payable to Executive hereunder.

12. PAYMENT OBLIGATIONS ABSOLUTE: Except for the requirement of the Executive to execute and return to the Company a Waiver and Release in accordance with Section 2, the Company's obligation to pay (or cause one of its Affiliates to pay) Executive the amounts and to make the arrangements provided herein shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counter-claim, recoupment, defense or other right which the Company (including its Affiliates) may have against him/her or anyone else. All amounts payable by the Company (including its Affiliates hereunder) shall be paid without

notice or demand. Executive shall not be obligated to sign an agreement not to compete with the Company or to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Agreement, and the obtaining of any other employment shall in no event effect any reduction of the Company's obligations to make (or cause to be made) the payments and arrangements required to be made under this Agreement.

13. NUMBER AND GENDER: Wherever appropriate herein, words used in the singular shall include the plural and the plural shall include the singular. The masculine gender where appearing herein shall be deemed to include the feminine gender.

14. TERM: The effective date of the Agreement is September 3, 1997. The term of this Agreement shall be for a period of three years after such effective date.

15. EXTENSION: The Board or the Executive Committee of the Company may, at any time prior to the expiration hereof, extend the term hereof for a period of up to three years from the date on which such extension is approved, without any further action on the part of Executive or the Company.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered this _____ day of November, 1997, but effective as of the day and year first above written.

HOUSTON INDUSTRIES INCORPORATED

By

Don D. Jordan,
Chairman and Chief Executive Officer

EXECUTIVE

EXHIBIT 12

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(THOUSANDS OF DOLLARS)

	TWELVE MONTHS ENDED DECEMBER 31,				
	1997	1996	1995	1994	1993
Fixed Charges as Defined:					
(1) Interest on Long-Term Debt	$ 320,845	$276,242	$279,491	$ 265,494	$ 304,462
(2) Other Interest	77,112	33,738	21,586	25,076	15,145
(3) Capitalized Interest	7,721				
(4) Distribution on Trust Securities	26,230				
(5) Preferred Dividends Factor of Subsidiary	3,360	33,619	44,933	51,718	52,399
(6) Interest Component of Rentals Charged to Operating Expense	5,692	942	3,102	3,951	4,449
(7) Total Fixed Charges	$ 440,960	$344,541	$349,112	$ 346,239	$ 376,455
Earnings as Defined:					
(8) Income from Continuing Operations	$ 421,110	$404,944	$397,400	$ 423,985	$ 440,531
(9) Income Taxes for Continuing Operations	206,374	200,165	199,555	230,424	228,863
(10) Fixed Charges (line 7)	440,960	344,541	349,112	346,239	376,455
(11) Capitalized Interest (Line 3)	(7,721)				
(12) Income from Continuing Operations Before Income Taxes and Fixed Charges	$1,060,723	$949,650	$946,067	$1,000,648	$1,045,849
Preferred Dividends Factor of Subsidiary:					
(13) Preferred Stock Dividends of Subsidiary	$ 2,255	$ 22,563	$ 29,955	$ 33,583	$ 34,473
(14) Ratio of Pre-Tax Income from Continuing Operations to Income from Continuing Operations (line 8 plus line 9 divided, (line 8)	1.49	1.49	1.50	1.54	1.52
(15) Preferred Dividends Factor of Subsidiary (line 14 times line 13)	$ 3,360	$ 33,619	$ 44,933	$ 51,718	$ 52,399
Ratio of Earnings from Continuing Operations to Fixed Charges Before Cumulative Effect of Change in Accounting (line 12 divided by line 7)	2.41	2.76	2.71	2.89	2.78

EXHIBIT 21

SIGNIFICANT SUBSIDIARIES OF
HOUSTON INDUSTRIES INCORPORATED

NorAm Energy Corp., a Delaware corporation and a wholly owned subsidiary of Houston Industries Incorporated

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(1) Pursuant to Item 601(b)(21) of Regulation SK, registrant has omitted the names of subsidiaries, which considered in the aggregate as a single subsidiary, would not constitute a "significant subsidiary" (as defined under Rule 1-02(w) of Regulation S-X) as of December 31, 1997

(2) NorAm Energy Corp. also conducts business under the names of its three unincorporated divisions: Arkla, Entex and Minnegasco

EXHIBIT 23(a)

CONSENT OF INDEPENDENT AUDITORS

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. 33-46368, 33-54228, 333-20069, 333-32353, 333-33301, and 333-33303, (iii) Post-Effective Amendment No. 1 to Registration Statement No. 33-51417 on Form S-3, (iv) Registration Statements on Form S-8 Nos. 333-32413, and 333-32585 and (v) Post-Effective Amendment No. 1 to Registration No. 333-11329-99 on Form S-8 of our report dated February 20, 1998 (relating to the consolidated financial statements of Houston Industries Incorporated) appearing on this Combined Annual Report on Form 10-K of Houston Industries Incorporated and NorAm Energy Corp. for the year ended December 31, 1997.

DELOITTE & TOUCHE LLP

HOUSTON, TEXAS
MARCH 23, 1998

EXHIBIT 3a1

CERTIFICATE OF INCORPORATION

OF

HI MERGER, INC.

FIRST: The name of the Company is HI Merger, Inc. (hereinafter the "Company").

SECOND: The address of the registered office of the Company in the State of Delaware is Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, Zip Code 19801, and the name of the registered agent of the Company at such address is The Corporation Trust Company.

THIRD: The purpose of the Company is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware as set forth in Title 8 of the Delaware Code (the "DGCL").

FOURTH: The total number of shares of all classes of stock which the Company shall have authority to issue is 1,000 shares of common stock, par value $0.01 per share ("Common Stock"). Except as otherwise provided by law, the shares of Common Stock may be issued for such consideration and for such corporate purposes as the Board of Directors of the Company (the "Board of Directors") may from time to time determine.

In the event of voluntary or involuntary liquidation, distribution or sale of assets, dissolution or winding-up of the Company, the holders of the Common Stock shall be entitled to receive all the assets of the Company, tangible and intangible, of whatever kind available for distribution to stockholders, ratably in proportion to the number of shares of Common Stock held by each.

Each holder of Common Stock shall have one vote in respect of each share of Common Stock held by such holder on each matter voted upon by the stockholders.

FIFTH: The name and address of the incorporator is

Timothy S. Taylor
3000 One Shell Plaza
910 Louisiana
Houston, Texas 77002.

SIXTH: The powers of the incorporator are to terminate upon the filing of the Certificate of Incorporation with the office of the Secretary of State of the State of Delaware. The person whose name and mailing address are set out immediately below is to serve as the sole director of the Company until the first annual meeting of stockholders or until his successor is elected and qualify:

Name	Address
Stephen W. Naeve	1111 Louisiana Street Houston, Texas 77002

SEVENTH: The following provisions are inserted for the management of the business and the conduct of the affairs of the Company, and for further definition, limitation and regulation of the powers of the Company and of its directors and stockholders:

(a) The business and affairs of the Company shall be managed by or under the direction of the Board of Directors except as otherwise provided by law.

(b) The Board of Directors shall have concurrent power with the stockholders to make, alter, amend, change, add to or repeal the Bylaws of the Company (the "Bylaws").

(c) The number of directors of the Company shall be as from time to time fixed by, or in the manner provided in, the Bylaws. Election of directors need not be by written ballot unless the Bylaws so provide.

(d) In addition to the powers and authority hereinbefore or by statute expressly conferred upon them, the directors are hereby authorized to exercise all such powers and do all such acts and things as may be exercised or done by the Company, subject, nevertheless, to the provisions of the statutes of Delaware, this Certificate of Incorporation and any Bylaws adopted by the stockholders; provided, however, that no Bylaws thereafter adopted by the stockholders shall invalidate any prior act of the directors which would have been valid if such Bylaws had not been adopted.

EIGHTH: Meetings of the stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Company may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws.

NINTH: A director of the Company shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (a) for any breach of the director's duty of loyalty to the Company or its stockholder or stockholders, (b) for acts or omissions not in good faith or which involve intentional misconduct

or a knowing violation of law, (c) under Section 174 of the DGCL, as the same exists or hereafter may be amended, or (d) for any transaction from which the director derived an improper personal benefit. If the DGCL is amended after the date of filing of this Certificate of Incorporation to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the Company, in addition to the limitation on personal liability provided herein, shall be limited to the fullest extent permitted by the amended DGCL. Any repeal or modification of this Article NINTH by the stockholders of the Company shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Company existing at the time of such repeal or modification.

TENTH: The Company reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by the laws of the State of Delaware. All rights herein conferred are granted subject to this reservation.

I, the undersigned, being the incorporator hereinbefore named, for the purpose of forming a corporation under the laws of the State of Delaware, do make, file and record this Certificate of Incorporation, do certify that the facts herein stated are true and accordingly, have hereunto set my hand this 9th day of August, 1996.

/s/ TIMOTHY S. TAYLOR

Timothy S. Taylor

EXHIBIT 3a2

CERTIFICATE OF MERGER

merging

NORAM ENERGY CORP.
(a Delaware corporation)

with and into

HI MERGER, INC.
(a Delaware corporation)

Pursuant to Section 251 of the Delaware General Corporation Law (the "DGCL"), HI Merger, Inc., a Delaware corporation (the "Company" or the "Surviving Corporation"), does hereby certify:

FIRST: That the name and state of incorporation of each of the constituent corporations are as follows:

Name	State of Incorporation
HI Merger, Inc.	Delaware
NorAm Energy Corp.	Delaware

SECOND: That an Agreement and Plan of Merger pursuant to which NorAm Energy Corp. will be merged with and into the Company (the "Merger") has been approved, adopted, certified, executed and acknowledged by each of the constituent corporations in accordance with the provisions of Section 251 of the DGCL.

THIRD: That the surviving corporation of the Merger is HI Merger, Inc., a Delaware Corporation.

FOURTH: That the Certificate of Incorporation of the Company immediately prior to the effective time of the Merger shall be amended as follows, and as so amended, such Certificate of Incorporation shall be the Certificate of Incorporation of the Surviving Corporation until such time as it may be amended in accordance with applicable law. Article FIRST of such Certificate of Incorporation shall be amended so that the full text of such altered article is as follows:

"FIRST: The name of the Company is NorAm Energy Corp. (hereinafter the "Company")."

FIFTH: That the executed Agreement and Plan of Merger is on file at an office of the Surviving Corporation at Houston Industries Plaza, 1111 Louisiana Street, Houston, Texas 77002.

SIXTH: That a copy of the Agreement and Plan of Merger will be furnished by the Surviving Corporation, on request and without cost, to any stockholder of either constituent corporation.

SEVENTH: That pursuant to Section 103(d) of the DGCL, this Certificate of Merger and the Merger shall become effective immediately upon filing of this Certificate of Merger with the Secretary of State of the State of Delaware.

IN WITNESS WHEREOF, HI Merger, Inc., has caused this Certificate of Merger to be executed on its behalf on this sixth day of August, 1997.

HI MERGER, INC.

By: /s/ STEPHEN W. NAEVE

Name: Stephen W. Naeve
Title: President

EXHIBIT 3b

BYLAWS

OF

NORAM ENERGY CORP.

(formerly known as HI Merger, Inc., hereinafter called the "Company")

ARTICLE I

CAPITAL STOCK

Section 1.1. Certificates Representing Shares. The shares of stock of the Company shall be represented by certificates of stock, signed in the name of the Company (a) by the Chairman of the Board, the President or a Vice President and (b) by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary, of the Company, certifying the number of shares of stock in the Company owned by the holder named in the certificate. Any or all of the signatures of such officers on the certificate may be facsimiles. In case any officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Company with the same effect as if he were such officer at the date of its issuance.

Section 1.2. Lost, Stolen or Destroyed Certificates. The Board of Directors of the Company (the "Board of Directors") may direct a new certificate to be issued in place of any certificate theretofore issued by the Company alleged to have been lost, stolen or destroyed, upon the receipt of an affidavit of the fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issuance of a new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his legal representative, to give the Company a bond sufficient to indemnify it against any claim that may be made against the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

Section 1.3. Transfers of Stock. Stock of the Company shall be transferable in the manner prescribed by law and in these Bylaws. Transfers of stock shall be made on the books of the Company only by the person named in the certificate or by his attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be cancelled before a new certificate shall be issued.

Section 1.4. Beneficial Owners. The Company shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote

as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

Section 1.5. Dividends. Dividends upon the capital stock of the Company, subject to the provisions of the Certificate of Incorporation of the Company, as amended from time to time (the "Certificate of Incorporation"), if any, may be declared by the Board of Directors at any regular or special meeting, and may be paid in cash, in property or in shares of capital stock of the Company. Before payment of any dividend, there may be set aside out of any funds of the Company available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Company, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

ARTICLE II

STOCKHOLDERS

Section 2.1. Place of Meetings. Meetings of the stockholders for the election of directors or for any other purpose shall be held at such time and place, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2.2. Annual Meetings. The annual meetings of the stockholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting, at which meetings the stockholders shall elect by a plurality vote a Board of Directors and transact such other business as may properly be brought before the meeting.

Section 2.3. Special Meetings. Unless otherwise prescribed by law or by the Certificate of Incorporation, special meetings of the stockholders, for any purpose or purposes, may be called at any time by the Board of Directors, the Chairman of the Board, the President or the Secretary of the Company and shall be called by any such officer at the request in writing of a majority of the Board of Directors or at the request in writing of stockholders owning a majority of the capital stock of the Company issued and outstanding and entitled to vote. Such request shall state the purpose or purposes of the proposed meeting.

Section 2.4. Notice of Meetings. Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for

which the meeting is called. Unless otherwise provided by law, the Certificate of Incorporation or these Bylaws, the written notice of any meeting shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, such notice shall be deemed to be given when deposited in the mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the Company.

Section 2.5. Record Date. The Board of Directors may fix a date, not less than ten nor more than sixty days preceding the date of any meeting of the stockholders, as a record date for determination of stockholders entitled to notice of, or to vote at, such meeting. The Board of Directors shall not close the books of the Company against transfers of shares during the whole or any part of such period.

Section 2.6. Quorum. Except as otherwise provided by law, by the Certificate of Incorporation, or by these Bylaws, the presence in person or by proxy of the holders of a majority of the outstanding shares of stock of the Company entitled to vote thereat, shall be necessary and sufficient to constitute a quorum at all meetings of the stockholders for the transaction of business. In the absence of a quorum, the stockholders so present may, by majority vote, adjourn the meeting from time to time in the manner provided in Section 2.9 of this Article II until a quorum shall attend. Shares of its own stock belonging to the Company or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the Company, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the Company or any such other corporation to vote stock, including but not limited to its own stock, held by it in a fiduciary capacity.

Section 2.7. Organization. Meetings of stockholders shall be presided over by the Chairman of the Board, if any, or in his absence by the President, or in the absence of the foregoing persons by a chairman designated by the Board of Directors, or in the absence of such designation by a chairman chosen at the meeting. The Secretary shall keep the records of the meeting, but in his absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 2.8. Voting; Proxies. Except as otherwise provided by the Certificate of Incorporation, each stockholder entitled to vote at any meeting of stockholders shall be entitled to one vote for each share of stock held by him which has voting power upon the matter in question. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for him by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an

instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the Secretary. Voting at meetings of stockholders need not be by written ballot and need not be conducted by inspectors of election unless so determined by the holders of shares of stock having a majority of the votes which could be cast by the holders of all outstanding shares of stock entitled to vote thereon which are present in person or by proxy at such meeting. At all meetings of stockholders for the election of directors, a plurality of the votes cast shall be sufficient to elect. All other elections and questions shall, unless otherwise provided by law, the Certificate of Incorporation or these Bylaws, be decided by the vote of the holders of shares of stock having a majority of the votes which could be cast by the holders of all shares of stock entitled to vote thereon which are present in person or represented by proxy at the meeting.

Section 2.9. Adjournments. Any meetings of stockholders, annual or special, may adjourn from time to time to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Company may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 2.10. List of Stockholders Entitled to Vote. The officer of the Company who has charge of the stock ledger of the Company shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder of the Company who is present.

Section 2.11. Stock Ledger. The stock ledger of the Company shall be the only evidence as to which stockholders are entitled (a) to vote in person or by proxy at any meeting of stockholders, or (b) to examine either the stock ledger, the list required by Section 2.10 of this Article II or the books of the Company.

Section 2.12. Action by Consent of Stockholders in Lieu of Meeting. Unless otherwise restricted by the Certificate of Incorporation, any action required or permitted to be taken at any annual or special meeting of the stockholders of the Company may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken,

shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

ARTICLE III

DIRECTORS

Section 3.1. Number and Tenure. The business and affairs of the Company shall be managed by the Board of Directors. The number of directors constituting the whole Board of Directors shall be fixed by the affirmative vote of a majority of the members at any time constituting the Board of Directors, and such number may be increased or decreased from time to time by resolution by the Board of Directors; provided, however, that no such decrease shall have the effect of shortening the term of any incumbent director. Except as provided in Section 3.2 of this Article III, directors shall be elected by a plurality of the votes cast at annual meetings of the stockholders, and each director so elected shall hold office for the full term to which he shall have been elected and until his successor is duly elected and qualified, or until his earlier death, resignation or removal. Any director may resign at any time upon notice to the Company. A director need not be a stockholder of the Company or a resident of the State of Delaware.

Section 3.2. Vacancies. Any newly created directorship or any vacancy occurring in the Board of Directors for any cause may be filled by an affirmative vote of a majority of the remaining directors then in office, though less than a quorum, or by a plurality of votes cast at a meeting of stockholders, and each director so elected shall hold office for the remainder of the full term in which the new directorship was created or the vacancy occurred and until such director's successor is duly elected and qualified, or until his earlier death, resignation or removal.

Section 3.3. Regular Meetings. Regular meetings of the Board of Directors may be held at such places within or without the State of Delaware and at such times as the Board of Directors may from time to time determine, and if so determined, notices thereof need not be given.

Section 3.4. Special Meetings. Special meetings of the Board of Directors may be held at any time, whenever called by the Chairman of the Board, the President or a majority of directors then in office, at such place or places within or without the State of Delaware as may be stated in the notice of the meeting. Notice of the time and place of a special meeting must be given by the person or persons calling such meeting at least twenty-four hours before the special meeting.

Section 3.5. Meetings by Conference Telephone. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, members of the Board of Directors of the Company, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors or such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 3.5 shall constitute presence in person at such meeting.

Section 3.6. Quorum; Vote Required for Action. Except as may be otherwise specifically provided by law, the Certificate of Incorporation or these Bylaws, at all meetings of the Board of Directors a majority of the whole Board of Directors shall constitute a quorum for the transaction of business. The vote of a majority of the directors present at any meeting of the Board of Directors at which there is a quorum present shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 3.7. Organization. Meetings of the Board of Directors shall be presided over by the Chairman of the Board, if any, or in his absence by the President, or in their absences by a chairman chosen at the meeting. The Secretary shall act as secretary of the meeting, but in his absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 3.8. Actions of the Board by Consent in Lieu of Meeting. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all the members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or such committee.

Section 3.9. Committees. The Board of Directors may, by resolution passed by a majority of the whole Board of Directors, designate one or more committees, each committee to consist of one or more of the directors of the Company. The Board of Directors may designate one or more of the directors of the Company. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of the committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in place of any absent or disqualified member. Any committee, to the extent permitted by law and to the extent provided in the resolution of the Board of Directors establishing such committee, shall have

and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Company, and may authorize the seal of the Company to be affixed to all papers which may require it. Each committee shall keep regular minutes and report to the Board of Directors when required.

The designation of any such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed upon it or him by law, nor shall such committee function where action of the Board of Directors is required under applicable law. The Board of Directors shall have the power at any time to change the membership of any such committee and to fill vacancies in it. A majority of the members of any such committee shall constitute a quorum. Each such committee may elect a chairman and appoint such subcommittees and assistants as it may deem necessary. Except as otherwise provided by the Board of Directors, meetings of any committee shall be conducted in the same manner as the Board of Directors conducts its business pursuant to this Article III as the same shall from time to time be amended. Any member of any such committee elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the Company will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of a member of a committee shall not of itself create contract rights.

Section 3.10. Compensation and Reimbursement of Expenses. The directors shall receive such compensation for their services as shall be determined by the Board of Directors and may be paid their expenses, if any, of attendance at each meeting of the Board of Directors. No such reimbursement shall preclude any director from serving the Company in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like reimbursement for attending committee meetings.

ARTICLE IV

OFFICERS

Section 4.1. General. The offices of the Company shall consist of a Chairman of the Board, a President, a Secretary and a Treasurer, each of whom shall be elected by the Board of Directors. Such other officers or agents, including one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers, as may be deemed necessary, may be elected or appointed by the Board of Directors. Any number of offices may be held by the same person, unless otherwise prohibited by law, the Certificate of Incorporation or these Bylaws. The officers of the Company need not be stockholders of the Company nor, except in the case of the Chairman of the Board, need such officers be directors of the Company. Each officer shall hold office until the first meeting of the Board of Directors after the annual meeting of stockholders next succeeding his election, and until his successor is elected and qualified or until his earlier death, resignation

or removal. Any officer may resign at any time upon written notice to the Company. The Board of Directors may remove any officer with or without prejudice to the contractual rights of such officer, if any, with the Company. Election or appointment of an officer or an agent shall not of itself create contractual rights. Any vacancy occurring in any office of the Company by death, resignation, removal or otherwise may be filled for the unexpired portion of the term by the Board of Directors at any regular or special meeting.

Section 4.2. Powers and Duties. The officers of the Company shall have such powers and duties as generally pertain to their offices, except as modified herein or by the Board of Directors, as well as such powers and duties as from time to time may be conferred by the Board of Directors. The Chairman of the Board shall be the Chief Executive Officer and shall preside at meetings of the Board of Directors and at meetings of the stockholders. The President shall have the general supervision over the business, affairs and property of the Company. The Secretary shall record all proceedings at meetings and actions in writing of stockholders, directors and committees of directors, and shall exercise such additional authority and perform such additional duties as the Board of Directors may assign.

Section 4.3. Voting Securities Owned by the Company. Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Company may be executed in the name and on behalf of the Company by the Chairman of the Board, the President or any Vice President and any such officer may, in the name of and on behalf of the Company, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Company may own securities and at any such meeting shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner thereof, the Company might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time, confer like powers upon any other person or persons.

ARTICLE V

INDEMNIFICATION

Section 5.1. Right to Indemnification. The Company shall indemnify and hold harmless each Indemnitee (as this and all other capitalized words are defined in Section 5.13 of this Article) to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended. The rights of an Indemnitee provided under the preceding sentence shall include, but not be limited to, the right to be indemnified to the fullest extent permitted by Section 145(b) of the DGCL in Proceedings by or in the right of the Company and to the fullest extent permitted by Section 145(a) of the DGCL in all other Proceedings.

Section 5.2. Expenses. If an Indemnitee is, by reason of his Corporate Status, a witness in or is a party to any Proceeding, and is successful on the merits or otherwise, he shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith. If the Indemnitee is a party to and is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to any Matter in such Proceeding, the Company shall indemnify the Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf relating to each such Matter. The termination of any Matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such Matter.

Section 5.3. Request for Indemnification. To obtain indemnification, an Indemnitee shall submit to the Secretary a written request with such information as is reasonably available to the Indemnitee regarding the basis for such claim for indemnification. The Secretary shall promptly advise the Board of Directors of such request. An Indemnitee shall be advanced Expenses, within ten days after requesting them, to the fullest extent permitted by Section 145(e) of the DGCL.

Section 5.4. Determination of Indemnification. The Indemnitee's entitlement to indemnification shall be determined in accordance with Section 145(d) of the DGCL. If entitlement to indemnification is to be determined by Independent Counsel, the Company shall furnish notice to the Indemnitee within ten days after receipt of the request for indemnification, specifying the identity and address of the Independent Counsel. The Indemnitee may, within fourteen days after receipt of such written notice of selection, deliver to the Company a written objection to such selection. Such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of Independent Counsel and the objection shall set forth with particularity the factual basis of such assertion. If there is an objection to the selection of Independent Counsel, either the Company or the Indemnitee may petition the Court of Chancery of the State of Delaware or any other court of competent jurisdiction for a determination that the objection is without a reasonable basis and/or for the appointment of Independent Counsel selected by such court.

Except in the event that the determination of entitlement to indemnification is to be made by Independent Counsel, if the person or persons authorized under this Section 5.4 to determine entitlement to indemnification shall not have made and furnished to the Indemnitee in writing a determination of whether the Indemnitee is entitled to indemnification within thirty days after receipt by the Company of the Indemnitee's request therefor, a determination of entitlement to indemnification shall be deemed to have been made, and the Indemnitee shall be entitled to such indemnification unless the Indemnitee knowingly misrepresented a material fact in connection with the request for indemnification or such indemnification is prohibited by law. The termination of any Proceeding or of any Matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Article) of itself adversely affect the right of Indemnitee to indemnification or create a

presumption that Indemnitee did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company, or with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his conduct was unlawful.

Section 5.5. Payments to Independent Counsel. The Company shall pay any and all reasonable fees and expenses of Independent Counsel incurred acting pursuant to this Article and in any proceeding to which it is a party or witness in respect of its investigation and written report and shall pay all reasonable fees and expenses incident to the procedures in which such Independent Counsel was selected or appointed. No Independent Counsel may serve if a timely objection has been made to his selection until a court has determined that such objection is without a reasonable basis.

Section 5.6. Right to Bring Suit. In the event that (a) a determination is made pursuant to Section 5.4 of this Article V that the Indemnitee is not entitled to indemnification under this Article, (b) advancement of Expenses is not timely made pursuant to Section 5.3 of this Article V, (c) Independent Counsel has not made and delivered a written opinion determining the request for indemnification (i) within ninety days after being appointed by the court, or (ii) within ninety days after objections to his selection have been overruled by the court, or (iii) within ninety days after the time for the Company or the Indemnitee to object to his selection, or (d) payment of indemnification is not made within five days after a determination of entitlement to indemnification, the Indemnitee shall be entitled to an adjudication in an appropriate court of the State of Delaware, or in any other court of competent jurisdiction, of his entitlement to such indemnification or advancement of Expenses. In the event that a determination shall have been made that the Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 5.6 shall be conducted in all respects as a de novo trial on the merits and Indemnitee shall not be prejudiced by reason of that adverse determination. If a determination shall have been made or deemed to have been made that the Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding commenced pursuant to this Section 5.6, or otherwise, unless the Indemnitee knowingly misrepresented a material fact in connection with the request for indemnification, or such indemnification is prohibited by law.

The Company shall be precluded from asserting in any judicial proceeding commenced pursuant to this Section 5.6 that the procedures and presumptions of this Article are not valid, binding and enforceable and shall stipulate in any such court that the Company is bound by all provisions of this Article. In the event that the Indemnitee, pursuant to this Section 5.6, seeks a judicial adjudication to enforce his rights under, or to recover damages for breach of, this Article, the Indemnitee shall be entitled to recover from the Company, and shall be indemnified by the Company against, any and all Expenses actually and reasonably incurred by him in such judicial adjudication, but only if he prevails therein. If it shall be determined in such judicial adjudication

that the Indemnitee is entitled to receive part but not all of the indemnification or advancement of Expenses sought, the Expenses incurred by the Indemnitee in connection with such judicial adjudication or arbitration shall be appropriately prorated.

Section 5.7. Non-Exclusivity of Rights. The rights to receive indemnification and advancement of Expenses as provided by this Article shall not be deemed exclusive of any other rights to which an Indemnitee may at any time be entitled under applicable law, the Certificate of Incorporation, the Bylaws, any agreement, a vote of stockholders or disinterested directors, or otherwise.

Section 5.8. Other Indemnification. The Company's obligation, if any, to indemnify any Indemnitee who was or is serving at its request as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise or nonprofit entity shall be reduced by any amount such Indemnitee may collect as indemnification from such other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise or nonprofit entity.

Section 5.9. Amendment or Repeal. No amendment, alteration or repeal of this Article or any provision thereof shall be effective as to any Indemnitee for acts, omissions, events and circumstances that occurred, in whole or in part, before such amendment, alteration or repeal.

Section 5.10. Survival of Rights. The provisions of this Article shall continue as to an Indemnitee whose Corporate Status has ceased and shall inure to the benefit of his heirs, executors and administrators.

Section 5.11. Insurance. The Company may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Company or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the Company would have the power to indemnify such person against such expense, liability or loss under applicable law.

Section 5.12. Indemnity Agreements. The Company may enter into indemnity agreements with the persons who are members of its Board of Directors from time to time, and with such officers, employees and agents as the Board of Directors may designate, such indemnity agreements to provide in substance that the Company will indemnify such persons to the full extent contemplated by this Article.

Section 5.13. Definitions. For purposes of this Article:

"Corporate Status" describes the status of a person who is or was a director, officer, employee, agent or fiduciary of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise or nonprofit entity which such person is or was serving at the request of the Company.

"DGCL" means the General Corporation Law of the State of Delaware as set forth in Title 8 of the Delaware Code.

"Expenses" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, or being or preparing to be a witness in a Proceeding.

"Indemnitee" includes any person who was or is made, or is threatened to be made a party or is otherwise involved in any Proceeding by reason of his Corporate Status.

" Independent Counsel" means a law firm, or member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the five years previous to his selection or appointment has been, retained to represent: (a) the Company or Indemnitee in any matter material to either such party; or (b) any other party to the Proceeding giving rise to a claim for indemnification hereunder.

"Matter" is a claim, a material issue or a substantial request for relief.

"Proceeding" includes any action, suit, arbitration, alternate dispute resolution proceeding, investigation, administrative hearing or any other proceeding, whether civil, criminal, administrative, or investigative, except one initiated by an Indemnitee pursuant to Section 5.6 of this Article to enforce his rights under this Article.

Section 5.14. Communications. Any communication required or permitted to be made to the Company shall be addressed to the Secretary and any such communication to an Indemnitee shall be addressed to his home address unless he specifies otherwise.

Section 5.15. Legality. If any provision or provisions of this Article shall be held to be invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby; and, to the fullest extent possible, the provisions of this Article shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

ARTICLE VI

MISCELLANEOUS

Section 6.1 Disbursements. All checks or demands for money and notes of the Company shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 6.2. Fiscal Year. The fiscal year of the Company shall be fixed by resolution of the Board of Directors.

Section 6.3. Corporate Seal. The Corporate Seal shall have inscribed thereon the name of the Company, the year of its organization and the words "Corporate Seal, Delaware." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or otherwise reproduced.

Section 6.4. Interested Directors. No contract or transaction between the Company and one or more of its directors or officers, or between the Company and any other corporation, partnership, association or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorized the contract or transaction, or solely because his or their votes are counted for such purpose, if: (a) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (b) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (c) the contract or transaction is fair as to the Company as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction. Any director of the Company may vote upon any contract or other transaction between the Company and any subsidiary or affiliated corporation without regard to the fact that he is also a director of such subsidiary or affiliated corporation.

Section 6.5. Amendments. These Bylaws may be altered, amended or repealed, in whole or in part, or new Bylaws may be adopted, by the stockholders or by the Board of Directors; provided, however, that notice of such alteration, amendment, repeal or adoption of new Bylaws be contained in the notice of such meeting of stockholders or Board of Directors, as the case may

be. All such alterations, amendments, repeals or adoptions must be approved by either the holders of a majority of the outstanding capital stock entitled to vote thereon or by a majority of the Board of Directors then in office.

EXHIBIT 4(a)(2)

==========

ARKLA, INC.

TO

CITIBANK, N.A., Trustee

FIRST SUPPLEMENTAL INDENTURE

Dated as of September 30, 1988

SUPPLEMENTING AND AMENDING THE

INDENTURE DATED AS OF DECEMBER 1, 1986

==========

FIRST SUPPLEMENTAL INDENTURE, dated as of September 20, 1988 between ARKLA, INC., a corporation duly organized and existing under the laws of the State of Delaware (herein called the "Company"), having its principal office at 525 Milam Street, Shreveport, Louisiana 71101 and at 400 East Capitol Street, Little Rock, Arkansas 72202, and CITIBANK, N.A., a national banking association, as Trustee (herein called the "Trustee"),

R E C I T A L S

WHEREAS, to provide for its lawful corporate purposes the Company has duly authorized the issue from time to time of its debentures, notes or other evidences of unsecured indebtedness, which are to be issued in one or more series (the "Securities"); the Company has heretofore made, executed and delivered to the Trustee its Indenture dated as of December 1, 1986 (herein called the "Original Indenture"); and

WHEREAS, by virtue of the provisions of Article Three of the Original Indenture, the Company is empowered to deliver Securities of any series executed by the Company to the Trustee for authentication, and the Trustee is thereupon empowered in the manner set forth in such Article Three to authenticate and deliver said Securities to or upon the written order of the Company without any further action by the Company; and

WHEREAS, it is deemed desirable to supplement and amend such procedures for authentication and delivery of Securities to those set forth in Article Three of the Original Indenture as supplemented and amended by this First Supplemental Indenture (the Original Indenture, as so supplemented and amended by this First Supplemental Indenture being referred to herein as the "Indenture"); and

WHEREAS, the Board of Directors of the Company has determined that it is desirable to add an additional covenant of the Company to Article Ten of the Original Indenture for the benefit of the Holders of all series of Securities in which the Company will covenant and agree not to issue any additional mortgage bonds under its Indenture of Mortgage and Deed of Trust dated as of September 1, 1953, as supplemented or the Indenture of Mortgage and Deed of Trust of Entex, Inc. dated as of June 30, 1970, as supplemented and assumed by the Company upon the merger of Entex, Inc. with and into the Company on February 2, 1988; and

WHEREAS, Section 901 of Article Nine of the original Indenture provides that under certain conditions the Company and Trustee, may, without the consent of the Holders of Securities, from time to time and at any time, enter into and indenture or indentures supplemental thereto, inter alia; and

WHEREAS, all the requirements prescribed by law and by the Certificate of Incorporation of the Company have been fully complied with and all conditions and requirements necessary to authorize the execution, acknowledgment and delivery of this First Supplemental Indenture and duly and legally effect the modifications and alterations of the original Indenture provided for in this First Supplemental Indenture, and to make the original Indenture as supplemented and amended by this First Supplemental Indenture, a valid, binding and legal instrument for the benefit of the Holders of Securities, have been complied with;

NOW, THEREFORE, THIS FIRST SUPPLEMENTAL INDENTURE WITNESSETH that for and in consideration of the premises and the acceptances or purchases of the Securities by the Holders thereof, the Company and the Trustee mutually covenant and agree for the equal and proportionate benefit of all Holders of the Securities or of series thereof, as follows:

ARTICLE I

MODIFICATION OF THE ORIGINAL INDENTURE

Section 1.1 Supplement and Amendment to Article Three of the Original Indenture. Article Three of the Original Indenture is modified by supplementing and amending the third paragraph of Section 303 of the Original Indenture to read in its entirety as follows:

> "At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series executed by the Company to the Trustee for authentication, together with a Company order for the authentication and delivery of such Securities, and the Trustee in accordance with the Company order shall authenticate and deliver such Securities; provided, however, that, with respect to Securities of a series constituting a medium-term note program, the Trustee shall authenticate and deliver Securities of such series for original issue from time

to time in the aggregate principal amount established for such series pursuant to such procedures acceptable to the Trustee and to recipients thereof as may be specified from time to time by a Company Order. The maturity date, original issue date, interest rate and any other terms of the Securities of such series shall be determined by or pursuant to such Company Order and procedures. If provided for in such procedures, such Company Order may authorize authentication and delivery pursuant to oral instructions from the Company or its duly authorized agent, which instructions shall be promptly confirmed in writing; provided, further, notwithstanding the provisions of Section 201 and of this paragraph, if all Securities of a series are not to be originally issued at one time, it shall not be necessary to deliver the Board Resolution otherwise required pursuant to Section 201, or the Company Order otherwise required pursuant to this paragraph at or prior to the time of authentication of each Security of such series if such documents are delivered at or prior to the time of authentication upon original issuance of the first Security of such series. If the form or terms of the Securities of the series have been established in or pursuant to one or more Board Resolutions as permitted by Sections 201 and 301, in authenticating such Securities, and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon an Opinion of Counsel stating:

(a) if the form or forms of such Securities have been established by the Board or pursuant to a Board Resolution as permitted by Section 201, that such form or forms have been established in conformity with the provisions of this Indenture;

(b) if the terms of such Securities have been established by or pursuant to a Board Resolution as permitted by Section 301, that such terms have been established in conformity with the provisions of this Indenture; and

(c) that such Securities, when authenticated and delivered by the Trustee and issued by the Company in the manner and subject to any conditions

specified in such opinion of Counsel, will constitute valid and legally binding obligations of the Company enforceable against the Company, subject to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting the enforcement of creditors' rights and to general equity principals.

If such form or terms have been so established the Trustee shall not be required to authenticate such Securities if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties, or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee."

Section 1.2 Supplement to Article Ten of the Original Indenture. Article Ten of the Original Indenture is modified (i) by changing the title of Section 1007 of the Original Indenture to "Restrictions on Liens; Mortgage Bonds," (ii) by inserting "Part A" before the first paragraph of such Section 1007, and (iii) by adding a new and additional paragraph to Section 1007 of the Original Indenture to the end of such Section 1007, which additional paragraph shall read in its entirety as follows:

"Part B.

So long as any of the securities remain outstanding, the Company will not issue any additional mortgage bonds under the Indenture of Mortgage and Deed of Trust of Arkla, Inc. dated as September 1, 1953, as supplemented, or the Indenture of Mortgage and Deed of Trust of Entex, Inc. dated as of June 30, 1970, as supplemented, assumed by the Company upon the merger of Entex, Inc. with and into the Company on February 2, 1988 (together the "Mortgage Indentures") or have outstanding mortgage bonds under the Mortgage Indentures in excess of the aggregate principal amount thereof outstanding on September 30, 1988 or extend the stated maturities or sinking fund redemption dates (beyond their original stated dates) of outstanding mortgage bonds under the Mortgage Indentures; provided, however, that the Company may issue mortgage bonds under the Mortgage Indentures upon registration of transfer or exchange of mortgage bonds under the Mortgage Indentures

or in replacement of mutilated, destroyed, lost or stolen mortgage bonds or in respect of the unredeemed portion of any series of mortgage bonds under the Mortgage Indentures partially called for redemption, in each case as provided in the Mortgage Indentures."

Except for the foregoing addition to Section 1007 of the Original Indenture, such Section 1007 shall remain in full force and effect.

ARTICLE 2

PARTICULAR REPRESENTATIONS AND COVENANTS OF THE COMPANY

Section 2.1 Authority of the Issuer. The Company is duly authorized under the laws of the State of Delaware and all other applicable laws to execute and deliver this First Supplemental Indenture, and all corporate action on its part required for the execution and delivery of this First Supplemental Indenture has been duly and effectively taken.

Section 2.2 Truth of Recitals and Statements. The Company warrants that the recitals of fact and statements contained in this First Supplemental Indenture are true and correct, and that the recitals of fact and statements contained in all certificates and other documents furnished thereunder will be true and correct.

ARTICLE 3

CONCERNING THE TRUSTEE

Section 3.1 Acceptance of Trusts. The Trustee accepts the trusts hereunder and agrees to perform the same, but only upon the terms and conditions set forth in the Original Indenture and in this First Supplemental Indenture, to all of which the Issuer and the respective Holders of Securities at any time outstanding agree by their acceptance thereof.

Section 3.2 No Responsibility of Trustee for Recitals, etc. The recitals and statements contained in this First Supplemental Indenture shall be taken as the recitals and statements of the Company, and the Trustee assumes no responsibility for the correctness of the same. The Trustee

makes no representations as to the validity or sufficiency of this First Supplemental Indenture.

ARTICLE 4

MISCELLANEOUS PROVISIONS

Section 4.1 Relation to the Indenture. The provisions of this First Supplemental Indenture shall become effective immediately upon the execution and delivery hereof. This First Supplemental Indenture is executed as and shall constitute an indenture supplemental to the Original Indenture. All the terms and provisions herein contained shall form a part of the Indenture for all purposes as fully and with the same effect as if all such terms and provisions had been set forth in the Original Indenture and each and every term and condition contained in the Original Indenture shall apply to this First Supplemental Indenture with the same force and effect as if the same were in this First Supplemental Indenture set forth in full, with such omissions, variations and modifications thereof as may be appropriate to make each such term and condition conform to this First Supplemental Indenture. The Original Indenture is hereby ratified and confirmed and shall remain and continue in full force and effect in accordance with the terms and provisions thereof, as supplemented and amended by this First Supplemental Indenture and the Original Indenture and this First Supplemental Indenture shall be read, taken and construed together as one instrument. This First Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

Section 4.2 Trust Indenture Act. If any provision of this First Supplemental Indenture limits, qualifies or conflicts with any other provision of this First Supplemental Indenture or any provision of the Original Indenture which is required to be included by any of the provisions of Sections 310 to 317 inclusive of the Trust Indenture Act of 1939, such required provision shall control.

Section 4.3 Meaning of Terms. Any term used in this First Supplemental Indenture which is defined in the Original Indenture shall have the meaning specified in the Original Indenture, unless the context shall otherwise require.

Section 4.4 Counterparts. This First Supplemental Indenture may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument.

IN WITNESS WHEREOF, the parties have caused this First Supplemental Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

ARKLA, INC.

By: /s/ WILLIAM H. KELLY

William H. Kelly
Senior Vice President &
Chief Financial Officer

Attest:

/s/ B. D. KLINE
- - ---
B. D. Kline
Vice President - Finance,
Secretary & Treasurer

(CORPORATE SEAL)

CITIBANK, N.A., as Trustee

By: /s/ P. DEFELICE

Name: P. DeFelice
Title: Vice President

Attest:

/s/ LAWRENCE OLSEN
- - ---
Name: Lawrence Olsen
Title: Trust Officer

(CORPORATE SEAL)

STATE OF LOUISIANA Section
Section
PARISH OF CADDO Section

On this 14thday of October, 1988 before me personally came WILLIAM H. KELLY, to me known, who, being by me duly sworn, did depose and say that he is Senior Vice President & Chief Financial Officer of ARKLA, INC., one of the corporations described in and which executed the foregoing instrument; that he knows the corporate seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

(NOTARIAL SEAL)

LOIS S. ALEXANDER

Notary Public
Commission Expires:

LOIS S. ALEXANDER
Notary Public
Caddo Parish, Louisiana
MY COMMISSION IS PERMANENT

STATE OF NEW YORK Section
Section
COUNTY OF NEW YORK Section

On this 17th day of October , 1988, before me personally came P. DeFelice, to me known, who, being by me duly sworn, did depose and say that he is Vice President of CITIBANK, N.A., one of the corporations described in and which executed the foregoing instrument; that he knows the corporate seal of said corporation; that the seal affixed to the said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

(NOTARIAL SEAL)

JANETTE C. AUSTIN

Notary Public
Commission Expires:

JANETTE C. AUSTIN
Notary Public, State of New York
No. 24-4932390
Qualified in Kings County
Certificate Filed in New York County
Commission Expires Aug. 3, 1989

EXHIBIT 4a3

==========

ARKLA, INC.

TO

CITIBANK, N.A., Trustee

SECOND SUPPLEMENTAL INDENTURE

Dated as of November 15, 1989

SUPPLEMENTING AND AMENDING THE

INDENTURE DATED AS OF DECEMBER 1, 1986

==========

SECOND SUPPLEMENTAL INDENTURE, dated as of November 15, 1989, between ARKLA, INC., a corporation duly organized and existing under the laws of the State of Delaware (herein called the "Company"), having its principal office at 525 Milam Street, Shreveport, Louisiana 71101 and at 400 East Capitol Street, Little Rock, Arkansas 72202, and CITIBANK, N.A., a national banking association, as Trustee (herein called the "Trustee").

R E C I T A L S

WHEREAS, to provide for its lawful corporate purposes the Company has duly authorized the issue from time to time of its debentures, notes or other evidences of unsecured indebtedness, which are to be issued in one or more series (the "Securities"); the Company has heretofore made, executed and delivered to the Trustee its Indenture dated as of December 1, 1986 and its First Supplemental Indenture, dated as of September 30, 1988, (collectively, the "Indenture"); and

WHEREAS, the Board of Directors of the Company has determined that it is desirable to add an additional covenant of the Company to Article Ten of the Indenture solely for the benefit of the Holders of each series of Securities which provides that such series will have the benefit of such covenant in which the Company will covenant and agree that each Holder of the Securities shall have the right, at such Holder's option, to require the Company to purchase all or any part of such Holder's Securities, at the option of such Holder, on a specified date if certain events occur and certain conditions specified in this Supplemental Indenture are met; and

WHEREAS, Section 901 of Article Nine of the Original Indenture provides that under certain conditions the Company and Trustee, may, without the consent of the Holders of Securities, from time to time and at any time, enter into an indenture or indentures supplemental thereto, inter alia, (a) to add to the covenants of the Company for the benefit of the Holders of all or any series of Securities (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Company; or (b) to add any additional Events of Default; and

WHEREAS, all the requirements prescribed by law and by the Certificate of Incorporation of the Company have been fully complied with and all conditions and requirements necessary to authorize the execution, acknowledgment and delivery of this Second Supplemental Indenture and duly and legally effect the modifications and alterations of the Indenture provided for in this Second Supplemental Indenture, and to make the Indenture as supplemented and amended by this Second Supplemental Indenture, a valid, binding and legal instrument for the benefit of the Holders of Securities, have been complied with;

NOW, THEREFORE, THIS SECOND SUPPLEMENTAL INDENTURE WITNESSETH that for and in consideration of the premises and the acceptances or purchases of the Securities by the Holders thereof, the Company and the Trustee mutually covenant and agree for the equal and proportionate benefit of all Holders of the Securities or of series thereof, as follows:

ARTICLE I

MODIFICATION OF THE INDENTURE

SECTION 1.1 SUPPLEMENT TO ARTICLE TEN OF THE INDENTURE. Article Ten of the Indenture is modified by adding a new and additional Section to the Indenture, which additional Section shall read in its entirety as follows:

SECTION 1013. Put Right of Holders Upon a Designated Event and a Rating Decline.

If the terms of any series of Securities provides that such series shall have the benefit of the following covenant, the Company hereby agrees as follows:

In the event that there occurs at any time prior to any date specified in the terms of such series both (a) a Designated Event (as hereinafter defined) with respect to the Company and (b) a Rating Decline (as hereinafter defined), each Holder of the Securities shall have the right, at such Holder's option, to require the Company to purchase all or any part of such Holder's Securities on the date ("Repurchase Date") that is 100 days after the last to occur of public notice of the Designated Event and the Rating Decline, at 100% of the principal amount thereof, plus accrued interest to the Repurchase Date.

On or before the twenty-eighth day after the last to occur of public notice of the occurrence of a Designated Event and the Rating Decline, the Company is obligated to notify the Trustee of such events, and promptly thereafter to mail, or cause to be mailed, first-class, postage prepaid, to all Holders of the Securities, at the address of record of such Holder, a notice regarding the Designated Event, the Rating Decline and the repurchase right. The notice shall state the Repurchase Date, the date by which the repurchase right must be exercised, the applicable price for such Securities and the procedure which the Holder must follow to exercise this right. To exercise this right, the Holder of such Securities must deliver at least ten days prior to the Repurchase Date written notice to the Company (or an agent designated by the Company for such purpose and notified to the Trustee and the Holders)

of the Holder's exercise of such right, the name in which the Securities were registered, and the principal amount to be repurchased, together with the Securities with respect to which the right is being exercised, duly endorsed for transfer to the Company. Such written notice shall be irrevocable. Securities repurchased pursuant to this section shall be delivered to the Trustee and cancelled as provided in Section 309 of the Indenture.

As used herein, a "Designated Event" shall be deemed to have occurred at such a time as (i) a "person" or "group" (within the meaning of Section 13 (d) (3) of the Securities Exchange Act of 1934, as amended (the 1934 Act")) becomes the "beneficial owner" (as defined in Rule 13d-3 under the 1934 Act) of more than 30% of the total voting power of all classes of stock then outstanding of the Company normally entitled to vote in elections of directors ("Voting Stock"); or (ii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Company's Board of Directors (together with any new director whose election by the Company's Board of Directors or whose nomination for election by the Company's shareholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the directors then in office; or (iii) the Company consolidates with or merges into another corporation or conveys, transfers or leases all or substantially all of its assets to any person, or any corporation consolidates with or merges into the Company, in either event pursuant to a transaction in which Voting Stock of the Company is changed into or exchanged for cash, securities or other property, provided that such transaction (a) between the Company and its Subsidiaries or between Subsidiaries or (b) involving the exchange of the Company's Voting Stock as consideration in the acquisition of another business or businesses (without change or exchange of the Company's outstanding Voting Stock into or for cash, securities or other property) shall be excluded from the operation of this clause (iii); or (iv) the Company, one or more employee benefit plans ("Employee Benefit Plans") as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended, maintained by the Company or any Subsidiary thereof, or any Subsidiary purchases or otherwise acquires, directly or indirectly, beneficial ownership of Voting Stock of the Company if, after giving effect to such purchase or acquisition, the Company (together with such Employee Benefit Plans and such Subsidiaries) acquires 20% or more of the Company's Voting Stock within any 12-month period; or (v) on any date (a

"Calculation Date") the Company makes any distribution or distributions of cash, property or securities (other than regular dividends, and distributions of capital stock of the Company) to holders of Voting Stock of the Company or the Company, any Employee Benefit Plans or any Subsidiary purchases or otherwise acquires beneficial ownership of Voting Stock of the Company and the sum of the fair market value of such distribution or purchase, plus the fair market value of all other such distributions and purchases which have occurred during the preceding 12-month period, is at least 20% of the fair market value of the outstanding Voting Stock of the Company. The percentage in clause (v) above is calculated on such Calculation Date by determining the percentage of the fair market value of the Company's outstanding Voting Stock as of such Calculation Date which is represented by the fair market value of the distributions and purchases which have occurred on such date and adding to that percentage all of the percentages which have been similarly calculated on the Calculation Dates of all such distributions and purchases during the preceding 12-month period.

As used herein, a "Rating Decline" shall be deemed to have occurred if on any date within the 90-day period following public notice of the occurrence of a Designated Event (which period shall be extended so long as the rating of the Securities is under publicly announced consideration for possible downgrade by a Rating Agency (as hereinafter defined) (i) in the event the Securities are rated by one or both Rating Agencies on the Rating Date (as hereinafter defined) as Investment Grade (as hereinafter defined), the rating of the Securities by such Rating Agency or Rating Agencies shall fall below Investment Grade, or (ii) in the event the Securities are rated by both Rating Agencies on the Rating Date below Investment Grade, the rating of the Securities by either Rating Agency shall be at least one Full Rating Category (as hereinafter defined) below the rating of the Securities by such Rating Agency on the Rating Date.

As used herein, "Rating Agency" shall mean Standard & Poor's Corporation and its successors ("S&P"), and Moody's Investors Service, Inc. and its successors ("Moody's"), or if S&P or Moody's or both shall not make a rating on the Securities publicly available, a nationally recognized statistical rating agency or agencies, as the case may be, selected by the Company which shall be substituted for S&P or Moody's or both, as the case may be; "Investment Grade" shall mean BBB- or higher by S&P or Baa3 or higher by Moody's or the equivalent of such ratings by S&P or Moody's or by any other Rating Agency selected as provided above, and "Rating Date" shall mean the date which

is 121 days prior to public notice of the occurrence of a Designated Event.

As used herein, the term "Full Rating Category" shall mean (i) with respect to S&P, any of the following categories: BB, B, CCC, CC and C, (ii) with respect to Moody's, any of the following categories: Ba, B, Caa, Ca and C and (iii) with respect to any other Rating Agency, the equivalent of any such category of S&P or Moody's used by such other Rating Agency. In determining whether the rating of the Securities has decreased by the equivalent of one Full Rating Category, gradation within Full Rating Categories (+ and - for S&P; 1, 2, and 3 for Moody's; or the equivalent gradation for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from BB+ to BB-, or from BB to B+, will constitute a decrease of less than one Full Rating Category).

Default in the performance or breach of this covenant with respect to Securities of any series entitled to the benefits of this covenant shall be an Event of Default with respect to all series of Securities entitled to the benefits of this covenant pursuant to Section 501(7) of the Indenture following the continuance of such default or breach for a period of 90 days after the date on which written notice specifying such failure, stating that such notice is a "Notice of Default" hereunder and demanding that the Company remedy the same shall have been given to the Company by the Trustee, or to the Company and the Trustee by the Holders of not less than 25% in aggregate principal amount of all series of Securities entitled to the benefits of this covenant at the time Outstanding.

The Company may omit in any particular instance to comply with any term, provision or condition set forth in this covenant, with respect to the Securities of any series entitled to the benefits of this covenant if before the time for such compliance the Holders of at least 66 2/3% in aggregate principal amount of the Outstanding Securities of such series shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

ARTICLE II

PARTICULAR REPRESENTATIONS AND COVENANTS
OF THE COMPANY

SECTION 2.1 AUTHORITY OF THE ISSUER. The Company is duly authorized under the laws of the State of Delaware and all other applicable laws to execute and deliver this Second Supplemental Indenture, and all corporate action on its part required for the execution and delivery of this Second Supplemental Indenture has been, duly and effectively taken.

SECTION 2.2 TRUTH OF RECITALS AND STATEMENTS. The Company warrants that the recitals of fact and statements contained in this Second Supplemental Indenture are true and correct, and that the recitals of fact and statements contained in all certificates and other documents furnished thereunder will be true and correct.

ARTICLE III

CONCERNING THE TRUSTEE

SECTION 3.1 ACCEPTANCE OF TRUSTS. The Trustee accepts the trusts hereunder and agrees to perform the same, but only upon the terms and conditions set forth in the Indenture and in this Second Supplemental Indenture, to all of which the Issuer and the respective Holders of Securities at any time outstanding agree by their acceptance thereof.

SECTION 3.2 NO RESPONSIBILITY OF TRUSTEE FOR RECITALS, ETC. The recitals and statements contained in this Second Supplemental Indenture shall be taken as the recitals and statements of the Company, and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representations as to the validity or sufficiency of this second Supplemental Indenture.

ARTICLE IV

MISCELLANEOUS PROVISIONS

SECTION 4.1 RELATION TO THE INDENTURE. The provisions of this second Supplemental Indenture shall become effective immediately upon the execution and delivery hereof. This Second Supplemental Indenture is executed as and shall constitute an indenture supplemental to the Indenture. All the terms and provisions herein contained shall form a part of the indenture for all purposes as fully and with the same effect as if all such terms and provisions had been set forth in the Indenture and each and every term and condition contained in the Indenture shall apply to this Second Supplemental Indenture with the same force and effect as if the same were in this

Second Supplemental Indenture set forth in full, with such omissions, variations and modifications thereof as may be appropriate to make each such term and condition conform to this Second Supplemental Indenture. The Indenture is hereby ratified and confirmed and shall remain and continue in full force and effect in accordance with the terms and provisions thereof, as supplemented and amended by this Second Supplemental Indenture and the Indenture and this Second Supplemental Indenture shall be read, taken and construed together as one instrument. This Second Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 4.2 TRUST INDENTURE ACT. If any provision of this Second Supplemental Indenture limits, qualifies or conflicts with any other provision of this Second Supplemental Indenture or any provision of the Indenture which is required to be included by any of the provisions of Sections 310 to 317 inclusive of the Trust Indenture Act of 1939, such required provision shall control.

SECTION 4.3 MEANING OF TERMS. Any term used in this Second Supplemental Indenture which is defined in the Indenture shall have the meaning specified in the Indenture, unless the context shall otherwise require.

SECTION 4.4 COUNTERPARTS. This Second Supplemental Indenture may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument.

IN WITNESS WHEREOF, the parties have caused this Second Supplemental Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

Attest:	ARKLA, INC.
/s/ B. D. KLINE	/s/ JIM WILHITE
B. D. Kline Vice President-Finance, Secretary and Treasurer	Name: Jim Wilhite Title: Vice Chairman of the Board
Attest:	CITIBANK, N.A., as Trustee
PAM C. REBUCCI	/s/ P. DEFELICE
Name: Pam C. Rebucci Title: Trust Officer	Name: P. DeFelice Title: Vice President

(CORPORATE SEAL)

STATE OF LOUISIANA

PARISH OF CADDO

On this 21 day of November, 1989 before me personally came Jim Wilhite, to me known, who, being by me duly sworn, did depose and say that he is Vice Chairman of ARKLA, INC., one of the corporations described in and which executed the foregoing instrument; that he knows the corporate seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

(NOTARIAL SEAL)

LOIS S. ALEXANDER

Notary Public
Commission Expires:

STATE OF NEW YORK

COUNTY OF NEW YORK

On this 22 day of November, 1989 before me personally came P. DeFelice, to me known, who, being by me duly sworn, did depose and say that he is Vice President of CITIBANK, N.A., one of the corporations described in and which executed the foregoing instrument; that he knows the corporate seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

(NOTARIAL SEAL)

ENZO L. CARBOCCI

Notary Public
Commission Expires:

ENZO . CARBOCCI
Notary Public, State of New York
No. 43-5605595
Qualified in Richmond County
Certificate Filed in New York County
Term Expires March 30, 1990

EXHIBIT 4a4

THIRD SUPPLEMENTAL INDENTURE

This Third Supplemental Indenture, dated as of August 6, 1997 (this "Third Supplemental Indenture"), among Houston Lighting & Power Company, a Texas corporation ("HL&P"), HI Merger, Inc., a Delaware corporation ("HI Merger"), NorAm Energy Corp., a Delaware corporation and successor in interest to Arkla, Inc. (the "Company"), and Citibank, N.A., as Trustee (the "Trustee"), supplements the Indenture dated as of December 1, 1986 (the "Indenture") between the Company and the Trustee, as supplemented by the First Supplemental Indenture, dated as of September 30, 1988 (the "First Supplemental Indenture"), between the Company and the Trustee, and the Second Supplemental Indenture, dated as of November 15, 1989 (the "Second Supplemental Indenture"), between the Company and the Trustee.

RECITALS

WHEREAS, pursuant to an Agreement and Plan of Merger dated as of August 11, 1996, as amended by the Amendment to Agreement and Plan of Merger dated as of October 23, 1996 (the "Merger Agreement"), among Houston Industries Incorporated, a Texas corporation ("HI"), HL&P, HI Merger and the Company, HI will be merged with and into HL&P, with HL&P to be the surviving corporation and renamed "Houston Industries Incorporated" ("Houston"), and the Company will be merged with and into HI Merger (the "NorAm Merger"), with HI Merger to be the surviving corporation and renamed "NorAm Energy Corp.," as a result of which each outstanding share of NorAm Common Stock will be converted into either cash or shares of common stock, no par value, of Houston ("Houston Common Stock"), as set forth in the Merger Agreement;

WHEREAS, in connection with the NorAm Merger, HL&P, the Company and HI Merger have duly determined to make, execute and deliver to the Trustee this Third Supplemental Indenture in order to reflect the results of the NorAm Merger as required by the Indenture, as supplemented by the First Supplemental Indenture and the Second Supplemental Indenture;

WHEREAS, pursuant to Section 801 of the Indenture, HI Merger, as the surviving corporation of the NorAm Merger, is required to expressly assume, by an indenture supplemental to the Indenture, the due and punctual payment of the principal of (and premium, if any) and interest on all the Securities and the performance of every covenant of the Indenture, as supplemented by the First Supplemental Indenture and the Second Supplemental Indenture, on the part of the Company to be performed or observed.

WHEREAS, Section 901 of the Indenture provides that under certain conditions the Company and the Trustee, without the consent of the Holders of Securities, at any time and from time to time, may enter into an indenture supplemental to the Indenture,

inter alia, to evidence the succession of another corporation to the Company and the assumption by any such successor of the covenants of the Company under the Indenture, as supplemented by the First Supplemental Indenture and the Second Supplemental Indenture, and in the Securities.

NOW, THEREFORE, THIS THIRD SUPPLEMENTAL INDENTURE WITNESSETH:

In consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and to comply with Sections 801 and 901 of the Indenture, the parties hereto hereby agree, for the equal and proportionate benefit of the respective Holders from time to time of the Securities, as follows:

Section 1. Defined Terms. Capitalized terms used and not otherwise defined herein have the respective meanings assigned to such terms in the Indenture, as supplemented by the First Supplemental Indenture and the Second Supplemental Indenture.

Section 2. Succession by Merger.

(1) As of the effective time of the NorAm Merger, HI Merger shall become the successor to the Company for all purposes of the Indenture and HI Merger hereby expressly assumes the due and punctual payment of the principal of (and premium, if any) and interest on all the Securities and the performance of every covenant of the Indenture, as supplemented by the First Supplemental Indenture and the Second Supplemental Indenture and by this Third Supplemental Indenture, on the part of the Company to be performed or observed.

(2) Concurrently with the execution and delivery of this Supplemental Indenture, the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel as required by Sections 102 and 801 of the Indenture.

Section 3. Ratification. The Indenture as hereby supplemented is in all respects ratified and confirmed by each of the parties hereto, and all of the rights and powers created thereby or thereunder shall be and remain in full force and effect.

Section 4. Governing Law. The laws of the State of New York shall govern this Third Supplemental Indenture without regard to principles of conflict of laws.

Section 5. Successors. All agreements of the parties hereto in this Third Supplemental Indenture shall bind their respective successors.

Section 6. Multiple Counterparts. The parties hereto may sign multiple counterparts of this Third Supplemental Indenture. Each signed counterpart shall be deemed an original, but all of them together represent the same agreement.

IN WITNESS WHEREOF, the undersigned have caused this Third Supplemental Indenture to be executed by its duly authorized officer as of the date first above written.

HOUSTON LIGHTING & POWER COMPANY

By: /s/ HUGH RICE KELLY

Name: Hugh Rice Kelly
Title: Executive Vice President, General Counsel and Corporate Secretary

Attest:

By: /s/ RUFUS S. SCOTT

Name: Rufus S. Scott
Title: Assistant Corporate Secretary

HI MERGER, INC.

By: STEPHEN W. NAEVE

Name: Stephen W. Naeve
Title: President

Attest:

By: /s/ RICHARD B. DAUPHIN

Name: Richard B. Dauphin
Title: Assistant Corporate Secretary

NORAM ENERGY CORP.

By: /s/ T. MILTON HONEA

Name: T. Milton Honea
Title: President

Attest:

By: /s/ HUBERT GENTRY, JR.

Name: Hubert Gentry, Jr.
Title: Secretary

CITIBANK, N.A.
as Trustee

By: /s/ CAROL NG

Name: Carol Ng
Title: Vice President

Attest:

By: /s/ ARTHUR W. ASLANIAN

Name: Arthur W. Aslanian
Title: Vice President

EXHIBIT 4b2

SUPPLEMENTAL INDENTURE

This Supplemental Indenture, dated as of August 6, 1997 (this "Supplemental Indenture"), among Houston Lighting & Power Company, a Texas corporation ("HL&P"), HI Merger, Inc., a Delaware corporation ("HI Merger"), NorAm Energy Corp., a Delaware corporation and successor in interest to Arkla, Inc. (the "Company"), and The Chase Manhattan Bank (National Association), as Trustee (the "Trustee"), supplements the Indenture dated as of March 1, 1987 (the "Indenture") between the Company and the Trustee under which the Company's 6% Convertible Subordinated Debentures due 2012 (the "Debentures") were issued and are outstanding.

RECITALS

WHEREAS, pursuant to the terms of the Indenture the Debentures were convertible into shares of common stock, par value $.625 per share ("NorAm Common Stock"), of the Company prior to the Effective Time (as defined below);

WHEREAS, pursuant to an Agreement and Plan of Merger dated as of August 11, 1996 , as amended by the Amendment to Agreement and Plan of Merger dated as of October 23, 1996 (the "Merger Agreement"), among Houston Industries Incorporated, a Texas corporation ("HI"), HL&P, HI Merger and the Company, HI will be merged with and into HL&P, with HL&P to be the surviving corporation and renamed "Houston Industries Incorporated" ("Houston"), and the Company will be merged with and into HI Merger (the "NorAm Merger"), with HI Merger to be the surviving corporation and renamed "NorAm Energy Corp.," as a result of which each outstanding share of NorAm Common Stock will be converted into either cash or shares of common stock, no par value, of Houston ("Houston Common Stock"), as set forth in the Merger Agreement. The cash amount per share of NorAm Common Stock will be $16.00 plus two percent (simple interest) per quarter from May 11, 1997 until the closing of the NorAm Merger (the "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 "Stock Consideration"). The actual number will depend upon the average closing price of HI common stock on the New York Stock Exchange during a 20-trading-day period commencing 25 trading days prior to the closing date of the NorAm Merger. The Merger Agreement contains certain provisions generally designed to result in 50% of the outstanding shares of NorAm Common Stock being converted into the Cash Consideration and 50% of the outstanding shares of NorAm Common Stock being converted into the Stock Consideration;

WHEREAS, in connection with the NorAm Merger, HL&P, the Company and HI Merger have duly determined to make, execute and deliver to the Trustee this Supplemental Indenture in order to reflect the results of the NorAm Merger as required by the Indenture;

WHEREAS, pursuant to Section 801 of the Indenture, HI Merger, as the surviving corporation of the NorAm Merger, is required to expressly assume, by an indenture supplemental to the Indenture, the due and punctual payment of the principal of (and premium, if any) and interest on all the Debentures and the performance of every covenant of the Indenture on the part of the Company to be performed or observed and to provide for the conversion rights of Holders of Debentures in accordance with Section 1306 of the Indenture;

WHEREAS, Section 1306 of the Indenture requires that, as a result of the NorAm Merger, a Holder of a Debenture shall have the right to convert the Debenture into the consideration receivable upon the NorAm Merger by a holder of shares of NorAm Common Stock into which the Debenture could have been converted immediately prior to the NorAm Merger;

WHEREAS, Section 2.2(f) of the Merger Agreement provides that following the effective time of the NorAm Merger (the "Effective Time"), each outstanding Debenture will be convertible into the amount of Stock Consideration (and cash in lieu of fractional shares of Houston Common Stock) and Cash Consideration which the Holder thereof would have had the right to receive after the Effective Time if such Debenture had been converted immediately prior to the Effective Time and the Holder thereof had made the Stock Election (as defined in the Merger Agreement) and received the Stock Consideration with respect to 50% of the shares of NorAm Common Stock issuable upon such conversion of the Holder's Debentures and made the Cash Election (as defined in the Merger Agreement) and received the Cash Consideration with respect to the remaining 50% of such NorAm Common Stock; and

WHEREAS, Section 901 of the Indenture provides that under certain conditions the Company and the Trustee, without the consent of the Holders of Debentures, from time to time and at any time, may enter into an indenture supplemental to the Indenture, inter alia, to evidence the succession of another corporation to the Company and the assumption by any such successor of the covenants of the Company under the Indenture and in the Debentures;

NOW, THEREFORE, THIS SUPPLEMENTAL INDENTURE WITNESSETH:

In consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and to comply with Sections 801, 901 and 1306 of the Indenture, the parties hereto hereby agree, for the equal and proportionate benefit of the respective Holders from time to time of the Debentures, as follows:

Section 1. Defined Terms. Capitalized terms used and not otherwise defined herein have the respective meanings assigned to such terms in the Indenture.

Section 2. Succession by Merger.

(1) As of the Effective Time, HI Merger shall become the successor to the Company for all purposes of the Indenture and HI Merger hereby expressly assumes the due and punctual payment of the principal of (and premium, if any) and interest on all the Debentures and the performance of every covenant of the Indenture, as supplemented by this Supplemental Indenture, on the part of the Company to be performed or observed.

(2) Concurrently with the execution and delivery of this Supplemental Indenture, the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel as required by Section 801(3) of the Indenture.

Section 3. Conversion Privilege. The Holder of each Debenture outstanding as of the Effective Time (and each subsequent Holder) shall have the right from and after the Effective Time to convert such Debenture only into the amount, subject to the adjustments provided for in Article Thirteen of the Indenture, of Stock Consideration (and cash in lieu of fractional shares of Houston Common Stock) and Cash Consideration which the Holder thereof would have had the right to receive after the Effective Time if such Debenture had been converted immediately prior to the Effective Time and the Holder thereof had made the Stock Election (as defined in the Merger Agreement) and received the Stock Consideration with respect to 50% of the shares of NorAm Common Stock issuable upon such conversion of the Holder's Debentures and made the Cash Election (as defined in the Merger Agreement) and received the Cash Consideration with respect to the remaining 50% of such NorAm Common Stock.

Section 4. Additional Covenants of Houston. HL&P hereby (i) agrees to (A) reserve and keep available out of its authorized but unissued capital stock, solely for the purpose of issuance upon the conversion of Debentures as provided in this Supplemental Indenture and the Indenture, a number of shares of Houston Common Stock sufficient to issue the Stock Consideration upon the conversion of all outstanding Debentures and (B) issue and cause to be delivered in accordance with this Supplemental Indenture, the Indenture and the Company's instructions, the Stock Consideration and the Cash Consideration upon conversion of any Debenture and (ii) warrants that all shares of Houston Common Stock that may be issued upon the conversion of any Debenture, when so issued, shall be duly authorized, validly issued, fully paid and nonassessable.

Section 5. Ratification. The Indenture as hereby supplemented is in all respects ratified and confirmed by each of the parties hereto, and all of the rights and powers created thereby or thereunder shall be and remain in full force and effect.

Section 6. Governing Law. The laws of the State of New York shall govern this Supplemental Indenture without regard to principles of conflict of laws.

Section 7. Successors. All agreements of the parties hereto in this Supplemental Indenture shall bind their respective successors.

Section 8. Multiple Counterparts. The parties hereto may sign multiple counterparts of this Supplemental Indenture. Each signed counterpart shall be deemed an original, but all of them together represent the same agreement.

IN WITNESS WHEREOF, the undersigned have caused this Supplemental Indenture to be executed by its duly authorized officer as of the date first above written.

HOUSTON LIGHTING & POWER COMPANY

By: /s/ HUGH RICE KELLY

Name: Hugh Rice Kelly
Title: Executive Vice President, General Counsel and Corporate Secretary

Attest:

By: /s/ RUFUS S. SCOTT

Name: Rufus S. Scott
Title: Assistant Corporate Secretary

HI MERGER, INC.

By: STEPHEN W. NAEVE

Name: Stephen W. Naeve
Title: President

Attest:

By: /s/ RICHARD B. DAUPHIN

Name: Richard B. Dauphin
Title: Assistant Corporate Secretary

NORAM ENERGY CORP.

By: /s/ T. MILTON HONEA

Name: T. Milton Honea
Title: President

Attest:

By: /s/ HUBERT GENTRY, JR.

Name: Hubert Gentry, Jr.
Title: Secretary

CHASE MANHATTAN BANK
(National Association), Trustee

By: /s/ R. J. HALLERAN

Name: R. J. Halleran
Title: Second Vice President

Attest:

By: /s/ JOHN T. NEEDHAM, JR.

Name: John T. Needham, Jr.
Title: Trust Officer

EXHIBIT 4c2

SUPPLEMENTAL INDENTURE

This Supplemental Indenture, dated as of August 6, 1997 (this "Supplemental Indenture"), among Houston Lighting & Power Company, a Texas corporation ("HL&P"), HI Merger, Inc., a Delaware corporation ("HI Merger"), NorAm Energy Corp., a Delaware corporation and successor in interest to Arkla, Inc. (the "Company"), and Citibank, N.A., as Trustee (the "Trustee"), supplements the Indenture dated as of April 15, 1990 (the "Indenture") between the Company and the Trustee.

RECITALS

WHEREAS, pursuant to an Agreement and Plan of Merger dated as of August 11, 1996, as amended by the Amendment to Agreement and Plan of Merger dated as of October 23, 1996 (the "Merger Agreement"), among Houston Industries Incorporated, a Texas corporation ("HI"), HL&P, HI Merger and the Company, HI will be merged with and into HL&P, with HL&P to be the surviving corporation and renamed "Houston Industries Incorporated" ("Houston"), and the Company will be merged with and into HI Merger (the "NorAm Merger"), with HI Merger to be the surviving corporation and renamed "NorAm Energy Corp.," as a result of which each outstanding share of NorAm Common Stock will be converted into either cash or shares of common stock, no par value, of Houston ("Houston Common Stock"), as set forth in the Merger Agreement;

WHEREAS, in connection with the NorAm Merger, HL&P, the Company and HI Merger have duly determined to make, execute and deliver to the Trustee this Supplemental Indenture in order to reflect the results of the NorAm Merger as required by the Indenture;

WHEREAS, pursuant to Section 8.01 of the Indenture, HI Merger, as the surviving corporation of the NorAm Merger, is required to expressly assume, by an indenture supplemental to the Indenture, the due and punctual payment of the principal of (and premium, if any) and interest on all the Securities and the performance of every covenant of the Indenture on the part of the Company to be performed or observed; and

WHEREAS, Section 9.01 of the Indenture provides that under certain conditions the Company and the Trustee, without the consent of the Holders of Securities, from time to time and at any time, may enter into an indenture supplemental to the Indenture, inter alia, to evidence the succession of another corporation to the Company and the assumption by any such successor of the covenants of the Company under the Indenture, and in the Securities;

NOW, THEREFORE, THIS SUPPLEMENTAL INDENTURE WITNESSETH:

In consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and to comply with Sections 8.01 and 9.01 of the Indenture, the parties hereto hereby agree, for the equal and proportionate benefit of the respective Holders from time to time of the Securities, as follows:

Section 1. Defined Terms. Capitalized terms used and not otherwise defined herein have the respective meanings assigned to such terms in the Indenture.

Section 2. Succession by Merger.

(1) As of the effective time of the NorAm Merger, HI Merger shall become the successor to the Company for all purposes of the Indenture and HI Merger hereby expressly assumes the due and punctual payment of the principal of (and premium, if any) and interest on all the Securities and the performance of every covenant of the Indenture, as supplemented by this Supplemental Indenture, on the part of the Company to be performed or observed.

(2) Concurrently with the execution and delivery of this Supplemental Indenture, the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel as required by Sections 1.02 and 8.01 of the Indenture.

Section 3. Ratification. The Indenture, as hereby supplemented is in all respects ratified and confirmed by each of the parties hereto, and all of the rights and powers created thereby or thereunder shall be and remain in full force and effect.

Section 4. Governing Law. The laws of the State of New York shall govern this Supplemental Indenture without regard to principles of conflict of laws.

Section 5. Successors. All agreements of the parties hereto in this Supplemental Indenture shall bind their respective successors.

Section 6. Multiple Counterparts. The parties hereto may sign multiple counterparts of this Supplemental Indenture. Each signed counterpart shall be deemed an original, but all of them together represent the same agreement.

IN WITNESS WHEREOF, the undersigned have caused this Supplemental Indenture to be executed by its duly authorized officer as of the date first above written.

HOUSTON LIGHTING & POWER COMPANY

By: /s/ HUGH RICE KELLY

Name: Hugh Rice Kelly
Title: Executive Vice President, General Counsel and Corporate Secretary

Attest:

By: /s/ RUFUS S. SCOTT

Name: Rufus S. Scott
Title: Assistant Corporate Secretary

HI MERGER, INC.

By: STEPHEN W. NAEVE

Name: Stephen W. Naeve
Title: President

Attest:

By: /s/ RICHARD B. DAUPHIN

Name: Richard B. Dauphin
Title: Assistant Corporate Secretary

NORAM ENERGY CORP.

By: /s/ T. MILTON HONEA

Name: T. Milton Honea
Title: President

Attest:

By: /s/ HUBERT GENTRY, JR.

Name: Hubert Gentry, Jr.
Title: Secretary

CITIBANK, N.A.
as Trustee

By: /s/ CAROL NG

Name: Carol Ng
Title: Vice President

Attest:

By: /s/ ARTHUR W. ASLANIAN

Name: Arthur W. Aslanian
Title: Vice President

EXHIBIT 4d3

SECOND SUPPLEMENTAL INDENTURE

This Second Supplemental Indenture, dated as of August 6, 1997 (this "Second Supplemental Indenture"), among Houston Lighting & Power Company, a Texas corporation ("HL&P"), HI Merger, Inc., a Delaware corporation ("HI Merger"), NorAm Energy Corp., a Delaware corporation (the "Company"), and The Bank of New York, as Trustee (the "Trustee"), supplements the Indenture dated as of June 15, 1996 (the "Indenture") between the Company and the Trustee, as supplemented by the First Supplemental Indenture dated as of June 15, 1996 ("First Supplemental Indenture") between the Company and the Trustee under which the Company's 6 1/4% Convertible Junior Subordinated Debentures (the "Debentures") were issued and are outstanding.

RECITALS

WHEREAS, pursuant to the terms of the Indenture the Debentures were convertible into shares of common stock, par value $.625 per share ("NorAm Common Stock"), of the Company prior to the Effective Time (as defined below);

WHEREAS, pursuant to an Agreement and Plan of Merger dated as of August 11, 1996, as amended by the Amendment to Agreement and Plan of Merger dated as of October 23, 1996 (the "Merger Agreement"), among Houston Industries Incorporated, a Texas corporation ("HI"), HL&P, HI Merger and the Company, HI will be merged with and into HL&P, with HL&P to be the surviving corporation and renamed "Houston Industries Incorporated" ("Houston"), and the Company will be merged with and into HI Merger (the "NorAm Merger"), with HI Merger to be the surviving corporation and renamed "NorAm Energy Corp.," as a result of which each outstanding share of NorAm Common Stock will be converted into either cash or shares of common stock, no par value, of Houston ("Houston Common Stock"), as set forth in the Merger Agreement. The cash amount per share of NorAm Common Stock will be $16.00 plus two percent (simple interest) per quarter from May 11, 1997 until the closing of the NorAm Merger (the "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 "Stock Consideration"). The actual number will depend upon the average closing price of HI common stock on the New York Stock Exchange during a 20-trading-day period commencing 25 trading days prior to the closing date of the NorAm Merger. The Merger Agreement contains certain provisions generally designed to result in 50% of the outstanding shares of NorAm Common Stock being converted into the Cash Consideration and 50% of the outstanding shares of NorAm Common Stock being converted into the Stock Consideration;

WHEREAS, in connection with the NorAm Merger, HL&P, the Company and HI Merger have duly determined to make, execute and deliver to the Trustee this Second Supplemental Indenture in order to reflect the results of the NorAm Merger as required by the Indenture;

WHEREAS, pursuant to Section 10.1 of the Indenture, HI Merger, as the surviving corporation of the NorAm Merger, is required to expressly assume, by an indenture supplemental to the Indenture, the due and punctual payment of the principal of (and premium, if any) and interest on all the Debentures in accordance with the terms of the Debentures, according to their tenor and the due and punctual performance of all covenants and conditions of the Indenture on the part of the Company to be performed or observed and to provide for the conversion rights of Holders of Debentures in accordance with Section 7.4 of the First Supplemental Indenture;

WHEREAS, Section 7.4 of the First Supplemental Indenture requires that, as a result of the NorAm Merger, a Holder of a Debenture shall have the right to convert the Debenture into the consideration receivable upon the NorAm Merger by a holder of shares of NorAm Common Stock into which the Debenture could have been converted immediately prior to the NorAm Merger;

WHEREAS, Section 2.2(f) of the Merger Agreement provides that following the effective time of the NorAm Merger (the "Effective Time"), each outstanding Debenture will be convertible into the amount of Stock Consideration (and cash in lieu of fractional shares of Houston Common Stock) and Cash Consideration which the Holder thereof would have had the right to receive after the Effective Time if such Debenture had been converted immediately prior to the Effective Time and the Holder thereof had made the Stock Election (as defined in the Merger Agreement) and received the Stock Consideration with respect to 50% of the shares of NorAm Common Stock issuable upon such conversion of the Holder's Debentures and made the Cash Election (as defined in the Merger Agreement) and received the Cash Consideration with respect to the remaining 50% of such NorAm Common Stock; and

WHEREAS, Section 9.1 of the indenture provides that under certain conditions the Company and the Trustee, without the consent of the Holders of Debentures, from time to time and at any time, may enter into an indenture supplemental to the Indenture, inter alia, to evidence the succession of another corporation to the Company and the assumption by any such successor of the covenants of the Company under the Indenture, as supplemented by the First Supplemental Indenture, and in the Debentures;

NOW, THEREFORE, THIS SECOND SUPPLEMENTAL INDENTURE WITNESSETH:

In consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and to comply with Sections 9.1 and 10.1 of the Indenture and Section 7.4 of the First Supplemental Indenture, the parties hereto hereby agree, for the equal and proportionate benefit of the respective Holders from time to time of the Debentures, as follows:

Section 1. Defined Terms. Capitalized terms used and not otherwise defined herein have the respective meanings assigned to such terms in the Indenture and the First Supplemental Indenture.

Section 2. Succession by Merger.

(1) As of the Effective Time, HI Merger shall become the successor to the Company for all purposes of the Indenture, as supplemented by the First Supplemental Indenture and HI Merger hereby expressly assumes the due and punctual payment of the principal of (and premium, if any) and interest on all the Debentures and the performance of every covenant of the Indenture, as supplemented by the First Supplemental Indenture and by this Second Supplemental Indenture, on the part of the Company to be performed or observed.

(2) Concurrently with the execution and delivery of this Second Supplemental Indenture, the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel as required by Sections 9.5 and 13.7 of the Indenture.

Section 3. Conversion Privilege. The Holder of each Debenture outstanding as of the Effective Time (and each subsequent Holder) shall have the right from and after the Effective Time to convert such Debenture only into the amount, subject to the adjustments provided for in Article Seven of the First Supplemental Indenture, of Stock Consideration (and cash in lieu of fractional shares of Houston Common Stock) and Cash Consideration which the Holder thereof would have had the right to receive after the Effective Time if such Debenture had been converted immediately prior to the Effective Time and the Holder thereof had made the Stock Election (as defined in the Merger Agreement) and received the Stock Consideration with respect to 50% of the shares of NorAm Common Stock issuable upon such conversion of the Holder's Debentures and made the Cash Election (as defined in the Merger Agreement) and received the Cash Consideration with respect to the remaining 50% of such NorAm Common Stock.

Section 4. Additional Covenants of Houston. HL&P hereby (i) agrees to (A) reserve and keep available out of its authorized but unissued capital stock, solely for the purpose of issuance upon the conversion of Debentures as provided in this Second Supplemental Indenture and the First Supplemental Indenture, a number of shares of Houston Common Stock sufficient to issue the Stock Consideration upon the conversion of all outstanding Debentures and (B) issue and cause to be delivered in accordance with this Second Supplemental Indenture, the First Supplemental Indenture and the Company's instructions, the Stock Consideration and the Cash Consideration upon conversion of any Debenture and (ii) warrants that all shares of Houston Common Stock that may be issued upon the conversion of any Debenture, when so issued, shall be duly authorized, validly issued, fully paid and nonassessable.

Section 5. Ratification. The Indenture, as supplemented by the First Supplemental Indenture, and as hereby supplemented is in all respects ratified and confirmed by each of the parties hereto, and all of the rights and powers created thereby or thereunder shall be and remain in full force and effect.

Section 6. Governing Law. The laws of the State of New York shall govern this Second Supplemental Indenture without regard to principles of conflict of laws.

Section 7. Successors. All agreements of the parties hereto in this Second Supplemental Indenture shall bind their respective successors.

Section 8. Multiple Counterparts. The parties hereto may sign multiple counterparts of this Second Supplemental Indenture. Each signed counterpart shall be deemed an original, but all of them together represent the same agreement.

IN WITNESS WHEREOF, the undersigned have caused this Second Supplemental Indenture to be executed by its duly authorized officer as of the date first above written.

HOUSTON LIGHTING & POWER COMPANY

By: /s/ HUGH RICE KELLY

Name: Hugh Rice Kelly
Title: Executive Vice President,
General Counsel
and Corporate Secretary

Attest:

By: /s/ RUFUS S. SCOTT

Name: Rufus S. Scott
Title: Assistant Corporate Secretary

HI MERGER, INC.

By: STEPHEN W. NAEVE

Name: Stephen W. Naeve
Title: President

Attest:

By: /s/ RICHARD B. DAUPHIN

Name: Richard B. Dauphin
Title: Assistant Corporate Secretary

NORAM ENERGY CORP.

By: /s/ T. MILTON HONEA

Name: T. Milton Honea
Title: President

Attest:

By: /s/ HUBERT GENTRY, JR.

Name: Hubert Gentry, Jr.
Title: Secretary

THE BANK OF NEW YORK
Trustee

By: /s/ PAUL J. SCHMALZEL

Name: Paul J. Schmalzel
Title: Assistant Vice President

Attest:

By: /s/ VIVIAN GEORGES

Name: Vivian Georges
Title: Assistant Vice President

EXHIBIT 12

NORAM ENERGY CORP. AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(IN THOUSANDS OF DOLLARS)

	1997(A)	1996	1995	1994	1993
Income from Continuing Operations.....	$ 66,722	$ 95,138	$ 65,529	$ 51,291	$ 39,935
Income Taxes for Continuing Operations.....	55,781	66,352	55,379	34,372	46,481
Non-Utility Interest Capitalized.....	0	0	0	0	0
	122,503	161,490	120,908	85,663	86,416
Fixed Charges:					
Interest.....	126,912	130,592	155,584	167,384	169,857
Amortization of Debt Discount and Expense.....	3,086	3,582	3,483	3,312	3,421
Portion of Rents Considered to Represent an Interest Factor.....	7,988	10,083	16,215	11,292	10,402
Total Fixed Charges.....	137,986	144,257	175,282	181,988	183,680
Earnings.....	$260,489	$305,747	$296,190	$267,651	$270,096
Ratio of Earnings to Fixed Charges.....	1.89	2.12	1.69	1.47	1.47

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(A) 1997 amounts combine NorAm's pre-Merger amounts for the seven months ended July 31, 1997 with NorAm's post-merger amounts for the five months ended December 31, 1997, including purchase accounting adjustments reflecting a new basis of accounting.

EXHIBIT 23(a)

CONSENT OF INDEPENDENT AUDITORS

NORAM ENERGY CORP.:

We consent to the incorporation by reference in NorAm Energy Corp.'s Registration Statement on Form S-3 No. 333-41017 of our report dated February 20, 1998 (relating to the consolidated financial statements of NorAm Energy Corp. as of and for the five months ended December 31, 1997 and for the seven months ended July 31, 1997) appearing in this Combined Annual Report on Form 10-K of Houston Industries Incorporated and NorAm Energy Corp. for the year ended December 31, 1997.

DELOITTE & TOUCHE LLP

HOUSTON, TEXAS
MARCH 23, 1998

EXHIBIT 23(b)

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statement of NorAm Energy Corp. on Form S-3 (File No. 333-41017), of our report dated March 25, 1997, on our audits of the consolidated financial statements and financial statement schedule of NorAm Energy Corp. and Subsidiaries as of December 31, 1996, and for the years ended December 31, 1996 and 1995, which report is included in this Annual Report on Form 10-K.

COOPERS & LYBRAND L.L.P.

Houston, Texas
March 23, 1998

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE NORAM ENERGY CORP. FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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NORAM ENERGY CORP.
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DEC-31-1997
DEC-31-1997
PER-BOOK
2,702,489
2,220,252
1,147,299
69,056
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