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

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarter Ended September 30, 1997

Commission File Number 1-13265

NorAm Energy Corp.*
(Formerly HI Merger, Inc.)
(Exact name of registrant as specified in its charter)

Delaware	76-0511406
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1111 Louisiana Houston, Texas	77002
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (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

NorAm Energy Corp. meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format specified in such instruction.

All 1,000 shares of NorAm Energy Corp. common stock outstanding are owned by Houston Industries Incorporated.

* On August 6, 1997, NorAm Energy Corp. merged with and into HI Merger, Inc., a subsidiary of Houston Industries Incorporated. HI Merger, Inc. was renamed NorAm Energy Corp. effective upon consummation of the merger.

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Part 1. FINANCIAL INFORMATION

Item 1. Financial Statements

NorAm Energy Corp. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)
(unaudited)

ASSETS	Current NorAm September 30, 1997	Predecessor NorAm December 31, 1996
Property, Plant and Equipment		
Natural gas distribution	$ 1,287,648	$ 2,158,013
Interstate pipelines	1,291,202	1,685,959
Energy marketing and gathering	161,546	252,509
Other	14,810	20,150
	2,755,206	4,116,631
Less accumulated depreciation and amortization	22,001	1,675,576
	2,733,205	2,441,055
Investments and Other Assets		
Goodwill, net	1,955,788	466,938
Other	216,352	178,307
	2,172,140	645,245
Current Assets		
Cash and cash equivalents	21,860	27,981
Accounts and notes receivable, net, principally customer	577,196	696,982
Accounts receivable from parent	29,395	--
Deferred income taxes	15,804	10,495
Inventories		
Gas in underground storage	88,991	70,651
Materials and supplies	32,743	30,595
Other	912	631
Deferred gas cost	13,448	231
Gas purchased in advance of delivery	6,200	6,200
Other current assets	24,501	14,561
	811,050	858,327
Deferred Charges, net	63,653	72,850
TOTAL ASSETS	$ 5,780,048	$ 4,017,477

See Notes to Consolidated Financial Statements.

NorAm Energy Corp. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)
(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY	Current NorAm September 30, 1997	Predecessor NorAm December 31, 1996
Stockholders' Equity		
Common stock	$ 1	$ 86,193
Paid-in capital	2,460,233	1,001,053
Accumulated deficit	(6,646)	(286,703)
Unrealized investment gain, net of tax	3,809	5
Total Stockholders' Equity	2,457,397	800,548
NorAm-Obligated Mandatorily Redeemable Convertible Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debentures of NorAm	39,117	167,768
Long-Term Debt, Less Current Maturities	1,185,875	1,054,221
Current Liabilities		
Current maturities of long-term debt	134,236	277,000
Notes payable to banks	180,000	115,000
Receivables facility	295,000	--
Accounts payable, principally trade	456,535	762,164
Interest payable	22,387	31,928
Taxes accrued	35,933	62,766
Customers' deposits	34,698	35,711
Other current liabilities	101,095	113,628
	1,259,884	1,398,197
Other Liabilities and Deferred Credits		
Accumulated deferred income taxes	491,790	320,506
Other	345,985	276,237
	837,775	596,743
Commitments and Contingencies		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 5,780,048	$ 4,017,477

See Notes to Consolidated Financial Statements.

NorAm Energy Corp. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
(in thousands of dollars)
(unaudited)

	Current NorAm	Predecessor NorAm			
	Two Months Ended September 30, 1997	One Month Ended July 31, 1997	Seven Months Ended July 31, 1997	Three Months Ended September 30, 1996	Nine Months Ended September 30, 1996
Operating Revenues	$ 749,412	$ 396,868	$ 3,337,048	$ 899,283	$ 3,208,271
Operating Expenses					
Natural gas purchased, net	528,669	334,176	2,700,400	688,499	2,401,038
Operation and maintenance, cost of sales and other	159,554	52,696	306,309	131,416	385,056
Depreciation and amortization	31,798	12,456	84,901	36,109	107,681
Taxes other than income taxes	17,767	8,419	73,142	24,625	87,263
Merger transaction costs	843	15,918	17,256	--	--
Early retirement and severance	--	--	--	--	22,344
	738,631	423,665	3,182,008	880,649	3,003,382
Operating Income (Loss)	10,781	(26,797)	155,040	18,634	204,889
Other (Income) and Deductions					
Interest expense, net	18,471	10,665	78,660	30,976	101,683
Distributions on subsidiary trust securities	--	903	6,317	2,703	3,128
Other, net	(258)	(1,115)	(7,210)	637	6,390
	18,213	10,453	77,767	34,316	111,201
Income (Loss) Before Income Taxes	(7,432)	(37,250)	77,273	(15,682)	93,688
Income Tax Expense (Benefit)	(786)	(14,013)	31,398	(7,499)	38,339
Income (Loss) Before Extraordinary Item	(6,646)	(23,237)	45,875	(8,183)	55,349
Extraordinary Gain (Loss) on Early Retirement of Debt, less Taxes	--	--	237	477	(4,256)
Net Income (Loss)	(6,646)	(23,237)	46,112	(7,706)	51,093
Preferred Dividend Requirement	--	--	--	--	3,597
Earnings Available to Common Stock	$ (6,646)	$ (23,237)	$ 46,112	$ (7,706)	$ 47,496

See Notes to Consolidated Financial Statements.

NorAm Energy Corp. and Subsidiaries
STATEMENTS OF CONSOLIDATED CASH FLOWS
Increase (Decrease) in Cash and Cash Equivalents
(in thousands of dollars)
(unaudited)

	Current NorAm	Predecessor NorAm	
	Two Months Ended September 30, 1997	Seven Months Ended July 31, 1997	Nine Months Ended September 30, 1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (6,646)	$ 46,112	$ 51,093
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortization	31,798	84,901	107,681
Deferred income taxes	8,748	14,589	21,579
Early retirement and severance, less cash costs	--	--	12,941
Extraordinary (gain) loss, less taxes	--	(237)	4,256
Other	3,398	1,846	2,675
Changes in certain assets and liabilities, net of non-cash transactions:			
Accounts and notes receivable, net	11,805	313,586	201,295
Inventories	(30,749)	9,980	(42,894)
Deferred gas costs	(5,502)	(7,715)	5,613
Other current assets	(8,812)	(1,128)	(4,939)
Accounts payable, principally trade	(63,621)	(224,590)	(154,045)
Interest payable	(6,938)	(2,603)	(8,524)
Taxes accrued	(9,440)	(17,393)	(8,777)
Customers' deposits	(70)	(943)	(1,519)
Other current liabilities	10,100	(22,633)	(330)
Recoveries under gas contract disputes	500	5,500	8,800
Net cash provided by (used in) operating activities	(65,429)	199,272	194,905
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of NorAm, net of cash acquired	(1,422,672)	--	--
Capital expenditures	(28,740)	(88,638)	(116,200)
Other, net	(275)	(6,424)	17,500
Net cash used in investing activities	(1,451,687)	(95,062)	(98,700)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash portion of capital contribution from Houston Industries	1,426,067	--	--
Retirements and reacquisitions of long-term debt	(488)	(230,667)	(394,997)
Issuance of bank term loan	--	150,000	--
Public issuance of common stock	--	--	108,963
Issuance of subsidiary trust securities	--	--	167,756
Other interim debt borrowings (repayments)	107,500	(42,500)	48,000
Increase in receivables facility	19,000	41,000	--
Other issuance of common stock	--	--	7,572
Common and preferred stock dividends	--	(19,281)	(30,937)
Decrease in overdrafts	(13,103)	(27,348)	(1,526)
Net cash provided by (used in) financing activities	1,538,976	(128,796)	(95,169)
Net increase (decrease) in cash and cash equivalents	21,860	(24,586)	1,036
Cash and cash equivalents - beginning of period	--	27,981	13,311
Cash and cash equivalents - end of period	$ 21,860	$ 3,395	$ 14,347

For supplemental cash flow information,see Note D.

See Notes to Consolidated Financial Statements.

NorAm Energy Corp. and Subsidiaries
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(dollars in thousands)
(unaudited)

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Paid-in Capital	Accumulated Deficit	Unrealized Investment Gain (Loss), Net of Tax	Total
PREDECESSOR NORAM:								
Balance at January 1, 1996	124,803,693	$ 78,002	2,600,000	$ 130,000	$ 880,885	$ (336,940)	$ 15,316	$ 767,263
Net Income						51,093		51,093
Cash Dividends:								
Preferred stock - $1.50 per share						(3,597)		(3,597)
Common stock - $0.21 per share						(27,340)		(27,340)
Change in Market Value of Investment, net of tax							(7,179)	(7,179)
Conversion to Subordinated Debentures			(2,600,000)	(130,000)				(130,000)
Issuance of Common Stock under Direct Stock Purchase Plan	739,235	462			7,110			7,572
Public Issuance of Common Stock	11,500,000	7,188			101,775			108,963
Other Issuances	177,982	111			4,626			4,737
Balance at September 30, 1996	137,220,910	$ 85,763	--	--	$ 994,396	$ (316,784)	$ 8,137	$ 771,512
Balance at January 1, 1997	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 Investment, 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 ACQUISITION):								
Adjustments due to Acquisition:								
Eliminate Predecessor NorAm Balances	(149,683,962)	(93,552)			(1,138,274)	259,872	(5,879)	(977,833)
Capital contribution from Houston Industries	1,000	1			2,460,233			2,460,234
Net Loss						(6,646)		(6,646)
Change in Market Value of Investment, net of tax							3,809	3,809
Balance at September 30, 1997	1,000	$ 1	--	--	$2,460,233	$ (6,646)	$ 3,809	$2,457,397

See Notes to Consolidated Financial Statements.

NorAm Energy Corp. and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

A. BASIS OF PRESENTATION

The accompanying interim consolidated financial statements and these notes (collectively, "the Interim Financial Statements") include the accounts of NorAm Energy Corp. and its subsidiaries, all of which are wholly owned (collectively, "NorAm"). The Interim Financial Statements are unaudited. In addition, certain information and notes that typically are included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in reliance upon Securities and Exchange Commission regulations applicable to interim financial reporting. The Interim Financial Statements should be read in conjunction with NorAm's 1996 Annual Report on Form 10-K (File No. 1-3751) ("NorAm's Form 10-K"). For additional information on significant accounting policies, see Note C.

The Interim Financial Statements reflect all normal recurring adjustments that are, in the opinion of Management, necessary to present fairly the financial position and results of operations for the respective periods. Amounts reported in the Consolidated Statements of Income are not necessarily indicative of amounts expected for a full year period due to the effects of, among other things, (i) seasonal temperature variations in energy consumption and (ii) the timing of maintenance and other expenditures. In addition, certain amounts from the previous year have been reclassified to conform to the current presentation. Such reclassifications do not affect earnings.

The acquisition of NorAm by Houston Industries Incorporated ("Houston Industries") on August 6, 1997 created a new basis of accounting, resulting in new carrying values for certain of NorAm's assets, liabilities and equity, see Note B.

B. ACQUISITION OF NORAM ENERGY CORP. BY HOUSTON INDUSTRIES

On August 6, 1997 (the "Acquisition Date"), pursuant to an Agreement and Plan of Merger dated August 11, 1996, NorAm merged with and into a wholly-owned subsidiary of Houston Industries, thereby becoming a wholly-owned subsidiary of Houston Industries (the "Merger"). Houston Industries is a holding company with headquarters in Houston, Texas, whose principal pre-merger operations were conducted by Houston Lighting & Power Company, the electric utility serving a 5,000 square mile area of the Texas Gulf Coast, including Houston, Texas.

The Merger was recorded as a purchase for accounting purposes and, accordingly, Houston Industries has preliminarily assigned its purchase price of approximately $2.4 billion to the assets and liabilities of NorAm at the Acquisition Date based on their respective estimated fair market values (with the residual assigned to goodwill), resulting in a "new basis" of accounting. In the Interim 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 "Predecessor NorAm". Predecessor NorAm's Consolidated Statement of Income for the seven months ended July 31, 1997 includes certain adjustments from August 1, 1997 to the closing date for pre-merger transactions.

NorAm's Consolidated Balance Sheets for periods after the Acquisition Date reflect adjustments associated with Houston Industries' assignment of purchase price, principally consisting of (1) the revaluation of certain property, plant and equipment and long-term debt to its 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 pushed down to NorAm. Shares of NorAm's Common Stock are pledged as collateral under a $1.64 billion loan arrangement entered into by a subsidiary of Houston Industries in connection with the Merger. In addition, the common stock of any subsidiary of NorAm which is considered to be significant in relation to Houston Industries is pledged.

NorAm's Statements of Consolidated Income for periods after the Acquisition Date are principally affected by (1) the impact of 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 incremental depreciation associated with the net increase in property, plant and equipment, (3) the amortization (to interest expense) of the revaluation of long-term debt, (4) the removal of the amortization previously associated with the pension and postretirement obligations as described preceding and (5) 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 pushed down to NorAm. For these reasons, among others, certain financial information for periods before and after the Acquisition Date is not comparable.

If the Merger had occurred at the beginning of the nine-month periods ended September 30, 1997 and 1996, pro forma net income would have been $33.1 million and $37.2 million, respectively. However, these results are not necessarily indicative of the results which would have been obtained had the Merger actually taken place on the dates indicated.

C. ACCOUNTING FOR RISK MANAGEMENT ACTIVITIES

NorAm's significant accounting policies are described in Note 1 of Notes to Consolidated Financial Statements included in NorAm's Form 10-K.

NorAm utilizes a variety of derivative financial instruments, including swaps and exchange-traded futures and options (collectively, "Derivatives"), as part of its overall risk-management strategy and for limited trading purposes as discussed below. To reduce the risk from market fluctuations in the price of electric power, natural gas and related transportation, NorAm enters into futures transactions, swaps and options (collectively, "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). NorAm 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 has utilized such derivatives to effectively fix the interest rate on debt expected to be issued for refunding purposes. In addition, NorAm maintains a portfolio of Energy Derivatives (with certain limitations as described below) for trading purposes.

NorAm's accounting for activities involving derivative financial instruments is in accordance with the concepts established in Statement of Financial Accounting Standards ("SFAS") No. 80, "Accounting for Futures Contracts", American Institute of Certified Public Accountants Statement of Position 86-2, "Accounting for Options" and various pronouncements of the Emerging Issues Task Force of the Financial Accounting Standards Board (the "FASB").

Unrealized changes in the market value of Energy Derivatives utilized as hedges are not generally recognized in NorAm's consolidated financial statements. The cash impacts associated with such derivatives are (1) recognized as an asset or liability in the case of options or other derivatives for which money is exchanged either (i) at the inception of the position or (ii) as a result of margin calls, (2) included in the measurement of the transaction that satisfies the commitment in the case of firm commitments and (3) included in the measurement of the subsequent transaction in the case of anticipated transactions, whether or not the Energy Derivative position is closed out before the date of the anticipated transaction. 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 captions (1) "Natural gas purchased, net" in the case of natural gas transactions and (2) "Operation and maintenance, cost of sales and other" in the case of electric power transactions. 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.

In the case of interest-rate swaps associated with existing obligations, cash flows and expense 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. If it is determined that the anticipated issuance of debt will not occur, or that the issuance will be for an amount or a term different from that anticipated at the inception of the hedge, either all or a pro rata portion (as applicable) of the deferred gain or loss is recognized concurrently with such determination.

For transactions involving either Energy Derivatives or interest-rate derivatives, hedge accounting is applied only if the derivative (i) reduces the 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 variation from 80% to 125% for hedge designation. If and when correlation ceases to exist at an acceptable level, hedge accounting ceases and "mark-to-market" accounting (as described below) is applied.

NorAm maintains a portfolio of Energy Derivatives for trading purposes, representing a small portion of its overall derivative positions. In addition, the total underlying notional amounts of natural gas or electric power associated with these trading activities represents a small fraction of NorAm's notional transaction volume in these energy commodities for any given period. This trading portfolio of Energy Derivatives is "marked-to-market" on a daily basis, with unrealized gains and losses included in income as they occur, reported in NorAm's consolidated financial statements under the same line items as the impacts of the energy hedging transactions as described above.

D. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

In the accompanying consolidated financial statements, all highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents. Following is selected supplemental cash flow information:

	Current NorAm	Predecessor NorAm	
(millions of dollars)	Two Months Ended September 30, 1997	Seven Months Ended July 31, 1997	Nine Months Ended September 30, 1996
Cash interest payments, net of Capitalized interest	$ 25.6	$ 67.1	$ 110.2
Net income tax payments	$ 13.0	$ 20.9	$ 21.6

The aggregate consideration paid to Predecessor NorAm stockholders in connection with the Merger consisted of 47.8 million shares of Houston Industries' common stock valued at $1 billion as well as cash payments of $1.4 billion.

A significant portion ($139 million) of NorAm-Obligated Mandatorily Redeemable Convertible Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debentures of NorAm (the "Subsidiary Trust Securities") was converted to NorAm Common Stock in non-cash transactions prior to the Merger, see Note I.

E. COMPONENTS OF CERTAIN FINANCIAL STATEMENT LINE ITEMS

Following are components of and information concerning certain line items included in the accompanying consolidated financial statements:

Early Retirement and Severance
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 pre-tax charge of approximately $22.3 million (approximately $13.4 million after tax), which pre-tax amount is reported in the accompanying Consolidated Statements of Income as "Early retirement and severance".

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

Investments and Other Assets
At November 4, 1997, the market value of NorAm's investment in Itron, Inc. common stock had declined to $30.8 million and there was an unrealized loss of $3.0 million (net of tax of $2.0 million) as compared to an unrealized gain of $3.8 million at September 30, 1997. As discussed under "Discontinued Operations" included with "Item 7. Management Analysis" in NorAm's 1996 Annual Report on Form 10-K, the market for this security has limited liquidity.

F. ACCOUNTS RECEIVABLE FACILITY

As further discussed in Note 3 of Notes to Consolidated Financial Statements included in NorAm's Form 10-K, under an August 1996 agreement (the "Receivables Facility"), NorAm transfers (to a third party) an undivided interest in a pool of accounts receivable, limited to a maximum of $300 million, with limited recourse and subject to a floating interest rate provision. The total interest in NorAm's receivables transferred pursuant to the Receivables Facility but not yet collected was approximately $295.0 million and $235.0 million at September 30, 1997 and December 31, 1996, respectively. "Interest expense, net" for the two months ended September 30, 1997, and the one month and seven months ended July 31, 1997 includes approximately $2.8 million, $1.4 million and $8.3 million, respectively, of costs associated with the Receivables Facility. Corresponding amounts included in "Other, net" for the three months and nine months ended September 30, 1996 were $2.2 million and $7.0 million, respectively. At September 30, 1997, approximately $338.5 million of NorAm's receivables were sold or collateral for amounts received pursuant to the Receivables Facility.

NorAm adopted SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" effective as of January 1, 1997 (SFAS No. 125 does not allow retroactive application). Therefore, for periods prior to January 1, 1997, (1) amounts transferred pursuant to the Receivables Facility are included with "Cash Flows From Operating Activities" in NorAm's Statements of Consolidated Cash Flows, (2) receivables transferred pursuant to the Receivables Facility are deducted from "Accounts and notes receivable, net, principally customer" in NorAm's Consolidated Balance Sheet and (3) the costs associated with utilization of the Receivables Facility are reported as a component of "Other, net" in NorAm's Statements of Consolidated Income. Subsequent to January 1, 1997, (1) amounts transferred pursuant to the Receivables Facility are included with "Cash Flows from Financing Activities" in NorAm's Statements of Consolidated Cash Flows, (2) amounts received pursuant to the Receivables Facility are not deducted from "Accounts and notes receivable, net, principally customer" in NorAm's Consolidated Balance Sheet but, rather, such amounts are reported as a current liability, and (3) the costs associated with utilization of the Receivables Facility are included with "Interest expense, net" in NorAm's Statements of Consolidated Income.

Therefore, due to the different balance sheet classification of amounts transferred pursuant to the Receivables Facility as described above, the cash flow impacts reported as "Accounts and notes receivable, net", and "Increase in receivables facility" in NorAm's Statements of Consolidated Cash Flows for the seven months ended July 31, 1997 are not equal to the changes in the associated balance sheet captions from December 31, 1996 to July 31, 1997. Instead, such impacts have been calculated as if the change in balance sheet classification had been in effect at the beginning of the period, resulting in cash flow impacts which are not affected by the change in classification.

G. SHORT-TERM FINANCING

On May 15, 1997, NorAm obtained an unsecured, 18-month bank term loan (the "Term Loan") in the amount of $150.0 million. The Term Loan carries a floating interest rate based on three-month LIBOR (approximately 6.78% at inception and subject to adjustment based on NorAm's credit rating) and allows prepayment without penalty. NorAm also entered into two interest rate swaps which fixed the floating interest rate at approximately 6.45%. Proceeds from the Term Loan were utilized to repay maturing debt in April 1997.

H. INTEREST RATE SWAPS

In March 1997, NorAm closed out the $200.0 million of interest rate swaps which had been serving as hedges of an anticipated debt refinancing associated with the maturing debt in April 1997 in the amount of $225.0 million, receiving cash proceeds of approximately $8.7 million. Approximately $1.0 million of such proceeds is serving to reduce the effective interest rate on the Term Loan, with the balance recorded as "Other, net" in March 1997 in the accompanying Statements of Consolidated Income.

I. NORAM'S SUBSIDIARY TRUST SECURITIES

After the July 31, 1997 announcement of the closing date of the Merger, a significant number of the holders of the Subsidiary Trust Securities elected to exercise their right to convert such securities into shares of NorAm Common Stock, resulting in the issuance of approximately 11.4 million incremental common shares. As of November 4, 1997, 421,885 shares of the Subsidiary Trust Securities remained outstanding, representing approximately $21.1 million of liquidation value.

J. COMMITMENTS AND CONTINGENCIES

Note 1 (Accounting Policies and Components of Certain Financial Statement Line Items) and Note 7 (Commitments and Contingencies) of Notes to Consolidated Financial Statements included in NorAm's Form 10-K relate to material contingencies. These notes, as updated by notes contained in this 10-Q and the notes contained in NorAm's Quarterly Report on Form 10-Q for the periods ended March 31, 1997 and June 30, 1997 are incorporated herein by reference.

Item 2. Management's Narrative and Analysis of Results of Operations

General

NorAm principally conducts operations in the natural gas industry, including gathering, transmission, marketing, storage and distribution which, collectively, account for in excess of 90% of NorAm's total revenues, income or loss and identifiable assets. NorAm also makes sales of electricity, non-energy sales and provides certain non-energy services, principally to certain of its retail gas distribution customers. The following discussion and analysis should be read in combination with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of NorAm's Form 10-K, the financial statements and notes contained in Item 8 of NorAm's Form 10-K and the Interim Financial Statements contained in this Form 10-Q.

Effective August 6, 1997, NorAm became a wholly-owned subsidiary of Houston Industries, see Note 1 in NorAm's Form 10-K and Note B of the accompanying Notes to Consolidated Financial Statements.

Statements contained in this Form 10-Q 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 expectations 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, (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 NorAm with the Securities and Exchange Commission. When used in NorAm's documents or oral presentations, the words "anticipate", "estimate", "expect", "objective", "projection", "forecast", "goal" or similar words are intended to identify forward-looking statements.

Regulatory Matters

In August 1995, Minnegasco filed a rate case requesting an annual increase of $24.3 million. In December 1996, the Minnesota Public Utilities Commission (the "MPUC") granted Minnegasco an annual rate increase of $13.3 million compared to the $17.8 million that had been put into effect in October 1995 as an interim rate increase, subject to refund. Consistent with the Minnesota Supreme Court's decision in June 1996, the MPUC decided that Minnegasco's unregulated appliance sales and service operations were not required to pay a fee for goodwill associated with its usage of the Minnegasco name, even though the MPUC had imputed revenues associated with such goodwill in Minnegasco's 1993 rate case. The MPUC did not, however, allow Minnegasco to recover certain gas leak costs in rates. The MPUC interim rate order was stayed pending appeal of the 1995 rate case gas leak cost issue.

In July 1997, the Minnesota Supreme Court ruled that Minnegasco was entitled to recover an amount equal to the goodwill revenues imputed as a result of the 1993 rate case. Later in July 1997, the Minnesota Court of Appeals ruled that, in Minnegasco's 1995 rate case, the MPUC must give effect to the Minnesota Supreme Court's decision that the cost of gas leak checks be included in rates. The Court of Appeals remanded the case to the MPUC for further proceedings in accordance with its decision. Minnegasco filed a motion in August to reaffirm the 1995 rate case settlement, increased by an amount equal to the annual costs of performing gas leak checks. Minnegasco asked the MPUC to reduce the 1995 interim rate refund for the gas leak costs from October 1995 through the date of the final Commission Order, as well as the imputed goodwill revenues from the 1993 rate case.

In September 1997, the MPUC issued its final order granting Minnegasco's requests. As a result, Minnegasco's annual increase resulting from its 1995 rate case is $14.9 million. Both the 1993 and 1995 Minnegasco rate cases are now final.

In April 1996, Mississippi River Transmission Corporation ("MRT") filed a general rate case with the Federal Energy Regulatory Commission (the "FERC") under Docket No. RP96-199 as required by a previous rate case settlement. In July 1997, MRT filed a comprehensive Stipulation and Agreement (the "Settlement") in its rate case resolving all issues in the proceeding. The Settlement provides for slight changes in transmission, storage and depreciation rates, but no significant overall impact. In addition, under the terms of the Settlement, MRT agreed to file another general rate case no earlier than October 1, 1999, but no later than April 1,

2001. Also as a part of the Settlement and to accommodate increased firm transportation requests, MRT filed an application (Docket No. CP97-693) to return to service, for a limited period of time, a 90-mile segment of its Main Line No. 1 which had been slated for abandonment. An order approving the application is expected in November 1997. The settlement was approved by the FERC in October 1997 and will become effective upon expiration of the rehearing period and acceptance of filings to effectuate the terms of the Settlement.

In September 1997, NorAm Gas Transmission Company ("NGT") filed an application (Docket No. CP97-724) to replace 63 miles of its North Louisiana mainline and increase delivery capacity by 170,000 MMBtu per day. NGT anticipates approval of this application in the first half of 1998.

Material Changes in the Results of Operations

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 and, accordingly, the results of operations for interim periods are not necessarily indicative of the results to be expected for an entire year. NorAm's results of operations are affected by regulatory actions (see "Regulatory Matters" in NorAm's Form 10-K and elsewhere herein), competition and, below the operating income line, by (1) the level of borrowings and interest rates thereon and (2) income tax expense. NorAm changed its business unit presentation of operating results beginning January 1, 1997 with reclassification of previously reported amounts (see "Material Changes in the Results of Operations" included with "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in NorAm's Quarterly Report on Form 10-Q for the period ended March 31, 1997).

As further discussed in Note B of the accompanying Notes to Consolidated Financial Statements, the acquisition of NorAm by Houston Industries on August 6, 1997 (the "Merger") created a new basis of accounting, resulting in new carrying values for certain of NorAm's assets, liabilities and equity. This new basis is reflected in NorAm's consolidated financial statements beginning with the date of the acquisition. In order to present data which is useful for comparative purposes, the following pro forma tabular data and related discussion have been prepared 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 which may be expected in the future.

NorAm's operations for periods after the Acquisition Date are principally affected by (1) the impact of the amortization of the newly-recognized goodwill, partially offset by the elimination of the amortization of NorAm's historical goodwill, (2) the incremental depreciation associated with the net increase in property, plant and equipment, (3) the amortization (to interest expense) of the revaluation of long-term debt, (4) the removal of the amortization previously associated with the pension and postretirement obligations and (5) the deferred income tax expense associated with these adjustments. Interest expense and related debt incurred by Houston Industries to fund the cash portion of the purchase consideration have not been pushed down to NorAm. For these reasons, among others, certain financial information for periods before and after the Acquisition Date is not comparable.

Following are selected financial and operating data, followed by a discussion of significant variances in period-to-period results:

SELECTED FINANCIAL RESULTS
(dollars in thousands)

	Actual (1) Nine Months Ended September 30, 1997	Actual (1) Nine Months Ended September 30, 1996	Pro Forma (2) Nine Months Ended September 30, 1997	Pro Forma (2) Nine Months Ended September 30, 1996	Increase (Decrease) in Net Income $	Increase (Decrease) in Net Income %
Operating Revenues						
Natural Gas Distribution	$ 1,490,020	$ 1,417,549	$ 1,490,020	$ 1,417,549	$ 72,471	5.1%
Interstate Pipelines	225,746	266,359	225,746	266,359	(40,613)	(15.2)%
Energy Marketing and Gathering	2,535,348	1,835,563	2,535,348	1,835,563	699,785	38.1%
Corporate and Other	57,517	38,369	57,517	38,369	19,148	49.9%
Elimination of Intersegment Revenues	(222,171)	(349,569)	(222,171)	(349,569)	127,398	36.4%
	4,086,460	3,208,271	4,086,460	3,208,271	878,189	27.4%
Operating Income (Loss)						
Natural Gas Distribution	105,695	111,846	92,836	95,313	(2,477)	(2.6)%
Interstate Pipelines	90,467	90,095	77,100	72,909	4,191	5.7%
Energy Marketing and Gathering	7,982	40,182	3,783	34,782	(30,999)	(89.1)%
Corporate and Other	(20,224)	(14,890)	(12,309)	(4,712)	(7,597)	(161.2)%
	183,920	227,233	161,410	198,292	(36,882)	(18.6)%
Merger Transaction Costs (3)	18,099	--	18,099	--	(18,099)	N/A
Early Retirement and Severance (4)	--	22,344	--	22,344	22,344	(100.0)%
Consolidated	165,821	204,889	143,311	175,948	(32,637)	(18.5)%
Interest Expense, Net	97,131	101,683	83,442	84,082	640	0.8%
Distributions on Subsidiary Trust Securities	6,317	3,128	1,200	594	(526)	(88.5)%
Other (Income) and Deductions	(7,468)	6,390	(7,468)	6,390	13,778	215.6%
Income Tax Expense (Benefit)	30,612	38,339	33,254	43,399	10,145	23.4%
Extraordinary (Gain) Loss, Less Taxes	(237)	4,256	(237)	4,256	4,493	105.6%
Net Income	$ 39,466	$ 51,093	$ 33,120	$ 37,227	$ (4,107)	(11.0)%

SELECTED OPERATING STATISTICS

	Actual Nine Months Ended September 30, 1997	Actual Nine Months Ended September 30, 1996	Increase (Decrease) $	Increase (Decrease) %
Natural Gas Distribution (Bcf):				
Sales:				
Residential and Commercial	219.7	230.5	(10.8)	(4.7)%
Industrial	42.6	41.8	0.8	1.9%
Transportation	30.8	32.5	(1.7)	(5.2)%
Total Throughput	293.1	304.8	(11.7)	(3.8)%
Interstate Pipelines (million MMBtu):				
Sales	13.8	28.0	(14.2)	(50.7)%
Transportation	667.2	714.2	(47.0)	(6.6)%
Elimination	(12.9)	(26.4)	13.5	51.1%
Total Throughput	668.1	715.8	(47.7)	(6.7)%
Energy Marketing and Gathering:				
Natural Gas (Bcf):				
Sales	846.0	749.8	96.2	12.8%
Transportation	17.3	19.7	(2.4)	(12.2)%
Gathering	181.5	170.0	11.5	6.8%
Total	1,044.8	939.5	105.3	11.2%
Electricity (thousand Megawatt hours)				
Wholesale Power Volume	17,660	1,335	16,325	1,222.8%

(1) Actual results for the nine months ended September 30, 1997 combine Predecessor NorAm's results for the seven months ended July 31, 1997 with Current NorAm's results for the two months ended September 30, 1997, including purchase accounting adjustments reflecting the new basis of accounting.

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

(3) Expenses associated with completion of the business combination with Houston Industries, see Note B of the accompanying Notes to Consolidated Financial Statements.

(4) Expenses associated with an early retirement and severance plan, see Note E of the accompanying Notes to Consolidated Financial Statements.

The increase of approximately $72.5 million (5.1%) in pro forma Natural Gas Distribution operating revenue for the nine months ended September 30, 1997 in comparison to the corresponding period of 1996 is almost entirely due to the increase in purchased gas cost. The 1997 average margin per unit of sales did increase, principally due to rate increases in certain jurisdictions in 1996 and 1997. However, a weather-related decline in residential and commercial sales volumes and a small increase in 1997 operating expenses caused the decrease of approximately $2.5 million (2.6%) in pro forma operating income (before the charge for early retirement and severance) for the nine months ended September 30, 1997 in comparison to the corresponding period of 1996.

Pro forma operating revenues for Interstate Pipelines decreased by $40.6 million (15.2%) for the nine months ended September 30, 1997 in comparison to the corresponding period of 1996 due to reduced sales to Natural Gas Distribution and the decrease in transportation throughput in 1996 compared to 1997. Operating margins declined only modestly because (i) current year transportation revenues for Natural Gas Distribution are at higher rates due to removal in late 1996 of a rate cap and (ii) declines in transportation volume have a less than proportional impact on margins due to Interstate Pipelines' rate design. The increase of approximately $4.2 million (5.7%) in pro forma Interstate Pipelines operating income (before the charge for early retirement and severance) for the nine months ended September 30, 1997 in comparison to the corresponding period of 1996 was principally due to reduced 1997 operating expenses associated with cost reduction initiatives implemented in first-quarter 1996, together with the 1996 incurrence of certain consulting and other non-recurring costs associated with these initiatives.

Pro forma operating revenues for Energy Marketing and Gathering ("EM&G") increased by $699.8 million (38.1%) for the nine months ended September 30, 1997 in comparison to the corresponding period of 1996 due to increased natural gas and electricity trading. Increased volumes in 1997 had minimal effect on operating income due to low operating margins in both periods. EM&G's pro forma operating income decreased by approximately $31.0 million (89.1%) for the nine months ended September 30, 1997 in comparison to the corresponding period of 1996 primarily due 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 1997 for a total of approximately $17.4 million. For additional information, see "Management Analysis - Material Changes in the Results of Continuing Operations - - Wholesale Energy Marketing" in NorAm's Form 10-K. In addition, EM&G's general and administrative expenses for 1997 increased by approximately $8 million primarily due to increased staffing and marketing activities. Partially offsetting these unfavorable impacts were increased margins from natural gas gathering and products extraction activities.

While pro forma operating revenue for "Corporate and Other" increased by $19.1 million (49.9%) from the nine months ended September 30,1996 to the corresponding period of 1997, the pro forma operating loss for "Corporate and Other" increased by $7.6 million (161.2%). This increased revenue and operating loss were principally due to 1997 increased activities and development costs associated with NorAm's utility services and consumer services businesses.

The $0.6 million (0.8%) decrease in "Interest Expense, Net" on a pro forma basis for the nine months ended September 30, 1997 in comparison to the corresponding period of 1996 reflects the impact of the inclusion, in 1997 results, of $11.0 million of expense associated with NorAm's receivable sales facility, which corresponding costs of $7.0 million are included with "Other (Income) and Deductions" in 1996. For additional information, see Note F of the accompanying Notes to Consolidated Financial Statements. After consideration of the impact of the receivable facility, the $11.6 million decrease in interest expense in 1997 reflected $5.2 million and $6.5 million of reduction due to a decrease in the average interest rate and a decrease in the average level of debt, respectively.

After adjustment for the costs associated with NorAm's receivable sales facility as described above, there was a favorable variance of $6.8 million in "Other (Income) and Deductions" on a pro forma basis from the nine months ended September 30, 1996 to the corresponding period of 1997. Substantially all of this favorable variance was due to the close-out of certain interest rate swaps. For additional information, see Note H of the accompanying Notes to Consolidated Financial Statements.

The net favorable variance of $10.1 million (23.4%) in pro forma income tax expense from the nine months ended September 30, 1996 to the corresponding period of 1997 reflects (i) a $9.5 million favorable variance due to decreased 1997 pre-tax income, and (ii) a $0.6 million favorable variance due to a decrease in the 1997 interim federal effective tax rate. The decrease in the effective tax rate for Current NorAm's actual two months ended September 30, 1997 is due to the incremental goodwill amortization of $5.8 million.

As discussed in Note C of the accompanying Notes to Consolidated Financial Statements, NorAm utilizes a variety of derivative financial instruments as part of its overall risk management strategy. In the table which follows, the term "notional amount" refers to the contract unit price times the contract volume for the relevant derivative category and, in general, such amounts are not indicative of the cash requirements associated with these derivatives. The notional amount is intended to be indicative of NorAm's 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 the majority of these derivatives are expected to be offset by changes in the value associated with the underlying physical transactions or in other derivatives. Following is certain information concerning NorAm's derivative activities:

Natural Gas Swaps (1)
(volumes in Bcfs, dollars in millions)

	Volume		
	Fixed Price Payor	Fixed Price Receiver	Estimated Mkt. Value Gain (2)
September 30, 1997	118.2	41.1	$26.0
December 31, 1996	126.6	52.9	9.7

Natural Gas Futures (3)
(volumes in Bcfs, dollars in millions)

	Purchased		Sold		
	Volume	Notional Amount	Volume	Notional Amount	Estimated Mkt. Value Gain (Loss) (2)
September 30, 1997	35.2	95.8	29.2	81.4	$1.2
December 31, 1996	23.7	64.1	13.6	40.0	0.1

(1) The financial impact of these natural gas swaps was to decrease earnings by $4.4 million and $5.9 million during the nine months ended September 30, 1997 and 1996, respectively.

(2) Represents the amount which would have been realized upon termination of the relevant derivative as of the date indicated. As further discussed in Note 7 to NorAm's Form 10-K, for swaps associated with certain agreements pursuant to which NorAm has committed to supply gas to a distribution affiliate through April 1999, no earnings impact is expected due to existing accruals. Swaps associated with these commitments and included above had a fair market value of $5.1 million at September 30, 1997.

(3) The financial impact of these natural gas futures was to decrease earnings by $18.4 million and $ 0.2 million during the nine months ended September 30, 1997 and 1996, respectively.

At September 30, 1997, NorAm held options covering the purchase of 6.7 Bcf of gas, principally in conjunction with the commitment to supply gas to a distribution affiliate as described above. As described in Note 7 to NorAm's Form 10-K, NorAm has provided an accrual for the expected total costs associated with this commitment, including the market value of the related options.

Item 3: Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Part II. Other Information

Item 1. Legal Proceedings

For a description of legal and regulatory proceedings affecting NorAm, reference is made to the information set forth in Note 7 of Notes to Consolidated Financial Statements, "Item 3. Legal Proceedings" and "Item 7. Management Analysis -- Material Changes, The Results of Operations -- Regulatory Matters in NorAm's 1996 Annual Report on Form 10-K, Notes G and H of Notes to Consolidated Financial Statements, "Item 2. Management"s Discussion and Analysis of Financial Condition and Results of Operation -- Regulatory Matters" and "Item 1. Legal Proceedings" included in NorAm's Quarterly Report on Form 10-Q for the period ended March 31, 1997 and Notes K and L of Notes to Consolidated Financial Statements, "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation -- Regulatory Matters" and "Item 1. Legal Proceedings" included in NorAm's Quarterly Report on Form 10-Q for the period ended June 30, 1997, which information is incorporated herein by reference.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 27 - Financial Data Schedule.

Exhibit 99(a) - Note 7 of Notes to Consolidated Financial Statements, "Item 3. Legal Proceedings" and "Item 7. Management Analysis -- Material Changes in the Results of Continuing Operations -- Regulatory Matters" included on page(s) 83-88, 14 and 22-24 of NorAm's 1996 Annual Report on Form 10-K.

Exhibit 99(b) - Notes G and H of Notes to Consolidated Financial Statements, "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation -- Regulatory Matters" and "Item 1. Legal Proceedings" included on page(s) 11-12, 14 and 32 of NorAm's Quarterly Report on Form 10-Q for the period ended March 31, 1997.

Exhibit 99(c) - Notes K and L of Notes to Consolidated Financial Statements, "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation -- Regulatory Matters" and "Item 1. Legal Proceedings" included on page(s) 12-14, 15 and 37 of NorAm's Quarterly Report on Form 10-Q for the period ended June 30, 1997.

(b) Reports on Form 8-K

Current Report on Form 8-K dated (1) August 6, 1997 with respect to "Item 1. Changes in Control of Registrant" announcing a change in control of NorAm resulting from its acquisition by Houston Industries effective August 6, 1997 and (2) August 18, 1997 with respect to "Item 4. Changes in Registrant's Certifying Accountants" announcing a change in NorAm's certifying accountants from Coopers & Lybrand L.L.P. to Deloitte & Touche LLP (the certifying accountants of Houston Industries) in order to consolidate the external audit functions into one audit firm.

SIGNATURE

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

NorAm Energy Corp.
(Registrant)

By: /s/ Mary P. Ricciardello

Mary P. Ricciardello
Vice President & Comptroller
(Principal Accounting Officer)

Dated: November 14, 1997

INDEX TO EXHIBITS

Exhibit Number	Description
Exhibit 27	- Financial Data Schedule.
Exhibit 99(a)	- Note 7 of Notes to Consolidated Financial Statements, "Item 3. Legal Proceedings" and "Item 7. Management Analysis" Material Changes in the Results of Continuing Operations -- Regulatory Matters" included on page(s) 83-88, 14 and 22-24 of NorAm's 1996 Annual Report on Form 10-K.
Exhibit 99(b)	- Notes G and H of Notes to Consolidated Financial Statements, "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation -- Regulatory Matters" and "Item 1. Legal Proceedings" included on page(s) 11-12, 14 and 32 of NorAm's Quarterly Report on Form 10-Q for the period ended March 31, 1997.
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OPUR1

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NORAM ENERGY CORP. FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

2-MOS
DEC-31-1997
SEP-30-1997
PER-BOOK
2,712,518
2,192,827
811,050
63,653
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5,780,048
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1,185,875
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475,000
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18,471
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(6,646)
0
5,762
(65,429)
0
0

EXHIBIT 99(A)

7. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

Following is certain information concerning the Company's obligations under operating leases:

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

Lease payments related to assets transferred under the Company's leasing arrangements (see "Other Long-Term Financing" included in Note 3) are included in the preceding table for only their primary (non-cancelable) term. Subsequent to the primary term, the Company could terminate its obligations under these arrangements by electing to purchase the relevant assets for an amount approximating fair market value. Total rental expense for all leases was $33.4 million, $48.9 million and $36.8 million in 1996, 1995 and 1994, respectively.

LETTERS OF CREDIT

At December 31, 1996, the Company was obligated under letters of credit incidental to its ordinary business operations totalling approximately $21.7 million.

INDEMNITY PROVISIONS

In June 1993, the Company completed the sale of Louisiana Intrastate Gas Corporation ("LIG"), its former subsidiary engaged in the intrastate pipeline and liquids extraction business, to Equitable Resources, Inc. In December 1992, the Company completed the sale of Arkla Exploration Company ("AEC"), its former subsidiary engaged in oil and gas exploration and production activities, to Seagull Energy Corporation. In June 1991, the Company completed the sale of Dyco Petroleum Company ("Dyco"), the oil and gas exploration and production company acquired in conjunction with the Company's acquisition of Diversified Energies Inc., to Continental Drilling Company, Inc., a subsidiary of Samson Investment Company. In each instance, the relevant sale agreement required the Company to indemnify the purchaser against certain exposures, for which the Company has established reserves based on, among other factors, its estimates of potential claims. These reserves are included in the Company's Consolidated Balance Sheet under the caption "Estimated obligations under indemnification provisions of sale agreements".

SALE OF RECEIVABLES

Certain of the Company's receivables are collateral for receivables which have been transferred pursuant to a sale of receivables facility, see "Sale of Receivables" included in Note 3.

GAS PURCHASE CLAIMS

In conjunction with settlements of "take-or-pay" claims, the Company has prepaid for certain volumes of gas, which prepayments have been recorded at their net realizable value and, to the extent that the Company is unable to realize at least the carrying amount as the gas is delivered and sold, the Company's earnings will be adversely affected, although such impact is not expected to be material. In addition to these prepayments, the Company 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. As discussed under "Credit Risk and Off-Balance-Sheet Risk" following, the Company operates an ongoing risk management program designed to eliminate or limit the Company's exposure from its obligations under these purchase/sale commitments. To the extent that the Company expects that these commitments will result in losses over the contract term, the Company has established reserves equal to such expected losses.

TRANSPORTATION AGREEMENT

The Company had an agreement ("the ANR Agreement") with ANR Pipeline Company ("ANR") which contemplated a transfer to ANR of an interest in certain of the Company'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 as a lease of capacity and, after refunds of $50 million and $34 million in 1995 and 1993, respectively, the Company currently retains $41 million (recorded as a liability) in exchange for ANR's use of 130 MMcf/day of capacity in certain of the Company'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.

CREDIT RISK AND OFF-BALANCE-SHEET RISK

The Company's gas supply, marketing, gathering and transportation activities subject the Company's earnings to variability based on fluctuations in both the market price of natural gas and the value of transportation as measured by changes in the delivered price of natural gas at various points in the nation's natural gas grid. In order to mitigate the financial risk associated with these activities both for itself and for certain customers who have requested the Company's assistance in managing similar exposures, the Company routinely enters into natural gas swaps, futures contracts and options, collectively referred to in this discussion as "derivatives". The use of derivatives for the purpose of reducing exposure to risk is generally referred to as hedging and, through deferral accounting, results in matching the financial impact of these derivative transactions with the cash impact resulting from consummation of the transactions being hedged, see "Accounting for Price Risk Management Activities" included in Note 1.

The futures contracts are purchased and sold on the NYMEX and generally are used to hedge a portion of the Company's storage gas, manage intra-month and inter-month actual and anticipated short or long commodity positions and provide risk management assistance to certain customers, to whom the cost of the derivative activity is generally passed on as a component of the sales price of the service being provided. Futures contracts 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. The options are entered into with various third parties and principally consist of options which serve to limit the year-to-year escalation from January 1998 to April 1999 in the purchase price of gas which the Company is committed to deliver to a distribution affiliate. These options covered 2.4 Bcf, 13.2 Bcf and 30.5 Bcf at December 31, 1996, 1995 and 1994, respectively and, due to their nature and term, have no readily determinable fair market value. The Company 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 Company also utilizes options in conjunction with meeting customers' needs for custom risk management services and for other limited purposes. The Company had an immaterial amount of such options outstanding at December 31, 1996. The impact of such options was to decrease 1996 earnings by approximately $2.6 million and the effect on prior periods was not material. The swaps, also entered into with various third parties, are principally associated with the Company's marketing and transportation activities and generally require that one party pay either a fixed price or fixed differential from the NYMEX price per MMBtu of gas while the other party pays a price based on a published index. These swaps allow the Company to (1) commit to purchase gas at one location and sell it at another location without assuming unacceptable risk with respect to changes in the cost of the intervening transportation, (2) effectively set the value to be received for transportation of certain volumes on the Company's facilities in the future and (3) effectively fix the base price for gas to be delivered in conjunction with the commitment described preceding. None of these derivatives are held for speculative purposes and the Company's risk management policy requires that positions taken in derivatives be offset by positions in physical transactions (actual or anticipated) or in other derivatives.

In the table which follows, the term "notional amount" refers to the contract unit price times the contract volume for the relevant derivative category and, in general, such amounts are not indicative of the cash requirements associated with these derivatives. The notional amount is intended to be indicative of the Company's 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 derivative positions 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. Under such circumstances, gains or losses are deferred and recognized when the underlying commitment or anticipated transaction was scheduled to occur. Following is certain information concerning the Company's derivative activities:

(1) The financial impact of these swaps was to increase(decrease) earnings by $(1.0) million, $1.0 million and $2.8 million during 1996, 1995 and 1994, respectively, as swap transactions were matched with hedged transactions during these periods.

(2) Represents the estimated amount which would have been realized upon termination of the relevant derivatives as of the date indicated. The amount which is ultimately charged or credited to earnings is affected by subsequent changes in the market value of these derivatives and, in the case of certain commitments described preceding, no earnings impact is expected due to existing accruals. Swaps associated with these commitments and included in the above totals had fair market values of $2.8 million, $(1.0) million and $(17.6) million at December 31, 1996, 1995 and 1994, respectively.

(3) There was no material financial impact from these futures contracts in 1994 and the effect during 1996 and 1995 was to decrease earnings by $9.3 million and $4.1 million, respectively, as futures transactions were matched with hedged transactions during these periods. At December 31, 1996, the Company 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.

While, as yet, the Company has 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 enters into such transactions solely with firms of acceptable financial strength, in the majority of cases limiting such transactions to counterparties whose debt securities are rated "A" or better by recognized rating agencies. For long-term arrangements, the Company periodically reviews 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 to obtain compensatory damages in lieu thereof, but 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 loss due to the nonperformance of counterparties to these transactions is minimal.

LITIGATION

On August 14, 1996, an action styled Shaw vs. NorAm Energy Corp., et al. was filed in the District Court of Harris County, Texas by a purported NorAm stockholder against the Company, certain of its officers and directors and Houston Industries to enjoin the merger between the Company and Houston Industries (see "Merger With Houston Industries" included in Note 1) or to rescind such merger and/or to recover damages in the event that the Transaction is consummated. The complaint alleges, among other things, that the merger consideration is inadequate, that the Company's Board of Directors breached its fiduciary duties and that Houston Industries aided and abetted such breaches of fiduciary duties. In addition, the plaintiff seeks certification as a class action. The Company believes that the claims are without merit and intends to vigorously defend against the lawsuit. Management believes that the effect on the Company's results of operations, financial position or cash flows, if any, from the disposition of this matter will not be material.

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 results of operations, financial position or cash flows, if any, from the disposition of these matters will not be material.

ENVIRONMENTAL MATTERS

The Company and its predecessors operated a manufactured gas plant ("MGP") adjacent to the Mississippi River in Minnesota known as the former Minneapolis Gas Works ("FMGW") until 1960. The Company is working with the Minnesota Pollution Control Agency to implement an appropriate remediation plan. There are six other former MGP sites in the Company's Minnesota service territory. Of the six sites, the Company believes that two were neither owned nor operated by the Company; two were owned at one time but were operated by others and are currently owned by others; and one was operated by the Company and is now owned by others. The Company believes it has no liability with respect to the sites it neither owned nor operated.

At December 31, 1996, the Company has estimated a range of $10 million to $170 million for possible remediation of the Minnesota sites. The low end of the range was determined using only those sites presently owned or known to have been operated by the Company, assuming the Company's proposed remediation methods. The upper end of the range was determined using the sites once owned by the Company, whether or not operated by the Company, using more costly remediation methods. 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 1993 rate case, Minnegasco was allowed $2.1 million annually to recover amortization of previously deferred and ongoing clean-up costs. Any amounts in excess of $2.1 million annually were deferred for future recovery. In its 1995 rate case, Minnegasco asked that the annual allowed recovery be increased to approximately $7 million and that such costs be subject to a true-up mechanism whereby any over or under recovered amounts, net of certain insurance recoveries as described following, plus carrying charges, would be deferred for recovery or refund in the next rate case. Such accounting was approved by the Minnesota Public Utilities Commission ("MPUC") and was implemented effective October 1, 1995. The amount of insurance recoveries to be flowed back to ratepayers is determined by multiplying insurance recoveries received by the ratio of total costs incurred to-date as a percentage of the probable total costs of environmental remediation. At December 31, 1996 and 1995, the Company had under-collected, through rates, net environmental clean-up costs of $1.4 million and $1.3 million, respectively. In addition, at December 31, 1996 and 1995, the Company had received insurance proceeds that will be refunded through rates in the future as clean-up expenditures are made of $4.3 million and $3.3 million, respectively. At December 31, 1996 and 1995, the Company had recorded a liability of $35.9 million and $45.2 million, respectively, to cover the cost of future remediation. In addition, the Company has receivables from insurance settlements of $5.2 million at December 31, 1996. These insurance settlements will be collected through 1999. The Company expects that the majority of its accrual as of December 31, 1996 will be expended within the next five years. In accordance with the provisions of SFAS 71, a regulatory asset has been recorded equal to the liability accrued. The Company is continuing to pursue recovery of at least a portion of these costs from insurers. The Company believes the difference between any cash expenditures for these costs and the amounts recovered in rates during any year will not be material to the Company's overall cash requirements.

In addition to the Minnesota MGP sites described above, the Company's distribution divisions are investigating the possibility that the Company or predecessor companies may be or may have been associated with other MGP sites in the service territories of the distribution divisions. At the present time, the Company is aware of some plant sites in addition to the Minnesota sites and is investigating certain other locations. While the Company's evaluation of these other MGP sites remains in its preliminary stages, it is likely that some compliance costs will be identified and become subject to reasonable quantification. To the extent that such potential costs are quantified, as with the Minnesota remediation costs for MGP described preceding, the Company expects to provide an appropriate accrual and seek recovery for such remediation costs through all appropriate means, including regulatory relief.

On October 24, 1994, the United States Environmental Protection Agency advised the Company that MRT and a number of other companies have been named under federal law as potentially responsible parties for a landfill site in West Memphis, Arkansas and may be required to share in the cost of remediation of this site. However, considering the information currently known about the site and the involvement of MRT, the Company does not believe that this matter will have a material adverse effect on its financial position, results of operations or cash flows.

On December 18, 1995, the Louisiana Department of Environmental Quality advised the Company that the Company, through one of its subsidiaries and together with several other unaffiliated entities, had been named under state law as a potentially responsible party with respect to a hazardous substance site in Shreveport, Louisiana and may be required to share in the remediation cost, if any, of the site. However, considering the information currently known about the site and the involvement of the Company and its subsidiaries with respect to the site, the Company does not believe that the matter will have a material adverse effect on its financial position, results of operations or cash flows.

In addition, the Company, as well as other similarly situated firms in the industry, is investigating the possibility that it may elect or be required to perform remediation of various sites where meters containing mercury were disposed of improperly, or where mercury from such meters may have leaked or been disposed of improperly. While the Company's evaluation of this issue remains in its preliminary stages, it is likely that compliance costs will be identified and become subject to reasonable quantification.

At December 31, 1996 and 1995, the Company 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 discussed preceding.

While the nature of environmental contingencies makes complete evaluation impracticable, the Company currently is aware of no other environmental matter which could reasonably be expected to have a material impact on its results of operations, financial position or cash flows.

ITEM 3. LEGAL PROCEEDINGS

On August 14, 1996, an action styled Shaw vs. NorAm Energy Corp., et al. was filed in the District Court of Harris County, Texas by a purported NorAm stockholder against the Company, certain of its officers and directors and Houston Industries to enjoin the Transaction or to rescind the Transaction and/or to recover damages in the event that the Transaction is consummated. The complaint alleges, among other things, that the merger consideration is inadequate, that the Company's Board of Directors breached its fiduciary duties and that Houston Industries aided and abetted such breaches of fiduciary duties. In addition, the plaintiff seeks certification as a class action. The Company believes that the claims are without merit and intends to vigorously defend against the lawsuit. The Company does not believe that the matter will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

On December 18, 1995, the Louisiana Department of Environmental Quality advised the Company, that the Company, through one of its subsidiaries, and together with several other unaffiliated entities, have been named under state law as potentially responsible parties with respect to a hazardous substance site in Shreveport, Louisiana and may be required to share in the remediation cost, if any are incurred. However, considering the information currently known about the site and the involvement of the Company and its subsidiaries with respect to the site, the Company does not believe that the matter will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

On October 24, 1994, the United States Environmental Protection Agency (the "EPA") advised the Company that MRT and a number of other companies have been named under federal law as potentially responsible parties for a landfill site in West Memphis, Arkansas and may be required to share in the cost of remediation of this site. The EPA is continuing to investigate the possibility that other companies may have sent waste material to this site. Considering the information currently known about the site and the involvement of MRT, the Company does not believe that this matter will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

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 results of operations, financial position or cash flows, if any, from the disposition of theses matters will not be material.

MATERIAL CHANGES IN THE RESULTS
OF CONTINUING OPERATIONS

GENERAL

In recognition of the manner in which the Company manages its portfolio of businesses, and in order to facilitate a more detailed understanding of the various activities in which the Company engages, the Company has segregated its results of operations into (1) Natural Gas Distribution, (2) Interstate Pipelines, (3) Wholesale Energy Marketing, (4) Natural Gas Gathering, (5) Retail Energy Marketing and (6) Corporate and Other. The Company's results of operations are seasonal due to weather-related fluctuations in the demand for and price of natural gas although, as discussed following and elsewhere herein, (1) the Company has obtained rate design changes in its rate-regulated businesses which generally have reduced the sensitivity of the Company's earnings to seasonal weather patterns (further such changes may occur) and (2) the Company is seeking to derive a larger portion of its earnings from businesses which exhibit less earnings seasonality.

Since the Company's December 1992 sale of its oil and gas exploration and production business, the substantial majority of the Company's earnings have been attributable to operations which are rate regulated. While these businesses have been subjected to varying levels of competition through changes in the form of regulation (further such changes may occur), in general, they continue to be regulated on a cost-of-service basis and the potential for growth in earnings and increased rates of return is limited. The Company seeks to improve its returns from these businesses through increased efficiency, aggressive marketing and by rate initiatives which allow these businesses to compete more effectively and retain more of the value added through improved operations and expanded services.

The Company continues to believe that its greatest potential for significant increases in overall profitability lies in those businesses which are, in some instances, subject to regulation as to the nature of services offered, the manner in which services are provided or the allocation of joint costs between cost-of-service regulated and other operations, but generally are not subject to direct regulation as to the rates which may be charged. Such operations are sometimes referred to herein for convenience as "unregulated". The Company has separated its strategically significant unregulated activities into discrete management units and formulated plans for increasing the future financial contribution from these businesses. The Company has and expects to continue to (1) expand both the range of products and services offered by these businesses and the geographic areas served and (2) increase the percentage of the Company's overall earnings derived from these activities.

In addition, the Company is investigating opportunities for international investment. To date, the Company's efforts have focused on opportunities emerging in Latin America due to privatization initiatives currently underway in a number of countries, as well as broad-based efforts to encourage international investment. While such investments involve increased risks such as political, economic or regulatory instability and foreign currency exchange rate fluctuations, the Company believes that, together with carefully selected partners (both within the target countries and otherwise), it can effectively apply its natural gas industry expertise to selected projects in Latin America, thereby increasing its overall returns on invested capital while keeping the increased risk within acceptable limits. In general, the international investment is expected to build up gradually over a period of years as the Company (1) identifies and creates working relationships with strategic business partners, (2) selects projects which meet its risk/return requirements, (3) develops specific country experience and (4) in some cases, increases its investment in specific projects as facilities are constructed, see the following discussion and "Capital Expenditures - Continuing Operations" under "Net Cash Flows from Investing Activities" elsewhere herein.

In early 1997, the Company learned that four consortiums ("the Consortiums"), each of which included the Company, were the apparent successful bidders for the right to build and operate natural gas distribution facilities in each of four defined service areas ("the Concessions") within Colombia. Contracts, which extend through the year 2014 and grant the exclusive right to distribute gas to consumers of less than 500 Mcf per day (and the right to compete for other customers), are expected to be awarded in April 1997. The Company estimates that the Concessions ultimately will have approximately 400,000 customers, connected over approximately a five-year period at a total cost of approximately $160 million, with construction expected to begin no later than the fourth quarter of 1997. The Company's ownership interest in the Consortiums, while subject to change through continuing negotiations with its existing and potential partners ranges from 15% to approximately 33% and, based on the expected number of customers, represents a weighted average ownership interest of approximately 23%. Depending upon, among other factors, its ownership percentage and success in finalizing financing arrangements at estimated levels and with expected terms (see the discussion following), the Company currently estimates that the net cash outflows to support its investment in the Concessions will not exceed approximately $4 million in any year, and that its investment in the Concessions will become a net source of cash in approximately year four.

Debt is currently expected to make up a significant portion of the financing for the Concessions in the early years of the project, reaching a maximum level of approximately $90 million and declining thereafter. While such debt is expected to be without direct recourse to members of the Consortiums ("the Partners"), the terms of the debt will likely require that each Partner enter into an agreement which commits it to make pro rata capital contributions as funds are borrowed to finance construction, and that lenders will be granted a security interest in such agreements. The Company is considering extending an offer of support to its Partners such that, in the event that any Partner fails to make capital contributions as required, the Company would make such contributions and assume the underlying ownership interest. The Company currently estimates that, in the event this arrangement is agreed to by all parties and finalized, and the Company is required to assume all such interests, the Company's maximum investment in the Concessions will not exceed $50 million and its net cash outflows in support of the Concessions will not exceed $18 million in any year.

In January 1997, the Company participated in a bid for a permit authorizing the construction, ownership and operation of a natural gas distribution system for the geographic area that includes the cities of Chihuahua, Delicias and Cuauchtemoc/Anahuac in North Central Mexico. In March 1997, the Company learned that its group was not the successful bidder. The Company had previously announced its intention to participate in a similar bidding process for a permit to provide natural gas distribution service to all or a portion of Mexico City, although no date has yet been set for submission of bids.

REGULATORY MATTERS

In general, the Company's interstate pipelines are subject to regulation by the FERC, while its natural gas distribution operations are subject to regulation at the state or municipal level. Historically, all of the Company's rate-regulated businesses have followed the accounting guidance contained in Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"). The Company discontinued application of SFAS 71 to its NorAm Gas Transmission Company subsidiary ("NGT") effective with year-end 1992 reporting, see "Interstate Pipelines" elsewhere herein. As a result of the continued application of SFAS 71 to Mississippi River Transmission Corporation ("MRT") and the Company's natural gas distribution operations, the Company's consolidated financial statements contain certain assets and liabilities which would not be recognized by unregulated entities. In addition to regulatory assets related to postretirement benefits other than pensions, the Company's only other significant regulatory asset is related to anticipated environmental remediation costs, see Note 5 of the accompanying Notes to Consolidated Financial Statements and "Environmental Matters" under "Commitments and Contingencies" elsewhere herein. Following are recent significant regulatory actions and developments.

NGT's Negotiated Rate Filing (Docket No. RP96-200), accepted by the FERC on April 25, 1996, allowed NGT's rates to exceed the maximum cost-based rates set forth in its filed tariff and/or to deviate from the current FERC-mandated rate design. NGT has negotiated certain transactions which provide for shippers' rates to be based on various factors such as gas price differentials between the east and west sides of the NGT system. Therefore, in some instances, NGT will charge and collect a negotiated rate which exceeds its then-current maximum filed tariff rate. Appeals of the FERC's negotiated rate policy, as well as the specific authorization granted to NGT to charge negotiated rates, have been filed with the U.S. Court of Appeals, D.C. Circuit. Until such time as these appeals are resolved, some uncertainty will exist as to whether the Company may be required to refund any amounts associated with transactions billed at above the maximum tariff rate. The Company currently believes that any such refund will not be material. The FERC accepted NGT's 4th annual FERC Order 528 filing (Docket No. RP96-167) effective April 1, 1996, which retained the $0.03 per MMBtu commodity surcharge for continued recovery of 75% of eligible take-or-pay costs, to the extent that collection of such costs is supported by market conditions. The recovery of these costs, which commenced in 1992, will continue through the year 2002 although, as a result of the discontinuance of the application of SFAS 71 to NGT as described preceding, no asset has been recorded in anticipation of recovery. Additionally, in April 1996, the FERC issued certificate orders granting (1) abandonment of NGT's Collinson Storage Facility and associated facilities and equipment (Docket No. CP95- 250), which will not result in a material gain or loss upon abandonment and will not be abandoned until all gas has been recovered and (2) abandonment and transfer of NGT's Line O West facilities to NorAm Field Services Corp. ("NFS") (Docket No. RP96-105), allowing NGT to divest itself of certain non-core facilities which supported the gas supply function in a time when NGT was principally a merchant of natural gas.

NGT's certificated Line F Project, constructed at a total cost of approximately $17 million, replaced a 30 mile section of the existing Line F from Ruston to Sterlington, Louisiana, and upgraded the maximum allowed operating pressure of the line to 1200 psig. This replacement project was placed in service on October 31, 1996 and allows NGT to receive gas from an interconnect with MRT located near NGT's Ruston Compressor Station. Finally, on November 1, 1996, both MRT and NGT filed to revise their FERC tariffs, incorporating the Gas Industry Standards Board standards in compliance with FERC Order 587 (Docket No. RM96-1). These filings set forth each company's standard procedures for business practices supporting nominations, allocations, balancing, measurement, invoicing, capacity release, and standardization of electronic communications between pipelines and their customers. Pursuant to a FERC acceptance order, both NGT and MRT revised and refiled specified sections of these tariffs in February 1997.

In April 1996, MRT filed a FERC Section 4 rate case (Docket No. RP96-199) pursuant to the settlement entered into in MRT's last rate case (Docket No. RP93-4). MRT's proposed tariff rates would increase revenues derived from jurisdictional service by $14.7 million annually. Motion rates, subject to refund, were implemented October 1, 1996. As a result of a prehearing conference in December 1996, another procedural schedule was established, setting a hearing date of July 29, 1997.

MRT filed an application (Docket No. CP95-376) requesting spindown of all of its gathering facilities. In May 1996, the FERC issued an order approving MRT's abandonment of its off-system gathering facilities to NFS and further declaring such facilities exempt from FERC jurisdiction. In March 1996, MRT filed a second application (Docket No. CP96- 268), which is now pending, seeking (1) FERC approval to abandon its remaining gathering facilities by transfer and sale to NFS and (2) a FERC declaration that these facilities are exempt from FERC jurisdiction.

Entex was granted annualized rate increases totaling $5.4 million during 1996. In addition to annual cost-of- service adjustments in three Texas operating divisions (approximately $0.6 million on an annualized basis), performance- based rates were approved and implemented in Louisiana (approximately $2.7 million on an annualized basis, effective in June) and Mississippi (approximately $2.1 million on an annualized basis, effective in October). In both Louisiana and Mississippi, Entex will be allowed to earn a return on equity ("ROE") within an approved range. Earnings will be monitored by the public service commissions of the respective states and, while the provisions in each state differ slightly, to the extent that Entex's ROE falls below the lower bounds or exceeds the upper bounds of the approved range, adjustments will be made to either adjust rates upward or refund excess earnings to customers.

In April 1996, the Minnesota Public Utilities Commission (the "MPUC") voted to approve Minnegasco's Performance-Based Gas Purchasing Plan (the "PBR"), effective from September 1, 1995 to June 30, 1998. To the extent that Minnegasco's actual purchased gas cost is either significantly higher or lower than specified benchmarks, the PBR will require that Minnegasco and its customers share in the savings or additional cost, resulting in a maximum reward or penalty of up to 2% of annual gas cost (e.g. approximately $10 million using Minnegasco's 1996 gas cost) for Minnegasco during any year. Minnegasco made a compliance filing with the MPUC on November 1, 1996, the first year of the PBR, which filing was approved for approximately $1 million in March 1997.

In June 1996, the MPUC issued its order in Minnegasco's August 1995 rate case. The MPUC granted an annual increase of $12.9 million as compared to the requested increase of $24.3 million. Interim rates reflecting an increase of $17.8 million had been put into effect in October 1995 subject to refund. As a part of its decision, the MPUC granted Minnegasco full recovery of its ongoing net environmental costs through the use of a true-up mechanism whereby any amounts collected in rates which differ from actual costs incurred, plus carrying charges, will be deferred for recovery or refund in the next rate case. Minnegasco requested reconsideration on several issues. Among them were (1) a request to give effect, in this rate case, to the Minnesota Supreme Court's (the "Court") recent rulings (see the discussion following), and (2) a request to deduct from any interim rate refund the additional amount that Minnegasco would have realized from its 1993 rate case by applying the Court's ruling to that case, which remained on appeal.

The MPUC decided in Minnegasco's 1993 rate case that (1) Minnegasco's unregulated appliance sales and service operations are required to pay the regulated utility operations a fee for the use of Minnegasco's name, image and reputation ("goodwill") and (2) a portion of the cost of responding to certain gas leak calls not be allowed in rates. Minnegasco appealed those decisions to the Court of Appeals. On June 13, 1996, in a case appealed prior to the 1993 rate case, the Court reversed the MPUC's decisions on these two issues, finding in Minnegasco's favor and, in July, the Court denied the MPUC's request for rehearing.

In its December 4, 1996 Order After Reconsideration, the MPUC determined that Minnegasco was entitled to an annual rate increase of $13.3 million as compared to the $12.9 million granted in June 1996. The MPUC decided that Minnegasco's unregulated appliance sales and service operations should not pay a fee for goodwill associated with the

Minnegasco name, but refused to allow Minnegasco to recover certain costs associated with gas leak check calls, and did not approve Minnegasco's request with respect to the 1993 rate case costs. An appeal related to the 1993 rate case is pending before the Court of Appeals. Minnegasco requested and, on February 20, 1997, the MPUC voted to grant a stay of the Commission's order pending Minnegasco's appeal of the gas leak issue in the 1995 rate case. Minnegasco is accruing for any necessary interim rate refunds should the Court deny Minnegasco's appeal.

CHANGE IN ESTIMATED SERVICE LIVES OF CERTAIN ASSETS

Pursuant to an updated study of the useful lives of certain assets, in July 1995, the Company changed the depreciation rates associated with certain of its natural gas pipeline and gathering assets, see "Interstate Pipelines" and "Natural Gas Gathering" elsewhere herein. This change had the effect of increasing the Company's 1995 income before extraordinary item by approximately $3.2 million ($0.03 per share) and represents an annualized increase of approximately $6.5 million.

Exhibit 99(B)

NorAm Form 10-Q (First Quarter of 1997)

G. As more fully described in the Company's 1996 Report on Form 10-K, the Company is currently working with the Minnesota Pollution Control Agency regarding the remediation of several sites on which gas was manufactured from the late 1800's to approximately 1960. The Company has made an accrual for its estimate of the costs of remediation (undiscounted and without regard to potential third-party recoveries) and, based upon discussions to date and prior decisions by regulators in the relevant jurisdictions, the Company continues to believe that it will be allowed substantial recovery of these costs through its regulated rates.

In addition, the Company has identified sites with possible mercury contamination based on the type of facilities located on these sites. The Company has not confirmed the existence of contamination at these sites, nor has any federal, state or local governmental agency imposed on the Company an obligation to investigate or remediate existing or potential mercury contamination. To the extent that any compliance costs are ultimately identified and quantified, the Company will provide an appropriate accrual and, to the extent justified based on the circumstances within each of the Company's regulatory jurisdictions, set up regulatory assets in anticipation of recovery through the ratemaking process.

On October 24, 1994, the United States Environmental Protection Agency advised MRT that it had been named a potentially responsible party under federal law with respect to a landfill site in West Memphis, Arkansas, see Note H.

On December 18, 1995, the Louisiana Department of Environmental Quality advised the Company that it had been named a potentially responsible party under state law with respect to a hazardous substance site in Shreveport, Louisiana, see Note H.

While the nature of environmental contingencies makes complete evaluation impractical, the Company is currently aware of no other environmental matter which could reasonably be expected to have a material impact on its results of operations, financial position or cash flows.

H. On August 14, 1996, an action styled Shaw vs. NorAm Energy Corp., et al. was filed in the District Court of Harris County, Texas by a purported NorAm stockholder against the Company, certain of its officers and directors and Houston Industries to enjoin the merger between the Company and Houston Industries (see Note B) or to rescind such merger and/or to recover damages in the event that the Transaction is consummated. The complaint alleges, among other things, that the merger consideration is inadequate, the Company's Board of Directors breached its fiduciary duties and that Houston Industries aided and abetted such breaches of fiduciary duties. In addition, the plaintiff seeks certification as a class action.

The Company believes that the claims are without merit and intends to vigorously defend against the lawsuit. Management believes that the effect on the Company's results of operations, financial position or cash flows, if any, from the disposition of this matter will not be material.

On October 24, 1994, the United States Environmental Protection Agency advised MRT, a wholly-owned subsidiary of the Company, that MRT, together with a number of other companies, had been named under federal law as a potentially responsible party for a landfill site in West Memphis, Arkansas and may be required to share in the cost of remediation of this site.

However, considering the information currently known about the site and the involvement of MRT, the Company does not believe that this matter will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

On December 18, 1995, the Louisiana Department of Environmental Quality advised the Company that the Company, through one of its subsidiaries and together with several other unaffiliated entities, had been named under state law as a potentially responsible party with respect to a hazardous substance site in Shreveport, Louisiana and may be required to share in the remediation cost, if any, of the site. However, considering the information currently known about the site and the involvement of the Company and its subsidiaries with respect to the site, the Company does not believe that the matter will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

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 results of operations, financial position or cash flows, if any, from the disposition of these matters will not be material.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Regulatory Matters

The FERC accepted NorAm Gas Transmission Company's ("NGT's") 5th annual FERC Order 528 filing (Docket No. RP97-274) effective April 1, 1997, which retained the $0.03 per MMBtu commodity surcharge for continued recovery of 75% of eligible take-or-pay costs, to the extent that collection of such costs is supported by market conditions. The recovery of these costs, which commenced in 1992, will continue through the year 2002 although, as a result of the discontinuance of the application of SFAS 71 to NGT as described in the Company's 1996 Report on Form 10-K, no asset has been recorded in anticipation of recovery.

On November 1, 1996, both Mississippi River Transmission Corporation ("MRT") and NGT filed to revise their FERC tariffs, incorporating the Gas Industry Standards Board standards in compliance with FERC Order 587 (Docket No. RM96-1). These filings set forth each company's standard procedures for business practices supporting nominations, allocations, balancing, measurement, invoicing, capacity release, and standardization of electronic communications between pipelines and their customers. Pursuant to a FERC acceptance order, both NGT and MRT revised and refiled specified sections of these tariffs in February 1997. Further revisions were made and filed in May 1997 to satisfy a second compliance order. NGT and MRT also made filings in May 1997 to comply with additional standards issued in FERC Order 587-C. These standards are effective November 1997, except for the internet standards which are effective August 1997.

In April 1996, MRT filed a FERC Section 4 rate case (Docket No.RP96-199) pursuant to the settlement entered into in MRT's last rate case (Docket No. RP93-4). MRT's proposed tariff rates would increase revenues derived from jurisdictional service by $14.7 million annually. Motion rates, subject to refund, were implemented October 1, 1996. As a result of a prehearing conference in December 1996, another procedural schedule was established, setting a hearing date of July 29, 1997. On April 30, 1997, MRT filed its rebuttal testimony which revised the increase in revenue from $14.7 million to $9.9 million.

The Oklahoma Corporation Commission has initiated a rulemaking proceeding on the unbundling of gas utility services and the restructuring of the gas industry. The rules will be developed by the parties to the proceeding throughout the remainder of 1997, with Oklahoma legislative approval and subsequent implementation scheduled to occur by the summer of 1998. Arkla and NGT are participating in this proceeding but, as yet, it is unclear what the final rules will contain or what degree of financial impact, if any, there will be on the Company.

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Part II. Other Information

Item 1. Legal Proceedings

On August 14, 1996, an action styled Shaw vs. NorAm Energy Corp., et al. was filed in the District Court of Harris County, Texas by a purported NorAm stockholder against the Company, certain of its officers and directors and Houston Industries to enjoin the merger between the Company and Houston Industries (see Note B) or to rescind such merger and/or to recover damages in the event that the Transaction is consummated. The complaint alleges, among other things, that the merger consideration is inadequate, the Company's Board of Directors breached its fiduciary duties and that Houston Industries aided and abetted such breaches of fiduciary duties. In addition, the plaintiff seeks certification as a class action. The Company believes that the claims are without merit and intends to vigorously defend against the lawsuit. Management believes that the effect on the Company's results of operations, financial position or cash flows, if any, from the disposition of this matter will not be material.

On October 24, 1994, the United States Environmental Protection Agency advised MRT, a wholly-owned subsidiary of the Company, that MRT, together with a number of other companies, had been named under federal law as a potentially responsible party for a landfill site in West

Memphis, Arkansas and may be required to share in the cost of remediation of this site. However, considering the information currently known about the site and the involvement of MRT, the Company does not believe that this matter will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

On December 18, 1995, the Louisiana Department of Environmental Quality advised the Company that the Company, through one of its subsidiaries and together with several other unaffiliated entities, had been named under state law as a potentially responsible party with respect to a hazardous substance site in Shreveport, Louisiana and may be required to share in the remediation cost, if any, of the site. However, considering the information currently known about the site and the involvement of the Company and its subsidiaries with respect to the site, the Company does not believe that the matter will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

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 results of operations, financial position or cash flows, if any, from the disposition of these matters will not be material.

K. As more fully described in the Company's 1996 Report on Form 10-K, the Company is currently working with the Minnesota Pollution Control Agency regarding the remediation of several sites on which gas was manufactured from the late 1800's to approximately 1960. The Company has made an accrual for its estimate of the costs of remediation (undiscounted and without regard to potential third-party recoveries) and, based upon discussions to date and prior decisions by regulators in the relevant jurisdictions, the Company continues to believe that it will be allowed substantial recovery of these costs through its regulated rates.

In addition, the Company has identified sites with possible mercury contamination based on the type of facilities located on these sites. The Company has not confirmed the existence of contamination at these sites, nor has any federal, state or local governmental agency imposed on the Company an obligation to investigate or remediate existing or potential mercury contamination. To the extent that any compliance costs are ultimately identified and quantified, the Company will provide an appropriate accrual and, to the extent justified based on the circumstances within each of the Company's regulatory jurisdictions, set up regulatory assets in anticipation of recovery through the ratemaking process.

On June 18, 1997, the Mississippi Department of Environmental Quality advised the Company that the Company, through its Entex Distribution Division, had been identified as a potentially responsible party at a former manufactured gas plant site in Biloxi, Mississippi, see Note L.

On October 24, 1994, the United States Environmental Protection Agency advised MRT that it had been named a potentially responsible party under federal law with respect to a landfill site in West Memphis, Arkansas, see Note L.

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While the nature of environmental contingencies makes complete evaluation impractical, the Company is currently aware of no other environmental matter which could reasonably be expected to have a material impact on its results of operations, financial position or cash flows.

L. On June 18, 1997, the Mississippi Department of Environmental Quality advised the Company that the Company, through its Entex Distribution Division, had been identified as a potentially responsible party at a former manufactured gas plant site in Biloxi, Mississippi. Considering the information currently known about the site, the Company does not believe that the matter will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

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Regulatory Matters

In August 1995, Minnegasco filed a rate case requesting an annual increase of $24.3 million. In December 1996, the Minnesota Public Utilities Commission ("the MPUC") granted Minnegasco an annual rate increase of $13.3 million compared to the $17.8 million that had been put into effect in October 1995 as an interim rate increase, subject to refund. Consistent with the Minnesota Supreme Court's decision in June 1996, the MPUC decided that Minnegasco's unregulated appliance sales and service operations were not required to pay a fee for goodwill associated with its usage of the Minnegasco name, even though the MPUC had imputed revenues associated with such goodwill in Minnegasco's 1993 rate case. The MPUC did not, however, allow Minnegasco to recover certain gas leak costs in rates. The MPUC interim rate order was stayed pending appeal of the 1995 rate case gas leak cost issue.

On July 3, 1997, the Minnesota Supreme Court ruled that Minnegasco was entitled to recover an amount equal to the goodwill revenues imputed as a result of the 1993 rate case. On July 29, 1997, the Minnesota Court of Appeals ruled that, in Minnegasco's 1995 rate case, the MPUC must give effect to the Minnesota Supreme Court's decision that the cost of gas leak checks be included in rates. The Court of Appeals remanded the case to the MPUC for further proceedings in accordance with its decision. Minnegasco anticipates filing a motion in early August to reaffirm the 1995 rate case settlement, increased by an amount equal to the annual costs of performing gas leak checks. Minnegasco will ask the MPUC to reduce the 1995 interim rate refund for the gas leak costs from October 1995 through the date of the final Commission Order, as well as the imputed goodwill revenues from the 1993 rate case.

In April 1996, Mississippi River Transmission Corporation ("MRT") filed a Federal Energy Regulatory Commission ("the FERC") Section 4 rate case (Docket No. RP96-199) pursuant to the settlement entered into in MRT's last rate case (Docket No. RP93-4). MRT's proposed tariff rates would increase revenues derived from jurisdictional services by $14.7 million annually. Motion rates, subject to refund, were implemented October 1, 1996. A tentative agreement has been reached among all parties and a settlement stipulation and agreement was filed on July 25, 1997. The procedural schedule has been suspended pending FERC approval of the stipulation and agreement.

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