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

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1996

OR

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

For the transition period from ______________ to _______________

Commission file number 1-7629

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

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

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

Commission file number 1-3187

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

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

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

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes X No .

As of October 31, 1996, Houston Industries Incorporated had 234,408,647 shares of common stock outstanding, including 13,463,173 ESOP shares not deemed outstanding for financial statement purposes and excluding 15,643,527 shares held as treasury stock. As of October 31, 1996, all 1,100 shares of Houston Lighting & Power Company's common stock were held, directly or indirectly, by Houston Industries Incorporated.

HOUSTON INDUSTRIES INCORPORATED AND HOUSTON LIGHTING & POWER COMPANY
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 1996

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

TABLE OF CONTENTS

			Page No.
Part I.	Financial Information		
	Item 1.	Financial Statements	
	Houston Industries Incorporated and Subsidiaries		
		Statements of Consolidated Income Three Months and Nine Months Ended September 30, 1996 and 1995	3
		Consolidated Balance Sheets September 30, 1996 and December 31, 1995	5
		Statements of Consolidated Cash Flows Nine Months Ended September 30, 1996 and 1995	7
		Statements of Consolidated Retained Earnings Three Months and Nine Months Ended September 30, 1996 and 1995	8
		Notes to Consolidated Financial Statements	14
	Houston Lighting & Power Company		
		Statements of Income Three Months and Nine Months Ended September 30, 1996 and 1995	9
		Balance Sheets September 30, 1996 and December 31, 1995	10
		Statements of Cash Flows Nine Months Ended September 30, 1996 and 1995	12
		Statements of Retained Earnings Three Months and Nine Months Ended September 30, 1996 and 1995	13
		Notes to Financial Statements	14
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Part II.	Other Information		
	Item 1.	Legal Proceedings	23
	Item 6.	Exhibits and Reports on Form 8-K	23
	Signatures		26

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
REVENUES:				
Electric utility	$1,230,298	$1,171,789	$3,142,234	$2,896,180
Other	15,521	13,149	41,769	33,839
Total	1,245,819	1,184,938	3,184,003	2,930,019
EXPENSES:				
Electric utility:				
Fuel	319,548	269,159	817,835	691,226
Purchased power	71,762	50,160	224,078	166,570
Operation and maintenance	206,747	228,913	637,561	645,092
Taxes other than income taxes	63,280	62,227	191,148	197,793
Depreciation and amortization	130,909	127,148	389,767	343,630
Other operating expenses	18,769	25,428	65,063	64,858
Total	811,015	763,035	2,325,452	2,109,169
OPERATING INCOME	434,804	421,903	858,551	820,850
OTHER INCOME (EXPENSE):				
Litigation settlements			(95,000)	
Time Warner dividend income	10,403	9,730	31,208	9,730
Allowance for other funds used during construction	911	1,676	3,093	6,319
Other - net	8,561	4,176	7,899	(4,737)
Total	19,875	15,582	(52,800)	11,312
INTEREST AND OTHER CHARGES:				
Interest on long-term debt	68,610	75,178	208,861	204,436
Other interest	11,048	2,777	22,096	21,454
Allowance for borrowed funds used during construction	(583)	(943)	(1,939)	(3,881)
Preferred dividends of subsidiary	5,372	6,772	17,318	23,207
Total	84,447	83,784	246,336	245,216
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	370,232	353,701	559,415	586,946
INCOME TAXES	130,208	117,840	190,797	193,976
INCOME FROM CONTINUING OPERATIONS	240,024	235,861	368,618	392,970
DISCONTINUED OPERATIONS (NET OF INCOME TAXES):				
Gain on sale of cable television subsidiary		618,088		708,695
NET INCOME	$ 240,024	$ 853,949	$ 368,618	$1,101,665

(continued)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME

(CONTINUED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
EARNINGS PER COMMON SHARE:				
CONTINUING OPERATIONS	$ 0.98	$ 0.95	$ 1.49	$ 1.59
DISCONTINUED OPERATIONS - Gain on sale of cable television subsidiary		2.49		2.86
EARNINGS PER COMMON SHARE	$ 0.98	$ 3.44	$ 1.49	$ 4.45
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.375	$ 0.375	$ 1.125	$ 1.125
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (000)	245,889	247,894	247,664	247,546

See Notes to Consolidated Financial Statements.

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

ASSETS

	September 30, 1996	December 31, 1995
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric plant:		
Plant in service	$ 12,349,687	$ 12,089,490
Construction work in progress	239,034	320,040
Nuclear fuel	229,351	217,604
Plant held for future use	48,631	48,631
Other property	132,121	105,624
Total	12,998,824	12,781,389
Less accumulated depreciation and amortization	4,237,624	3,916,540
Property, plant and equipment - net	8,761,200	8,864,849
CURRENT ASSETS:		
Cash and cash equivalents	7,698	11,779
Special deposits	16	433
Accounts receivable - net	33,675	39,635
Accrued unbilled revenues	45,373	59,017
Time Warner dividends receivable	10,313	10,313
Fuel stock	54,592	59,699
Materials and supplies, at average cost	134,053	138,007
Prepayments	17,651	18,562
Total current assets	303,371	337,445
OTHER ASSETS:		
Investment in Time Warner securities	1,028,500	1,027,875
Deferred plant costs - net	593,797	613,134
Equity investments in and advances to foreign and non-regulated affiliates - net	487,995	41,395
Deferred debits	382,243	311,758
Regulatory asset - net	220,700	228,587
Recoverable project costs - net	202,010	232,775
Unamortized debt expense and premium on reacquired debt	156,026	161,788
Total other assets	3,071,271	2,617,312
Total	$ 12,135,842	$ 11,819,606

See Notes to Consolidated Financial Statements.

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

CAPITALIZATION AND LIABILITIES

	September 30, 1996	December 31, 1995
CAPITALIZATION:		
Common Stock Equity:		
Common stock, no par value	$ 2,446,003	$ 2,441,790
Treasury stock, at cost	(205,901)	
Unearned ESOP shares	(255,627)	(268,405)
Retained earnings	2,046,237	1,953,672
Unrealized loss on investment in Time Warner common securities	(3,087)	(3,494)
Total common stock equity	4,027,625	4,123,563
Preference Stock, no par value, authorized 10,000,000 shares; none outstanding		
Cumulative Preferred Stock of Subsidiary, no par value:		
Not subject to mandatory redemption	351,345	351,345
Subject to mandatory redemption		51,055
Total cumulative preferred stock	351,345	402,400
Long-Term Debt:		
Debentures	349,051	348,913
Long-term debt of subsidiaries:		
First mortgage bonds	2,704,848	2,979,293
Pollution control revenue bonds	5,000	4,426
Other	2,756	5,790
Total long-term debt	3,061,655	3,338,422
Total capitalization	7,440,625	7,864,385
CURRENT LIABILITIES:		
Notes payable	697,831	6,300
Accounts payable	120,862	136,008
Taxes accrued	280,031	174,925
Interest accrued	80,020	79,380
Dividends declared	95,057	98,502
Accrued liabilities to municipalities	30,279	20,773
Customer deposits	58,258	61,582
Current portion of long-term debt and preferred stock	419,460	379,451
Other	52,409	58,664
Total current liabilities	1,834,207	1,015,585
DEFERRED CREDITS:		
Accumulated deferred income taxes	2,062,338	2,067,246
Unamortized investment tax credit	377,561	392,153
Fuel-related credits	86,655	122,063
Other	334,456	358,174
Total deferred credits	2,861,010	2,939,636
COMMITMENTS AND CONTINGENCIES		
Total	$ 12,135,842	$ 11,819,606

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

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

	Nine Months Ended September 30, 1996	Nine Months Ended September 30, 1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from continuing operations	$ 368,618	$ 392,970
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	389,767	343,630
Amortization of nuclear fuel	24,261	21,892
Deferred income taxes	(5,127)	53,855
Investment tax credit	(14,592)	(14,573)
Allowance for other funds used during construction	(3,093)	(6,319)
Fuel cost (refund) and over/(under) recovery - net	(119,442)	(133,484)
Net cash provided by discontinued cable television operations		16,391
Changes in other assets and liabilities:		
Accounts receivable and accrued unbilled revenues	19,604	(96,091)
Inventory	9,061	11,248
Other current assets	1,328	(17,347)
Accounts payable	(15,146)	(43,774)
Interest and taxes accrued	105,746	75,645
Other current liabilities	(73)	10,569
Other - net	17,774	31,058
Net cash provided by operating activities	778,686	645,670
CASH FLOWS FROM INVESTING ACTIVITIES:		
Electric capital and nuclear fuel expenditures (including allowance for borrowed funds used during construction)	(226,783)	(206,474)
Non-regulated electric power project expenditures	(446,600)	(12,388)
Corporate headquarters expenditures (including capitalized interest)	(7,185)	(78,828)
Settlement of subsidiary debt in connection with sale of cable television subsidiary		621,954
Net cash used in discontinued cable television operations		(47,601)
Other - net	(30,799)	(9,807)
Net cash provided by(used in)investing activities	(711,367)	266,856
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(205,901)	
Proceeds from sale of first mortgage bonds		142,988
Payment of matured bonds	(150,000)	
Redemption of preferred stock	(51,400)	(91,400)
Payment of common stock dividends	(279,498)	(278,611)
Increase/(decrease)in notes payable - net	691,531	(423,291)
Extinguishment of long-term debt	(85,263)	(174,140)
Net cash used in discontinued cable television operations		(40,798)
Other - net	9,131	6,810
Net cash used in financing activities	(71,400)	(858,442)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,081)	54,084
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,779	10,443
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 7,698	$ 64,527

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

	1996	1995
Cash Payments:		
Interest (net of amounts capitalized)	$ 221,641	$ 261,292
Income taxes	91,867	61,691

See Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
Balance at Beginning of Period	$1,896,173	$1,283,326	$1,953,672	$1,221,221
Net Income for the Period	240,024	853,949	368,618	1,101,665
Total	2,136,197	2,137,275	2,322,290	2,322,886
Common Stock Dividends	(89,960)	(93,030)	(276,053)	(278,641)
Balance at End of Period	$2,046,237	$2,044,245	$2,046,237	$2,044,245

See Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
OPERATING REVENUES	$ 1,230,298	$ 1,171,789	$ 3,142,234	$ 2,896,180
OPERATING EXPENSES:				
Fuel	319,548	269,159	817,835	691,226
Purchased power	71,762	50,160	224,078	166,570
Operation	153,433	169,248	453,944	464,174
Maintenance	53,314	59,665	183,617	180,918
Depreciation and amortization	130,099	126,849	387,910	342,723
Income taxes	134,462	126,223	248,767	222,533
Other taxes	63,280	62,227	191,148	197,793
Total	925,898	863,531	2,507,299	2,265,937
OPERATING INCOME	304,400	308,258	634,935	630,243
OTHER INCOME (EXPENSE):				
Litigation settlements (net of tax)			(61,750)	
Allowance for other funds used during construction	911	1,676	3,093	6,319
Other - net	(2,787)	1,807	(8,797)	(8,701)
Total	(1,876)	3,483	(67,454)	(2,382)
INCOME BEFORE INTEREST CHARGES	302,524	311,741	567,481	627,861
INTEREST CHARGES:				
Interest on long-term debt	54,704	62,038	167,162	184,955
Other interest	3,042	2,715	10,811	6,639
Allowance for borrowed funds used during construction	(583)	(943)	(1,939)	(3,881)
Total	57,163	63,810	176,034	187,713
NET INCOME	245,361	247,931	391,447	440,148
DIVIDENDS ON PREFERRED STOCK	5,372	6,772	17,318	23,207
INCOME AFTER PREFERRED DIVIDENDS	$ 239,989	$ 241,159	$ 374,129	$ 416,941

See Notes to Financial Statements.

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

ASSETS

	September 30, 1996	December 31, 1995
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric plant in service	$ 12,349,687	$ 12,089,490
Construction work in progress	239,034	320,040
Nuclear fuel	229,351	217,604
Plant held for future use	48,631	48,631
Total	12,866,703	12,675,765
Less accumulated depreciation and amortization	4,231,116	3,906,139
Property, plant and equipment - net	8,635,587	8,769,626
CURRENT ASSETS:		
Cash and cash equivalents	73,389	75,851
Special deposits	16	433
Accounts receivable:		
Affiliated companies	2,053	2,845
Others	13,064	23,858
Accrued unbilled revenues	45,373	59,017
Inventory:		
Fuel stock	54,592	59,699
Materials and supplies, at average cost	133,599	137,584
Prepayments	13,480	11,876
Total current assets	335,566	371,163
OTHER ASSETS:		
Deferred plant costs - net	593,797	613,134
Deferred debits	344,675	290,012
Unamortized debt expense and premium on reacquired debt	154,612	159,962
Regulatory asset - net	220,700	228,587
Recoverable project costs - net	202,010	232,775
Total other assets	1,515,794	1,524,470
Total	$ 10,486,947	$ 10,665,259

See Notes to Financial Statements.

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

CAPITALIZATION AND LIABILITIES

	September 30, 1996	December 31, 1995
CAPITALIZATION:		
Common Stock Equity:		
Common stock, class A; no par value	$ 1,524,949	$ 1,524,949
Common stock, class B; no par value	150,978	150,978
Retained earnings	2,277,465	2,150,086
Total common stock equity	3,953,392	3,826,013
Cumulative Preferred Stock:		
Not subject to mandatory redemption	351,345	351,345
Subject to mandatory redemption		51,055
Total cumulative preferred stock	351,345	402,400
Long-Term Debt:		
First mortgage bonds	2,704,848	2,979,293
Pollution control revenue bonds	5,000	4,426
Other	2,756	5,790
Total long-term debt	2,712,604	2,989,509
Total capitalization	7,017,341	7,217,922
CURRENT LIABILITIES:		
Accounts payable	103,545	119,032
Accounts payable to affiliated companies	5,594	6,982
Taxes accrued	266,169	192,673
Interest accrued	65,692	70,823
Accrued liabilities to municipalities	30,279	20,773
Customer deposits	58,258	61,582
Current portion of long-term debt and preferred stock	219,460	179,451
Other	46,505	54,149
Total current liabilities	795,502	705,465
DEFERRED CREDITS:		
Accumulated deferred federal income taxes	1,958,891	1,947,488
Unamortized investment tax credit	377,561	392,153
Fuel-related credits	86,655	122,063
Other	250,997	280,168
Total deferred credits	2,674,104	2,741,872
COMMITMENTS AND CONTINGENCIES		
Total	$ 10,486,947	$ 10,665,259

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY
STATEMENTS OF CASH FLOWS

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

	Nine Months Ended September 30, 1996	Nine Months Ended September 30, 1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 391,447	$ 440,148
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	387,910	342,723
Amortization of nuclear fuel	24,261	21,892
Deferred income taxes	11,403	50,187
Investment tax credits	(14,592)	(14,573)
Allowance for other funds used during construction	(3,093)	(6,319)
Fuel cost (refund) and over/(under) recovery - net	(119,442)	(133,484)
Changes in other assets and liabilities:		
Accounts receivable - net	25,230	(74,652)
Materials and supplies	3,985	4,298
Fuel stock	5,107	7,281
Accounts payable	(16,875)	(53,241)
Interest and taxes accrued	68,365	85,696
Other current liabilities	(26)	12,869
Other - net	12,885	36,884
Net cash provided by operating activities	776,565	719,709
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital and nuclear fuel expenditures (including allowance for borrowed funds used during construction)	(226,783)	(291,474)
Other - net	(6,688)	(6,906)
Net cash used in investing activities	(233,471)	(298,380)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from first mortgage bonds		142,988
Payment of matured bonds	(150,000)	
Payment of dividends	(265,504)	(271,979)
Redemption of preferred stock	(51,400)	(91,400)
Extinguishment of long-term debt	(85,263)	(174,140)
Other - net	6,611	6,327
Net cash used in financing activities	(545,556)	(388,204)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(2,462)	33,125
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	75,851	235,867
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 73,389	$ 268,992

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

	1996	1995
Cash Payments:		
Interest (net of amounts capitalized)	$ 172,362	$ 184,485
Income taxes	119,060	67,743

See Notes to Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
Balance at Beginning of Period	$ 2,119,726	$ 2,164,391	$ 2,150,086	$ 2,153,109
Net Income for the Period	245,361	247,931	391,447	440,148
Total	2,365,087	2,412,322	2,541,533	2,593,257
Deductions - Cash Dividends:				
Preferred	5,372	6,772	17,318	23,207
Common	82,250	82,250	246,750	246,750
Total	87,622	89,022	264,068	269,957
Balance at End of Period	$ 2,277,465	$ 2,323,300	$ 2,277,465	$ 2,323,300

See Notes to Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AND

HOUSTON LIGHTING & POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

(1) GENERAL

The interim financial statements and notes (Interim Financial Statements) contained in this Form 10-Q for the period ended September 30, 1996 (Form 10-Q) are unaudited and condensed. Certain notes and other information contained in the Combined Annual Report on Form 10-K (File Nos. 1-7629 and 1-3187) for the year ended December 31, 1995 (Form 10-K) of Houston Industries Incorporated (Company) and Houston Lighting & Power Company (HL&P) have been omitted in accordance with Rule 10-01 of Regulation S-X under the Securities Exchange Act of 1934. The information presented in the Interim Financial Statements should be read in combination with the information presented in the Form 10-K and the Combined Quarterly Reports on Form 10-Q of the Company and HL&P for the quarters ended March 31, 1996 (First Quarter 10-Q) and June 30, 1996 (Second Quarter 10-Q).

On August 11, 1996, the Company, HL&P and a newly formed Delaware subsidiary of the Company (HI Merger, Inc.) entered into an Agreement and Plan of Merger (Merger Agreement) with NorAm Energy Corp. (NorAm). Subject to the satisfaction or waiver of the conditions precedent in the Merger Agreement, including receipt of all required regulatory and shareholder approvals, the Company will merge with and into HL&P, which will be renamed "Houston Industries Incorporated" (Houston). NorAm will merge with and into HI Merger, Inc. and will become a wholly owned subsidiary of Houston. Consideration for the purchase of NorAm shares will be a combination of cash and shares of Houston common stock. The transaction is valued at $3.9 billion, consisting of $2.5 billion for NorAm's common stock and equivalents and $1.4 billion of NorAm debt. For information regarding the merger, reference is made to the Combined Report on Form 8-K of the Company and HL&P dated August 11, 1996, which report is incorporated herein by reference, and the joint registration statement on Form S-4 (including unaudited pro forma financial statements giving effect to the mergers) filed by the Company and HL&P with the Securities and Exchange Commission (Reg. No. 333-11329).

The Merger Agreement provides for alternative merger structures should existing administrative positions or legislative changes adversely affect the structure described above or permit structures not currently authorized by the Public Utility Holding Company Act of 1935, as amended. One of the alternative structures contemplates a non-holding company structure in which all domestic utility operations would be conducted within one publicly-held company.

(2) CERTAIN CONTINGENCIES

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

For information regarding a $62 million (after-tax) charge to earnings recorded in the first quarter of 1996 in connection with the settlement of litigation relating to the South Texas Project Electric Generating Station (South Texas Project), see Notes 3 and 7(a) to the First Quarter 10-Q and Note 3 to the Second Quarter 10-Q, which notes are incorporated herein by reference.

For information regarding the appeal of Docket No. 6668 (an inquiry into the prudence of the planning and construction of the South Texas Project), see Note 3(b) to the Form 10-K, which note is incorporated herein by reference. For information regarding Docket No. 8425 (HL&P's 1988 rate case), see Note 5 to the Second Quarter 10-Q, which note is incorporated herein by reference.

(3) DEPRECIATION

The Company and HL&P compute depreciation using the straight-line method. The Company's depreciation expense for the third quarter and first nine months of 1996 was $91 million and $269 million, respectively, compared to $85 million and $258 million for the same periods in 1995. HL&P's depreciation expense for the third quarter and first nine months of 1996 was $90 million and $267 million, respectively, compared to $85 million and $257 million for the same periods in 1995.

(4) HI ENERGY

Certain investments of Houston Industries Energy, Inc., a wholly-owned subsidiary of the Company (HI Energy), are recorded under the equity method of accounting. The Company records HI Energy's proportionate share (based on stock ownership) of the operating results of these entities as "Other - Net" on the Company's Statements of Consolidated Income. For additional information regarding these investments, see Note 4 to the Second Quarter 10-Q, which note is incorporated herein by reference.

(5) CAPITAL STOCK

Company. At September 30, 1996 and December 31, 1995, the Company had 400,000,000 authorized shares of common stock, of which 240,022,296 and 248,316,710 shares, respectively, were outstanding. Earnings per common share for the Company are computed by dividing net income by the weighted average number of shares outstanding during the respective period. Outstanding common shares exclude (i) shares pledged to secure a loan to the Company's Employee Stock Ownership Plan (13,463,173 and 14,355,758 at September 30, 1996 and December 31, 1995, respectively) and (ii) shares repurchased by the Company under its common stock repurchase program and held as treasury shares (9,262,978 at September 30, 1996 and none at December 31, 1995).

In September 1996, the Company announced that its board of directors had expanded from $150 million to $450 million its previous authorization to repurchase common stock. Subject to market conditions, applicable legal requirements, available cash and other factors, the additional purchases will be made in the open market or in privately negotiated transactions over a period of time to be determined by management.

At the close of business on October 30, 1996, the Company announced that it had temporarily suspended all repurchases of common stock under its repurchase program, pending the Company's special shareholders meeting (currently scheduled for December 17, 1996). It is anticipated that repurchases of common stock would also be suspended during at least (i) the 45-day period prior to the closing of the mergers contemplated by the Merger Agreement and (ii) two business days prior to the period during which record holders of NorAm common stock are able to make an election between the cash or common stock consideration being offered in the merger. Future repurchases of common stock, which may not be preceded by public announcement, are subject to the discretion of management, market conditions, applicable legal requirements, available cash and other factors. As of the date of the suspension of the buyback program, the Company had repurchased a total of 15,643,527 shares of common stock for an aggregate purchase price of $352,322,274.

The Company and HL&P have registered 315 million shares of Houston common stock and associated preference stock purchase rights for issuance upon consumation of the transactions contemplated under the Merger Agreement.

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

On September 30, 1996 and December 31, 1995, HL&P had 10,000,000 authorized shares of preferred stock, of which 3,804,397 and 4,318,397 shares, respectively, were outstanding.

For information regarding HL&P's redemption of 514,000 shares of its $9.375 cumulative preferred stock in April 1996, see Note 6 to the Second Quarter 10-Q, which note is incorporated herein by reference.

(6) LONG-TERM DEBT

For information regarding payment of matured HL&P bonds in January and April 1996 and the extinguishment of certain long-term debt in May 1996, see Note 7 to the Second Quarter 10-Q, which note is incorporated herein by reference.

(7) SUBSEQUENT EVENT

On November 7, 1996, HL&P called for redemption in the fourth quarter of 1996 all issued and outstanding shares of its variable term cumulative preferred stock, Series A, B, C and D, at the aggregate fixed liquidation value of $220 million plus accrued dividends.

(8) INTERIM PERIOD RESULTS: RECLASSIFICATIONS

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

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

The following discussion and analysis should be read in combination with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of the Form 10-K, the financial statements and notes contained in Item 8 of the Form 10-K, the First Quarter 10-Q, the Second Quarter 10-Q and the Interim 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. Such statements are expectations as to future economic performance and are not statements of fact. Actual results may differ materially from those projected in these statements. Important factors that could cause future results to differ include the effects of competition in the power industry, legislative and regulatory changes affecting electric utilities, fluctuations in the weather and changes in the economy as well as other factors discussed in this and the Company's and HL&P's other filings with the Securities and Exchange Commission.

RESULTS OF OPERATIONS

COMPANY

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

	Three Months Ended September 30, 1996	Three Months Ended September 30, 1995	Percent Change
	(Thousands of Dollars)		
Revenues	$1,245,819	$1,184,938	5
Operating Expenses	811,015	763,035	6
Operating Income	434,804	421,903	3
Other Income (Expense)	19,875	15,582	28
Interest and Other Charges	84,447	83,784	1
Income Taxes	130,208	117,840	10
Income from Continuing Operations	240,024	235,861	2
Gain from Discontinued Operations		618,088	---
Net Income	240,024	853,949	(72)

	Nine Months Ended September 30, 1996	Nine Months Ended September 30, 1995	Percent Change
	(Thousands of Dollars)		
Revenues	$3,184,003	$2,930,019	9
Operating Expenses	2,325,452	2,109,169	10
Operating Income	858,551	820,850	5
Other Income (Expense)	(52,800)	11,312	---
Interest and Other Charges	246,336	245,216	---
Income Taxes	190,797	193,976	(2)
Income from Continuing Operations	368,618	392,970	(6)
Gain from Discontinued Operations		708,695	---
Net Income	368,618	1,101,665	(67)

The Company had consolidated earnings per share of $.98 for the third quarter of 1996 compared to consolidated earnings per share of $3.44 for the third quarter of 1995. The decline in 1996 third quarter earnings was the result of a one-time $618 million, or $2.49 per share, gain in the third quarter of 1995 from the sale of the Company's cable television subsidiary. Excluding this one-time gain, consolidated earnings from continuing operations for the third quarter of 1995 were $236 million, or $.95 per share, compared to $240 million, or $.98 per share, in the third quarter of 1996.

The Company's consolidated earnings for the nine months ended September 30, 1996 were $369 million, or $1.49 per share, compared to $1.1 billion, or $4.45 per share, for the comparable period in 1995. The decline in 1996 nine months earnings reflects the impact of (i) a $62 million, or $.25 per share, after-tax charge in the first quarter of 1996 relating to the settlement of South Texas Project litigation claims and (ii) a $709 million, or $2.86 per share, gain recorded in 1995 upon the sale of the Company's cable television subsidiary. Excluding the effects of these items, a $5 million, or $.02 per share, after-tax charge to earnings in the first quarter of 1996 with respect to HI Energy operations and a $6 million, or $.02 per share, after-tax charge to earnings in the second quarter of 1995 related to HL&P's rate case settlement, the Company's consolidated income from continuing operations for the first nine months of 1996 would have been $1.76 per share, and its consolidated income from continuing operations for the first nine months of 1995 would have been $1.61 per share. This increase in earnings for these periods, after adjusting for one-time items, is due primarily to increased sales at HL&P and dividend income from Time Warner Inc. (Time Warner) securities acquired by the Company as part of the sale of its cable television subsidiary.

For information regarding the proposed acquisition of NorAm, see Note 1 to the Interim Financial Statements and "--Liquidity and Capital Resources" below.

HL&P

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

	Three Months Ended September 30, 1996	1995	Percent Change
	(Thousands of Dollars)		
Base Revenues (1)	$ 855,003	$ 869,949	(2)
Reconcilable Fuel Revenues (2)	375,295	301,840	24
Operating Expenses (3)	925,898	863,531	7
Operating Income (3)	304,400	308,258	(1)
Other Income (Expense)	(1,876)	3,483	--
Interest Charges	57,163	63,810	(10)
Income After Preferred Dividends	239,989	241,159	--

	Nine Months Ended September 30, 1996	1995	Percent Change
	(Thousands of Dollars)		
Base Revenues (1)	$2,149,649	$2,099,961	2
Reconcilable Fuel Revenues (2)	992,585	796,219	25
Operating Expenses (3)	2,507,299	2,265,937	11
Operating Income (3)	634,935	630,243	1
Other Income (Expense)	(67,454)	(2,382)	--
Interest Charges	176,034	187,713	(6)
Income After Preferred Dividends	374,129	416,941	(10)

____

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

In the third quarter of 1996, HL&P's income after preferred dividends was $240 million compared to $241 million in the third quarter of 1995. Income after preferred dividends for the first nine months of 1996 was $374 million compared to $417 million for the same period in 1995. The $43 million decrease in 1996 was primarily due to a $62 million after-tax charge in the first quarter of 1996 relating to the settlement of South Texas Project litigation claims. Excluding the $62 million charge, HL&P's income for the first nine months of 1996 would have been $436 million compared to $417 million. This increase primarily reflects increased kilowatt-hour (KWH) sales, as described below.

OPERATING REVENUES AND SALES

HL&P's third quarter 1996 base revenues decreased 2 percent from 1995 third quarter base revenues primarily due to the effects of mild weather in August and September of 1996. During this period, industrial KWH sales increased 6 percent over the third quarter of 1995, while residential KWH sales decreased 2 percent due to the weather factors described above. Residential and commercial KWH sales for the first nine months of 1996 increased 5 percent and 3 percent, respectively, compared to the same period in 1995 due to the positive effects of weather, customer growth and increased electricity usage per customer.

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

FUEL AND PURCHASED POWER EXPENSES

HL&P's fuel expense for the third quarter and first nine months of 1996 increased $50 million and $127 million, respectively, compared to the same periods in 1995. The average cost of fuel for the third quarter and first nine months of 1996 was $1.81 and $1.85 per million British Thermal Unit (MMBtu), respectively, compared to $1.52 and $1.59 per MMBtu for the comparable 1995 periods. The fuel cost increase relates primarily to an increase in the unit cost of gas (the average cost was $2.38 and $2.29 per MMBtu for the third quarter and nine months ended 1996, respectively, compared to $1.58 and $1.65 for the comparative periods in 1995).

In October 1996, HL&P filed with the Public Utility Commission of Texas for an approximately $70 million temporary fuel surcharge to reduce its cumulative fuel under-recovery balance through August 31, 1996. HL&P proposes to implement the temporary fuel surcharge, which will have no effect on earnings, over a six-month period beginning in January 1997.

Purchased power expense increased $22 million and $58 million, respectively, for the third quarter and first nine months of 1996 compared to the same periods in 1995. These increases were due mainly to higher prices per KWH and an increase in electricity purchases by HL&P (reflecting, in part, higher electric sales) for the first nine months of 1996. The increase in purchased power expense for the first nine months of 1996 was partially offset by a decrease in firm capacity costs resulting from the renegotiation of a purchased power contract in April 1995.

OTHER OPERATING EXPENSES

Operation expense for the third quarter and the first nine months of 1996 decreased $16 million and $10 million, respectively, compared to the same periods in 1995, primarily due to decreased pension accruals resulting from a change in actuarial assumptions and a decrease in employee benefits costs. The decrease in operation expense for the first nine months of 1996 was partially offset by an increase in municipal franchise payments, which were lower during the first nine months of 1995 because of the effects of a $112 million refund of reconcilable fuel revenues in April 1995.

Maintenance expense for the third quarter of 1996 decreased $6 million compared to the third quarter of 1995 primarily due to the timing of maintenance work performed. Maintenance expense for the first nine months of 1996 increased $3 million compared to the same period in 1995 primarily as the result of scheduled outages at the W. A. Parish and P. H. Robinson generation stations.

Depreciation and amortization expense increased $3 million and $45 million during the third quarter and first nine months of 1996, respectively, compared to the same periods in 1995. These increases reflect HL&P's decision to write down a portion of its investment in the South Texas Project ($12.5 million for the third quarter of 1996 and $37.5 million for the first nine months of 1996 compared to $21.4 million and $28.5 million, respectively, for the same period in 1995) as permitted under the settlement of HL&P's 1995 rate case (Docket No. 12065). In addition, HL&P began amortization in January 1996 of its investment in certain lignite reserves at a rate of approximately $22 million a year (amounting to $5.5 million in the third quarter of 1996 and $16.4 million for the first nine months of 1996). The increase in depreciation and amortization expense also included amortization of HL&P's 1995 early retirement program and increased plant depreciation.

For information regarding the settlement of HL&P's most recent rate case and its ongoing effects on HL&P's results of operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Certain Factors Affecting Future Earnings of the Company and HL&P - Rate Matters and Other Contingencies" in Item 7 of the Form 10-K and Note 3(a) to the financial statements in the Form 10-K.

Taxes other than income taxes decreased $7 million for the first nine months of 1996 compared to the same period in 1995 primarily due to lower accruals of estimated property tax assessments.

LIQUIDITY AND CAPITAL RESOURCES

COMPANY

GENERAL

The Company's net cash provided by operating activities for the first nine months of 1996 totaled $779 million. Net cash used in the Company's investing activities for the first nine months of 1996 totaled $711 million, primarily due to the Company's equity investments in foreign utilities as well as electric capital and nuclear fuel expenditures. The Company's financing activities for the first nine months of 1996 resulted in a net cash outflow of $71 million. The Company's primary financing activities were the payment of matured HL&P bonds, the payment of dividends on the Company's common stock, the redemption of HL&P preferred stock, the purchase of common stock under the Company's repurchase program and the extinguishment of long-term debt funded by an increase in commercial paper.

SOURCES OF CAPITAL RESOURCES AND LIQUIDITY

As of September 30, 1996, the Company had approximately $697 million of commercial paper outstanding, which is supported by bank credit facilities of $1.5 billion (exclusive of bank credit facilities of subsidiaries). Prior to the end of the quarter, the Company increased its aggregate borrowing capacity under existing facilities from $750 million to $1.5 billion primarily to support purchases of common stock under the Company's repurchase program, as described below, and to fund in the fourth quarter of 1996 the retirement of $200 million of the Company's debentures.

During the third quarter of 1996, the Company purchased 8,067,078 shares of its common stock for an aggregate purchase price (including commissions) of $179 million. During the first nine months of 1996, the Company purchased a total of 9,262,978 shares of common stock for an aggregate purchase price (including commissions) of $206 million. The purchases were financed with short-term borrowings. For additional information on the Company's common stock repurchase program (including purchases of common stock subsequent to September 30, 1996, and the temporary suspension of the repurchase program), see Note 5 to the Interim Financial Statements.

In the fourth quarter of 1996, $200 million of the Company's outstanding debentures will mature. Based on current market conditions, the Company intends to repay the debentures using short-term borrowings under its existing credit facilities. The $200 million in debentures is recorded as current portion of long-term debt and preferred stock on the Company's Consolidated Balance Sheet. After giving effect to the retirement, a total of $350 million in debentures will remain outstanding.

On August 11, 1996, the Company, HL&P and HI Merger, Inc., a newly formed Delaware subsidiary of the Company, entered into an Agreement and Plan of Merger with NorAm. Subject to the satisfaction or waiver of the conditions precedent in the Merger Agreement, including receipt of all required regulatory and shareholder approvals, the Company will merge with and into HL&P, which will be renamed "Houston Industries Incorporated" (Houston). NorAm will merge with and into HI Merger, Inc. and will become a wholly owned subsidiary of Houston. Consideration for the purchase of the NorAm shares will be a combination of cash and shares of Houston common stock. The transaction is valued at $3.9 billion, consisting of $2.5 billion for NorAm's common stock and equivalents and $1.4 billion of NorAm debt. For additional information regarding the merger, see Note 1 to the Interim Financial Statements.

The Company currently contemplates that the cash portion of the consideration for the NorAm merger (approximately $1.25 billion) will be funded through bank borrowings under new bank credit facilities (Bank Facilities) to be arranged by Houston or by a newly formed finance subsidiary of Houston (Borrower) with a group of commercial banks. As of the date hereof, the structure, terms and provisions of the Bank Facilities are being negotiated with prospective lenders and have not yet been finalized. Thus, depending on the outcome of such negotiations, the structure, terms and provisions of the Bank Facilities as described below may change.

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

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

In connection with the Bank Facilities, Houston may issue preference stock to, or enter into support arrangements for the benefit of, the Borrower (with calculations, definitions and payment mechanics to be agreed upon). Houston may also agree to certain covenants, including certain limitations on the payment of dividends on or the repurchase of Houston's common stock. The net proceeds of any disposition of the Time Warner stock may be used to prepay borrowings under the Bank Facilities, subject to a corresponding release by the banks of their security interest in the Time Warner stock to the extent of any such prepayment.

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

RATIOS OF EARNINGS TO FIXED CHARGES

The Company's ratios of earnings to fixed charges for the nine and twelve months ended September 30, 1996 were 3.17 and 2.65, respectively. The Company believes that the ratio for the nine-month period is not necessarily indicative of the ratio for a twelve-month period due to the seasonal nature of HL&P's business.

LIQUIDITY AND CAPITAL RESOURCES

HL&P

GENERAL

HL&P's net cash provided by operating activities for the first nine months of 1996 totaled $777 million. Net cash used in HL&P's investing activities for the first nine months of 1996 totaled $233 million. HL&P's capital and nuclear fuel expenditures (excluding allowance for funds used during construction) for the first nine months of 1996 totaled $225 million out of the $387 million annual budget. HL&P's financing activities for the first nine months of 1996 resulted in a net cash outflow of approximately $546 million attributable to the payment of dividends, the extinguishment of long-term debt, the repayment of matured long-term debt and the redemption of preferred stock.

SOURCES OF CAPITAL RESOURCES AND LIQUIDITY

As of September 30, 1996, HL&P had no commercial paper outstanding. HL&P's commercial paper borrowings are supported by a bank credit facility of $400 million.

On November 7, 1996, HL&P called for redemption in the fourth quarter of 1996 all four series of its variable term preferred stock having an aggregate liquidation price of $220 million. HL&P intends to (i) repay at maturity $40 million aggregate principal amount of its 5 1/4% series first mortgage bonds and $150 million of its 7 5/8% series first mortgage bonds in the first quarter of 1997 and (ii) make a $25.7 million sinking fund payment applicable to its $9.375 series preferred stock in April 1997. During the fourth quarter of 1996, HL&P intends to increase its borrowing capacity under its bank facility to, among other things, anticipate these obligations.

RATIOS OF EARNINGS TO FIXED CHARGES

HL&P's ratios of earnings to fixed charges for the nine and twelve months ended September 30, 1996 were 4.27 and 3.69, respectively. HL&P's ratios of earnings to fixed charges and preferred dividends for the nine and twelve months ended September 30, 1996 were 3.73 and 3.21, respectively. HL&P believes that the ratios for the nine-month period are not necessarily indicative of the ratios for a twelve-month period due to the seasonal nature of HL&P's business.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For a description of legal proceedings affecting the Company and its subsidiaries, including HL&P and HI Energy, reference is made to the information set forth in Item 3 of the Form 10-K and Notes 2(b), 3 and 4(c) to the financial statements in the Form 10-K, which information, as qualified and updated by the description of developments in regulatory and litigation matters contained in Note 7(a) to the financial statements in the First Quarter 10-Q and Note 3 of the Notes to the Second Quarter 10-Q is incorporated herein by reference.

On October 17, 1996, the Court of Appeals for the First District of Texas affirmed a district court ruling that certified a lawsuit filed by the Cities of Wharton, Galveston and Pasadena on behalf of certain incorporated municipalities as a class action. The lawsuit seeks payment of additional unpaid franchise fees allegedly owed by HL&P to various municipalities pursuant to municipal franchise agreements. For additional information regarding the lawsuit, reference is made to Item 1, Part II of the Second Quarter 10-Q, which information is incorporated herein by reference. The plaintiffs have not specified damages in their pleadings; however, the plaintiffs' testimony alleges that their damages could be as high as $220 million. Although the Company and HL&P believe that the plaintiffs' claims are without merit and intend to vigorously contest the lawsuit, no assurance can be given at this time as to the ultimate outcome of this matter.

On August 14, 1996, an action styled Shaw v. NorAm Energy Corp., et al. was filed in the District Court of Harris County, Texas by a purported NorAm stockholder against NorAm, certain of its officers and directors and the Company to enjoin the merger or to rescind the merger and/or to recover damages in the event that the NorAm merger is consummated. The complaint alleges, among other things, that the merger consideration is inadequate, that NorAm's Board of Directors breached its fiduciary duties and that the Company aided and abetted such breaches of fiduciary duties. In addition, the plaintiff seeks certification as a class action. The Company believes that the claims are without merit and intends to vigorously defend against the lawsuit.

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

(a) Exhibits. (Exhibits designated by an asterisk (*) are incorporated herein by reference to a separate filing as indicated.)

Houston Industries Incorporated:

*Exhibit 2(a) -	Agreement and Plan of Merger among the Company, HL&P, HI Merger, Inc. and NorAm dated August 11, 1996 (incorporated by reference to Exhibit 2 to the Company and HL&P's Report on Form 8-K dated August 11, 1996).
*Exhibit 2(b) -	Amendment to Agreement and Plan of Merger among the Company, HL&P, HI Merger, Inc. and NorAm dated August 11, 1996 (incorporated by reference to Exhibit 2(c) to the Company's Registration Statement on Form S-4 (Reg. No. 333-11329)).

*Exhibit 10(a) -	Form of Severance Agreements dated December 22, 1994, between the Company and the following directors of HL&P: Jack D. Greenwade, Lee W. Hogan, Stephen W. Naeve, Stephen C. Schaeffer and Robert L. Waldrop (incorporated by reference to Exhibit 10(u) to Company's Annual Report on Form 10-K for the year ended December 31, 1995, File No. 1-7629).
*Exhibit 10(b) -	Supplemental Pension Agreement dated July 17, 1996, between the Company and Lee W. Hogan (incorporated by reference to Exhibit 10(aa) to the Company's Registration Statement on Form S-4 (Reg. No. 333-11329).
Exhibit 11 -	Computation of Earnings per Common Share and Common Equivalent Share.
Exhibit 12 -	Computation of Ratios of Earnings to Fixed Charges.
Exhibit 27 -	Financial Data Schedule.
Exhibit 99(a) -	Notes 1(b), 2, 3, 4 and 11 to the Financial Statements included on pages 57, 59 through 64 and 73 through 74 of the Form 10-K.
Exhibit 99(b) -	Notes 3 and 7(a) to the Financial Statements included on pages 13, 14 and 15 of the First Quarter Form 10-Q.
Exhibit 99(c) -	Notes 3, 4, 5, 6 and 7 to the Financial Statements included on pages 14 through 16 of the Second Quarter Form 10-Q.

Houston Lighting & Power Company:

*Exhibit 3(a) -	Articles of Amendment to the Articles of Incorporation of HL&P dated August 9, 1996 (incorporated by reference to Exhibit 3(b) to HL&P's Registration Statement on Form S-4 (Reg. No. 333-11329)).
*Exhibit 3(b) -	Form of Articles of Amendment to the Articles of Incorporation of HL&P (incorporated by reference to Exhibit 3(c) to HL&P's Registration Statement on Form S-4 (Reg. No. 333-11329)).
Exhibit 10 -	Employment Agreement dated September 16, 1996 between HL&P and Charles R. Crisp.
Exhibit 12 -	Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Fixed Charges and Preferred Dividends.
Exhibit 27 -	Financial Data Schedule.
Exhibit 99(a) -	Notes 1(b), 2, 3, 4 and 11 to the Financial Statements included on pages 57, 59 through 64 and 73 through 74 of the Form 10-K.
Exhibit 99(b) -	Notes 3 and 7(a) to the Financial Statements included on pages 13, 14 and 15 of the First Quarter Form 10-Q.

Exhibit 99(c) - Notes 3, 5, 6 and 7 to the Financial Statements included on pages 14, 15 and 16 of the Second Quarter Form 10-Q.

(b) Reports on Form 8-K.

Report on Form 8-K of the Company and HL&P dated August 11, 1996.

SIGNATURE

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

HOUSTON INDUSTRIES INCORPORATED
(Registrant)

/s/ Mary P. Ricciardello

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

Date: November 13, 1996

SIGNATURE

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

HOUSTON LIGHTING & POWER COMPANY
(Registrant)

/s/ Mary P. Ricciardello

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

Date: November 13, 1996

INDEX TO EXHIBITS

Houston Industries Incorporated:

*Exhibit 2(a) -	Agreement and Plan of Merger among the Company, HL&P, HI Merger, Inc. and NorAm dated August 11, 1996 (incorporated by reference to Exhibit 2 to the Company and HL&P's Report on Form 8-K dated August 11, 1996).
*Exhibit 2(b) -	Amendment to Agreement and Plan of Merger among the Company, HL&P, HI Merger, Inc. and NorAm dated August 11, 1996 (incorporated by reference to Exhibit 2(c) to the Company's Registration Statement on Form S-4 (Reg. No. 333-11329)).
*Exhibit 10(a) -	Form of Severance Agreements dated December 22, 1994, between the Company and the following directors of HL&P: Jack D. Greenwade, Lee W. Hogan, Stephen W. Naeve, Stephen C. Schaeffer and Robert L. Waldrop (incorporated by reference to Exhibit 10(u) to Company's Annual Report on Form 10-K for the year ended December 31, 1995, File No. 1-7629).
*Exhibit 10(b) -	Supplemental Pension Agreement dated July 17, 1996, between the Company and Lee W. Hogan (incorporated by reference to Exhibit 10(aa) to the Company's Registration Statement on Form S-4 (Reg. No. 333-11329).
Exhibit 11 -	Computation of Earnings per Common Share and Common Equivalent Share.
Exhibit 12 -	Computation of Ratios of Earnings to Fixed Charges.
Exhibit 27 -	Financial Data Schedule.
Exhibit 99(a) -	Notes 1(b), 2, 3, 4 and 11 to the Financial Statements included on pages 57, 59 through 64 and 73 through 74 of the Form 10-K.
Exhibit 99(b) -	Notes 3 and 7(a) to the Financial Statements included on pages 13, 14 and 15 of the First Quarter Form 10-Q.
Exhibit 99(c) -	Notes 3, 4, 5, 6 and 7 to the Financial Statements included on pages 14 through 16 of the Second Quarter Form 10-Q.

Houston Lighting & Power Company:

*Exhibit 3(a) -	Articles of Amendment to the Articles of Incorporation of HL&P dated August 9, 1996 (incorporated by reference to Exhibit 3(b) to HL&P's Registration Statement on Form S-4 (Reg. No. 333-11329)).
*Exhibit 3(b) -	Form of Articles of Amendment to the Articles of Incorporation of HL&P (incorporated by reference to Exhibit 3(c) to HL&P's Registration Statement on Form S-4 (Reg. No. 333-11329)).
Exhibit 10 -	Employment Agreement dated September 16, 1996 between HL&P and Charles R. Crisp.
Exhibit 12 -	Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Fixed Charges and Preferred Dividends.
Exhibit 27 -	Financial Data Schedule.
Exhibit 99(a) -	Notes 1(b), 2, 3, 4 and 11 to the Financial Statements included on pages 57, 59 through 64 and 73 through 74 of the Form 10-K.
Exhibit 99(b) -	Notes 3 and 7(a) to the Financial Statements included on pages 13, 14 and 15 of the First Quarter Form 10-Q.
Exhibit 99(c) -	Notes 3, 5, 6 and 7 to the Financial Statements included on pages 14, 15 and 16 of

the Second Quarter Form 10-Q.

Exhibit 11

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
		1996	1995	1996	1995
Primary Earnings Per Share:					
(1)	Weighted average shares of common stock outstanding	245,888,549	247,894,174	247,663,731	247,545,698
(2)	Effect of issuance of shares from assumed exercise of stock options (treasury stock method)	18,884	11,142	24,186	(10,400)
(3)	Weighted average shares	245,907,433	247,905,316	247,687,917	247,535,298
(4)	Net income	$ 240,024	$ 853,949	$ 368,618	$ 1,101,665
(5)	Primary earnings per share (line 4/line 3)	$ 0.98	$ 3.44	$ 1.49	$ 4.45
Fully Diluted Earnings Per Share:					
(6)	Weighted average shares per computation on line 3 above . . .	245,907,433	247,905,316	247,687,917	247,535,298
(7)	Shares applicable to options included on line 2 above	(18,884)	(11,142)	(24,186)	10,400
(8)	Dilutive effect of stock options based on the average price for the period or quarter-end price, whichever is higher, of $22.63 and $22.06 for the third quarter of 1996 and 1995, respectively, and $22.88 and $22.06 for the first nine months of 1996 and 1995, respectively (treasury stock method)	18,884	17,220	24,186	17,220
(9)	Weighted average shares	245,907,433	247,911,394	247,687,917	247,562,918
(10)	Net income	$ 240,024	$ 853,949	$ 368,618	$ 1,101,665
(11)	Fully diluted earnings per share (line 10/line 9)	$ 0.98	$ 3.44	$ 1.49	$ 4.45

Notes:

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

Exhibit 12

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

		Nine Months Ended September 30, 1996	Twelve Months Ended September 30, 1996
Fixed Charges as Defined:			
(1)	Interest on Long-Term Debt	$ 208,861	$ 283,917
(2)	Other Interest	22,096	22,227
(3)	Preferred Dividends Factor of Subsidiary	26,323	36,821
(4)	Interest Component of Rentals Charged to Operating Expense	779	1,196
(5)	Total Fixed Charges	$ 258,059	$ 344,161
Earnings as Defined:			
(6)	Income from Continuing Operations Before Cumulative Effect of Change in Accounting	$ 368,618	$ 373,048
(7)	Income Taxes for Continuing Operations Before Cumulative Effect of Change in Accounting	190,797	196,376
(8)	Total Fixed Charges (line 5)	258,059	344,161
(9)	Income from Continuing Operations Before Cumulative Effect of Change in Accounting, Income Taxes and Fixed Charges	$ 817,474	$ 913,585
Preferred Dividends Factor of Subsidiary:			
(10)	Preferred Stock Dividends of Subsidiary	$ 17,318	$ 24,066
(11)	Ratio of Pre-Tax Income from Continuing Operations to Income from Continuing Operations (line 6 plus line 7 divided by line 6)	1.52	1.53
(12)	Preferred Dividends Factor of Subsidiary (line 10 times line 11)	$ 26,323	$ 36,821
Ratio of Earnings to Fixed Charges (line 9 divided by line 5)		3.17	2.65

UT

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

0000202131
HOUSTON INDUSTRIES INCORPORATED
1,000

9-MOS
DEC-31-1996
SEP-30-1996
PER-BOOK
8,635,587
1,642,108
303,371
1,554,776
0
12,135,842
1,981,388
0
2,046,237
4,027,625
0
351,345
3,059,620
0
1,128
696,703
390,130
25,700
2,035
3,630
3,577,926
12,135,842
3,184,003
190,797
2,325,452
2,325,452
858,551
(52,800)
805,751
229,018
385,936
17,318
368,618
276,053
167,122
778,686
1.49
1.49

Total annual interest charges on all bonds for year-to-date 9/30/96.

Exhibit 99(a)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE YEARS ENDED DECEMBER 31, 1995

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

All significant intercompany transactions and balances are eliminated in consolidation.

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

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

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

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

(C) ELECTRIC PLANT. HL&P capitalizes at cost all additions to electric plant, betterments to existing property and replacements of units of property. Cost includes the original cost of contracted services, direct labor and material, indirect charges for engineering supervision and similar overhead items and AFUDC. Customer payments for construction reduce additions to electric preferred stock. The Company has recorded its investment in these securities at a combined fair value of approximately $1 billion on the Company's Consolidated Balance Sheet. Investment in the Time Warner common stock is considered an "available-for-sale" equity security under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Consequently, the Company excludes unrealized net changes in the fair value of Time Warner common stock (exclusive of dividends and write downs) from earnings and, until realized, reports such changes as a net amount in the shareholders' equity section of the balance sheet. Investment in the Time Warner convertible preferred stock (which is not subject to the requirements of SFAS No. 115, since it is a non-publicly traded equity security) is accounted for under the cost method.

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

(K) FUEL STOCK. Gas inventory (at average cost) was $12.1 million at December 31, 1995. Coal, lignite, and oil inventory balances recorded at last-in, first-out, were $22.2 million, $12.1 million, and $13.3 million, respectively.

(L) RECLASSIFICATION. Certain amounts from the previous years have been reclassified to conform to the 1995 presentation of financial statements. Such reclassifications do not affect earnings.

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

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

(2) JOINTLY-OWNED NUCLEAR PLANT

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

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

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

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

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

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

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

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

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

(3) RATE MATTERS

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

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

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

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

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

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

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

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

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

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

(4) INVESTMENTS IN FOREIGN AND NON-REGULATED ENTITIES

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

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

In January 1995, HI Energy acquired for $15.7 million a 90 percent ownership interest in an electric utility operating company located in a rural province in the north central part of Argentina. The utility system serves approximately 116,000 customers in an area of 136,000 square kilometers. HI Energy's share of net losses from this investment for 1995 was $3.6 million substantially all of which was due to non-recurring severance costs.

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

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

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

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

(5) COMMON STOCK

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

(B) DIVIDENDS. The timing of the Company's Board of Directors' declaration of dividends changed resulting in five quarterly dividend declarations in 1993. All dividends declared in 1993 have been included in 1993 common stock dividends on the Company's Statements of Consolidated Retained Earnings. The Company paid four regular quarterly dividends in 1993 aggregating $1.50 per share, after restatement for the two-for-one stock split, on its common stock shares.

(C) LONG-TERM INCENTIVE COMPENSATION PLANS. The Company has Long-Term Incentive Compensation Plans (LICP) providing for the issuance of stock incentives (including performance-based restricted shares and stock options) to key employees of the Company, including officers. As of December 31, 1995, 29 current and former employees participated in the plans. A maximum of five million shares of common stock may be issued under the LICP. Beginning one

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

	December 31, 1995	December 31, 1994
	(Thousands of Dollars)	
Deferred Tax Assets:		
Alternative minimum tax	$ 46,516	$ 66,707
IRS audit assessment	74,966	74,966
Disallowed plant cost - net	22,687	23,496
Other	96,628	83,740
Total deferred tax assets - net	240,797	248,909
Deferred Tax Liabilities:		
Depreciation	1,391,573	1,336,035
Deferred plant costs - net	200,028	207,746
Regulatory assets - net	228,587	235,463
Capitalized taxes, employee benefits and removal costs	110,065	111,660
Gain on sale of cable television subsidiary	227,515	
Other	150,275	121,235
Total deferred tax liabilities	2,308,043	2,012,139
Accumulated deferred income taxes - net	$2,067,246	$1,763,230

See Note 13 for income taxes related to discontinued operations.

(11) COMMITMENTS AND CONTINGENCIES

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

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

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

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

(12) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	December 31,			
	1995		1994	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Thousands of Dollars)			
Financial assets:				
Cash and short-term investments	$ 11,779	$ 11,779	$ 10,443	$ 10,443
Investment in Time Warner securities	1,027,875	1,027,875		
Financial liabilities:				
Short-term notes payable	6,300	6,300	423,291	423,291
Cumulative preferred stock of subsidiary (subject to mandatory redemption)	76,755	79,250	167,610	173,355
Debentures	348,914	396,903	548,729	549,532
Long-term debt of subsidiaries:				
Electric:				
First mortgage bonds	2,979,293	3,247,139	3,020,400	2,980,028
Pollution control revenue bonds . . .	4,426	5,000	155,247	163,736
Other notes payable	981	981	1,129	1,129
Discontinued operations:				
Senior bank debt			364,000	364,000
Senior and senior subordinated notes			140,580	154,654

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

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

(13) CABLE TELEVISION--DISCONTINUED OPERATIONS

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

EXHIBIT 99(b)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AND

HOUSTON LIGHTING & POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

(1) GENERAL

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

(2) CERTAIN CONTINGENCIES

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

(3) JOINTLY-OWNED NUCLEAR PLANT

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

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

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

(4) RATE CASE PROCEEDINGS

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

(5) CAPITAL STOCK

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

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

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

(6) LONG-TERM DEBT

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

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

(7) SUBSEQUENT EVENTS

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

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

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

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

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

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

(8) INTERIM PERIOD RESULTS: RECLASSIFICATIONS

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

EXHIBIT 99(c)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AND

HOUSTON LIGHTING & POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

(1) GENERAL

The interim financial statements and notes (Interim Financial Statements) contained in this Form 10-Q for the period ended June 30, 1996 (Form 10-Q) are unaudited and condensed. Certain notes and other information contained in the Combined Annual Report on Form 10-K (File Nos. 1-7629 and 1-3187) for the year ended December 31, 1995 (Form 10-K), of Houston Industries Incorporated (Company) and Houston Lighting & Power Company (HL&P) have been omitted in accordance with Rule 10-01 of Regulation S-X under the Securities Exchange Act of 1934.

The information presented in the Interim Financial Statements should be read in combination with the information presented in the Form 10-K and the Combined Quarterly Report on Form 10-Q of the Company and HL&P for the quarter ended March 31, 1996 (First Quarter 10-Q).

(2) CERTAIN CONTINGENCIES

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

(3) JOINTLY-OWNED NUCLEAR PLANT

In July 1996, HL&P and City Public Service Board of San Antonio (CPS) entered into a settlement agreement providing, among other things, for (i) the dismissal with prejudice of all pending arbitration claims and lawsuits between HL&P and CPS relating to the South Texas Project Electric Generating Station (South Texas Project), (ii) a cash payment by HL&P to CPS of $75 million (accrued in the quarter ended March 31, 1996), (iii) an agreement to support formation of a new operating company to replace HL&P as project manager for the South Texas Project and (iv) the execution of a 10-year joint operations agreement under which HL&P and CPS will share savings resulting from the joint dispatching of their respective generating assets in order to take advantage of each system's lower cost resources.

Under the terms of the joint operations agreement entered into between CPS and HL&P, HL&P will guarantee CPS minimum annual savings of $10 million and a minimum cumulative savings of $150 million over the ten-year term of the agreement. Based on current forecasts and other assumptions regarding the combined operation of the two generating systems, HL&P anticipates that the savings resulting from joint operations will equal or exceed the minimum savings guaranteed under the joint operations agreement.

For information regarding the settlement in April 1996 of a similar lawsuit filed by the City of Austin (Austin) against HL&P and a $13 million (after-tax) charge to earnings recorded in the first quarter of 1996 in connection with this settlement, see Notes 3 and 7(a) to the First Quarter 10-Q, which notes are incorporated herein by reference.

As a result of the settlements of the CPS and Austin litigation, all litigation and arbitration claims formerly pending between HL&P and the other co-owners of the South Texas Project have been settled and dismissed with prejudice.

(4) HI ENERGY

Acquisition of Interest in Brazilian Electric Utility. In May 1996, a subsidiary of Houston Industries Energy, Inc. (HI Energy) acquired 11.35 percent of the common shares of Light - Servicos de Eletricidade S.A. (Light), a publicly-held Brazilian corporation, for $392 million. Light is the operator under a 30-year concession agreement of an approximately 3,888 megawatt electric power generation, transmission and distribution system serving 28 municipalities in the state of Rio de Janeiro, Brazil. HI Energy acquired the shares as a bidder in the government-sponsored auction of 60 percent of Light's outstanding shares.

Subsequent to the auction, the winning bidders, including a subsidiary of HI Energy, formed a consortium whose aggregate ownership interest of 50.44 percent represents a controlling interest in Light. The consortium, organized pursuant to a shareholders agreement dated as of May 27, 1996, is comprised of the direct share ownership interests held in Light by subsidiaries or affiliates of The AES Corporation (11.35 percent), Electricite de France (11.35 percent), HI Energy (11.35 percent), Companhia Sidercgica Nacional (7.25 percent), and Banco Nacional de Desenvolvimento Economico E Social (BNDES) (9.14 percent). Pursuant to the shareholders agreement, principal responsibilities for the various aspects of Light's business will be allocated among the parties. The HI Energy subsidiary will have the principal responsibility for all matters relating to Light's financial affairs.

The Company has accounted for this transaction under purchase accounting and has recorded its investment and its interest in Light's operations since June 1, 1996, using the equity method. The effect of Light's income on the Company's net income is immaterial for the second quarter of 1996 and the six months ended June 30, 1996.

Class B Shares of Edelap. On May 2, 1996, Houston Argentina S.A. (Houston Argentina), a subsidiary of HI Energy, purchased for approximately $55 million the Class B Shares of Empresa Distribuidora de la Plata S.A. (Edelap), an electric utility company operating in La Plata, Argentina, and surrounding regions. The Class B Shares of Edelap were sold by the Argentine government in a public auction. On May 28, 1996, Houston Argentina sold a portion of its Class B Shares to a third party for approximately $10 million. The remaining Class B Shares held by Houston Argentina constitute 32 percent of the capital stock of Edelap. Houston Argentina also owns indirectly through a holding company an additional 16.6 percent of the capital stock of Edelap, which shares were acquired in 1992 for $37 million. The Company has recorded its investment in Edelap using the equity method.

(5) RATE CASE PROCEEDINGS

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

For information regarding the appeal of Docket No. 6668 (an inquiry into the prudence of the planning and construction of the South Texas Project), see Note 3(b) to the Form 10-K.

(6) CAPITAL STOCK

Company. At June 30, 1996 and December 31, 1995, the Company had 400,000,000 authorized shares of common stock, of which 247,690,618 and 248,316,710 shares, respectively, were outstanding as of such dates. Outstanding shares exclude (i) the unallocated shares of the Company's Employee Stock Ownership Plan (which as of June 30, 1996 and December 31, 1995 totaled 13,861,929 and 14,355,758, respectively) and (ii) 1,195,900 shares purchased by the Company as of June 30, 1996, under the common stock repurchase program described below. Earnings per common share for the Company are computed by dividing net income by the weighted average number of shares outstanding during the respective period.

In June 1996, the Company announced that its Board of Directors had authorized the purchase of up to $150 million of the Company's common stock. It is anticipated that any purchases of common stock under the program would be effected over the next 12 months, subject to market conditions, available cash and alternative investment opportunities. The Company began repurchasing shares in mid-June 1996.

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

On June 30, 1996 and December 31, 1995, HL&P had 10,000,000 authorized shares of preferred stock, of which 3,804,397 and 4,318,397 shares, respectively, were outstanding.

In April 1996, HL&P redeemed 514,000 shares of its $9.375 cumulative preferred stock at a cost of approximately $53 million ($102.34375 per share, including accrued dividends). The redemption included 257,000 shares in satisfaction of mandatory sinking fund requirements and an additional 257,000 shares as an optional redemption.

(7) LONG-TERM DEBT

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

In April 1996, HL&P repaid upon maturity $40 million principal amount of its 5 1/4% first mortgage bonds.

In May 1996, HL&P redeemed all outstanding principal amounts of its 7 1/4% first mortgage bonds ($50,000,000) due February 1, 2001, at a redemption price of 100.42% (plus accrued interest) and 6 3/4% first mortgage bonds ($35,000,000) due April 1, 1998, at a redemption price of 100.15% (plus accrued interest).

(8) SUBSEQUENT EVENT

On August 11, 1996, the Company, HL&P and a newly formed Delaware subsidiary of the Company (HI Merger, Inc.) entered into an Agreement and Plan of Merger with NorAm Energy Corp. (NorAm). Under the merger agreement and assuming all necessary regulatory and shareholder approvals, the Company would merge with and into HL&P and the currently outstanding stock of the Company would become the common stock of HL&P, which would be renamed "Houston Industries Incorporated" (HII). NorAm would merge with and into HI Merger, Inc. and would become a wholly owned subsidiary of HII. Consideration for the purchase of NorAm shares will be a combination of cash and shares of HII common stock. The transaction is valued at $3.8 billion, consisting of $2.4 billion for NorAm's common stock and equivalents and $1.4 billion of NorAm debt. For information regarding the Agreement and Plan of Merger, see the Company and HL&P's current report on Form 8-K dated August 11, 1996, which report is incorporated herein by reference.

(9) INTERIM PERIOD RESULTS: RECLASSIFICATIONS

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

Exhibit 10

August 9, 1996

Mr. Charles R. Crisp
124 Melrose Drive
Montgomery, Texas 77356

Dear Charlie:

It has been a pleasure to meet and become better acquainted with you during our several meetings. We are confident that you are an extraordinary executive who will become a tremendous asset to our executive management team. On my behalf and that of Houston Industries, it is my pleasure to make the following offer of employment to you. The following briefly summarizes the terms of our offer:

1. Title. You will join our Houston Lighting and Power Company subsidiary as head of our generating assets Strategic Business Unit currently referred to as "Genco." Your title will be Executive Vice President and General Manager of this business unit. You will report to me in my present capacity as President and Chief Operating Officer of HL&P.

2. Duties and Responsibilities. You will be responsible for managing all of HL&P's generating and related assets. Your focus will be domestic physical assets with an objective of rationalizing assets and positioning this business unit to be successful in an evolving deregulated environment. You also will be responsible at this time for the wholesale marketing of electricity. Currently your primary customer is HL&P's transmission and distribution Strategic Business Unit known as "Wiresco."

3. Organizational Structure. The Company is currently in a transitional stage from its historical regulated utility perspective moving toward becoming market-focused and capable of superior performance in a deregulated environment. This transition may result in changes in your initial duties, responsibilities, and title.

4. Compensation.

a) Base Salary. Your starting base salary will be $325,000 per annum with appropriate adjustments in the future.

b) Short-Term Incentive Compensation. HL&P's existing short-term Executive Incentive Compensation Plan (EICP) calls for incentive compensation to be paid in cash annually at a rate between zero and 60% of base compensation at your level. The plan year runs from January through December. For plan year 1996, we have agreed that your qualifying bonus will be determined according to goals to be decided between us, prorated according to your term of service during 1996.

c) Long-Term Incentive Compensation (LICP). You are eligible for stock grants under the LICP, for amounts ranging from zero to 60% of base salary, which are determined as to amount on three-year cycles.

d) Stock Options. Stock options for 40% of base salary are also issued under the LICP, with values dependent on increases in stock value as in other stock option plans.

e) Sign-On Bonus. You will receive a $300,000 bonus payable to you as soon as possible upon your joining the company. As we discussed, this bonus will offset any bonus forgone by leaving your present employer. This bonus will be structured as an interest-free loan, one-half of which will be forgiven six months after your initial employment date, the other half after twelve months. The loan will be forgiven on these dates under all circumstances other than your voluntary termination from the company.

f) Benefits. You will be entitled to such other benefits as are currently offered to newly hired or promoted senior executives. This includes life, disability, hospitalization, dental, automobile, and vacation. You will qualify for 4 weeks of vacation, commencing in January of 1997, with one week of vacation agreed during 1996.

g) Anticipated Start Date: September 1996 or other mutually agreeable date.

The foregoing covers the principal features of our employment offer. The attachment to this letter sets the matters forth in more detail. As to the incentive compensation and benefit plans, my description of their terms is included for discussion purposes and is not intended to alter the written plans, whose terms and conditions govern. Similarly, your service and tenure, as with all senior HII executives, is subject to the discretion of the Board of Directors.

This is an exciting but challenging time for Houston Industries. We are committed to maintain HL&P as a major force in energy generation and marketing, and your decision to join our senior management team will substantially enhance our ability to fulfill that commitment. I look forward to your positive response to this offer of employment and ask that you sign in the space provided below. Of course, this offer is subject to routine pre-employment physical examination and other inprocessing requirements as are required of all Company employees.

We look forward to working with you.

Sincerely,

/s/ R. Steve Letbetter

ACCEPTED AND AGREED to
this 16th day of September, 1996

By /s/ Charles R. Crisp
Charles R. Crisp

ADDENDUM TO LETTER TO CHARLES CRISP DATED AUGUST 9, 1996

1. EMPLOYMENT. The Company will employ Charles R. Crisp from and after the effective date of this Agreement as Executive Vice President and General Manager of the energy production Strategic Business Unit and in such other executive capacities as may be determined from time to time by the Company. As used in this Agreement, "employment with the Company" shall mean employment with Houston Lighting & Power Company or with Houston Industries Incorporated or with any wholly-owned subsidiary of either of said companies. Employment shall be subject to completion of routine employment physical examination and other inprocessing requirements as are required of all Company employees.

2. EXTENT OF SERVICES. Mr. Crisp will devote his services full time to the business of the Company and to perform to the best of his ability and with reasonable diligence the duties and responsibilities assigned to him by appropriate management of the Company.

3. TERM. The term of this Agreement shall commence in September 1996 and shall continue indefinitely thereafter, subject to termination by the Company or by Mr. Crisp at any time, with or without cause, on thirty days notice to the other.

4. COMPENSATION. As compensation for the services to be rendered by Mr. Crisp under this Agreement, the Company agrees to pay Mr. Crisp an initial annual salary of $325,000, payable in accordance with the general practices of the Company. The provisions of this paragraph 4 shall not operate as a limitation upon, or as a direction against, the exercise by the Board of Directors of the Company of its power and discretion to make salary increases or decreases, or to grant or withhold bonuses or other additional direct or indirect compensation or benefits to or on behalf of Mr. Crisp if, in the judgment of the Board of Directors, such action is in the best interest of the Company.

5. EMPLOYEE BENEFITS. Throughout the term of Mr. Crisp's employment with the Company, he shall be eligible to participate on the same basis as other eligible employees in the Retirement Plan, the Savings Plan and any other qualified plan of the Company, and he shall be eligible to participate in any long-term disability, life insurance, medical, dental and vision

plans, and any other employee benefit plan maintained by the Company for its employees. For purposes of participation in these employee benefit plans, Mr. Crisp's service with the Company shall commence in September 1996.

Mr. Crisp shall be eligible for four weeks of vacation and 120 days sick pay per year. Additional annual vacation and sick pay entitlement will be in accordance with the Company's vacation and sick pay policies for employees generally. Mr. Crisp shall be furnished an automobile and home security system in accordance with the Company's policy covering officers of equal position or rank, and Mr. Crisp shall be furnished a luncheon club membership to be used for business purposes of the Company.

6. EXECUTIVE BENEFITS. Mr. Crisp shall be eligible to participate in the Company's Executive Incentive Compensation Plan and Long-Term Incentive Compensation Plan. Participation in the Executive Incentive Compensation Plan shall commence as provided in the employment letter agreement dated August 9, 1996, and the Long-Term Incentive Compensation Plan shall commence in the 1997 calendar year. Mr. Crisp shall also be eligible to participate in the Company's Deferred Compensation Plan, Benefit and Savings Restoration Plans, Executive Life Insurance Plan and shall be eligible to participate on the same basis as other executive vice presidents of the Company in any other executive compensation plan or program of the Company which may from time to time cover such officers of the Company, with the exception of the formerly applicable salary continuation and death benefit plan known as the "Executive Benefits Plan," which is no longer being offered.

7. EMPLOYMENT BONUS. The Company shall pay Mr. Crisp $300,000 in lieu of forgone benefits with his prior employer as provided in the employment letter agreement dated August 9, 1996.

8. WITHHOLDING OF TAXES. The Company shall deduct from any payments hereunder any taxes required to be withheld by the federal or any state or local government.

9. PROHIBITION AGAINST ASSIGNMENT. Mr. Crisp agrees on behalf of himself and his executors and administrators, heirs, legatees, distributees, and any other person or persons

claiming any benefits under him by virtue of this Agreement, that this Agreement and the rights, interests and benefits hereunder shall not be assigned, transferred, pledged or hypothecated in any way. Any attempted assignment, transfer, pledge or hypothecation or other disposition of this Agreement or of such rights, interests and benefits, or the levy of any attachment or similar process thereupon, shall be null and void and without effect.

10. CONTROLLING LAW. This Agreement shall be interpreted and construed in accordance with the laws of the State of Texas.

11. BINDING EFFECT. This Agreement shall be binding upon and shall inure to the benefit of any successor of this Company and any such successor shall be deemed substituted for the Company under the terms of this Agreement. As used in this Agreement, the term "successor" shall include any person, firm, corporation or other business entity which at any time, whether by merger, purchase or otherwise, acquires all or substantially all of the assets or business of the Company or gains control of the Company.

12. ENTIRE AGREEMENT. This Agreement consists of (1) the employment letter agreement dated August 9, 1996, and (2) this Addendum, which together constitute the entire agreement of the parties with respect to the subject matter hereof, and may be modified only by a written instrument executed by both parties.

Exhibit 12

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

	Nine Months Ended September 30, 1996	Twelve Months Ended September 30, 1996
Fixed Charges as Defined:		
(1) Interest on Long-Term Debt	$ 167,162	$ 226,590
(2) Other Interest	10,811	12,289
(3) Amortization of (Premium) Discount	6,789	9,077
(4) Interest Component of Rentals Charged to Operating Expense	779	1,196
(5) Total Fixed Charges	$ 185,541	$ 249,152
Earnings as Defined:		
(6) Net Income	$ 391,447	$ 432,231
Federal Income Taxes:		
(7) Current	210,181	214,869
(8) Deferred (Net)	4,698	23,071
(9) Total Federal Income Taxes	214,879	237,940
(10) Total Fixed Charges (line 5)	185,541	249,152
(11) Earnings Before Income Taxes and Fixed Charges (line 6 plus line 9 plus line 10)	$ 791,867	$ 919,323
Ratio of Earnings to Fixed Charges (line 11 divided by line 5)	4.27	3.69
Preferred Dividends Requirements:		
(12) Preferred Dividends	$ 17,318	$ 24,066
(13) Less Tax Deduction for Preferred Dividends	41	54
(14) Total	17,277	24,012
(15) Ratio of Pre-Tax Income to Net Income (line 6 plus line 9 divided by line 6)	1.55	1.55
(16) Line 14 times line 15	26,779	37,219
(17) Add Back Tax Deduction (line 13)	41	54
(18) Preferred Dividends Factor	$ 26,820	$ 37,273
(19) Total Fixed Charges (line 5)	$ 185,541	$ 249,152
(20) Preferred Dividends Factor (line 18)	26,820	37,273
(21) Total	$ 212,361	$ 286,425
Ratio of Earnings to Fixed Charges and Preferred Dividends Requirements (line 11 divided by line 21)	3.73	3.21

UT

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

0000048732
HOUSTON LIGHTING & POWER COMPANY
1,000

9-MOS
DEC-31-1996
SEP-30-1996
PER-BOOK
8,635,587
0
335,566
1,515,794
0
10,486,947
1,675,927
0
2,277,465
3,953,392
0
351,345
2,710,569
0
0
0
190,130
25,700
2,035
3,630
3,250,146
10,486,947
3,142,234
248,767
2,258,532
2,507,299
634,935
(67,454)
567,481
176,034
391,447
17,318
374,129
246,750
167,122
776,565
0
0

Total annual interest charges on all bonds for year-to-date 9/30/96.

Exhibit 99(a)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE YEARS ENDED DECEMBER 31, 1995

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

All significant intercompany transactions and balances are eliminated in consolidation.

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

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

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

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

(C) ELECTRIC PLANT. HL&P capitalizes at cost all additions to electric plant, betterments to existing property and replacements of units of property. Cost includes the original cost of contracted services, direct labor and material, indirect charges for engineering supervision and similar overhead items and AFUDC. Customer payments for construction reduce additions to electric preferred stock. The Company has recorded its investment in these securities at a combined fair value of approximately $1 billion on the Company's Consolidated Balance Sheet. Investment in the Time Warner common stock is considered an "available-for-sale" equity security under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Consequently, the Company excludes unrealized net changes in the fair value of Time Warner common stock (exclusive of dividends and write downs) from earnings and, until realized, reports such changes as a net amount in the shareholders' equity section of the balance sheet. Investment in the Time Warner convertible preferred stock (which is not subject to the requirements of SFAS No. 115, since it is a non-publicly traded equity security) is accounted for under the cost method.

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

(K) FUEL STOCK. Gas inventory (at average cost) was $12.1 million at December 31, 1995. Coal, lignite, and oil inventory balances recorded at last-in, first-out, were $22.2 million, $12.1 million, and $13.3 million, respectively.

(L) RECLASSIFICATION. Certain amounts from the previous years have been reclassified to conform to the 1995 presentation of financial statements. Such reclassifications do not affect earnings.

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

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

(2) JOINTLY-OWNED NUCLEAR PLANT

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

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

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

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

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

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

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

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

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

(3) RATE MATTERS

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

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

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

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

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

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

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

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

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

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

(4) INVESTMENTS IN FOREIGN AND NON-REGULATED ENTITIES

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

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

In January 1995, HI Energy acquired for $15.7 million a 90 percent ownership interest in an electric utility operating company located in a rural province in the north central part of Argentina. The utility system serves approximately 116,000 customers in an area of 136,000 square kilometers. HI Energy's share of net losses from this investment for 1995 was $3.6 million substantially all of which was due to non-recurring severance costs.

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

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

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

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

(5) COMMON STOCK

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

(B) DIVIDENDS. The timing of the Company's Board of Directors' declaration of dividends changed resulting in five quarterly dividend declarations in 1993. All dividends declared in 1993 have been included in 1993 common stock dividends on the Company's Statements of Consolidated Retained Earnings. The Company paid four regular quarterly dividends in 1993 aggregating $1.50 per share, after restatement for the two-for-one stock split, on its common stock shares.

(C) LONG-TERM INCENTIVE COMPENSATION PLANS. The Company has Long-Term Incentive Compensation Plans (LICP) providing for the issuance of stock incentives (including performance-based restricted shares and stock options) to key employees of the Company, including officers. As of December 31, 1995, 29 current and former employees participated in the plans. A maximum of five million shares of common stock may be issued under the LICP. Beginning one

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

	December 31,	
	1995	1994
	(Thousands of Dollars)	
Deferred Tax Assets:		
Alternative minimum tax	$ 46,516	$ 66,707
IRS audit assessment	74,966	74,966
Disallowed plant cost - net	22,687	23,496
Other	96,628	83,740
Total deferred tax assets - net	240,797	248,909
Deferred Tax Liabilities:		
Depreciation	1,391,573	1,336,035
Deferred plant costs - net	200,028	207,746
Regulatory assets - net	228,587	235,463
Capitalized taxes, employee benefits and removal costs	110,065	111,660
Gain on sale of cable television subsidiary	227,515	
Other	150,275	121,235
Total deferred tax liabilities	2,308,043	2,012,139
Accumulated deferred income taxes - net	$2,067,246	$1,763,230

See Note 13 for income taxes related to discontinued operations.

(11) COMMITMENTS AND CONTINGENCIES

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

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

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

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

(12) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	December 31, 1995 Carrying Amount	December 31, 1995 Fair Value	December 31, 1994 Carrying Amount	December 31, 1994 Fair Value
	(Thousands of Dollars)			
Financial assets:				
Cash and short-term investments	$ 11,779	$ 11,779	$ 10,443	$ 10,443
Investment in Time Warner securities	1,027,875	1,027,875		
Financial liabilities:				
Short-term notes payable	6,300	6,300	423,291	423,291
Cumulative preferred stock of subsidiary (subject to mandatory redemption)	76,755	79,250	167,610	173,355
Debentures	348,914	396,903	548,729	549,532
Long-term debt of subsidiaries:				
Electric:				
First mortgage bonds	2,979,293	3,247,139	3,020,400	2,980,028
Pollution control revenue bonds . . .	4,426	5,000	155,247	163,736
Other notes payable	981	981	1,129	1,129
Discontinued operations:				
Senior bank debt			364,000	364,000
Senior and senior subordinated notes			140,580	154,654

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

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

(13) CABLE TELEVISION--DISCONTINUED OPERATIONS

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

EXHIBIT 99(b)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AND

HOUSTON LIGHTING & POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

(1) GENERAL

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

(2) CERTAIN CONTINGENCIES

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

(3) JOINTLY-OWNED NUCLEAR PLANT

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

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

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

(4) RATE CASE PROCEEDINGS

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

(5) CAPITAL STOCK

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

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

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

(6) LONG-TERM DEBT

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

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

(7) SUBSEQUENT EVENTS

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

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

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

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

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

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

(8) INTERIM PERIOD RESULTS: RECLASSIFICATIONS

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

EXHIBIT 99(c)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AND

HOUSTON LIGHTING & POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

(1) GENERAL

The interim financial statements and notes (Interim Financial Statements) contained in this Form 10-Q for the period ended June 30, 1996 (Form 10-Q) are unaudited and condensed. Certain notes and other information contained in the Combined Annual Report on Form 10-K (File Nos. 1-7629 and 1-3187) for the year ended December 31, 1995 (Form 10-K), of Houston Industries Incorporated (Company) and Houston Lighting & Power Company (HL&P) have been omitted in accordance with Rule 10-01 of Regulation S-X under the Securities Exchange Act of 1934.

The information presented in the Interim Financial Statements should be read in combination with the information presented in the Form 10-K and the Combined Quarterly Report on Form 10-Q of the Company and HL&P for the quarter ended March 31, 1996 (First Quarter 10-Q).

(2) CERTAIN CONTINGENCIES

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

(3) JOINTLY-OWNED NUCLEAR PLANT

In July 1996, HL&P and City Public Service Board of San Antonio (CPS) entered into a settlement agreement providing, among other things, for (i) the dismissal with prejudice of all pending arbitration claims and lawsuits between HL&P and CPS relating to the South Texas Project Electric Generating Station (South Texas Project), (ii) a cash payment by HL&P to CPS of $75 million (accrued in the quarter ended March 31, 1996), (iii) an agreement to support formation of a new operating company to replace HL&P as project manager for the South Texas Project and (iv) the execution of a 10-year joint operations agreement under which HL&P and CPS will share savings resulting from the joint dispatching of their respective generating assets in order to take advantage of each system's lower cost resources.

Under the terms of the joint operations agreement entered into between CPS and HL&P, HL&P will guarantee CPS minimum annual savings of $10 million and a minimum cumulative savings of $150 million over the ten-year term of the agreement. Based on current forecasts and other assumptions regarding the combined operation of the two generating systems, HL&P anticipates that the savings resulting from joint operations will equal or exceed the minimum savings guaranteed under the joint operations agreement.

For information regarding the settlement in April 1996 of a similar lawsuit filed by the City of Austin (Austin) against HL&P and a $13 million (after-tax) charge to earnings recorded in the first quarter of 1996 in connection with this settlement, see Notes 3 and 7(a) to the First Quarter 10-Q, which notes are incorporated herein by reference.

As a result of the settlements of the CPS and Austin litigation, all litigation and arbitration claims formerly pending between HL&P and the other co-owners of the South Texas Project have been settled and dismissed with prejudice.

(4) HI ENERGY

Acquisition of Interest in Brazilian Electric Utility. In May 1996, a subsidiary of Houston Industries Energy, Inc. (HI Energy) acquired 11.35 percent of the common shares of Light - Servicos de Eletricidade S.A. (Light), a publicly-held Brazilian corporation, for $392 million. Light is the operator under a 30-year concession agreement of an approximately 3,888 megawatt electric power generation, transmission and distribution system serving 28 municipalities in the state of Rio de Janeiro, Brazil. HI Energy acquired the shares as a bidder in the government-sponsored auction of 60 percent of Light's outstanding shares.

Subsequent to the auction, the winning bidders, including a subsidiary of HI Energy, formed a consortium whose aggregate ownership interest of 50.44 percent represents a controlling interest in Light. The consortium, organized pursuant to a shareholders agreement dated as of May 27, 1996, is comprised of the direct share ownership interests held in Light by subsidiaries or affiliates of The AES Corporation (11.35 percent), Electricite de France (11.35 percent), HI Energy (11.35 percent), Companhia Sidercgica Nacional (7.25 percent), and Banco Nacional de Desenvolvimento Economico E Social (BNDES) (9.14 percent). Pursuant to the shareholders agreement, principal responsibilities for the various aspects of Light's business will be allocated among the parties. The HI Energy subsidiary will have the principal responsibility for all matters relating to Light's financial affairs.

The Company has accounted for this transaction under purchase accounting and has recorded its investment and its interest in Light's operations since June 1, 1996, using the equity method. The effect of Light's income on the Company's net income is immaterial for the second quarter of 1996 and the six months ended June 30, 1996.

Class B Shares of Edelap. On May 2, 1996, Houston Argentina S.A. (Houston Argentina), a subsidiary of HI Energy, purchased for approximately $55 million the Class B Shares of Empresa Distribuidora de la Plata S.A. (Edelap), an electric utility company operating in La Plata, Argentina, and surrounding regions. The Class B Shares of Edelap were sold by the Argentine government in a public auction. On May 28, 1996, Houston Argentina sold a portion of its Class B Shares to a third party for approximately $10 million. The remaining Class B Shares held by Houston Argentina constitute 32 percent of the capital stock of Edelap. Houston Argentina also owns indirectly through a holding company an additional 16.6 percent of the capital stock of Edelap, which shares were acquired in 1992 for $37 million. The Company has recorded its investment in Edelap using the equity method.

(5) RATE CASE PROCEEDINGS

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

For information regarding the appeal of Docket No. 6668 (an inquiry into the prudence of the planning and construction of the South Texas Project), see Note 3(b) to the Form 10-K.

(6) CAPITAL STOCK

Company. At June 30, 1996 and December 31, 1995, the Company had 400,000,000 authorized shares of common stock, of which 247,690,618 and 248,316,710 shares, respectively, were outstanding as of such dates. Outstanding shares exclude (i) the unallocated shares of the Company's Employee Stock Ownership Plan (which as of June 30, 1996 and December 31, 1995 totaled 13,861,929 and 14,355,758, respectively) and (ii) 1,195,900 shares purchased by the Company as of June 30, 1996, under the common stock repurchase program described below. Earnings per common share for the Company are computed by dividing net income by the weighted average number of shares outstanding during the respective period.

In June 1996, the Company announced that its Board of Directors had authorized the purchase of up to $150 million of the Company's common stock. It is anticipated that any purchases of common stock under the program would be effected over the next 12 months, subject to market conditions, available cash and alternative investment opportunities. The Company began repurchasing shares in mid-June 1996.

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

On June 30, 1996 and December 31, 1995, HL&P had 10,000,000 authorized shares of preferred stock, of which 3,804,397 and 4,318,397 shares, respectively, were outstanding.

In April 1996, HL&P redeemed 514,000 shares of its $9.375 cumulative preferred stock at a cost of approximately $53 million ($102.34375 per share, including accrued dividends). The redemption included 257,000 shares in satisfaction of mandatory sinking fund requirements and an additional 257,000 shares as an optional redemption.

(7) LONG-TERM DEBT

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

In April 1996, HL&P repaid upon maturity $40 million principal amount of its 5 1/4% first mortgage bonds.

In May 1996, HL&P redeemed all outstanding principal amounts of its 7 1/4% first mortgage bonds ($50,000,000) due February 1, 2001, at a redemption price of 100.42% (plus accrued interest) and 6 3/4% first mortgage bonds ($35,000,000) due April 1, 1998, at a redemption price of 100.15% (plus accrued interest).

(8) SUBSEQUENT EVENT

On August 11, 1996, the Company, HL&P and a newly formed Delaware subsidiary of the Company (HI Merger, Inc.) entered into an Agreement and Plan of Merger with NorAm Energy Corp. (NorAm). Under the merger agreement and assuming all necessary regulatory and shareholder approvals, the Company would merge with and into HL&P and the currently outstanding stock of the Company would become the common stock of HL&P, which would be renamed "Houston Industries Incorporated" (HII). NorAm would merge with and into HI Merger, Inc. and would become a wholly owned subsidiary of HII. Consideration for the purchase of NorAm shares will be a combination of cash and shares of HII common stock. The transaction is valued at $3.8 billion, consisting of $2.4 billion for NorAm's common stock and equivalents and $1.4 billion of NorAm debt. For information regarding the Agreement and Plan of Merger, see the Company and HL&P's current report on Form 8-K dated August 11, 1996, which report is incorporated herein by reference.

(9) INTERIM PERIOD RESULTS: RECLASSIFICATIONS

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