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 JUNE 30, 1998

OR

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

For the transition period from -------------- to ---------------

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Commission file number 1-3187

HOUSTON INDUSTRIES INCORPORATED
(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) 207-3000
(Registrant's telephone number, including area code)

Commission file number 1-13265

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

Delaware	76-0511406
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1111 Louisiana Houston, Texas	77002
(Address of principal executive offices)	(Zip Code)

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

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

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 August 7, 1998, Houston Industries Incorporated had 296,097,619 shares of common stock outstanding, including 11,786,672 ESOP shares not deemed outstanding for financial statement purposes and excluding 102,291 shares held as treasury stock. As of August 7, 1998, all 1,000 shares of NorAm Energy Corp.'s common stock were held by Houston Industries Incorporated.

This combined Quarterly Report on Form 10-Q is separately filed by Houston Industries Incorporated (Company) and NorAm Energy Corp. (NorAm). Information contained herein relating to NorAm is filed by the Company and separately by NorAm on its own behalf. NorAm makes no representation as to information relating to the Company (except as it may relate to NorAm and its subsidiaries), Houston Industries Energy, Inc., Houston Industries Power Generation, Inc. or any other affiliate or subsidiary of the Company.

HOUSTON INDUSTRIES INCORPORATED
AND NORAM ENERGY CORP.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 1998

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AND NORAM ENERGY CORP.
QUARTERLY REPORT ON FORM 10-Q
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
(Thousands of Dollars, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
REVENUES:				
Electric Operations	$ 1,181,300	$ 1,043,020	$ 2,027,862	$ 1,899,554
Natural Gas Distribution	314,989		1,031,885	
Interstate Pipeline	76,516		147,497	
Energy Marketing	1,042,610		2,088,229	
International	169,435	20,401	196,681	39,928
Other	25,836	1,027	49,942	3,067
Eliminations	(71,955)		(166,653)	
Total	2,738,731	1,064,448	5,375,443	1,942,549
EXPENSES:				
Fuel and cost of gas sold	1,048,105	253,244	2,334,197	466,362
Purchased power	489,864	78,632	902,516	179,624
Operation and maintenance	415,056	295,206	807,679	509,536
Taxes other than income taxes	90,578	58,297	179,355	120,752
Depreciation and amortization	235,035	131,897	410,634	262,887
Total	2,278,638	817,276	4,634,381	1,539,161
OPERATING INCOME	460,093	247,172	741,062	403,388
OTHER INCOME (EXPENSE):				
Unrealized loss on ACES	(254,458)		(443,778)	
Time Warner dividend income	10,312	10,312	20,625	20,715
Other - net	6,295	19	13,509	(1,743)
Total	(237,851)	10,331	(409,644)	18,972
INTEREST AND OTHER CHARGES:				
Interest on long-term debt	103,326	60,293	209,355	123,094
Other interest	23,034	18,682	47,393	35,093
Distributions on trust securities	7,302	7,155	14,712	11,673
Allowance for borrowed funds used during construction	(612)	(745)	(1,569)	(1,845)
Preferred dividends of subsidiary		97		2,222
Total	133,050	85,482	269,891	170,237
INCOME BEFORE INCOME TAXES AND PREFERRED DIVIDENDS	89,192	172,021	61,527	252,123
INCOME TAXES	44,887	50,558	48,462	71,040
PREFERRED DIVIDENDS	98		195	
NET INCOME	$ 44,207	$ 121,463	$ 12,870	$ 181,083
BASIC AND DILUTED EARNINGS PER COMMON SHARE	$ .16	$ .52	$ .05	$ .77

See Notes to Unaudited Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars)
(Unaudited)

ASSETS

	June 30, 1998	December 31, 1997
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric plant:		
Plant in service	$12,990,691	$12,614,000
Construction work in progress	189,449	224,959
Nuclear fuel	262,662	255,567
Plant held for future use	48,631	48,631
Gas plant and pipelines:		
Natural gas distribution	1,396,145	1,326,442
Interstate pipelines	1,267,187	1,258,087
Energy marketing	173,853	162,519
Other property	179,542	149,019
Total	16,508,160	16,039,224
Less accumulated depreciation and amortization	5,115,183	4,770,179
Property, plant and equipment - net	11,392,977	11,269,045
CURRENT ASSETS:		
Cash and cash equivalents	89,554	51,712
Accounts receivable - net	733,299	962,974
Accrued unbilled revenues	115,655	205,860
Time Warner dividends receivable	10,313	10,313
Fuel stock and petroleum products	108,653	88,819
Materials and supplies, at average cost	158,875	156,160
Prepayments and other current assets	48,695	42,169
Total current assets	1,265,044	1,518,007
OTHER ASSETS:		
Goodwill--net	2,079,320	2,026,395
Investment in Time Warner securities	990,000	990,000
Equity investments in and advances to foreign and non-rate regulated affiliates - net	777,106	704,102
Deferred plant costs - net	548,678	561,569
Deferred debits	500,258	510,686
Regulatory tax asset - net	349,746	356,509
Unamortized debt expense and premium on reacquired debt	211,129	202,453
Fuel-related debits	233,421	197,304
Recoverable project costs - net	57,975	78,485
Total other assets	5,747,633	5,627,503
Total	$18,405,654	$18,414,555

See Notes to Unaudited Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars)
(Unaudited)

CAPITALIZATION AND LIABILITIES

	June 30, 1998	December 31, 1997
CAPITALIZATION:		
Common stock equity:		
Common stock, no par value	$ 3,132,692	$ 3,112,098
Treasury stock, at cost	(2,266)	(2,066)
Unearned ESOP shares	(223,012)	(229,827)
Retained earnings	1,815,435	2,013,055
Cumulative foreign currency translation adjustment	(5,866)	(821)
Unrealized loss on marketable equity securities	(10,669)	(5,634)
Total common stock equity	4,706,314	4,886,805
Preference stock, none outstanding		
Cumulative preferred stock, no par value, not subject to mandatory redemption	9,740	9,740
Company/NorAm obligated mandatorily redeemable trust preferred securities of subsidiary trusts holding solely subordinated debentures of Company/NorAm	342,814	362,172
Long-term debt:		
Automatic common exchange securities (ACES)	1,617,565	1,173,786
Debentures	972,518	669,291
First mortgage bonds	1,933,197	2,495,459
Notes payable	734,204	745,889
Pollution control revenue bonds	512,685	118,000
Other	15,023	15,590
Total long-term debt	5,785,192	5,218,015
Total capitalization	10,844,060	10,476,732
CURRENT LIABILITIES:		
Notes payable	1,796,787	2,124,956
Accounts payable	799,016	879,612
Taxes accrued	206,838	240,739
Interest accrued	119,978	109,901
Dividends declared	111,017	110,716
Customer deposits	80,009	82,437
Current portion of long-term debt	382,673	251,169
Other	206,379	193,384
Total current liabilities	3,702,697	3,992,914
DEFERRED CREDITS:		
Accumulated deferred income taxes	2,648,709	2,792,781
Benefit obligations	424,962	397,586
Unamortized investment tax credit	339,010	349,072
Fuel-related credits	105,601	75,956
Other	340,615	329,514
Total deferred credits	3,858,897	3,944,909
COMMITMENTS AND CONTINGENCIES		
Total	$ 18,405,654	$ 18,414,555

See Notes to Unaudited Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents
(Thousands of Dollars)
(Unaudited)

	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 12,870	$ 181,083
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	410,634	262,887
Amortization of nuclear fuel	13,291	14,856
Deferred income taxes	(121,510)	(16,758)
Investment tax credit	(10,062)	(9,757)
Unrealized loss on ACES	443,778	
Contribution of marketable equity securities to charitable trust		19,463
Fuel surcharge	46,524	66,245
Fuel cost under recovery	(90,015)	(84,276)
Changes in other assets and liabilities:		
Accounts receivable - net	179,348	28,962
Accounts receivable - IRS	140,532	
Inventory	(18,315)	36,074
Other current assets	(6,741)	(6,995)
Accounts payable	(102,394)	(22,561)
Interest and taxes accrued	(31,824)	(43,493)
Other current liabilities	(16,746)	(24,666)
Other - net	(35,292)	15,384
Net cash provided by operating activities	814,078	416,448
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures (including allowance for borrowed funds used during construction)	(268,567)	(93,558)
Acquisitions of non-rate regulated electric power plants	(230,462)	
Sale of non-rate regulated electric power projects	242,744	
Non-rate regulated electric power project expenditures (including capitalized interest)	(175,706)	(211,609)
Sale of Time Warner securities		25,043
Other - net	(19,892)	(5,082)
Net cash used in investing activities	(451,883)	(285,206)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of Company obligated mandatorily redeemable trust preferred securities of subsidiary trusts holding solely subordinated debentures of Company - net		340,785
Payment of matured bonds	(29,000)	(190,000)
Proceeds from issuance of debentures	298,514	
Proceeds from issuance of pollution control revenue bonds	386,634	115,739
Redemption of preferred stock		(153,628)
Payment of common stock dividends	(210,376)	(175,235)
Increase (decrease) in notes payable - net	(339,854)	120,282
Extinguishment of long-term debt	(402,587)	(190,338)
Conversion of convertible securities	(10,097)	
Other - net	(17,587)	2,118
Net cash used in financing activities	(324,353)	(130,277)
NET INCREASE IN CASH AND CASH EQUIVALENTS	37,842	965
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	51,712	8,001
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 89,554	$ 8,966
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest (net of amounts capitalized)	$ 276,679	$ 178,378
Income taxes	164,655	64,994

See Notes to Unaudited Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED RETAINED EARNINGS
(Thousands of Dollars)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
Balance at Beginning of Period	$ 1,875,213	$ 1,969,454	$ 2,013,055	$ 1,997,490
Net Income for the Period	44,207	121,463	12,870	181,083
Total	1,919,420	2,090,917	2,025,925	2,178,573
Common Stock Dividends	(103,985)	(87,723)	(210,490)	(175,379)
Balance at End of Period	$ 1,815,435	$ 2,003,194	$ 1,815,435	$ 2,003,194

See Notes to Unaudited Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

The unaudited interim financial statements and notes (Company's Interim Financial Statements) in this joint Form 10-Q (Form 10-Q) include the accounts of Houston Industries Incorporated (Company) and its wholly owned and majority owned subsidiaries including, effective as of August 6, 1997 (Acquisition Date), the accounts of NorAm Energy Corp. (NorAm) and its wholly owned and majority owned subsidiaries. For information regarding the Company's acquisition of NorAm, see Note 1(b) to the Company's Consolidated Financial Statements in the joint Annual Report on Form 10-K (Form 10-K) of the Company (File No. 1-3187) and NorAm (File No. 1-13265) for the fiscal year ended December 31, 1997. The Form 10-K includes the consolidated financial statements of the Company (Company's 10-K Financial Statements) and the consolidated financial statements of NorAm (NorAm's 10-K Financial Statements) for the year ended December 31, 1997.

The Interim Financial Statements omit certain information included in financial statements prepared in accordance with generally accepted accounting principles and should be read in combination with the Form 10-K and the joint Quarterly Report on Form 10-Q (First Quarter 10-Q) of the Company and NorAm for the quarter ended March 31, 1998. For additional information regarding the presentation of interim period results, see Note 12 to the Company's Interim Financial Statements below.

The following notes to the financial statements in the Form 10-K relate to material contingencies. These notes, as updated by the notes contained in the Interim Financial Statements, are incorporated herein by reference:

Company's 10-K Financial Statements: Note 1(c) (Regulatory Assets and Other Long-Lived Assets), Note 1(n) (Investments in Time Warner Securities), Note 2 (Derivative Financial Instruments (Risk Management)), Note 3 (Rate Matters), Note 4 (Jointly Owned Electric Utility Plant), Note 5 (Equity Investments in Foreign Affiliates) and Note 12 (Commitments and Contingencies).

NorAm's 10-K Financial Statements: Note 1(c) (Regulatory Assets and Regulation), Note 2 (Derivative Financial Instruments (Risk Management)), and Note 8 (Commitments and Contingencies).

(2) PRO FORMA COMBINED RESULTS OF OPERATIONS DATA

The Company's results of operations incorporate NorAm's results of operations for all periods beginning on and after the Acquisition Date. The following table presents certain unaudited pro forma information for the quarter and six months ended June 30, 1997, as if the acquisition of NorAm had occurred on January 1, 1997.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

Combined Results of Operations
(in millions, except per share data)

	Three Months Ended June 30, 1998 Actual	Three Months Ended June 30, 1997 Actual	Three Months Ended June 30, 1997 Pro Forma
Revenues	$ 2,739	$ 1,064	$ 2,080
Net Income (1)	$ 44	$ 121	$ 105
Basic and Diluted Earnings Per Share (1)	$ 0.16	$ 0.52	$ 0.37

	Six Months Ended June 30, 1998 Actual	Six Months Ended June 30, 1997 Actual	Six Months Ended June 30, 1997 Pro Forma
Revenues	$ 5,375	$ 1,943	$ 4,883
Net Income (1)	$ 13	$ 181	$ 216
Basic and Diluted Earnings Per Share (1)	$ 0.05	$ 0.77	$ 0.77

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(1) Includes a $165 million or $.58 per share and a $288 million or $1.02 per share (after-tax) non-cash unrealized accounting loss recorded in the second quarter and first six months of 1998, respectively, relating to the Company's Automatic Common Exchange Securities (ACES). For additional information on the unrealized accounting loss, see Note 5 to the Company's Interim Financial Statements.

These and other pro forma results appearing in the Form 10-Q are based on assumptions deemed appropriate by the Company's management, have been prepared for informational purposes only and are not necessarily indicative of the combined results that would have resulted had the acquisition of NorAm occurred at the beginning of 1997. Purchase related adjustments to results of operations include amortization of goodwill and the effects on depreciation, amortization, interest expense and deferred income taxes of the revaluation, on a preliminary basis, of the fair value of certain NorAm assets and liabilities. For information regarding the recording of the NorAm acquisition under the purchase method of accounting, see Note 1(b) to the Company's 10-K Consolidated Financial Statements.

(3) COMPREHENSIVE INCOME

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income" (SFAS No. 130). SFAS No. 130 requires that all items that meet the definition of a component of comprehensive income (as defined below) be reported in the year-end financial statements for the annual period in which they are recognized and the total amount of comprehensive income be prominently displayed in those same financial statements. Comprehensive income is defined to include not only net income (loss), but also the change in total common stock equity during a period from transactions and other events and circumstances from non-stockholder sources.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

In the second quarter of 1998, the Company had total comprehensive income of $33 million compared to $121 million in the corresponding period in 1997. In the first six months of 1998, the Company had total comprehensive earnings of $3 million compared to $181 million in the corresponding period in 1997.

In addition to net income, comprehensive income in all periods reflects foreign currency translation adjustments and unrealized gains or losses on the Company's investment in marketable equity securities.

(4) DEPRECIATION

The Company calculates depreciation using the straight-line method. The Company's depreciation expense for the second quarter and first six months of 1998 was $125 million and $252 million, respectively, compared to $91 million and $182 million for the same periods in 1997. For information regarding the additional depreciation of generating assets under a transition to competition plan implemented in January 1998, see Note 9(a) to the Company's Interim Financial Statements.

(5) INVESTMENT IN TIME WARNER SECURITIES

The Company owns 11 million shares of non-publicly traded Time Warner convertible preferred stock (TW Preferred). The TW Preferred is convertible into approximately 22.9 million shares of Time Warner common stock. For additional information regarding TW Preferred (including its dividend rate, liquidation preference and voting rights), see Note 1(n) to the Company's 10-K Financial Statements.

The Company has recorded its $990 million investment in the TW Preferred under the cost method. Dividends on these securities are recognized as income at the time they are earned. The Company recorded pre-tax dividend income with respect to these securities of $10 million and $21 million, respectively, in the second quarter and first six months of both 1998 and 1997.

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

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

As of June 30, 1998, the market price of Time Warner common stock was $85.438 per share. Accordingly, the Company recognized an increase of $254 million and $444 million during the second quarter and first six months of 1998, respectively, in the unrealized liability relating to its ACES indebtedness (which resulted in an after-tax earnings reduction for such periods of $165 million or $.58 per share and $288 million or $1.02 per share, respectively). The Company believes that the cumulative unrealized loss for the ACES of $565 million is more than economically offset by the approximately $967 million unrecorded unrealized gain at June 30, 1998 relating to the increase in the fair value of the Time Warner common stock underlying the investment in TW Preferred since the date of its acquisition. For the quarter ended June 30, 1998, there was an increase in the unrecorded unrealized gain in the fair value of Time Warner common stock underlying the investment in TW Preferred of $308 million. Any gain related to the increase in the fair value of Time Warner common stock would be recognized as a component of net income upon the sale of the TW Preferred or the shares of common stock into which such TW Preferred is converted.

(6) CAPITAL STOCK

(a) Common Stock.

At June 30, 1998, the Company had 284,299,099 shares of common stock issued and outstanding (out of a total of 700,000,000 authorized shares). At December 31, 1997, the Company had 282,875,266 shares of common stock issued and outstanding. Outstanding common shares excluded (i) shares pledged to secure a loan to the Company's Employee Stock Ownership Plan (11,786,672 and 12,388,551 at June 30, 1998 and December 31, 1997, respectively) and (ii) treasury shares (102,291 and 93,459 at June 30, 1998 and December 31, 1997, respectively).

In 1996, the Board of Directors of Houston Industries Incorporated (the former parent corporation of the Company) approved the repurchase of $450 million of its common stock. In December 1996, the Board of Directors of the Company approved and ratified the adoption of the former parent corporation's repurchase program. At June 30, 1998, the remaining amount authorized by the Company for repurchases of its common stock under this program was approximately $89 million. Future repurchases of the Company's common stock, which may not be preceded by public announcement, may be made in open market or privately negotiated transactions from time to time as determined by management. Such repurchases are subject to market conditions, applicable legal requirements, available cash and other factors.

(b) Earnings Per Share.

Effective December 31, 1997, the Company adopted SFAS No. 128, "Earnings per Share" (SFAS No. 128). This statement requires restatement of all prior period earnings per share (EPS) data presented herein. SFAS No. 128 requires dual presentation of basic and diluted EPS on the face of the Statements of Consolidated Income and requires a reconciliation of the numerators and denominators used in the basic and diluted earnings per share calculations.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

The following table presents a reconciliation of the Company's numerators and denominators of basic and diluted earnings per share calculations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998(1)	1997	1998(2)	1997
	(In thousands, except per share amounts)			
Basic EPS Calculation:				
Income before preferred dividends	$ 44,305	$ 121,463	$ 13,065	$ 181,083
Less: Preferred dividends	98		195	
Net income attributable to common stock	$ 44,207	$ 121,463	$ 12,870	$ 181,083
Weighted average shares outstanding	284,015	233,919	283,773	233,805
Basic EPS:				
Income before preferred dividends	$ 0.16	$ 0.52	$ 0.05	$ 0.77
Less: Preferred dividends	0.00	0.00	0.00	0.00
Net income attributable to common stock	$ 0.16	$ 0.52	$ 0.05	$ 0.77
Diluted EPS Calculation:				
Income before preferred dividends	$ 44,305	$ 121,463	$ 13,065	$ 181,083
Plus: Income impact of assumed conversions:				
Interest on 6 1/4% convertible debentures	14		29	
Income before preferred dividends assuming dilution	44,319	121,463	13,094	181,083
Less: Preferred dividends	98		195	
Net income attributable to common stock	$ 44,221	$ 121,463	$ 12,899	$ 181,083
Weighted average shares outstanding	284,015	233,919	283,773	233,805
Plus: Incremental shares from assumed conversions:				
Stock options	186	19	164	23
Restricted stock	492	369	492	369
6 1/4% convertible debentures	44		44	
Weighted average shares assuming dilution	284,737	234,307	284,473	234,197
Diluted EPS:				
Income before preferred dividends	$ 0.16	$ 0.52	$ 0.05	$ 0.77
Less: Preferred dividends	0.00	0.00	0.00	0.00
Net income attributable to common stock	$ 0.16	$ 0.52	$ 0.05	$ 0.77

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(1) For the three months ended June 30, 1998, the computation of diluted EPS excludes purchase options for 379 shares of common stock, because the exercise prices for such shares (ranging from $30.18 to $35.18 per share) were greater than the $29.28 per share average market price for the period and would thus be anti-dilutive if exercised.

(2) For the six months ended June 30, 1998, the computation of diluted EPS excludes purchase options for 60,837 shares of common stock, because the exercise prices for such shares (ranging from $29.13 to $35.18 per share) were greater than the $27.87 per share average market price for the period and would thus be anti-dilutive if exercised.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

(c) Preferred Stock.

At June 30, 1998 and December 31, 1997, the Company had 10,000,000 authorized shares of preferred stock, of which 97,397 shares of $4.00 Preferred Stock were outstanding. The $4.00 Preferred Stock pays an annual dividend of $4.00 per share, is redeemable at $105 per share and has a liquidation price of $100 per share.

(d) Preference Stock.

At June 30, 1998 and December 31, 1997, the Company had 10,000,000 authorized shares of preference stock. Of the authorized shares of preference stock, the Company has designated 700,000 shares as Series A Preference Stock, 27,000 shares as Series B Preference Stock and 1,575 shares as Series C Preference Stock.

As of June 30, 1998, the number of shares of Series B Preference Stock and Series C Preference Stock issued and outstanding was 17,000 and 1,575, respectively. The shares of Series B and Series C Preference stock are not deemed outstanding for financial reporting purposes, because the sole holders of such series are wholly owned financing subsidiaries of the Company (see Note 7(b) to the Company's 10-K Financial Statements with respect to Series B Preference Stock and Note 6(d) to the Company's Interim Financial Statements in the First Quarter 10-Q with respect to Series C Preference Stock). The shares of Series A Preference Stock are issuable only pursuant to the Company's Shareholder Rights Agreement and there were no shares of Series A Preference Stock outstanding at June 30, 1998.

(7) COMPANY/NORAM OBLIGATED MANDATORILY REDEEMABLE TRUST PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY SUBORDINATED DEBENTURES OF THE COMPANY AND NORAM

For information regarding (i) $250 million of preferred securities and $100 million of capital securities issued by two statutory business trusts formed by the Company and (ii) $177.8 million of convertible preferred securities (of which $1.4 million was outstanding at June 30, 1998) issued by a statutory business trust formed by NorAm, see Note 9 to the Company's 10-K Financial Statements. The sole asset of each trust consists of junior subordinated debentures of the Company or NorAm having interest rates and maturity dates corresponding to each issue of preferred or capital securities, and the principal amounts corresponding to the common and preferred or capital securities issued by such trust.

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

(a) Consolidated Debt.

The Company's consolidated long-term and short-term debt outstanding is summarized in the following table. Of the amount of long-term and short-term debt outstanding as of June 30, 1998, $1.7 billion represents debt of NorAm. The Company adjusted the recorded value of NorAm debt to fair market value as of the Acquisition Date.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

Consolidated Long-Term Debt and Short-Term Borrowings
(in millions)

	June 30, 1998		December 31, 1997	
	Long-Term	Current (1)	Long-Term	Current (1)
Short-Term Borrowings:				
Commercial Paper		$ 1,344		$ 1,435
Lines of Credit		150		390
NorAm Receivables Facility		300		300
Notes Payable		3		
Total Short-Term Borrowings		1,797		2,125
Long-Term Debt - net:				
ACES	$ 1,618		$ 1,174	
Debentures(2)(3)	973		669	
First Mortgage Bonds(2)	1,933	170	2,495	
Pollution Control Bonds	513		118	5
NorAm Medium-Term Notes(3)	180	48	182	79
Notes Payable(3)	554	164	565	166
Capital Leases	14	1	15	1
Total Long-Term Debt	5,785	383	5,218	251
Total Long-Term and Short-Term Debt	$ 5,785	$ 2,180	$ 5,218	$ 2,376

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(1) Current includes amounts due within one year of the date noted.

(2) Includes unamortized discount related to debentures of approximately $1 million at June 30, 1998 and December 31, 1997 and unamortized discount related to first mortgage bonds of approximately $11 million and $14 million at June 30, 1998 and December 31, 1997, respectively.

(3) Includes unamortized premium related to fair value adjustments of approximately $19 million and $16 million for debentures at June 30, 1998 and December 31, 1997, respectively. The unamortized premium for NorAm long-term and current medium-term notes at June 30, 1998 was approximately $14 million and $1 million, respectively, and $17 million and $3 million at December 31, 1997, respectively. The unamortized premium for long-term and current notes payable was approximately $9 million and $2 million, respectively, at June 30, 1998 and $14 million and $3 million at December 31, 1997.

Consolidated maturities of long-term debt and sinking fund requirements for the Company (including NorAm) are $205 million for the remainder of 1998.

(b) Second Quarter Financing Developments

Company: At June 30, 1998, a financing subsidiary of the Company had $1.344 billion in commercial paper borrowings supported by a $1.644 billion revolving credit facility. At such date, such commercial paper borrowings had a weighted average interest rate of 5.89%. At June 30,1998, another financing subsidiary of the Company had $150 million in borrowings under another credit facility. The weighted average interest rate of borrowings under this facility was 5.91%. At June 30, 1998, the Company had no commercial paper outstanding and there were no outstanding borrowings under its $200 million bank facility. For information regarding these facilities, see Notes 8(c) and (d) to the Company's 10-K Financial Statements and Note 8(b) to the Company's Interim Financial Statements in the First Quarter 10-Q.

In June 1998, the Company repaid at maturity $5 million of its floating-rate pollution control revenue bonds. In May 1998, all outstanding 8.25% Brazos River Authority (BRA) Series 1988A pollution control revenue bonds ($100 million), 8.25% BRA Series 1988B pollution control revenue bonds ($90 million), and 8.10% BRA Series 1988C pollution control revenue ($100 million) were redeemed at a redemption price of 102% of the aggregate principal amount of each series. The proceeds for the redemption of these bonds were derived from the issuance of $290 million aggregate principal amount of pollution control revenue refunding bonds in February 1998 on behalf of the Company by the BRA. For additional information regarding these issuances, see Note 8(c) the Company's Interim Financial Statements in the First Quarter 10-Q.

NorAm: In May 1998, NorAm repaid at maturity $28 million of medium-term notes carrying an average interest rate of 8.74%.

For information regarding NorAm's $350 million revolving credit facility (NorAm Credit Facility), see Note 8(d) to the Company's Interim Financial Statements in the First Quarter 10-Q. At June 30, 1998, there were no commercial paper borrowings and no loans outstanding under the facility. For information regarding NorAm's $300 million receivables facility, see Note 8(g) to the Company's 10-K Financial Statements. At June 30, 1998, NorAm had sold $300 million of receivables under the facility. For information regarding (i) NorAm's issuance of $300 million principal amount of 6.5% debentures due February 1, 2008, (ii) NorAm's repayment in the first quarter of 1998 of $1 million of its 9.30% medium-term notes and (iii) NorAm's satisfaction of the $6.5 million sinking fund requirement for its 6% convertible subordinated debentures due 2012 using debentures purchased in 1996 and 1997, see Note 8(d) to the Company's Interim Financial Statements in the First Quarter 10-Q.

(9) REGULATORY MATTERS

(a) Transition Plan

In June 1998, the Public Utility Commission of Texas (Texas Utility Commission) issued an order approving the transition to competition plan (Transition Plan) filed by the Company's electric operations division (Electric Operations) in December 1997. The order also approved the implementation of base rate credits to residential customers of 4% in 1998 and an additional 2% in 1999. Commercial customers whose monthly billing is 1000 kva or less receive base rate credits of 2% in each of 1998 and 1999. The Company implemented the Transition Plan effective January 1, 1998.

In order to reduce the Company's exposure to potential stranded costs related to generating assets, the Transition Plan permits the Company to redirect depreciation expenses that otherwise would have been applied to transmission, distribution and general plant assets to generation assets. In addition, the Transition Plan provides that all earnings by Electric Operations above a 9.844% overall annual rate of return on invested capital formula will be used to write-down Electric Operation's investment in generation assets. The $67.5 million in additional depreciation recorded in the second quarter of 1998 is an estimate of the amount of additional depreciation

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

necessary under the earnings cap, given the uncertainty of weather and the level of revenues and expenses during the remainder of the year and the level of year end invested capital.

For additional information regarding the Transition Plan, see Note 3(b) to the Company's 10-K Financial Statements.

(b) Nuclear Insurance

In July 1998, the Nuclear Regulatory Commission increased, effective August 1998, the maximum secondary retrospective deferred premium, currently established at $75.5 million per reactor per incident (but not to exceed $10 million in any one year), to $88.09 million per reactor per incident (but not to exceed $10 million in any one year), for liability insurance coverage in the event of nuclear incidents at licensed, operating commercial nuclear power plants. The change was based on inflation adjustment required by the Price-Anderson Amendments Act of 1988. For additional information on nuclear insurance and other nuclear regulatory matters, see Note 4(c) to the Company's 10-K Financial Statements.

(10) ACQUISITIONS AND DISPOSITIONS

(a) International

On June 30, 1998, Houston Industries Energy, Inc. (HI Energy) sold its 63% ownership interest in Empresa Distribuidora La Plata S.A. (EDELAP) and certain related assets for approximately $243 million. EDELAP, an electric utility serving the city of La Plata, Argentina, was initially acquired by HI Energy in 1992. The Company has recorded the proceeds from the sale of EDELAP as an $80 million after tax gain in the second quarter of 1998.

In June 1998, a subsidiary of HI Energy acquired for $150 million, equity interests (ranging from approximately 24% to 45%) in three distribution systems located in northern and eastern El Salvador, including the city of El Salvador. The transaction closed on June 30, 1998. HI Energy has accounted for this transaction under purchase accounting and recorded its investment and its interest in the affiliate's earnings after the acquisition date using the equity method.

(b) Domestic Power Generation

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

In April 1998, Houston Industries Power Generation, Inc. (HIPG, Inc.) acquired four natural gas-fired, electric generating plants (2,276 MW) from Southern California Edison Company (SCE) for approximately $230 million. The acquisition was recorded under the purchase method of accounting with assets and liabilities reflected at their estimated fair values as of the Acquisition Date. Goodwill was recorded on this acquisition by HIPG, Inc. in the amount of approximately $47 million.

(11) SUBSEQUENT EVENTS

In August 1998, a holding company, jointly owned by HI Energy and Electricidad de Caracas, was awarded through a competitive bid the right to purchase from the government of Colombia, 65% of the outstanding shares in each of two electrical distribution companies, collectively CORELCA. The purchase price for CORELCA was approximately $550 million, plus acquisition costs. HI Energy's share of the purchase price is $275 million. HI Energy will account for this transaction under purchase accounting. HI Energy will fund its share of the purchase price with proceeds from the sale of EDELAP and additional bank borrowings. CORELCA serves approximately 1.2 million customers in the Atlantic costal region of Colombia, including the cities of Santa Marta, Barranquilla and Cartagena.

In July 1998, HIPG, Inc. purchased from Southern California Edison Company a 1500 mw generating plant for $43 million.

(12) INTERIM PERIOD RESULTS: RECLASSIFICATIONS

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

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

The following discussion and analysis should be read in combination with Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company in Item 7 of the Form 10-K, Management's Narrative Analysis of the Results of Operations of NorAm and Consolidated Subsidiaries in Item 7 of the Form 10-K, the Company's consolidated financial statements and notes contained in Item 8 of the Form 10-K and Item 1 of this Form 10-Q. The Company from time to time makes use in its presentations and other communications of projections, forecasts and other non-historical information. For a discussion of the qualifications and assumptions underlying the use of such forward looking information, see Item 5 of this Form 10-Q.

HOUSTON INDUSTRIES INCORPORATED

Houston Industries Incorporated (Company), together with various divisions and subsidiaries, including NorAm Energy Corp. (NorAm), is a diversified international energy services company.

The Company's electric operations segment (Electric Operations) operates the nation's tenth largest electric utility in terms of kilowatt-hour (KWH) sales, and its natural gas distribution segment (Natural Gas Distribution) operates the nation's third largest natural gas distribution operation in terms of customers served. The Company, through its interstate pipeline segment (Interstate Pipeline), operates two interstate natural gas pipelines. The Company provides natural gas transportation, supply, gathering and storage, and wholesale natural gas and electric power marketing services through its energy marketing segment (Energy Marketing) and invests, through its international (International) and corporate (Corporate) segments, in foreign electric and gas utility operations and domestic non-rate regulated power generation projects.

CONSOLIDATED RESULTS OF OPERATIONS

The Company's actual and pro forma results of operations for the second quarter and first six months of 1998 are summarized in the following table. The Company's actual results of operations include results of operations for NorAm for periods on and after August 6, 1997 (Acquisition Date). The Company's pro forma results of operations give effect to the acquisition of NorAm as if it had occurred as of January 1, 1997. The pro forma information is not necessarily indicative of the results of operations of the Company and its business segments that would have occurred had the acquisition of NorAm occurred at the beginning of such period. In general, the effects of the acquisition of NorAm include (i) significant increases in amortization attributable to purchase accounting, (ii) increases in shares outstanding and interest expense and (iii) inclusion of additional revenues and operating expenses from the newly acquired NorAm business.

	Three Months Ended June 30, 1998 (Actual)	Three Months Ended June 30, 1997 (Actual)	Three Months Ended June 30, 1998 (Actual)	Three Months Ended June 30, 1997 (Pro Forma)	Percent Change (1998 Actual to 1997 Pro Forma)
	(in millions, except per share data)				
Revenues	$ 2,739	$ 1,064	$ 2,739	$ 2,080	32%
Operating Expenses	2,279	817	2,279	1,806	26%
Operating Income	460	247	460	275	67%
Other Expenses, Net (1)	371	75	371	124	199%
Income Taxes	45	51	45	46	(2%)
Net Income (1)	44	121	44	105	(58%)
Basic and Diluted Earnings Per Share (1)	0.16	0.52	0.16	0.37	(57%)

	Six Months Ended June 30, 1998 (Actual)	Six Months Ended June 30, 1997 (Actual)	Six Months Ended June 30, 1998 (Actual)	Six Months Ended June 30, 1997 (Pro Forma)	Percent Change (1998 Actual to 1997 Pro Forma)
	(in millions, except per share data)				
Revenues	$ 5,375	$ 1,943	$ 5,375	$ 4,883	10%
Operating Expenses	4,634	1,539	4,634	4,315	7%
Operating Income	741	403	741	567	31%
Other Expenses, Net (2)	680	151	680	245	178%
Income Taxes	48	71	48	106	(55%)
Net Income (2)	13	181	13	216	(94%)
Basic and Diluted Earnings Per Share (2)	0.05	0.77	0.05	0.77	(94%)

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(1) Includes a $254 million ($165 million after-tax) or $.58 per share non-cash unrealized accounting loss recorded in the second quarter of 1998 relating to the Company's 7% Automatic Common Exchange Securities (ACES). See Note 5 to the Company's Interim Financial Statements.

(2) Includes a $444 million ($288 million after-tax) or $1.02 per share non-cash unrealized accounting loss recorded in the first six months of 1998 relating to the ACES.

Second Quarter of 1998 Compared to Second Quarter of 1997 (Actual). The Company had consolidated net income of $44 million for the second quarter of 1998 ($0.16 per share) compared to consolidated net income of $121 million ($0.52 per share) in the same period in 1997. The Company's results of operations for the second quarter of 1998 reflect a $165 million (after-tax) non-cash, unrealized accounting loss on the ACES. For a discussion of the accounting loss in connection with the ACES, see Note 5 to the Company's Interim Financial Statements.

Excluding the ACES accounting loss, the Company would have had consolidated earnings of $210 million ($0.74 per share) for the second quarter of 1998. The increase in earnings is primarily attributable to an $80 million ($0.28 per share) after-tax gain recorded in connection with the sale of an investment in an Argentine electric utility system. For further discussion of the sale, see Note 10(a) to the Company's Interim Financial Statements. Another factor contributing to the increase in net income was an increase in sales by Electric Operations due to record hot weather. These effects were partially offset by additional depreciation of Electric Operations' generation assets of $67.5 million ($55 million over the prior year), base rate credits resulting from the Transition Plan (as described below) and increased interest expense primarily related to the NorAm acquisition.

The consolidated tax expense in the second quarter of 1998 takes into account the impact of non-deductible goodwill expense, higher state tax expense arising from the NorAm acquisition, and the loss of the dividends received tax deduction formerly applicable to the Company's investment in Time Warner, Inc. preferred securities (TW Preferred).

Second Quarter of 1998 Actual Compared to Second Quarter of 1997 Pro Forma. The Company's consolidated net income for the second quarter of 1998 was $44 million ($0.16 per share) compared to pro forma net income of $105 million ($0.37 per share) in the second quarter of 1997.

Excluding the ACES accounting loss described above, the Company's second quarter of 1998 adjusted net income would have been $210 million ($0.74 per share) compared to $105 million ($0.37 per share). The increase in earnings is primarily a result of the gain recorded in connection with the sale of an interest in an Argentine electric utility system. Another factor contributing to the increase in net income was an increase in sales by Electric Operations due to record hot weather. These effects were partially offset by $67.5 million in additional depreciation ($55 million over the prior year) of Electric Operation's generation assets and the implementation of base rate credits under the Transition Plan (as described below), decreased operating income at Natural Gas Distribution due to warmer weather, and decreased operating income at Energy Marketing primarily due to increased operating expenses.

First Six Months of 1998 Compared to First Six Months of 1997 (Actual). The Company had consolidated net income of $13 million for the first six months of 1998 ($0.05 per share) compared to net income of $181 million ($0.77 per share) for the same period in 1997. The Company's results of operations for the first six months of 1998 reflect a $288 million (after-tax) non-cash, unrealized accounting loss on the ACES as described above. Excluding the ACES accounting loss, the Company would have had consolidated earnings of $301 million ($1.06 per share). The increase in earnings is primarily a result of the factors affecting the second quarter results (as discussed above) plus the additional earnings from the business segments acquired in the NorAm acquisition.

The consolidated tax expense in the first six months of 1998 takes into account the impact of non-deductible goodwill expense, higher state tax expense arising from the NorAm acquisition and the loss of the dividends received tax deductions formerly applicable to the Company's investment in TW Preferred.

First Six Months of 1998 Actual Compared to First Six Months of 1997 Pro Forma. The Company's consolidated net income for the first six months of 1998 was $13 million ($0.05 per share) compared to pro forma net income of $216 million ($0.77 per share) in the first six months of 1997.

Excluding the ACES accounting loss described above, the Company's adjusted net income for the first six months of 1998 would have been $301 million ($1.06 per share) compared to pro forma net income of $216 million ($0.77

per share) for the first six months of 1997. The increase in adjusted earnings is due to (i) the gain on the sale of an investment in an Argentine electric distribution system and increased equity earnings at International; (ii) increased sales at Electric Operations due to record hot weather during the second quarter of 1998 partially offset by additional depreciation and the implementation of base rate credits. Partially offsetting the increase in earnings is decreased operating income at Natural Gas Distribution due to warmer weather.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

The following table presents operating income on (i) an actual basis for the quarters and six months ended June 30, 1998 and 1997 and (ii) a pro forma basis for the quarter and first six months ended June 30, 1997 (assuming the NorAm acquisition had occurred on January 1, 1997) for each of the Company's business segments (other than Electric Operations, which is an actual basis for all periods):

OPERATING INCOME (LOSS) BY BUSINESS SEGMENT

	Three Months Ended June 30,		
	1998 (Actual)	1997 (Actual) (in millions)	1997 (Pro Forma)(1)
Electric Operations	$ 294	$ 267	$ 267
Natural Gas Distribution	(6)		0
Interstate Pipeline	33		27
Energy Marketing	(6)		5
International	151	5	4
Corporate	(6)	(25)	(28)
Total Consolidated	$ 460	$ 247	$ 275

	Six Months Ended June 30,		
	1998 (Actual)	1997 (Actual) (in millions)	1997 (Pro Forma) (1)
Electric Operations	$ 436	$ 427	$ 427
Natural Gas Distribution	96		107
Interstate Pipeline	65		62
Energy Marketing	3		4
International	162	8	6
Corporate	(21)	(32)	(39)
Total Consolidated	$ 741	$ 403	$ 567

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(1) Pro forma adjustments give retroactive effect to purchase-related adjustments, including amortization of goodwill and the revaluation on a preliminary basis of the fair market value of certain NorAm assets and liabilities.

ELECTRIC OPERATIONS

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

The following table provides summary data regarding the actual results of operations of Electric Operations, including operating statistics, for the quarters and first six months ended June 30, 1998 and 1997.

	Three Months Ended June 30, 1998 (Actual)	1997 (Actual)	Percent Change
	(in millions)		
Base Revenues (1)	$ 781	$ 695	12%
Transmission Revenues	21	40	(48%)
Reconcilable Fuel Revenues (2)	379	308	23%
Operating Expenses:			
Fuel	302	248	22%
Purchased Power	93	78	19%
Operation and Maintenance	243	261	(7%)
Depreciation and Amortization	185	131	41%
Other Taxes	64	58	10%
Operating Income	$ 294	$ 267	10%
Electric Sales (MWH):			
Residential	4,475,019	3,691,822	21%
Commercial	3,897,340	3,605,471	8%
Industrial - Firm	6,773,768	6,248,653	8%
Municipal & Public Utilities	76,521	81,849	(7%)
Total Firm Sales	15,222,648	13,627,795	12%
Average Cost of Fuel (Cents/MMBtu):	183.7	172.6	6%

	Six Months Ended June 30, 1998 (Actual)	1997 (Actual)	Percent Change
	(in millions)		
Base Revenues (1)	$ 1,314	$ 1,247	5%
Transmission Revenues	43	40	8%
Reconcilable Fuel Revenues (2)	671	613	9%
Operating Expenses:			
Fuel	495	466	6%
Purchased Power	205	180	14%
Operation and Maintenance	458	445	3%
Depreciation and Amortization	315	261	21%
Other Taxes	119	121	(2%)
Operating Income	$ 436	$ 427	2%

Electric Sales (MWH):			
Residential..	8,072,040	7,647,080	6%
Commercial...	7,321,690	7,004,267	5%
Industrial - Firm	13,141,747	12,705,324	3%
Municipal & Public Utilities..........................	157,909	158,454	--
Total Firm Sales......................................	28,693,386	27,515,125	4%
Average Cost of Fuel (Cents/MMBtu):.........................	179.2	179.3	--

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(1) Includes miscellaneous revenues, certain non-reconcilable fuel revenues and certain purchased power-related revenues.

(2) Includes revenues collected through a fixed fuel factor and surcharge, net of over/under recovery. See "--Operating Revenues - Electric Operations."

Operating Income - Electric Operations. In the three and six months ended June 30, 1998, operating income increased by $27 million and $9 million, respectively, over operating income for the same periods in 1997. The increase in operating income was due to increases in base revenues attributed to record hot weather in the second quarter of 1998. The impact of increased base revenues on operating income was partially offset by (i) the implementation of base rate credits under the Transition Plan and (ii) $55 million of additional depreciation, as described below.

Operating Revenues - Electric Operations. Electric Operations' increase in base revenue of $86 million and $67 million for the three and six months ended June 30, 1998, respectively, compared to the same periods of 1997 is primarily the result of weather. Partially offsetting these revenue increases were base rate credits implemented under the Transition Plan beginning in January 1998, which resulted in lower base revenues of $16 million for the three months and $28 million for the six months ended June 30, 1998. For information regarding the Transition Plan, see Note 9 to the first quarter Form 10-Q.

Electric Operations' transmission revenues in the three and six months ended June 30, 1998 were $21 million and $43 million, respectively, but were offset by transmission expenses of $22 million and $44 million. In the three and six months ended June 30, 1997, transmission revenues were $40 million offset by transmission expenses of $44 million. Electric Operations began recording transmission revenues and expenses in the second quarter of 1997 as a result of the implementation of wholesale transmission tariffs within Electric Reliability Council of Texas (ERCOT). For information regarding these transmission revenues, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company-Certain Factors Affecting Future Earnings of the Company and its Subsidiaries--Competition--Electric Operations--Competition in Wholesale Market" in the Form 10-K.

Firm KWH sales for the three and six months ended June 30, 1998 increased 12% and 4%, respectively, compared to the same periods in 1997 due to weather related factors.

Electric Operations reconcilable fuel revenues for the three months ended June 30, 1998 increased 23% over the same period in 1997 primarily as a result of higher sales due to the hot weather in its service territory. The increase in reconcilable fuel revenues also reflects an increase in under recovery of fuel revenue in Electric Operations' current rates. The increase in under recovery of fuel revenue resulted from an increase in natural gas and lignite prices. Electric Operation's reconcilable fuel revenue for the six months ended June 30, 1998 increased 9% over the same period in 1997 as a result of increased sales.

The Texas Utility Commission provides for recovery of certain fuel and purchased power costs through a fixed fuel factor included in electric rates. The fixed fuel factor is established during either a utility's general rate proceeding or its fuel factor proceeding and is generally effective for a minimum of six months. Revenues collected through such factor are adjusted monthly to equal expenses; therefore, such revenues and expenses have no effect on earnings unless fuel costs are determined not to be recoverable. The adjusted over/under recovery of fuel costs is recorded on the Company's Consolidated Balance Sheets as fuel- related credits or fuel-related debits, respectively. Fuel costs are reviewed during periodic fuel reconciliation proceedings, which are required at least every three years. Electric Operations filed a fuel reconciliation proceeding with the Texas Utility Commission on January 30, 1998 for the three year period ending July 31, 1997. A final order in this proceeding is anticipated on or about February 1999. For additional information regarding the recovery of fuel costs, see "Business - Electric Operations - Fuel - Recovery of Fuel Costs" in Item 1 of the Company's Form 10-K.

In January 1998, Electric Operations implemented a $102 million fuel surcharge (inclusive of interest) for under recoveries that occurred from March 1997 through August 1997, with recovery extending from 8 months to 16 months depending on the customer class. In April 1998, Electric Operations filed a petition to revise the fuel factor and implement a surcharge for under-collected fuel costs. The Texas Utility Commission approved implementation of a new fixed fuel factor and a fuel surcharge in the amount of $125 million (inclusive of the previously existing fuel surcharge balance) to be recovered over a period of 12 to 18 months. This surcharge will replace the one implemented in January 1998, and includes recovery of the additional under-recoveries from September 1997 through February 1998. Implementation for customer billings is effective July 1, 1998. As of June 30, 1998, Electric Operations cumulative under-recovery of fuel costs was $218 million, including interest.

Fuel and Purchased Power Expense - Electric Operations. Fuel expense for the three and six months ended June 30, 1998 increased by $54 million or 22% and $29 million or 6%, respectively, compared to the same periods in 1997. Purchased power expense for the three and six months ended June 30, 1998 increased by $15 million and $25 million, respectively, compared to the same periods in 1997. The increase in fuel expense for the three month period reflects increased demand due to unusually hot weather, an increase in the cost of purchased power plus increases in the average unit cost of natural gas and lignite. The average unit cost of natural gas was $2.31 per MMBtu for the second quarter of 1998 compared to $2.22 per MMBtu in the second quarter of 1997. The average unit cost of lignite was $1.36 per MMBtu for the second quarter of 1998 compared to $1.12 per MMBtu for the second quarter of 1997. The increases for the six months ended June 30, 1998 were due primarily to increased sales from weather related factors. See Note 12(c) to the Company's 10-K Financial Statements for information on Electric Operations' joint dispatching agreement with the City of San Antonio for purchased power.

Operation and Maintenance Expenses and Other - Electric Operations. Operation and maintenance expense decreased $18 million for the three months ended June 30, 1998 and increased $13 million for the six months ended in 1998 compared to the same periods in 1997.

Operation expense decreased $27 million or 15% for the three months ended June 30, 1998 due to a $20 million timing difference in transmission cost of service expense plus a $7 million reduction in administrative and general expenses. The reduction in administrative and general expenses is a result of lower employee benefit expense offset by increased franchise fee expenses due to higher revenue. For the six months ended June 30, 1998, operation expense decreased $2 million or 1%, comparatively. A reduction in post retirement benefits was offset by increased franchise fees due to higher revenue.

Maintenance expense increased $6 million or 10% and $8 million or 7% for the three months and six months ended June 30, 1998, respectively, over the same periods in 1997. The increase in maintenance expense between the periods is due to differences in the scheduling of routine plant maintenance and inspection outages.

For the three months and six months ended June 30, 1998, additional depreciation of $67.5 million and $80 million, respectively, was recorded as provided in the Transition Plan. The Transition Plan requires that calendar year earnings be capped at a 9.844% overall rate of return on a defined invested capital. Earnings in excess of this cap must be used to write-down the investment in generation assets. This additional depreciation is being recorded throughout the year in order to provide a more constant overall rate of return and to avoid the potential for a year end cumulative charge to earnings for such additional depreciation. For information regarding the Transition Plan, see Note 9(a) to the Company's Interim Financial Statements.

NATURAL GAS DISTRIBUTION

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

The following table provides summary data regarding the results of operations of Natural Gas Distribution, including operating statistics, on an actual basis for the second quarter and first six months of 1998 and on a pro forma basis for the second quarter and first six months of 1997 (as if the acquisition of NorAm had occurred as of January 1, 1997).

	Three Months Ended June 30, 1998 (Actual)	1997 (Pro forma)	Percent Change
	(in millions)		
Operating Revenues	$ 315	$ 337	(7%)
Operating Expenses:			
Natural Gas	174	186	(6%)
Operation and Maintenance	93	96	(3%)
Depreciation and Amortization	32	31	3%
Other Operating Expenses	22	24	(8%)
Total Operating Expenses	321	337	(5%)
Operating Income	$ (6)	$ 0	--
Throughput Data (in Bcf):			
Residential and Commercial Sales	43	51	(16%)
Industrial Sales	13	13	--
Transportation	10	10	--
Total Throughput	66	74	(11%)

	Six Months Ended June 30, 1998 (Actual)	1997 (Pro forma)	Percent Change
	(in millions)		
Operating Revenues	$ 1,032	$ 1,218	(15%)
Operating Expenses:			
Natural Gas	632	803	(21%)
Operation and Maintenance	191	193	(1%)
Depreciation and Amortization	63	61	3%
Other Operating Expenses	50	54	(7%)
Total Operating Expenses	936	1,111	(16%)
Operating Income	$ 96	$ 107	(10%)
Throughput Data (in Bcf):			
Residential and Commercial Sales	169	188	(10%)
Industrial Sales	29	29	--
Transportation	22	22	--
Total Throughput	220	239	(8%)

Natural Gas Distribution operating income decreased $6 million and $11 million in the second quarter and first six months of 1998, respectively, compared to pro forma operating income in the same periods in 1997 due primarily to the lower demand for natural gas heating in the second quarter of 1998 and milder winter weather in the first three months of 1998. This decrease in operating income was partially offset by reduced charges at Arkla associated with the methodology of calculating the price of gas charged to customers (the purchased gas adjustment) in the second quarter and first six months of 1998 as compared to the same periods in 1997.

Natural Gas Distribution operating revenue decreased $22 million and $186 million for the second quarter and first six months of 1998, respectively, compared to pro forma operating revenue for the corresponding periods of 1997 due principally to the weather-related factors discussed above, which resulted in lower customer usage at Entex and Minnegasco. A decrease in gas prices for the six months ended June 30, 1998 compared to the same period in the prior year also contributed to the decline in operating revenues for that period.

Operating expenses decreased $16 million and $175 million in the second quarter and first six months of 1998, respectively, compared to pro forma operating expenses in the same periods of 1997 due to the same factors that affected operating revenues.

Interstate Pipeline

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

The following table provides summary data regarding the results of operations of Interstate Pipeline, including operating statistics, on an actual basis for the three and six months ended June 30, 1998 and on a pro forma basis for the three and six months ended June 30, 1997 (as if the acquisition of NorAm had occurred as of January 1, 1997).

	Three Months Ended June 30, 1998 (Actual)	Three Months Ended June 30, 1997 (Pro forma)	Percent Change
	(in millions)		
Operating Revenues	$ 77	$ 74	4%
Operating Expenses:			
Natural Gas	8	8	--
Operation and Maintenance	22	23	(4%)
Depreciation and Amortization	10	12	(17%)
Other Operating Expenses	4	4	--
Total Operating Expenses	44	47	(6%)
Operating Income	$ 33	$ 27	22%
Throughput Data (in million MMBtu):			
Natural Gas Sales	4	5	(20%)
Transportation	187	212	(12%)
Elimination (1)	(4)	(4)	--
Total Throughput	187	213	(12%)

	Six Months Ended June 30, 1998 (Actual)	Six Months Ended June 30, 1997 (Pro forma)	Percent Change
	(in millions)		
Operating Revenues	$ 148	$ 158	(6%)
Operating Expenses:			
Natural Gas	16	19	(16%)
Operation and Maintenance	40	45	(11%)
Depreciation and Amortization	19	25	(24%)
Other Operating Expenses	8	7	14%
Total Operating Expenses	83	96	(14%)
Operating Income	$ 65	$ 62	5%
Throughput Data (in million MMBtu):			
Natural Gas Sales	8	9	(11%)
Transportation	424	462	(8%)
Elimination (1)	(7)	(9)	22%
Total Throughput	425	462	(8%)

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(1) Elimination refers to volumes of natural gas both transported and sold by Interstate Pipeline and, therefore, excluded from total throughput.

Interstate Pipeline operating income increased $6 million and $3 million in the second quarter and first six months of 1998, respectively, compared to pro forma operating income for the same periods in 1997. The increase for the three months ended June 1998 is due primarily to $6 million recorded in connection with the settlement of certain litigation and lower operating expenses in the second quarter of 1998. The increase for the first six months is attributable to $5 million recorded in the first quarter of 1998 in connection with the settlement of an MRT rate case, as well as the items mentioned above, offset by $7 million of non-recurring transportation revenues in the first quarter of 1997, discussed below.

Operating revenues for Interstate Pipeline increased by $3 million for the second quarter of 1998 compared to pro forma operating revenues for the same period in 1997. The increase in revenues is primarily due to the settlement of outstanding litigation related to certain gas purchase contracts which resulted in the recognition of approximately $6 million of revenues in April 1998, offset by a decrease in sales volumes.

Interstate Pipeline operating revenues decreased $10 million for the first six months of 1998 compared to pro forma operating revenues for the same period in 1997. The decrease in revenues is in part due to $7 million of non-recurring transportation revenues recognized in the first quarter of 1997. The revenues were recognized following a settlement with the Arkla division of NorAm related to service provided in several of Arkla's operating jurisdictions. The settlement with Arkla also resulted in reduced transportation rates which reduced revenues for the period. These decreases were partially offset by the increase in revenues due to the litigation settlement in the second quarter of 1998, mentioned above.

Operation and maintenance expense decreased $1 million and $5 million in the second quarter and first six months of 1998, respectively, compared to pro forma operation and maintenance expense for the same periods in 1997. The decreases were primarily due to lower costs resulting from cost control initiatives and decreased maintenance due to milder weather in the first quarter of 1998.

Depreciation and amortization expenses decreased $2 million and $6 million in the second quarter and first six months of 1998, respectively, in comparison to pro forma depreciation and amortization expenses for the same periods of 1997 due to a $5 million rate settlement recorded in the first quarter of 1998. The rate settlement, effective January 1998, provided for a reduction of MRT's depreciation rates retroactive to July 1996.

ENERGY MARKETING

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

The following table provides summary data regarding the results of operations of Energy Marketing, including operating statistics, on an actual basis for the three and six months ended June 30,1998 and on a pro forma basis for the three and six months ended June 30, 1997 (as if the acquisition of NorAm had occurred as of January 1, 1997).

	Three Months Ended June 30, 1998 (Actual)	1997 (Pro forma)	Percent Change
	(in millions)		
Operating Revenues	$ 1,043	$ 648	61%
Operating Expenses:			
Natural Gas	618	524	18%
Purchased Power	396	97	308%
Operation and Maintenance	30	18	67%
Depreciation and Amortization	3	3	--
Other Operating Expenses	2	1	100%
Total Operating Expenses	1,049	643	63%
Operating Income (Loss)	$ (6)	$ 5	--
Operations Data:			
Natural Gas (in Bcf):			
Sales	310	272	14%
Transportation	6	5	20%
Gathering	57	62	(8%)
Total	373	339	10%
Electricity:			
Wholesale Power Sales (in thousand MWH)	16,348	4,977	228%

	Six Months Ended June 30, 1998 (Actual)	1997 (Pro forma)	Percent Change
	(in millions)		
Operating Revenues	$ 2,088	$ 1,693	23%
Operating Expenses:			
Natural Gas	1,326	1,435	(8%)
Purchased Power	697	209	233%
Operation and Maintenance	53	38	39%
Depreciation and Amortization	6	5	20%
Other Operating Expenses	3	2	50%
Total Operating Expenses	2,085	1,689	23%
Operating Income	$ 3	$ 4	(25%)
Operations Data:			
Natural Gas (in Bcf):			
Sales	647	591	9%
Transportation	12	12	--
Gathering	115	122	(6%)
Total	774	725	7%
Electricity:			
Wholesale Power Sales (in thousand MWH)	30,118	9,561	215%

Energy Marketing operating income decreased $11 million and $1 million in the second quarter and first six months of 1998, respectively, in comparison to pro forma operating income for the same periods in 1997. The $11 million decrease for the second quarter is primarily due to increased operating expenses (including a $4 million expense associated with an increase in reserves as discussed below) and decreased margins at NES compared to the same period in 1997. Operating income for the first six months of 1997 included $17 million in hedging losses associated with sales under peaking contracts and losses from the sale of natural gas held in storage and unhedged in the first quarter of 1997.

Operating Revenues. Operating revenues for Energy Marketing increased $395 million for each of the second quarter and first six months of 1998 compared to pro forma operating revenues for the same periods in 1997. For the second quarter, wholesale power sales increased $300 million due to increased trading activity. For the first six months, wholesale power sales increased $490 million due to increased trading activity, offset by a reduction in gas sales of approximately $120 million primarily due to a decrease in the sales price of natural gas.

Operating Expenses. Natural gas expenses increased $94 million for the second quarter of 1998 and decreased $109 million for the first six months of 1998 compared to the same periods in 1997. The increase for the three month period is attributable to increased gas marketing activities. The decrease for the six month period in 1998 is due to the decrease in the price of natural gas in that period and the hedging losses in 1997 mentioned above.

Purchased power expenses increased $299 million and $488 million for the second quarter of 1998 and first six months of 1998 due to increased marketing activities.

Operation and maintenance expenses increased $12 million and $15 million when compared to pro forma operation expenses for the second quarter and first six months of 1997, respectively. This increase is largely due to increased staffing and marketing activities made in support of the increased sales and expanded marketing efforts at NES. The Company believes that NES' energy marketing and risk management services have the potential of complementing the Company's strategy of developing and/or acquiring unregulated generation assets in other markets. As a result, the Company has made, and expects to continue to make, significant investments in developing NES' internal software, trading and personnel resources. The increase in operation and maintenance expenses is also due to a $4 million expense associated with an increase in NES's reserve due to increased counter party credit and performance risk associated with higher prices and higher volatility in the electric power market.

To minimize fluctuations in the price of natural gas and transportation, the Company, primarily through NES, enters into futures transactions, swaps and options in order to hedge against market price changes affecting (i) certain commitments to buy, sell and transport natural gas, (ii) existing gas storage inventory and (iii) certain anticipated transactions, some of which carry off-balance sheet risk. NES also enters into natural gas derivatives for trading purposes and electricity derivatives for hedging and trading purposes. For a discussion about the Company's accounting treatment of derivative instruments, see Note 2 to the Company's 10-K Financial Statements, Item 7A (Quantitative and Qualitative Disclosure About Market Risk) in the Form 10-K, and Item 3 (Quantitative and Qualitative Disclosures About Market Risk) in this Form 10-Q.

INTERNATIONAL

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

Results of operations data for International are presented in the following table on an actual basis for the three and six months ended June 30, 1998 and on a pro forma basis for the three and six months ended June 30, 1997 as if the NorAm acquisition had occurred as of January 1, 1997. The primary pro forma adjustment gives effect to project development costs and other expenditures incurred by NorAm prior to the Acquisition Date. The adjustment had no effect on operating revenues.

	Three Months Ended June 30, 1998 (Actual)	Three Months Ended June 30, 1997 (Pro Forma)	Percent Change
	(in millions)		
Operating Revenues	$169	$ 20	--
Operating Expenses:			
Fuel	5	6	(17%)
Operation and Maintenance	12	9	33%
Depreciation and Amortization	1	1	--
Total Operating Expenses	18	16	13%
Operating Income	$151	$ 4	--

	Six Months Ended June 30, 1998 (Actual)	Six Months Ended June 30, 1997 (Pro Forma)	Percent Change
	(in millions)		
Operating Revenues:	$197	$40	--
Operating Expenses:			
Fuel	10	11	(9%)
Operation and Maintenance	23	22	5%
Depreciation and Amortization	2	1	100%
Total Operating Expenses	35	34	3%
Operating Income	$162	$ 6	--

International operating income increased $147 million and $156 million for the second quarter and first six months of 1998, respectively, compared to pro forma operating income for the same periods in 1997. The increase in operating income in both periods is due primarily to the $138 million pre-tax gain on the sale of its 63 percent interest in EDELAP. Excluding the sale of its investment in EDELAP, International's operating income for the second quarter and six months ended June 30, 1998 would have been $13 million (compared to $4 million on a pro forma basis in the prior period) and $24 million (compared to $6 million on a pro forma basis in the prior period), respectively. These increases in operating income reflect increased equity earnings from International's investments in Light, the electric utility serving Rio de Janeiro, Brazil and EPSA, a Colombian electric utility. HI Energy acquired its investment in EPSA in June 1997.

In June 1998, International acquired equity interests (ranging from approximately 38% to 45%) in three distribution systems located in northern and eastern El Salvador, including the city of San Salvador. The aggregate purchase price was approximately $150 million.

For additional information regarding the sale of EDELAP, the investments in the El Salvador systems and the August 1998 investment in two Colombian electrical distribution companies, see Note 10(a) and 11 to the Company's Interim Financial Statements. For information regarding International's foreign investments and investment strategies, see Note 10(a) to the Company's Interim Financial Statements in the First Quarter 10-Q, Note 5 to the Company's 10-K Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company--Results of Operations by Business Segment--International," "--Certain Factors Affecting Future Earnings of the Company and its Subsidiaries--Risks of Overseas Operations," and "--Liquidity and Capital Resources--Company Consolidated Sources of Capital Resources and Liquidity" in the Form 10-K.

CORPORATE

General. The Company's corporate and other business segment (Corporate) includes corporate costs, certain of the Company's real estate holdings and inter-unit eliminations. In addition, Corporate includes the results of operations of (i) Houston Industries Power Generation, Inc. (HIPG, Inc.), a wholly owned subsidiary of the Company which is engaged in the acquisition, development and operation of domestic non-rate regulated power generation facilities, and (ii) the Company's consumer and retail customer services operations. The Company's consumer and retail customer services operations provide energy products and services to a variety of industrial and commercial customers, including energy efficiency services and space-conditioning services.

In the second quarter of 1998, Corporate had an operating loss of $6 million compared to a pro forma operating loss of $28 million for the same period in 1997. Corporate's operating loss for the six months ended June 30, 1998 was $21 million compared to a pro forma operating loss of $39 million for the same period in 1997. The decreases in operating losses are primarily due to the non-recurring costs associated with the 1997 irrevocable contribution of 450,000 shares of Time Warner common stock (having a market value of $21.9 million and a book value of $19.5 million) to a charitable foundation established by the Company. Partially offsetting these decreases are (i) losses associated with the Company's consumer services business; (ii) start-up costs associated with the Company's non-rate regulated retail electric services business; and (iii) expenses related to the development of domestic power generation projects.

HIPG, Inc. HIPG, Inc. seeks to participate in the domestic independent power markets through the acquisition of existing power plants and the development of new power plants (greenfield projects). HIPG, Inc.'s business strategy is to develop a commercial generation portfolio that complements the Company's other operations, including the electric and natural gas trading and marketing operations of NES.

In April 1998, HIPG, Inc. acquired four natural gas-fired, electric generating plants (2,276 MW) from Southern California Edison Company (SCE) for approximately $230 million. In July 1998, HIPG, Inc. acquired another generating plant (1,500 MW) from SCE for approximately $43 million. All of the plants are located in southern California. Certain units of the plants have been designated as "must-run facilities" under California's Independent System Operator's (ISO) electric restructuring law. These units operate, in part, under agreements that allow the ISO to call upon them to provide voltage support. NES, an affiliate of HIPG, Inc. is acting as the plants' exclusive power marketer and supplier of natural gas. HIPG, Inc. has contracted with SCE to operate and maintain the plants with existing plant employees through April 2000. HIPG, Inc. however, exercises management authority over the plants' operations. HIPG, Inc. financed the purchase price of these generating plants with intercompany advances. The funds for such advances were obtained by a financing subsidiary of the Company under a $150 million bridge loan and from the issuance of commercial paper. For information regarding the bridge loan, see Note 8(b) to the Company's First Quarter 10-Q.

HIPG Inc. through its subsidiaries is currently developing the following power projects: a 480 MW gas-fired merchant plant located in Boulder City, Nevada (El Dorado Project) and a 100 MW cogeneration plant located in Orange, Texas (Sabine Cogeneration Project). HIPG, Inc. will own a 50% interest in each of these projects. Construction of the El Dorado Project began in April 1998, and construction of the Sabine Cogeneration Project will begin in October 1998. The projected completion date for the El Dorado Project and the Sabine Cogeneration Project is the fourth quarter of 1999. HIPG Inc.'s share of the electric output of the El Dorado Project will be sold to NES for resale in the California and Nevada power markets. With regard to the Sabine Cogeneration Project, a portion of the electric output of the project will be sold to the Bayer Corporation, the project's industrial host. The excess electric output of the Sabine Cogeneration Project will be marketed by NES. As of June 30, 1998, capitalized costs for these projects under construction or under development were approximately $32 million.

For information regarding expenditures made or to be made by HIPG, Inc. under existing commitments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Results of Operations by Business Segment -- Corporate" in the First Quarter 10-Q.

The Company expects that HIPG Inc. will continue to participate actively in non-rate regulated power projects, including greenfield projects, competitive auctions, and other acquisitions of generation assets. The amount of expenditures associated with these activities is dependent upon the nature and extent of future project commitments; however, some of these expenditures could be substantial. HIPG Inc. intends to finance a portion of its non-rate regulated power projects through the proceeds from project financings (financings secured primarily by a project's revenues, capital stock and physical assets), and through equity investment and loans from the Company.

The successful completion of greenfield and other non-rate regulated power projects is dependent upon a number of factors, which include, among other things, risks associated with failures of siting, financing, construction, permitting, governmental approvals or termination of power sales contracts (if any) as a result of a failure to meet certain construction milestones. Because many of the facilities being acquired or developed by HIPG, Inc. are "merchant" plants without a dedicated offtake customer, such facilities are sensitive to market and regulatory factors and other considerations.

CERTAIN FACTORS AFFECTING FUTURE EARNINGS OF THE COMPANY AND ITS SUBSIDIARIES

For information on developments, factors and trends that may have an impact on the Company's future earnings, reference is made to Item 7 of the Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company--Certain Factors Affecting Future Earnings of the Company and its Subsidiaries."

RATE PROCEEDINGS -- ELECTRIC OPERATIONS

The Texas Utility Commission has jurisdiction (or, in some cases, appellate jurisdiction) over the electric rates of Electric Operations and, as such, monitors Electric Operations' earnings to ensure that Electric Operations is not earning in excess of a reasonable rate of return. For information regarding the Transition Plan, see Note 9(a) to the Company's Interim Financial Statements.

ACCOUNTING TREATMENT OF ACES

The Company accounts for its investment in TW Preferred under the cost method. As a result of the Company's issuance of the ACES, certain increases in the market value of Time Warner common stock (the security into which the TW Preferred is convertible) could result in an accounting loss to the Company, pending the conversion of the Company's TW Preferred into Time Warner common stock. For additional information regarding the accounting treatment of the TW Preferred, see Note 5 to the Company's Interim Financial Statements.

IMPACT OF YEAR 2000 COMPUTER SOFTWARE ISSUES

Year 2000 Problem. At midnight on December 31, 1999, unless the proper modifications have been made, the program logic in many of the world's computer systems will start to produce erroneous results because, among other things, the systems will incorrectly read the date "01/01/00" as being January 1 of the year 1900 or another incorrect date. In addition, certain systems may fail to detect that the year 2000 is a leap year. Problems can also arise earlier than January 1, 2000, as dates in the next millennium are entered into non-Year 2000 compliant programs.

Compliance Program. In 1997, the Company initiated a corporate wide Year 2000 project to address mainframe application systems, information technology (IT) related equipment, system software, client-developed applications, building controls, and non-IT embedded systems such as process controls for energy production and delivery. Incorporated into this project were NorAm and other Company subsidiary mainframe applications, infrastructures, embedded systems and client developed applications that will not be migrated into existing or planned Company systems prior to the year 2000. The evaluation of Year 2000 issues included significant customers, key vendors, service suppliers and other parties material to the Company's operations. In the course of this evaluation, the Company has sought written assurances from such third parties as to their state of Year 2000 readiness.

Company's State of Readiness. Work has been prioritized in accordance with business risk. The highest priority has been assigned to activities that would disrupt the physical delivery of energy; next are activities that would impact back office activities such as customer service and billing; and finally, the lowest priority has been assigned to activities that would cause inconvenience or productivity loss in normal business operations (e.g. air conditioning systems and elevators). All business units have completed an analysis of critical systems and equipment that control the production and delivery of energy, as well as corporate, departmental and personnel systems and equipment. The remediation and replacement work on the majority of IT systems, non-IT systems and infrastructure began in the first quarter of 1998 and is expected to be completed by the second quarter of 1999. Testing of these systems began in the second quarter of 1998 and is scheduled to be completed in third quarter of 1999.

Costs to Address Year 2000 Compliance Issues. Based on current internal studies, as well as, recently solicited bids from various computer software vendors, the Company estimates that the total direct cost of resolving the Year 2000 issue will be between $35 and $40 million. This estimate includes approximately $6 million related to salaries and expenses of existing employees and approximately $3 million in hardware purchases that the Company expects to capitalize. In addition, the $35 to $40 million estimate includes approximately $2 million spent prior to 1998 and approximately $2 million expended so far in 1998. The majority of the costs related to resolving the Year 2000 issue are expected to be expended in 1999. The Company expects to fund these expenditures through internal sources.

In September 1997, the Company entered into an agreement with SAP America, Inc. (SAP) to license SAP proprietary R/3 enterprise software. The licensed software includes finance, accounting, human resources, materials management and service delivery components. The Company's purchase of this software license and related computer hardware is part of its response to changes in the electric utility and energy services industries as well as changes in the Company's businesses and operations resulting from the acquisition of NorAm and the Company's expansion into energy trading and marketing business. Although it is anticipated that the implementation of the SAP system will have the incidental effect of negating the need to modify many of the Company's computer systems to accommodate the year 2000 problem, the Company does not deem the costs of the SAP system as directly related to its Year 2000 compliance program. The estimated costs of implementing the SAP system is approximately $182 million, inclusive of internal costs. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company - Certain Factors Affecting Future Earnings of the Company and its Subsidiaries - Impact of the Year 2000 and Other System Implementation Issues", in Item 7 of the Form 10-K.

The estimated costs of, and timetable for, becoming Year 2000 compliant as well as the implementation of the SAP system constitute "forward looking statements" as defined in the Private Securities Litigation Reform Act of 1995 (see Item 5 of this Form 10-Q). Investors are cautioned that such estimates are based on numerous assumptions by management, including assumptions regarding the continued availability of certain resources, the accuracy of representations made by third parties concerning their compliance with Year 2000 issues, and other factors. The estimated costs of Year 2000 compliance also do not give effect to any future corporate acquisitions or divestitures made by the Company or its subsidiaries.

Risks of Non-Compliance and Contingency Plans. The major applications which pose the greatest Year 2000 risks for the Company if implementation of the Year 2000 compliance program is not successful are the transmission and distribution automation systems; the time in use, demand and recorder metering system for commercial and industrial customers; and the power billing systems. The potential problems related to these systems are electric service interruptions to customers, interrupted revenue data gathering and poor customer relations resulting from delayed billing, respectively.

Although the Company intends to complete all Year 2000 remediation and testing activities by the end of the third quarter 1999, and although the

Company has initiated Year 2000 communications with significant customers, key vendors, service suppliers and other parties material to the Company's operations and is diligently monitoring the progress of such third parties in Year 2000 compliance, such third parties nonetheless represent a risk that cannot be assessed with precision or controlled with certainty. For that reason, the Company intends to develop contingency plans to address alternatives in the event that Year 2000 failures of automatic systems and equipment occur. Preliminary discussions have been held regarding the contingency plan and a final contingency plan is scheduled to be completed prior to mid-year 1999.

LIQUIDITY AND CAPITAL RESOURCES

COMPANY CONSOLIDATED SOURCES OF CAPITAL RESOURCES AND LIQUIDITY

Company. At June 30, 1998, the Company, exclusive of subsidiaries, had a revolving credit facility of $200 million used to support the issuance of up to $200 million of commercial paper. There were no commercial paper borrowings and no loans outstanding under this facility at June 30, 1998. In addition, at June 30, 1998, the Company had shelf registration statements providing for the future issuance, subject to market and other conditions, of $230 million aggregate liquidation value of its preferred stock and $580 million aggregate principal amount of its debt securities.

In January 1998, pollution control revenue refunding bonds aggregating $104.7 million with $29.7 million bearing an interest rate of 5.25% and $75 million bearing an interest rate of 5.15%, were issued on behalf of the Company by the Matagorda County Navigation District Number One (MCND). The bonds will mature in 2029. Proceeds from the issuances were used in February 1998 to redeem, at 102% of the aggregate principal amount, pollution control revenue bonds aggregating $104.7 million.

In February 1998, pollution control revenue refunding bonds aggregating $290 million were issued on behalf of the Company by the Brazos River Authority (BRA). The BRA bonds bear an interest rate of 5 1/8% and mature in May 2019 ($200 million) and November 2020 ($90 million). Proceeds from the issuances were used in May 1998 to redeem, at 102% of the aggregate principal amount, pollution control revenue bonds aggregating $290 million.

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

In the first quarter of 1998, NorAm repaid at maturity $1 million of its 9.3% medium-term notes and satisfied the $6.5 million sinking fund requirement for its 6% convertible subordinated debentures due March 2012 using debentures purchased in 1996 and 1997. In May 1998, NorAm repaid at maturity $28 million of medium-term notes carrying an average interest rate of 8.74%.

In March 1998, NorAm replaced its $400 million revolving credit facility with a five-year $350 million revolving credit facility. Borrowings under the NorAm credit facility are unsecured. There were no loans outstanding under the NorAm credit facility at June 30, 1998. The NorAm credit facility supports NorAm's issuance of up to $350 million of commercial paper, but no commercial paper was outstanding at June 30, 1998. At June 30, 1998, NorAm also had a $300 million trade receivables facility under which receivables of $300 million had been sold and a shelf registration statement providing for the future issuance of debt securities of up to $200 million aggregate principal amount.

Financing Subsidiaries. At June 30, 1998, Houston Industries FinanceCo LP's (FinanceCo) $1.6 billion revolving credit facility supported $1.3 billion in commercial paper borrowings having a weighted average interest rate of 5.89%. Proceeds from the initial issuances of commercial paper by FinanceCo in 1997 were used to fund the cash portion of the consideration paid to stockholders of the former NorAm Energy Corp. For additional information regarding the FinanceCo Facility, see Note 8(c) to the Company's 10-K Consolidated Financial Statements.

In March 1998, FinanceCo II, a limited partnership subsidiary of the Company, entered into the FinanceCo II Facility, a six-month $150 million credit facility. At June 30, 1998, borrowings from the FinanceCo II Facility totaled $150 million. Proceeds from borrowings under the FinanceCo II Facility were used to fund a portion of HIPG, Inc.'s April 1998 purchase of four electric generation plants. For additional information regarding the FinanceCo II Facility, see Note 8(b) to the Company's Interim Financial Statements in the First Quarter 10-Q.

General. The Company has established a "money fund" through which its subsidiaries can borrow or invest on a short-term basis. The funding requirements of individual subsidiaries are aggregated, and borrowing or investing is based on the net cash position. The money fund's net funding requirements are generally met with commercial paper issued by a financing subsidiary.

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

NEW ACCOUNTING ISSUES

For calendar year 1998, the Company and NorAm will adopt SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131) and SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" (SFAS No. 132). SFAS No. 131 requires that companies report in their financial statements financial and descriptive information about reportable operating segments, defined by reference to the way in which management reviews its operations in order to assess performance and allocate its resources. SFAS No. 132 revises employers' disclosures about pension and other post- retirement benefit plans.

In 2000, the Company and NorAm expect to adopt SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities.

For information regarding the Company's adoption effective January 1, 1998 of SFAS No. 130, "Reporting Comprehensive Income" (SFAS No. 130), see Note 3 to the Company's Interim Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK OF THE COMPANY

The Company and its subsidiaries have financial instruments that involve various market risks and uncertainties. For information regarding the Company's exposure to risks associated with interest rates, equity market prices and energy commodity prices see Item 7A in the Form 10-K.

In the second quarter and first six months of 1998, the Company recorded an additional $165 million and $288 million, respectively, unrealized loss (net of tax) related to the ACES. For further discussion of this loss see Note 5 to the Company's Interim Financial Statements. The Company believes that this additional unrealized loss for the ACES is more than economically hedged by the unrecorded unrealized gain relating to the increase in the fair value of the Time Warner common stock underlying the investment in TW Preferred since the date of its acquisition. An increase of 10% in the price of the Time Warner common stock above its June 30, 1998 market value of $85.438 per share would result in the recognition of an additional unrealized accounting loss (net of tax) of approximately $105 million.

The Company's risk associated with interest rates, equity market prices (other than those related to ACES) and energy commodity prices have not materially changed from the market risks faced by the Company at December 31, 1997.

ITEM 1. FINANCIAL STATEMENTS.

NORAM ENERGY CORP. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
(Thousands of Dollars)
(Unaudited)

	Current NorAm	Current NorAm	Former NorAm	Former NorAm
	Three Months Ended June 30, 1998	Six Months Ended June 30, 1998	Three Months Ended June 30, 1997	Six Months Ended June 30, 1997
Revenues:	$ 1,382,575	$ 3,142,506	$ 1,015,998	$ 2,940,180
Expenses:				
Natural gas and purchased power, net.......	1,138,339	2,526,688	787,047	2,366,224
Operation and maintenance..................	149,686	301,295	127,311	254,951
Depreciation and amortization..............	46,335	91,065	36,457	72,445
Taxes other than income taxes..............	28,197	61,869	28,568	64,723
	1,362,557	2,980,917	979,383	2,758,343
Operating Income.............................	20,018	161,589	36,615	181,837
Other Income (Expense):				
Interest expense, net......................	(25,479)	(52,379)	(32,523)	(67,995)
Distributions on trust securities..........	(159)	(427)	(2,709)	(5,414)
Other - net................................	1,980	4,536	(213)	6,095
	(23,658)	(48,270)	(35,445)	(67,314)
Income (loss) Before Income Taxes............	(3,640)	113,319	1,170	114,523
Income Tax Expense (Benefit)................	(1,490)	54,863	468	45,411
Income (loss) Before Extraordinary Item......	(2,150)	58,456	702	69,112
Extraordinary gain on early retirement of debt, less taxes..............................				237
Net Income (loss)............................	$ (2,150)	$ 58,456	$ 702	$ 69,349

See Notes to NorAm's Unaudited Consolidated Financial Statements.

NORAM ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars)
(Unaudited)

ASSETS

	June 30, 1998	December 31, 1997
Property, Plant and Equipment		
Natural gas distribution	$ 1,396,145	$ 1,326,442
Interstate pipeline	1,267,187	1,258,087
Energy marketing	173,853	162,519
Other	13,537	14,972
Total	2,850,722	2,762,020
Less accumulated depreciation and amortization	124,330	59,531
Property, plant and equipment-- net	2,726,392	2,702,489
Current Assets		
Cash and cash equivalents	29,957	35,682
Accounts and notes receivable, principally customer	737,077	969,248
Accounts receivable - affiliated companies	52,408	10,161
Income tax receivable	45,131	
Gas in underground storage	68,507	63,702
Materials and supplies	36,849	29,611
Gas purchased in advance of delivery	6,200	6,200
Other current assets	15,889	24,386
Total current assets	992,018	1,138,990
Other Assets		
Goodwill, net	2,032,701	2,026,395
Prepaid pension asset	91,026	92,064
Investment in marketable equity securities	19,157	27,046
Regulatory asset for environmental costs	20,998	21,745
Gas purchased in advance of delivery	21,675	29,048
Deferred debits, net	74,003	93,010
Total other assets	2,259,560	2,289,308
Total Assets	$ 5,977,970	$ 6,130,787

See Notes to NorAm's Unaudited Consolidated Financial Statements

NORAM ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars)
(Unaudited)

LIABILITIES AND STOCKHOLDER'S EQUITY

	June 30, 1998	December 31, 1997
Stockholder's Equity:		
Common stock	$ 1	$ 1
Paid-in capital	2,463,831	2,463,831
Retained earnings	79,303	20,847
Unrealized loss on marketable equity securities, net of tax	(10,669)	(5,634)
Total stockholder's equity	2,532,466	2,479,045
NorAm-Obligated Mandatorily Redeemable Convertible Trust Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debentures of NorAm, net	1,836	21,290
Long-Term Debt, less Current Maturities	1,212,157	916,703
Current Liabilities:		
Current maturities of long-term debt	199,860	232,145
Notes payable to banks		390,000
Notes payable to parent		22,100
Receivables facility	300,000	300,000
Accounts payable, principally trade	597,564	668,269
Accounts payable - affiliated companies	9,041	
Interest payable	40,911	27,273
General taxes	30,876	41,315
Customer deposits	35,858	36,626
Other current liabilities	134,137	133,278
Total current liabilities	1,348,247	1,851,006
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	497,042	488,299
Estimated environmental remediation costs	20,998	21,745
Payable under capacity lease agreement	41,000	41,000
Benefit obligations	183,669	182,687
Estimated obligations under indemnification provisions of sale agreements	7,352	11,391
Other	133,203	117,621
Total deferred credits and other liabilities	883,264	862,743
Commitments and Contingencies		
Total Liabilities and Stockholder's Equity	$ 5,977,970	$ 6,130,787

See Notes to NorAm's Unaudited Consolidated Financial Statements

NORAM ENERGY CORP. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS
Increase (Decrease) in Cash and Cash Equivalents
(Thousands of Dollars)
(Unaudited)

	Current NorAm Six Months Ended June 30, 1998	Former NorAm Six Months Ended June 30, 1997
Cash Flows from Operating Activities:		
Net income	$ 58,456	$ 69,349
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	91,065	72,445
Deferred income taxes	30,594	16,972
Extraordinary (gain), less taxes		(237)
Changes in other assets and liabilities, net of the effects of the acquisition:		
Accounts and notes receivable-net	189,924	342,855
Inventories	(12,591)	14,381
Other current assets	23,110	666
Accounts payable	(83,462)	(268,658)
Interest and taxes accrued	(41,932)	(9,667)
Other current liabilities	(11,909)	(34,227)
Other - net	28,628	3,675
Net cash provided by operating activities	271,883	207,554
Cash Flows from Investing Activities:		
Capital expenditures	(106,267)	(67,400)
Other - net	1,147	(31,245)
Net cash used in investing activities	(105,120)	(98,645)
Cash Flows from Financing Activities:		
Retirements and reacquisitions of long-term debt	(29,000)	(230,515)
Issuance of bank term loan, due 1998		150,000
Proceeds from sale of debentures	298,514	
Decrease in notes payable	(419,779)	(43,000)
Increase in receivables facility		35,000
Common and preferred stock dividends		(19,281)
Conversion of convertible securities	(10,097)	
Other-net	(12,126)	(17,689)
Net cash used in financing activities	(172,488)	(125,485)
Net (decrease) in Cash and Cash Equivalents	(5,725)	(16,576)
Cash and Cash Equivalents at Beginning of the Period	35,682	27,981
Cash and Cash Equivalents at End of the Period	$ 29,957	$ 11,405
Supplemental Disclosure of Cash Flow Information:		
Interest (net of amounts capitalized)	$ 63,798	$ 75,300
Income taxes, net	75,129	14,900

See Notes to NorAm's Unaudited Consolidated Financial Statements.

NORAM ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Thousands of Dollars)
(Unaudited)

	Common Stock(1) Shares	Common Stock(1) Amount	Paid-in Capital	Retained Earnings (Deficit)	Unrealized Gain (Loss) on Marketable Securities Net of Tax	Total
Former NorAm:						
Balance at January 1, 1997.....	137,908,173	$ 86,193	$ 1,001,053	$ (286,703)	$ 5	$ 800,548
Net Income.....................				69,349		69,349
Cash Dividends:						
Common stock -- $0.07 per share..................				(19,281)		(19,281)
Change in Market Value of Marketable Equity Securities, net of tax.......					7,792	7,792
Other Issuances................	407,180	254	3,836			4,090
Balance at June 30, 1997.......	138,315,353	86,447	1,004,889	(236,635)	7,797	862,498
Net Income.....................				(23,237)		(23,237)
Cash Dividends:						
Change in Market Value of Marketable Equity Securities, net of tax.......					(1,918)	(1,918)
Conversion of NorAm-Obligated Mandatorily Redeemable Convertible Trust Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debentures of NorAm to Common Stock........................	11,428,262	7,143	131,425			138,568
Other Issuances................	(59,653)	(38)	1,960			1,922
Balance at July 31, 1997..........................	149,683,962	93,552	1,138,274	(259,872)	5,879	977,833
Current NorAm (Post Merger):						
Adjustments due to Merger:						
Eliminate Former NorAm Balances...................	(149,683,962)	(93,552)	(1,138,274)	259,872	(5,879)	(977,833)
Capital Contribution from Parent.......................	1,000	1	2,463,831			2,463,832
Net Income.....................				20,847		20,847
Change in Market Value of Marketable Equity Securities, net of tax.......					(5,634)	(5,634)
Balance at December 31, 1997.........................	1,000	$ 1	$ 2,463,831	$ 20,847	$ (5,634)	$ 2,479,045

(continued on next page)

NORAM ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - (Continued)
(Thousands of Dollars)
(Unaudited)

	Common Stock (1) Shares	Common Stock (1) Amount	Paid-in Capital	Retained Earnings (Deficit)	Unrealized Gain (Loss) on Marketable Securities Net of Tax	Total
Net Income....................				$ 58,456		$ 58,456
Change in Market Value of Marketable Equity Securities, net of tax					(5,035)	(5,035)
Balance at June 30, 1998......	1,000	$ 1	$ 2,463,831	$ 79,303	$ (10,669)	$ 2,532,466

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

See Notes to NorAm's Unaudited Consolidated Financial Statements.

NORAM ENERGY CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

On August 6, 1997 (Acquisition Date), Houston Industries Incorporated (Former HI) merged with and into Houston Lighting & Power Company, which was renamed "Houston Industries Incorporated" (Houston Industries), and NorAm Energy Corp. (Former NorAm) merged with and into a subsidiary of Houston Industries, HI Merger, Inc., which was renamed "NorAm Energy Corp." (NorAm). Effective upon the mergers (collectively, the Merger), each outstanding share of common stock of Former NorAm was converted into the right to receive $16.3051 cash or 0.74963 shares of common stock of Houston Industries. For more information regarding the Merger, see Note 2 below.

The unaudited interim financial statements and notes (NorAm's Interim Financial Statements) in this Form 10-Q (Form 10-Q) include the accounts of NorAm and its wholly owned subsidiaries. NorAm's Interim Financial Statements omit certain information included in financial statements prepared in accordance with generally accepted accounting principles and should be read in combination with the joint Annual Report on Form 10-K (Form 10-K) of Houston Industries (File No. 1-3187) and NorAm (File No. 1-13265) for the year ended December 31, 1997. The Form 10-K includes the consolidated financial statements of Houston Industries (Houston Industries' 10-K Financial Statements) and the consolidated financial statements of NorAm (NorAm's 10-K Financial Statements) for the year ended December 31, 1997. For additional information regarding the presentation of interim period results, see Note 6 below.

The following notes to NorAm's Form 10-K Financial Statements relate to material contingencies. These notes, as updated by the notes contained in NorAm's Interim Financial Statements, are incorporated herein by reference and include the following:

Note 1(c) (Regulatory Assets and Regulation), Note 2 (Derivative Financial Instruments (Risk Management)) and Note 8 (Commitments and Contingencies).

(2) ACQUISITION OF NORAM

The aggregate consideration paid to Former NorAm stockholders in connection with the Merger consisted of $1.4 billion in cash and 47.8 million shares of Houston Industries common stock valued at approximately $1.0 billion. The overall transaction was valued at $4.0 billion consisting of $2.4 billion paid for Former NorAm's common stock and common stock equivalents and $1.6 billion of Former NorAm's debt ($1.3 billion of which was long-term debt).

The Merger was recorded under the purchase method of accounting with assets and liabilities of NorAm reflected at their estimated fair values as of the Acquisition Date, resulting in a "new basis" of accounting. In NorAm's Interim Financial Statements, periods which reflect the new basis of accounting are labeled as "Current NorAm" and periods which do not reflect the new basis of accounting are labeled as "Former NorAm."

NorAm's Consolidated Balance Sheets for periods after the Acquisition Date reflect adjustments associated with Houston Industries' assignment of the purchase price, principally consisting of (1) the revaluation of certain property, plant and equipment and long-term debt to their estimated fair market value,

(2) the recognition of certain pension and postretirement benefit obligations previously being recognized through amortization, (3) the recognition of goodwill as described above, (4) the elimination of NorAm's historical goodwill, (5) the elimination of NorAm's historical stockholders' equity balances and accumulated depreciation and amortization as of the Acquisition Date and (6) the recognition of the associated deferred income tax effects. In addition, NorAm's pre-merger common stock was canceled and replaced with 1,000 shares of common stock (all of which are owned by Houston Industries), rendering presentation of per share data no longer meaningful. Houston Industries' debt to fund the cash portion of the purchase consideration has not been allocated or "pushed down" to NorAm and is not reflected on NorAm's Interim Financial Statements.

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

Assuming the Merger occurred on January 1, 1997, NorAm's unaudited pro forma results for the second quarter of 1997 were a net loss of $3 million and NorAm's unaudited pro forma net income for the first six months of 1997 were $62 million. Pro forma results are based on assumptions deemed appropriate by NorAm's management, have been prepared for informational purposes only and are not necessarily indicative of the results which would have resulted had the Merger actually taken place on the date indicated.

(3) COMPREHENSIVE INCOME

Effective January 1, 1998, NorAm adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income" (SFAS No. 130). SFAS No. 130 requires that the total amount of comprehensive income and all items that meet the definition of a component of comprehensive income (as defined below) be reported in the year-end financial statements for the annual period in which they are recognized and the total amount of comprehensive income be prominently displayed in those same financial statements. Comprehensive income is defined, to include not only net income (loss) but also the change in stockholder's equity during a period from transactions and other events and circumstances from non-stockholder sources.

In the second quarter of 1998, NorAm had a total comprehensive loss of $9 million compared to comprehensive income of $7 million in the corresponding period in 1997. In the first six months of 1998, NorAm had total comprehensive income of $53 million compared to $77 million in the corresponding period in 1997.

In addition to net income, comprehensive income in all periods reflects unrealized gains or losses on NorAm's investment in marketable equity securities.

(4) DEPRECIATION

NorAm calculates depreciation using the straight-line method. NorAm's depreciation expense for the second quarter and first six months of 1998 was $30 million and $63 million, respectively.

(5) LONG-TERM DEBT AND SHORT-TERM FINANCINGS

In May 1998, NorAm repaid at maturity $28 million of medium-term notes carrying an average interest rate of 8.74%. For information regarding NorAm's $350 million revolving credit facility (NorAm Credit Facility), see Note 5 to NorAm's Interim Financial Statements in the First Quarter 10-Q. At June 30, 1998, there were no commercial paper borrowings and no loans outstanding under the facility. For information regarding NorAm's $300 million receivables facility, see Note 4(a) to NorAm's 10-K Financial Statements. At June 30, 1998, NorAm had sold $300 million of receivables under this facility. For information regarding (i) the issuance of $300 million principal amount of 6.5% debentures due February 1, 2008,(ii) the repayment in the first quarter of 1998 of $1 million of its 9.30% medium-term notes and (iii) the satisfaction of the $6.5 million sinking fund requirement for its 6% convertible subordinated debentures due 2012 using debentures purchased in 1996 and 1997, see Note 5 to NorAm's Interim Financial Statements in the First Quarter 10-Q.

(6) NORAM OBLIGATED MANDATORILY REDEEMABLE TRUST SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY SUBORDINATED DEBENTURES OF NORAM.

For information regarding $177.8 million of convertible preferred securities issued by a statutory business trust formed by Former NorAm, of which $1.4 million were outstanding at June 30, 1998, see Note 5 to NorAm's Form 10-K Financial Statements. The sole asset of the trust consists of junior subordinated debentures of NorAm having interest rates and maturity dates corresponding to the preferred securities, and the principal amount corresponding to the common and preferred securities issued by the trust.

(7) INTERIM PERIOD RESULTS: RECLASSIFICATIONS

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

ITEM 2. MANAGEMENT'S NARRATIVE ANALYSIS OF THE RESULTS OF OPERATIONS OF NORAM ENERGY CORP. AND CONSOLIDATED SUBSIDIARIES.

NorAm meets the conditions specified in General Instruction H to Form 10-Q and is thereby permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies specified therein. Accordingly, NorAm has omitted from this Form 10-Q the information called for by Item 3 (Quantitative and Qualitative Disclosures about Market Risk) of Part I and the following Part II items of Form 10-Q: Item 2 (changes in securities and use of proceeds), Item 3 (defaults upon senior securities), and Item 4 (submission of matters to a vote of security holders). In lieu of the information called for by Item 2 (management's discussion and analysis of financial condition and results of operations) of Form 10-Q, NorAm has included the following Management's Narrative Analysis of the Results of Operations of NorAm Energy Corp. and Consolidated Subsidiaries to explain material changes in the amount of revenue and expense items of NorAm between the second quarter and first six months of 1998 and the first quarter and first six months of 1997, respectively. Reference is made to Management's Narrative Analysis of the Results of Operations of NorAm and consolidated subsidiaries in Item 7 of the Form 10-K, NorAm's consolidated financial statements and notes contained in Item 8 of the Form 10-K and NorAm's Interim Financial Statements contained in this Form 10-Q. For a discussion of the qualifications and assumptions underlying the use of forward looking information, see Item 5 of this Form 10-Q.

NORAM ENERGY CORP.

NorAm conducts operations primarily in the natural gas industry, including gathering, transmission, marketing, storage and distribution. Collectively, these operations accounted for in excess of 93% of NorAm's total revenues, income or loss and identifiable assets in the second quarter and first six months of 1998. Accordingly, NorAm is not required to report on a "segment" basis, although NorAm is organized into, and the following business description focuses on, the operating units described below. NorAm also makes sales of electricity, non-energy sales and provides certain non-energy services, primarily to retail gas distribution customers. In recognition of the manner in which NorAm manages its portfolio of businesses, NorAm has segregated its results of operations into: Natural Gas Distribution, Interstate Pipeline, Energy Marketing and Corporate.

On August 6, 1997 (Acquisition Date), NorAm became a wholly owned subsidiary of Houston Industries Incorporated (Houston Industries) in a transaction involving the merger (Merger) of NorAm Energy Corp. (Former NorAm) with and into a subsidiary of Houston Industries. For additional information regarding Houston Industries' acquisition of NorAm, see Note 2 to NorAm's Interim Financial Statements.

CONSOLIDATED RESULTS OF OPERATIONS

Seasonality and Other Factors. NorAm's results of operations are seasonal due to fluctuations in the demand for and, to a lesser extent, the price of natural gas. NorAm's results of operations are also affected by, among other things, the actions of various federal and state governmental authorities having jurisdiction over rates charged by NorAm and its subsidiaries, competition in NorAm's various business operations, debt service costs and income tax expense. For a discussion of certain other factors that may affect NorAm's future earnings see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company--Certain Factors affecting Future Earnings of the Company and its Subsidiaries" in the Form 10-K.

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

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

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

The following table sets forth selected financial and operating data on an actual basis for the second quarters and six months ended June 30, 1998 and 1997 and on a pro forma basis for the second quarter and six months ended June 30, 1997, followed by a discussion of significant variances in period-to-period results:

Selected Financial Results:

	Three Months Ended June 30,			
	1998 (Actual)	1997 (Actual)	1997 (Pro forma)(1)	Percentage Change
	(Thousands of dollars)			(1998 Actual to 1997 Pro forma)
Operating Revenues:				
Natural Gas Distribution	$ 314,989	$ 336,568	$ 336,568	(6%)
Interstate Pipeline	76,516	77,048	77,048	(1%)
Energy Marketing	1,042,609	647,848	647,848	61%
Corporate and Other	14,610	18,671	18,671	(22%)
Elimination of Intersegment Revenue (2)	(66,149)	(64,137)	(64,137)	(3%)
	$ 1,382,575	$ 1,015,998	$ 1,015,998	36%
Operating Income (Loss):				
Natural Gas Distribution	(6,156)	5,778	(18)	--
Interstate Pipeline	32,849	30,526	26,590	24%
Energy Marketing	(6,186)	6,532	4,808	--
Corporate and Other	(489)	(6,221)	(3,842)	87%
Consolidated	20,018	36,615	27,538	(27%)
Interest Expense, Net	25,479	32,523	26,507	(4%)
Distributions on Subsidiary Trust Securities	159	2,709	515	(69%)
Other (Income) and Deductions	(1,980)	213	213	--
Income Tax Expense (Benefit)	(1,490)	468	3,318	--
Net Income (loss)	$ (2,150)	$ 702	$ (3,015)	29%

	Six Months Ended June 30,			
	1998 (Actual)	1997 (Actual)	1997 Pro forma(1)	Percentage Change
		(Thousands of dollars)		(1998 Actual to 1997 Pro forma)
Operating Revenues:				
Natural Gas Distribution	$ 1,031,885	$ 1,217,819	$ 1,217,819	(15%)
Interstate Pipeline	147,497	162,698	162,698	(9%)
Energy Marketing	2,088,228	1,693,314	1,693,314	23%
Corporate and Other	35,726	35,430	35,430	1%
Elimination of Intersegment Revenues(2) ..	(160,830)	(169,081)	(169,081)	5%
	$ 3,142,506	$ 2,940,180	$ 2,940,18	7%
Operating Income (Loss):				
Natural Gas Distribution	95,448	118,430	106,876	(11%)
Interstate Pipeline	64,922	69,377	61,220	6%
Energy Marketing	3,395	7,213	3,745	(9%)
Corporate and Other	(2,176)	(13,183)	(8,641)	75%
Consolidated	161,589	181,837	163,200	(1%)
Interest Expense, Net	52,379	67,995	55,787	(6%)
Distributions on Subsidiary Trust	427	5,414	1,029	(59%)
Other (Income) and Deductions	(4,536)	(6,095)	(6,094)	26%
Income Tax Expense	54,863	45,411	50,551	9%
Income Before Extraordinary Item	58,456	69,112	61,927	(6%)
Extraordinary Item		237		--
Net Income	$ 58,456	$ 69,349	$ 61,927	(6%)

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

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

Second Quarter of 1998 Compared to Second Quarter of 1997 (Actual). NorAm had a consolidated net loss of $2 million for the second quarter of 1998 compared to net income of $0.7 million in the same period in 1997. The decrease in earnings is primarily attributable to the purchase accounting effects of the Merger including the amortization of goodwill and adjustments to interest expense.

Second Quarter of 1998 Actual Compared to Second Quarter of 1997 Pro Forma. NorAm had a consolidated net loss of $2 million for the second quarter of 1998 compared to a pro forma consolidated loss of $3 million in the same period in 1997. The consolidated net loss was due to decreased operating income at Natural Gas Distribution and Energy Marketing offset by increased operating income at Interstate Pipeline and decreased interest expense, as described below.

First Six Months of 1998 Compared to First Six Months of 1997 (Actual). NorAm had consolidated net income of $58 million for the first six months of 1998 compared to net income of $69 million in the same period in 1997. The decrease in earnings is primarily attributable to the purchase accounting effects of the merger described above.

First Six Months of 1998 Actual Compared to First Six Months of 1997 Pro Forma. NorAm had consolidated net income of $58 million for the first six months of 1998 compared to pro forma net income of $62 million in the first six months of 1997. Net income decreased primarily due to decreased operating income at Natural Gas Distribution due to warmer weather. The decrease was partially offset by increased operating income at Interstate Pipeline (described below) and decreased interest expense.

RESULTS OF OPERATIONS BY BUSINESS UNIT

NATURAL GAS DISTRIBUTION

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

The following table provides summary data regarding the results of operations of Natural Gas Distribution, including operating statistics, on an actual basis for the second quarter and first six months of 1998 and on a pro forma basis for the second quarter and first six months of 1997 (as if the acquisition of NorAm by Houston Industries had occurred as of January 1, 1997).

	Three Months Ended June 30, 1998	Three Months Ended June 30, 1997	Percent Change
	(Actual)	(Pro forma)	
	(in millions)		
Operating Revenues	$ 315	$ 337	(7%)
Operating Expenses:			
Natural Gas	174	186	(6%)
Operation and Maintenance	93	96	(3%)
Depreciation and Amortization	32	31	3%
Other Operating Expenses	22	24	(8%)
Total Operating Expenses	321	337	(5%)
Operating Income	$ (6)	$ 0	--
Throughput Data (in Bcf):			
Residential and Commercial Sales	43	51	(16%)
Industrial Sales	13	13	--
Transportation	10	10	--
Total Throughput	66	74	(11%)

	Six Months Ended June 30, 1998 (Actual)	1997 (Pro forma)	Percent Change
	(in millions)		
Operating Revenues	$ 1,032	$ 1,218	(15%)
Operating Expenses:			
Natural Gas	632	803	(21%)
Operation and Maintenance	191	193	(1%)
Depreciation and Amortization	63	61	3%
Other Operating Expenses	50	54	(7%)
Total Operating Expenses	936	1,111	(16%)
Operating Income	$ 96	$ 107	(10%)
Throughput Data (in Bcf):			
Residential and Commercial Sales	169	188	(10%)
Industrial Sales	29	29	--
Transportation	22	22	--
Total Throughput	$ 220	$ 239	(8%)

Natural Gas Distribution operating income decreased $6 million and $11 million in the second quarter and first six months of 1998, respectively, compared to pro forma operating income in the same periods in 1997 due primarily to the lower demand for natural gas heating in the second quarter of 1998 and milder winter weather in the first three months of 1998. This decrease in operating income was partially offset by reduced charges at Arkla associated with the methodology of calculating the price of gas charged to customers (the purchased gas adjustment) in the second quarter and first six months of 1998 as compared to the same periods in 1997.

Natural Gas Distribution operating revenue decreased $22 million and $186 million for the second quarter and first six months of 1998, respectively, compared to pro forma operating revenue for the corresponding periods of 1997 due principally to the weather-related factors discussed above, which resulted in lower customer usage at Entex and Minnegasco. A decrease in gas prices for the six months ended June 30, 1998 compared to the same period in the prior year also contributed to the decline in operating revenues for that period.

Operating expenses decreased $16 million and $175 million in the second quarter and first six months of 1998, respectively, compared to pro forma operating expenses in the same periods of 1997 due to the same factors that affected operating revenues.

INTERSTATE PIPELINE

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

The following table provides summary data regarding the results of operations of Interstate Pipeline, including operating statistics, on an actual basis for the three and six months ended June 30, 1998 and on a pro forma basis for the three and six months ended June 30, 1997 (as if the acquisition of NorAm by Houston Industries had occurred as of January 1, 1997).

	Three Months Ended June 30, 1998 (Actual)	Three Months Ended June 30, 1997 (Pro forma)	Percent Change
	(in millions)		
Operating Revenues	$ 77	$ 74	4%
Operating Expenses:			
Natural Gas	8	8	--
Operation and Maintenance	22	23	(4%)
Depreciation and Amortization	10	12	(17%)
Other Operating Expenses	4	4	--
Total Operating Expenses	44	47	(6%)
Operating Income	$ 33	$ 27	22%
Throughput Data (in million MMBtu):			
Natural Gas Sales	4	5	(20%)
Transportation	187	212	(12%)
Elimination (1)	(4)	(4)	--
Total Throughput	187	213	(12%)

	Six Months Ended June 30, 1998 (Actual)	Six Months Ended June 30, 1997 (Pro forma)	Percent Change
	(in millions)		
Operating Revenues	$ 148	$ 158	(6%)
Operating Expenses:			
Natural Gas	16	19	(16%)
Operation and Maintenance	40	45	(11%)
Depreciation and Amortization	19	25	(24%)
Other Operating Expenses	8	7	14%
Total Operating Expenses	83	96	(14%)
Operating Income	$ 65	$ 62	5%
Throughput Data (in million MMBtu):			
Natural Gas Sales	8	9	(11%)
Transportation	424	462	(8%)
Elimination (1)	(7)	(9)	22%
Total Throughput	425	462	(8%)

- -------------

(1) Elimination refers to volumes of natural gas both transported and sold by Interstate Pipeline and, therefore, excluded from total throughput.

Interstate Pipeline operating income increased $6 million and $3 million in the second quarter and first six months of 1998, respectively, compared to pro forma operating income for the same periods in 1997. The increase for the three months ended June 1998 is due primarily to $6 million recorded in connection with the settlement of certain litigation and lower operating expenses in the second quarter of 1998. The increase for the first six months is attributable to $5 million recorded in the first quarter of 1998 in connection with the settlement of an MRT rate case, as well as the items mentioned above, offset by $7 million of non-recurring transportation revenues in the first quarter of 1997, discussed below.

Operating revenues for Interstate Pipeline increased by $3 million for the second quarter of 1998 compared to pro forma operating revenues for the same period in 1997. The increase in revenues is primarily due to the settlement of outstanding litigation related to certain gas purchase contracts which resulted in the recognition of approximately $6 million of revenues in April 1998, offset by a decrease in sales volumes.

Interstate Pipeline operating revenues decreased $10 million for the first six months of 1998 compared to pro forma operating revenues for the same period in 1997. The decrease in revenues is in part due to $7 million of non-recurring transportation revenues recognized in the first quarter of 1997. The revenues were recognized following a settlement with the Arkla division of NorAm related to service provided in several of Arkla's operating jurisdictions. The settlement with Arkla also resulted in reduced transportation rates which reduced revenues for the period. These decreases were partially offset by the increase in revenues due to the litigation settlement in the second quarter of 1998, mentioned above.

Operation and maintenance expense decreased $1 million and $5 million in the second quarter and first six months of 1998, respectively, compared to pro forma operation and maintenance expense for the same periods in 1997. The decreases were primarily due to lower costs resulting from cost control initiatives and decreased maintenance due to milder weather in the first quarter of 1998.

Depreciation and amortization expenses decreased $2 million and $6 million in the second quarter and first six months of 1998, respectively, in comparison to pro forma depreciation and amortization expenses for the same periods of 1997 due to a $5 million rate settlement recorded in the first quarter of 1998. The rate settlement, effective January 1998, provided for a reduction of MRT's depreciation rates retroactive to July 1996.

ENERGY MARKETING

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

The following table provides summary data regarding the results of operations of Energy Marketing, including operating statistics, on an actual basis for the three and six months ended June 30,1998 and on a pro forma basis for the three and six months ended June 30, 1997 (as if the acquisition of NorAm had occurred as of January 1, 1997).

	Three Months Ended June 30, 1998 (Actual)	1997 (Pro forma)	Percent Change
	(in millions)		
Operating Revenues	$ 1,043	$ 648	61%
Operating Expenses:			
Natural Gas	618	524	18%
Purchased Power	396	97	308%
Operation and Maintenance	30	18	67%
Depreciation and Amortization	3	3	--
Other Operating Expenses	2	1	100%
Total Operating Expenses	1,049	643	63%
Operating Income (Loss)	$ (6)	$ 5	--
Operations Data:			
Natural Gas (in Bcf):			
Sales	310	272	14%
Transportation	6	5	20%
Gathering	57	62	(8%)
Total	373	339	10%
Electricity:			
Wholesale Power Sales (in thousand MWH)	16,348	4,977	228%

	Six Months Ended June 30, 1998 (Actual)	1997 (Pro forma)	Percent Change
	(in millions)		
Operating Revenues	$ 2,088	$ 1,693	23%
Operating Expenses:			
Natural Gas	1,326	1,435	(8%)
Purchased Power	697	209	233%
Operation and Maintenance	53	38	39%
Depreciation and Amortization	6	5	20%
Other Operating Expenses	3	2	50%
Total Operating Expenses	2,085	1,689	23%
Operating Income	$ 3	$ 4	(25%)
Operations Data:			
Natural Gas (in Bcf):			
Sales	647	591	9%
Transportation	12	12	--
Gathering	115	122	(6%)
Total	774	725	7%
Electricity:			
Wholesale Power Sales (in thousand MWH)	30,118	9,561	215%

Energy Marketing operating income decreased $11 million and $1 million in the second quarter and first six months of 1998, respectively, in comparison to pro forma operating income for the same periods in 1997. The $11 million decrease for the second quarter is primarily due to increased operating expenses (including a $4 million expense associated with an increase in reserves as discussed below) and decreased margins at NES compared to the same period in 1997. Operating income for the first six months of 1997 included $17 million in hedging losses associated with sales under peaking contracts and losses from the sale of natural gas held in storage and unhedged in the first quarter of 1997.

Operating Revenues. Operating revenues for Energy Marketing increased $395 million for each of the second quarter and first six months of 1998 compared to pro forma operating revenues for the same periods in 1997. For the second quarter, wholesale power sales increased $300 million due to increased trading activity. For the first six months, wholesale power sales increased $490 million due to increased trading activity, offset by a reduction in gas sales of approximately $120 million primarily due to a decrease in the sales price of natural gas.

Operating Expenses. Natural gas expenses increased $94 million for the second quarter of 1998 and decreased $109 million for the first six months of 1998 compared to the same periods in 1997. The increase for the three month period is attributable to increased gas marketing activities. The decrease for the six month period in 1998 is due to the decrease in the price of natural gas in that period and the hedging losses in 1997 mentioned above.

Purchased power expenses increased $299 million and $488 million for the second quarter of 1998 and first six months of 1998 due to increased marketing activities.

Operation and maintenance expenses increased $12 million and $15 million when compared to pro forma operation expenses for the second quarter and first six months of 1997, respectively. This increase is largely due to increased staffing and marketing activities made in support of the increased sales and expanded marketing efforts at NES. NorAm believes that NES' energy marketing and risk management services have the potential of complementing Houston Industries' strategy of developing and/or acquiring unregulated generation assets in other markets. As a result, NorAm has made, and expects to continue to make, significant investments in developing NES' internal software, trading and personnel resources. The increase in operation and maintenance expenses is also due to a $4 million expense associated with an increase in NES's credit reserve due to increased counter party credit and performance risk associated with higher prices and higher volatility in the electric power market.

To minimize fluctuations in the price of natural gas and transportation, NorAm, primarily through NES, enters into futures transactions, swaps and options in order to hedge against market price changes affecting (i) certain commitments to buy, sell and transport natural gas, (ii) existing gas storage inventory and (iii) certain anticipated transactions, some of which carry off-balance sheet risk. NES also enters into natural gas derivatives for trading purposes and electricity derivatives for hedging and trading purposes. For a discussion about the Company's accounting treatment of derivative instruments, see Note 2 to NorAm's 10-K Financial Statements, Item 7A (Quantitative and Qualitative Disclosure About Market Risk) in the Form 10-K, and Item 3 (Quantitative and Qualitative Disclosures About Market Risk) in this Form 10-Q.

CORPORATE

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

Corporate operating loss decreased $3 million and $6 million, respectively, in the second quarter and first six months of 1998 compared to the same periods of 1997. The decreases are primarily attributable to reduced corporate expenses.

NEW ACCOUNTING ISSUES

Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company - New Accounting Issues" in Item 2 (Houston Industries) in the Form 10-Q for a discussion of certain new accounting issues.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For a description of legal proceedings affecting the Company and its subsidiaries, including NorAm, see (i) Part I, Item 3, of the Form 10-K, Notes 3, 5 and 12 to the Company's 10-K Financial Statements and Note 8 to NorAm's 10-K Financial Statements and (ii) Part II, Item 1, of the First Quarter 10-Q. The information contained in these sections, which is incorporated herein by reference, is updated by the following information:

In June 1998, the lawsuit, Dumes, et al. v. Houston Lighting & Power Company, was dismissed, with prejudice, by the U.S. District Court for the Southern District of Texas, Corpus Christi Division. The lawsuit, which had been filed by landowners claiming $70 million in compensatory damages for alleged environmental contamination, was settled by the Company for a total of $84,500. For additional information regarding the lawsuit, reference is made to Part I, Item 3 (Company) of the Form 10-K.

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

Company

At the annual meeting of the Company's shareholders held on May 6, 1998, the matters voted upon and the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes as to such matters (including a separate tabulation with respect to each nominee for office) were as stated below:

For Item 1, the election of four nominees for Class II directors to serve three-year terms expiring in 2001:

	For	Against	Abstain	Broker Non-Vote
Milton Carroll	254,444,791	4,377,921	-0-	-0-
John T. Cater	254,453,523	4,369,189	-0-	-0-
Robert C. Hanna	254,421,332	4,401,380	-0-	-0-
R. Steve Letbetter	254,261,821	4,560,891	-0-	-0-

For Item 2, the proposal to amend the 1994 Houston Industries Incorporated Long- Term Incentive Compensation Plan to increase the number of shares of Common

Stock subject to the plan by ten million and to increase the limitation on grants of stock options to any one individual during any calendar year:

For	Against	Abstain	Broker Non-Vote
233,223,502	21,435,968	4,163,242	-0-

For Item 3, the ratification of the appointment of Deloitte & Touche LLP as independent accountants and auditors for the Company for 1998:

For	Against	Abstain	Broker Non-Vote
255,489,758	1,921,898	1,411,056	-0-

NorAm

Omitted pursuant to Instruction H(2)(b).

In accordance with recent amendments to the shareholder proposal rules set forth in Rules 14a-4 and 14a-8 under the Securities Exchange Act of 1934, as amended, written notice of shareholder proposals submitted outside the processes of Rule 14a-8 for consideration at the 1999 Annual Meeting of Shareholders must be received by the Company on or before February 10, 1999, in order to be considered timely for purposes of Rule 14a-4. The persons designated in the Company's proxy statement shall be granted discretionary authority with respect to any shareholder proposal of which the Company does not receive timely notice.

ITEM 5. OTHER INFORMATION.

From time to time, the Company and NorAm may make statements regarding their assumptions, projections, expectations, intentions, or beliefs about future events. These statements and other statements that are not historical facts are intended as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. The Company and NorAm caution that assumptions, projections, expectations, intentions or beliefs about future events may and often do vary materially from actual results and the differences between assumptions, projections, expectations, intentions or beliefs and actual results can be material. Accordingly, there can be no assurance that actual results will not differ materially from those expressed or implied by the forward looking statements.

The following are some of the factors that could cause actual results to differ from those expressed or implied in forward looking statements: (i) state and federal legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate restructures and affect the speed and degree to which competition enters the electric and natural gas industries; (ii) industrial, commercial and residential growth in service territories of the Company and NorAm; (iv) the weather and other natural phenomena; (v) the timing and extent of changes in commodity prices and interest rates, (vi) changes in environmental and other laws and regulations to which the Company, NorAm and their respective subsidiaries are subject or other external factors over which the Company and NorAm have no control; (vii) the results of financing efforts, (viii) growth in opportunities for the Company's and NorAm's subsidiaries and diversified operations; (ix) the effect of the Company's and NorAm's accounting policies and (x) other factors discussed in this and other filings by the Company and NorAm with the Securities and Exchange Commission.

When used in the Company's or NorAm's documents or oral presentations, the words "anticipate," "estimate," "expect," "objective," "projection," "forecast," "goal" or similar words are intended to identify forward-looking statements.

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

(a) Exhibits.

Company:

Exhibit 10 -	Amendment to the Houston Industries Incorporated Executive Deferred Compensation Trust, effective as of August 6, 1997, by and among the Company, HI Energy and The Bank of New York, as Trustee, effective as of August 6, 1997.
Exhibit 12 -	Ratio of Earnings to Fixed Charges and Preferred Dividend
Exhibit 27 -	Financial Data Schedule (included in electronic filing only).
Exhibit 99(a) -	Notes 3, 5 and 12 to the Company's Consolidated Financial Statements included on pages 72 through 77 and 92 through 94 of the Form 10-K.

NorAm:

Exhibit 12 -	Ratio of Earnings to Fixed Charges
Exhibit 27 -	Financial Data Schedule (included in electronic filing only) .
Exhibit 99(a) -	Note 8 to the NorAm Financial Statements included on pages 132 through 135 of the Form 10-K.

(b) Reports on Form 8-K.

Company

None

NorAm

None

SIGNATURE

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

HOUSTON INDUSTRIES INCORPORATED
(Registrant)

/s/ Mary P. Ricciardello

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

Date: August 13, 1998

SIGNATURE

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

NORAM ENERGY CORP.
(Registrant)

/s/ Mary P. Ricciardello

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

Date: August 13, 1998

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
HOUSTON INDUSTRIES INCORPORATED:	
10	Amendment to the Houston Industries Incorporated Executive Deferred Compensation Trust, effective as of August 6, 1997, by and among the Company, HI Energy and The Bank of New York, as Trustee, effective as of August 6, 1997.
12	Ratio of Earnings to Fixed Charges and Preferred Dividends
27	Financial Data Schedule for Houston Industries
99(a)	Notes 3, 5, and 12 to the Company's Consolidated Financial Statements included on pages 72 through 77 and 92 through 94 of the Form 10-K
NORAM ENERGY CORP.:	
12	Ratio of Earnings to Fixed Charges
27	Financial Data Schedule
99(a)	Note 8 to the NorAm Financial Statements included on pages 132 through 135 of the Form 10-K

EXHIBIT 10

AMENDMENT TO THE
HOUSTON INDUSTRIES INCORPORATED
EXECUTIVE DEFERRED COMPENSATION TRUST

THIS AGREEMENT, made and entered, effective as of August 6, 1997, by and among HOUSTON INDUSTRIES INCORPORATED, a Texas corporation ("Houston"), and HOUSTON INDUSTRIES ENERGY, INC., a Delaware corporation ("HI Energy"), as settlors, and THE BANK OF NEW YORK, as Trustee ("Trustee");

W I T N E S S E T H:

WHEREAS, the Houston Industries Incorporated, a Texas Corporation ("HI"), Houston Lighting & Power Company, a Texas Corporation ("HL&P"), HI Energy and Trustee established a grantor trust for the purpose of setting aside and providing a specialized funding mechanism for the deferred compensation provided under certain executive compensation plans (the "Trust"), through the Houston Industries Incorporated Executive Deferred Compensation Trust, effective December 19, 1995 (the "Trust Agreement");

WHEREAS, effective August 6, 1997, HI merged into HL&P to form

Houston; WHEREAS, effective as of said merger, Houston has adopted the Trust and the underlying plans and agreed to assume all duties, rights and responsibilities of the "Company" thereunder as a party to the Trust Agreement as successor to HI and HL&P; and

WHEREAS, pursuant to Section 3.4, Houston, HI Energy and Trustee desire to amend the Trust Agreement, effective as of August 6, 1997.

NOW, THEREFORE, in consideration of the premises, the parties hereto agree that the Trust Agreement shall be and hereby is amended as set forth below, effective as of August 6, 1997:

1. The definition of "Company" in Article II of the Plan is hereby amended in its entirety to read as follows:

"COMPANY: The term 'Company' shall mean Houston Industries Incorporated, a Texas corporation, and any successor thereto."

2. As amended hereby, the Trust Agreement is hereby specifically ratified, assumed, adopted and reaffirmed.

IN WITNESS WHEREOF, Houston, HI Energy and Trustee have caused these presents to be executed by their duly authorized officers in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this _____ day of __________________, 1998, but effective as of August 6, 1997.

HOUSTON INDUSTRIES INCORPORATED

By________________________________
Name:___________________________
Title:__________________________

ATTEST:

____
Assistant Corporate Secretary

HOUSTON INDUSTRIES ENERGY, INC.

By________________________________
Name:___________________________
Title:__________________________

ATTEST:

____
Assistant Corporate Secretary

THE BANK OF NEW YORK

By_________________________________
Name:____________________________
Title:___________________________

ATTEST:

____

THE STATE OF TEXAS)
)
COUNTY OF HARRIS)

BEFORE ME, the undersigned authority, on this day personally appeared ____________________________________, ______________________________________ of HOUSTON INDUSTRIES INCORPORATED, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same as the act of the said HOUSTON INDUSTRIES INCORPORATED, a corporation, and that he executed the same as the act and deed of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of ___________________, 1998.

____
Notary Public, State of Texas

THE STATE OF __________)
)
COUNTY OF _____________)

BEFORE ME, the undersigned authority, on this day personally appeared __________________________________, ____ of HOUSTON INDUSTRIES ENERGY, INC., known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same as the act of the said HOUSTON INDUSTRIES ENERGY, INC., a corporation, and that he executed the same as the act and deed of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____________________, 1998.

____
Notary Public, State of Texas

THE STATE OF NEW YORK)
)
COUNTY OF NEW YORK)

BEFORE ME, the undersigned authority, on this day personally appeared ____________________________, ___________________________ of THE BANK OF NEW YORK, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same as the act of the said THE BANK OF NEW YORK, a _________________, and that he executed the same as the act and deed of such _______________ for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of ______________________, 1998.

____
Notary Public, State of Texas

EXHIBIT 12

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

	Six Months Ended June 30, 1998	Twelve Months Ended June 30, 1998
Fixed Charges as Defined:		
(1) Interest on Long-Term Debt	$ 209,355	$ 407,106
(2) Other Interest	47,393	89,412
(3) Capitalized Interest	4,746	9,034
(4) Distribution on Trust Securities	14,712	29,269
(5) Interest Component of Rentals Charged to Operating Expense	5,365	9,952
(6) Total Fixed Charges	$ 281,571	$ 544,773
Earnings as Defined:		
(7) Income from Continuing Operations	$ 13,065	$ 253,092
(8) Income Taxes for Continuing Operations	48,462	183,796
(9) Fixed Charges (line 6)	281,571	544,773
(10) Capitalized Interest	(4,746)	(9,034)
(11) Income from Continuing Operations Before Income Taxes and Fixed Charges	$ 338,352	$ 972,627
Ratio of Earnings to Fixed Charges (line 11 divided by line 6)	1.20	1.79
Preferred Dividends Requirements:		
(12) Preferred Stock Dividends	$ 195	$ 357
(13) Less Tax Deduction for Preferred Dividends	27	54
(14) Total	$ 168	$ 303
(15) Ratio of Pre-Tax Income from continuing operations to Net Income (line 7 plus line 8 divided by line 7)	4.71	1.73
(16) Line 14 times line 15	$ 791	$ 524
(17) Add Back Tax Deduction (line 13)	27	54
(18) Preferred Dividends Factor	$ 818	$ 578
(19) Total Fixed Charges (line 6)	$ 281,571	$ 544,773
(20) Preferred Dividends Factor (line 18)	818	578
(21) Total	$ 282,389	$ 545,351
Ratios of Earnings to Fixed Charges and Preferred Dividends (line 11 divided by line 21)	1.20	1.78

EXHIBIT 12

NORAM ENERGY CORP. AND SUBSIDIARIES Exhibit 12
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(THOUSANDS OF DOLLARS)

	Six Months Ended June 30, 1998	Twelve Months Ended June 30, 1998
Income from Continuing Operations	$ 58,456	$ 56,066
Income Taxes for Continuing Operations	54,863	65,233
Non-Utility Interest Capitalized	0	0
Income from Continuing Operations Before Income Taxes	113,319	121,299
Fixed Charges:		
Interest	52,379	110,534
Distribution on Trust Securities	427	1,609
Interest Component of Rentals Charged to Operating Expenses	4,630	9,455
Total Fixed Charges	57,436	121,598
Income from Continuing Operations Before Income Taxes and Fixed Charges	$ 170,755	$ 242,897
Ratio of Earnings to Fixed Charges	2.97	2.00

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HOUSTON INDUSTRIES INCORPORATED

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JUN-30-1998
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3,530,255
1,265,044
3,980,527
0
18,405,654
2,890,879
0
1,815,435
4,706,314
0
9,740
6,112,983
0
452,800
1,343,987
381,526
0
15,023
1,147
5,382,134
18,405,654
5,375,443
48,462
4,634,381
4,634,381
741,062
(409,644)
331,418
269,891
13,065
195
12,870
210,490
172,521
814,078
$0.05
$0.05

TOTAL ANNUAL INTEREST CHARGES ON ALL BONDS IS AS OF YEAR-TO-DATE 6/30/98.

(3) RATE MATTERS

(a) Electric Proceedings.

The Texas Utility Commission has original (or in some cases appellate) jurisdiction over Electric Operations' electric rates and services. Texas Utility Commission orders may be appealed to a District Court in Travis County, and from that court's decision an appeal may be taken to the Court of Appeals for the 3rd District at Austin (Austin Court of Appeals). Discretionary review by the Supreme Court of Texas may be sought from decisions of the Austin Court of Appeals. In the event that the courts ultimately reverse actions of the Texas Utility Commission, such matters are remanded to the Texas Utility Commission for action in light of the courts' orders.

(b) Transition and Price Reduction Plan.

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

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

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

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

(c) 1995 Rate Case.

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

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

(d) Docket No. 6668.

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

(5) EQUITY INVESTMENTS IN FOREIGN AFFILIATES

HI Energy, a wholly owned subsidiary of the Company formed in 1993, participates primarily in the development and acquisition of foreign independent power projects and the privatization of foreign generating and distribution companies.

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

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

(a) Acquisitions.

In May 1996, a subsidiary of HI Energy acquired 11.35% of the common stock of Light, a publicly held Brazilian corporation, for $393 million which includes the direct costs of the acquisition. Light is the operator under a 30-year concession agreement of an integrated electric power and distribution system that serves a portion of the state of Rio de Janeiro, Brazil, including the city of Rio de Janeiro. The winning bidders in the government-sponsored auction of Light, including a subsidiary of HI Energy, formed a consortium whose aggregate ownership interest of 50.44% represents a controlling interest in Light.

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

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

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

(b) Valuation Allowance.

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

The valuation allowance reflects the combined amounts lent to the projects on a subordinated basis by HI Energy. HI Energy also is a party to two separate note purchase agreements committing it, under certain circumstances, to lend up to an additional $16 million. The Company has entered into a support agreement to enable HI Energy to honor its obligation under these note purchase agreements. In the Company's opinion, it is unlikely that additional loans would be required to be made under the note purchase agreements relating to the facility for which construction had been substantially completed (Ford Heights Project). In March 1996, a subsidiary of HI Energy purchased from a senior lending bank all notes relating to the project for which construction had not yet commenced (Fulton Project) (approximately $4.1 million). As a consequence, HI Energy has discretion over when, if ever, the construction activities for the Fulton project will resume and, in turn, control over future obligations of HI Energy to acquire additional subordinated notes for the Fulton project.

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

(12) COMMITMENTS AND CONTINGENCIES

(a) Commitments.

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

(b) Fuel and Purchased Power.

The Company is a party to several long-term coal, lignite and natural gas contracts which have various quantity requirements and durations. Minimum payment obligations for coal and transportation agreements are approximately $200 million in 1998, $203 million in 1999 and $177 million in 2000. Additionally, minimum payment obligations for lignite mining and lease agreements are approximately $9 million for 1998, $9 million for 1999 and $10 million for 2000. Minimum payment obligations for both natural gas purchase and storage contracts associated with Electric Operations are approximately $9 million annually in 1998, 1999 and 2000.

The Company also has commitments to purchase firm capacity from cogenerators of approximately $22 million in both 1998 and 1999. Texas Utility Commission rules currently allow recovery of these costs through Electric Operations' base rates for electric service and additionally authorize the Company to charge or credit customers through a purchased power cost recovery factor for any variation in actual purchased power costs from the cost utilized to determine its base rates. In the event that the Texas Utility Commission, at some future date, does not allow recovery through rates of any amount of purchased power payments, the two principal firm capacity contracts contain provisions allowing the Company to suspend or reduce payments and seek repayment for amounts disallowed.

(c) Operations Agreement with City of San Antonio.

As part of the settlement with the City of San Antonio, the Company entered into a 10-year joint operations agreement under which the Company and the City of San Antonio, acting through the City Public Service Board of San Antonio (CPS), share savings resulting from the joint dispatching of their respective generating assets in order to take advantage of each system's lower cost resources. Under the terms of the joint operations agreement entered into between CPS and Electric Operations, the Company has guaranteed CPS minimum annual savings of $10 million and a minimum cumulative savings of $150 million over the 10-year term of the agreement. Based on current forecasts and other assumptions regarding the combined operation of the two generating systems, the Company anticipates that the savings resulting from joint operations will equal or exceed the minimum savings guaranteed under the joint operating agreement. In 1996, savings generated for CPS' account for a partial year of joint operations were approximately $14 million. In 1997, savings generated for CPS' account for a full year of operation were approximately $22 million.

(d) Transportation Agreement.

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

(e) Lease Commitments.

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

Minimum Lease Commitments at December 31, 1997(1)

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

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

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

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

(f) Letters of Credit.

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

(g) Indemnity Provisions.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(h) Other.

Electric Operations' service area is heavily dependent on oil, gas, refined products, petrochemicals and related businesses. Significant adverse events affecting these industries would negatively affect the revenues of the Company. The Company and NorAm are involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. The Company's management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. The Company's management believes that the effect on the Company's and NorAm's respective financial statements, if any, from the disposition of these matters will not be material.

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

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

EXHIBIT 12

NORAM ENERGY CORP. AND SUBSIDIARIES Exhibit 12
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(THOUSANDS OF DOLLARS)

	Six Months Ended June 30, 1998	Twelve Months Ended June 30, 1998
Income from Continuing Operations	$ 58,456	$ 56,066
Income Taxes for Continuing Operations	54,863	65,233
Non-Utility Interest Capitalized	0	0
Income from Continuing Operations Before Income Taxes	113,319	121,299
Fixed Charges:		
Interest	52,379	110,534
Distribution on Trust Securities	427	1,609
Interest Component of Rentals Charged to Operating Expenses	4,630	9,455
Total Fixed Charges	57,436	121,598
Income from Continuing Operations Before Income Taxes and Fixed Charges	$ 170,755	$ 242,897
Ratio of Earnings to Fixed Charges	2.97	2.00

UT
0001042773
NORAM ENERGY CORP. AND SUBSIDIARIES

6-MOS
DEC-31-1998
JUN-30-1998
PER-BOOK
1,316,141
1,429,408
992,018
2,240,403
0
5,977,970
1
2,453,162
79,303
2,532,466
0
0
1,213,993
0
300,000
0
199,860
0
0
0
1,731,651
5,977,970
3,142,506
54,863
2,980,917
2,980,917
161,589
4,536
166,125
52,806
58,456
0
58,456
0
52,379
271,883
0
0

TOTAL ANNUAL INTEREST CHARGES ON ALL BONDS IS AS OF YEAR-TO-DATE 6/30/98.

NORAM ENERGY CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(8) COMMITMENTS AND CONTINGENCIES

(a) Lease Commitments.

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

Minimum Lease Commitments at December 31, 1997(1)

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

- ---------------

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

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

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

(b) Letters of Credit.

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

(c) Indemnity Provisions.

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

(d) Sale of Receivables.

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

(e) Gas Purchase Claims.

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

(f) Transportation Agreement.

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

(g) Environmental Matters.

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

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

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

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

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

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

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

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

(h) Other

NorAm Merger Lawsuit. In August 1996, a purported NorAm stockholder filed a lawsuit, Shaw v. NorAm Energy Corp., et al., in the District Court of Harris County, Texas, against NorAm, certain of its officers and directors and the Company to enjoin the Merger or to rescind the Merger and/or to recover damages in the event that the Merger was consummated. In February 1998, the plaintiffs withdrew their lawsuit and the court issued an order of non-suit dismissing the litigation.

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