

The Light company

Houston Lighting & Power South Texas Project Electric Generating Station P.O. Box 289 Wadsworth, Texas 77483

October 3, 1996
ST-HL-AE-5484
File No.: G25

U. S. Nuclear Regulatory Commission
Attention: Document Control Desk
Washington, DC 20555

South Texas Project
Units 1 and 2
Docket Nos. STN 50-498, STN 50-499
Merger of Houston Lighting & Power Company and
its Parent, Houston Industries Incorporated with
NorAm Energy Corporation

This will confirm our presentation to you on September 12, 1996 regarding the proposed merger of Houston Lighting & Power Company (HL&P) and its parent, Houston Industries Incorporated (HII) with NorAm Energy Corp (NorAm). At the meeting we gave you a description of the transaction, along with copies of Form S-4 and Form U-1 as filed with the Securities and Exchange Commission on September 4, 1996 and September 5, 1996, respectively. An extract from the Form S-4 describing the fundamental elements of the proposed transaction is attached.

HL&P is the Commission's licensee under license Nos. NPF-76 and NPF-80 pursuant to which it has an ownership interest in, and operates, the South Texas Project Electric Generating Station (STPEGS). As we noted during our meeting, HL&P will continue to be the Commission's licensee after the transaction is consummated. The merger has no effect on the activities licensed by the NRC, nor on the personnel or reporting relationship associated with those activities. HL&P will remain an "electric utility" under NRC regulations, engaged in the generation and transmission of electricity and subject to cost-of-service rate regulation by the Public Utility Commission of the State of Texas. Thus, as we discussed, the transaction does not affect the bases upon which the licenses were issued.

The parties have identified three alternatives to effect the transaction, the most likely "basic merger" and two alternatives; the choice will depend on the arrangement best suited to meet the requirements of the Public Utility Holding Company Act of 1935. We described these corporate structures to you at our meeting on September 12, 1996 and they are briefly

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Project Manager on Behalf of the Participants in the South Texas Project

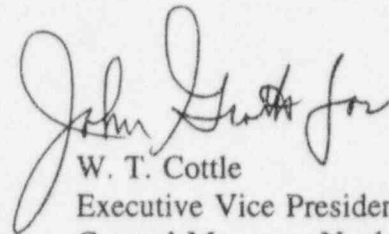
summarized in the attached charts. As you will note, although HL&P's parent (HII) would no longer exist if certain of the approaches were selected (the basic merger and first alternative), HL&P would remain in all cases, the surviving entity, continuing to provide electric service in the same manner as present and subject to the same rate regulation. After the merger is complete, HL&P's name will be formally changed to Houston Industries Incorporated (necessitating a technical change to the licenses) but the company will continue to do business under the trade name, Houston Lighting & Power Company. Since HII's current indirect control of the licenses would be eliminated, and not transferred to another entity, there is no direct or indirect transfer of control of the licenses.

The basic merger would be accomplished by merging HII into HL&P, with HL&P being the surviving corporation, and then merging NorAm into HII Merger, a newly created subsidiary, with Merger Sub being the surviving corporation. The name of HI Merger would be changed to "NorAm Energy Corp" following that merger, and NorAm would continue as a subsidiary of the renamed HL&P corporate entity. Shares of HII will automatically become shares of the merged company after the transaction is completed. The current directors of HII would become directors of the merged company; four current NorAm directors would be added to the Board. HL&P's officers, including those assigned to nuclear operations, would remain in their jobs essentially unchanged with the same responsibilities and reporting relationships. The transaction will not affect the distribution of electricity from STPEGS, HL&P's decommissioning funding obligations, its technical or financial qualifications or compliance with any other NRC requirement.¹

HL&P will submit an administrative license amendment request to reflect the planned name change from HL&P to Houston Industries Incorporated. Aside from the name change, we believe, based on these facts, that since there is no impact on our NRC licenses as a result of this transaction, no Commission action is required and we would appreciate your confirmation of this conclusion.

¹HL&P recently filed an application for license amendments to authorize operation of the South Texas Project by STP Nuclear Operating Company. The plan to transfer responsibility for the plant operations to STP Nuclear Operating Company is not affected by the proposed transaction discussed in this letter.

If you have any questions concerning this matter, please contact me at (512) 972-8434 or Mr. S. M. Head at (512) 972-7136.



W. T. Cottle
Executive Vice President &
General Manager, Nuclear

SMH/nl

Attachments: 1) Summary of Proposed Merger Transaction
2) Charts Describing Merger Options

Houston Lighting & Power Company
South Texas Project Electric Generating Station

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ATTACHMENT 1

SUMMARY OF

PROPOSED MERGER

TRANSACTION

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-4**REGISTRATION STATEMENT****UNDER****THE SECURITIES ACT OF 1933****HOUSTON LIGHTING & POWER COMPANY
HOUSTON INDUSTRIES INCORPORATED**

(Exact name of Registrant as specified in its charter)

Texas
Texas
(State or other jurisdiction of
incorporation or organization)

4911
4911
(Primary Standard Industrial
Classification Code Number)

74-0694415
74-1885573
(I.R.S. Employer
Identification No.)

1111 Louisiana
Houston, Texas 77002
(713) 207-1111

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Hugh Rice Kelly
Senior Vice President, General Counsel
and Corporate Secretary
1111 Louisiana
Houston, Texas 77002
(713) 207-1111

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Los Angeles, California 90013

Approximate date of commencement of proposed sale of the securities to the public: as soon as practicable after the effective date of this Registration Statement and the effective time of the merger of NorAm Energy Corp. with and into HI Merger, Inc. or Houston Lighting & Power Company, as the case may be (the "NorAm Merger"), as described in the Agreement and Plan of Merger, dated as of August 11, 1996 (the "Merger Agreement"), attached as Appendix A to the Joint Proxy Statement/Prospectus forming a part of this Registration Statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ☐

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (3)	Proposed maximum offering price per unit (4)	Proposed maximum aggregate offering price (4)	Amount of registration fee
Common Stock, without par value (1) (2)	315,402,570 shares	\$21.13	\$6,664,453,948	\$2,298,088

(1) Includes preferred (or preference) stock purchase rights of one Right associated with each share of Common Stock.

(2) If the Second Alternative Merger (as defined in the Joint Proxy Statement/Prospectus) is effected in lieu of the Basic Mergers (as defined in the Joint Proxy Statement/Prospectus) pursuant to the Merger Agreement, then (a) Common Stock, without par value, of Houston Industries Incorporated ("HI Common Stock") (including associated preference stock purchase rights) will be issued to stockholders of NorAm Energy Corp. ("NorAm") rather than Common Stock, without par value, of Houston Lighting & Power Company ("HL&P") and (b) no new shares will be issued to the stockholders of Houston Industries Incorporated ("HI").

(3) Includes 258,235,447 shares to be issued in the merger of HI into HL&P (based upon the estimated number of shares of HI Common Stock which will be outstanding at the effective time of the merger of HI into HL&P (the "Estimated HI Common Stock Outstanding Number")) and up to 57,167,123 shares to be issued in the NorAm Merger (based upon the product of (a) one-half of the estimated number of shares of Common Stock, par value \$0.625 per share ("NorAm Common Stock"), of NorAm which will be outstanding at the effective time of the NorAm Merger, assuming conversion of all outstanding NorAm 6 1/4% Convertible Junior Subordinated Debentures (the "Estimated NorAm Common Stock Outstanding Number"), and (b) 0.7529).

(4) The registration fee was computed pursuant to Rule 457(f) under the Securities Act of 1933, as amended, by adding (a) the product of the Estimated HI Common Stock Outstanding Number and \$21.875 (the average of the high and low sales prices reported in the consolidated reporting system for HI Common Stock on August 30, 1996) and (b) the product of the Estimated NorAm Common Stock Outstanding Number and \$14.6875 (the average of the high and low sales prices reported in the consolidated reporting system for NorAm Common Stock on August 30, 1996), and subtracting therefrom the product of one-half of the Estimated NorAm Common Stock Outstanding Number and \$16.00.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

SUMMARY

The following is a summary of certain information contained elsewhere in this Joint Proxy Statement/Prospectus and does not purport to be complete. Stockholders are urged to carefully read this Joint Proxy Statement/ Prospectus and the Appendices hereto in their entirety.

Unless otherwise indicated, capitalized terms used in this Joint Proxy Statement/Prospectus are defined in the Glossary of Certain Terms Relating to the Transaction attached hereto as Appendix E.

THE SPECIAL MEETINGS

Meetings of Stockholders The HI Special Meeting will be held on _____, 1996 at _____ a.m., Houston time, in the [Auditorium of Houston Industries Plaza, 1111 Louisiana Street,] Houston, Texas.

The NorAm Special Meeting will be held on _____, 1996 at _____ a.m., Houston time, in the _____ Houston, Texas.

Matters to be Considered at the Special Meetings..... At the Special Meetings, stockholders will be asked to approve and adopt the Merger Agreement, which provides for the Transaction.

Vote Required Approval of the Merger Agreement requires the affirmative vote of the holders of:

- two-thirds of the outstanding shares of HI Common Stock, and
- a majority of the outstanding shares of NorAm Common Stock.

No approval by the holders of outstanding shares of HL&P preferred stock is required to approve the Merger Agreement, and such holders are not entitled to vote on the Merger Agreement.

Record Date Only stockholders of record of HI Common Stock at the close of business on _____, 1996 (the "HI Record Date") are entitled to notice of and to vote at the HI Special Meeting. On that date, there were _____ shares of HI Common Stock outstanding. Holders of HI Common Stock are entitled to one vote with respect to the Merger Agreement for each share held.

Only stockholders of record of NorAm Common Stock at the close of business on _____, 1996 (the "NorAm Record Date") are entitled to notice of and to vote at the NorAm Special Meeting. On that date, there were _____ shares of NorAm Common Stock outstanding. Holders of NorAm Common Stock are entitled to one vote with respect to the Merger Agreement for each share held.

Security Ownership of Management Directors and executive officers of HI who are the beneficial owners of approximately _____ % of the outstanding HI Common Stock as a group have indicated that they intend to vote in favor of the proposal to approve and adopt the Merger Agreement.

Directors and executive officers of NorAm who are the beneficial owners of approximately _____ % of the outstanding NorAm Common Stock as a group have indicated that they intend to vote in favor of the proposal to approve and adopt the Merger Agreement.

THE TRANSACTION

Effect of the HI/HL&P	
Merger	In the HI/HL&P Merger, HI will merge into HL&P. HL&P will be the surviving corporation and will be renamed "Houston Industries Incorporated" ("Houston").
Treatment of HI Common	
Stock	Each share of HI Common Stock (and associated HI Right) outstanding prior to the effective time of the HI/HL&P Merger will be converted into one share of Houston Common Stock (and one associated Houston Right).
Effect of the NorAm Merger	In the NorAm Merger, NorAm will merge into Merger Sub. Merger Sub will be the surviving corporation and will be renamed "NorAm Energy Corp." As a result, NorAm will become a wholly owned subsidiary of Houston.
Treatment of NorAm	
Common Stock	In the Transaction, each share of NorAm Common Stock outstanding immediately prior to the effective time of the Transaction (the "Effective Time") (other than dissenting shares) will be converted into either cash or Houston Common Stock, as elected by the NorAm stockholder but subject to proration as described below.
	The cash amount to be paid per share of NorAm Common Stock will be \$16.00. If the Transaction is not consummated by May 11, 1997, the \$16.00 cash amount will increase after that date by 2% (simple interest) per quarter until consummation (the "Cash Consideration").
	The number of shares of Houston Common Stock to be issued per share of NorAm Common Stock will be not less than 0.6154 shares nor more than 0.7529 shares. The actual number of shares will depend upon the average daily closing prices of HI Common Stock on the NYSE during a 20-trading-day period commencing 25 trading days prior to the Closing Date. (The actual number of shares of Houston Common Stock to be issued to NorAm stockholders, as so determined, is called the "Stock Consideration".) Accordingly, the value (based on the average closing price) of the Stock Consideration will be \$16.00 per share of NorAm Common Stock if the average price of HI Common Stock is greater than or equal to \$21.25 and less than or equal to \$26.00; such value will be more or less than \$16.00 if the average price is outside that range. Cash will be paid in lieu of fractional shares.
NorAm Merger Election	
Procedures	Each record holder of NorAm Common Stock (other than dissenting shares) will be entitled to elect to receive either Cash Consideration (a "Cash Election") or Stock Consideration (a "Stock Election"), subject to proration as described below.
	All elections are to be made on a form of election (the "Election Form") to be mailed to NorAm stockholders of record at least 20 business days prior to the Closing Date. Stockholders may also obtain copies of the Election Form upon request from _____ (the "Exchange Agent") either in writing by mail to _____, or by telephone at _____. Election Forms must be received by the Exchange Agent at its designated office no later than 5:00 p.m., [Houston] [New York City] time,

on the trading day immediately preceding the Closing Date (the "Election Deadline"). HI will issue a public announcement of the anticipated Closing Date as soon as practicable, but in no event less than five trading days prior to the Closing Date.

Proration

If either Cash Elections or Stock Elections are made with respect to more than half the total outstanding shares of NorAm Common Stock, those elections will be adjusted pro rata so that the total number of Cash Election Shares and the total number of Stock Election Shares will be approximately equal. (For this purpose, dissenting shares will be treated as Cash Election shares.) However, HI has the option to change the aggregate amounts of Cash Consideration and Stock Consideration to more closely follow the actual elections of the NorAm stockholders.

**Recommendations of the Boards
of Directors**

The Boards of Directors of HI and NorAm believe that the terms of the Transaction are fair to and in the best interests of their respective stockholders and have unanimously approved the Merger Agreement and the transactions contemplated thereby. The Board of Directors of HI unanimously recommends that HI stockholders approve the Merger Agreement. The Board of Directors of NorAm unanimously recommends that NorAm stockholders adopt the Merger Agreement.

**HI's Reasons for the
Transaction**

HI's Board of Directors believes that the Transaction offers the following significant strategic and financial benefits to HI and its stockholders, as well as to its employees and customers:

- NorAm brings to the combined companies more than 2.1 million additional retail distribution customers (net of its approximately 600,000 customers who overlap with HL&P's approximately 1.5 million retail customers).
- NorAm has a fast-growing gas and electric wholesale trading organization, which can be combined with HL&P's electric power expertise to build a leading wholesale energy trading and risk management business.
- NorAm's international strategy, with its emphasis on gas transmission and distribution, complements HI's international strategy, which is focused on power plant development and acquisition of electric distribution systems.

**NorAm's Reasons for the
Transaction**

NorAm's Board of Directors believes that the Transaction is the best alternative for achieving the strategic objectives of NorAm and enhancing value for its stockholders because, among other things:

- The values to NorAm's stockholders which could be achieved either by NorAm remaining an independent company or choosing other possible alternatives were considered unlikely to equal the value to NorAm's stockholders to be achieved by the Transaction.
- NorAm's stockholders who receive Stock Consideration can participate in the continued growth of NorAm and HI through their ownership of stock of Houston, a company with greater financial

strength, financial flexibility and cash available for investments than NorAm on a stand-alone basis.

Opinions of Financial Advisors . . . CS First Boston Corporation ("CS First Boston") has delivered its written opinion dated August 11, 1996 to the Board of Directors of HI that, as of the date of such opinion, the Merger Consideration was fair from a financial point of view to HI.

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") has delivered its written opinion dated August 11, 1996 to the Board of Directors of NorAm that, as of the date of such opinion, the Merger Consideration to be received by the holders of NorAm Common Stock, taken as a whole, was fair from a financial point of view to the holders of NorAm Common Stock.

For information on the assumptions made, matters considered and limits of the reviews by CS First Boston and Merrill Lynch, see "The Transaction — Opinion of HI's Financial Advisor" and "— Opinion of NorAm's Financial Advisor." Stockholders are urged to read in their entirety the opinions of CS First Boston and Merrill Lynch, attached as Appendices B and C, respectively, to the Joint Proxy Statement/Prospectus.

Houston Board of Directors

Following the Transaction In connection with the Transaction, T. Milton Honea, Robert C. Hanna, O. Holcombe Crosswell and Joseph M. Grant, who are currently directors of NorAm, will be elected as directors of Houston effective as of the Effective Time.

Effect of the Alternative

Mergers Pursuant to the Merger Agreement, one of two alternative merger structures could be utilized in lieu of the Basic Mergers under certain circumstances. If HL&P determines that, upon consummation of the Basic Mergers, Houston would not be an exempt "public utility holding company" under the Public Utility Holding Company Act of 1935 (the "1935 Act"), NorAm and HI will both be merged into HL&P, with HL&P being the surviving corporation.

Alternatively, if at the time all conditions to consummating the Transaction have been satisfied or waived, the 1935 Act does not constrain the structure of the Transaction, then (i) HI will not merge into HL&P and (ii) NorAm will merge into Merger Sub with Merger Sub being the surviving corporation. In that event, both HL&P and NorAm would be wholly owned subsidiaries of HI.

Effective Time of the

Transaction The closing of the Transaction (the "Closing") will occur on the fifth business day after all of the conditions to the Transaction contained in the Merger Agreement have been satisfied or waived or on such other date as to which NorAm and HI mutually agree. The Transaction will become effective promptly after the Closing.

Conditions to the Transaction ..	<p>The obligations of HI and NorAm to consummate the Transaction are subject to certain conditions, including:</p> <ul style="list-style-type: none"> • the approval of the stockholders of HI and NorAm; • the expiration or termination of the relevant waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act"); • the receipt of consents and approvals from certain Governmental Entities and third parties; and • other conditions customary for transactions of this nature. <p>Either HI or NorAm may extend the time for performance of any of the obligations of the other party or may waive compliance with those obligations or certain conditions.</p>
Regulatory Matters	<p>Consummation of the Transaction is conditioned on the approvals of utility regulatory commissions in Arkansas, Louisiana, Minnesota, Oklahoma and Mississippi under applicable state laws and such authorizations as may be required from the Nuclear Regulatory Commission under the Atomic Energy Act of 1954. Consummation is also conditioned on the expiration or termination of the applicable waiting period under the HSR Act.</p> <p>Houston is filing an application with the SEC requesting an exemption from regulation as a registered public utility holding company under the 1935 Act. If the SEC does not grant the exemption, both HI and NorAm will be merged into HL&P pursuant to the First Alternative Merger.</p>
Termination	<p>The Merger Agreement may be terminated at any time prior to the Effective Time by mutual consent of HI and NorAm. It may also be terminated by either party in certain events, including if the Transaction has not been consummated by August 11, 1997 (unless on such date all conditions to the consummation of the Transaction have been fulfilled or are capable of being fulfilled other than the condition that all material required consents, approvals and authorizations of Governmental Entities be obtained, in which case such date shall automatically be extended to December 31, 1997).</p> <p>NorAm may also terminate the Merger Agreement, prior to approval by NorAm's stockholders, if NorAm receives from another party an unsolicited acquisition proposal that is financially superior to the Transaction, subject to certain conditions, including that NorAm's Board of Directors shall have concluded that such action is necessary in order to satisfy its fiduciary duties under applicable law. HI may terminate the Merger Agreement if the Board of Directors of NorAm has recommended to the NorAm stockholders an alternative acquisition proposal.</p> <p>Upon termination of the Merger Agreement under certain circumstances, HI or NorAm may be required to pay the other a fee, ranging from \$10 million to \$35 million in the case of a payment by HI and from \$10 million to \$75 million in the case of a payment by NorAm.</p>
Appraisal Rights	<p>Under Texas law, HI's stockholders will not be entitled to any appraisal or dissenter's rights in connection with the Transaction. Under Delaware</p>

law, NorAm's stockholders will be entitled to dissenter's rights in connection with the Transaction. A copy of the Delaware statutory provisions regarding dissenter's rights is attached hereto as Appendix D and those provisions are described more fully elsewhere herein.

Certain Federal Income Tax

Consequences

It is intended that each of the mergers in the Transaction qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986 (the "Code") and that, accordingly, for federal income tax purposes, no gain or loss will be recognized by HI, HL&P, NorAm or Merger Sub as a result of the Transaction.

A citizen or resident of the United States or a domestic corporation (a "U.S. Holder") who holds HI Common Stock and exchanges such stock for Houston Common Stock pursuant to the Transaction will not recognize any gain or loss on such exchange.

A U.S. Holder who holds NorAm Common Stock and exchanges such stock pursuant to the Transaction solely for Cash Consideration will recognize capital gain or loss in an amount equal to the difference between the amount of Cash Consideration received by such holder and such holder's tax basis in the shares of NorAm Common Stock surrendered therefor. A U.S. Holder of NorAm Common Stock who exchanges NorAm Common Stock pursuant to the Transaction solely for Stock Consideration will not recognize any gain or loss on such exchange. A U.S. Holder of NorAm Common Stock who exchanges NorAm Common Stock pursuant to the Transaction for both Cash Consideration and Stock Consideration generally will realize capital gain or loss in an amount equal to the difference between the fair market value of the Merger Consideration received by such holder and the holder's adjusted tax basis in the shares of NorAm Common Stock surrendered therefor. Such gain, if any, will be recognized, however, only to the extent of the amount of Cash Consideration received by such holder; any loss will not be recognized.

Accounting Treatment

The acquisition of NorAm will be accounted for as a "purchase" by Houston in accordance with generally accepted accounting principles.

Interests of Certain Persons in the Transaction

In considering the recommendation of the Board of Directors of NorAm with respect to the Transaction, stockholders should be aware that certain members of the Board of Directors of NorAm and certain executive officers of NorAm have interests in the Transaction separate from their interests as NorAm stockholders, including executive severance agreements.

Comparison of Stockholder

Rights

As a result of the Transaction (unless the Second Alternative Merger is implemented), holders of HI Common Stock will become stockholders of Houston. The terms and provisions of Houston Common Stock are substantially similar to those of HI Common Stock.

As a result of the Transaction, holders of NorAm Common Stock will become stockholders of Houston and will have certain different rights as stockholders of Houston than they had as stockholders of NorAm.

THE COMPANIES

HI is a holding company operating principally in the electric utility business. HL&P is the principal subsidiary of HI and is engaged in the generation, transmission, distribution and sale of electric energy. HL&P is the nation's ninth-largest electric utility in terms of kilowatt-hour sales. HL&P's service area covers a 5,000-square mile area on the Texas Gulf Coast, including Houston (the nation's fourth largest city). HL&P serves approximately 1.5 million residential, commercial and industrial customers. The business and operations of HL&P account for substantially all of HI's income from continuing operations and common stock equity. Houston Industries Energy, Inc. ("HI Energy") participates in domestic and foreign power generation projects and invests in the privatization of foreign electric utilities. Merger Sub is a direct wholly owned subsidiary of HI incorporated for purposes of the Transaction. The principal executive offices of HI and HL&P are located at Houston Industries Plaza, 1111 Louisiana Street, Houston, Texas 77002. HI's telephone number is (713) 207-3000 and HL&P's telephone number is (713) 207-1111. See "The Companies — Houston Industries Incorporated."

NorAm is principally engaged in the distribution and transmission of natural gas, including the gathering, storage and marketing of natural gas. Through its Entex, Arkla and Minnegasco gas distribution divisions, NorAm is the nation's third-largest natural gas utility in terms of customers served, serving over 2.7 million customers in six states. NorAm operates interstate gas pipeline facilities through NorAm Gas Transmission Company and Mississippi River Transmission Corporation, natural gas gathering assets in Oklahoma, Louisiana, Arkansas and Texas and is engaged in various other energy-related businesses, including natural gas and electric wholesale trading, gas storage, wholesale electric services and providing unregulated retail energy services to industrial and large commercial customers. The principal executive offices of NorAm are located at 1600 Smith Street, 32nd Floor, Houston, Texas 77002, and its telephone number is (713) 654-5699. See "The Companies — NorAm Energy Corp."

As soon as practicable after the Effective Time, the Exchange Agent will send a transmittal form to each NorAm stockholder. The transmittal form will contain instructions with respect to the surrender of certificates representing NorAm Common Stock to be exchanged for the Merger Consideration, including in the case of the Stock Consideration, certificates representing Houston Common Stock.

NorAm stockholders should not forward NorAm stock certificates to the Exchange Agent until they have received transmittal forms. NorAm stockholders should not return stock certificates with the enclosed proxy.

No dividends or other distributions declared or made after the Effective Time with respect to shares of Houston Common Stock will be paid to the holder of any unsurrendered Certificate with respect to the shares of Houston Common Stock such holder is entitled to receive and no cash payment in lieu of fractional shares will be paid to any such holder until the surrender of such Certificate in accordance with the Merger Agreement.

After the Effective Time, there shall be no transfers on the stock transfer books of the surviving corporation of the NorAm Merger of any shares of NorAm Common Stock. If, after the Effective Time, Certificates formerly representing shares of NorAm Common Stock are presented to the surviving corporation of the NorAm Merger or the Exchange Agent, they will be canceled and (subject to applicable abandoned property, escheat and similar laws and, in the case of Dissenting Shares, subject to applicable law) exchanged for the applicable Merger Consideration.

Promptly following the first anniversary of the Effective Time, the Exchange Agent shall deliver to Houston all cash, shares of Houston Common Stock, Certificates and other documents in its possession relating to the Transaction, and thereafter Houston will act as the Exchange Agent. Thereafter, each holder of a Certificate may surrender such Certificate to Houston and (subject to applicable abandoned property, escheat and similar laws and, in the case of Dissenting Shares, subject to applicable law) receive in exchange therefor the applicable Merger Consideration, without any interest or dividends or other payments thereon.

HI shall not be liable to any holder of shares of NorAm Common Stock for any Merger Consideration in respect of such shares (or dividends or distributions with respect thereto) delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

Fractional Shares

No fractional shares of Houston Common Stock will be issued to any NorAm stockholder upon consummation of the Transaction. For each fractional share that would otherwise be issued, Houston will pay by check an amount equal to a pro rata portion of the net proceeds of the sale by the Exchange Agent of shares of Houston Common Stock representing the aggregate of all such fractional shares and the aggregate dividends or other distributions that are payable with respect to such shares of Houston Common Stock. Such sale is to be executed by the Exchange Agent as soon as practicable after the Effective Time at then prevailing prices on the NYSE.

The Alternative Mergers

The Merger Agreement provides that under certain circumstances (as more fully described below) one of two alternative merger structures could be utilized in lieu of the Basic Mergers. If an Alternative Merger is utilized in lieu of the Basic Mergers, such Alternative Merger is sometimes referred to herein as the "Selected Alternative Merger."

The First Alternative Merger. HI is filing an application with the SEC requesting an order granting Houston an exemption from regulation as a registered public utility holding company under the 1935 Act. If the order is not granted and HL&P, after consultation with its legal counsel, determines that upon consummation of the Basic Mergers, Houston would not be an exempt public utility holding company under the 1935 Act, NorAm and HI will both be merged with and into HL&P (the "First Alternative Merger") with HL&P being the surviving corporation and being renamed "Houston Industries Incorporated." HL&P's determination to consummate the First Alternative Merger in lieu of the Basic Mergers may be made before

or after the Special Meetings. The primary difference to HI stockholders and NorAm stockholders caused by consummating the First Alternative Merger in lieu of the Basic Mergers is that NorAm would not be a wholly owned subsidiary of Houston and all of the regulated utility assets of HL&P and NorAm would be held within the same corporation. The parties to the Merger Agreement have agreed that, if the First Alternative Merger is to be effected, they will execute an appropriate amendment to the Merger Agreement to reflect all changes required to be made in the Merger Agreement to effect the First Alternative Merger in lieu of the Basic Mergers.

The Second Alternative Merger. The parties to the Merger Agreement have acknowledged that in the absence of applicable regulatory constraints under the 1935 Act, it would be preferable for the HI/HL&P Merger not to be effected and for NorAm to merge with and into Merger Sub, with Merger Sub being the surviving corporation and being renamed "NorAm Energy Corp." In that event, both NorAm and HL&P would be wholly owned subsidiaries of HI. Accordingly, if, at the time at which all of the conditions to consummating the Transaction have been satisfied or waived, the 1935 Act does not constrain the structure of the Transaction, then (i) HI will not merge with and into HL&P and (ii) NorAm will merge with and into Merger Sub (the "Second Alternative Merger"). The primary differences to NorAm stockholders caused by consummating the Second Alternative Merger in lieu of the Basic Mergers are: (i) HI would remain a holding company and HL&P and NorAm would be wholly owned subsidiaries of HI and (ii) such stockholders would receive HI Common Stock rather than Houston Common Stock. The terms and provisions of HI Common Stock are substantially similar to the Houston Common Stock described under "Description of Houston Capital Stock — Common Stock." A description of HI Common Stock and associated HI Rights is incorporated by reference herein. See item 6 of the list of documents incorporated by reference into this Joint Proxy Statement/Prospectus in "Incorporation of Certain Documents by Reference." The parties to the Merger Agreement have agreed that, if the Second Alternative Merger is to be effected, they will execute an appropriate amendment to the Merger Agreement to reflect all changes required to be made in the Merger Agreement to effect the Second Alternative Merger in lieu of the Basic Mergers.

Background of the Transaction

In May 1996, a representative of CS First Boston, at the request of HI, met with T. Milton Honea, the Chief Executive Officer of NorAm, and suggested that HI would be interested in exploring the possibility of a business combination with NorAm. Subsequently, the CS First Boston representative contacted Mr. Honea to suggest that he meet with Don D. Jordan, the Chief Executive Officer of HI. Following a phone call from Mr. Jordan, Mr. Jordan and Mr. Honea met on June 24, and Mr. Jordan proposed that the two companies explore the possibility of a business combination. Mr. Jordan said that HI would consider a possible purchase price of \$15 per share of NorAm Common Stock, payable in a combination of Houston Common Stock and cash, subject to due diligence and further analysis. The two CEOs determined that they shared similar visions of likely future developments affecting the electric and gas utility industries. The discussions continued at a meeting between Mr. Jordan and Mr. Honea on June 27.

Prior to NorAm's regularly scheduled July 10 Board of Directors meeting, Mr. Honea called the Board members individually to discuss with them HI's expressions of interest and the fact that a detailed presentation related to HI would be made at the July 10 meeting. Presentations were made at the July 10 meeting by management and Merrill Lynch. The NorAm Board directed management to continue exploration of a transaction and discussions with HI.

Mr. Jordan and Mr. Honea met again on July 12, with Mr. Honea accompanied by a representative of Merrill Lynch. On July 15, the two companies signed parallel confidentiality and standstill agreements. On July 16, Mr. Jordan and several other senior officers of HI and HL&P met with Mr. Honea and several other senior officers of NorAm. Representatives of CS First Boston and Merrill Lynch were also present. At this meeting, the officers of each company made presentations regarding business activities and strategies of their respective organizations. Mr. Jordan and Mr. Honea met again on July 17 and confirmed to each other an increasing interest in the possibility of a combination.

ATTACHMENT 2

CHARTS

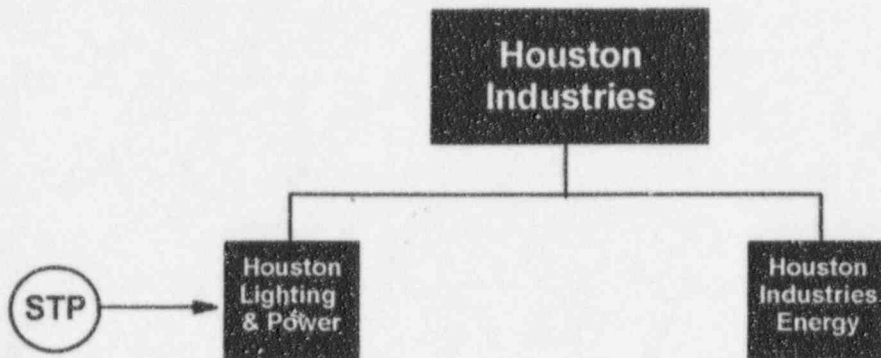
DESCRIBING

MERGER OPTIONS

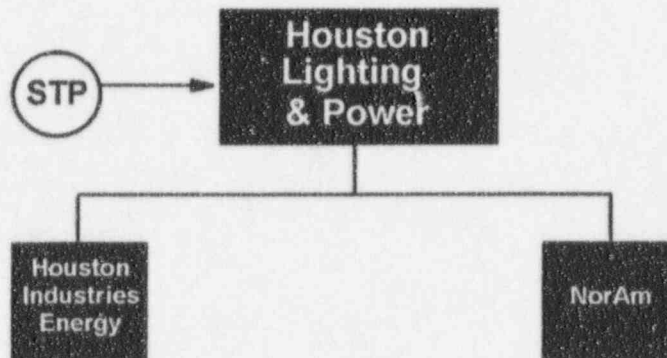
PROPOSED MERGER TRANSACTION

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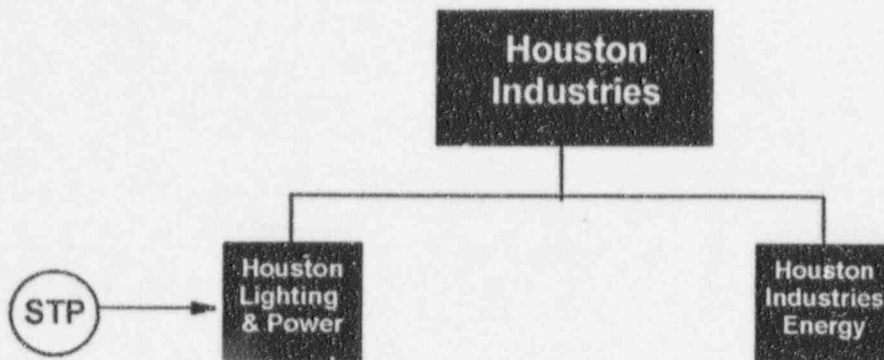
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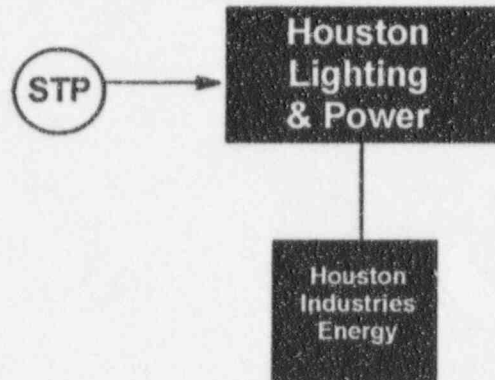
NEW



Name of Houston Lighting & Power would be changed to Houston Industries

FIRST ALTERNATE MERGER**EXISTING**

NEW: NorAm merged into Houston Lighting & Power

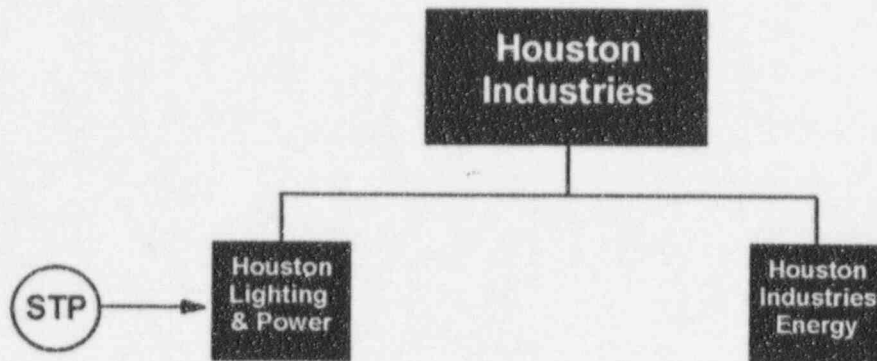


Name of Houston Lighting & Power would be changed to Houston Industries

SECOND ALTERNATE MERGER

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EXISTING



NEW

