UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED) For the fiscal year ended December 31, 1995

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED) For the transition period from to

COMMISSION FILE NUMBER 1-7629

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

TEXAS	74-1885573
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
1111 LOUISIANA HOUSTON, TEXAS 77002	(713) 207-3000
(Address and zip code of principal executive offices)	(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, without par value, and associated rights to purchase preference stock	New York Stock Exchange Chicago Stock Exchange London Stock Exchange

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

COMMISSION FILE NUMBER 1-3187

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

TEXAS	74-0694415
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
1111 LOUISIANA HOUSTON, TEXAS 77002	(713) 207-1111
(Address and zip code of principal executive offices)	(Registrant's telephone number, including area code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

TITLE OF EACH CLASS

Preferred stock, cumulative, no par: $4 Series; $6.72 Series; $7.52 Series; $8.12 Series; Variable Term Cumulative Preferred Stock, Series A; Variable Term Cumulative Preferred Stock, Series B; Variable Term Cumulative Preferred Stock, Series C; Variable Term Cumulative Preferred Stock, Series D; and $9.375 Series.

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

The aggregate market value of the voting stock held by non-affiliates of Houston Industries Incorporated was $6,030,611,109 as of March 1, 1996, using the definition of beneficial ownership contained in Rule 13d-3 promulgated pursuant to the Securities Exchange Act of 1934 and excluding shares held by directors and executive officers.

As of March 1, 1996, Houston Industries Incorporated had 262,742,947 shares of Common Stock outstanding, including 14,253,044 ESOP shares not deemed outstanding for financial statement purposes. As of March 1, 1996, all outstanding shares of Houston Lighting & Power Company's common stock were held, directly or indirectly, by Houston Industries Incorporated.

Portions of the definitive proxy statement relating to the 1996 Annual Meeting of Shareholders of Houston Industries Incorporated, which will be filed within 120 days of December 31, 1995, are incorporated by reference in Item 10, Item 11, Item 12 and Item 13 of Part III of this form.

Indicate by check mark if disclosure of delinquent filers pursuant to Item

405 of Regulation S-K is not contained herein, and will not be contained, to the best of each of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

HOUSTON INDUSTRIES INCORPORATED AND
HOUSTON LIGHTING & POWER COMPANY
Form 10-K for the Year Ended December 31, 1995

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

PART I

ITEM 1. BUSINESS.

THE COMPANY AND ITS SUBSIDIARIES

The Company, incorporated in Texas in 1976, is a holding company operating principally in the electric utility business. For a description of the Company's status under the Public Utility Holding Company Act of 1935 (1935 Act), see "Regulation of the Company."

HL&P, incorporated in Texas in 1906, is the principal subsidiary of the Company and is engaged in the generation, transmission, distribution and sale of electric energy. HI Energy, a subsidiary of the Company formed in 1993, participates in domestic and foreign power generation projects and invests in the privatization of foreign electric utilities. The business and operations of HL&P account for substantially all of the Company's income from continuing operations and common stock equity. For information regarding the reorganization of the Company's operations into strategic business units, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Certain Factors Affecting Future Earnings of the Company and HL&P--Response to Competition" in Item 7 of this Report.

In July 1995, the Company sold its cable television subsidiary, KBLCOM Incorporated (KBLCOM), to Time Warner Inc. (Time Warner) in exchange for Time Warner securities recorded at approximately $1 billion and the purchase by Time Warner of intercompany debt for cash. For information regarding the sale of KBLCOM, see Note 13 of the Company's Consolidated and HL&P's Financial Statements in Item 8 of this Report (Financial Statements).

As of December 31, 1995, the Company and its subsidiaries had 8,891 full-time employees.

BUSINESS OF HL&P

SPECIAL FACTORS

HL&P's business and operations are subject to a number of factors affecting the electric utility industry in general, including increasing levels of competition; legislative and regulatory changes in the basic rules governing electric utility operations and the uncertainties associated with such changes; new technologies; and environmental and nuclear plant contingencies. The effects of these and other factors on HL&P's business and operations are described elsewhere in this Report. See "Competition" and "Regulation of the Company" below and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Certain Factors Affecting Future Earnings of the Company and HL&P" in Item 7 of this Report.

SERVICE AREA

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. HL&P is a member of the Electric Reliability Council of Texas, Inc. (ERCOT) and is interconnected to a transmission grid encompassing most of the state of Texas.

Although the economy of HL&P's service area encompasses a wide range of products and services, Houston's economy is still centered primarily on energy sector industries, such as oil firms, petrochemical and refining complexes, industrial and petrochemical construction firms and natural gas distribution and processing centers. During the year ended December 31, 1995, energy sector industries accounted for approximately 35 percent of HL&P's industrial electric base revenues and 9 percent of its total electric base revenues. Other important sectors of Houston's economy include the Port of Houston, the Johnson Space Center and the Texas Medical Center.

SYSTEM CAPABILITY AND LOAD

The following table sets forth information with respect to HL&P's system capability and load:

				Maximum Hourly Firm Demand			
Year	Installed Net Capability (MW)	Purchased Power (MW)(1)	Total Net Capability (MW)	Date	MW (2)	% Change From Prior Year	Reserve Margin (%)
1991	13,583	945	14,528	Aug. 21	10,908	(2.2)	33.2
1992	13,583	945	14,528	Jul. 30	10,783	(1.1)	34.7
1993	13,679	945	14,624	Aug. 19	11,397	5.7	28.3
1994	13,666	720	14,386	Jun. 28	11,245	(1.3)	27.9
1995	13,921	445	14,366	Jul. 27	11,419	1.5	25.8

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

(2) Does not include interruptible load. Including interruptible demand, the maximum hourly demand served in 1995 was 12,377 megawatts (MW) compared to 12,009 MW in 1994.

Based on present trends, HL&P expects maximum hourly firm demand for electricity to grow at a compound annual rate of approximately 1.5 percent over the next ten years. Assuming average weather conditions and including the net effects of HL&P's demand-side management (DSM) programs, HL&P projects that its reserve margins will decrease from an estimated 25.5 percent in 1996 to an estimated 17.4 percent in 2000. For long-term planning purposes, HL&P intends to maintain reserve margins at approximately 15 percent in excess of maximum hourly firm demand load requirements.

HL&P experiences significant seasonal variation in its sales of electricity. Sales during the summer months are higher than sales during other months of the year due, in large part, to the reliance on air conditioning. See Note 15 to the Financial Statements for a presentation of certain unaudited quarterly financial information for 1994 and 1995.

COMPETITION

Competition in the electric utility industry is affected by a number of variables, including price, reliability of service, the cost of energy alternatives and the impact of governmental regulations.

The electric utility industry historically has been composed of vertically integrated companies that have largely been the exclusive provider of electric service within a governmentally-defined geographic area. Prices for that service have been set by governmental authorities under principles designed to provide the utility with an opportunity to recover its cost of providing electric service plus a reasonable return on its invested capital. Federal legislation, such as the Public Utility Regulatory Policy Act of 1978 (PURPA) and the Energy Policy Act of 1992 (Energy Policy Act), as well as legislative and regulatory initiatives in various states have encouraged competition among electric utility and non-utility owned power generators. These developments, combined with increasing demand for lower-priced electricity, technological advances in electric generation and relatively low natural gas prices, are acting to accelerate the electric utility industry's movement toward more competition.

WHOLESALE MARKET AND TRANSMISSION ACCESS. The adoption of PURPA contributed to the development of new non-utility sources of electric generation by freeing cogenerators (facilities which produce electric energy along with thermal energy used for industrial processes, usually the generation of steam) from most of the regulatory constraints applicable to traditional utilities, such as state rate regulation and federal regulation under the Federal Power Act and the 1935 Act. Since 1978 cogeneration projects representing over 5,000 MW in generating capability (which is equal to approximately one-third of HL&P's current total peak generating capability) have been built in the Houston area. As a consequence of this development, HL&P estimates that it has lost approximately 2,500 MW in customer load to self-generation resulting from such projects. It is anticipated that HL&P's industrial customers may continue to consider additional self-generation projects in the future. In 1995, approximately 9 percent of HL&P's total base revenues were derived from large industrial customers owning industrial or other facilities. An additional 15 percent of such revenues was derived from small industrial customers (including retail stores, office buildings and other customers not associated with large industrial plants). For information regarding electricity purchased by HL&P from PURPA-qualified facilities, see "Fuel--Purchased Power" below.

The Energy Policy Act created another category of non-utility generators, exempt wholesale generators (EWGs). Like cogenerators, EWGs are permitted to sell electric energy at wholesale, but unlike cogenerators, EWGs may generate electricity without regard to the simultaneous production of thermal energy. The most significant benefit of EWG status is that ownership of one or more EWGs does not trigger regulation under the 1935 Act. Although the Energy Policy Act permits exempt public utility holding companies to form EWGs, the Energy Policy Act imposes significant limitations on the ability of utilities to purchase power in their own service territories from an affiliated EWG.

The Energy Policy Act also authorizes the Federal Energy Regulatory Commission (FERC) to require utilities to provide transmission services to EWGs and other generators upon request if

FERC finds that such transmission would be in the public interest and would not unreasonably impair the continued reliability of affected electric systems. In March 1995, the FERC issued a Notice of Proposed Rulemaking proposing to require all public utilities owning or controlling transmission facilities to file open-access tariffs and to take transmission and ancillary services for their own wholesale needs under such tariffs. Because HL&P conducts its operations entirely within the state of Texas, it does not believe that the proposed FERC rule will be applicable to its transmission system operations.

In 1995, the Texas legislature reenacted the Texas Public Utility Regulatory Act (PURA), the basic statute governing the regulation of electric utilities in Texas. The reenacted version of PURA includes provisions intended, among other things, to establish a regulatory system for competitive wholesale electric sales in the state of Texas (including authorization for EWGs and power marketers to engage in such sales without regulation as electric utilities). In 1995, HL&P's wholesale sales accounted for less than 1 percent of its total 1995 revenues.

In February 1996, the Public Utility Commission of Texas (Utility Commission) adopted a new transmission access and pricing rule requiring that utilities offer third parties open access to utility-owned transmission systems at rates and on terms and conditions comparable to those available to transmission-owning utilities. To ensure comparability, the Utility Commission is requiring utilities to functionally unbundle their wholesale power marketing operations from the operation of the transmission grid. The rule requires that utilities separately disclose their costs of generation, transmission and distribution for purposes of transmission pricing. The rule also implements a transmission pricing methodology by which all transmission loads are assessed a facilities charge for transmission usage. For a discussion of the rule and its financial impact on HL&P, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Certain Factors Affecting Future Earnings of the Company and HL&P--Competition" in Item 7 of this Report.

RETAIL COMPETITION. Although neither federal nor Texas law currently permits retail sales by unregulated entities, such as cogenerators or EWGs, HL&P anticipates that cogenerators and EWGs will continue to exert pressure to obtain access to the electric transmission and distribution systems of regulated utilities for the purpose of making retail sales to customers of regulated utilities.

UTILITY COMMISSION REPORTS ON COMPETITION AND STRANDED INVESTMENT. By January 1997, the Utility Commission is required to deliver a report to the Texas legislature on the scope of competition in Texas electric markets and the impact of competition and industry restructuring on customers in both competitive and non-competitive markets (including further legislative recommendations to promote the public interest in such markets). In preparing its reports, the Utility Commission has initiated projects to consider issues relating to the scope of competition in the electric utility industry and to address the potential impact of "stranded cost investment." In this connection, the Utility Commission has indicated that it will require each Texas electric utility to file in June 1996 a calculation of its total stranded investment exposure. As of March 1996, the Utility Commission has not finalized the methodology or assumptions to be used for calculating stranded cost investments. HL&P is not able to predict either the outcome of the Utility

Commission's review of stranded cost investment issues or the ultimate impact of such review on HL&P's results of operations.

For additional information on competition in the electric utility industry, stranded cost issues and the Company and HL&P's continuing efforts to respond to competition (including a recent reorganization of the Company's and HL&P's operations into strategic business units), see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Certain Factors Affecting Future Earnings of the Company and HL&P--Competition" in Item 7 of this Report and Note 1(b) to the Financial Statements.

CAPITAL PROGRAM

HL&P has an ongoing program to maintain its existing production, transmission and distribution facilities and to expand its physical plant in response to customer needs. Assuming a target reserve margin of 15%, HL&P does not currently forecast a need for additional capacity until the year 2002. Thereafter, HL&P intends to satisfy its additional needs through the construction of new facilities at existing HL&P plant sites, the development of cogeneration projects or purchased power. Under an integrated resource planning rule required to be adopted by the Utility Commission no later than the fall of 1996, it is expected that Texas utilities will be required to conduct public solicitations for generating capacity to satisfy their future energy needs.

In 1995, HL&P's capital and nuclear fuel expenditures were approximately $392 million, excluding Allowance for Funds Used During Construction (AFUDC). HL&P's capital program (excluding AFUDC) is currently estimated to cost approximately $387 million in 1996, $301 million in 1997 and $328 million in 1998. HL&P's capital program for the three-year period 1996 through 1998 consists primarily of improvements to its existing electric generating, transmission and distribution facilities. For the three-year period 1996 through 1998, HL&P's projected capital program consists of the following estimated principal expenditures:

	Amount (millions)	Percent of Total Expenditures
Generating facilities	$ 271	26%
Transmission facilities	37	4%
Distribution facilities	348	34%
Substation facilities	68	7%
General plant facilities	230	23%
Nuclear fuel	62	6%
Total	$ 1,016	100%

Actual capital expenditures will vary from estimates as a result of numerous factors, including, but not limited to, changes in the rate of inflation, availability and relative cost of fuels and purchased power, changes in environmental laws, regulatory and legislative changes and the effect of regulatory proceedings. For information regarding expenditures associated with (i) HL&P's share of nuclear fuel costs and (ii) environmental programs, see "Fuel--Nuclear Fuel--Supply" and "Regulatory Matters--Environmental Quality" below.

FUEL

Based upon various assumptions relating to the cost and availability of fuels, plant operation schedules, load growth, load management and environmental protection requirements, HL&P's estimate of its future energy mix is as follows:

	Energy Mix (%)			
	Historical	Estimated		
	1995	1996	1998	2000
Gas	32	34	39	42
Coal and Lignite	43	41	42	40
Nuclear	9	9	7	8
Purchased Power (cogeneration)	16	16	12	10
Total	100	100	100	100

There can be no assurance that the various assumptions upon which the estimates set forth in the table above are based will prove to be correct. Accordingly, HL&P's actual energy mix in future years may vary from the percentages shown in the table. For information regarding HL&P's fuel costs, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Fuel and Purchased Power Expense--HL&P" in Item 7 of this Report and Note 11(b) to the Financial Statements.

NATURAL GAS SUPPLY. During 1995, HL&P purchased approximately 71 percent of its natural gas requirements pursuant to long-term contracts having terms of five years or longer. HL&P purchased the remaining 29 percent of its natural gas requirements in the spot market. In 1995, no individual supplier provided more than 24 percent of HL&P's total natural gas requirements. Substantially all of HL&P's natural gas supply contracts contain pricing provisions based on fluctuating spot market prices.

Based on the current market for, and availability of, natural gas, HL&P believes that it will be able to replace the supplies of natural gas covered under its present long-term contracts with gas purchased in the spot market or under short-term contracts as such long-term contracts expire. HL&P's average daily gas consumption during 1995 was 602 billion British Thermal Units (BBtu) with peak daily consumption of 1,328 BBtu. HL&P's average cost of natural gas in 1995 was $1.69 per million British thermal units (MMBtu), $1.90 per MMBtu in 1994 and $2.21 per MMBtu in 1993.

Although natural gas has been relatively plentiful in recent years, supplies available to HL&P and other consumers are vulnerable to disruption due to weather conditions, transportation disruptions, price changes and other events. As a result of these factors, supplies of natural gas may become unavailable from time to time, or prices may increase rapidly in response to temporary supply disruptions or other factors.

COAL AND LIGNITE SUPPLY. HL&P purchases approximately three-fourths of the coal required to operate its four coal-fired units at the W. A. Parish Electric Generating Station (W. A. Parish) under two long-term contracts from mines in the Powder River Basin area of Wyoming.

The first of these contracts expires in 2008, and the other expires in 2010. HL&P obtains the remaining coal required to operate these units under short-term contracts. Based on current market conditions, HL&P believes that it will be able to enter into new coal contracts with other suppliers as such long-term contracts expire. Coal is transported to the W. A. Parish coal-handling facilities under long-term and short-term rail transportation contracts.

HL&P obtains the lignite used to fuel the two units of the Limestone Electric Generating Station (Limestone) from a surface mine adjacent to the plant. HL&P owns the mining equipment, facilities and a portion of the lignite leases at the mine, which is operated under long-term contract. The lignite reserves currently under lease and contract are expected to provide substantially all of the fuel requirements for Limestone through 2015.

The mining of coal/lignite reserves is subject to federal and state requirements with respect to the development and operation of coal mines, and to state and federal regulations relating to land reclamation and environmental protection.

NUCLEAR FUEL. Supply. HL&P is the project manager (and one of four co-owners) of the South Texas Project Electric Generating Station (South Texas Project). The supply of fuel for nuclear generating facilities involves the acquisition of uranium concentrates, conversion of such concentrates into uranium hexafluoride, enrichment of the uranium hexafluoride and fabrication of nuclear fuel assemblies. The South Texas Project fuel requirements are procured in common by the South Texas Project owners. HL&P and the other South Texas Project owners have on-hand or have contracted for the raw materials and services they expect to need for operation of the South Texas Project units through the years shown in the following table:

Uranium	2000 (1)
Conversion	2000 (1)
Enrichment	2014 (2)
Fabrication	2005

(1) Contracts provide for up to 50 percent of the uranium concentrates required and up to 100 percent of the conversion services required. The balance of uranium concentrates requirements (and any conversion services not purchased under existing contracts) is expected to be provided by future spot and medium-term contracts.

(2) The South Texas Project has suspended its enrichment services contract for the period between October 2000 through September 2005 pursuant to an option available under such contract. During this period, the South Texas Project intends to obtain such services through a competitive bidding process.

Although HL&P and the other South Texas Project owners cannot predict the future availability of uranium and related services, they do not anticipate, based on current market conditions, difficulty in obtaining requirements for the remaining years of the South Texas Project's operations.

Spent Fuel Disposal. By contract, the United States Department of Energy (DOE) has committed itself to ultimately taking possession of all spent fuel generated by the South Texas

Project. HL&P has been advised that the DOE plans to place the spent fuel in a permanent underground storage facility (located near Yucca, Nevada). The DOE contract currently requires payment of a spent fuel disposal fee on nuclear plant-generated electricity of one mill (one-tenth of a cent) per net kilowatt-hour (KWH) sold. This fee is subject to adjustment to ensure full cost recovery by the DOE. Although the DOE's efforts to arrange long-term disposal have been unsuccessful to date, the South Texas Project is designed to have sufficient on-site storage facilities to accommodate over 40 years of spent fuel disposal for each unit.

Enrichment Decontamination and Decommissioning Assessment Fees. The Energy Policy Act includes a provision that assesses a fee upon domestic utilities that purchased nuclear fuel enrichment services from the DOE before October 24, 1992. This fee covers a portion of the cost to decontaminate and decommission facilities providing for such enrichment services. In 1995, the South Texas Project assessment was approximately $1.9 million and will be approximately $2 million in 1996 and each year thereafter (subject to escalation for inflation). HL&P's share of such fees is 30.8 percent. These assessments will continue until the earlier of October 24, 2007, or when $2.25 billion (adjusted for inflation) has been collected from domestic utilities with nuclear generating units. HL&P has a remaining estimated liability of $7 million for such assessments.

OIL SUPPLY. HL&P maintains limited fuel oil stocks to satisfy fuel needs in emergency situations. In addition, certain of HL&P's gas-fired generating plants are designed to operate on fuel oil if oil becomes more economical to use than gas.

PURCHASED POWER. At December 31, 1995, HL&P had contracts covering 445 MW of firm capacity and associated energy. These contracts expire as follows: 1998 - 125 MW and 2005 - 320 MW. Capacity payments under HL&P's firm purchased power commitments for the next three years are approximately $22 million per year. The two principal firm capacity contracts contain provisions allowing HL&P to suspend or reduce purchased power payments in the event that the Utility Commission disallows future recovery of these costs through HL&P's rates for electric service.

RECOVERY OF FUEL COSTS. Utility Commission rules provide for the recovery of certain fuel and purchased power energy 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 a fuel factor proceeding and is to be generally effective for a minimum of six months. In any event, a reconciliation of the fuel revenues and the fuel costs is required every three years. HL&P can request a revision to its fuel factor in April and October of each year. Fuel revenues accrued pursuant to such factor are adjusted monthly to equal fuel 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 HL&P's balance sheets as fuel-related credits and fuel costs are reviewed during periodic fuel reconciliation proceedings. For additional information regarding the recovery of fuel costs, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--HL&P--Operating Revenues and Sales--HL&P" in Item 7 of this Report.

REGULATORY MATTERS

RATES AND SERVICES. HL&P operates under a certificate of convenience and necessity granted by the Utility Commission which covers HL&P's present service area and facilities. In addition, HL&P holds franchises to provide electric service within the incorporated municipalities in its service territory. None of such franchises expires before 2007.

Under PURA, the Utility Commission has original jurisdiction over electric rates and services in unincorporated areas of the state of Texas and in the incorporated municipalities that have relinquished original jurisdiction. Original jurisdiction over electric rates and services in the remaining incorporated municipalities served by HL&P is exercised by such municipalities, including Houston, but the Utility Commission has appellate jurisdiction over electric rates and services within those incorporated municipalities.

UTILITY COMMISSION RATE PROCEEDINGS. During 1995, HL&P implemented under the terms of a settlement of its 1995 rate case (Docket No. 12065) a reduction in its base rates (Rate Case Settlement). For a more detailed description of the terms of the Rate Case Settlement, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Certain Factors Affecting Future Earnings of the Company and HL&P--Rate Matters and Other Contingencies" in Item 7 of this Report and Note 3(a) to the Financial Statements.

ENVIRONMENTAL QUALITY. HL&P is subject to a number of federal, state and local environmental requirements that govern its discharge of emissions into the air and water and regulate its handling of solid and hazardous waste. HL&P has incurred substantial expenditures in the past to comply with these requirements and anticipates that further expenditures will be incurred in the future. Most of the environmental requirements applicable to HL&P are implemented by the Texas Natural Resource Conservation Commission (TNRCC), which shares regulatory jurisdiction with the United States Environmental Protection Agency (EPA).

Air Quality. A major provision of the Federal Clean Air Act (Clean Air Act) affecting electric utilities, like HL&P, is the Acid Rain Program, which is designed to reduce emissions of sulfur dioxide (SO2) from electric utility generating units. The Acid Rain Program requires that after a certain date a utility must have been granted a regulatory "allowance" for each ton of SO2 emitted from its facilities. Allowances have been distributed to utilities by the EPA based on their historic operations. If a utility is not allocated sufficient allowances to cover its future SO2 emissions, it must either purchase allowances from other utilities or reduce SO2 emissions from its units through the installation of additional controls and equipment. HL&P believes that it has been allocated a sufficient number of emission allowances for it to continue operating its existing facilities for the foreseeable future.

Provisions of the Clean Air Act dealing with urban air pollution require establishing new emission limitations for nitrogen oxides (NOx) from existing sources. Initial limitations were finalized in 1993, but the implementation of these emission reductions has been delayed by the EPA and TNRCC until 1999. The cost of modifications to HL&P in 1995 was approximately $1 million. Up to an additional $40 million may be incurred by HL&P in order to fully comply with new NOx requirements through 1999.

Additionally, to ensure compliance with these new regulatory programs, the Clean Air Act requires electric utilities to install continuous emission monitoring equipment, which cost HL&P approximately $3 million in 1995 and is expected to cost an additional $1 million in 1996. To implement these new Clean Air Act programs, a new Operating Permit Program was established that will be administered in Texas by the TNRCC. Among other requirements, the Operating Permit Program is funded by fees imposed by the TNRCC. The annual cost of these fees to HL&P is approximately $1 million.

Water Quality. The Federal Clean Water Act governs the discharge of pollutants into surface waters and is administered jointly in Texas by the TNRCC and the EPA. HL&P has obtained permits from both the TNRCC and the EPA for all of its facilities that require such permits and anticipates obtaining renewal of such permits as they expire.

Solid and Hazardous Waste. HL&P's handling and disposal of solid waste is also subject to regulation by the TNRCC. HL&P's cost in 1995 for commercial disposal of industrial solid waste was approximately $2.3 million.

Electric and Magnetic Fields. The issue of whether exposure to electric and magnetic fields (EMFs) may result in adverse health effects or damage to the environment is currently being debated. EMFs are produced by all devices which carry or use electricity, including home appliances as well as electric transmission and distribution lines. Results of studies concerning the effect of EMFs have been inconclusive and EMFs are not the subject of any federal, state or local regulations affecting HL&P. However, lawsuits have arisen in several states (including Texas) against electric utilities and others alleging that the presence or use of electric power transmission and distribution lines has an adverse effect on health and/or property values.

FEDERAL REGULATION OF NUCLEAR POWER. Under the 1954 Atomic Energy Act and the 1974 Energy Reorganization Act, operation of nuclear plants is extensively regulated by the United States Nuclear Regulatory Commission (NRC), which has broad power to impose licensing and safety requirements. In the event of non-compliance, the NRC has the authority to impose fines or shut down nuclear plants, or both, depending upon its assessment of the severity of the situation, until compliance is achieved.

LOW-LEVEL RADIOACTIVE WASTE DISPOSAL. The 1980 federal Low-Level Radioactive Waste Policy Act directed states to assume responsibility for the disposal of low-level nuclear waste generated within their borders. Under the Act, states may combine with other states and seek consent from Congress for regional compacts to construct and operate low- level nuclear waste sites. As of March 1, 1996, there existed in the United States only two facilities licensed to receive commercial low-level nuclear waste. Only one such facility, located in Barnwell, South Carolina, is currently available to the South Texas Project. The South Texas Project has entered into a contract with the operator of the Barnwell facility to dispose of all of its low-level nuclear waste through September 1997.

The Texas Low-Level Radioactive Waste Disposal Authority (Waste Disposal Authority) is currently seeking authority to build and operate a low-level waste disposal facility in Hudspeth County, Texas. A bill that establishes an interstate compact among Texas, Maine and Vermont is currently pending before Congress. Ratification of the compact would limit access to the proposed facility to the three compact members. Although lack of Congressional action would not prohibit the Waste Disposal Authority from constructing the site unilaterally, failure to ratify the compact would result in the loss of contributions from Maine and Vermont toward the construction of the facility. HL&P expects that the measure will be considered by Congress in mid-1996.

The Waste Disposal Authority is authorized to assess a planning and implementation fee to waste generators to fund development of the proposed Texas disposal facility. For the authority's 1995 fiscal year, HL&P's share of this assessment fee was approximately $1.3 million. Assuming Congress ultimately approves the proposed compact, HL&P estimates that its share of these fees for 1996 will be approximately $1.2 million. Subject to licensing of the facility in 1996, the Waste Disposal Authority estimates that the Texas site (construction of which has not yet begun) could begin receiving waste in late 1997. In the event the Barnwell facility stops accepting waste before the Texas site is opened, the South Texas Project would store its waste in an interim storage facility located at the nuclear plant. The plant currently has storage capacity for a minimum of five years of low-level nuclear waste generated by the project.

NUCLEAR INSURANCE AND NUCLEAR DECOMMISSIONING

For information concerning nuclear insurance and nuclear decommissioning, see Notes 2(c) and 2(d) to the Financial Statements.

LABOR MATTERS

As of December 31, 1995, HL&P had 8,641 full-time employees of whom 3,420 were hourly-paid employees represented by the International Brotherhood of Electrical Workers under a collective bargaining agreement which expires on May 25, 1998.

OPERATING STATISTICS OF HL&P

	Year Ended December 31,		
	1995	1994	1993
Electric Energy Generated and Purchased (MWH):			
Generated -- Net Station Output	53,447,128	53,894,994	52,939,551
Purchased	10,452,818	10,107,449	11,113,971
Net Interchange	(1,488)	(1,018)	(282)
Total	63,898,458	64,001,425	64,053,240
Company Use, Lost and Unaccounted for Energy	(2,822,876)	(2,678,629)	(2,903,780)
Total Energy Sold	61,075,582	61,322,796	61,149,460
Electric Sales (MWH):			
Residential	18,103,209	17,194,724	16,953,667
Commercial	14,233,413	13,631,381	13,083,391
Small Industrial (1)	11,174,404	10,940,813	11,038,653
Large Industrial (1)	12,493,029	13,537,677	13,648,129
Street Lighting -- Government and Municipal	117,253	116,643	112,914
Total Firm Retail Sales	56,121,308	55,421,238	54,836,754
Other Electric Utilities	169,750	167,286	223,204
Total Firm Sales	56,291,058	55,588,524	55,059,958
Interruptible	4,093,385	5,027,743	5,748,086
Off-System	691,139	706,529	341,416
Total	61,075,582	61,322,796	61,149,460
Number of Customers (End of Period):			
Residential	1,327,168	1,301,074	1,278,774
Commercial	175,998	170,959	168,284
Small Industrial (1)	1,543	1,525	1,568
Large Industrial (Including Interruptible) (1)	127	145	138
Street Lighting -- Government and Municipal	82	81	82
Other Electric Utilities (Including Off-System)	11	11	12
Total	1,504,929	1,473,795	1,448,858
Operating Revenue (Thousands of Dollars):			
Residential	$1,471,702	$1,586,074	$1,578,175
Commercial	923,223	1,029,104	994,461
Small Industrial (1)	564,609	643,383	650,946
Large Industrial (1)	431,499	541,188	539,971
Street Lighting -- Government and Municipal	20,679	25,902	24,258
Total Electric Revenue -- Firm Retail Sales	3,411,712	3,825,651	3,787,811
Other Electric Utilities	22,207	25,669	26,154
Total Electric Revenue -- Firm Sales	3,433,919	3,851,320	3,813,965
Interruptible	81,707	108,730	135,066
Off-System	12,250	13,691	7,313
Total Electric Revenue	3,527,876	3,973,741	3,956,344
Miscellaneous Electric Revenues	152,421	(227,656)	123,519
Total	$3,680,297	$3,746,085	$4,079,863
Installed Net Generating Capability (KW) (End of Period)	13,921,370	13,666,000	13,679,000
Cost of Fuel (Cents per MMBtu):			
Gas	168.5	189.8	221.4
Coal (2)	202.5	159.0	199.6
Lignite	124.8	110.8	122.1
Nuclear	58.2	57.4	59.6
Average	159.3	153.6	195.2

(1) For reporting purposes, HL&P classifies customers with an electric demand in excess of 600 KVA as industrial. Small industrial customers typically are retail stores, office buildings, universities and other customers not associated with large industrial plants.

(2) The cost of coal for 1994 reflects the receipt of approximately $66.1 million related to the sale of certain railroad settlement payments. See Note 14 to the Financial Statements.

BUSINESS OF HI ENERGY

The Company formed HI Energy in 1993 to seek investment opportunities in domestic and foreign power generation projects and the privatization of foreign electric utilities.

HI Energy's major foreign investments include a 90 percent interest in an electric utility operating in north-central Argentina (acquired in 1995 for $15.7 million), and a 17 percent indirect interest in an electric utility operating in La Plata, Argentina (for which HI Energy's share of the purchase price in 1992 was $37.4 million). In late 1997, a subsidiary of HI Energy expects to complete development of a 160 MW cogeneration facility in Argentina at an estimated cost to HI Energy of approximately $92 million. In 1998, a subsidiary of HI Energy, together with various other investors, expects to complete development of a petroleum coke calcination facility in the state of Andhra Pradesh, India. The waste gases from this facility will be used to generate electricity for sale to industrial customers and a local utility. Assuming the project is completed on schedule, HI Energy's estimated share of the cost of this project is approximately $8 million. HI Energy also owns an indirect interest in two waste tire-to-energy projects located in the state of Illinois (in which it has made investments and advances totaling approximately $28 million).

For the year ended December 31, 1995, HI Energy had a consolidated net loss of approximately $33 million. The net loss includes an $18 million after-tax charge to earnings resulting from the adverse impact of legislation adopted by the state of Illinois on the operations of the two HI Energy waste tire-to-energy projects located in that state. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Certain Factors Affecting Future Earnings of the Company and HL&P--HI Energy" in Item 7 of this Report and Notes 1(a) and 4 to the Financial Statements. Although HI Energy seeks to improve long-term shareholder returns, HI Energy's operations are subject to greater risks than traditionally have existed in HL&P's regulated operations. Such risks include foreign investment risks, currency fluctuations, expropriation, intense competition for the identification and development of projects and the risk of adverse legislation or regulatory action.

As of December 31, 1995, HI Energy and its U.S. majority-owned subsidiaries had 61 full-time employees of whom 14 were represented by a union.

REGULATION OF THE COMPANY

FEDERAL

The Company is a holding company as defined in the 1935 Act; however, based upon the intrastate operations of HL&P and the exemptions applicable to the affiliates of HI Energy, the Company is exempt from regulation as a "registered" holding company under the 1935 Act except with respect to the acquisition of voting securities of other domestic public utility companies and utility holding companies. The Company has no present intention of entering into any transaction which would cause it to become a registered holding company subject to regulation by the Securities and Exchange Commission (SEC) under the 1935 Act.

In June 1995, the SEC issued a comprehensive report on the regulation of utility holding companies in which it recommended repeal of the 1935 Act, subject to a minimum one-year transition period and legislation that would provide for access by state commissions to the books and records of holding companies and their affiliates and oversight by the FERC of intrasystem transactions. At least one bill has since been introduced in Congress which would implement most of the SEC's recommendations. Repeal or significant modification of the 1935 Act could have a significant effect on the electric utility industry.

STATE

The Company is not subject to regulation by the Utility Commission under PURA or by the incorporated municipalities served by HL&P. Those regulatory bodies do, however, have authority to review accounts, records and contracts relating to transactions by HL&P with the Company and its other subsidiaries.

The exemption for foreign utility affiliates of the Company from regulation under the 1935 Act as "public utility companies" is dependent upon certification by the Utility Commission to the SEC to the effect that it has the authority to protect HL&P's ratepayers from any adverse consequences of the Company's investment in foreign utilities and that it intends to exercise its authority. The Utility Commission has provided such certification to the SEC subject, however, to its being revised or withdrawn by the Utility Commission as to any future acquisition. In January 1996, the Utility Commission adopted a rule specifying the procedures for granting certification to the SEC regarding foreign utility investments and establishing reporting requirements for exempt holding companies (like the Company) intended to provide the Utility Commission with information relevant to its granting or maintaining the certification. Among other things, the Company is now required to notify the Utility Commission in the event that its aggregate investment in foreign EWGs and utility companies exceeds 30 percent of the Company's consolidated net worth or if the Company's operating losses attributable to its direct or indirect investments exceeds 5 percent of consolidated retained earnings during the previous four quarters.

EXECUTIVE OFFICERS OF THE COMPANY (1)
As of March 1, 1996

Name	Age(2)	Officer Since	Business Experience 1991-1996 and Positions	
Don D. Jordan	63	1976	Chairman and Chief Executive Officer and Director	1993-
			Chairman, President and Chief Executive Officer and Director	1991-1993
			Chairman and Chief Executive Officer and Director - HL&P	1991-
Hugh Rice Kelly	53	1984	Senior Vice President, General Counsel and Corporate Secretary	1994-
			Vice President, General Counsel and Corporate Secretary	1991-1994
			Senior Vice President, General Counsel and Corporate Secretary - HL&P	1991-
Lee W. Hogan	51	1990	Senior Vice President and Director	1996-
			Vice President and Director	1995-1996
			Vice President	1993-1995
			President and Chief Operating Officer - HI Energy	1993-
			Group Vice President - External Affairs - HL&P	1991-1993
R. Steve Letbetter	47	1978	Senior Vice President and Director	1996-
			Vice President and Director	1995-1996
			Vice President	1993-1995
			President and Chief Operating Officer - HL&P	1993-
			Group Vice President - Finance and Regulatory Relations - HL&P	1991-1993
Stephen W. Naeve	48	1988	Senior Vice President and Chief Financial Officer	1996-
			Vice President - Strategic Planning and Administration	1993-1996
			Vice President - Corporate Planning and Treasurer - HL&P	1991-1993
Mary P. Ricciardello	40	1993	Vice President and Comptroller	1996-
			Vice President and Comptroller - HL&P	1996-
			Comptroller	1993-1996
			Assistant Corporate Secretary and Assistant Treasurer - HL&P	1991-1993

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(1) All of the officers have been elected to serve until the annual meeting of the Board of Directors scheduled to occur on May 22, 1996 and until their successors qualify.

(2) At December 31, 1995.

EXECUTIVE OFFICERS OF HL&P (1)(2)
As of March 1, 1996

Name	Age(3)	Officer Since	Business Experience 1991-1996 and Positions	
Don D. Jordan	63	1971	Chairman and Chief Executive Officer and Director	1991-
R. Steve Letbetter	47	1978	President and Chief Operating Officer and Director	1995-
			President and Chief Operating Officer	1993-1995
			Group Vice President - Finance and Regulatory Relations	1991-1993
William T. Cottle	50	1993	Executive Vice President and General Manager - Nuclear	1996-
			Group Vice President - Nuclear	1993-1996
			Vice President - Operations - Grand Gulf Nuclear Station, Entergy Operations, Inc.	1991-1993
Jack D. Greenwade	56	1982	Senior Vice President and Assistant to the President	1996-
			Group Vice President - Operations	1991-1996
Hugh Rice Kelly	53	1984	Senior Vice President, General Counsel and Corporate Secretary	1991-
David M. McClanahan	46	1986	Executive Vice President and General Manager - Energy Delivery and Customer Services	1996-
			Group Vice President - Finance and Regulatory Relations	1993-1996
			Senior Vice President and Chief Financial Officer - KBLCOM	1991-1993
			Vice President, Finance and Administration - KBLCOM	1991
			Vice President and Comptroller - Company	1991
Stephen C. Schaeffer	48	1989	Executive Vice President - Shared Services and Financial and Regulatory Affairs	1996-
			Senior Vice President - Treasurer - HI Energy	1993-1996
			Group Vice President - Administration and Support	1992-1993
			Vice President - Regulatory Relations	1991-1992
Robert L. Waldrop	48	1988	Senior Vice President - Marketing and Customer Services	1996-
			Group Vice President - External Affairs	1993-1996
			Vice President - Public and Customer Relations	1992-1993
			Vice President - Public Affairs	1991-1992
Mary P. Ricciardello	40	1993	Vice President and Comptroller	1996-
			Vice President and Comptroller - Company	1996-
			Comptroller - Company	1993-1996
			Assistant Corporate Secretary and Assistant Treasurer	1991-1993

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(1) All of the officers have been elected to serve until the annual meeting of the Board of Directors scheduled to occur on May 22, 1996 and until their successors qualify.

(2) For the purposes of the requirements of this Report, the HL&P officers listed may also be deemed to be executive officers of the Company.

(3) At December 31, 1995.

ITEM 2. PROPERTIES.

The Company considers its property and the property of its subsidiaries to be well maintained, in good operating condition and suitable for their intended purposes.

HL&P

All of HL&P's electric generating stations and all of the other operating properties of HL&P are located in the state of Texas.

ELECTRIC GENERATING STATIONS. As of December 31, 1995, HL&P owned 12 electric generating stations (62 generating units) with a combined turbine nameplate rating of 13,544,608 kilowatts (KW), including a 30.8 percent interest in one nuclear generating station (two units) with a combined turbine nameplate rating of 2,623,676 KW.

SUBSTATIONS. As of December 31, 1995, HL&P owned 203 major substations (with capacities of at least 10 megavolt amperes (Mva)) having a total installed rated transformer capacity of 55,320 Mva (exclusive of spare transformers), including a 30.8 percent interest in one major substation with an installed rated transformer capacity of 3,080 Mva.

ELECTRIC LINES--OVERHEAD. As of December 31, 1995, HL&P operated 24,385 pole miles of overhead distribution lines and 3,597 circuit miles of overhead transmission lines, including 567 circuit miles operated at 69,000 volts, 1,999 circuit miles operated at 138,000 volts and 1,031 circuit miles operated at 345,000 volts.

ELECTRIC LINES--UNDERGROUND. As of December 31, 1995, HL&P operated 9,098 circuit miles of underground distribution lines and 12.6 circuit miles of underground transmission lines, including 8.1 circuit miles operated at 138,000 volts and 4.5 circuit miles operated at 69,000 volts.

GENERAL PROPERTIES. HL&P owns various properties, including division offices, service centers, telecommunications equipment and other facilities used for general purposes.

TITLE. The electric generating plants and other important units of property of HL&P are situated on lands owned in fee by HL&P. Transmission lines and distribution systems have been constructed in part on or across privately owned land pursuant to easements or on streets and highways and across waterways pursuant to authority granted by municipal and county permits, and by permits issued by state and federal governmental authorities. Under the laws of the state of Texas, HL&P has the right of eminent domain pursuant to which it may secure or perfect rights-of-way over private property, if necessary.

MORTGAGE. HL&P's mortgage, which secures first mortgage bonds issued by HL&P and collateralizes certain other securities issued on behalf of HL&P, constitutes a direct first lien on substantially all of HL&P's properties. The terms of the mortgage contain significant restrictions on the ability of HL&P to pledge, sell or otherwise dispose of its assets.

HI ENERGY

For information with respect to property owned directly or indirectly by HI Energy, see "Business of HI Energy" in Item 1 of this Report and Note 4 to the Financial Statements.

ITEM 3. LEGAL PROCEEDINGS.

The following is a description of certain legal and regulatory proceedings affecting the Company and its subsidiaries.

RATE MATTERS. In August 1995, the Utility Commission approved a settlement of HL&P's 1995 rate case (Docket No. 12065) as well as a separate proceeding (Docket No. 13126) regarding the prudence of operation of the South Texas Project. For information regarding this settlement, including the status of appeals of other Utility Commission orders affecting HL&P, see Note 3 to the Financial Statements, which note is incorporated herein by reference.

SOUTH TEXAS PROJECT LITIGATION. For information concerning lawsuits and related matters filed against HL&P by the City of Austin and the City of San Antonio with respect to outages at the South Texas Project occurring in 1993 and early 1994 and arbitration claims asserted against HL&P by the City of San Antonio with respect to the construction of the South Texas Project, see Note 2(b) to the Financial Statements, which note is incorporated herein by reference.

In April 1994, two former employees of HL&P filed a class action and shareholder derivative suit on behalf of all shareholders of the Company. This lawsuit (Pace and Fuentez v. Houston Industries Incorporated) alleges various acts of mismanagement against certain officers and directors of the Company and HL&P in connection with the operation of the South Texas Project, and seeks unspecified actual and punitive damages for the benefit of shareholders of the Company. The Company and HL&P believe that the suit is without merit. The lawsuit is pending in the 133rd District Court of Harris County, Texas.

HL&P and the other owners of the South Texas Project filed suit in 1990 against Westinghouse Electric Corporation (Westinghouse) in the 23rd District Court of Matagorda County, Texas, alleging breach of warranty and misrepresentation in connection with the steam generators supplied by Westinghouse for the South Texas Project. In December 1995, HL&P and the other South Texas Project owners settled their lawsuit against Westinghouse. Although the terms of the settlement do not allow disclosure of its specific terms, the Company believes the litigation was settled on terms that provided satisfactory consideration to HL&P.

ENVIRONMENTAL. HL&P is a defendent in litigation arising out of the environmental remediation of a site in Corpus Christi, Texas. The site was operated by third parties as a metals reclaiming operation. Although HL&P neither operated nor owned the site, certain transformers and other equipment originally sold by HL&P may have been delivered to the site by third parties, and HL&P and others have remediated the site pursuant to a plan approved by appropriate state agencies and a federal court. In Dumes, et al. v. HL&P, et al., (pending in the U.S. District Court for the Southern District of Texas, Corpus Christi Division), landowners near the site have asserted claims that their property has been contaminated as a result of the remediation effort and have asserted claims of approximately $70 million in damages, together with punitive damages totaling $51 million. Although the ultimate outcome of this case cannot be predicted at this time, the Company and HL&P do not believe that this case will have a material adverse effect on the Company's or HL&P's financial condition or results of operations.

The EPA has identified HL&P as a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act for the costs of cleaning up a site located adjacent to one of HL&P's transmission lines. In October 1992, the EPA issued an Administrative Order to HL&P and several other companies purporting to require them to manage

the remediation of the site. HL&P believes that the EPA took this action solely on the basis of information indicating that HL&P in the 1950s acquired record title to a portion of the land on which the site is located. HL&P does not believe that it now nor previously has had any ownership interest in the land in question and has obtained a judgment from a court in Galveston County, Texas, to that effect. Accordingly, HL&P has not complied with this order, even though HL&P understands that other responsible parties are proceeding with site remediation. To date, neither the EPA nor any other potentially responsible party has instituted a claim against HL&P for any share of the remediation costs, but under current law if HL&P is determined to be a responsible party, HL&P could be found to be jointly and severally liable for the remediation costs (which HL&P estimates to be approximately $80 million in the aggregate) and could be subjected to substantial fines and damage claims.

IRS REFUND LAWSUIT. In July 1990, the Company paid approximately $104.5 million to the Internal Revenue Service (IRS) in connection with an IRS audit of the Company's 1983 and 1984 federal income tax returns. In November 1991, the Company filed a refund suit in the U.S. Court of Federal Claims seeking the return of $52.1 million of tax, $36.3 million of accrued interest, plus interest on both of those amounts accruing after July 1990. The major contested issue in the refund case involved the IRS's allegation that certain amounts related to the over-recovery of fuel costs should have been included as taxable income in 1983 and 1984 even though HL&P had an obligation to refund the over- recoveries to its ratepayers. In October 1994, the Court granted the Company's Motion for Partial Summary Judgment on the fuel cost over-recovery issue, and in February 1995, entered partial judgment in favor of the Company. The government has appealed this decision. If the government does not prevail on appeal, the Company would be entitled to a refund of overpaid tax, interest paid on the overpaid tax through July 1990 and interest on both of those amounts from July 1990. If the government prevails on appeal, the Company's ultimate financial exposure should be immaterial because of offsetting tax deductions to which the Company is entitled for the year the over-recovery was refunded to ratepayers.

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

There were no matters submitted to a vote of security holders of the Company or HL&P during the fourth quarter of 1995.

PART II

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

The Company's Common Stock, which at March 1, 1996 was held of record by approximately 66,000 shareholders, is listed on the New York, Chicago and London Stock Exchanges (symbol: HOU). All of HL&P's common stock is directly or indirectly held by the Company. The following table sets forth the high and low sales prices of the Company's Common Stock on the composite tape during the periods indicated, as reported by The Wall Street Journal, and the dividends declared for such periods, in each case as adjusted to give effect to the two-for-one stock split effected by a stock distribution in December 1995. Dividend payout was $1.50 per share for 1995 and 1994. The dividend declared during the fourth quarter of 1995 is payable in March 1996.

	Market Price		Dividend Declared Per Share
	High	Low	
1995			
First Quarter			$0.375
January 3		$17 11/16	
February 3	$20 1/2		
Second Quarter			$0.375
April 3		$18 15/16	
June 5	$21 7/8		
Third Quarter			$0.375
September 1		$21 1/16	
September 28	$22 3/4		
Fourth Quarter			$0.375
October 2		$22 1/16	
December 29	$24 1/2		
1994			
First Quarter			$0.375
January 3	$23 7/8		
March 31		$17 3/8	
Second Quarter			$0.375
April 21	$18 5/8		
May 10		$15	
Third Quarter			$0.375
July 1		$16 1/4	
August 2	$18 5/16		
Fourth Quarter			$0.375
November 23		$16	
December 15	$18 1/4		

On December 31, 1995, the consolidated book value of the Company's Common Stock was $16.61 per share. The closing market price of the Company's Common Stock on December 29, 1995 (the last business day of the year) was $24 1/4 per share.

There are no contractual limitations on the payment of dividends on the Company's Common Stock or on the common stock of the Company's subsidiaries.

ITEM 6. SELECTED FINANCIAL DATA OF THE COMPANY.

The following table sets forth selected financial data with respect to the Company's consolidated financial condition and results of consolidated operations and should be read in conjunction with the Financial Statements and the related notes in Item 8 of this Report. On July 6, 1995, the Company closed the sale of its cable television operations. The operations of KBLCOM have been accounted for as discontinued operations.

	Year Ended December 31,				
	1995	1994	1993	1992	1991
	(Thousands of Dollars, except per share amounts)				
Revenues	$ 3,730,173	$ 3,754,136	$ 4,083,655	$ 3,857,932	$ 3,707,605
Income from continuing operations before cumulative effect of change in accounting (1)	$ 397,400	$ 423,985	$ 440,531	$ 370,031	$ 484,275
Loss from discontinued operations		(16,524)	(24,495)	(29,544)	(67,521)
Gain on sale of cable television subsidiary	708,124				
Cumulative effect of change in accounting (2)		(8,200)		94,180	
Net income (1)	$ 1,105,524	$ 399,261	$ 416,036	$ 434,667	$ 416,754
Earnings per common share (3):					
Continuing operations before cumulative effect of change in accounting (1)	$ 1.60	$ 1.72	$ 1.69	$ 1.43	$ 1.88
Gain on sale of cable television subsidiary	2.86				
Discontinued operations		(.07)	(.09)	(.11)	(.26)
Cumulative effect of change in accounting (2)		(.03)		.36	
Earnings per common share (1)	$ 4.46	$ 1.62	$ 1.60	$ 1.68	$ 1.62
Cash dividends declared per common share (3)(4)	$ 1.50	$ 1.50	$ 1.875	$ 1.49	$ 1.48
Dividend pay-out ratio from continuing operations	94%	87%	89%	104%	79%
Return on average common equity (5)	29.1%	11.9%	12.8%	13.4%	12.7%
Ratio of earnings from continuing operations to fixed charges before cumulative effect of change in accounting	2.71	2.89	2.78	2.29	2.55
At year-end:					
Book value per common share (1)(3)	$ 16.61	$ 13.64	$ 12.53	$ 12.68	$ 12.48
Market price per common share (3)	$ 24.25	$ 17.82	$ 23.82	$ 22.94	$ 22.13
Market price as a percent of book value (1)	146%	131%	190%	181%	177%
At year-end:					
Total assets of continuing operations	$11,819,606	$10,784,095	$10,867,581	$11,075,897	$10,820,562
Net assets of discontinued operations		618,982	487,026	231,252	170,718
Total assets	$11,819,606	$11,403,077	$11,354,607	$11,307,149	$10,991,280
Long-term obligations including current maturities - continuing operations (6)	$ 3,768,928	$3,905,518	$ 3,950,576	$ 4,244,077	$ 4,488,628
Long-term obligations including current maturities included in net assets of discontinued operations		504,580	514,964	740,453	813,203
Capitalization from continuing operations:					
Common stock equity	50%	44%	43%	42%	41%
Cumulative preferred stock of HL&P (including current maturities)	5%	7%	7%	7%	6%
Long-term debt (including current maturities)	45%	49%	50%	51%	53%
Capital expenditures:					
Electric capital and nuclear fuel expenditures (excluding AFUDC) (7)	$ 296,635	$ 412,899	$ 329,016	$ 337,082	$ 365,486
Cable television additions and other cable-related investments - discontinued	47,601	84,071	61,856	45,233	26,624
Corporate headquarters expenditures (excluding capitalized interest) (7)	89,627	44,250	26,034		
Non-regulated electric power project expenditures and advances	38,278	7,087	35,796	1,625	

(1) The Company adopted Statement of Position (SOP) 93-6, "Employers' Accounting for Employee Stock Ownership Plans," effective January 1, 1994, which had the effect of reducing net income while increasing earnings per share. See also Notes 1(g) and 9(b) to the Financial Statements. SOP 93-6 is effective only with respect to financial statements for periods after January 1, 1994, and no restatement was permitted for prior periods.

(2) The 1994 cumulative effect relates to the change in accounting for postemployment benefits. See also Note 9(d) to the Financial Statements.

The 1992 cumulative effect relates to the change in accounting for revenues.

(3) All common share data reflect a two-for-one common stock dividend distribution in December 1995.

(4) Year ended December 31, 1993 includes five quarterly dividends of $.375 per share due to a change in the timing of the Company's Board of Directors' declaration of dividends. Dividend payout was $1.50 per share for 1993. See also Note 5(b) to the Financial Statements.

(5) The return on average common equity for 1995 includes the gain on the sale of the Company's cable television subsidiary. The return on average common equity excluding the gain was 11.6%.

(6) Includes Cumulative Preferred Stock subject to mandatory redemption.

(7) During 1995, HL&P made a payment toward the purchase of an ownership interest in the corporate headquarters building. Such payment is not reflected in the Company's electric capital and nuclear fuel expenditures as it is an affiliate transaction eliminated upon consolidation.

ITEM 6. SELECTED FINANCIAL DATA OF HL&P.

The following table sets forth selected financial data with respect to HL&P's financial condition and results of operations and should be read in conjunction with the Financial Statements.

	Year Ended December 31,				
	1995	1994	1993	1992	1991
	(Thousands of Dollars)				
Revenues	$ 3,680,297	$ 3,746,085	$ 4,079,863	$ 3,826,841	$ 3,674,543
Income after preferred dividends but before cumulative effect of change in accounting	$ 450,977	$ 461,381	$ 449,750	$ 375,955	$ 472,712
Cumulative effect of change in accounting (1)		(8,200)		94,180	
Income after preferred dividends	$ 450,977	$ 453,181	$ 449,750	$ 470,135	$ 472,712
Return on average common equity	11.8%	12.0%	12.3%	13.3%	13.8%
Ratio of earnings to fixed charges before cumulative effect of change in accounting	3.75	3.80	3.40	2.73	2.97
Ratio of earnings to fixed charges and preferred dividend requirements before cumulative effect of change in accounting	3.20	3.20	2.90	2.34	2.53
At year-end:					
Total assets	$10,665,259	$10,850,981	$10,753,616	$10,790,052	$10,620,642
Long-term obligations including current maturities (2)	$ 3,220,015	$ 3,356,789	$ 3,402,032	$ 3,796,719	$ 4,150,454
Capitalization:					
Common stock equity	52%	51%	50%	47%	44%
Cumulative preferred stock (including current maturities)	6%	7%	7%	7%	6%
Long-term debt (including current maturities)	42%	42%	43%	46%	50%
Capital and nuclear fuel expenditures (excluding AFUDC) (3)	$ 391,550	$ 412,899	$ 329,016	$ 337,082	$ 365,486
Percent of capital expenditures financed internally from operations	110%	216%	158%	137%	126%

(1) The 1994 cumulative effect relates to the change in accounting for postemployment benefits. See also Note 9(d) to the Financial Statements. The 1992 cumulative effect relates to the change in accounting for revenues from a cycle billing to a full accrual method effective January 1, 1992.

(2) Includes Cumulative Preferred Stock subject to mandatory redemption.

(3) 1995 expenditures include a payment toward the purchase of an ownership interest in the corporate headquarters building.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS

HOUSTON INDUSTRIES INCORPORATED (COMPANY)

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

	Year Ended December 31, 1995	Year Ended December 31, 1994	Percent Change
	(Thousands of Dollars)		
Revenues	$ 3,730,173	$ 3,754,136	(1)
Operating Expenses	2,825,240	2,785,521	1
Operating Income	904,933	968,615	(7)
Interest and Other Charges	326,340	318,599	2
Income Taxes	199,555	230,424	(13)
Income from Continuing Operations	397,400	423,985	(6)
Gain/(Loss) from Discontinued Operations	708,124	(16,524)	--
Net Income	1,105,524	399,261	177

	Year Ended December 31, 1994	Year Ended December 31, 1993	Percent Change
	(Thousands of Dollars)		
Revenues	$ 3,754,136	$ 4,083,655	(8)
Operating Expenses	2,785,521	3,102,509	(10)
Operating Income	968,615	981,146	(1)
Interest and Other Charges	318,599	350,299	(9)
Income Taxes	230,424	228,863	1
Income from Continuing Operations	423,985	440,531	(4)
Loss from Discontinued Operations	(16,524)	(24,495)	(33)
Net Income	399,261	416,036	(4)

All common stock data included in this section reflect the two-for-one stock split in the form of a stock distribution effected on December 9, 1995. See Note 5(a) to the Company's Consolidated and Houston Lighting & Power Company's (HL&P) Financial Statements in Item 8 of this Report (Financial Statements).

In July 1995, the Company sold KBLCOM Incorporated, its cable television subsidiary (KBLCOM). The operations of KBLCOM are reflected as discontinued operations. See Note 13 to the Financial Statements.

EARNINGS - THE COMPANY

1995 Compared to 1994. Consolidated earnings per share were $4.46 for 1995, an increase of $2.84 per share from 1994. The Company's 1995 earnings were significantly affected by a one-time after-tax gain of $708 million or $2.86 per share recorded upon the sale of the Company's cable television subsidiary. The gain is reflected in discontinued operations on the Company's Statements of Consolidated Income. The Company's 1995 consolidated earnings per share from continuing operations were $1.60 per share, compared to $1.72 per share in 1994.

HL&P contributed $1.82 per share in 1995 (reflecting net income of $451 million after dividends on preferred stock). In 1995, Houston Industries Energy, Inc. (HI Energy) sustained a net loss of $33 million or $.13 per share. The net loss includes an $18 million after-tax charge to earnings resulting from the establishment of a valuation allowance reflecting the impairment of the ability of two waste tire-to-energy projects to repay $28 million in subordinated debt advanced to the projects by HI Energy. This impairment is the result of a repeal by the state of Illinois of an operating subsidy benefiting the projects. For additional information regarding this charge and HI Energy's commitments under certain circumstances to make additional subordinated loans to these projects, see Note 4(c) to the Financial Statements. The remaining $.09 per share loss was primarily due to corporate overhead costs and financing expenses at the parent company. Earnings for 1995 included after-tax dividend income of approximately $18 million related to Time Warner Inc. (Time Warner) securities received by the Company upon the sale of its cable television subsidiary.

The Company had other revenues of $50 million in 1995 compared to $8 million in 1994. Other revenues are principally from electric sales and operating revenues from HI Energy. The increase is primarily due to revenues from a foreign electric utility operating company acquired in 1995 by HI Energy. Other operating expenses for the Company were $123 million for 1995 compared to $36 million in 1994. Other operating expenses primarily include HI Energy operating expenses and corporate overhead costs at the parent company. The increase is principally due to increased HI Energy operating expenses for the foreign electric utility operating company, the $18 million after-tax charge to earnings described above and increased project development costs. For additional information regarding HI Energy's activities and investments, see Note 4 to the Financial Statements.

1994 Compared to 1993. Consolidated earnings per share from continuing operations were $1.72 for 1994, compared to $1.69 per share in 1993. Effective January 1, 1994, the Company adopted Statement of Position (SOP) 93-6, "Employers' Accounting for Employee Stock Ownership Plans," which had the effect of reducing 1994 net income by $12.8 million while increasing earnings per share by $.05. The increase in earnings per share occurred because SOP 93-6 required a reduction in the number of weighted average common shares outstanding for the period ended December 31, 1994 by the number of shares not yet allocated to plan participants in the Company's Employee Stock Ownership Plan (ESOP). For a further discussion of the effects of the adoption of SOP 93-6, see Notes 1(g) and 9(b) to the Financial Statements.

HL&P contributed $1.88 per share in 1994 (reflecting income before cumulative effect of a change in accounting and after dividends on preferred stock of $461.4 million). In 1994, HI Energy sustained a net loss of $.03 per share. The remaining net loss of $.13 per share was primarily due to corporate overhead costs and financing expenses at the parent company partially offset by the effects of the adoption of SOP 93-6, as discussed above.

HL&P contributed $1.73 to the 1993 consolidated earnings per share from continuing operations on income of $449.8 million after preferred dividends. The remaining loss of $.04 per share resulted from corporate overhead costs and financing expenses at the parent company and a combined loss of the Company's other subsidiaries.

HL&P

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

	Year Ended December 31,		Percent
	1995	1994	Change
	(Thousands of Dollars)		
Base Revenues (1)	$2,645,303	$2,673,146	(1)
Reconcilable Fuel Revenues (2)	1,034,994	1,072,939	(4)
Operating Expenses (3)	2,945,633	3,003,203	(2)
Operating Income (3)	734,664	742,882	(1)
Interest Charges	247,809	249,472	(1)
Income After Preferred Dividends	450,977	453,181	-

	Year Ended December 31,		Percent
	1994	1993	Change
	(Thousands of Dollars)		
Base Revenues (1)	$2,673,146	$2,755,057	(3)
Reconcilable Fuel Revenues (2)	1,072,939	1,324,806	(19)
Operating Expenses (3)	3,003,203	3,313,577	(9)
Operating Income (3)	742,882	766,286	(3)
Interest Charges	249,472	284,585	(12)
Income After Preferred Dividends	453,181	449,750	1

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

EARNINGS - HL&P

1995 Compared to 1994. HL&P's 1995 earnings were $451 million, a decline of $2.2 million from 1994. Earnings for 1995 benefited from 5% growth in residential and 4% growth in commercial kilowatt-hour (KWH) sales resulting from continued customer growth and hotter summer weather in 1995. However, the revenue improvements were offset by (i) reduced electric rates stemming from the settlement of Docket No. 12065, HL&P's 1995 rate case (Rate Case Settlement), (ii) HL&P's decision to write down $50 million ($33 million after-tax) of its investment in the South Texas Project Electric Generating Station (South Texas Project) as permitted under the Rate Case Settlement, and (iii) increased non-routine operating expenses in part associated with staff severance costs and litigation. HL&P's earnings for 1994 reflect a one-time, after-tax charge of $46 million in the fourth quarter also related to the Rate Case Settlement.

For additional information regarding the Rate Case Settlement, see "Certain Factors Affecting Future Earnings of the Company and HL&P--Rate Matters and Other Contingencies," below, and Note 3(a) to the Financial Statements.

1994 Compared to 1993. HL&P's 1994 earnings were $453.2 million, an increase of $3.4 million from 1993. The increase in HL&P's 1994 earnings resulted primarily from (i) increased residential and commercial KWH sales of 1 percent and 4 percent, respectively, (ii) lower operating costs associated with reductions in production plant maintenance and employee benefits, and (iii) reduced interest expenses. The increase in 1994 earnings was partially offset by (i) the one-time after-tax charge of $46 million discussed above and (ii) the recognition of an $8.2 million after-tax charge for postemployment benefit costs incurred as a result of the adoption of Statement of Financial Accounting Standards (SFAS) No. 112, "Employer's Accounting for Postemployment Benefits." Earnings for 1993 included approximately $21 million (after-tax) in franchise tax refunds.

OPERATING REVENUES AND SALES - HL&P

1995 Compared to 1994. The $27.8 million decline in 1995 base revenues was primarily due to (i) decreased base rates resulting from the Rate Case Settlement, (ii) decreased firm industrial KWH sales and (iii) a reduction of revenues associated with recovery of certain firm capacity purchased power costs included in base rates. See Note 11(b) to the Financial Statements for a discussion of firm capacity costs.

Firm industrial KWH sales declined 3 percent in 1995. Contributing to this decrease were a decline in sales to the chemical and refining industries, primarily due to the loss of a large industrial customer to self-generation, and the expiration of an economic development rate which caused some customers to make greater use of interruptible service or switch to alternative rates. Firm industrial sales exclude electricity sold at a reduced rate under agreements which allow HL&P to interrupt service under some circumstances.

Reconcilable fuel revenues are revenues that are collected through a fixed fuel factor. The Public Utility Commission of 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 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 HL&P's balance sheets as fuel-related credits. Fuel costs are reviewed during periodic fuel reconciliation proceedings, which are required at least every three years.

1994 Compared to 1993. 1994 operating revenues declined 8.2 percent, or $333 million, primarily due to a decrease in reconcilable fuel revenues and the one-time, after-tax $46 million charge relating to the Rate Case Settlement discussed above. 1994 residential and commercial KWH sales increased by 1 percent and 4 percent, respectively, while firm industrial sales remained relatively unchanged.

FUEL AND PURCHASED POWER EXPENSE - HL&P

Fuel costs constitute the single largest expense for HL&P. The mix of fuel sources for generation of electricity is determined primarily by system load and the unit cost of fuel consumed. The average cost of fuel used by HL&P in 1995 was $1.59 per million British Thermal Unit (MMBtu)

($1.69 for natural gas, $2.03 for coal, $1.25 for lignite and $0.58 for nuclear). In 1994, the average cost of fuel was $1.54 ($1.90 for natural gas, $1.59 for coal, $1.11 for lignite and $0.57 for nuclear).

1995 Compared to 1994. 1995 fuel expense increased by 2 percent, or $18.2 million, primarily due to the receipt in 1994 of $66.1 million from the sale of receivables associated with a settlement resolving claims that HL&P had been overcharged for the cost of coal transportation. For additional information on this transaction, see Note 14 to the Financial Statements. Excluding the effects of such transaction, 1995 fuel expense declined by 5.2 percent from 1994. This decline was attributable to (i) a general decline in the unit cost of natural gas and (ii) the increased use of nuclear generation (which has a per unit fuel cost that is substantially lower than HL&P's other fuel sources). Purchased power expense decreased $175 million resulting primarily from the expiration of certain purchased power contracts.

1994 Compared to 1993. The 19 percent, or $202 million, decrease in 1994 fuel expense was primarily due to (i) decreases in both the usage and per unit cost of natural gas, and decreases in the unit cost of all other fuels used in 1994 and (ii) the $66.1 million reduction discussed above. The $107 million decrease in purchased power costs was due to the expiration in 1994 of a purchased power agreement.

OPERATION AND MAINTENANCE EXPENSES, DEPRECIATION, AMORTIZATION, AND OTHER - HL&P

1995 Compared to 1994. Operation and maintenance expenses for 1995 increased $35 million and $2.4 million, respectively, compared to 1994. Substantially all of the increase in operation expense resulted from (i) employee severance expenses, (ii) other employee benefits adjustments and (iii) certain litigation expenses. Depreciation and amortization expense for 1995 increased $77 million compared to 1994, primarily due to amortization recorded pursuant to the Rate Case Settlement, see Note 3(a) to the Financial Statements. Other taxes decreased $5.5 million for 1995 compared to 1994, primarily due to decreased state gross receipts obligations attributable to base and fuel refunds. Other-net expense for 1995 increased $13.3 million compared to 1994 primarily as a result of a one-time, pre-tax charge of $9 million incurred in connection with mine-related costs which were not previously recorded and are not recoverable under the Rate Case Settlement.

During 1995, HL&P incurred $15 million in work force severance costs as a result of its efforts to streamline and improve certain business activities. These severance costs reflect a staff reduction of approximately 570 employees. Although these costs have the short-term effect of putting downward pressure on earnings, HL&P expects that these costs will be recovered from future savings in employee-related costs. HL&P estimates that it saved approximately $6 million in labor and benefit costs in 1995 as a result of these work force reductions.

1994 Compared to 1993. Operation and maintenance expenses for 1994 decreased $28 million and $41.8 million, respectively, compared to 1993. These decreases were due primarily to lower employee benefits expenses and production plant maintenance costs. Depreciation and amortization expense in 1994 increased by $12.4 million compared to 1993, primarily due to an increase in depreciable property and the commencement of the amortization of previously deferred demand side management expenditures. Other taxes increased $40.1 million in 1994 primarily due to the effect of (i) franchise tax refunds of $32.7 million received in 1993 and (ii) a $6.1 million increase in property taxes in 1994.

CERTAIN FACTORS AFFECTING FUTURE EARNINGS OF THE COMPANY AND HL&P

Earnings for the past three years are not necessarily indicative of future earnings and results of operations. The level of future earnings depends on numerous factors ranging from growth in energy sales, weather, HI Energy's future results of operations, competition, regulatory changes, the rate of economic growth in HL&P's service area, and the ability of the Company and HL&P to control costs and maintain a pricing structure that is both attractive to customers and profitable to the Company and HL&P.

RATE MATTERS AND OTHER CONTINGENCIES

In August 1995, the Utility Commission unanimously approved the Rate Case Settlement. Subject to certain changes in existing regulation or legislation, the Rate Case Settlement precludes HL&P from seeking rate increases through December 31, 1997.

Under the Rate Case Settlement, HL&P has the option to write down up to $50 million per year of its investment in the South Texas Project through December 31, 1999. In 1995, HL&P wrote down the maximum $50 million annual ($33 million after-tax) amount. Additionally, pursuant to the Rate Case Settlement, HL&P was permitted, and in January 1996, commenced amortization of its investment in certain lignite reserves (associated with the now canceled Malakoff generation project) at a rate of approximately $22 million per year. As a result of this additional amortization, all of HL&P's remaining investment in the Malakoff project will be fully amortized no later than December 31, 2002. In addition, accruals for nuclear decommissioning expenses increased by $9 million per year beginning in 1995. For details of the terms of the Rate Case Settlement (as well as the status of pending litigation involving other Utility Commission orders), see Note 3 to the Financial Statements.

HL&P is a party to litigation and an arbitration proceeding involving certain of the owners of the South Texas Project. For information regarding that litigation and such proceeding (including settlement discussions with the City of San Antonio), see Note 2(b) to the Financial Statements.

The Company and HL&P are involved in other legal, tax and regulatory proceedings before various courts, regulatory agencies and governmental authorities, some of which may involve substantial amounts. For additional information, see Notes 3 and 11 to the Financial Statements.

COMPETITION

Due to changing government regulations, technological developments and the availability of alternative energy sources, the U.S. electric utility industry has become increasingly competitive. Such competition affects HL&P's business both in terms of source of power supply available to HL&P and alternative choices for customers meeting their power needs.

Wholesale Competition. Under the Energy Policy Act of 1992 (Energy Policy Act), exempt wholesale generators are permitted to produce and sell electric energy at wholesale without becoming subject to regulation under the Public Utility Holding Company Act of 1935 (1935 Act). In addition, the Energy Policy Act expands the authority of the Federal Energy Regulatory Commission (FERC) to grant exempt wholesale generators access to the transmission networks of utilities in order to sell electricity to other utilities. Although HL&P's wholesale sales traditionally

have accounted for less than 1% of its total revenues, HL&P believes that the Energy Policy Act could encourage the development of additional independent power projects within its service area.

New Transmission Access Rule. In February 1996, the Utility Commission adopted a new transmission access and pricing rule granting third-party users of transmission systems open access to such systems at rates, terms and conditions comparable to those available to the transmission-owning utilities. The rule also implements a transmission pricing methodology by which all transmission users will be assessed a facilities charge for transmission usage. The Utility Commission is also requiring utilities (i) to operationally separate or "functionally unbundle" their wholesale power marketing operations from the operation of the transmission grid and (ii) to separately disclose their costs of generation, transmission and distribution for purposes of transmission pricing.

The facilities' charge to be paid by transmission users has two components: a statewide "postage stamp" component and a distance sensitive component. For the statewide postage stamp component, transmission users will pay an amount based upon their share of the total peak demand on the Electric Reliability Council of Texas, Inc. (ERCOT) system multiplied by 70% of the total ERCOT transmission cost of service. For the distance sensitive component, transmission users will pay to each affected transmission owner an amount based upon the user's relative impact on all transmission owners' systems multiplied by 30% of the total ERCOT transmission cost of service.

Statewide postage stamp revenues will be apportioned to each transmission owner based on the ratio of its transmission cost of service to the total ERCOT transmission cost of service. As noted above, transmission owners will receive distance sensitive revenues based upon the relative impact on their systems of all ERCOT transmission users. Since the method for apportioning costs among transmission users is different from the method for apportioning revenues among transmission owners, the impact on any particular utility that both owns transmission facilities and uses the transmission systems of others can vary. Generally speaking, the new transmission access rule is less favorable to utilities with compact service areas and more favorable to utilities with broader service areas.

Because HL&P has a compact service area and its transmission cost per megawatt is less than the statewide average, HL&P estimates that it could incur increased transmission costs of $35 million per year under the new rule. The actual impact on HL&P, however, will not be known until the Utility Commission approves total ERCOT transmission cost of service, which is not expected to occur until late 1996. To mitigate any cost increases to utilities and/or their customers, the Utility Commission will phase-in the increased transmission costs in 10% increments during the three-year period beginning with the implementation of the rule. At the end of the three-year period, the Utility Commission expects that each transmission-owning utility will have either adjusted its cost structures or requested a change in rates to account for such increased transmission cost.

The new transmission access rule is one of several related regulatory proceedings now underway at the Utility Commission. In one such proceeding the Utility Commission is evaluating programs for Standard Terms and Conditions which will govern transmission service provided under the new transmission access rule when it is implemented. It is anticipated that the rule establishing such Standard Terms and Conditions will be effective in April 1996. The Utility Commission is specifying the components of a rate filing package, which should be adopted in March 1996, and utilities will file specific transmission and ancillary service tariffs in May 1996. Finally, the Utility Commission intends to adopt in the third quarter of 1996 rules that would govern

the action of the independent system operator selected to assure non-discriminatory operation of the transmission grid. Final implementation of the various Utility Commission's rules is expected to occur in January 1997. The Utility Commission is also expected to revisit this rulemaking in order to ensure compliance with transmission rules to be adopted by FERC.

Retail Wheeling and Stranded Costs. Although federal law currently does not provide for transmission access to retail customers, retail wheeling initiatives are evolving and becoming prominent issues in several states.

As the U.S. electric utility industry continues its transition to a more competitive environment, a substantial amount of fixed costs previously approved for recovery under traditional utility regulatory practices (including regulatory assets and liabilities) may become "stranded," i.e., unrecoverable at competitive market prices. The issue of stranded costs could be particularly significant with respect to fixed costs incurred in connection with the past construction of generation plants, such as nuclear power plants which, because of their high fixed costs, would not command the same price for their output as they have in a regulated environment. The Utility Commission has initiated projects to consider issues relating to the scope of competition in the electric utility industry and stranded investment in connection with the preparation of their 1997 reports to the Texas legislature. For a description of HL&P's principal regulatory assets and liabilities, see Note 1(b) to the Financial Statements.

RESPONSE TO COMPETITION

In February 1996, the Company announced its intent to form two new strategic business units (in addition to HI Energy) to focus on nonregulated energy marketing and energy services nationwide. In 1996, HL&P took steps to reorganize its operations into three strategic business units in order to better position itself to respond to the deregulation of the electric utility industry. The three strategic business units will consist of Energy Production (fossil-fueled electric generation), Energy Delivery and Customer Services (transmission and distribution of electricity and engineering, as well as marketing and other customer services) and the South Texas Project.

HL&P has implemented flexible pricing to respond to the threat of competition in situations where large industrial customers have a viable source of alternative generation. Under a new tariff option approved by the Utility Commission in 1995, HL&P may negotiate a competitive rate with industrial customers who have an alternative to taking power from HL&P (as a result, for example, of cogeneration). Under the approved tariff, HL&P can price its industrial rate within a range between 6% above its marginal cost to its full embedded cost rate. While flexible tariff structures may help HL&P increase or retain sales to industrial customers (and reduces costs that would otherwise be borne by other customers), such tariffs result in sales at lower margins over cost.

HI ENERGY

The Company, through its subsidiary HI Energy, is focusing on international and domestic cogeneration, the international power market and the privatization of generating and distribution facilities in the international market. At December 31, 1995, HI Energy's investments in these projects amounted to approximately $93 million. Subject to HI Energy's ability to identify other attractive investment opportunities, future capital expenditures in connection with HI Energy's international and domestic operations could be substantial. In October 1995, the Company and another Texas utility made an offer to purchase an English regional electricity company for a total price equal to approximately $2.7 billion. The offer was withdrawn after a competing bidder made a higher bid for the target company.

During 1995, HI Energy had a consolidated loss of approximately $33 million or $.13 per share. The loss included an $18 million after-tax charge to earnings as described in more detail below. Based on existing commitments entered into by HI Energy, the Company estimates that HI Energy's capital expenditures for 1996 will be approximately $34 million ($31 million to be expended in connection with the construction of HI Energy's cogeneration project in San Nicolas, Argentina, and $3 million in connection with HI Energy's investment in a coke calcining project in the state of Andhra Pradesh, India). Additional capital expenditures (which could be substantial) are dependent upon the nature and extent of future project commitments entered into by HI Energy. During 1995, HI Energy satisfied its cash requirements primarily through intercompany borrowings from the Company. As of December 31, 1995, the balance of such intercompany borrowings was $53.4 million. Although in the near term, HI Energy's investments are unlikely to have a positive effect on earnings, the Company believes that such investments (although subject to greater risks) may offer long-term opportunities for growth greater than those that exist in HL&P's regulated operations.

HI Energy is a subordinated lender to two waste tire-to-energy projects being developed by CGE Ford Heights, L.L.C. (Ford Heights) and CGE Fulton, L.L.C. (Fulton), respectively, located in the state of Illinois. HI Energy also owns a $400,000 (20 percent) equity interest in Ford Heights. As of March 26, 1996, HI Energy had lent on a subordinated basis approximately $17.5 million (including unpaid interest) to the Ford Heights project and $10.8 million to the Fulton project. These amounts are recorded on the Company's Consolidated Balance Sheets in equity investments in and advances to foreign and non-regulated affiliates-net. HI Energy also is party to two separate Note Purchase Agreements committing it, under certain circumstances, to acquire up to (i) $3 million in aggregate principal amount of additional subordinated notes from the Ford Heights project and (ii) $17 million in aggregate principal amount of additional subordinated notes from the Fulton project. The Company has entered into a support agreement under which it has agreed to provide additional funds to HI Energy to enable it to honor its obligations under the two Note Purchase Agreements.

The two waste tire-to-energy projects were being developed in reliance on the terms of the Illinois Retail Rate Law, enacted in 1987, to encourage development of energy production facilities for the disposal of solid waste by providing an operating subsidy to qualifying projects. In March 1996, the Governor of the state of Illinois signed legislation which purports to repeal the Retail Rate Law. Following the action of the Governor, the projects filed a lawsuit against the Illinois Commerce Commission and an Illinois utility alleging, among other things, that the repeal of the Retail Rate Law violated the Illinois Constitution. On March 26, 1996, the Ford Heights project filed a voluntary petition seeking protection under the federal bankruptcy laws. The ability of the two waste tire-to-energy projects to meet their debt obligations is dependent upon the projects continuing to receive the operating subsidy provided under the Retail Rate Law. As a result, the Company has recorded a valuation allowance of $28 million with respect to its advances to these two projects, resulting in an after-tax charge to earnings of $18 million. The Company is unable to predict the ultimate effect of these developments on HI Energy's remaining funding commitments under the Note Purchase Agreements; however, in the Company's opinion, it is unlikely that the majority of the additional unfunded subordinated debt provided for in the Fulton Note Purchase Agreement would be required to be funded unless construction activities with respect to the Fulton project are recommenced at some future date. If HI Energy becomes obligated to advance additional funds under the Note Purchase Agreements, the Company may be required to increase the amount of the valuation allowance, which would result in additional charges to earnings.

INVESTMENT IN TIME WARNER SECURITIES

In connection with the sale of the Company's cable television subsidiary, the Company received 1 million shares of Time Warner common stock and 11 million shares of non-publicly

traded Time Warner convertible preferred stock. The 11 million shares of Time Warner convertible preferred stock are convertible by the Company into approximately 22.9 million shares of Time Warner common stock. The Company has recorded these securities at a combined fair value of approximately $1 billion on the Company's Consolidated Balance Sheets. The Company excludes unrealized net changes in the fair value of Time Warner common stock (exclusive of dividends and write downs) from earnings and, until realized, reports such changes as a net amount in a separate component of shareholders' equity. The Company's investment in the Time Warner convertible preferred stock is accounted for under the cost method.

As with any investment, the value of the Company's investment will fluctuate over time in response to general market conditions or economic and regulatory developments affecting Time Warner.

Based on current dividend rates, the Company expects to receive through July 1999 after-tax dividend income of approximately $37 million per year from its Time Warner securities. While the Company has no specific plans to dispose of these securities and is restricted in certain circumstances from doing so, it does not expect to maintain its substantial investment in Time Warner indefinitely. For a description of the Company's investment in Time Warner (including a description of certain restrictions on the Company's ability to sell its Time Warner securities), see Note 13 to the Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

The liquidity and capital requirements of the Company and its subsidiaries are affected primarily by capital programs and debt service requirements. The capital requirements for 1995 were, and as estimated for 1996 through 1998, are as follows:

	Millions of Dollars			
	1995	1996	1997	1998
Electric capital and nuclear fuel (excluding Allowance for Funds Used During Construction) (AFUDC) (1)	$ 297	$ 387	$ 301	$ 328
Corporate headquarters expenditures (excluding capitalized interest) (1)	90	5		
Non-regulated electric power project expenditures and advances (2)	38	34	55	
Maturities of long-term debt, preferred stock and minimum capital lease payments	49	379	252	66
Discontinued operations:				
Cable television additions and other cable-related investments	48			
Maturities of long-term debt	41			
Total	$ 563	$ 805	$ 608	$ 394

(1) Renovation costs of new corporate headquarters building include costs of structural improvements and renovations. During 1995, HL&P made a payment toward the purchase of an ownership interest in the new corporate headquarters building. Such payment is not reflected in the Company's electric capital and nuclear fuel expenditures as it is an affiliate transaction eliminated upon consolidation.

(2) Expenditures in table reflect only expenditures made or to be made under existing commitments entered into by HI Energy. Additional capital expenditures are dependent upon the nature and extent of future project commitments (some of which may be substantial) entered into by HI Energy.

The foregoing estimates are based on numerous assumptions, some of which may prove to be incorrect. Actual liquidity and capital requirements will also vary because of changes in governmental regulations, the resolution of various litigation and other contingencies and changes in economic conditions.

COMPANY CONSOLIDATED CAPITAL REQUIREMENTS

The cash requirements of the Company and its subsidiaries stem primarily from operating expenses, capital expenditures, payment of dividends on its common stock, payment of dividends on HL&P's preferred stock and interest and principal payments on debt. In 1995, net cash provided by operating activities totaled $839.4 million. Net cash provided by investing activities totaled $124.9 million, primarily due to the settlement of subsidiary debt related to the sale of KBLCOM of $619.3 million partially offset by electric capital expenditures of $301.3 million (including allowance

for borrowed funds used during construction) and expenses associated with structural improvements and renovation of a new corporate headquarters of $96.5 million (including capitalized interest). Net cash used in discontinued cable television investing activities for 1995 totaled approximately $48 million, primarily due to property additions and other cable-related investments. Financing activities for 1995 resulted in a net cash outflow of $963 million.

HL&P CAPITAL REQUIREMENTS

Cash Requirements. HL&P's cash requirements stem primarily from operating expenses, capital expenditures, payment of dividends on its common stock, payment of dividends on its preferred stock and interest and principal payments on debt. In 1995, HL&P's net cash provided by operating activities totaled approximately $867.7 million, and net cash used in HL&P's investing activities totaled $406.9 million, including allowance for borrowed funds used during construction. HL&P's financing activities for 1995 resulted in a net cash outflow of $620.8 million. Included in these activities were the payment of dividends, the extinguishment of long-term debt, the redemption of preferred stock and the issuance of collateralizing first mortgage bonds. For information with respect to these matters, see Notes 6 and 7(b) to the Financial Statements.

Capital Program. In 1995, HL&P's capital and nuclear fuel expenditures (excluding AFUDC) totaled approximately $392 million with estimated expenditures for 1996, 1997 and 1998 totaling $387 million, $301 million and $328 million, respectively. HL&P's capital programs for the next three years, which are expected to relate to costs for production, transmission, distribution and general plant, are subject to periodic review and may be revised at any time due to changes in load forecasts, regulatory and environmental standards and other factors.

During the next three years, it is anticipated that HL&P will require approximately $497 million for repayment of maturing long-term debt, preferred stock subject to mandatory redemption and capital leases. These expenditures are anticipated to be $179 million in 1996, $252 million in 1997 and $66 million in 1998.

Environmental Expenditures. The Federal Clean Air Act (Clean Air Act) has required, and will continue to require, HL&P to increase its environmental expenditures. In 1995, modifying HL&P's existing facilities to reduce emissions of nitrogen oxides (NOx) cost approximately $1 million. The date for installation of additional controls has been delayed by the United States Environmental Protection Agency (EPA) and the Texas Natural Resource Conservation Commission until it becomes certain that additional expenditures for NOx emission reductions will be required under the provisions of the Clean Air Act. However, up to an additional $40 million may be incurred by HL&P in order to fully comply with new NOx requirements through 1999. In addition, it is anticipated that approximately $1 million in 1996 will be expended to install continuous emission monitoring equipment; approximately $3 million was incurred for this equipment in 1995.

The EPA identified HL&P as a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act for the costs of cleaning up a site located adjacent to one of HL&P's transmission lines. HL&P believes that the EPA took this action solely on the basis of information indicating that HL&P in the 1950s acquired record title to a portion of the land on which the site is located. HL&P does not believe that it now nor previously has had any ownership interest in the land in question and has obtained a judgment from a court in Galveston County, Texas, to that effect. Accordingly, HL&P has not complied with this order, even though HL&P understands that other responsible parties are proceeding with site remediation. To date, neither the EPA nor any other potentially responsible party has instituted a claim against HL&P for any share of the remediation costs, but under current law if HL&P is determined to be a responsible party, HL&P could be found to be jointly and severally liable for the

remediation costs (which HL&P estimates to be approximately $80 million) and could be subjected to substantial fines and damage claims.

Compliance with possible additional legislation related to global climate change, electromagnetic fields and other environmental and health issues could significantly affect the Company and HL&P. The impact of the new legislation, if any, will depend on the subsequent development and implementation of applicable regulations.

COMPANY--SOURCES OF CAPITAL RESOURCES AND LIQUIDITY

The Company has registered with the Securities and Exchange Commission (SEC) ten million shares of its Common Stock and $250 million principal amount of its debt securities, all of which securities remain unissued and, subject to market conditions, could be sold to raise additional capital for the Company. Proceeds from the sale of these securities can be used for general corporate purposes, including, but not limited to, the redemption, repayment or retirement of outstanding indebtedness of the Company or the advance or contribution of funds to one or more of the Company's subsidiaries to be used for their general corporate purposes, including, without limitation, the redemption, repayment or retirement of indebtedness or preferred stock.

The Company has consolidated its financing activities in order to provide a coordinated, cost-effective method of meeting short and long-term capital requirements. As part of the consolidated financing program, the Company has established a "money fund" through which its subsidiaries can borrow or invest on a short-term basis. The funding requirements of individual subsidiaries are aggregated and borrowing or investing is conducted by the Company based on the net cash position.

In 1995, net funding requirements under the "money fund" were met with borrowings under the Company's commercial paper program, except that HL&P's short-term borrowing requirements were generally met with HL&P's commercial paper program. In 1996, net funding requirements of the Company and HL&P are expected to be met with a combination of commercial paper and bank borrowings. As of December 31, 1995, the Company had a bank credit facility of $1.1 billion (exclusive of bank credit facilities of subsidiaries), which was used to support its commercial paper program. At December 31, 1995, the Company had approximately $6.3 million of commercial paper outstanding. Rates paid by the Company on its short-term borrowings are generally lower than the prime rate.

In the fourth quarter of 1996, the Company will be required to redeem $200 million of its 7-1/4% debentures. Based on current market conditions, the Company expects to fund this redemption requirement using proceeds from short-term borrowings or other external sources.

Subject to the nature and extent of future project commitments, it is anticipated that HI Energy's 1996 capital requirements will be satisfied primarily through intercompany borrowings from the Company. HI Energy intends that any third party borrowings it incurs will be non-recourse to the Company, HL&P or HI Energy.

HL&P--SOURCES OF CAPITAL RESOURCES AND LIQUIDITY

HL&P expects to finance its 1996 through 1998 capital program with funds generated internally from operations. HL&P has registered with the SEC $230 million aggregate liquidation value of its preferred stock and $580 million aggregate principal amount of its debt securities that may be issued as first mortgage bonds. Subject to market conditions, these securities could be

issued as another source of capital for HL&P. Proceeds from any sale of these securities are expected to be used for general corporate purposes including the purchase, redemption (to the extent permitted by the terms of the outstanding securities), repayment or retirement of outstanding indebtedness or preferred stock of HL&P.

In 1995, HL&P's interim financing requirements were met with commercial paper. HL&P has a commercial paper program supported by a bank line of credit of $400 million. HL&P had no commercial paper outstanding at December 31, 1995. At December 31, 1995, HL&P had approximately $75.9 million in cash and cash equivalents invested in short-term investments.

HL&P continued to reduce its financing costs by retiring higher-cost bonds in 1995. In addition, HL&P accelerated in 1995 the sinking fund requirements of certain shares of its preferred stock. As a result of these efforts, the composite interest rate on long-term debt decreased from 8.32 percent at December 31, 1993 to 8.19 percent at December 31, 1995. During the same period, the composite dividend rate on preferred stock increased from 6.23 percent to 6.43 percent. In 1996, HL&P will be required to redeem $150 million of its first mortgage bonds and $26 million of its preferred stock. For additional information, see Notes 6 and 7(b) to the Financial Statements. HL&P intends to satisfy these redemption obligations using funds internally generated from operations.

NEW ACCOUNTING ISSUES

In 1995, the Financial Accounting Standards Board (FASB) issued SFAS No. 121, ("Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of"), which imposes stricter standards for assessing asset impairments than previously imposed by generally accepted accounting principles. SFAS No. 121 is effective for years beginning after December 15, 1995. Beginning in 1996, the Company and HL&P (and other companies subject to SFAS No. 121) must review certain assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If an impairment is found to exist, the impairment loss to be recognized is the amount by which the carrying amount exceeds the fair value. The Company and HL&P believe that, based on current conditions, SFAS No. 121 will have no material effect on their respective results of operations when adopted in 1996. This conclusion, however, may change in the future as competition influences wholesale and retail pricing in the electric utility industry.

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." Effective for fiscal years beginning after December 15, 1995, SFAS No. 123 does not rescind the existing accounting for employee stock-based arrangements but encourages (although it does not require) recognizing the fair value based method of accounting for stock-based compensation. Companies that choose not to adopt the new rules will continue to apply the existing accounting rules contained in Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees"; however, SFAS No. 123 requires disclosure of pro forma net income and earnings per share that would have been reported under the "fair value" recognition provisions of SFAS No. 123. The Company and HL&P have reviewed the provisions of SFAS No. 123, and based on current assumptions, the calculated "fair value" does not result in a material difference in 1995 recorded compensation cost. The Company and HL&P will continue to account for stock-based compensation under APB Opinion No. 25 and disclose the pro forma information required under SFAS No. 123.

The staff of the SEC has questioned certain of the current accounting practices of the electric utility industry regarding the recognition, measurement and classification of decommissioning costs

for nuclear generating facilities recorded on the financial statements of electric utilities. In response to these questions, the FASB initiated a project entitled "Accounting for Certain Liabilities Related to Closure or Removal of Long-Lived Assets." Throughout 1995, the FASB reviewed the accounting for closure or removal obligations, including decommissioning of nuclear facilities. In February 1996, FASB issued an Exposure Draft communicating the results of this project. The Exposure Draft outlines the following: (i) the requirement of recognition of a liability based on the present value of the estimated future cash outflows that will be required to satisfy the closure or removal obligations, using a risk-free interest rate (U.S. Treasury securities), (ii) an equal amount capitalized as part of the costs of the related long-lived asset, depreciated over the life of the asset, and (iii) recognition of a regulatory asset or liability under SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation", for differences in expenses recognized under this statement and amounts charged to customers in rate-regulated entities. HL&P believes that, while the proposed standard would also significantly increase disclosure requirements, it would have minimal impact on the Company's and HL&P's financial condition or results of operations.

The Company and HL&P's financial statements include additional disclosures required as a result of the adoption of the SOP 94-6 "Disclosure of Certain Significant Risks and Uncertainties". This SOP, which is effective for financial statements issued for fiscal years ending after December 15, 1995, requires financial statement disclosure for (i) the nature of operations, (ii) use of estimates in the preparation of financial statements, and, if specified disclosure criteria are met, (iii) certain significant estimates and (iv) current vulnerability due to certain concentrations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME
(THOUSANDS OF DOLLARS)

	Year Ended December 31,		
	1995	1994	1993
REVENUES:			
Electric utility	$ 3,680,297	$ 3,746,085	$ 4,079,863
Other	49,876	8,051	3,792
Total	3,730,173	3,754,136	4,083,655
EXPENSES:			
Electric utility:			
Fuel	879,148	860,936	1,063,050
Purchased power	233,494	408,963	515,502
Operation and maintenance	866,170	828,748	898,535
Taxes other than income taxes	245,890	251,421	211,295
Depreciation and amortization	478,034	399,341	386,893
Other operating expenses	122,504	36,112	27,234
Total	2,825,240	2,785,521	3,102,509
OPERATING INCOME	904,933	968,615	981,146
OTHER INCOME (EXPENSE):			
Allowance for other funds used during construction	7,760	4,115	3,512
Time Warner dividend income	20,132		
Interest income	9,774	6,628	33,357
Other - net	(19,304)	(6,350)	1,678
Total	18,362	4,393	38,547
INTEREST AND OTHER CHARGES:			
Interest on long-term debt	279,491	265,494	304,462
Other interest	21,586	25,076	15,145
Allowance for borrowed funds used during construction	(4,692)	(5,554)	(3,781)
Preferred dividends of subsidiary	29,955	33,583	34,473
Total	326,340	318,599	350,299
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	596,955	654,409	669,394
INCOME TAXES	199,555	230,424	228,863
INCOME FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	397,400	423,985	440,531
DISCONTINUED OPERATIONS (NET OF INCOME TAXES):			
Gain on sale of cable television subsidiary	708,124		
Loss from discontinued cable television operations		(16,524)	(24,495)
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	1,105,524	407,461	416,036
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS (NET OF INCOME TAXES OF $4,415)		(8,200)	
NET INCOME	$ 1,105,524	$ 399,261	$ 416,036

(continued on next page)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

(CONTINUED)

	Year Ended December 31,		
	1995	1994	1993
		(Restated)	(Restated)
EARNINGS PER COMMON SHARE:			
CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	$ 1.60	$ 1.72	$ 1.69
DISCONTINUED OPERATIONS:			
Gain on sale of cable television subsidiary	2.86		
Loss from discontinued cable television operations		(.07)	(.09)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS		(.03)	
EARNINGS PER COMMON SHARE	$ 4.46	$ 1.62	$ 1.60
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (000)	247,706	245,707	260,008

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

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

	Year Ended December 31,		
	1995	1994	1993
Balance at Beginning of Year	$ 1,221,221	$ 1,191,230	$ 1,254,584
Add - Net Income	1,105,524	399,261	416,036
Total	2,326,745	1,590,491	1,670,620
Common Stock Dividends: 1995, $1.50; 1994, $1.50; 1993, $1.875 (per share)	(371,760)	(369,270)	(487,927)
Stock Dividend Distribution	(1,313)		
Tax Benefit of ESOP Dividends			8,939
Redemption of HL&P Preferred Stock			(402)
Balance at End of Year	$ 1,953,672	$ 1,221,221	$ 1,191,230

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)

ASSETS

	December 31, 1995	December 31, 1994
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric plant:		
Production	$ 7,423,891	$ 7,221,142
Transmission	927,027	876,159
Distribution	2,711,482	2,628,450
General	1,027,090	1,017,319
Construction work in progress	320,040	333,180
Nuclear fuel	217,604	212,795
Plant held for future use	48,631	201,741
Electric plant acquisition adjustments		3,166
Other property	105,624	85,529
Total	12,781,389	12,579,481
Less accumulated depreciation and amortization	3,916,540	3,527,598
Property, plant and equipment - net	8,864,849	9,051,883
CURRENT ASSETS:		
Cash and cash equivalents	11,779	10,443
Special deposits	433	10
Accounts receivable - net	39,635	13,981
Accrued unbilled revenues	59,017	38,372
Time Warner dividends receivable	10,313	
Fuel stock	59,699	56,711
Materials and supplies, at average cost	138,007	148,007
Prepayments	18,562	14,398
Total current assets	337,445	281,922
OTHER ASSETS:		
Investment in Time Warner securities	1,027,875	
Net assets of discontinued cable television operations		618,982
Deferred plant costs - net	613,134	638,917
Deferred debits	317,215	271,454
Unamortized debt expense and premium on reacquired debt	161,788	161,885
Regulatory tax asset - net	228,587	235,463
Recoverable project costs - net	232,775	98,954
Equity investments in and advances to foreign and non-regulated affiliates - net	35,938	43,617
Total other assets	2,617,312	2,069,272
Total	$11,819,606	$11,403,077

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)

CAPITALIZATION AND LIABILITIES

	December 31, 1995	December 31, 1994
CAPITALIZATION (STATEMENTS ON FOLLOWING PAGES):		
Common stock equity	$ 4,123,563	$ 3,369,248
Preference stock, no par; authorized, 10,000,000 shares; none outstanding		
Cumulative preferred stock of subsidiary:		
Not subject to mandatory redemption	351,345	351,345
Subject to mandatory redemption	51,055	121,910
Total cumulative preferred stock	402,400	473,255
Long-term debt	3,338,422	3,734,133
Total capitalization	7,864,385	7,576,636
CURRENT LIABILITIES:		
Notes payable	6,300	423,291
Accounts payable	136,008	159,225
Taxes accrued	174,925	169,690
Interest accrued	79,380	73,527
Dividends declared	98,502	98,469
Accrued liabilities to municipalities	20,773	21,307
Customer deposits	61,582	64,905
Current portion of long-term debt and preferred stock	379,451	49,475
Other	58,664	64,026
Total current liabilities	1,015,585	1,123,915
DEFERRED CREDITS:		
Accumulated deferred income taxes	2,067,246	1,763,230
Unamortized investment tax credit	392,153	411,580
Fuel-related credits	122,063	242,912
Other	358,174	284,804
Total deferred credits	2,939,636	2,702,526
COMMITMENTS AND CONTINGENCIES		
Total	$11,819,606	$11,403,077

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITALIZATION
(THOUSANDS OF DOLLARS)

	December 31, 1995	December 31, 1994
COMMON STOCK EQUITY:		
Common stock, no par; authorized, 400,000,000 shares; issued, 262,672,468 and 262,593,326 shares at December 31, 1995 and 1994, respectively	$ 2,441,790	$ 2,437,638
Unearned ESOP shares, 14,355,758 and 15,540,626 shares at December 31, 1995 and 1994, respectively	(268,405)	(289,611)
Retained earnings	1,953,672	1,221,221
Unrealized loss on investment in Time Warner common securities	(3,494)	
Total common stock equity	4,123,563	3,369,248
CUMULATIVE PREFERRED STOCK, no par; authorized, 10,000,000 shares; outstanding, 4,318,397 and 5,232,397 shares at December 31, 1995 and 1994, respectively (entitled upon involuntary liquidation to $100 per share):		
Houston Lighting & Power Company:		
Not subject to mandatory redemption:		
$4.00 series, 97,397 shares	9,740	9,740
$6.72 series, 250,000 shares	25,115	25,115
$7.52 series, 500,000 shares	50,226	50,226
$8.12 series, 500,000 shares	50,098	50,098
Series A - 1992, 500,000 shares	49,094	49,094
Series B - 1992, 500,000 shares	49,104	49,104
Series C - 1992, 600,000 shares	58,984	58,984
Series D - 1992, 600,000 shares	58,984	58,984
Total	351,345	351,345
Subject to mandatory redemption:		
$8.50 series, 400,000 shares at December 31, 1994		39,799
$9.375 series, 771,000 and 1,285,000 shares at December 31, 1995 and 1994, respectively	76,755	127,811
Current redemptions	(25,700)	(45,700)
Total	51,055	121,910
Total cumulative preferred stock	402,400	473,255
LONG-TERM DEBT:		
Debentures:		
7 1/4% series, due 1996	200,000	200,000
9 3/8% series, due 2001	250,000	250,000
7 7/8% series, due 2002	100,000	100,000
Unamortized discount	(1,087)	(1,271)
Total debentures	548,913	548,729
Houston Lighting & Power Company:		
First mortgage bonds:		
5 1/4% series, due 1996	40,000	40,000
5 1/4% series, due 1997	40,000	40,000
7 5/8% series, due 1997	150,000	150,000
6 3/4% series, due 1997	35,000	35,000
6 3/4% series, due 1998	35,000	35,000
7 1/4% series, due 2001	50,000	50,000
9.15 % series, due 2021	160,000	160,000
8 3/4% series, due 2022	62,275	100,000
7 3/4% series, due 2023	250,000	250,000
7 1/2% series, due 2023	200,000	200,000

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HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITALIZATION
(THOUSANDS OF DOLLARS)

(CONTINUED)

	December 31, 1995	December 31, 1994
4.90 % pollution control series, due 2003	$ 16,600	$ 16,600
7 % pollution control series, due 2008	19,200	19,200
6 3/8% pollution control series, due 2012	33,470	33,470
6 3/8% pollution control series, due 2012	12,100	12,100
8 1/4% pollution control series, due 2015	90,000	90,000
5.80 % pollution control series, due 2015	91,945	
7 3/4% pollution control series, due 2015	68,700	68,700
5.80 % pollution control series, due 2015	58,905	
7 7/8% pollution control series, due 2016	68,000	68,000
6.70 % pollution control series, due 2017	43,820	43,820
5.60 % pollution control series, due 2017	83,565	83,565
7 7/8% pollution control series, due 2018	50,000	50,000
7.20 % pollution control series, due 2018	75,000	75,000
7.20 % pollution control series, due 2018	100,000	100,000
7 7/8% pollution control series, due 2019	29,685	29,685
7.70 % pollution control series, due 2019	75,000	75,000
8 1/4% pollution control series, due 2019	100,000	100,000
8.10 % pollution control series, due 2019	100,000	100,000
7 5/8% pollution control series, due 2019	100,000	100,000
7 1/8% pollution control series, due 2019	100,000	100,000
7.60 % pollution control series, due 2019	70,315	70,315
6.70 % pollution control series, due 2027	56,095	56,095
Medium-term notes series A, 9.80%-9.85%, due 1996-1999	180,500	180,500
Medium-term notes series B, 8 5/8%, due 1996	100,000	100,000
Medium-term notes series C, 6.10%, due 2000	150,000	150,000
Medium-term notes series B, 8.15%, due 2002	100,000	100,000
Medium-term notes series C, 6.50%, due 2003	150,000	150,000
Total first mortgage bonds	3,145,175	3,032,050
Pollution control revenue bonds:		
Gulf Coast 1980-T series, floating rate, due 1998	5,000	5,000
Brazos River 1985 A2 series, 9 3/4%, due 2005		4,265
Brazos River 1985 A1 series, 9 7/8%, due 2015		87,680
Matagorda County 1985 series, 10%, due 2015		58,905
Total pollution control revenue bonds	5,000	155,850
Unamortized premium (discount) - net	(16,456)	(12,253)
Capitalized lease obligations, discount rates of 5.2%-11.7%, due 1996-2018	8,560	12,403
Notes payable	981	1,129
Subtotal	(6,915)	1,279
Total	3,143,260	3,189,179
Total	3,692,173	3,737,908
Current maturities	(353,751)	(3,775)
Total long-term debt	3,338,422	3,734,133
Total capitalization	$ 7,864,385	$ 7,576,636

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS

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

	Year Ended December 31,		
	1995	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income from continuing operations	$ 397,400	$ 423,985	$ 440,531
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	478,034	399,341	386,893
Amortization of nuclear fuel	28,545	21,561	2,101
Deferred income taxes	78,382	85,547	194,711
Investment tax credits	(19,427)	(19,416)	(19,797)
Allowance for other funds used during construction	(7,760)	(4,115)	(3,512)
Fuel refund	(189,571)		
Fuel cost over (under) recovery	76,970	277,940	(91,863)
Regulatory tax asset - net	6,876	11,300	(69,337)
Net cash provided by (used in) discontinued cable television operations	16,391	19,349	(1,073)
Changes in other assets and liabilities:			
Accounts receivable - net	(46,299)	(19,295)	302,268
Inventory	7,012	14,273	13,868
Other current assets	(14,900)	14,710	(15,138)
Accounts payable	(23,217)	(45,081)	(7,962)
Interest and taxes accrued	11,088	(17,979)	(16,689)
Other current liabilities	(9,215)	(5,102)	41,430
Other - net	49,129	48,254	52,609
Net cash provided by operating activities	839,438	1,205,272	1,209,040
CASH FLOWS FROM INVESTING ACTIVITIES:			
Electric capital and nuclear fuel expenditures (including allowance for borrowed funds used during construction)	(301,327)	(418,453)	(332,797)
Non-regulated electric power project expenditures and advances	(38,278)	(7,087)	(35,796)
Settlement of subsidiary debt in connection with sale of cable television subsidiary	619,345		
Corporate headquarters expenditures (including capitalized interest)	(96,469)	(46,829)	(26,034)
Net cash used in discontinued cable television operations	(47,601)	(84,071)	(61,856)
Other - net	(10,743)	(13,562)	(5,295)
Net cash provided by (used in) investing activities	124,927	(570,002)	(461,778)

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HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS

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

(CONTINUED)

	Year Ended December 31,		
	1995	1994	1993
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from common stock			$ 52,638
Proceeds from first mortgage bonds	$ 142,972		840,427
Payment of matured first mortgage bonds		$ (19,500)	(136,000)
Payment of common stock dividends	(371,731)	(368,790)	(389,933)
Redemption of preferred stock	(91,400)	(20,000)	(40,000)
Increase (decrease) in notes payable	(416,991)	(168,094)	27,136
Extinguishment of long-term debt	(195,224)		(995,751)
Net cash used in discontinued cable television operations	(40,798)	(68,184)	(225,489)
Other - net	10,143	4,857	65,277
Net cash used in financing activities	(963,029)	(639,711)	(801,695)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,336	(4,441)	(54,433)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,443	14,884	69,317
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 11,779	$ 10,443	$ 14,884
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
-			
Cash Payments:			
Interest (net of amounts capitalized)	$ 342,551	$ 366,548	$ 397,911
Income taxes	104,228	174,657	123,975

See Notes to Consolidated Financial Statements.

HOUSTON LIGHTING & POWER COMPANY

STATEMENTS OF INCOME
(THOUSANDS OF DOLLARS)

	Year Ended December 31,		
	1995	1994	1993
OPERATING REVENUES	$ 3,680,297	$ 3,746,085	$ 4,079,863
OPERATING EXPENSES:			
Fuel	879,148	860,936	1,063,050
Purchased power	233,494	408,963	515,502
Operation	615,924	580,892	608,912
Maintenance	250,246	247,856	289,623
Depreciation and amortization	475,124	398,142	385,731
Federal income taxes	245,807	254,993	239,464
Other taxes	245,890	251,421	211,295
Total	2,945,633	3,003,203	3,313,577
OPERATING INCOME	734,664	742,882	766,286
OTHER INCOME (EXPENSE):			
Allowance for other funds used during construction	7,760	4,115	3,512
Interest income	12,218	10,000	3,296
Other - net	(25,901)	(12,561)	(4,286)
Total	(5,923)	1,554	2,522
INCOME BEFORE INTEREST CHARGES	728,741	744,436	768,808
INTEREST CHARGES:			
Interest on long-term debt	244,384	246,533	276,049
Other interest	8,117	8,493	12,317
Allowance for borrowed funds used during construction	(4,692)	(5,554)	(3,781)
Total	247,809	249,472	284,585
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	480,932	494,964	484,223
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS (NET OF INCOME TAXES OF $4,415)		(8,200)	
NET INCOME	480,932	486,764	484,223
DIVIDENDS ON PREFERRED STOCK	29,955	33,583	34,473
INCOME AFTER PREFERRED DIVIDENDS	$ 450,977	$ 453,181	$ 449,750

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY

STATEMENTS OF RETAINED EARNINGS
(THOUSANDS OF DOLLARS)

	Year Ended December 31,		
	1995	1994	1993
Balance at Beginning of Year	$ 2,153,109	$ 2,028,924	$ 1,922,558
Add - Net Income	480,932	486,764	484,223
Redemption of Preferred Stock			(402)
Total	2,634,041	2,515,688	2,406,379
Deduct - Cash Dividends:			
Preferred:			
$4.00 Series	389	390	390
$6.72 Series	1,680	1,680	1,680
$7.52 Series	3,760	3,760	3,760
$8.12 Series	4,060	4,060	4,060
Series A - 1992	2,324	1,740	1,366
Series B - 1992	2,322	1,683	1,366
Series C - 1992	2,823	2,040	1,672
Series D - 1992	2,747	2,075	1,615
$8.50 Series	1,417	4,108	6,517
$9.375 Series	8,433	12,047	12,047
Common	454,000	328,996	342,982
Total	483,955	362,579	377,455
Balance at End of Year	$ 2,150,086	$ 2,153,109	$ 2,028,924

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY

BALANCE SHEETS
(THOUSANDS OF DOLLARS)

ASSETS

	December 31, 1995	December 31, 1994
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric plant:		
Production	$ 7,423,891	$ 7,221,142
Transmission	927,027	876,159
Distribution	2,711,482	2,628,450
General	1,027,090	1,017,319
Construction work in progress	320,040	333,180
Nuclear fuel	217,604	212,795
Plant held for future use	48,631	201,741
Electric plant acquisition adjustments		3,166
Total	12,675,765	12,493,952
Less accumulated depreciation and amortization	3,906,139	3,517,923
Property, plant and equipment - net	8,769,626	8,976,029
CURRENT ASSETS:		
Cash and cash equivalents	75,851	235,867
Special deposits	433	10
Accounts receivable:		
Affiliated companies	2,845	4,213
Others	23,858	8,896
Accrued unbilled revenues	59,017	38,372
Fuel stock	59,699	56,711
Materials and supplies, at average cost	137,584	147,922
Prepayments	11,876	9,665
Total current assets	371,163	501,656
OTHER ASSETS:		
Deferred plant costs - net	613,134	638,917
Deferred debits	290,012	241,611
Unamortized debt expense and premium on reacquired debt	159,962	158,351
Regulatory tax asset - net	228,587	235,463
Recoverable project costs - net	232,775	98,954
Total other assets	1,524,470	1,373,296
Total	$10,665,259	$10,850,981

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY

BALANCE SHEETS
(THOUSANDS OF DOLLARS)

CAPITALIZATION AND LIABILITIES

	December 31, 1995	December 31, 1994
CAPITALIZATION (STATEMENTS ON FOLLOWING PAGES):		
Common stock equity	$ 3,826,013	$ 3,829,036
Cumulative preferred stock:		
Not subject to mandatory redemption	351,345	351,345
Subject to mandatory redemption	51,055	121,910
Long-term debt	2,989,509	3,185,404
Total capitalization	7,217,922	7,487,695
CURRENT LIABILITIES:		
Accounts payable	119,032	148,042
Accounts payable to affiliated companies	6,982	10,936
Taxes accrued	192,673	181,043
Interest accrued	70,823	64,732
Accrued liabilities to municipalities	20,773	21,307
Customer deposits	61,582	64,905
Current portion of long-term debt and preferred stock	179,451	49,475
Other	54,149	59,912
Total current liabilities	705,465	600,352
DEFERRED CREDITS:		
Accumulated deferred federal income taxes	1,947,488	1,876,300
Unamortized investment tax credit	392,153	411,580
Fuel-related credits	122,063	242,912
Other	280,168	232,142
Total deferred credits	2,741,872	2,762,934
COMMITMENTS AND CONTINGENCIES		
Total	$10,665,259	$10,850,981

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY

STATEMENTS OF CAPITALIZATION
(THOUSANDS OF DOLLARS)

	December 31, 1995	December 31, 1994
COMMON STOCK EQUITY:		
Common stock, Class A; no par; authorized and outstanding, 1,000 shares, voting	$ 1,524,949	$ 1,524,949
Common stock, Class B; no par; authorized and outstanding, 100 shares, non-voting	150,978	150,978
Retained earnings	2,150,086	2,153,109
Total common stock equity	3,826,013	3,829,036
CUMULATIVE PREFERRED STOCK, no par; authorized, 10,000,000 shares; outstanding, 4,318,397 and 5,232,397 shares at December 31, 1995 and 1994, respectively (entitled upon involuntary liquidation to $100 per share):		
Not subject to mandatory redemption:		
$4.00 series, 97,397 shares	9,740	9,740
$6.72 series, 250,000 shares	25,115	25,115
$7.52 series, 500,000 shares	50,226	50,226
$8.12 series, 500,000 shares	50,098	50,098
Series A - 1992, 500,000 shares	49,094	49,094
Series B - 1992, 500,000 shares	49,104	49,104
Series C - 1992, 600,000 shares	58,984	58,984
Series D - 1992, 600,000 shares	58,984	58,984
Total	351,345	351,345
Subject to mandatory redemption:		
$8.50 series, 400,000 shares at December 31, 1994		39,799
$9.375 series, 771,000 and 1,285,000 shares at December 31, 1995 and 1994, respectively	76,755	127,811
Current redemptions	(25,700)	(45,700)
Total	51,055	121,910
Total cumulative preferred stock	402,400	473,255
LONG-TERM DEBT:		
First mortgage bonds:		
5 1/4% series, due 1996	40,000	40,000
5 1/4% series, due 1997	40,000	40,000
7 5/8% series, due 1997	150,000	150,000
6 3/4% series, due 1997	35,000	35,000
6 3/4% series, due 1998	35,000	35,000
7 1/4% series, due 2001	50,000	50,000
9.15 % series, due 2021	160,000	160,000
8 3/4% series, due 2022	62,275	100,000
7 3/4% series, due 2023	250,000	250,000
7 1/2% series, due 2023	200,000	200,000
4.90 % pollution control series, due 2003	16,600	16,600
7 % pollution control series, due 2008	19,200	19,200
6 3/8% pollution control series, due 2012	33,470	33,470
6 3/8% pollution control series, due 2012	12,100	12,100
8 1/4% pollution control series, due 2015	90,000	90,000
5.80 % pollution control series, due 2015	91,945	
7 3/4% pollution control series, due 2015	68,700	68,700
5.80 % pollution control series, due 2015	58,905	
7 7/8% pollution control series, due 2016	68,000	68,000
6.70 % pollution control series, due 2017	43,820	43,820
5.60 % pollution control series, due 2017	83,565	83,565
7 7/8% pollution control series, due 2018	50,000	50,000
7.20 % pollution control series, due 2018	75,000	75,000
7.20 % pollution control series, due 2018	100,000	100,000

(continued on next page)

HOUSTON LIGHTING & POWER COMPANY

STATEMENTS OF CAPITALIZATION
(THOUSANDS OF DOLLARS)

(CONTINUED)

	December 31, 1995	December 31, 1994
7 7/8% pollution control series, due 2019	$ 29,685	$ 29,685
7.70 % pollution control series, due 2019	75,000	75,000
8 1/4% pollution control series, due 2019	100,000	100,000
8.10 % pollution control series, due 2019	100,000	100,000
7 5/8% pollution control series, due 2019	100,000	100,000
7 1/8% pollution control series, due 2019	100,000	100,000
7.60 % pollution control series, due 2019	70,315	70,315
6.70 % pollution control series, due 2027	56,095	56,095
Medium-term notes series A, 9.80%-9.85%, due 1996-1999	180,500	180,500
Medium-term notes series B, 8 5/8%, due 1996	100,000	100,000
Medium-term notes series C, 6.10%, due 2000	150,000	150,000
Medium-term notes series B, 8.15%, due 2002	100,000	100,000
Medium-term notes series C, 6.50%, due 2003	150,000	150,000
Total first mortgage bonds	3,145,175	3,032,050
Pollution control revenue bonds:		
Gulf Coast 1980-T series, floating rate, due 1998	5,000	5,000
Brazos River 1985 A2 series, 9 3/4%, due 2005		4,265
Brazos River 1985 A1 series, 9 7/8%, due 2015		87,680
Matagorda County 1985 series, 10%, due 2015		58,905
Total pollution control revenue bonds	5,000	155,850
Unamortized premium (discount) - net	(16,456)	(12,253)
Capitalized lease obligations, discount rates of 5.2%-11.7%, due 1996-2018	8,560	12,403
Notes payable	981	1,129
Subtotal	(6,915)	1,279
Total	3,143,260	3,189,179
Current maturities	(153,751)	(3,775)
Total long-term debt	2,989,509	3,185,404
Total capitalization	$ 7,217,922	$ 7,487,695

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY

STATEMENTS OF CASH FLOWS

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

	Year Ended December 31,		
	1995	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 480,932	$ 486,764	$ 484,223
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	475,124	398,142	385,731
Amortization of nuclear fuel	28,545	21,561	2,101
Deferred federal income taxes	71,188	81,739	214,369
Investment tax credits	(19,427)	(19,416)	(19,797)
Allowance for other funds used during construction	(7,760)	(4,115)	(3,512)
Fuel refund	(189,571)		
Fuel cost over (under) recovery	76,970	277,940	(91,863)
Cumulative effect of change in accounting for postemployment benefits		8,200	
Regulatory tax asset - net	6,876	11,300	(69,337)
Changes in other assets and liabilities:			
Accounts receivable - net	(34,239)	(17,827)	170,784
Materials and supplies	10,338	12,449	3,850
Fuel stock	(2,988)	1,874	9,979
Accounts payable	(32,964)	(40,054)	(11,854)
Interest and taxes accrued	17,721	(6,980)	(20,035)
Other current liabilities	(7,816)	(4,936)	18,040
Other - net	(5,239)	20,270	63,721
Net cash provided by operating activities	867,690	1,226,911	1,136,400
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital and nuclear fuel expenditures (including allowance for borrowed funds used during construction)	(396,242)	(418,453)	(332,797)
Other - net	(10,618)	(15,822)	(13,067)
Net cash used in investing activities	(406,860)	(434,275)	(345,864)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from first mortgage bonds	142,972		840,427
Payment of matured bonds		(19,500)	(136,000)
Payment of dividends	(485,793)	(363,083)	(378,528)
Increase (decrease) in notes payable		(171,100)	31,660
Decrease in notes payable to affiliated company			(120,001)
Redemption of preferred stock	(91,400)	(20,000)	(40,000)
Extinguishment of long-term debt	(195,224)		(995,751)
Other - net	8,599	4,501	15,817
Net cash used in financing activities	(620,846)	(569,182)	(782,376)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(160,016)	223,454	8,160
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	235,867	12,413	4,253
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 75,851	$ 235,867	$ 12,413
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
-			
Cash Payments:			
Interest (net of amounts capitalized)	$ 247,672	$ 251,245	$ 296,201
Income taxes	157,400	196,655	127,713

See Notes to Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE YEARS ENDED DECEMBER 31, 1995

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

All significant intercompany transactions and balances are eliminated in consolidation.

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

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

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

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

(C) ELECTRIC PLANT. HL&P capitalizes at cost all additions to electric plant, betterments to existing property and replacements of units of property. Cost includes the original cost of contracted services, direct labor and material, indirect charges for engineering supervision and similar overhead items and AFUDC. Customer payments for construction reduce additions to electric

plant. AFUDC represents the estimated debt and equity costs of capital funds not already included in rates necessary to finance the construction of new regulated facilities.

HL&P computes depreciation using the straight-line method. The depreciation provision as a percentage of the depreciable cost of plant was 3.2 percent for 1995, 3.2 percent for 1994 and 3.1 percent for 1993.

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

In 1991, HL&P ceased all cost deferrals related to the South Texas Project and began amortizing such amounts on a straight-line basis. The accumulated deferrals for "deferred accounting" are being amortized over the estimated depreciable life of the South Texas Project. The accumulated deferrals for the "qualified phase-in plan" are being amortized over a ten-year phase-in period that commenced in 1991. The amortization of these deferrals (which totaled $25.8 million for each of the years 1995, 1994 and 1993) is included on the Company's Statements of Consolidated Income and HL&P's Statements of Income as depreciation and amortization expense.

(E) REVENUES. HL&P records electricity sales under the full accrual method, whereby unbilled electricity sales are estimated and recorded each month in order to better match revenues with expenses. Other revenues include electricity sales of a foreign electric utility, which are also recorded under the full accrual method. Other revenues also include management fees and other sales and services, which are recorded when earned.

(F) INCOME TAXES. The Company and its subsidiaries file a consolidated federal income tax return. The Company follows a policy of comprehensive interperiod income tax allocation. Investment tax credits are deferred and amortized over the estimated lives of the related property.

(G) EARNINGS PER COMMON SHARE. Earnings per common share for the Company are computed by dividing net income by the weighted average number of shares outstanding during the respective period. All earnings per common share amounts reflect the two-for-one common stock split effected in the form of a stock distribution on December 9, 1995.

The Company adopted SOP 93-6 effective January 1, 1994. Pursuant to the adoption of SOP 93-6, the number of weighted average common shares outstanding reflects a reduction for ESOP shares not yet committed for release to savings plan participants (unallocated shares). In accordance with SOP 93-6, earnings per common share for periods prior to January 1, 1994 have not been restated.

(H) STATEMENTS OF CONSOLIDATED CASH FLOWS. For purposes of reporting cash flows, cash equivalents are considered to be short-term, highly liquid investments readily convertible to cash.

(I) DISCONTINUED OPERATIONS. In July 1995, the Company sold KBLCOM, its cable television subsidiary. The operations of KBLCOM are reflected as discontinued operations for all periods presented. See Note 13.

(J) INVESTMENTS IN DEBT AND EQUITY SECURITIES. The Company owns one million shares of Time Warner common stock and 11 million shares of non-publicly traded Time Warner convertible

preferred stock. The Company has recorded its investment in these securities at a combined fair value of approximately $1 billion on the Company's Consolidated Balance Sheet. Investment in the Time Warner common stock is considered an "available-for-sale" equity security under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Consequently, the Company excludes unrealized net changes in the fair value of Time Warner common stock (exclusive of dividends and write downs) from earnings and, until realized, reports such changes as a net amount in the shareholders' equity section of the balance sheet. Investment in the Time Warner convertible preferred stock (which is not subject to the requirements of SFAS No. 115, since it is a non-publicly traded equity security) is accounted for under the cost method.

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

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

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

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

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

(2) JOINTLY-OWNED NUCLEAR PLANT

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

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

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

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

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

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

Pursuant to the Price Anderson Act (Act), the maximum liability to the public for owners of nuclear power plants, such as the South Texas Project, was $8.92 billion as of December 1995. Owners are required under the Act to insure their liability for nuclear incidents and protective evacuations by maintaining the maximum amount of financial protection available from private sources and by maintaining secondary financial protection through an industry retrospective rating plan. The

assessment of deferred premiums provided by the plan for each nuclear incident is up to $75.5 million per reactor subject to indexing for inflation, a possible 5 percent surcharge (but no more than $10 million per reactor per incident in any one year) and a 3 percent state premium tax. HL&P and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan.

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

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

(3) RATE MATTERS

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

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

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

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

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

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

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

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

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

generating station and (ii) the treatment by HL&P of certain tax savings associated with federal income tax deductions for expenses not included in cost of service for ratemaking purposes. The appeal is currently pending before the Texas Supreme Court.

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

(4) INVESTMENTS IN FOREIGN AND NON-REGULATED ENTITIES

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

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

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

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

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

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

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

(5) COMMON STOCK

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

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

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

year after the grant date, the options become exercisable in one-third increments each year. The options expire ten years from the grant date.

Performance-based restricted shares issued were 49,792; 100,524; and 146,564 for 1995, 1994 and 1993, respectively. Stock option activity for the years 1993 through 1995 is summarized below (as adjusted for the Company's two-for-one stock distribution):

	Number of Shares	Option Price at Date of Grant or Exercise
Non-statutory stock options:		
Outstanding at December 31, 1992	131,742	
Options Granted	131,552	$23.125
Options Exercised	(1,324)	$21.75
Options Withheld for Taxes	(34)	
Options Canceled	(10,038)	
Outstanding at December 31, 1993	251,898	
Options Granted	131,452	$23.25
Options Exercised		
Options Withheld for Taxes		
Options Canceled	(80,772)	
Outstanding at December 31, 1994	302,578	
Options Granted	133,324	$17.75; $21.25
Options Exercised		
Options Withheld for Taxes		
Options Canceled	(24,560)	
Outstanding at December 31, 1995	411,342	
Exercisable at:		
December 31, 1995	181,924	$21.75-$23.25
December 31, 1994	107,672	$21.75-$23.125

(D) SHAREHOLDER RIGHTS PLAN. In July 1990, the Company adopted a shareholder rights plan and declared a dividend of one right for each outstanding share of the Company's common stock (including shares of common stock issued in the Company's 1995 two-for-one stock split). The rights, which under certain circumstances entitle their holders to purchase one two-hundredth of a share of Series A Preference Stock for an exercise price of $42.50, will expire on July 11, 2000. The rights will become exercisable only if a person or entity acquires 20 percent or more of the Company's outstanding common stock or if a person or entity commences a tender offer or exchange offer for 20 percent or more of the outstanding common stock. At any time after the occurrence of such events, the Company may exchange unexercised rights at an exchange ratio of one share of common stock, or equity securities of the Company of equivalent value, per right. The rights are redeemable by the Company for $.01 per right at any time prior to the date the rights become exercisable.

When the rights become exercisable, each right will entitle the holder to receive, in lieu of the right to purchase Series A Preference Stock, upon the exercise of such right, a number of shares of the Company's common stock (or under certain circumstances cash, property, other equity

securities or debt of the Company) having a current market price (as defined in the plan) equal to twice the exercise price of the right, except pursuant to an offer for all outstanding shares of common stock which a majority of the independent directors of the Company determines to be a price which is in the best interests of the Company and its shareholders (Permitted Offer).

In the event that the Company is a party to a merger or other business combination (other than a merger that follows a Permitted Offer), rights holders will be entitled to receive, upon the exercise of a right, a number of shares of common stock of the acquiring company having a current market price (as defined in the plan) equal to twice the exercise price of the right.

(E) INVESTOR'S CHOICE PLAN. The Company has registered four million shares of its common stock under the Securities Act of 1933 for sale through the Company's Investor's Choice Plan, a dividend reinvestment and stock purchase plan. The plan is designed to provide investors with a way to buy common stock directly from the Company and/or to arrange for reinvestment of cash dividends in the Company's common stock.

(6) PREFERRED STOCK OF HL&P

At December 31, 1995, HL&P's cumulative preferred stock could be redeemed at the following per share prices, plus any unpaid accrued dividends to the date of redemption:

Series	Redemption Price Per Share
Not Subject to Mandatory Redemption:	
$4.00	$105.00
$6.72	102.51
$7.52	102.35
$8.12	102.25
Variable Term Preferred A (a)	100.00
Variable Term Preferred B (a)	100.00
Variable Term Preferred C (a)	100.00
Variable Term Preferred D (a)	100.00
Subject to Mandatory Redemption:	
$9.375 (b)	---

(a) Rates for Variable Term Preferred Stock as of December 31, 1995 were as follows:

Series	Rate
Variable Term Preferred A	4.59%
Variable Term Preferred B	4.48%
Variable Term Preferred C	4.49%
Variable Term Preferred D	4.67%

(b) HL&P is required to redeem 257,000 shares annually.

In 1995, HL&P redeemed 514,000 shares of its $9.375 cumulative preferred stock at $100 per share and the remaining 400,000 shares of its $8.50 cumulative preferred stock at $100 per share. In 1994, HL&P redeemed 200,000 shares of its $8.50 cumulative preferred stock at $100 per share. Annual mandatory redemptions of HL&P's preferred stock are $25.7 million in 1996, 1997 and 1998.

(7) LONG-TERM DEBT

(a) COMPANY. Consolidated annual maturities of long-term debt and minimum capital lease payments for the Company are approximately $354 million in 1996, $226 million in 1997, $40 million in 1998, $171 million in 1999 and $150 million in 2000.

(b) HL&P. Sinking or improvement fund requirements of HL&P's first mortgage bonds outstanding will be approximately $40 million for each of the years 1996 through 2000. Of such requirements, approximately $37 million for each of the years 1996 through 2000 may be satisfied by certification of property additions at 100 percent of the requirements, and the remainder through certification of such property additions at 166 2/3 percent of the requirements. Sinking or improvement fund requirements for 1995 and prior years have been satisfied by certification of property additions.

HL&P has agreed to expend an amount each year for replacements and improvements in respect of its depreciable mortgaged utility property equal to $1,450,000 plus 2 1/2 percent of net additions to such mortgaged property made after March 31, 1948 and before July 1 of the preceding year. Such requirement may be met with cash, first mortgage bonds, gross property additions or expenditures for repairs or replacements, or by taking credit for property additions at 100 percent of the requirements. With respect to first mortgage bonds of a series subject to special redemption, HL&P has the option to use deposited cash to redeem first mortgage bonds of such series at the applicable special redemption price. The replacement fund requirement to be satisfied in 1996 is approximately $296 million.

The amount of HL&P's first mortgage bonds is unlimited as to issuance, but limited by property, earnings and other provisions of the Mortgage and Deed of Trust dated as of November 1, 1944, between HL&P and South Texas Commercial National Bank of Houston (Texas Commerce Bank National Association, as Successor Trustee) and the supplemental indentures thereto. Substantially all properties of HL&P are subject to liens securing HL&P's long-term debt under the mortgage.

In 1995, HL&P repurchased from a third party $37.7 million aggregate principal amount of its 8 3/4% first mortgage bonds due 2022. The total purchase price for those bonds was $42.2 million. In July 1995, HL&P caused to be issued $150.9 million aggregate principal amount of revenue refunding bonds collaterized by a like amount of HL&P first mortgage bonds. The new bonds bear interest at 5.8% variable at HL&P's option after a five-year, no-call period, and mature in 2015. Proceeds from this issue were used to redeem $150.9 million of pollution control revenue bonds (bearing a weighted average interest rate of 9.9%) at 102% of the aggregate principal amount. HL&P's annual maturities of long-term debt and minimum capital lease payments are approximately $154 million in 1996, $226 million in 1997, $40 million in 1998, $171 million in 1999 and $150 million in 2000.

(8) SHORT-TERM FINANCING

The interim financing requirements of the Company and its subsidiaries are met through short-term bank loans, the issuance of commercial paper and short-term advances from the Company. The Company and its subsidiaries had bank credit facilities aggregating $1.5 billion at December 31, 1995 and $1 billion at December 31, 1994, under which borrowings are classified as short-term indebtedness. In the first quarter of 1996, the Company reduced its borrowing capacity under these facilities to $1.15 billion. These bank facilities limit total short-term borrowings and provide for interest at rates generally less than the prime rate. The Company's weighted average short-term borrowing rates for commercial paper for the year ended December 31, 1995 and 1994 were 6.33% and 4.35%, respectively. Outstanding commercial paper was $6 million at

December 31, 1995 and $423 million at December 31, 1994. Facility fees are required on the credit facilities.

(9) RETIREMENT PLANS

(a) PENSION. The Company has a noncontributory retirement plan covering substantially all employees. The plan provides retirement benefits based on years of service and compensation. The Company's funding policy is to contribute amounts annually in accordance with applicable regulations in order to achieve adequate funding of projected benefit obligations. The assets of the plan consist principally of common stocks and high quality, interest-bearing obligations.

Net pension cost for the Company attributable to continuing operations includes the following components:

	Year Ended December 31,		
	1995	1994	1993
	(Thousands of Dollars)		
Service cost - benefits earned during the period	$ 22,852	$ 21,977	$ 25,282
Interest cost on projected benefit obligation	49,317	46,091	51,062
Actual (return) loss on plan assets	(96,004)	5,357	(39,237)
Net amortization and deferrals	50,889	(51,491)	(558)
Net pension cost	27,054	21,934	36,549
SFAS No. 88 - curtailment expense	5,645		
Total pension cost	$ 32,699	$ 21,934	$ 36,549

The funded status of the Company's retirement plans attributable to continuing operations was as follows:

	December 31,	
	1995	1994
	(Thousands of Dollars)	
Actuarial present value of:		
Vested benefit obligation	$ 504,655	$ 439,668
Accumulated benefit obligation	$ 541,278	$ 471,987
Plan assets at fair value	$ 595,192	$ 496,365
Projected benefit obligation	704,871	632,546
Assets less than projected benefit obligation	(109,679)	(136,181)
Unrecognized transitional asset	(13,421)	(15,340)
Unrecognized prior service cost	46,627	21,456
Unrecognized net loss	22,522	71,191
Accrued pension cost	$ (53,951)	$ (58,874)

Net pension cost and funding attributable to discontinued operations was not material.

The projected benefit obligation was determined using an assumed discount rate of 7.5 percent in 1995 and 8 percent in 1994. A long-term rate of compensation increase ranging from 4 percent to 6 percent was assumed for 1995 and ranging from 4.5 percent to 6.5 percent was assumed for 1994. The assumed long-term rate of return on plan assets was 9.5 percent in 1995 and 1994. The transitional asset at January 1, 1986, is being recognized over approximately 17 years, and the prior service cost is being recognized over approximately 15 years.

In 1995, the Company offered eligible employees (excluding officers) of the Company, HL&P and HI Energy, who were 55 years of age or older and had at least 10 years of service as of July 31, 1995 an incentive program to retire early. For employees electing early retirement, the program would add five years of service credit and five years in age up to 35 years of service and age 65, respectively, in determining an employee's pension. Each participating employee (under age 62) would also receive a supplemental benefit to age 62. During July 1995, the early retirement incentive was accepted by approximately 300 employees.

Pension benefits and supplemental benefits (if applicable) are being paid out from the Houston Industries Incorporated Retirement Trust. Based on the projected costs associated with the program, HL&P increased its retirement plan and supplemental benefits by approximately $28 million and $5 million, respectively. Pursuant to SFAS No. 71, HL&P deferred the costs associated with the increases in these benefit obligations and is amortizing the costs through the period ending December 31, 1997. In 1995, the Company and HL&P amortized $5.6 million of those costs as a curtailment under SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," with regards to the Company's and HL&P's early retirement program.

(b) SAVINGS PLAN. The Company has an employee savings plan that qualifies as cash or deferred arrangements under Section 401(k) of the Internal Revenue Code of 1986, as amended (IRC). Under the plan, participating employees may contribute a portion of their compensation, pre-tax or after-tax, up to a maximum of 16 percent of compensation limited by an annual deferral limit ($9,240 for calendar year 1995) prescribed by IRC Section 402(g) and the IRC Section 415 annual additions limits. The Company matches 70 percent of the first 6 percent of each employee's compensation contributed, subject to a vesting schedule which entitles the employee to a percentage of the matching contributions depending on years of service. Substantially all of the Company's match is invested in the Company's common stock.

In October 1990, the Company amended its savings plan to add a leveraged ESOP component. The Company may use ESOP shares to satisfy its obligation to make matching contributions under the savings plan. Debt service on the ESOP loan is paid using all dividends on shares in the ESOP, interest earnings on funds held in the ESOP and cash contributions by the Company. Shares of the Company's common stock are released from encumbrance of the ESOP loan based on the proportion of debt service paid during the period.

The Company adopted SOP 93-6, effective January 1, 1994, which requires that the Company recognize benefit expense for the ESOP equal to fair value of the ESOP shares committed to be released. In accordance with SOP 93-6, the Company credits to unearned ESOP shares the original purchase price of ESOP shares committed to be released to plan participants with the difference between the fair value of the shares and the original purchase price recorded to common stock. Dividends on allocated ESOP shares are recorded as a reduction to retained earnings; dividends on unallocated ESOP shares are recorded as a reduction of debt or accrued interest on the ESOP loan. SOP 93-6 is effective only with respect to financial statements for periods after January 1, 1994.

The Company's savings plan benefit expense attributable to continuing operations was $18.9 million, $17.0 million and $17.3 million in 1995, 1994 and 1993, respectively. HL&P's portion of the savings plan benefit expense was $18.3 million, $16.5 million and $15.9 million in 1995, 1994 and 1993, respectively. Savings plan benefit expense attributable to discontinued operations was not material.

The ESOP shares (after restatement for the two-for-one stock dividend distribution) were as follows:

	December 31, 1995	December 31, 1994
Allocated shares	4,093,834	3,151,086
Unallocated shares	14,355,758	15,540,626
Total ESOP shares	18,449,592	18,691,712
Fair value of unallocated ESOP shares	$348,127,132	$276,817,401

(c) POSTRETIREMENT BENEFITS. Effective January 1, 1993, the Company and HL&P adopted SFAS No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions," which requires that companies recognize the liability for postretirement benefit plans other than pensions (primarily health care). In accordance with SFAS No. 106, the Company and HL&P are amortizing over a 22 year period approximately $213 million ($211 million for HL&P) to cover the "transition cost" of adopting SFAS No. 106 (i.e., the Company and HL&P's liability for post-retirement benefits payable with respect to employee service years accrued prior to the adoption of SFAS No. 106).

As provided in the Rate Case Settlement, HL&P is required to fund during each year in an irrevocable external trust approximately $22 million of postretirement benefit costs which are included in rates. In December 1995, HL&P commenced funding by contributing a total of $15.1 million to three Voluntary Employees' Beneficiary Association (VEBA) trusts and one 401(h) account of the retirement plan. This contribution represented the amount of postretirement benefits included in HL&P's rates (which included HL&P's interest in the South Texas Project costs) less the estimated pay-as-you-go amounts for 1995 plus interest as if the contributions had been made on a monthly basis during the year. HL&P intends to fund, on a monthly basis beginning in 1996, the amount included in its rates. The Company, excluding HL&P, will continue funding its postretirement benefits on a pay-as-you-go basis.

The net postretirement benefit cost for the Company includes the following components:

	Year Ended December 31, 1995	1994	1993
	(Thousands of Dollars)		
Service cost - benefits earned during the period	$ 9,093	$ 9,131	$ 9,453
Interest cost on accumulated benefit obligation	11,143	10,265	18,354
Actual return on plan assets	--	--	--
Net amortization and deferrals	6,061	7,868	9,773
Net postretirement benefit cost	$ 26,297	$ 27,264	$ 37,580

The funded status of the Company's postretirement benefit costs was as follows:

	December 31, 1995	December 31, 1994
	(Thousands of Dollars)	
Accumulated benefit obligation:		
Retirees	$ (127,653)	$ (98,828)
Fully eligible active plan participants	(13,307)	(22,251)
Other active plan participants	(27,492)	(23,378)
Total	(168,452)	(144,457)
Plan assets at fair market value	18,310	
Assets less than accumulated benefit obligation	(150,142)	(144,457)
Unrecognized transitional obligation	183,727	193,500
Unrecognized net gain	(73,613)	(91,477)
Accrued postretirement benefit cost	$ (40,028)	$ (42,434)

The assumed health care cost trend rates used in measuring the accumulated postretirement benefit obligation in 1995 are as follows:

Medical - under 65	8.1%
Medical - 65 and over	9.0%
Dental	8.0%

The assumed health care rates gradually decline to 5.4 percent for both medical categories and 3.7 percent for dental by the year 2001. The accumulated postretirement benefit obligation was determined using an assumed discount rate of 7.5 percent for 1995 and 8 percent for 1994.

If the health care cost trend rate assumptions were increased by 1 percent, the accumulated postretirement benefit obligation as of December 31, 1995 would be increased by approximately 7 percent. The annual effect of the 1 percent increase on the total of the service and interest costs would be an increase of approximately 11 percent.

(d) POSTEMPLOYMENT BENEFITS. Effective January 1, 1994, the Company and HL&P adopted SFAS No. 112, "Employer's Accounting for Postemployment Benefits," which requires the recognition of a liability for benefits, not previously accounted for on the accrual basis, provided to former or inactive employees, their beneficiaries and covered dependents, after employment but before retirement (primarily health care and life insurance benefits for participants in the long-term disability plan). As required by SFAS No. 112, the Company and HL&P expensed the transition obligation (liability from prior years) upon adoption and recorded a one-time, after-tax charge to income of $8.2 million in the first quarter of 1994. Ongoing charges to income were not material.

(10) INCOME TAXES

The Company and HL&P record income taxes under SFAS No. 109, "Accounting for Income Taxes," which, among other things, (i) requires the liability method be used in computing deferred taxes on all temporary differences between book and tax bases of assets other than nondeductible goodwill; (ii) requires that deferred tax liabilities and assets be adjusted for an enacted change in tax laws or rates; and (iii) prohibits net-of-tax accounting and reporting. SFAS No. 109 requires that regulated enterprises recognize such adjustments as regulatory assets or liabilities if it is probable that such amounts will be recovered from or returned to customers in future rates.

In 1993, the corporate tax rate applicable to the Company and HL&P increased from 34% to 35%. The effects of the new law, which decreased the Company's net income by $14.3 million (approximately half of which was attributed to discontinued operations), were recognized as a component of income tax expense in 1993. The effect on the Company's deferred taxes, primarily attributable to discontinued operations, as a result of the change in the new law, was an increase of $10.9 million in 1993.

The Company's current and deferred components of income tax expense from continuing operations are as follows:

	Year Ended December 31,		
	1995	1994	1993
	(Thousands of Dollars)		
Current	$ 119,435	$ 144,604	$ 109,078
Deferred	80,120	85,820	119,785
Income taxes for continuing operations before cumulative effect of change in accounting	$ 199,555	$ 230,424	$ 228,863

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

	Year Ended December 31,		
	1995	1994	1993
	(Thousands of Dollars)		
Income from continuing operations before income taxes and cumulative effect of change in accounting	$ 596,955	$ 654,409	$ 669,394
Preferred dividends of subsidiary	29,955	33,583	34,473
Total	626,910	687,992	703,867
Statutory rate	35%	35%	35%
Income taxes at statutory rate	219,419	240,797	246,353
Net reduction in taxes resulting from:			
AFUDC - other included in income	2,716	1,440	1,229
Amortization of investment tax credit	19,427	19,416	19,797
Excess deferred taxes	4,384	3,537	9,625
Difference between book and tax depreciation for which deferred taxes have not been normalized	(15,211)	(15,455)	(12,976)
Equity dividend exclusion	4,932		
Other - net	3,616	1,435	(185)
Total	19,864	10,373	17,490
Income taxes before cumulative effect of change in accounting	$ 199,555	$ 230,424	$ 228,863
Effective rate	31.8%	33.5%	32.5%

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

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

See Note 13 for income taxes related to discontinued operations.

(11) COMMITMENTS AND CONTINGENCIES

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

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

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

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

(12) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

(13) CABLE TELEVISION--DISCONTINUED OPERATIONS

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

As consideration for the sale of KBLCOM, the Company received 1 million shares of Time Warner common stock and 11 million shares of non-publicly traded convertible preferred stock. Time Warner also purchased from the Company for cash approximately $619 million (after post closing adjustments) of KBLCOM's intercompany indebtedness and assumed approximately $650 million of KBLCOM's external debt and other liabilities. The convertible preferred stock has an aggregate liquidation preference (redeemable after July 6, 2000) of $100 per share (plus accrued and unpaid dividends), is entitled to cumulative annual dividends of $3.75 per share until July 6, 1999, is currently convertible by the Company and after four years is exchangeable by Time Warner into approximately 22.9 million shares of Time Warner common stock. Each share of preferred stock is entitled to two votes (voting together with the holders of the Time Warner common stock as a single class). Under the terms of the sale, the Company may make up to four demands for registration of its shares of Time Warner common stock. Subject to certain exceptions, the terms of the sale prohibit the Company from acquiring additional shares of Time Warner securities or selling shares of Time Warner securities to any holder of more than 5 percent of certain classes of Time Warner voting securities.

Dividends on the Time Warner securities are recognized as income at the time they are earned. In 1995, the Company recorded pre-tax dividend income of $20.1 million.

Operating results from discontinued operations for years ended December 31, 1995, 1994 and 1993 were as follows:

	Year Ended December 31,		
	1995	1994	1993
	(Thousands of Dollars)		
Revenues	$ 143,925	$255,772	$244,067
Operating expenses (a)	86,938	156,084	148,325
Gross operating margin (a)	56,987	99,688	95,742
Depreciation, amortization, interest and other	81,409	128,023	117,982
Income taxes (benefit)	(4,997)	(11,811)	2,255
Deferred loss (b)	19,425		
Loss from discontinued operations (c)	$ 0	$(16,524)	$(24,495)

(a) Exclusive of depreciation and amortization.

(b) The net loss for discontinued operations of KBLCOM through the date of sale (July 6, 1995) was deferred by the Company. Upon closing of the sale, the deferred loss was included as an adjustment to the gain on sale of cable television subsidiary on the Company's Statements of Consolidated Income.

(c) Loss from discontinued operations of KBLCOM excludes the effects of corporate overhead charges and includes interest expense relating to the amount of intercompany debt that Time Warner purchased from the Company.

Net assets of discontinued operations were as follows:

	December 31, 1994
	(Thousands of Dollars)
Assets:	
Cable television property, net of accumulated depreciation of $161,402	$ 276,624
Equity in cable television partnerships	160,363
Intangible assets	1,029,440
Other assets	43,625
Total assets	1,510,052
Less:	
Cable television debt	(504,580)
Accumulated deferred income taxes	(316,241)
Other liabilities	(70,249)
Net assets	$ 618,982

(14) RAILROAD SETTLEMENT PAYMENTS

In July 1994, HL&P contributed to a wholly owned subsidiary the right of HL&P to receive certain receivables relating to a litigation settlement. This subsidiary transferred the receivables to a trust, which in turn sold certificates evidencing a senior interest in the trust to a commercial bank for $66.1 million. The subsidiary retained a subordinate interest in the trust. HL&P recorded the transaction as a $66.1 million reduction to reconcilable fuel expense in July 1994. The reduction to reconcilable fuel expense had no effect on earnings.

(15) UNAUDITED QUARTERLY INFORMATION

The following unaudited quarterly financial information includes, in the opinion of management, all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation. Quarterly results are not necessarily indicative of a full year's operations because of seasonality and other factors, including rate increases and variations in operating expense patterns.

	Year Ended December 31, 1994			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Thousands of Dollars, except per share amounts)			
Revenues	$ 824,133	$1,006,617	$1,152,667	$ 770,719
Operating income	145,497	292,886	451,839	78,393
Income from continuing operations (b)	41,599	134,308	242,239	5,839
Income (loss) from discontinued operations	(7,501)	(7,583)	(6,271)	4,831
Net income	25,898	126,725	235,968	10,670
Earnings per common share (a):				
Income from continuing operations (b)	$ .17	$ .55	$ .98	$ .02
Net income	.11	.52	.96	.04

	Year Ended December 31, 1995			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Thousands of Dollars, except per share amounts)			
Revenues	$755,238	$989,843	$1,184,938	$800,154
Operating income	115,151	283,789	421,903	84,090
Income from continuing operations	23,849	133,260	235,861	4,430
Gain (loss) on sale of cable television subsidiary	90,607		618,088	(571)
Net income	114,456	133,260	853,949	3,859
Earnings per common share (a):				
Income from continuing operations	$ .10	$ .54	$ .95	$ .02
Net income	.46	.54	3.44	.02

(a) Quarterly earnings per common share are based on the weighted average number of shares outstanding during the quarter, and the sum of the quarters may not equal annual earnings per common share. See Note 5(a).

(b) Information for the first quarter of 1994 is before the cumulative effect of a change in accounting for postemployment benefits of $8.2 million which reduced earnings by $.03 per share.

HOUSTON LIGHTING & POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEARS ENDED DECEMBER 31, 1995

Except as modified below, the Notes to the Company's Consolidated Financial Statements are incorporated herein by reference insofar as they relate to HL&P: (1) Summary of Significant Accounting Policies, (2) Jointly-Owned Nuclear Plant, (3) Rate Matters, (6) Preferred Stock of HL&P, (7) Long-Term Debt, (9) Retirement Plans, (10) Income Taxes, (11) Commitments and Contingencies, (12) Estimated Fair Value of Financial Instruments and (14) Railroad Settlement Payments.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(g) EARNINGS PER COMMON SHARE. All issued and outstanding Class A voting common stock of HL&P is held by the Company and all issued and outstanding Class B non-voting common stock of HL&P is held by Houston Industries (Delaware) Incorporated, a wholly owned subsidiary of the Company. Accordingly, earnings per share are not computed.

(h) STATEMENTS OF CASH FLOWS. At December 31, 1995, HL&P had affiliate investments (considered to be cash equivalents) of $75.5 million. At December 31, 1994, HL&P had affiliate investments of $227.6 million. At December 31, 1993, HL&P did not have any investments with affiliated companies.

(8) SHORT-TERM FINANCING

In 1994 and 1995, the interim financing requirements of HL&P were primarily met through the issuance of commercial paper. HL&P had bank credit facilities of $400 million at December 31, 1995 and 1994, which limited total short-term borrowings and provided for interest at rates generally less than the prime rate. HL&P's weighted average short-term borrowing rates for commercial paper for the years ended December 31, 1995 and 1994 were 6.21% and 3.71%, respectively. HL&P had no commercial paper outstanding at December 31, 1995 and 1994. Facility fees are required on HL&P's bank credit facility.

(9) RETIREMENT PLANS

(a) PENSION. Net pension cost for HL&P includes the following components:

	Year Ended December 31,		
	1995	1994	1993
	(Thousands of Dollars)		
Service cost - benefits earned during the period	$ 22,264	$ 21,335	$ 24,640
Interest cost on projected benefit obligation	48,144	45,064	49,950
Actual (return) loss on plan assets	(93,023)	4,737	(38,668)
Net amortization and deferrals	48,696	(50,012)	(683)
Net pension cost	26,081	21,124	35,239
SFAS No. 88 - curtailment expense	5,645		
Total pension cost	$ 31,726	$ 21,124	$ 35,239

The funded status of HL&P's retirement plan was as follows:

	December 31, 1995	December 31, 1994
	(Thousands of Dollars)	
Actuarial present value of:		
Vested benefit obligation	$ 493,006	$ 429,279
Accumulated benefit obligation	$ 528,467	$ 460,760
Plan assets at fair value	$ 581,194	$ 486,100
Projected benefit obligation	687,420	617,690
Assets less than projected benefit obligation	(106,226)	(131,590)
Unrecognized transitional asset	(13,252)	(15,157)
Unrecognized prior service cost	46,462	21,275
Unrecognized net loss	19,343	67,093
Accrued pension cost	$ (53,673)	$ (58,379)

(c) POSTRETIREMENT BENEFITS. The net postretirement benefit cost for HL&P includes the following components:

	Year Ended December 31, 1995	1994	1993
	(Thousands of Dollars)		
Service cost - benefits earned during the period	$ 8,779	$ 8,904	$ 9,297
Interest cost on projected benefit obligation	10,794	9,946	18,134
Actual return on plan assets	----	----	----
Net amortization and deferrals	5,893	7,757	9,658
Net postretirement benefit cost	$ 25,466	$ 26,607	$ 37,089

The funded status of HL&P's postretirement benefit costs was as follows:

	December 31, 1995	December 31, 1994
	(Thousands of Dollars)	
Accumulated benefit obligation:		
Retirees	$ (125,925)	$ (97,200)
Fully eligible active plan participants	(10,532)	(20,126)
Other active plan participants	(26,515)	(22,706)
Total	(162,972)	(140,032)
Plan assets at fair market value	18,310	----
Assets less than accumulated benefit obligation	(144,662)	(140,032)
Unrecognized transitional obligation	181,567	191,225
Unrecognized net gain	(75,451)	(92,786)
Accrued postretirement benefit cost	$ (38,546)	$ (41,593)

(10) INCOME TAXES

During 1993, federal tax legislation was enacted that changed the income tax consequences for HL&P. A net regulatory asset and the related deferred income tax liability of $71.3 million were recorded by HL&P in 1993. The effects of the new law, which decreased HL&P's net income by

$8.0 million, were recognized as a component of income tax expense in 1993. The effect on HL&P's deferred taxes as a result of the change in the new law was $4.5 million in 1993.

HL&P's current and deferred components of income tax expense are as follows:

	Year Ended December 31,		
	1995	1994	1993
	(Thousands of Dollars)		
Current	$ 188,104	$ 184,669	$ 115,745
Deferred	57,703	70,324	123,719
Federal income tax expense	245,807	254,993	239,464
Federal income taxes charged to other income	(851)	(836)	(2,993)
Income taxes before cumulative effect of change in accounting	$ 244,956	$ 254,157	$ 236,471

HL&P's effective income tax rates are lower than statutory corporate rates for each year as follows:

	Year Ended December 31,		
	1995	1994	1993
	(Thousands of Dollars)		
Income before income taxes, preferred dividends and cumulative effect of change in accounting	$ 725,888	$ 749,121	$ 720,694
Statutory rate	35%	35%	35%
Income taxes at statutory rate	254,061	262,192	252,243
Net reduction in taxes resulting from:			
AFUDC - other included in income	2,716	1,440	1,229
Amortization of investment tax credit	19,427	19,416	19,797
Difference between book and tax depreciation for which deferred taxes have not been normalized	(15,211)	(15,455)	(12,976)
Excess deferred taxes	4,384	3,537	9,625
Other - net	(2,211)	(903)	(1,903)
Total	9,105	8,035	15,772
Income taxes before cumulative effect of change in accounting	$ 244,956	$ 254,157	$ 236,471
Effective rate	33.7%	33.9%	32.8%

Following are HL&P's tax effects of temporary differences resulting in deferred tax assets and liabilities:

	December 31, 1995	December 31, 1994
	(Thousands of Dollars)	
Deferred Tax Assets:		
IRS audit assessment	$ 48,513	$ 48,513
Disallowed plant cost - net	22,687	23,496
Other	59,558	60,174
Total deferred tax assets	130,758	132,183
Deferred Tax Liabilities:		
Depreciation	1,391,277	1,335,265
Regulatory assets - net	228,587	235,463
Deferred plant costs - net	200,028	207,746
Capitalized taxes, employee benefits and removal costs	110,177	111,681
Other	148,177	118,328
Total deferred tax liabilities	2,078,246	2,008,483
Accumulated deferred income taxes - net	$1,947,488	$1,876,300

(12) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and estimated fair value of HL&P's cash and short-term investments was $75.9 million for 1995 and $235.9 million for 1994. The carrying amount and estimated fair value of investments in HL&P Nuclear Decommissioning Trust was $44.5 million in 1995 and $25.1 million in 1994. See Note 1(j).

(15) UNAUDITED QUARTERLY INFORMATION

The following unaudited quarterly financial information includes, in the opinion of management, all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation. Quarterly results are not necessarily indicative of a full year's operations because of seasonality and other factors, including rate increases and variations in operating expense patterns.

Quarter Ended	Revenues	Operating Income	Income After Preferred Dividends
	(Thousands of Dollars)		
1994			
March 31	$ 821,581	$ 122,879	$ 41,686
June 30	1,004,906	216,842	142,478
September 30	1,150,946	320,859	251,092
December 31	768,652	82,302	17,925
1995			
March 31	$ 746,166	$ 104,566	$ 33,909
June 30	978,225	217,419	141,873
September 30	1,171,789	308,258	241,159
December 31	784,117	104,421	34,036

(16) PRINCIPAL AFFILIATE TRANSACTIONS

Affiliated Company	Description	Year Ended December 31, 1995	1994	1993
		(Thousands of Dollars)		
Houston Industries	Dividends	$ 454,000	$ 328,996	$ 342,982
	Service Fees (a)	26,582	26,913	21,864
	Money Fund Income (b)	10,837	6,025	2,748

(a) Included in Operating Expenses.
(b) Included in Other Income (Expense).

INDEPENDENT AUDITORS' REPORT

HOUSTON INDUSTRIES INCORPORATED:

We have audited the accompanying consolidated balance sheets and the consolidated statements of capitalization of Houston Industries Incorporated and its subsidiaries as of December 31, 1995 and 1994, and the related statements of consolidated income, consolidated retained earnings and consolidated cash flows for each of the three years in the period ended December 31, 1995. Our audits also included the Company's financial statement schedule listed in Item 14(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries at December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 9(b) and 9(d), respectively, to the consolidated financial statements, the Company changed its method of accounting in 1994 for (i) the Employee Stock Ownership Plan to conform with AICPA Statement of Position 93-6 and (ii) postemployment benefits to conform with Statement of Financial Accounting Standards No. 112.

DELOITTE & TOUCHE LLP

Houston, Texas
February 29, 1996 (March 26, 1996 as to Note 4)

INDEPENDENT AUDITORS' REPORT

HOUSTON LIGHTING & POWER COMPANY:

We have audited the accompanying balance sheets and the statements of capitalization of Houston Lighting & Power Company (HL&P) as of December 31, 1995 and 1994, and the related statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1995. Our audits also included the financial statement schedule of HL&P listed in Item 14(a)(2). These financial statements and financial statement schedule are the responsibility of HL&P's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of HL&P at December 31, 1995 and 1994, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 9(d) to the financial statements, HL&P changed its method of accounting for postemployment benefits to conform with Statement of Financial Accounting Standards No. 112 in 1994.

DELOITTE & TOUCHE LLP

Houston, Texas
February 29, 1996

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY AND HL&P.

(a) The Company

The information called for by Item 10, to the extent not set forth under Item 1 "Business-Executive Officers of The Company", is or will be set forth in the definitive proxy statement relating to the Company's 1996 annual meeting of shareholders pursuant to the Commission's Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 10 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

(b) HL&P

The information set forth under Item 1. "Business-Executive Officers of HL&P" is incorporated herein by reference.

Each member of the board of directors of HL&P currently is also a member of the board of directors of the Company. Each member of the board of directors of HL&P is elected annually for a one-year term. The HL&P annual shareholder's meeting, at which the Company elects members to the HL&P board of directors, is expected to occur on May 22, 1996. Information is set forth below with respect to the business experience for the last five years of each person who currently serves as a member of the board of directors of HL&P, certain other directorships held by each such person and certain other information. Unless otherwise indicated, each person has had the same principal occupation for at least five years.

MILTON CARROLL, age 45, has been a director since 1992. Mr. Carroll is Chairman, President and Chief Executive Officer of Instrument Products Inc., an oil field supply manufacturing company, in Houston, Texas. He is a director of PanEnergy Corp., the Federal Reserve Bank of Dallas and Blue Cross Blue Shield of Texas.

JOHN T. CATER, age 60, has been a director since 1983. Mr. Cater is Chairman, Chief Executive Officer and a director of River Oaks Trust Company in Houston, Texas. He also serves as President and a director of Compass Bank-Houston. Until his retirement in 1990, Mr. Cater served as President, Chief Operating Officer and a director of MCorp, a Texas bank holding company. He served as a director of MCorp until July 1994.

ROBERT J. CRUIKSHANK, age 65, has been a director since 1993. Mr. Cruikshank is primarily engaged in managing his personal investments in Houston, Texas. Prior to his retirement in 1993, he was a Senior Partner in the accounting firm of Deloitte & Touche. Mr. Cruikshank serves as a director of MAXXAM Inc., Kaiser Aluminum Corporation, Compass Bank - Houston and Texas Biotechnology Corporation.

LINNET F. DEILY, age 50, has been a director since 1993. Ms. Deily is Chairman, Chief Executive Officer and President of First Interstate Bank of Texas, N.A. She has served as Chairman since 1992, Chief Executive Officer since 1991 and President since 1988. (1)

JOSEPH M. HENDRIE, Ph.D., age 71, has been a director since 1985. Dr. Hendrie is a Consulting Engineer in Bellport, New York, and a Senior Scientist at the Brookhaven National Laboratory in

Upton, New York, having previously served as Chairman and Commissioner of the U.S. Nuclear Regulatory Commission and as President of the American Nuclear Society. He is also a director of Entergy Operations, Inc. of Jackson, Mississippi. (2)

LEE W. HOGAN, age 51, has been a director since 1995. Mr. Hogan is President and Chief Operating Officer of Houston Industries Energy, Inc., the nonregulated power business subsidiary of the Company, having served in that capacity since 1993. From 1990 to 1993 he served as Group Vice President - External Affairs for HL&P. Mr. Hogan is also a Senior Vice President of the Company.

HOWARD W. HORNE, age 69, has been a director since 1978. Mr. Horne is Vice-Chairman of Cushman & Wakefield of Texas, Inc., a subsidiary of a national real estate brokerage firm. Until 1990, he was Chairman of the Board of The Horne Company, a Houston realty firm.

DON D. JORDAN, age 63, has been a director of the Company since 1977 and of HL&P since 1974. Mr. Jordan is Chairman and Chief Executive Officer of the Company and Chairman and Chief Executive Officer of HL&P. He also serves as a director of Texas Commerce Bancshares, Inc. and BJ Services Company, Inc.

R. STEVE LETBETTER, age 47, has been a director since 1995. Mr. Letbetter is President and Chief Operating Officer of HL&P, having served in that capacity since 1993. He has served in various positions as an officer of HL&P since 1978, most recently as Group Vice President - Finance and Regulatory Relations since 1988. He is also a Senior Vice President of the Company. Mr. Letbetter is a director of Charter Bancshares Inc., a Texas bank holding company.

ALEXANDER F. SCHILT, Ph.D., age 55, has been a director since 1992. Dr. Schilt served as Chancellor of the University of Houston System through August 1995. Prior to 1990, he was President of Eastern Washington University in Cheney and Spokane, Washington.

KENNETH L. SCHNITZER, SR., age 66, has been a director since 1983. Mr. Schnitzer is Chairman of the Board of Schnitzer Enterprises Inc., a Houston commercial real estate development company, having previously served as a director of American Building Maintenance Industries Incorporated and Weingarten Realty, Inc. (3)

JACK T. TROTTER, age 69, has been a director since 1985. Mr. Trotter is primarily engaged in managing his personal investments in Houston, Texas. He also serves as a director of First Interstate Bank of Texas, N.A. and Howell Corporation and as a director and Trust Manager of Weingarten Realty Investors.

BERTRAM WOLFE, Ph.D., age 68, has been a director since 1993. Prior to his retirement in 1992, Dr. Wolfe was Vice President and General Manager of General Electric Company's nuclear energy business in San Jose, California. From 1992 to 1995, he was on the nuclear advisory committee of Pennsylvania Power & Light and was a member of the international advisory committee of Concord Industries. Dr. Wolfe serves on the boards of directors of URENCO Inc. and URENCO Investments, Inc.

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(1) First Interstate Bank of Texas, N. A., and certain of its affiliates participate in various credit facilities with HL&P, the Company and certain of HL&P's affiliates and other entities in which the Company has an ownership interest. Under these agreements, First Interstate and certain of its affiliates have

maximum aggregate loans and loan commitments of approximately $35.5 million, as of December 31, 1995.

(2) Dr. Hendrie is expected to retire as a director of the Company and HL&P at the May 22, 1996 annual shareholders' meetings.

(3) During 1995, HL&P and certain of its affiliates leased office space in buildings owned or controlled by affiliates of Mr. Schnitzer. HL&P and certain of its affiliates paid a total of approximately $283,000 to affiliates of Mr. Schnitzer during 1995. HL&P believes such payments are comparable to those that would have been made to other non-affiliated firms for comparable facilities and services. In 1994, Mr. Schnitzer consented to the entry of an order by the Office of Thrift Supervision (OTS) whereunder he may not hold office in, or participate in the conduct of the affairs of, any federally regulated depository institution without the prior approval of the OTS and, if applicable, any other appropriate federal banking agency. The order arose out of Mr. Schnitzer's prior service as a director of BancPLUS Savings and Loan Association (BancPLUS), a Houston, Texas-based thrift that was taken over by federal regulators in 1989. Mr. Schnitzer consented to the order to avoid the time and expense of defending an OTS administrative proceeding, without admitting whether there were any grounds for such a proceeding. In August 1995, Mr. Schnitzer and three other individuals were named as defendants in a criminal proceeding based on two 1986 real estate transactions involving BancPLUS. The matter is pending in the United States District Court for the Southern District of Texas. The federal government has alleged that the four defendants caused BancPLUS to enter into a land swap and to falsely report the swap as two separate and independent transactions. In 1987, following a default on notes secured by the parcel that BancPLUS had sold and discovery that the person who controlled the defaulting party had misrepresented his relationship with the seller of the other parcel, BancPLUS reported the transaction as a possible land swap to federal regulators and reversed a previously reported profit from the sale transaction in its financial statements. There is no allegation that Mr. Schnitzer (or any other director or officer of BancPLUS) profited or attempted to profit personally from the transaction. Mr. Schnitzer and his counsel have advised the Company that the charges against him are without any basis in fact and will be vigorously defended. The case has been scheduled for trial in July 1996.

ITEM 11. EXECUTIVE COMPENSATION.

(a) The Company

The information called for by Item 11, with respect to the Company, is or will be set forth in the definitive proxy statement relating to the Company's 1996 annual meeting of shareholders pursuant to the Commission's Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 11 (excluding any information required by paragraphs (i), (k) and (l) of Item 402 of Regulation S-K) are incorporated herein by reference pursuant to Instruction G to Form 10-K.

(b) HL&P

SUMMARY COMPENSATION TABLE. The following table shows, for the years ended December 31, 1993, 1994 and 1995, the annual, long-term and certain other compensation paid by the Company and its subsidiaries to the chief executive officer and the other four most highly compensated executive officers of HL&P (Named Officers).

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		All Other Compensation(4)
					Awards	Payouts	
		Salary(1)	Bonus(1)	Other Annual Compensation	Securities Underlying Options(#)(2)	LTIP Payouts(3)	
Don D. Jordan	1995	$884,500	$ 907,226	$ 3,969	36,316	$ 407,437	$734,023
Chairman and	1994	859,500	734,873	114,648	27,726	550,567	717,261
Chief Executive Officer of the Company and HL&P	1993	829,500	386,775	0	25,930	762,962	647,491
R. Steve Letbetter . .	1995	363,500	285,750	190	9,746	84,201	47,242
President and Chief	1994	321,000	246,525	31,133	6,366	117,607	43,818
Operating Officer of HL&P and Senior Vice President of the Company	1993	271,000	109,335	0	4,256	212,362	42,562
Hugh Rice Kelly	1995	334,000	195,773	637	7,414	100,925	44,245
Senior Vice President,	1994	323,500	190,820	42,147	5,470	145,107	50,546
General Counsel and Corporate Secretary of the Company and HL&P	1993	310,500	94,446	0	5,242	285,078	58,218
William T. Cottle (5) .	1995	254,500	157,200	401	5,566	0	16,711
Executive Vice	1994	241,000	129,675	337	4,044	0	13,126
President and General Manager - Nuclear HL&P	1993	174,470	60,000	0	0	0	0
David M. McClanahan . .	1995	238,100	151,860	317	5,028	35,806	23,162
Executive Vice	1994	208,100	129,398	12,195	3,322	41,512	23,376
President and General Manager - Energy Delivery and Customer Services of HL&P	1993	178,100	57,351	0	2,010	82,025	18,254

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(1) The amounts shown include salary and bonus earned as well as earned but deferred by the Named Officers.

(2) The amounts shown have been adjusted to reflect the Company's two-for-one stock split effected by a stock distribution on December 9, 1995 (1995 Stock Split).

(3) The amounts shown for 1995 represent the dollar value of shares of the Company's Common Stock paid out in 1995 under the Company's long-term incentive compensation plan based on the achievement of

certain performance goals for the 1992-1994 performance cycle, plus dividend equivalent accruals during the performance period.

(4) The amounts shown include (i) Company contributions to the Company's savings plan and accruals under its savings restoration plan for the years shown on behalf of the Named Officers, as follows: Mr. Jordan 1993 - $57,152; 1994 - $52,344; and 1995 - $33,610; Mr. Letbetter 1993 - $16,672; 1994 - $18,074; and 1995 - $ 25,621; Mr. Kelly 1993 - $19,569; 1994 - $17,554; and 1995 - $18,892; Mr. Cottle 1994 - $12,642; and 1995 - $16,135; and Mr. McClanahan 1993 - $7,724; 1994 - $10,547; and 1995 - $14,076; (ii) the term portion of the premiums paid by the Company under split-dollar life insurance policies purchased in 1994 in connection with the Company's executive life insurance plan, as follows: Mr. Jordan 1994 - $4,800 and 1995 - $5,700; Mr. Letbetter 1994 - $218 and 1995 - $272; Mr. Kelly 1994 - $801 and 1995 - $915; Mr. Cottle 1994 - $484 and 1995 - $576; and Mr. McClanahan 1994 - $328 and 1995 - $456; and (iii) the portion of accrued interest on amounts of compensation deferred under the Company's deferred compensation plan and executive incentive compensation plan that exceeds 120 percent of the applicable federal long-term rate provided under Section 1274(d) of the Internal Revenue Code, as follows: Mr. Jordan 1993 - $590,339; 1994 - $660,117; and 1995 - $694,713; Mr. Letbetter 1993 - $25,890; 1994 - $25,526; and 1995 - $21,349; Mr. Kelly 1993 - $38,649; 1994 - $32,191; and 1995 - $24,438; Mr. Cottle (none for 1993, 1994 and 1995); and Mr. McClanahan 1993 - $10,530; 1994 - $12,501; and 1995 - $8,630. The Company owns and is the beneficiary under certain life insurance policies which are currently anticipated to provide benefits sufficient to cover the accrued interest on deferred amounts referenced in (iii) of this footnote.

(5) Mr. Cottle commenced employment with HL&P in April 1993.

STOCK OPTION GRANTS. The following table contains information concerning grants during 1995 of stock options under the Company's long-term incentive compensation plan to the Named Officers. The information has been adjusted to reflect the Company's 1995 Stock Split.

OPTION GRANTS IN 1995

	Individual Grants				Grant Date Value
Name	Number of Securities Underlying Options Granted(#)(1)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price Per Share	Expiration Date	Grant Date Present Value(2)
Don D. Jordan	36,316	27.2%	$17.75	01/02/05	$69,000
R. Steve Letbetter	9,746	7.3%	17.75	01/02/05	18,517
Hugh Rice Kelly	7,414	5.6%	17.75	01/02/05	14,087
William T. Cottle	5,566	4.2%	17.75	01/02/05	10,575
David M. McClanahan	5,028	3.8%	17.75	01/02/05	9,553

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(1) The nonstatutory options for shares of the Company's Common Stock included in the table were granted on January 3, 1995, have a ten-year term and generally become exercisable annually in one-third increments commencing one year after date of grant, so long as employment with the Company or its subsidiaries continues. A change in control of the Company would result in all options becoming immediately exercisable. For the purposes of the Company's long-term incentive compensation plan, a "change in control" generally is deemed to have occurred if (i) any person or group becomes the direct or indirect beneficial owner of 30 percent or more of the Company's outstanding voting securities; (ii) the majority of the Board changes as a result of, or in connection with, certain transactions; (iii) as a result of the Company merging or consolidating with another corporation, less than 70 percent of the surviving corporation's outstanding voting securities is owned by the former shareholders of the Company (excluding any party to such a transaction or any affiliates of any such party); (iv) a tender offer or exchange offer is made and consummated for the ownership of 30 percent or more of the Company's outstanding voting securities; or (v) the Company transfers all or substantially all of its assets to another corporation that is not wholly-owned by the Company.

(2) The values are based on the Black-Scholes option pricing model adjusted for the payment of dividends. The calculations were made based on the following assumptions: volatility of 19.65 percent (based on daily closing prices of the Company's Common Stock for the one-year period prior to grant date); risk-free interest rate of 7.78 percent (interest rate on a U.S. Treasury security with a maturity date corresponding to that of the option term); option price of $17.75 (fair market value of the underlying stock on the date of grant); current dividend rate of $1.50 per share per year; and option term equal to the full ten-year period until the stated expiration date. No reduction has been made in the valuations on account of non-transferability of the options or vesting or forfeiture provisions. Valuations would change if different assumptions were made. Option values are dependent on general market conditions and the performance of the Company's Common Stock. There can be no assurance that the values in this table will be realized.

STOCK OPTION VALUES. The following table sets forth information on the unexercised options to purchase Common Stock held by each of the Named Officers as of December 31, 1995. No options were exercised by the Named Officers during 1995.

1995 YEAR-END OPTION VALUES

Name	Number of Securities Underlying Unexercised Options at December 31, 1995 Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options at December 31, 1995 (1) Exercisable/ Unexercisable
Don D. Jordan	52,908 / 63,444	$97,946 / $268,228
R. Steve Letbetter	9,282 / 15,408	16,700 / 70,151
Hugh Rice Kelly	10,652 / 12,808	19,755 / 54,604
William T. Cottle	1,348 / 8,262	1,432 / 39,392
David M. McClanahan	4,586 / 7,912	8,247 / 36,144

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(1) Based on the average of the high and low sales prices of the Company's Common Stock on the New York Stock Exchange Composite Tape, as reported in The Wall Street Journal for December 29, 1995.

LONG-TERM INCENTIVE COMPENSATION. The following table sets forth, for each of the Named Officers, information concerning awards made during 1995 for the 1995-1997 performance cycle under the Company's long-term incentive compensation plan, as adjusted for the 1995 Stock Split. The amounts shown represent potential payouts of awards of shares of Common Stock based on the achievement of performance goals over a three-year performance cycle. The performance goals include Company consolidated goals and subsidiary or business unit goals, weighted 25 percent on consolidated performance and 75 percent on subsidiary or business unit performance. The Company consolidated goal is achieving a certain level of total shareholder return in relation to a group of other companies. The subsidiary or business unit goals are achieving certain cash flow performance in relation to a group of other companies and achieving a competitive price target for electric utility services by the year 2000 while maintaining an adequate return on equity. An additional goal applicable to Messrs. Jordan and Kelly is based on the success of HI Energy, in closing certain transactions and its achievement of specified rates of return. If a change in control of the Company occurs before the end of a performance cycle, the payouts of awards for performance shares will occur without regard to achievement of the performance goals. See Note 1 to the Option Grants in 1995 table for information regarding the definition of a change in control under the Company's long-term incentive compensation plan.

LONG-TERM INCENTIVE PLAN AWARDS IN 1995

Name	Number of Shares	Performance or Other Period Until Maturation or Payout	ESTIMATED FUTURE PAYOUTS UNDER NON-STOCK PRICE-BASED PLANS(1) Threshold Number of Shares	Target Number of Shares	Maximum Number of Shares
Don D. Jordan	32,812	12/31/97	16,406	32,812	49,218
R. Steve Letbetter	10,160	12/31/97	5,080	10,160	15,240
Hugh Rice Kelly	7,730	12/31/97	3,866	7,730	11,596
William T. Cottle	5,802	12/31/97	2,902	5,802	8,704
David M. McClanahan	5,242	12/31/97	2,622	5,242	7,864

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(1) The table does not reflect dividend equivalent accruals during the performance period.

RETIREMENT PLANS, RELATED BENEFITS AND OTHER AGREEMENTS. The following table shows the estimated annual benefit payable under the Company's retirement plan, benefit restoration plan and, in certain cases, supplemental agreements, to officers in various compensation classifications upon retirement at age 65 after the indicated periods of service, determined on a single-life annuity basis. The benefits listed in the table are not subject to any deduction for Social Security or other offsetting amounts.

PENSION PLAN TABLE

Final Average Annual Compensation At Age 65	Estimated Annual Pension Based on Years of Service (1) 15 Years	20 Years	25 Years	30 Years	35 or More Years
$ 300,000	$ 85,901	$ 114,535	$ 143,169	$ 171,803	$200,436
400,000	115,001	153,335	191,669	230,003	268,336
500,000	144,101	192,135	240,169	288,203	336,236
600,000	173,201	230,935	288,669	346,403	404,136
700,000	202,301	269,735	337,169	404,603	472,036
800,000	231,401	308,535	385,669	462,803	539,936
900,000	260,501	347,335	434,169	521,003	607,836
1,000,000	289,601	386,135	482,669	579,203	675,736
1,200,000	347,801	463,735	579,669	695,603	811,536
1,400,000	406,001	541,335	676,669	812,003	947,336
1,600,000	464,201	618,935	773,669	928,403	1,083,136
1,800,000	522,401	695,535	870,669	1,044,803	1,218,936
2,000,000	580,601	774,135	967,669	1,161,203	1,354,736

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(1) The qualified pension plan limits compensation in accordance with Section 401(a)(17) of the Internal Revenue Code and also limits benefits in accordance with Section 415 of the Internal Revenue Code. Pension benefits based on compensation above the qualified plan limit or in excess of the limit on annual benefits are provided through the benefit restoration plan.

For the purpose of the pension table above, final average annual compensation means the average of covered compensation for 36 consecutive months out of the 120 consecutive months immediately preceding retirement in which the participant's covered compensation was the highest. Covered compensation only includes the amounts shown in the "Salary" and "Bonus" columns of the Summary Compensation Table. At December 31, 1995, the credited years of service for the following persons are: 35 years for Mr. Jordan; 22 years for Mr. Letbetter; 21 years for Mr. Kelly, 10 of which result from a supplemental agreement; 3 years for Mr. Cottle; and 21 years for Mr. McClanahan.

The Company maintains an executive benefits plan that provides certain salary continuation, disability and death benefits to key officers of the Company and certain of its subsidiaries, including HL&P. The Named Officers participate in this plan pursuant to individual agreements that generally provide for (i) a salary continuation benefit of 100 percent of the officer's current salary for twelve months after death during active employment and then 50 percent of salary for nine years or until the deceased officer would have attained age 65, if later, and (ii) if the officer retires after attainment of age 65, an annual post-retirement death benefit of 50 percent of the officer's preretirement annual salary payable for six years.

The Company has established an executive life insurance plan providing split-dollar life insurance in the form of a death benefit for certain officers of the Company and its subsidiaries and members of the Company's Board of Directors who are not officers of the Company or its subsidiaries. The death benefit coverage varies but in each case is based on coverage (either single life or second to die) that is available for the same amount of premium that could purchase coverage equal to two times current salary for Messrs. Kelly, Cottle and McClanahan; four times current salary for Mr. Letbetter; ten million dollars for Mr. Jordan; and six times the annual retainer for the Company's non-employee directors (except in the case of Mr. Trotter, who has a separate agreement providing for similar coverage, as described below under "Compensation of Directors"). The plan also provides that the Company may make payments to the covered individuals designed to compensate for tax consequences with respect to imputed income that they must recognize for federal income tax purposes based on the term portion of the annual premiums. If a covered executive retires at age 65 or at an earlier age under circumstances approved for this purpose by the Board of Directors, rights under the plan vest so that coverage is continued based on the same death benefit in effect at the time of retirement. Upon death, the Company will receive the balance of the insurance proceeds payable in excess of the specified death benefit which by design is expected to be at least sufficient to cover the Company's cumulative outlays to pay premiums and the after-tax cost to the Company of the tax reimbursement payments. There is no arrangement or understanding under which any covered individuals will receive or be allocated any interest in any cash surrender value under the policy.

The Company and its subsidiaries HL&P and HI Energy have entered into a trust agreement with an independent trustee establishing a "rabbi trust" for the purpose of funding benefits payable to participants (which include each of the Named Officers) under the Company's deferred compensation plans, executive incentive compensation plans, benefits restoration plan and savings restoration plan (Designated Plans). The trust is a grantor trust, irrevocable except in the event of

an unfavorable ruling by the Internal Revenue Service as to the tax status of the trust or certain changes in tax law. It is currently funded with a nominal amount of cash. The Company, HL&P and HI Energy are required to make future contributions to the grantor trust when required by the provisions of the Designated Plans or when required by the Company's benefits committee. The benefits committee consists of officers of the Company designated by the board of directors and has general responsibility for funding decisions and selection of investment managers for the Company's retirement plans and other administrative matters in connection with other employee benefit plans of the Company. If there is a change in control (defined in a manner generally the same as the comparable definition in the Company's long-term incentive compensation plan), the Company, HL&P and HI Energy are required to fully fund the grantor trust, within 15 days following the change in control, with an amount equal to the entire benefit which each participant would be entitled under the Designated Plans as of the date of the change in control (calculated on the basis of the present value of the projected future benefits payable under the Designated Plans). The assets of the grantor trust are required to be held separate and apart from the other funds of the Company and its subsidiaries, but remain subject to claims of general creditors under applicable state and federal law.

The Company entered into an employment agreement in 1994 with Mr. Jordan which provides for benefits in the event of termination of employment following a change in control of the Company and for a two year extension of employment if the covered executive is employed by the Company at age 65 without there having occurred a change in control. The Company also entered into severance agreements in 1994 with certain executive officers, including Messrs. Letbetter, Kelly, Cottle and McClanahan, that provide for the payment of certain benefits in the event that, within three years following a change in control of the Company, the officer's employment is terminated by the Company or any subsidiary or successor to the Company for reasons other than cause or disability or by the officer following certain changes in job responsibilities, job location or compensation and benefits from those applicable to him immediately prior to such change in control. For the purposes of these agreements, the meaning of a change in control generally is the same as provided in the Company's long-term incentive compensation plan which is described in Note 1 to the Option Grants in 1995 table. All benefits payable under these agreements would be payments by the Company and not HL&P.

HL&P and Mr. Cottle entered into an employment agreement in 1993 that continues indefinitely, subject to termination by either party on 30 days' notice (Employment Period). The agreement generally provides for employment of Mr. Cottle as a group vice president - nuclear or in such other executive capacities as may be determined from time to time, a minimum annual base salary ($235,000), bonuses and participation in those employee benefit plans and programs available to similarly situated employees during the Employment Period. In addition, if the Employment Period terminates after April 5, 2003, Mr. Cottle will be eligible for supplemental pension, disability or death benefits determined as if his employment had commenced ten years prior to the initial date of the Employment Period.

The Company and Mr. McClanahan entered into a benefits agreement in 1991 which provided for the treatment of his employee benefits while he served as an officer of the Company's cable television subsidiary from 1991 to 1993 (sold in July 1995). The agreement provided that

Mr. McClanahan would be compensated for the difference between the cable television subsidiary benefits and the Company benefits he would have received if he had been an employee of the Company during his period of employment with the subsidiary. Such amounts will be paid to Mr. McClanahan at such time benefits are due to him under the terms of the Company's pension and savings plans.

COMPENSATION OF DIRECTORS. Each non-employee director of the Company receives an annual retainer fee of $20,000, a fee of $1,000 for each Company and HL&P board meeting attended and a fee of $700 for each Company and HL&P committee meeting attended. Directors may defer all or a part of their annual retainer fees and meeting fees under the Company's deferred compensation plan. The deferred compensation plan currently provides for accrual of interest on deferred director compensation at a rate equal to the average annual yield on Moody's Long-Term Corporate Bond Index plus two percentage points.

Non-employee directors of the Company participate in a director benefits plan pursuant to which a director who serves at least one full year will receive an annual benefit in cash equal to the annual retainer payable in the year the director terminates service. Benefits under this plan will be payable to a director, commencing the January following the later of the director's termination of service or attainment of age 65, for a period equal to the number of full years of service of the director.

Non-employee directors of the Company may also participate in the Company's executive life insurance plan described above under "Retirement Plans, Related Benefits and Other Agreements," providing split-dollar life insurance with a death benefit equal to six times the director's annual retainer with coverage continuing after termination of service as a director. This plan also permits the Company to provide for a tax reimbursement payment to make the directors whole for any imputed income recognized with respect to the term portion of the annual insurance premiums. Upon death, the Company will receive the balance of the insurance proceeds payable in excess of the specified death benefit which, by design, is expected to be at least sufficient to cover the Company's cumulative outlays to pay premiums and the after-tax cost to the Company of the tax reimbursement payments. Mr. Trotter, who does not participate in this plan, has a separate agreement with the Company providing for payment in the event of his death of a lump sum equal to eight times his final annual retainer, which, because it is subject to taxation at distribution, approximates on an after-tax basis the amount of the death benefit that would have been payable had he participated in the executive life insurance plan.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

(a) The Company

The information called for by Item 12 is or will be set forth in the definitive proxy statement relating to the Company's 1996 annual meeting of shareholders pursuant to the Commission's Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 12 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

(b) HL&P

As of the date of this Report, the Company owned all 1,000 authorized, issued and outstanding shares of HL&P's Class A voting common stock, without par value.

The following table sets forth information as of March 1, 1996, with respect to the beneficial ownership of shares of the Company's Common Stock by each current director, the chief executive officer and the other four most highly compensated executive officers of HL&P and, as a group, by such persons and other executive officers of HL&P. No person or member of the group listed owns any equity securities of HL&P or any other subsidiary of the Company. Unless otherwise indicated, each person or member of the group listed has sole voting and sole investment power with respect to the shares of Common Stock listed. No ownership shown in the table represents 1 percent or more of the outstanding shares of Common Stock.

Name	Shares of Common Stock Beneficially Owned	
Milton Carroll	2,400	
John T. Cater	2,000	(1)
William T. Cottle	11,790	(2)(3)
Robert J. Cruikshank	2,000	
Linnet F. Deily	2,000	(4)
Joseph M. Hendrie	967	(4)(5)
Lee W. Hogan	26,513	(2)(3)(5)
Howard W. Horne	12,871	(5)
Don D. Jordan	222,969	(2)(3)(6)
Hugh Rice Kelly	61,975	(2)(3)(5)
R. Steve Letbetter	51,707	(2)(3)(5)
David M. McClanahan	24,242	(2)(3)(5)
Alexander F. Schilt	800	
Kenneth L. Schnitzer, Sr.	9,300	
Jack T. Trotter	2,000	
Bertram Wolfe	220	
All of the above and other executive officers as a group (20 persons)	542,464	(2)(3)(5)

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(1) Mr. Cater disclaims beneficial ownership of these shares, which are owned by his adult children.

(2) Includes shares held under the Company's savings plan, as to which the participant has sole voting power (subject to such power being exercised by the plan's trustee in the same proportion as directed shares in the savings plan are voted in the event the participant does not exercise voting power). The shares held under the plan are reported as of December 31, 1995.

(3) The ownership shown in the table includes shares which may be acquired within 60 days on exercise of outstanding stock options granted under the Company's long-term incentive compensation plan by each of the persons and group, as follows: Mr. Cottle - 4,552 shares; Mr. Hogan - 7,668 shares; Mr. Jordan - 82,900 shares; Mr. Kelly - 16,694 shares; Mr. Letbetter - 16,070 shares; Mr. McClanahan - 8,038 shares; and the group - 161,784 shares.

(4) Voting power and investment power with respect to the shares listed for Ms. Deily and for Dr. Hendrie are shared with the individual's spouse.

(5) Includes shares held under the Company's dividend reinvestment and stock purchase plan as of December 31, 1995.

(6) Voting power and investment power with respect to 1,152 of the shares listed are shared with Mr. Jordan's spouse.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

(a) The Company

The information called for by Item 13 is or will be set forth in the definitive proxy statement relating to the Company's 1996 annual meeting of shareholders pursuant to the Commission's Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 13 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

(b) HL&P

The information set forth in Notes 1 and 3 to Item 10(b) above is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a)(1) FINANCIAL STATEMENTS.

(a)(2) FINANCIAL STATEMENT SCHEDULES FOR THE THREE YEARS ENDED DECEMBER 31, 1995.

The following schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements:

I, II, III, IV, V, VI, VII, IX, X, XI, XII and XIII.

See Index of Exhibits on page 104, which also includes the management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(10)(iii) of Regulation S-K.

(b) REPORTS ON FORM 8-K. None

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
SCHEDULE VIII - RESERVES

FOR THE THREE YEARS ENDED DECEMBER 31, 1995
(THOUSANDS OF DOLLARS)

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions from Reserves	Balance at End of Period
Year Ended December 31, 1995:					
Accumulated provisions deducted from related assets on balance sheet:					
Uncollectible advances		$ 27,412			$ 27,412
Net assets of discontinued cable televisions operations	$ 282,958			$ 282,958	
Reserves other than those deducted from assets on balance sheet:					
Property insurance	(3,468)	2,187		836	(2,117)
Injuries and damages	2,241	2,327		3,045	1,523
Year Ended December 31, 1994:					
Accumulated provisions deducted from related assets on balance sheet:					
Net assets of discontinued cable television operations	$ 243,400	$ 44,319	$ 1,799	$ 6,560	$ 282,958
Reserves other than those deducted from assets on balance sheet:					
Property insurance	(2,891)	2,187		2,764	(3,468)
Injuries and damages	2,891	3,099		3,749	2,241
Year Ended December 31, 1993:					
Accumulated provisions deducted from related assets on balance sheet:					
Uncollectible accounts	$ 7,194			$ 7,194	
Net assets of discontinued cable television operations	205,739	$ 43,004	$ 91	5,434	$ 243,400
Reserves other than those deducted from assets on balance sheet:					
Property insurance	(2,821)	2,187		2,257	(2,891)
Injuries and damages	3,911	4,685		5,705	2,891

Notes:

(A) Deductions from reserves represent losses or expenses for which the respective reserves were created. In the case of the uncollectible accounts reserve, such deductions are net of recoveries of amounts previously written off.

(B) The uncollectible advances reflect the combined amounts lent by HI Energy on a subordinated basis to the Ford Heights and Fulton Projects as of December 31, 1995. If the two projects no longer receive or qualify to receive the operating subsidy provided by the Illinois Retail Rate Law, the Projects would be unable to repay such amounts.

(C) During 1992, Houston Industries Finance purchased accounts receivable of HL&P and of certain KBLCOM subsidiaries. In January 1993, Houston Industries Finance sold the receivables back to the respective subsidiaries and ceased operations. HL&P is now selling its accounts receivable and most of its accrued unbilled revenues to a third party.

HOUSTON LIGHTING & POWER COMPANY
SCHEDULE VIII - RESERVES

FOR THE THREE YEARS ENDED DECEMBER 31, 1995
(THOUSANDS OF DOLLARS)

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions from Reserves	Balance at End of Period
Year Ended December 31, 1995:					
Reserves other than those deducted from assets on balance sheet:					
Property insurance	$ (3,468)	$ 2,187		$ 836	$ (2,117)
Injuries and damages	2,241	2,327		3,045	1,523
Year Ended December 31, 1994:					
Reserves other than those deducted from assets on balance sheet:					
Property insurance	$ (2,891)	$ 2,187		$ 2,764	$ (3,468)
Injuries and damages	2,891	3,099		3,749	2,241
Year Ended December 31, 1993:					
Reserves other than those deducted from assets on balance sheet:					
Property insurance	$ (2,821)	$ 2,187		$ 2,257	$ (2,891)
Injuries and damages	3,911	4,685		5,705	2,891

Notes:

(A) Deductions from reserves represent losses or expenses for which the respective reserves were created.
(B) HL&P has no reserves for uncollectible accounts due to sales of accounts receivable.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF HOUSTON AND STATE OF TEXAS, ON THE 28TH DAY OF MARCH, 1996.

HOUSTON INDUSTRIES INCORPORATED (Registrant)

By DON D. JORDAN
(Don D. Jordan,
Chairman and Chief Executive Officer)

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES INDICATED ON MARCH 28, 1996.

SIGNATURE	TITLE
DON D. JORDAN (Don D. Jordan)	Chairman and Chief Executive Officer and Director (Principal Executive Officer)
STEPHEN W. NAEVE (Stephen W. Naeve)	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
MARY P. RICCIARDELLO (Mary P. Ricciardello)	Vice President and Comptroller (Principal Accounting Officer)
MILTON CARROLL (Milton Carroll)	Director
JOHN T. CATER (John T. Cater)	Director
ROBERT J. CRUIKSHANK (Robert J. Cruikshank)	Director
LINNET F. DEILY (Linnet F. Deily)	Director
JOSEPH M. HENDRIE (Joseph M. Hendrie)	Director
LEE W. HOGAN (Lee W. Hogan)	Director
HOWARD W. HORNE (Howard W. Horne)	Director
R. S. LETBETTER (R. S. Letbetter)	Director
ALEXANDER SCHILT (Alexander Schilt)	Director
KENNETH L. SCHNITZER, SR. (Kenneth L. Schnitzer, Sr.)	Director
JACK T. TROTTER (Jack T. Trotter)	Director

BERTRAM WOLFE

- ---------- Director

(Bertram Wolfe)

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF HOUSTON AND STATE OF TEXAS, ON THE 28TH DAY OF MARCH, 1996. THE SIGNATURE OF HOUSTON LIGHTING & POWER COMPANY SHALL BE DEEMED TO RELATE ONLY TO MATTERS HAVING REFERENCE TO SUCH COMPANY AND ANY SUBSIDIARIES THEREOF.

HOUSTON LIGHTING & POWER COMPANY (Registrant)

By DON D. JORDAN

(Don D. Jordan,
Chairman and Chief Executive Officer)

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES INDICATED ON MARCH 28, 1996. THE SIGNATURE OF EACH OF THE UNDERSIGNED SHALL BE DEEMED TO RELATE ONLY TO MATTERS HAVING REFERENCE TO HOUSTON LIGHTING & POWER COMPANY AND ANY SUBSIDIARIES THEREOF.

SIGNATURE	TITLE
DON D. JORDAN (Don D. Jordan)	Chairman and Chief Executive Officer and Director (Principal Executive Officer and Principal Financial Officer)
MARY P. RICCIARDELLO (Mary P. Ricciardello)	Vice President and Comptroller (Principal Accounting Officer)
MILTON CARROLL (Milton Carroll)	Director
JOHN T. CATER (John T. Cater)	Director
ROBERT J. CRUIKSHANK (Robert J. Cruikshank)	Director
LINNET F. DEILY (Linnet F. Deily)	Director
JOSEPH M. HENDRIE (Joseph M. Hendrie)	Director
LEE W. HOGAN (Lee W. Hogan)	Director
HOWARD W. HORNE (Howard W. Horne)	Director
R. S. LETBETTER (R. S. Letbetter)	Director
ALEXANDER SCHILT (Alexander Schilt)	Director
KENNETH L. SCHNITZER, SR. (Kenneth L. Schnitzer, Sr.)	Director
JACK T. TROTTER (Jack T. Trotter)	Director

BERTRAM WOLFE

- ---------- Director

(Bertram Wolfe)

HOUSTON INDUSTRIES INCORPORATED
HOUSTON LIGHTING & POWER COMPANY

EXHIBITS TO THE ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1995

INDEX OF EXHIBITS

Exhibits not incorporated by reference to a prior filing are designated by a cross (+); all exhibits not so designated are incorporated herein by reference to a prior filing as indicated. Exhibits designated by an asterisk (*) are management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(10)(iii) of Regulation S-K.

(a) Houston Industries Incorporated

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
2(a)	Articles of Merger of Houston Industries Finance, Inc. with the Company, effective June 8, 1993	Form 10-Q for the quarter ended June 30, 1993	1-7629	2
3(a)	Restated Articles of Incorporation of the Company (Restated as of May 1993)	Form 10-Q for the quarter ended June 30, 1993	1-7629	3
+3(b)	Amended and Restated Bylaws of the Company (as of March 11, 1996)			
4(a)(1)	Mortgage and Deed of Trust dated November 1, 1944 between HL&P and South Texas Commercial National Bank of Houston (Texas Commerce Bank National Association, as successor trustee), as Trustee, as amended and supplemented by 20 Supplemental Indentures thereto	Form S-7 of HL&P filed on August 25, 1977	2-59748	2(b)

4(a)(2)	Twenty-First through Fiftieth Supplemental Indentures to HL&P Mortgage and Deed of Trust	HL&P's Form 10-K for the year ended December 31, 1989	1-3187	4(a)(2)
4(a)(3)	Fifty-First Supplemental Indenture dated March 25, 1991 to HL&P Mortgage and of Trust	HL&P's Form 10-Q for the quarter ended June 30, 1991	1-3187	4(a)
4(a)(4)	Fifty-Second through Fifty-Fifth Supplemental Indentures, each dated March 1, 1992, to HL&P Mortgage and Deed of Trust	HL&P's Form 10-Q for the quarter ended March 31, 1992	1-3187	4
4(a)(5)	Fifty-Sixth and Fifty-Seventh Supplemental Indentures, each dated October 1, 1992, to HL&P Mortgage and Deed of Trust	HL&P's Form 10-Q for the quarter ended September 30, 1992	1-3187	4
4(a)(6)	Fifty-Eighth and Fifty-Ninth Supplemental Indenture, each dated as of March 1, 1993 to HL&P Mortgage and Deed of Trust	HL&P's Form 10-Q for the quarter ended March 31, 1993	1-3187	4
4(a)(7)	Sixtieth Supplemental Indenture dated as July 1, 1993 to HL&P Mortgage and Deed of Trust	HL&P's Form 10-Q for the quarter ended June 30, 1993	1-3187	4
4(a)(8)	Sixty-First through Sixty-Third Supplemental Indentures to HL&P Mortgage and Deed of Trust	HL&P's Form 10-K for the year ended December 31, 1993	1-3187	4(a)(8)

4(a)(9)	Sixty-Fourth and Sixty-Fifth Supplemental Indentures, each dated as of July 1, 1995, to HL&P Mortgage and Deed of Trust	HL&P's Form 10-K for the year ended December 31, 1995	1-3187	4(a)(9)
4(b)(1)	Rights Agreement dated July 11, 1990 between the Company and Texas Commerce Bank National Association, as Rights Agent (Rights Agent), which includes form of Statement of Resolution Establishing Series of Shares designated Series A Preference Stock and form of Rights Certificate	Form 8-K dated July 11, 1990	1-7629	4(a)(1)
4(b)(2)	Agreement and Appointment of Agent dated as of July 11, 1990 between the Company and the Rights Agent	Form 8-K dated July 11, 1990	1-7629	4(a)(2)
4(c)	Indenture dated as of April 1, 1991 between the Company and NationsBank of Texas, National Association, as Trustee	Form 10-Q for the quarter ended June 30, 1991	1-7629	4(b)
4(d)	Agreement and Plan of Merger dated as of January 26, 1995 among KBLCOM, the Company, Time Warner and TW KBLCOM Acquisition Corp.	Form 8-K dated January 26, 1995	1-7629	2(a)

Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Company has not filed as exhibits to this Form 10-K certain long-term debt instruments, under which the total amount of securities authorized do not exceed 10 percent of the total assets of the Company and its subsidiaries on a consolidated basis. The Company hereby agrees to furnish a copy of any such instrument to the SEC upon request.

*10(a)	Executive Benefit Plan of the Company and First and Second Amendments thereto (effective as of June 2, 1982, July 1, 1984, May 7, 1986, respectively)	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(a)(1) 10(a)(2) and 10(a)(3)
*10(b)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1982)	Form 10-K for the year ended December 31, 1991	1-7629	10(b)
*10(b)(2)	First Amendment to Exhibit 10(b)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(a)
*10(b)(3)	Second Amendment to Exhibit 10(b)(1) (effective as of November 4, 1992)	Form 10-K for the year ended December 31, 1992	1-7629	10(b)(3)
*10(b)(4)	Third Amendment to Exhibit 10(b)(1) (effective as of September 7, 1994)	Form 10-K for the year ended December 31, 1994	1-7629	10(b)(4)
*10(c)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1985)	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(b)(1)
*10(c)(2)	First Amendment to Exhibit 10(c)(1) (effective as of January 1, 1985)	Form 10-K for the year ended December 31, 1988	1-7629	10(b)(3)
*10(c)(3)	Second Amendment to Exhibit 10(c)(1) (effective as of January 1, 1985)	Form 10-K for the year ended December 31, 1991	1-7629	10(c)(3)
*10(c)(4)	Third Amendment to Exhibit 10(c)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(b)

*10(c)(5)	Fourth Amendment to Exhibit 10(c)(1) (effective as of November 4, 1992)	Form 10-K for the year ended December 31, 1992	1-7629	10(c)(5)
*10(c)(6)	Fifth Amendment to Exhibit 10(c)(1) (effective as of September 7, 1994)	Form 10-K for the year ended December 31, 1994	1-7629	10(c)(6)
*10(d)	Executive Incentive Compensation Plan of HL&P (effective as of January 1, 1985)	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(b)(2)
*10(e)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1989)	Form 10-Q for the quarter ended June 30, 1989	1-7629	10(b)
*10(e)(2)	First Amendment to Exhibit 10(e)(1) (effective as of January 1, 1989)	Form 10-K for the year ended December 31, 1991	1-7629	10(e)(2)
*10(e)(3)	Second Amendment to Exhibit 10(e)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(c)
*10(e)(4)	Third Amendment to Exhibit 10(e)(1) (effective as of November 4, 1992)	Form 10-K for the year ended December 31, 1992	1-7629	10(c)(4)
*10(e)(5)	Fourth Amendment to Exhibit 10(e)(1) (effective as of September 7, 1994)	Form 10-K for the year ended December 31, 1994	1-7629	10(e)(5)
*10(f)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1991)	Form 10-K for the year ended December 31, 1990	1-7629	10(b)

*10(f)(2)	First Amendment to Exhibit 10(f)(1) (effective as of January 1, 1991)	Form 10-K for the year ended December 31, 1991	1-7629	10(f)(2)
*10(f)(3)	Second Amendment to Exhibit 10(f)(1) (effective as of January 1, 1991)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(d)
*10(f)(4)	Third Amendment to Exhibit 10(f)(1) (effective as of November 4, 1992)	Form 10-K for the year ended December 31, 1992	1-7629	10(f)(4)
*10(f)(5)	Fourth Amendment to Exhibit 10(f)(1) (effective as of January 1, 1993)	Form 10-K for the year ended December 31, 1992	1-7629	10(f)(5)
*10(f)(6)	Fifth Amendment to Exhibit 10(f)(1) (effective as of September 7, 1994)	Form 10-K for the year ended December 31, 1994	1-7629	10(f)(6)
*10(f)(7)	Sixth Amendment to Exhibit 10(f)(1)	Form 10-Q for the quarter ended June 30, 1995	1-7629	10(a)
*10(g)(1)	Benefit Restoration Plan of the Company (effective as of June 1, 1985)	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(c)
*10(g)(2)	Benefit Restoration Plan of the Company as amended and re-stated (effective as of January 1, 1988)	Form 10-K for the year ended December 31, 1991	1-7629	10(g)(2)
*10(g)(3)	Benefit Restoration Plan of the Company, as amended and re-stated (effective as of July 1, 1991)	Form 10-K for the year ended December 31, 1991	1-7629	10(g)(3)
*10(h)(1)	Deferred Compensation Plan of the Company (effective as of September 1, 1985)	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(d)

*10(h)(2)	First Amendment to Exhibit 10(h)(1) (effective as of September 1, 1985)	Form 10-K for the year ended December 31, 1990	1-7629	10(d)(2)
*10(h)(3)	Second Amendment to Exhibit 10(h)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(e)
*10(h)(4)	Third Amendment to Exhibit 10(h)(1) (effective as of June 2, 1993)	Form 10-K for the year ended December 31, 1993	1-7629	10(h)(4)
*10(h)(5)	Fourth Amendment to Exhibit 10(h)(1) (effective as of September 7, 1994)	Form 10-K for the year ended December 31, 1994	1-7629	10(h)(5)
*10(h)(6)	Fifth Amendment to Exhibit 10(h)(1)	Form 10-Q for the quarter ended June 30, 1995	1-7629	10(d)
*10(i)(1)	Deferred Compensation Plan of the Company (effective as of January 1, 1989)	Form 10-Q for the quarter ended June 30, 1989	1-7629	10(a)
*10(i)(2)	First Amendment to Exhibit 10(i)(1) (effective as of January 1, 1989)	Form 10-K for the year ended December 31, 1989	1-7629	10(e)(3)
*10(i)(3)	Second Amendment to Exhibit 10(i)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(f)
*10(i)(4)	Third Amendment to Exhibit 10(i)(1) (effective as of June 2, 1993)	Form 10-K for the year ended December 31, 1993	1-7629	10(i)(4)
*10(i)(5)	Fourth Amendment to Exhibit 10(i)(1) (effective as of September 7, 1994)	Form 10-K for the year ended December 31, 1994	1-7629	10(i)(5)

*10(i)(6)	Fifth Amendment to Exhibit 10(i)(1)	Form 10-Q for the quarter ended June 30, 1995	1-7629	10(c)
*10(j)(1)	Deferred Compensation Plan of the Company (effective as of January 1, 1991)	Form 10-K for the year ended December 31, 1990	1-7629	10(d)(3)
*10(j)(2)	First Amendment to Exhibit 10(j)(1) (effective as of January 1, 1991)	Form 10-K for the year ended December 31, 1991	1-7629	10(j)(2)
*10(j)(3)	Second Amendment to Exhibit 10(j)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(g)
*10(j)(4)	Third Amendment to Exhibit 10(j)(1) (effective as of June 2, 1993)	Form 10-K for the year ended December 31, 1993	1-7629	10(j)(4)
*10(j)(5)	Fourth Amendment to Exhibit 10(j)(1) (effective as of December 1, 1993)	Form 10-K for the year ended December 31, 1993	1-7629	10(j)(5)
*10(j)(6)	Fifth Amendment to Exhibit 10(j)(1) (effective as of September 7, 1994)	Form 10-K for the year ended December 31, 1994	1-7629	10(j)(6)
*10(j)(7)	Sixth Amendment to Exhibit 10(j)(1)	Form 10-Q for the quarter ended June 30, 1995	1-7629	10(b)
*10(k)(1)	Long-Term Incentive Compensation Plan of the Company (effective as of January 1, 1989)	Form 10-Q for the quarter ended June 30, 1989	1-7629	10(c)
*10(k)(2)	First Amendment to Exhibit 10(k)(1) (effective as of January 1, 1990)	Form 10-K for the year ended December 31, 1989	1-7629	10(f)(2)

*10(k)(3)	Second Amendment to Exhibit 10(k)(1) (effective as of December 22, 1992)	Form 10-K for the year ended December 31, 1992	1-7629	10(k)(3)
*10(l)	Form of stock option agreement for nonqual-ified stock options granted under the Company's 1989 Long-Term Incentive Compensation Plan	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(h)
*10(m)	Forms of restricted stock agreement for restricted stock granted under the Company's 1989 Long-Term Incentive Compensation Plan	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(i)
*10(n)(1)	1994 Long-Term Incentive Compensation Plan of the Company (effective as of January 1, 1994)	Form 10-K for the year ended December 31, 1993	1-7629	10(n)(1)
*10(n)(2)	Form of stock option agreement for non-qualified stock options granted under the Company's 1994 Long-Term Incentive Com-pensation Plan	Form 10-K for the year ended December 31, 1993	1-7629	10(n)(2)
*10(o)(1)	Savings Restoration Plan of the Company (effective as of January 1, 1991)	Form 10-K for the year ended December 31, 1990	1-7629	10(f)
*10(o)(2)	First Amendment to Exhibit 10(o)(1) (effective as of January 1, 1991)	Form 10-K for the year ended December 31, 1991	1-7629	10(l)(2)
*10(p)	Director Benefits Plan, effective as of January 1, 1992	Form 10-K for the year ended December 31, 1991	1-7629	10(m)

*10(q)(1)	Executive Life Insurance Plan of the Company (effective as of January 1, 1994)	Form 10-K for the year ended December 31, 1993	1-7629	10(q)
*10(q)(2)	First Amendment to Exhibit 10(q)(1)	Form 10-Q for the quarter ended June 30, 1995	1-7629	10
*10(r)	Employment and Supplemental Benefits Agreement between HL&P and Hugh Rice Kelly	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(f)
10(s)(1)	Houston Industries Master Savings Trust, as Amended and Restated Effective January 1, 1994, between the Company and Texas Commerce Bank National Association	Form 10-Q for the quarter ended March 31, 1994	1-7629	10
10(s)(2)	First Amendment to Exhibit 10(s)(1)	Form 10-Q for the quarter ended March 31, 1995	1-7629	10(a)
10(s)(3)	Termination of Houston Industries Incorporated Savings Plan and Trust Agreement as to KBLCOM Incorporated Effective as of June 30, 1995	Form 10-Q for the quarter ended September 30, 1995	1-7629	10(a)
+10(s)(4)	Houston Industries Incorporated Savings Trust between the Company and The Northern Trust Company, as Trustee. (As Amended and Restated Effective July 1, 1995)			

10(s)(5)	ESOP Trust Agreement between the Company and State Street Bank and Trust Company, as ESOP Trustee, dated October 5, 1990	Form 10-K for the year ended December 31, 1990	1-7629	10(j)(2)
10(s)(6)	First Amendment to Exhibit 10(s)(5) between the Company and The Northern Trust Company, as successor Trustee, effective as of May 1, 1995.	Form 10-Q for the quarter ended March 31, 1995	1-7629	10(b)
10(s)(7)	Note Purchase Agreement between the Company and the ESOP Trustee, dated as of October 5, 1990	Form 10-K for the year ended December 31, 1990	1-7629	10(j)(3)
10(s)(8)	Stock Purchase Agreement between the Company and the ESOP Trustee, dated as of October 5, 1990	Form 10-K for the year ended December 31, 1991	1-7629	10(j)(4)
*10(t)	Agreement dated June 6, 1994 between the Company and Don D. Jordan	Form 10-Q for the quarter ended June 30, 1994	1-7629	10(a)
*10(u)	Agreement dated June 6, 1994 between the Company and Don D. Sykora	Form 10-Q for the quarter ended June 30, 1994	1-7629	10(b)
*10(v)	Letter Agreement between the Company and Jack Trotter	Form 10-K for the year ended December 31, 1994	1-7629	10(v)

*10(w)	Form of Severance Agreements dated December 22, 1994 between the Company and each of the following executive officers: Hugh Rice Kelly, R. Steve Letbetter, David M. McClanahan, Lee W. Hogan and William T. Cottle	Form 10-K for the year ended December 31, 1994	1-7629	10(w)
*10(x)	Employment Agreement dated April 5, 1993 between HL&P and William T. Cottle	Form 10-K for the year ended December 31, 1994	1-3187	10(t)
10(y)(1)	Stockholder's Agreement dated as of July 6, 1995 between the Company and Time Warner Inc.	Schedule 13-D dated July 6, 1995	5-19351	2
10(y)(2)	Registration Rights Agreement dated as of July 6, 1995 between the Company and Time Warner Inc.	Schedule 13-D dated July 6, 1995	5-19351	3
10(y)(3)	Certificate of Voting Powers, Designations, Preferences and Relative Participating, Optional or Other Special rights, and Qualifications, Limitations or Restrictions Thereof of Series D. Convertible Preferred Stock of Time Warner Inc.	Schedule 13-D dated July 6, 1995	5-19351	4
+*10(z)	Houston Industries Incorporated Executive Deferred Compensation Trust, effective as of December 19, 1995			
+*10(aa)	Agreement dated June 14, 1991 between the Company and David M. McClanahan			

+11	Computation of Earnings Per Common Share - and Common Equivalent Share
+12	Computation of Ratios of Earnings to Fixed Charges
+21	Subsidiaries of the Company
+23	Consent of Deloitte & Touche LLP
+27	Financial Data Schedule
+99	Second Amendment to Houston Industries Energy, Inc. Long-Term Project Incentive Compensation Plan effective December 6, 1995

(b) Houston Lighting & Power Company

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
2	Articles of Merger of Utility Fuels, Inc. with HL&P, effective October 8, 1993	Form 10-Q for the quarter ended September 30, 1993	1-3187	2
3(a)	Restated Articles of Incorporation of HL&P dated May 11, 1993	Form 10-Q for the quarter ended June 30, 1993	1-3187	3
3(b)	Amended and Restated Bylaws of HL&P (as of February 1, 1995)	Form 10-K for the year ended December 31, 1994	1-3187	3(b)
4(a)(1)	Mortgage and Deed of Trust dated November 1, 1944 between HL&P and South Texas Commercial National Bank of Houston (Texas Commerce Bank National Association, as successor trustee), as Trustee, as amended and supplemented by 20 Supplemental Indentures thereto	Form S-7 filed on August 25, 1977	2-59748	2(b)
4(a)(2)	Twenty-First through Fiftieth Supplemental Indentures to HL&P Mortgage and Deed of Trust	Form 10-K for the year ended December 31, 1989	1-3187	4(a)(2)
4(a)(3)	Fifty-First Supplemental Indenture dated March 25, 1991 to HL&P Mortgage and Deed of Trust	Form 10-Q for the quarter ended June 30, 1991	1-3187	4(a)
4(a)(4)	Fifty-Second through Fifty-Fifth Supplemental Indentures, each dated March 1, 1992, to HL&P Mortgage and Deed of Trust	Form 10-Q for the quarter ended March 31, 1992	1-3187	4

4(a)(5)	Fifty-Sixth and Fifty-Seventh Supplemental Indentures, each dated October 1, 1992, to HL&P Mortgage and Deed of Trust	Form 10-Q for the quarter ended September 30, 1992	1-3187	4
4(a)(6)	Fifty-Eighth and Fifty-Ninth Supplemental Indentures, each dated March 1, 1993, to HL&P Mortgage and Deed of Trust	Form 10-Q for the quarter ended March 31, 1993	1-3187	4
4(a)(7)	Sixtieth Supplemental Indenture dated as of July 1, 1993 to HL&P Mortgage and Deed of Trust	Form 10-Q for the quarter ended June 30, 1993	1-3187	4
4(a)(8)	Sixty-First through Sixty-Third Supplemental Indentures to HL&P Mortgage and Deed of Trust	HL&P's Form 10-K for the year ended December 31, 1993	1-3187	4(a)(8)
+4(a)(9)	Sixty-Fourth and Sixty-Fifth Supplemental Indentures, each dated as of July 1, 1995, to HL&P Mortgage and Deed of Trust			

There have not been filed as exhibits to this Form 10-K certain long-term debt instruments, including indentures, under which the total amount of securities do not exceed 10 percent of the total assets of HL&P. HL&P hereby agrees to furnish a copy of any such instrument to the SEC upon request.

*10(a)	Executive Benefit Plan of the Company and First and Second Amendments thereto (effective as of June 2, 1982, July 1, 1984, May 7, 1986, respectively)	The Company's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(a)(1) 10(a)(2) and 10(a)(3)
*10(b)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1982)	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(b)

*10(b)(2)	First Amendment to Exhibit 10(b)(1) (effective as of March 30, 1992)	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(a)
*10(b)(3)	Second Amendment to Exhibit 10(b)(1) (effective as of November 4, 1992)	The Company's Form 10-K for the year ended December 31, 1992	1-7629	10(b)(3)
*10(b)(4)	Third Amendment to Exhibit 10(b)(1) (effective as of September 7, 1994)	The Company's Form 10-K for the year ended December 31, 1994	1-7629	10(b)(4)
*10(c)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1985)	The Company's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(b)(1)
*10(c)(2)	First Amendment to Exhibit 10(c)(1) (effective as of January 1, 1985)	The Company's Form 10-K for the year ended December 31, 1988	1-7629	10(b)(3)
*10(c)(3)	Second Amendment to Exhibit 10(c)(1) (effective as of January 1, 1985)	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(c)(3)
*10(c)(4)	Third Amendment to Exhibit 10(c)(1) (effective as of March 30, 1992)	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(b)
*10(c)(5)	Fourth Amendment to Exhibit 10(c)(1) (effective as of November 4, 1992)	The Company's Form 10-K for the year ended December 31, 1992	1-7629	10(c)(5)
*10(c)(6)	Fifth Amendment to Exhibit 10(c)(1) (effective as of September 7, 1994)	The Company's Form 10-K for the year ended December 31, 1994	1-7629	10(c)(6)
*10(d)	Executive Incentive Compensation Plan of HL&P (effective as of January 1, 1985)	The Company's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(b)(2)
*10(e)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1989)	The Company's Form 10-Q for the quarter ended June 30, 1989	1-7629	10(b)

*10(e)(2)	First Amendment to Exhibit 10(e)(1) (effective as of January 1, 1989)	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(e)(2)
*10(e)(3)	Second Amendment to Exhibit 10(e)(1) (effective as of March 30, 1992)	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(c)
*10(e)(4)	Third Amendment to Exhibit 10(e)(1) (effective as of November 4, 1992)	The Company's Form 10-K for the year ended December 31, 1992	1-7629	10(c)(4)
*10(e)(5)	Fourth Amendment to Exhibit 10(e)(1) (effective as of September 7, 1994)	The Company's Form 10-K for the year ended December 31, 1994	1-7629	10(e)(5)
*10(f)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1991)	The Company's Form 10-K for the year ended December 31, 1990	1-7629	10(b)
*10(f)(2)	First Amendment to Exhibit 10(f)(1) (effective as of January 1, 1991)	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(f)(2)
*10(f)(3)	Second Amendment to Exhibit 10(f)(1) (effective as of January 1, 1991)	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(d)
*10(f)(4)	Third Amendment to Exhibit 10(f)(1) (effective as of November 4, 1992)	The Company's Form 10-K for the year ended December 31, 1992	1-7629	10(f)(4)
*10(f)(5)	Fourth Amendment to Exhibit 10(f)(1) (effective as of January 1, 1993)	The Company's Form 10-K for the year ended December 31, 1992	1-7629	10(f)(5)
*10(f)(6)	Fifth Amendment to Exhibit 10(f)(1) (effective as of September 7, 1994)	The Company's Form 10-K for the year ended December 31, 1994	1-7629	10(f)(6)
*10(f)(7)	Sixth Amendment to Exhibit 10(f)(1)	The Company's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(a)

*10(g)(1)	Benefit Restoration Plan of the Company (effective as of June 1, 1985)	The Company's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(c)
*10(g)(2)	Benefit Restoration Plan of the Company as amended and restated (effective as of January 1, 1988)	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(g)(2)
*10(g)(3)	Benefit Restoration Plan of the Company as amended and restated (effective as of July 1, 1991)	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(g)(3)
*10(h)(1)	Deferred Compensation Plan of the Company (effective as of September 1, 1985)	The Company's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(d)
*10(h)(2)	First Amendment to Exhibit 10(h)(1) (effective as of September 1, 1985)	The Company's Form 10-K for the year ended December 31, 1990	1-7629	10(d)(2)
*10(h)(3)	Second Amendment to Exhibit 10(h)(1) (effective as of March 30, 1992)	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(e)
*10(h)(4)	Third Amendment to Exhibit 10(h)(1) (effective as of June 2, 1993)	The Company's Form 10-K for the year ended December 31, 1993	1-7629	10(h)(4)
*10(h)(5)	Fourth Amendment to Exhibit 10(h)(1) effective as of September 7, 1994	The Company's Form 10-K for the year ended December 31, 1994	1-7629	10(h)(5)
*10(h)(6)	Fifth Amendment to Exhibit 10(h)(1)	The Company's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(d)
*10(i)(1)	Deferred Compensation Plan of the Company (effective as of January 1, 1989)	The Company's Form 10-Q for the quarter ended June 30, 1989	1-7629	10(a)
*10(i)(2)	First Amendment to Exhibit 10(i)(1) (effective as of January 1, 1989)	The Company's Form 10-K for the year ended December 31, 1989	1-7629	10(e)(3)

*10(i)(3)	Second Amendment to Exhibit 10(i)(1) (effective as of March 30, 1992)	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(f)
*10(i)(4)	Third Amendment to Exhibit 10(i)(1) (effective as of June 2, 1993)	The Company's Form 10-K for the year ended December 31, 1993	1-7629	10(i)(4)
*10(i)(5)	Fourth Amendment to Exhibit 10(i)(1) (effective as of September 7, 1994)	The Company's Form 10-K for the year ended December 31, 1994	1-7629	10(i)(5)
*10(i)(6)	Fifth Amendment to Exhibit 10(i)(1)	The Company's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(c)
*10(j)(1)	Deferred Compensation Plan of the Company (effective as of January 1, 1991)	The Company's Form 10-K for the year ended December 31, 1990	1-7629	10(d)(3)
*10(j)(2)	First Amendment to Exhibit 10(j)(1) (effective as of January 1, 1991)	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(j)(2)
*10(j)(3)	Second Amendment to Exhibit 10(j)(1) (effective as of March 30, 1992)	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(g)
*10(j)(4)	Third Amendment to Exhibit 10(j)(1) (effective as of June 2, 1993)	The Company's Form 10-K for the year ended December 31, 1993	1-7629	10(j)(4)
*10(j)(5)	Fourth Amendment to Exhibit 10(j)(1) (effective as of December 1, 1993)	The Company's Form 10-K for the year ended December 31, 1993	1-7629	10(j)(5)
*10(j)(6)	Fifth Amendment to Exhibit 10(j)(1) (effective as of September 7, 1994)	The Company's Form 10-K for the year ended December 31, 1994	1-7629	10(j)(6)
*10(j)(7)	Sixth Amendment to Exhibit 10(j)(1)	The Company's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(b)

*10(k)(1)	Long-Term Incentive Compensation Plan of the Company (effective as of January 1, 1989)	The Company's Form 10-Q for the quarter ended June 30, 1989	1-7629	10(c)
*10(k)(2)	First Amendment to Exhibit 10(k)(1) (effective as of January 1, 1990)	The Company's Form 10-K for the year ended December 31, 1989	1-7629	10(f)(2)
*10(k)(3)	Second Amendment to Exhibit 10(k)(1) (effective as of December 22, 1992)	The Company's Form 10-K for the year ended December 31, 1992	1-7629	10(k)(3)
*10(l)	Form of stock option agreement for nonqual-ified stock options granted under the Company's 1989 Long-Term Incentive Compensation Plan	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(h)
*10(m)	Forms of restricted stock agreement for restricted stock granted under the Company's 1989 Long-Term Incentive Compensation Plan	The Company's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(i)
*10(n)(1)	1994 Long-Term Incentive Compensation Plan of the Company (effective as of January 1, 1994)	The Company's Form 10-K for the year ended December 31, 1993	1-7629	10(n)(1)
*10(n)(2)	Form of Stock Option Agreement for Nonqualified Stock Options Granted under the Company's 1994 Long-Term Incentive Compen-sation Plan	The Company's Form 10-K for the year ended December 31, 1993	1-7629	10(n)(2)
*10(o)(1)	Savings Restoration Plan of the Company (effective as of January 1, 1991)	The Company's Form 10-K for the year ended December 31, 1990	1-7629	10(f)
*10(o)(2)	First Amendment to Exhibit 10(o)(1) (effective as of January 1, 1991)	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(l)(2)

*10(p)	Director Benefits Plan, effective as of January 1, 1992	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(m)
*10(q)	Executive Life Insurance Plan of the Company (effective as of January 1, 1994)	The Company's Form 10-K for the year ended December 31, 1993	1-7629	10(q)
*10(q)(1)	First Amendment to Exhibit 10(q)	The Company's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(e)
*10(r)	Employment and Supplemental Benefits Agreement between HL&P and Hugh Rice Kelly	The Company's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(f)
10(s)(1)	The Company's Master Savings Trust, as Amended and Restated effective as of January 1, 1994, between the Company and Texas Commerce Bank National Association	The Company's Form 10-Q for the quarter ended March 31, 1994	1-7629	10
10(s)(2)	First Amendment to Exhibit 10(s)(1)	The Company's Form 10-Q for the quarter ended March 31, 1995	1-7629	10(a)
10(s)(3)	Termination of Houston Industries Incorporated Savings Plan and Trust Agreement as to KBLCOM Incorporated Effective as of June 30, 1995	The Company's Form 10-Q for the quarter ended September 30, 1995	1-7629	10(a)
10(s)(4)	Houston Industries Incorporated Savings Trust (As Amended and Restated Effective July 1, 1995)	The Company's Form 10-K for the year ended December 31, 1995	1-7629	10(s)(4)
10(s)(5)	ESOP Trust Agreement between Houston Industries and State Street Bank and Trust Company, as ESOP Trustee, dated October 5, 1990	The Company's Form 10-K for the year ended December 31, 1990	1-7629	10(j)(2)

10(s)(6)	First Amendment to Exhibit 10(s)(5)	The Company's Form 10-Q for the quarter ended March 31, 1995	1-7629	10(b)
10(s)(7)	Note Purchase Agreement between the Company and the ESOP Trustee, dated as of October 5, 1990	The Company's Form 10-K for the year ended December 31, 1990	1-7629	10(j)(3)
10(s)(8)	Stock Purchase Agreement between the Company and the ESOP Trustee, dated as of October 9, 1990	The Company's Form 10-K for the year ended December 31, 1991	1-7629	10(j)(4)
*10(t)	Employment Agreement dated April 5, 1993 between HL&P and William T. Cottle	Form 10-K for the year ended December 31, 1994	1-3187	10(t)
*10(u)	Form of Severance Agreements dated December 22, 1994 between the Company and the following executive officers: Hugh Rice Kelly, R. Steve Letbetter, William T. Cottle and David M. McClanahan	Form 10-K for the year ended December 31, 1994	1-3187	10(u)
*10(v)	Houston Industries Incorporated Executive Deferred Compensation Trust, effective as of December 19, 1995	The Company's Form 10-K for the year ended December 31, 1995	1-7629	10(z)
*10(y)	Agreement dated June 14, 1991 between the Company and David M. McClanahan	The Company's Form 10-K for the year ended December 31, 1995	1-7629	10(aa)
+12	Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Fixed Charges and Preferred Dividends			
+23	Consent of Deloitte & Touche LLP			
+27	Financial Data Schedule			

AMENDED AND RESTATED BYLAWS

OF

HOUSTON INDUSTRIES INCORPORATED

(Adopted by Resolution of the
Board of Directors as of
March 11, 1996)

ARTICLE I

CAPITAL STOCK

Section 1. Certificates Representing Shares. The Company shall deliver certificates representing shares to which shareholders are entitled. Such certificates shall be signed by the President or a Vice President and either the Secretary or an Assistant Secretary and shall be sealed with the seal of the Company or a facsimile thereof. The signatures of such officers upon a certificate may be facsimiles. In case any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Company with the same effect as if he were such officer at the date of its issuance.

Section 2. Shareholders of Record. The Board of Directors of the Company may appoint one or more transfer agents or registrars of any class of stock of the Company. The Company shall be entitled to treat the holder of record of any shares of the Company as the owner thereof for all purposes, and shall not be bound to recognize any equitable or other claim to, or interest in, such shares or any rights deriving from such shares, on the part of any other person, including (but without limitation) a purchaser, assignee or transferee, unless and until such other person becomes the holder of record of such shares, whether or not the Company shall have either actual or constructive notice of the interest of such other person.

Section 3. Transfer of Shares. The shares of the Company shall be transferable on the stock certificate books of the Company by the holder of record thereof, or his duly authorized attorney or legal representative, upon surrender for cancellation of the certificate for such shares. All certificates surrendered for transfer shall be cancelled and

no new certificate shall be issued until a former certificate or certificates for a like number of shares shall have been surrendered and cancelled except that in the case of a lost, destroyed or mutilated certificate, a new certificate may be issued therefor upon such conditions for the protection of the Company and any transfer agent or registrar as the Board of Directors or the Secretary may prescribe.

ARTICLE II

MEETINGS OF SHAREHOLDERS

Section 1. Place of Meetings. All meetings of shareholders shall be held at the registered office of the Company, in the City of Houston, Texas, or at such other place within or without the State of Texas as may be designated by the Board of Directors or officer calling the meeting.

Section 2. Annual Meeting. The annual meeting of the shareholders shall be held on such date not later than June 30 of each year and at such time as shall be designated from time to time by the Board of Directors. Failure to hold the annual meeting at the designated time shall not work a dissolution of the Company.

Section 3. Special Meetings. Special meetings of the shareholders may be called by the President, the Secretary, the Board of Directors, the holders of not less than one-tenth of all of the shares outstanding and entitled to vote at such meeting or such other persons as may be authorized in the Articles of Incorporation.

Section 4. Notice of Meeting. Written or printed notice of all meetings stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered to each shareholder of record entitled to vote at such meetings not less than ten nor more than fifty days before the date of the meeting, either personally or by mail, by or at the direction of the President, the Secretary or the officer or person calling the meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the shareholder at his address as it appears on the stock transfer books of the Company, with postage thereon prepaid.

Section 5. Closing of Transfer Books and Fixing Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, the Board of Directors may either provide that

the stock transfer books shall be closed for a stated period of not less than ten nor more than fifty days before the meeting, or it may fix in advance a record date for any such determination of shareholders, such date to be not less than ten days nor more than fifty days prior to the meeting. If the stock transfer books are not closed and no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, then the date on which the notice of the meeting is mailed shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as herein provided, such determination shall apply to any adjournment thereof except where the determination has been made through the closing of the stock transfer books and the stated period of closing has expired.

Section 6. Voting List. The officer or agent having charge of the stock transfer books for shares of the Company shall make, at least ten days before each meeting of shareholders, a complete list of the shareholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each, which list, for a period of ten days prior to such meeting, shall be kept on file at the registered office of the Company and shall be subject to inspection by any shareholder at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original stock transfer books shall be prima facie evidence as to who are the shareholders entitled to examine such list or to vote at any meeting of shareholders. Failure to comply with any requirements of this Section 6 shall not affect the validity of any action taken at such meeting.

Section 7. Voting at Meetings. Except as otherwise provided in the Articles of Incorporation of the Company, each holder of shares of capital stock of the Company entitled to vote shall be entitled to one vote for each share of such stock, either in person or by proxy executed in writing by him or by his duly authorized attorney-in-fact. No proxy shall be valid after eleven months from the date of its execution unless otherwise provided in the proxy. A proxy shall be revocable unless expressly provided therein to be irrevocable and unless otherwise made irrevocable by law. At each election for directors, every holder of shares of the Company entitled to vote shall have the right to vote, in person or by proxy, the number of shares owned by him for as many persons as there are directors to be elected, and for whose election he has a right to vote, but in no event shall he be permitted to cumulate his votes for one or more directors.

Section 8. Quorum of Shareholders. Except as otherwise provided in the Articles of Incorporation of the Company, the holders of a majority of shares entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of

shareholders, but, if a quorum is not represented, a majority in interest of those represented may adjourn the meeting from time to time. Except as otherwise provided by law, the Articles of Incorporation or these Bylaws, the affirmative vote of the holders of a majority of the shares entitled to vote and thus represented at a meeting at which a quorum is present shall be the act of the shareholders' meeting.

Section 9. Officers. The President shall preside at, and the Secretary shall keep the records of, each meeting of shareholders. In the absence of either such officer, his duties shall be performed by another officer of the Company appointed at the meeting.

All determinations of the presiding person at each meeting of shareholders shall be conclusive unless a matter is determined otherwise upon motion duly adopted by the affirmative vote of the holders of at least 80% of the voting power of the shares of capital stock of the Company entitled to vote in the election of directors held by shareholders present in person or represented by proxy at such meeting.

ARTICLE III

DIRECTORS

Section 1. Number and Classification of Board of Directors. The business and affairs of the Company shall be managed by the Board of Directors. The number of directors that shall constitute the whole Board of Directors of the Company shall be not less than nine nor more than eighteen as specified from time to time by the affirmative vote of at least 80% of all directors then in office at any regular or special meeting of the Board of Directors called for that purpose. The directors shall be divided into three classes, Class I, Class II and Class III. Such classes shall be as nearly equal in number of directors as possible. Each person serving as a director as of July 2, 1986 and each person elected as a director subsequent to such date but prior to the annual meeting of shareholders to be held in 1987 shall serve for a term expiring at such annual meeting without regard to class. Thereafter, each director, other than those who may be elected by the holders of Preference Stock pursuant to Section 6 of Division A of Article VI of the Articles of Incorporation of the Company (or elected by such directors to fill a vacancy) and except as provided in the penultimate paragraph of this Section 1, shall serve for a term ending on the third annual meeting following the annual meeting at which such director was elected; provided, however, that the directors elected as Class I Directors at the annual meeting of shareholders to be held in 1987 shall serve

for a term expiring at the annual meeting of shareholders to be held in 1988, the directors elected as Class II Directors at the annual meeting of shareholders to be held in 1987 shall serve for a term expiring at the annual meeting of shareholders to be held in 1989 and the directors elected as Class III Directors at the annual meeting of shareholders to be held in 1987 shall serve for a term expiring at the annual meeting of shareholders to be held in 1990. Each director elected by the holders of Preference Stock pursuant to Section 6 of Division A of Article VI of the Articles of Incorporation of the Company (or elected by such directors to fill a vacancy) shall serve for a term ending upon the earlier of the election of his successor or the termination at any time of a right of the holders of Preference Stock to elect members of the Board of Directors.

At each annual election, the directors chosen to succeed those whose terms then expire shall be of the same class as the directors they succeed, unless, by reason of any intervening changes in the authorized number of directors, the Board of Directors shall designate one or more directorships whose term then expires as directorships of another class in order more nearly to achieve equality of number of directors among the classes.

Notwithstanding the rule that the three classes shall be as nearly equal in number of directors as possible, in the event of any change in the authorized number of directors, each director then continuing to serve as such shall nevertheless continue as a director of the class of which he is a member until the expiration of his current term, or his prior death, resignation, disqualification or removal. If any newly created directorship may, consistent with the rule that the three classes shall be as nearly equal in number of directors as possible, be allocated to any of the three classes, the Board of Directors shall allocate it to that available class whose term of office is due to expire at the earliest date following such allocation. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

No person shall be eligible to serve as a director of the Company subsequent to the annual meeting of the shareholders occurring on or after the first day of the month immediately following the month of such person's seventieth birthday, except that a Board member who has special technical expertise in the nuclear power field shall be eligible to serve for no more than one additional year should any Company or subsidiary nuclear facility have been under special or enhanced scrutiny by the Nuclear Regulatory Commission within one year preceding such person's seventieth birthday and such person is otherwise specifically authorized to be eligible to serve by the affirmative vote of at least 80% of all directors then in office. No person shall be eligible to stand for reelection at the annual meeting of shareholders on or immediately following the tenth anniversary of such person's initial election or appointment to the Board of Directors. Any vacancy on the Board of Directors resulting from any director being rendered ineligible to serve as a director of the Company by the immediately preceding two sentences shall be filled by the shareholders entitled to vote thereon at such annual meeting of shareholders. Any

director chosen to succeed a director who is so rendered ineligible to serve as a director of the Company shall be of the same class as the director he succeeds. Notwithstanding the rule that a director may not stand for reelection at the annual meeting of shareholders on or immediately following the tenth anniversary of such person's initial election or appointment to the Board of Directors, an incumbent director may nevertheless continue as a director until the expiration of his current term, or his prior death, resignation, disqualification or removal; provided, however, that no person serving as a director as of April 1, 1992 shall be affected by such term limitation provision, nor shall such term limitation provision apply to directors who are also employees of the Company or its corporate affiliates.

The above notwithstanding, each director shall serve until his successor shall have been duly elected and qualified, unless he shall resign, become disqualified, disabled or shall otherwise be removed.

Section 2. Newly Created Directorships and Vacancies. Newly created directorships resulting from any increase in the number of directors may be filled by the affirmative vote of a majority of the directors then in office for a term of office continuing only until the next election of one or more directors by the shareholders entitled to vote thereon; provided, however, that the Board of Directors shall not fill more than two such directorships during the period between two successive annual meetings of shareholders. Except as provided in Section 1 of this Article III, any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected to fill any such vacancy shall hold office for the remainder of the full term of the director whose departure from the Board of Directors created the vacancy and until such newly elected director's successor shall have been duly elected and qualified.

Notwithstanding the foregoing paragraph of this Section 2, whenever holders of outstanding shares of Preference Stock are entitled to elect members of the Board of Directors pursuant to the provisions of Section 6 of Division A of Article VI of the Articles of Incorporation of the Company, any vacancy or vacancies resulting by reason of the death, resignation, disqualification or removal of any director or directors or any increase in the number of directors shall be filled in accordance with the provisions of such section.

Section 3. Nomination of Directors. Nominations for the election of directors may be made by the Board of Directors or by any shareholder (a "Nominator") entitled to vote in the election of directors. Such nominations, other than those made by the Board of Directors, shall be made in writing pursuant to timely notice delivered to

or mailed and received by the Secretary of the Company as set forth in this Section 3. To be timely in connection with an annual meeting of shareholders, a Nominator's notice, setting forth the name and address of the person to be nominated, shall be delivered to or mailed and received at the principal executive offices of the Company not less than ninety days nor more than 180 days prior to the date on which the immediately preceding year's annual meeting of shareholders was held. To be timely in connection with any election of a director at a special meeting of the shareholders, a Nominator's notice, setting forth the name of the person to be nominated, shall be delivered to or mailed and received at the principal executive offices of the Company not less than forty days nor more than sixty days prior to the date of such meeting; provided, however, that in the event that less than fifty days' notice or prior public disclosure of the date of the special meeting of the shareholders is given or made to the shareholders, the Nominator's notice to be timely must be so received not later than the close of business on the seventh day following the day on which such notice of date of the meeting was mailed or such public disclosure was made. At such time, the Nominator shall also submit written evidence, reasonably satisfactory to the Secretary of the Company, that the Nominator is a shareholder of the Company and shall identify in writing (a) the name and address of the Nominator, (b) the number of shares of each class of capital stock of the Company owned beneficially by the Nominator, (c) the name and address of each of the persons with whom the Nominator is acting in concert, (d) the number of shares of capital stock beneficially owned by each such person with whom the Nominator is acting in concert, and (e) a description of all arrangements or understandings between the Nominator and each nominee and any other persons with whom the Nominator is acting in concert pursuant to which the nomination or nominations are to be made. At such time, the Nominator shall also submit in writing (i) the information with respect to each such proposed nominee that would be required to be provided in a proxy statement prepared in accordance with Regulation 14A under the Securities Exchange Act of 1934, as amended, and (ii) a notarized affidavit executed by each such proposed nominee to the effect that, if elected as a member of the Board of Directors, he will serve and that he is eligible for election as a member of the Board of Directors. Within thirty days (or such shorter time period that may exist prior to the date of the meeting) after the Nominator has submitted the aforesaid items to the Secretary of the Company, the Secretary of the Company shall determine whether the evidence of the Nominator's status as a shareholder submitted by the Nominator is reasonably satisfactory and shall notify the Nominator in writing of his determination. The failure of the Secretary of the Company to find such evidence reasonably satisfactory, or the failure of the Nominator to submit the requisite information in the form or within the time indicated, shall make the person to be nominated ineligible for nomination at the meeting at which such person is proposed to be nominated. The presiding person at each meeting of shareholders shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare to the

meeting and the defective nomination shall be disregarded. Beneficial ownership shall be determined in accordance with Section 6 of Article VII of these Bylaws.

Section 4. Place of Meetings and Meetings by Telephone. Meetings of the Board of Directors may be held either within or without the State of Texas, at whatever place is specified by the officer calling the meeting. Meetings of the Board of Directors may also be held by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in such a meeting by means of conference telephone or similar communications equipment shall constitute presence in person at such meeting, except where a director participates in a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. In the absence of specific designation by the officer calling the meeting, the meetings shall be held at the registered office of the Company in the City of Houston, Texas.

Section 5. Regular Meetings. The Board of Directors shall meet each year immediately following the annual meeting of the shareholders at the place of such meeting, for the transaction of such business as may properly be brought before the meeting. The Board of Directors shall also meet regularly at least each quarter at such time as shall be established by resolution of the Board of Directors. No notice of any kind to either old or new members of the Board of Directors for such annual or regular meetings shall be necessary.

Section 6. Special Meetings. Special meetings of the Board of Directors may be held at any time upon the call of the President or the Secretary of the Company or a majority of the directors then in office. Notice shall be sent by mail or telegram to the last known address of the director at least two days before the meeting, or oral notice may be substituted for such written notice if received not later than the day preceding such meeting. Notice of the time, place and purpose of such meeting may be waived in writing before or after such meeting, and shall be equivalent to the giving of notice. Attendance of a director at such meeting shall also constitute a waiver of notice thereof, except where he attends for the announced purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. Except as otherwise provided by these Bylaws, neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

Section 7. Quorum and Voting. Except as otherwise provided by law, the Articles of Incorporation of the Company or these Bylaws, a majority of the number of directors fixed in the manner provided in these Bylaws as from time to time amended

shall constitute a quorum for the transaction of business. Except as otherwise provided by law, the Articles of Incorporation of the Company or these Bylaws, the affirmative vote of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. Any regular or special directors' meeting may be adjourned from time to time by those present, whether a quorum is present or not.

Section 8. Compensation. Directors shall receive such compensation for their services as shall be determined by the Board of Directors.

Section 9. Removal. No director of the Company shall be removed from his office as a director by vote or other action of the shareholders or otherwise except (a) with cause, as defined below, by the affirmative vote of the holders of at least a majority of the voting power of all outstanding shares of capital stock of the Company entitled to vote in the election of directors, voting together as a single class, or (b) without cause by (i) the affirmative vote of at least 80% of all directors then in office at any regular or special meeting of the Board of Directors called for that purpose or (ii) the affirmative vote of the holders of at least 80% of the voting power of all outstanding shares of capital stock of the Company entitled to vote in the election of directors, voting together as a single class.

Except as may otherwise be provided by law, cause for removal of a director shall be construed to exist only if: (a) the director whose removal is proposed has been convicted, or where a director is granted immunity to testify where another has been convicted, of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal; (b) such director has been found by the affirmative vote of at least 80% of all directors then in office at any regular or special meeting of the Board of Directors called for that purpose or by a court of competent jurisdiction to have been negligent or guilty of misconduct in the performance of his duties to the Company in a matter of substantial importance to the Company; or (c) such director has been adjudicated by a court of competent jurisdiction to be mentally incompetent, which mental incompetency directly affects his ability as a director of the Company.

Notwithstanding the first paragraph of this Section 9, whenever holders of outstanding shares of Preference Stock are entitled to elect members of the Board of Directors pursuant to the provisions of Section 6 of Division A of Article VI of the Articles of Incorporation of the Company, any director of the Company may be removed in accordance with the provisions of such section.

No proposal by a shareholder to remove a director of the Company, regardless of whether such director was elected by holders of outstanding shares of Preference Stock (or elected by such directors to fill a vacancy), shall be voted upon at a meeting

of the shareholders unless such shareholder shall have delivered or mailed in a timely manner (as set forth in this Section 9) and in writing to the Secretary of the Company (a) notice of such proposal, (b) a statement of the grounds, if any, on which such director is proposed to be removed, (c) evidence, reasonably satisfactory to the Secretary of the Company, of such shareholder's status as such and of the number of shares of each class of the capital stock of the Company beneficially owned by such shareholder, (d) a list of the names and addresses of other beneficial owners of shares of the capital stock of the Company, if any, with whom such shareholder is acting in concert, and of the number of shares of each class of the capital stock of the Company beneficially owned by each such beneficial owner, and (e) an opinion of counsel, which counsel and the form and substance of which opinion shall be reasonably satisfactory to the Board of Directors of the Company (excluding the director proposed to be removed), to the effect that, if adopted at a duly called special or annual meeting of the shareholders of the Company by the required vote as set forth in the first paragraph of this Section 9, such removal would not be in conflict with the laws of the State of Texas, the Articles of Incorporation of the Company or these Bylaws. To be timely in connection with an annual meeting of shareholders, a shareholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Company not less than ninety nor more than 180 days prior to the date on which the immediately preceding year's annual meeting of shareholders was held. To be timely in connection with the removal of any director at a special meeting of the shareholders, a shareholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Company not less than forty days nor more than sixty days prior to the date of such meeting; provided, however, that in the event that less than fifty days' notice or prior public disclosure of the date of the special meeting of shareholders is given or made to the shareholders, the shareholder's notice and other aforesaid items to be timely must be so received not later than the close of business on the seventh day following the day on which such notice of date of the meeting was mailed or such public disclosure was made. Within thirty days (or such shorter period that may exist prior to the date of the meeting) after such shareholder shall have delivered the aforesaid items to the Secretary of the Company, the Secretary and the Board of Directors of the Company shall respectively determine whether the items to be ruled upon by them are reasonably satisfactory and shall notify such shareholder in writing of their respective determinations. If such shareholder fails to submit a required item in the form or within the time indicated, or if the Secretary or the Board of Directors of the Company determines that the items to be ruled upon by them are not reasonably satisfactory, then such proposal by such shareholder may not be voted upon by the shareholders of the Company at such meeting of shareholders. The presiding person at each meeting of shareholders shall, if the facts warrant, determine and declare to the meeting that a proposal to remove a director of the Company was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare to the meeting and the defective

proposal shall be disregarded. Beneficial ownership shall be determined as specified in Section 6 of Article VII of these Bylaws.

Section 10. Executive and Other Committees. The Board of Directors, by resolution adopted by a majority of the full Board of Directors, may designate from among its members an executive committee and two or more other committees, each of which shall be comprised of two or more members and, to the extent provided in such resolution, shall have and may exercise all of the authority of the Board of Directors.

Notwithstanding the foregoing paragraph of this Section 10, no such committee shall have the authority of the Board of Directors to:

(a) amend the Articles of Incorporation of the Company;

(b) amend, alter or repeal the Bylaws of the Company or adopt new Bylaws for the Company;

(c) alter or repeal any resolution of the Board of Directors;

(d) approve a plan of merger or consolidation;

(e) take definitive action on any reclassification or exchange of securities, or repurchase by the Company of any of its equity securities;

(f) declare a dividend on the capital stock of the Company;

(g) call a special meeting of the shareholders;

(h) recommend any proposal to the shareholders for action by the shareholders;

(i) fill vacancies in the Board of Directors or any such committee;

(j) fill any directorship to be filled by reason of an increase in the number of directors;

(k) elect or remove officers or members of any such committee; or

(l) fix the compensation of any member of such committee.

The designation of any such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed upon it or him by law, nor shall such committee function where action of the Board of Directors is required under applicable law. The Board of Directors shall have the power at any time to change the membership of any such committee and to fill vacancies in it. A majority of the members of any such committee shall constitute a quorum. Each such committee may elect a chairman and appoint such subcommittees and assistants as it may deem necessary. Except as otherwise provided by the Board of Directors, meetings of any committee shall be conducted in accordance with the provisions of Sections 4 and 6 of this Article III as the same shall from time to time be amended. Any member of any such committee elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the Company will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of a member of a committee shall not of itself create contract rights.

ARTICLE IV

OFFICERS

Section 1. Officers. The officers of the Company shall consist of a President, one or more Vice Presidents, a Secretary and a Treasurer, each of whom shall be elected by the Board of Directors. Such other officers, including assistant officers and agents, as may be deemed necessary may be elected or appointed by the Board of Directors. Any two or more offices may be held by the same person. The officers of the Company shall have such powers and duties as generally pertain to their offices, respectively, as well as such powers and duties as from time to time shall be conferred by the Board of Directors.

Section 2. Vacancies. Whenever any vacancies shall occur in any office by death, resignation, increase in the number of offices of the Company, or otherwise, the officer so elected shall hold office until his successor is chosen and qualified. The Board of Directors may at any time remove any officer of the Company, whenever in its judgment the best interests of the Company will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

ARTICLE V

INDEMNIFICATION

Section 1. General. Each person who at any time shall serve, or shall have served, as a director, officer, employee or agent of the Company, or any person who, while a director, officer, employee or agent of the Company, is or was serving at its request as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise, shall be entitled to indemnification as, and to the fullest extent, permitted by Article 2.02-1 of the Texas Business Corporation Act or any successor statutory provision, as from time to time amended. The foregoing right of indemnification shall not be deemed exclusive of any other rights to which those to be indemnified may be entitled as a matter of law or under any agreement, vote of shareholders or disinterested directors, or other arrangement.

Section 2. Insurance. The Company may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Company or is or was serving at the request of the Company as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise against any liability asserted against him and incurred by him in such capacity or arising out of his status as such a person, whether or not the Company would have the power to indemnify him against that liability under this Article V or the Texas Business Corporation Act.

ARTICLE VI

CONTRACTS AND TRANSACTIONS WITH DIRECTORS AND OFFICERS

Section 1. General Procedure. No contract or transaction between the Company and one or more of its directors or officers, or between the Company and any other corporation, partnership, association or other organization in which one or more of the Company's directors or officers are directors or officers or have a financial interest, shall be void or voidable solely for this reason, solely because the director or officer is present at or participates in the meeting of the Company's Board of Directors or committee which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, if:

(a) The material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors constitute less than a quorum; or

(b) The material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the shareholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the shareholders; or

(c) The contract or transaction is fair to the Company as of the time it is authorized, approved or ratified by the Board of Directors, the committee thereof, or the shareholders.

Section 2. Determination of Quorum. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction as provided in Section 1 of this Article VI.

ARTICLE VII

MISCELLANEOUS PROVISIONS

Section 1. Offices. The principal office of the Company shall be located in Houston, Texas, unless and until changed by resolution of the Board of Directors. The Company may also have offices at such other places as the Board of Directors may designate from time to time, or as the business of the Company may require. The principal office and registered office may be, but need not be, the same.

Section 2. Resignations. Any director or officer may resign at any time. Such resignations shall be made in writing and shall take effect at the time specified therein, or, if no time be specified, at the time of its receipt by the President or Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

Section 3. Fixing Record Dates for Payment of Dividends and Other Purposes. For the purpose of determining shareholders entitled to receive payment of any

dividend or in order to make a determination of shareholders for any other proper purpose, the Board of Directors of the Company may provide that the stock transfer books shall be closed for a stated period but not to exceed, in any case, fifty days. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date as the record date for any such determination of shareholders, such date to be not more than fifty days prior to the date on which the particular action requiring such determination of shareholders is to be taken. If the stock transfer books are not closed and no record date is fixed for the determination of shareholders entitled to receive payment of a dividend, then the date on which the resolution of the Board of Directors declaring such dividend is adopted shall be the record date for such determination of shareholders.

Section 4. Seal. The seal of the Company shall be circular in form, with the name "HOUSTON INDUSTRIES INCORPORATED."

Section 5. Separability. If one or more of the provisions of these Bylaws shall be held to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other provision hereof and these Bylaws shall be construed as if such invalid, illegal or unenforceable provision or provisions had never been contained herein.

Section 6. Definition of Beneficial Owner. "Beneficial Owner" as used in these Bylaws means any of the following:

(a) a person who individually or with any of his affiliates or associates beneficially owns (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended) any capital stock of the Company, directly or indirectly;

(b) a person who individually or with any of his affiliates or associates has either of the following rights:

(i) to acquire capital stock of the Company, whether such right is exercisable immediately or only after the passage of time, pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise,

(ii) to vote capital stock of the Company pursuant to any agreement, arrangement or understanding; or

(c) a person who has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing capital stock of the Company with any other person who beneficially owns or whose affiliates beneficially own (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended), directly or indirectly, such shares of capital stock.

ARTICLE VIII

AMENDMENT OF BYLAWS

Section 1. Vote Requirements. The Board of Directors shall have the power to alter, amend or repeal the Bylaws or adopt new Bylaws by the affirmative vote of at least 80% of all directors then in office at any regular or special meeting of the Board of Directors called for that purpose, subject to repeal or change by the affirmative vote of the holders of at least 80% of the voting power of all the shares of the Company entitled to vote in the election of directors, voting together as a single class.

Section 2. Shareholder Proposals. No proposal by a shareholder made pursuant to Section 1 of this Article VIII may be voted upon at a meeting of shareholders unless such shareholder shall have delivered or mailed in a timely manner (as set forth in this Section 2) and in writing to the Secretary of the Company (a) notice of such proposal and the text of the proposed alteration, amendment or repeal, (b) evidence reasonably satisfactory to the Secretary of the Company, of such shareholder's status as such and of the number of shares of each class of capital stock of the Company of which such shareholder is the beneficial owner, (c) a list of the names and addresses of other beneficial owners of shares of the capital stock of the Company, if any, with whom such shareholder is acting in concert, and the number of shares of each class of capital stock of the Company beneficially owned by each such beneficial owner and (d) an opinion of counsel, which counsel and the form and substance of which opinion shall be reasonably satisfactory to the Board of Directors of the Company, to the effect that the Bylaws (if any) resulting from the adoption of such proposal would not be in conflict with the Articles of Incorporation of the Company or the laws of the State of Texas. To be timely in connection with an annual meeting of shareholders, a shareholder's notice and other aforesaid items shall be delivered to or

mailed and received at the principal executive offices of the Company not less than ninety nor more than 180 days prior to the date on which the immediately preceding year's annual meeting of shareholders was held. To be timely in connection with the voting on any such proposal at a special meeting of the shareholders, a shareholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Company not less than forty days nor more than sixty days prior to the date of such meeting; provided, however, that in the event that less than fifty days' notice or prior public disclosure of the date of the special meeting of the shareholders is given or made to the shareholders, the shareholder's notice and other aforesaid items to be timely must be so received not later than the close of business on the seventh day following the day on which such notice of date of the meeting was mailed or such public disclosure was made. Within thirty days (or such shorter period that may exist prior to the date of the meeting) after such shareholder shall have submitted the aforesaid items, the Secretary and the Board of Directors of the Company shall respectively determine whether the items to be ruled upon by them are reasonably satisfactory and shall notify such shareholder in writing of their respective determinations. If such shareholder fails to submit a required item in the form or within the time indicated, or if the Secretary or the Board of Directors of the Company determines that the items to be ruled upon by them are not reasonably satisfactory, then such proposal by such shareholder may not be voted upon by the shareholders of the Company at such meeting of shareholders. The presiding person at each meeting of shareholders shall, if the facts warrant, determine and declare to the meeting that a proposal made pursuant to Section 1 of this Article VIII was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare to the meeting and the defective proposal shall be disregarded. Beneficial ownership shall be determined in accordance with Section 6 of Article VII of these Bylaws.

HOUSTON INDUSTRIES INCORPORATED
EXHIBIT 10(s)(4)

HOUSTON INDUSTRIES INCORPORATED
SAVINGS TRUST

(As Amended and Restated Effective July 1, 1995)

HOUSTON INDUSTRIES INCORPORATED
SAVINGS TRUST

(As Amended and Restated Effective July 1, 1995)

I N D E X

HOUSTON INDUSTRIES INCORPORATED
SAVINGS TRUST

(As Amended and Restated Effective July 1, 1995)

THIS TRUST AGREEMENT made and entered into as of the 1st day of July, 1995, by and between HOUSTON INDUSTRIES INCORPORATED, a Texas corporation (the "Company"), and THE NORTHERN TRUST COMPANY, an Illinois corporation (the "Trustee"), as trustee;

W I T N E S S E T H:

WHEREAS, by Agreement (the "1989 Trust Agreement") dated June 21, 1989 but effective as of July 1, 1989, between the Company and Texas Commerce Bank National Association, as trustee (the "Prior Trustee"), the Company amended, restated and continued a trust established in connection with the Savings Plan of Houston Industries Incorporated, as amended and restated effective January 1, 1976, and as thereafter amended (said Plan as it existed in the form of the Savings Plan of Houston Industries Incorporated, as amended and restated effective January 1, 1976, and thereafter amended prior to July 1, 1995, being referred to hereinafter in this preamble as the "Prior Plan"); and

WHEREAS, the Company amended and restated the Prior Plan, effective October 5, 1990, to include an "employee stock ownership plan" ("ESOP") within the meaning of Section 4975(e)(7) of the Internal Revenue Code of 1986, as amended (the "Code"), and designed to meet the requirements of Section 4975(d)(3) of the Code; and

WHEREAS, in order to effectuate the ESOP component of the Prior Plan, the Company established an additional trust under the Prior Plan, known as the Savings Plan of Houston Industries Incorporated ESOP Trust (the "Prior ESOP Trust Agreement"), designed to meet the applicable requirements of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"); and

WHEREAS, the Company amended, restated and continued the 1989 Trust Agreement and the Trust Fund created thereby in the form of the Houston Industries Incorporated Master Savings Trust, effective January 1, 1994 (the "Prior Trust Agreement"), to accommodate the merger of the KBLCOM Incorporated Savings Plan into the Prior Plan and to make certain other changes therein; and

WHEREAS, effective as of May 1, 1995, the Company appointed the Trustee to replace the Prior Trustee as trustee of the Prior Trust Agreement; and

WHEREAS, effective as of May 1, 1995, the Company appointed the Trustee to replace State Street Bank and Trust Company, a Massachusetts trust company, as trustee of the Prior ESOP Trust Agreement; and

WHEREAS, effective as of July 1, 1995, the Company amended and restated the Prior Plan to provide for daily valuations, provide for the addition of new investment funds, and to make certain other changes therein (the "Plan"); and

WHEREAS, the Company has reserved the right at any time to amend the Prior Trust Agreement and the Prior ESOP Trust Agreement to any extent that it may deem advisable provided that no amendment shall increase the duties or responsibilities of the Trustee without the consent of the Trustee thereto in writing; and

WHEREAS, the Company deems it advisable at this time to amend, restate, merge and continue the Prior Trust Agreement and the Prior ESOP Trust Agreement in the form of this Trust Agreement to the extent hereinafter set forth, to provide for daily valuation, to increase the number of Investment Funds to seven (or such other number as may be prescribed by the Committee from time to time), to eliminate the master trust concept and to make certain other changes therein;

NOW, THEREFORE, the Company and the Trustee hereby agree that the Prior Trust Agreement and the Prior ESOP Trust Agreement shall both be amended and restated in their entirety, merged and continued in the form of this Trust Agreement, which shall read as follows:

ARTICLE I

DEFINITIONS AND CONSTRUCTION

1.1 Definitions: As used in this Savings Trust, the following words and phrases shall have the following meanings unless the context clearly requires a different meaning:

AFFILIATED CORPORATION: Houston Industries Incorporated, a Texas corporation, and any corporation in which the shares owned or controlled directly or indirectly by Houston Industries Incorporated shall represent 50% or more of the voting power of the issued and outstanding capital stock of such corporation.

BOARD: The Board of Directors of the Company.

CODE: The Internal Revenue Code of 1986, as amended from time to time.

COMMITTEE: The Benefits Committee appointed by the Board of Directors of the Company, which shall serve as a "named fiduciary" hereunder and assist in the investment and administration of the Trust Fund and whose duties also include serving as "plan administrator" of the Plan. In regard to any provision of this Trust under which an agent has been appointed by the Benefits Committee pursuant to Section 6.1 hereof to administer such provision of this Trust, such agent shall be deemed to be the Committee.

COMPANY: Houston Industries Incorporated, a Texas corporation, and its successor or successors.

COMPANY STOCK: The common stock of the Company qualifying as "employer securities" within the meaning of Section 409(1) of the Code and Section 407(d)(5) of ERISA.

ERISA: Public Law No. 93-406, the Employee Retirement Income Security Act of 1974, as amended from time to time.

ESOP FUND: All cash, Company Stock, and other properties held by the Trustee under the Prior ESOP Trust Agreement at the close of business on June 30, 1995, which have been transferred and allocated to the ESOP Fund under this Trust as of July 1, 1995, any property into which the same or any part thereof may from time to time be converted, and any appreciation therein or income thereon less any depreciation therein, any losses thereon and any distributions or payments therefrom.

EXCHANGE ACT: The Securities and Exchange Act of 1934, as amended.

INVESTMENT FUND OR FUND: Any of the investment funds comprising the Trust Fund (including the HI Common Stock Fund), as described in Article IV, but excluding the ESOP Fund.

INVESTMENT MANAGER: The fiduciary or fiduciaries, if any, appointed hereunder by the Committee and meeting the definition set forth in Section 3(38) of ERISA.

PARTICIPANT: Each employee, former employee, spouse or beneficiary of an employee who is or was participating in the Plan in accordance with the terms thereof.

PLAN: The Houston Industries Incorporated Savings Plan, as amended and restated effective July 1, 1995, and as the same may hereafter be amended from time to time.

PRIOR ESOP TRUST AGREEMENT: The Savings Plan of Houston Industries Incorporated ESOP Trust Agreement, between the Company and State Street Bank and Trust Company, established effective October 5, 1990, and as thereafter amended and in effect on June 30, 1995, between the Company and Trustee.

PRIOR PLAN: The Houston Industries Incorporated Savings Plan, as amended and restated effective January 1, 1994, and as thereafter amended and in effect on June 30, 1995.

PRIOR TRUST AGREEMENT: The Houston Industries Incorporated Master Savings Trust Agreement, between the Company and Texas Commerce Bank National Association, dated April 7, 1994 but effective as of January 1, 1994, and as thereafter amended and in effect on June 30, 1995, between the Company and Trustee.

PROHIBITED TRANSACTION: A transaction prohibited under Sections 406 through 408 of ERISA.

TRUST: The Houston Industries Incorporated Savings Trust, as amended and restated effective July 1, 1995 and as the same may hereafter be amended from time to time.

TRUST FUND: The Investment Funds and ESOP Fund to be established under the Trust and from which benefits under the Plan are to be paid. Such fund shall consist of all assets, money and property, all investments made therewith and proceeds thereof and all earnings and profits thereon, less the payments or other distributions which, at the time of reference, shall have been made by the Trustee, as authorized herein.

TRUSTEE: The Northern Trust Company, an Illinois corporation, its successor or successors.

VALUATION DATE: Any date on which the New York Stock Exchange is open for trading and any date on which the value of the assets of the Trust Fund is determined by the Trustee pursuant to Section 3.1. The last business day of each calendar month shall be the "monthly Valuation Date," and the last business day of December of each Plan Year shall be the "annual Valuation Date."

1.2 Construction: The masculine gender, where appearing in the Trust, shall be deemed to include the feminine gender, and the singular may include the plural, unless the context clearly indicates to the contrary. The words "hereof," "herein," "hereunder" and other similar compounds of the words "here" shall mean and refer to the entire Trust, not to any particular provision or section. Article and Section headings are included for convenience of reference and are not intended to add to or subtract from the terms of the Trust.

ARTICLE II

TRUST; GENERAL DUTIES OF THE PARTIES

2.1 Continuation of Trust: The Company hereby continues with the Trustee a Trust for the exclusive purposes of providing benefits to employees of the Company and the Affiliated Corporations, and to the beneficiaries of such employees, under the Plan and defraying reasonable expenses of administering the Plan. The Trust shall consist of (a) such cash and other property held in trust by the Trustee under the Prior Trust Agreement at the close of business on June 30, 1995, and which was transferred to the Investment Funds under this Trust, (b) such cash and other property held in trust by the Trustee under the Prior ESOP Trust Agreement at the close of business on June 30, 1995, and which was transferred to the ESOP Fund under this Trust, and (c) such sums of money and such property acceptable to the Trustee as shall from time to time be paid or delivered to the Trustee as a contribution in respect of the Plan, together with the income and gains therefrom. The Trust shall be maintained at all times as a domestic trust in the United States.

2.2 General Duties of the Company:

A. The Company shall provide the Trustee with a certified copy of the Plan, and with evidence acceptable to the Trustee that the Plan has been duly adopted by the Company and has been determined to be qualified under Code Section 401(a). True and correct copies of all amendments to the Plan shall be delivered to the Trustee by the Company promptly following their adoption.

B. The Board of Directors of the Company shall appoint a Benefits Committee, consisting of at least three individuals, which shall be authorized under the Plan to serve as a "named fiduciary" (within the meaning of Section 402(a)(2) of ERISA) and "plan administrator" (within the meaning of Section 3(16)(A) of ERISA) of the Plan to assist in the investment and administration of the Trust as hereinafter provided. Each member of the Committee shall serve at the pleasure of the Board of Directors of the Company and the Company shall certify to the Trustee the names and specimen signatures of the members of the Committee serving from time to time hereunder. The Company shall indemnify and hold harmless each member of the Committee from any and all claims, losses, damages, expenses (including counsel fees approved by the Committee), and liabilities (including any amounts paid in settlement with the Committee's approval but excluding any excise tax assessed against any member or members of the Committee pursuant to the provisions of Code Section 4975) arising from any act or omission of such member in connection with his duties and responsibilities under this Trust Agreement, except when the same is judicially determined to be due to the gross negligence and willful misconduct of such member.

2.3 Investment Guidelines; Contributions; Employee Records: From time to time the Committee shall communicate in writing to any Investment Manager who may be acting pursuant to Section 4.3 (and to the Trustee, if it is managing the investment of any of the assets of the Trust pursuant to such Section) the investment guidelines governing the portion of the assets of the Trust managed by such Investment Manager or the Trustee. The Company shall make, and shall cause the

Affiliated Corporations to make, contributions to the Plan as the same may be determined in accordance with the Plan and shall specify in writing to the Trustee the amount of such contributions. The Company shall keep and shall cause the Affiliated Corporations to keep accurate books and records with respect to their respective employees, including, without limitation, records as to the periods of employment, compensation and ages of such employees.

2.4 General Duties of Trustee: The Trustee shall hold all property received by it hereunder, which, together with the income and gains therefrom and additions thereto, and less payments and other distributions therefrom, shall constitute the Trust Fund. Except as otherwise hereinafter provided, the Trustee shall manage, invest and reinvest the Trust Fund, collect the income thereof, and make payments therefrom, all in accordance with the terms of this Agreement. The Trustee shall be responsible only for the property actually received by it hereunder. It shall have no duty or authority to compute any amount to be paid to it by the Company, by any Affiliated Corporation or by any Participant in the Plan, or to bring any action or proceeding to enforce the collection from any such person of any contribution to the Trust in respect of the Plan.

ARTICLE III

ACCOUNTS;
AUTHORITY OF COMPANY AND COMMITTEE

3.1 Accounts; Valuation: As provided below, the Trustee shall determine the value of the Trust Fund as of each annual Valuation Date and any interim Valuation Date as the Committee may prescribe; and the Trustee shall determine and include in each such report for the assistance of the Committee in administering the Plan the value as of such valuation dates of each such asset. In accordance with its normal pricing methods and as provided below, the Trustee shall value the assets of the Trust Fund on each Valuation Date. In the absence of readily attainable fair market values, the fiduciary with investment responsibility shall determine the fair market value to be used. Notwithstanding any other provision of this Section, the Trustee, in determining the value of the assets in the Trust Fund, may rely upon the determination of any Investment Manager with respect to the value of any interest of the Trust in any common, collective, commingled or group trust fund maintained by such Investment Manager in which assets of the Trust are permitted to be invested by Section 4.2(l) of this Agreement. As soon as practicable after each annual Valuation Date (but no later than 90 days after each such Valuation Date), the Trustee shall furnish the Company and the Committee a written statement showing the net value of the Trust Fund on such Valuation Date. Notwithstanding anything herein to the contrary, to the extent assets are invested in a mutual fund, the Trustee shall rely upon the value provided to it by the sponsor of the mutual fund or the pricing service normally used by the Trustee for this purpose.

Any Investment Manager or the Committee who may be acting pursuant to Section 4.3 (and the Trustee, if it is managing the investment of any assets of the Trust pursuant to such Section) may in its discretion transfer or direct the transfer to a liquidating account of any investment of the portion of the Trust under its management which it determines should be liquidated for the benefit of the Plan. Any investment that has been transferred to a liquidating account shall be segregated and administered or realized upon solely for the benefit of the Plan and shall be excluded in determining the value of the Plan in the Trust Fund thereafter.

The Committee shall maintain for each of the Participants under the Plan an accurate account reflecting the interest in the Trust Fund, in its component Investment Funds and in the ESOP Fund of each such Participant and shall furnish to each individual Participant, no less than annually, a report of his account. The Trustee shall transfer assets to and from each Investment Fund as directed by the Committee or its representative.

3.2 Exclusive Benefit of Employees Under The Plan: At no time prior to the satisfaction of all liabilities with respect to Participants under the Plan shall any part of the Trust Fund be used for, or diverted to, any purposes other than for the exclusive benefit of such Participants or the payment of Plan or Trust administrative expenses.

3.3 Authority of Company and Committee: Any Affiliated Corporation which participates in the Plan shall be bound by the decisions, instructions, actions and directions of the Company, Committee (or its representative), Investment Managers, and named fiduciaries (as such term is defined in Sections 4.5, 4.6 and 4.7) under this Agreement, and the Trustee shall be indemnified by the Company and such Affiliated Corporation for expenses and liabilities incurred by relying upon such decisions, instructions, actions and directions, or where such expenses or liabilities were incurred by the Trustee due to the failure of such parties to carry out their responsibilities under the Plan and Trust. The Trustee shall not be required to give notice to or obtain the consent of any such Affiliated Corporation with respect to any action which is taken by the Trustee pursuant to this Agreement.

ARTICLE IV

INVESTMENT, ADMINISTRATION AND DISBURSEMENT OF TRUST FUND

4.1 Division of the Trust Fund: Except as provided in Section 3.1, the Trust Fund shall be divided into an ESOP Fund and such Investment Funds as shall be selected and reviewed from time to time by the Committee. Initially, such additional Investment Funds shall consist of the HI Common Stock Fund, Capital Appreciation Fund, Growth & Income Equity Fund, International Equity Fund, Balanced Fund, Fixed Income Fund and Money Market Fund, more specifically described in Section 4.2. Each such Investment Fund shall be invested by the fiduciary with investment responsibility in accordance with the provisions of Section 4.2 in the kinds of property specified for such Investment Fund by the Committee. The ESOP Fund shall be invested primarily in Company Stock, in accordance with the provisions of Section 4.2(h). The Committee is authorized to terminate the existing Investment Funds and establish new Investment Funds by giving advance written notice to the Trustee describing the fund to be terminated or established and the effective date thereof, provided that in no event shall the Trustee's duties be modified without its consent. It is hereby specifically agreed that any termination, modification, combination or creation of an Investment Fund which consists in whole or in part of a group or commingled trust sponsored by Trustee hereunder shall not require the consent of Trustee.

The Committee or its representative shall direct the Trustee in accordance with the terms of the Plan and the Trust Agreement with respect to the allocation of assets of the Trust Fund, and shall advise the Trustee with respect to transfers among the Investment Funds and the ESOP Fund, and the Trustee shall hold the amount so specified as a part of the Investment Fund or ESOP Fund, as appropriate, to which it shall have been allocated or transferred. The Committee's representative ("Recordkeeper") shall, on a daily basis, calculate the net amount of money to be moved to or from each Investment Fund based on investment elections made by Participants pursuant to the Plan. Recordkeeper shall on a daily basis, and based on the information as described above, notify the sponsor of each Investment Fund of the amount of money that should be transferred from or transferred to such Investment Fund. Recordkeeper shall also provide the Trustee with the same information on the same day it notifies the fund sponsor and the Trustee shall act regarding contributions and transfers based on such information. Recordkeeper shall also calculate the amount of benefit payments and distributions hereunder and provide the Trustee with information necessary to make such benefit payments and distributions.

To the extent that any Investment Fund is invested in mutual fund shares or bank commingled funds, the Committee shall initially select funds to be invested in and shall be responsible for retaining the availability of or terminating the availability of such funds. To the extent the Trustee is required to enter into a custody agreement with the sponsor of a bank commingled fund or such other type of fund, the Committee shall direct the Trustee to enter into such agreement.

The Trustee, upon receipt of direction from the Committee, shall transfer to the Investment Funds all such cash and other property as the Trustee held under the Prior Trust Agreement at the close of business on June 30, 1995. The Trustee, upon receipt of direction from the Committee, shall transfer to the ESOP Fund all such cash and other property as the Trustee held in the ESOP Fund under the Prior ESOP Trust Agreement at the close of business on June 30, 1995.

4.2 Investment of the Trust Fund: The contributions hereafter allocated to each of the said Investment Funds and the ESOP Fund, and all proceeds, interest, income or other payments in respect of each such Investment Fund and the ESOP Fund shall be invested and reinvested in a manner described below:

(a) HI Common Stock Fund. Contributions are to be invested and reinvested in Company Stock (which the Trustee shall purchase as soon as practicable when and as it holds funds available for that purpose, either (i) in the open market, (ii) from the ESOP Fund for adequate consideration and in the sole discretion of the Trustee, or (iii) privately from the Company at a price per share equal to the closing price of said share on the New York Stock Exchange on the day of the purchase, it being understood that shares purchased from the Company may either be treasury shares or authorized but unissued shares, if the Company shall make such shares available for the purpose, and that the Trustee in its discretion may refrain from making purchases of shares of Company Stock whenever it deems such refraining to be necessary to prevent undue trading impact on the price of the Company Stock. At any time that the Trustee makes open market purchases of Company Stock, the Trustee will either (i) be an "agent independent of the issuer" as that term is defined in Rule 10(b)(18) promulgated pursuant to the Exchange Act or (ii) make such open market purchases in accordance with the provisions, and subject to the restrictions, of Rule 10(b)(18) of the Exchange Act. Except in the case of fractional shares received in any stock dividend, stock split or other recapitalization, or as necessary to make any distribution or payment from the Trust Fund or transfers among Investment Funds, the Trustee shall have no power or duty to sell or otherwise dispose of any stock acquired for the HI Common Stock Fund.

(b) Capital Appreciation Equity Fund. Contributions are primarily invested and reinvested in a pool of stock funds that have a goal of long-term growth with no emphasis on current income. The funds are invested in stocks of rapidly growing companies or companies with the potential for exceptional growth.

(c) Growth & Income Equity Fund. Contributions are primarily invested and reinvested in a pool of stock funds with the goals of growth and current

income. The funds buy stocks of growing companies and companies that have a history of paying steady dividends.

(d) International Equity Fund. Contributions are primarily invested and reinvested in a pool of international stock funds that have a goal of long-term growth by investing in stocks of companies based outside the United States. These funds buy stocks of growing and established companies outside of the United States with the potential for growth.

(e) Balanced Fund. Contributions are primarily invested and reinvested in both stock and bond funds. The funds invested in may change from time to time, with the intent being to invest in high-quality, limited term bonds and a wide variety of corporate stocks.

(f) Fixed Income Fund. Contributions are primarily invested and reinvested in short-term, high-quality government and corporate bonds and other fixed income securities.

(g) Money Market Fund. Contributions are primarily invested and reinvested in high-quality government and corporate fixed income securities with maturities of less than one year.

(h) ESOP Fund. All amounts allocated to the ESOP Fund, and all proceeds, interest, income or other payments in respect of the ESOP Fund shall be invested and reinvested in Company Stock except to the extent required to give effect to distributions, transfers and other temporary cash needs. The Committee shall direct the Trustee to sell Company Stock, which may include sales to the HI Common Stock Fund, in order to make distributions, payments or transfers. To the extent that Company contributions to the ESOP Fund are made in Company Stock, the Trustee will be expected to retain Company Stock. To the extent Company contributions to the ESOP Fund are made in cash and are not used to pay principal or interest on an ESOP Loan pursuant to Article V or to pay expenses of the Trust Fund, the Trustee will be expected to acquire Company Stock within a reasonable period of time. If at the time Company Stock is to be purchased, the Company has outstanding more than one class of Company Stock, the Committee shall direct the Trustee as to which class of Company Stock shall be purchased. However, if the Company Stock to be purchased is not readily tradeable on an established market, the Trustee shall represent the Trust in the determination of the price to be paid for such Company Stock.

(i) The Company has determined that daily movement of Participant balances among the Investment Funds is an important design feature and objective of the Plan and that timely transfers and distributions from the HI Common Stock

Fund need to be facilitated in order to achieve such objective. The Committee may authorize and direct the Trustee in writing to seek to obtain settlement for sales of Company Stock on an expedited basis under certain circumstances in which case the Trustee shall carry out its responsibilities for execution of Company Stock sale transactions in accordance with such direction and subject to any limitations expressed therein.

(j) Pending the acquisition of an investment in an orderly manner for the purposes of the Investment Funds, the Trustee may temporarily hold funds thereof uninvested or in repurchase agreements, bankers acceptances, certificates of deposit, commercial paper, demand or time deposits, obligations issued or fully guaranteed by the United States of America or any agency thereof, master notes or like holdings either separately or through the medium of a common, collective, group or commingled trust fund that invests primarily in such like investments.

(k) To the extent consistent with Section 4.2(h), the ESOP Fund may hold temporary investments other than Company Stock, may hold such portion of the ESOP Fund uninvested as the Committee deems advisable for making distributions under the Plan, may invest assets of the ESOP Fund in short term investment grade investments bearing a reasonable rate of interest, including without limitation, deposits in, or short term investment grade instruments of, the Trustee, or in one or more short term collective investment funds administered by the Trustee as trustee thereof for the collective investment of assets of employee pension or profit-sharing trusts, as long as each such collective investment fund constitutes a qualified trust under the applicable provisions of the Code (and while any portion of the ESOP Fund is so invested, such collective investment funds shall constitute part of the Plan to the extent of such investment, and the instrument creating such funds shall constitute part of this Agreement).

(l) In the discretion of the person who is directing the investment of a portion or all of any of the Investment Funds, with the exception of the HI Common Stock Fund, under the provisions of Section 4.3, all or any part of amounts allocated to such Investment Funds, may be invested in such assets as are appropriate to the Fund in question collectively with funds of other pension and profit-sharing trusts exempt from tax under Code Section 501(a) by reason of qualifying under Code Section 401(a) through the medium of any common, collective or group trust fund which has been or hereafter may be established by the Trustee or by any other bank or trust company in the United States, the instrument or instruments establishing such trust fund or funds, as amended from time to time, being made a part of this Agreement so long as any portion of the Trust Fund shall be invested through the medium thereof.

The investments of the Trust Fund, with the exception of the HI Common Stock Fund and the ESOP Fund, shall be so diversified as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so, in the sole judgment of the person who is directing the investment of such Funds under the provisions of Section 4.3. Any property at any time received by the Trustee may be retained in the Trust Fund. To the extent that the Trustee is managing the Trust Fund under the provisions of Section 4.3, the Trustee may temporarily invest and reinvest all or any portion of the amounts allocated to any Investment Fund either in short term investments selected by it or collectively with funds of other pension and profit-sharing trusts exempt from tax under Code Section 501(a) by reason of qualifying under Code Section 401(a) through the medium of any common, collective, commingled or group trust fund which has been or hereafter may be established by the Trustee or by any other bank or trust company in the United States, the instrument or instruments establishing such trust fund or funds, as amended from time to time, being made a part of this Agreement so long as any portion of the Trust Fund shall be invested through the medium thereof. With respect to any portion of the Trust Fund which is under the management of an Investment Manager as provided in Section 4.3 subject to contrary instructions, the Trustee shall invest cash held by it in short term obligations, either separately or by investment collectively with funds of other pension and profit-sharing trusts exempt from tax under Code Section 501(a) by reason of qualifying under Code Section 401(a) through the medium of any common, collective, commingled or group trust fund which has been or hereafter may be established by the Trustee or by any other bank or trust company in the United States, the instrument or instruments establishing such trust fund or funds, as amended from time to time, being made a part of this Agreement so long as any portion of the Trust Fund shall be invested through the medium thereof.

At any time and from time to time, the Committee may direct the Trustee to transfer a specified portion or all of any of the Investment Funds of the Trust Fund, with the exception of the HI Common Stock Fund, as it shall deem advisable to the trustees of any other common, collective, group or commingled trust (hereinafter collectively, the "Group Trusts"), if and only if a Group Trust is qualified under Code Section 401(a) and exempt from tax under Code Section 501(a) and is maintained as a medium for the commingled, collective and common investment of assets of eligible participating trusts; and the Committee may direct the Trustee to withdraw all or any part of the Trust Fund so transferred. The terms and provisions of the agreements of trust establishing any Group Trust and the provisions of any amendments thereto are hereby incorporated herein by reference and shall be deemed a part of this Trust Agreement so long as any portion of the Trust Fund shall be invested through the medium thereof. The Trustee shall make any such transfer or withdrawal of all or any part of the Trust Fund only upon the expressed direction of the Committee. The Trustee shall be under no duty or obligation to review any investment acquired, held or disposed of by the trustees of the Group Trusts pursuant to the provisions thereof, and the trustees of the Group Trusts shall have all fiduciary powers, responsibilities and liabilities arising under this Trust Agreement with respect to the portion of the Trust Fund transferred to them pursuant to directions of the Committee to be held under the terms and provisions of the Group Trusts. The Company shall indemnify and hold harmless the Trustee from any and all claims, losses, damages, expenses (including counsel fees approved by the Trustee), and liabilities (including any amount paid in settlement with the Trustee's approval but excluding any excise tax assessed against the Trustee pursuant to the provisions of Code

Section 4975) arising from any act or omission of the trustees of the Group Trusts in connection with their duties and responsibilities under this Trust Agreement with respect to the portion of the Trust Fund transferred to them, except to any extent prohibited under ERISA.

4.3 Direction of Investment: The investment of the HI Common Stock Fund and the ESOP Fund shall be managed solely by the Trustee in the manner provided in Section 4.2. The Committee shall from time to time specify by written notice to the Trustee whether the investment of the other Investment Funds under the Plan, in the manner provided in Section 4.2, shall be managed solely by the Trustee or the Committee (or its agent), or shall be directed by one or more Investment Managers, or whether the Trustee, the Committee and one or more Investment Managers are to participate in investment management and, if so, how the investment responsibility is to be divided with respect to assets, classes of assets, separate investment funds or sub-funds specified and defined in such notice. In the event that the Committee shall fail to specify pursuant to this Section the person or persons who are to manage the investment of the other Investment Funds under the Plan, or any portion or portions thereof, the Trustee shall manage the investment of such Investment Fund or such portion or portions in the manner described in Section 4.2, until the Committee shall specify such person or persons as provided herein. Any Investment Manager appointed to manage the investment of a part (or all) of the Investment Funds, other than the HI Common Stock Fund, under the Plan shall either (i) be registered as an investment adviser under the Investment Managers Act of 1940, (ii) be a bank, as defined in that Act, or (iii) be an insurance company qualified to perform investment management services under the laws of more than one State. If investment of the Trust Fund is to be directed in whole or in part by an Investment Manager, such Investment Manager shall acknowledge that it is acting as a fiduciary with respect to such assets. The Trustee may continue to rely upon such instruments and certificate until otherwise notified in writing by the Committee.

The Trustee shall follow the directions of the Investment Manager regarding the investment and reinvestment of the Trust Fund as to such portion thereof as shall be under management by the Investment Manager and shall be under no duty or obligation to review any investment to be acquired, held or disposed of pursuant to such directions nor to make any recommendations with respect to the disposition or continued retention of any such investment. The Trustee shall have no liability or responsibility for acting without question on the direction of, or failing to act in the absence of any direction from, the Investment Manager, unless the Trustee knows that by such action or failure to act it will be participating in a breach of fiduciary duty by the Investment Manager. The mere processing of investment instructions, maintenance of records and providing reports shall not constitute knowledge.

The Investment Manager at any time and from time to time may issue orders for the purchase or sale of securities directly to a broker, and in order to facilitate such transaction the Trustee upon request shall execute and deliver appropriate trading authorizations. Notification of the issuance of each such order shall be given promptly to the Trustee by the Investment Manager, and the execution of each such order shall be confirmed according to industry practice. Such notification shall be authority for the Trustee to pay for securities purchased and to deliver securities

sold according to industry practice, as the case may be. All written notifications concerning investments made by the Investment Manager shall be signed by such person or persons, acting on behalf of the Investment Manager as may be duly authorized in writing; provided, however, that the transmission to the Trustee of notifications, facsimile transmission or electronic data transmission shall be considered a delivery in writing of the aforesaid notifications until the Trustee is notified in writing by the Investment Manager that the use of such devices is no longer authorized. The Trustee shall be entitled to rely upon such directions which it receives by such means if so authorized by the Investment Manager and shall in no way be responsible for the consequences of any unauthorized use of such device which was not, in fact, known by the Trustee at the time to be unauthorized. The Trustee shall, as promptly as possible, comply with any written directions given by the Investment Manager hereunder, and, where such directions are given by facsimile transmission or electronic data transmission, the Trustee shall be entitled to presume any directions so given are fully authorized.

In the event that an Investment Manager should resign or be removed by the Committee, the Trustee shall, upon receiving written notice of such resignation or removal, manage, pursuant to Section 4.2, the investment of the portion of the Trust Fund under management by such Investment Manager at the time of its resignation or removal, unless and until it shall be notified of the appointment of another Investment Manager as provided in this Section 4.3, for such portion of the Trust Fund.

The Committee shall have investment responsibility for all or a portion of the assets held in any Investment Fund other than the HI Common Stock Fund for which it notifies the Trustee that it is to assume such responsibility. With respect to the assets of any Investment Fund other than the HI Common Stock Fund for which the Committee has investment responsibility, the Trustee, acting only as directed by the Committee, shall enter into such agreements as are necessary to facilitate any investment, including agreements entering into a limited partnership, subtrust or the participation in real estate funds. The Trustee shall not make any investment review of, or consider the propriety of holding or selling, or vote any assets for which the Committee has retained investment responsibility.

4.4 Voting of Securities Other than Company Stock in the HI Common Stock Fund or in the ESOP Fund: The Trustee shall have power in its discretion to exercise all voting rights with respect to any investment held in an Investment Fund under the Plan, with the exception of investments held in the HI Common Stock Fund and the ESOP Fund, and to grant proxies, discretionary or otherwise, with respect thereto, except that at any time when an Investment Manager or the Committee shall be acting with respect to such Investment Fund as provided in Section 4.3, the Trustee shall not exercise its discretion with respect to voting any securities under management of such Investment Manager or the Committee but shall itself vote such securities only upon and in the manner directed by the Investment Manager or the Committee or shall send such Investment Manager or the Committee all proxies and proxy materials relating to such securities, signed by the Trustee without indication of voting preference, and the Investment Manager or the Committee shall exercise all voting rights with respect thereto. All shares of Company Stock held in the HI Common

Stock Fund shall be voted as provided below in Section 4.5. All shares of Company Stock held in the ESOP Fund shall be voted as provided below in Section 4.6.

4.5 Voting of Company Stock in the HI Common Stock Fund: The Trustee shall not vote the shares of Company Stock held in the HI Common Stock Fund at any meeting of stockholders except as it shall receive voting instructions from Participants in the HI Common Stock Fund as provided below. Each employee, former employee or beneficiary of a deceased employee participating in the HI Common Stock Fund (hereinafter in Sections 4.5 and 4.7 referred to as "HI Common Stock Fund Participant") is, for purposes of this Section 4.5, hereby designated as a "named fiduciary" (within the meaning of Section 403(a)(1) of ERISA) with respect to the shares of Company Stock attributable to his account and shall have the right to direct the Trustee with respect to the vote of the shares of Company Stock attributable to his account, on each matter brought before any meeting of the stockholders of the Company. Before each such meeting of stockholders, the Company shall cause to be furnished to each HI Common Stock Fund Participant a copy of the proxy solicitation material, together with a form requesting confidential directions to the Trustee on how such shares of Company Stock attributable to such HI Common Stock Fund Participant's account shall be voted on each such matter. Upon timely receipt of such directions, the Trustee shall on each such matter vote as directed the number of shares (including fractional shares) of Company Stock attributable to such HI Common Stock Fund Participant's account, giving effect to all affirmative directions by HI Common Stock Fund Participants, including directions to vote for or against, to abstain or to withhold the vote, and the Trustee shall have no discretion in such matter. The Trustee shall vote shares of Company Stock for which it has not received direction in the same proportion as directed shares attributable to HI Common Stock Fund Participants' accounts in the Plan are voted, and the Trustee shall have no discretion in such matter. The instructions received by the Trustee from HI Common Stock Fund Participants shall be held by the Trustee in confidence and shall not be divulged or released to any person, including the Committee, officers or employees of the Company or Affiliated Corporations. The Trustee shall be authorized to coordinate the voting of Company Stock pursuant to this Section 4.5 with the voting provisions of the ESOP Fund so as to fully effectuate and carry out the purposes and intent thereof.

4.6 Voting of Company Stock in the ESOP Fund: Each Participant (hereinafter in Sections 4.6 and 4.7 referred to as "ESOP Fund Participant" is, for purposes of this Section 4.6, hereby designated as a "named fiduciary" (within the meaning of Section 403(a)(1) of ERISA) with respect to the shares of Company Stock allocated to his account in the ESOP Fund and to a pro rata portion of the unallocated shares of Company Stock held in the ESOP Fund and shall have the right to direct the Trustee with respect to the vote of the shares of Company Stock allocated to his account, on each matter brought before any meeting of the stockholders of the Company. Before each such meeting of stockholders, the Company shall cause to be furnished to each Participant a copy of the proxy solicitation material, together with a form requesting confidential directions to the Trustee on how such shares of Company Stock allocated to such Participant's account in the ESOP Fund shall be voted on each such matter. Upon timely receipt of such directions, the Trustee shall on each such matter vote as directed the number of shares (including fractional shares) of Company Stock allocated to such Participant's account in the ESOP Fund, and the Trustee shall have no

discretion in such matter. The instructions received by the Trustee from Participants shall be held by the Trustee in confidence and shall not be divulged or released to any person, including the Committee, officers or employees of the Company or an Affiliated Corporation. The Trustee shall vote both allocated shares of Company Stock for which it has not received direction, as well as unallocated shares, in the same proportion as directed shares are voted, and the Trustee shall have no discretion in such matter. In determining such proportion, the Trustee shall under all circumstances include in its calculation the votes of Participants on all shares allocated to Participants' Plan accounts, giving effect to all affirmative directions by Participants, including directions to vote for or against, to abstain or to withhold the vote.

4.7 Tendering of Company Stock in the HI Common Stock Fund and Company Stock in the ESOP Fund: The provisions of this Section 4.7, shall apply in the event a tender or exchange offer including but not limited to a tender offer or exchange offer within the meaning of the Exchange Act (a "tender offer"), for Company Stock is commenced by a person or persons.

In the event a tender offer for Company Stock is commenced, the Committee, promptly after receiving notice of the commencement of any such tender offer, shall transfer certain of the Committee's record keeping functions to an independent record keeper (which, if the Trustee consents in writing, may be the Trustee). The functions so transferred shall be those necessary to preserve the confidentiality of any directions given by the HI Common Stock Fund Participants or the ESOP Fund Participants in connection with the tender offer. The Trustee shall have no discretion or authority to sell, exchange or transfer any of such shares pursuant to such tender offer except to the extent, and only to the extent, as provided in this Trust Agreement.

Each HI Common Stock Fund Participant is, for purposes of this Section 4.7, hereby designated as a "named fiduciary" (within the meaning of Section 403(a)(1) of ERISA) with respect to the shares of Company Stock attributable to his account and shall have the right, to the extent of the number of whole shares of Company Stock attributable to his account, to direct the Trustee in writing as to the manner in which to respond to a tender offer with respect to shares of Company Stock. Each ESOP Fund Participant is, for purposes of this Section 4.7, hereby designated as a "named fiduciary" (within the meaning of Section 403(a)(1) of ERISA) with respect to the shares of Company Stock allocated to his account and to a pro rata portion of the unallocated shares of Company Stock held in the ESOP Fund and shall have the right, to the extent of the number of whole shares of Company Stock allocated to his account, to direct the Trustee in writing as to the manner in which to respond to a tender offer with respect to shares of Company Stock. The Company shall use its best efforts to timely distribute or cause to be distributed to each HI Common Stock Fund Participant and ESOP Fund Participant such information as will be distributed to stockholders of the Company in connection with any such tender offer. Upon timely receipt of such instructions, the Trustee shall respond as instructed with respect to such shares of Company Stock. The instructions received by the Trustee from HI Common Stock Fund Participants and ESOP Fund Participants shall be held by the Trustee in confidence and shall not be divulged or released to any person, including the Committee or officers or employees of the Company or Affiliated Corporations. If the Trustee shall not receive timely instruction from a HI Common Stock Fund Participant or an ESOP Fund

Participant as to the manner in which to respond to such a tender offer, the Trustee shall not tender or exchange any shares of Company Stock with respect to which such HI Common Stock Fund Participant or ESOP Fund Participant has the right to direction, and the Trustee shall have no discretion in such matter. Fractional shares of Company Stock attributable to HI Common Stock Fund Participants' accounts shall be tendered or exchanged by the Trustee in the same proportion as shares of Company Stock attributable to HI Common Stock Fund Participants' accounts in the Plan are tendered or exchanged, and the Trustee shall have no discretion in such matter. Fractional or unallocated shares of Company Stock allocated to ESOP Fund Participants' accounts shall be tendered or exchanged by the Trustee in the same proportion as shares of Company Stock allocated to ESOP Fund Participants' accounts in the Plan are tendered or exchanged, and the Trustee shall have no discretion in such matter. In determining such proportion, the Trustee shall under all circumstances include in its calculation the direction of HI Common Stock Fund Participants on all shares of Company Stock attributable to HI Common Stock Fund Participants' Plan accounts and the direction of ESOP Fund Participants on all shares of Company Stock allocated to ESOP Fund Participants' Plan accounts.

The independent record keeper shall solicit confidentially from each HI Common Stock Fund Participant and ESOP Fund Participant the directions described in this Section 4.7 as to whether shares are to be tendered. The independent record keeper, if different from the Trustee, shall instruct the Trustee as to the amount of shares to be tendered, in accordance with the above provisions.

4.8 Powers of Trustee: When so directed in accordance with the provisions of Section 4.3, or in the discretion of the Trustee if it is managing the Trust Fund under such provisions, the Trustee shall have, subject to the provisions of Sections 4.1 and 4.2, the power:

(a) To manage, sell, contract to sell, grant options to purchase, convey, exchange, transfer, abandon, improve, repair, insure, lease for any term (even though commencing in the future or extending beyond the term of the Trust), and otherwise deal with all property, real or personal, in such manner, for such considerations and on such terms and conditions as the Trustee decides;

(b) To participate in any plan of reorganization, consolidation, merger, combination, liquidation or other similar plan relating to any property held in the Trust Fund, and to consent to or oppose any such plan or any action thereunder, or any contract, lease, mortgage, purchase, sale or other action by any person or corporation;

(c) To deposit any property with any protective, reorganization or similar committee; and to pay and agree to pay part of the expenses and compensation of any such committee and any assessments levied with respect to any property so deposited;

(d) To exercise conversion and subscription rights pertaining to any property held in the Trust Fund;

(e) To extend the time of payment of any obligation held in the Trust Fund;

(f) To enter into stand-by agreements for future investment, either with or without a stand-by fee;

(g) To hold in cash or cash balances, without liability for interest thereon, any moneys received by the Trustee which are awaiting investment and such additional funds as the Trustee may deem reasonable or necessary to meet anticipated distributions or other payments or disbursements with respect to the Plan;

(h) To invest in any type of deposit of the Trustee (or of a bank related to the Trustee within the meaning of Code Section 414(b)) at a reasonable rate of interest or in a common trust fund, as described in Code Section 584, or in a collective investment fund, the provisions of which govern the investment of such assets and which the Plan incorporates by this reference, which the Trustee (or its affiliate as defined in Code Section 1504) maintains exclusively for the collective investment of money contributed by the bank (or the affiliate) in its capacity as trustee and which conforms to the rules of the Comptroller of the Currency;

(i) To provide temporary advances to cover overdrafts and, in addition, with the prior approval of the Committee, to borrow money from others, to issue its promissory note or notes therefor, and to secure the repayment thereof by pledging any property in its possession;

(j) If an Investment Manager directing investment under Section 4.3 is a bank, as defined in the Investment Managers Act of 1940, to transfer to such Investment Manager all or any specified assets in that part of the Trust Fund which is subject to such Investment Manager's direction, for investment by such Investment Manager through the medium of any common, collective, commingled or group trust fund maintained by it which consists solely of assets of trusts qualified under Code Section 401(a) and which is exempt from tax under Code Section 501(a), whereupon the instrument establishing such common, collective, commingled or group trust fund, as amended from time to time, shall constitute a part of the Plan the assets of which are included in such part of the trust fund as long as any portion of such assets shall be invested through the medium of such common, collective, commingled or group trust fund;

(k) Subject to the provisions of Sections 4.2, 4.5, 4.6 and 4.7, to exercise voting rights either in person or by proxy, with respect to any securities or other property, and generally to exercise with respect to the ESOP Fund all rights, powers and privileges as may be lawfully exercised by any person owning similar property in his own right;

(l) Subject to the provisions of Sections 4.5 through 4.7, to exercise any options, conversion rights, or rights to subscribe for additional stocks, bonds or other securities appurtenant to any securities or other property held by it, and to make any necessary payments in connection with such exercise;

(m) To compromise, compound, contest, abandon and settle any debt or obligation owing to or from it as Trustee; to reduce or increase the rate of interest on, extend or otherwise modify, foreclose upon default, or otherwise enforce any such obligation;

(n) To hold any property at any place, except that it shall not maintain the indicia of ownership of any assets of the ESOP Fund outside the jurisdiction of the district courts of the United States except as permitted by regulations issued by the Secretary of Labor of the United States under ERISA Section 404(b);

(o) To determine the market value of any securities or other property held by the Trustee in the ESOP Fund, and where any securities or other property are determined by the Trustee not to be marketable, to determine their value in accordance with sound practice and standards for evaluating such property;

(p) In regard to the ESOP Fund, to repay from time to time the principal and interest on, and to take any other action with respect to, any loan which was previously incurred by the ESOP Fund, all as directed by the Committee and in accordance with the applicable provisions of the Plan; provided, however, no loans shall be made by the Trustee individually to the ESOP Fund other than such temporary advancements to the ESOP Fund on a cash or overdraft basis as may be agreed to by the Trustee from time to time;

(q) To open and make use of banking accounts including checking accounts, which accounts, if bearing a reasonable rate of interest or if checking accounts, may be with the Trustee;

(r) To sell at public or private sale, contract to sell, convey, exchange, transfer and otherwise deal with the assets in accordance with industry practice, and to sell put and covered call options from time to time for such price and upon such terms as the Trustee sees fit; the Company acknowledges that the Trustee

may reverse any credits made to the Trust Fund by the Trustee prior to receipt of payment in the event that payment is not received;

(s) To employ agents, attorneys and proxies and to delegate to any one or more of them any power, discretionary or otherwise, granted to the Trustee;

(t) To maintain custody and safekeeping over all securities and other property in the Investment Funds and the ESOP Fund, and to arrange for the safe transit of any such securities and other property; and

(u) To register any security or other property held by it hereunder (i) in its own name, (ii) in the name of a title holding company exempt from tax under Section 501(c)(2) of the Code (and to form title holding corporations or trusts under Section 501(c)(25) of the Code), or (iii) in the name of a nominee with or without the addition of words indicating that such securities or other property are held in a fiduciary capacity, and to hold any securities in bearer form and to deposit any securities or other property in a depository or a clearing corporation, provided that the requirement under Section 403 of ERISA that all assets of the Plan be held in trust is not violated (provided, however, that the Trustee's books and records shall at all times show that all such investments are a part of the Trust Fund).

(v) The Trustee shall have the power in its discretion:

(i) To collect and receive any and all money and other property due to the Trust Fund and to give full discharge therefor;

(ii) To settle, compromise or submit to arbitration any claims, debts or damages due or owing to or from the Trust; to commence or defend suits or legal proceedings to protect any interest of the Trust; and to represent the Trust in all suits or legal proceedings in any court or before any other body or tribunal;

(iii) To organize under the laws of any state a corporation for the purpose of acquiring and holding title to any property which it is authorized to acquire under this Agreement and to exercise with respect thereto any or all of the powers set forth in this Agreement;

(iv) To manage, operate, repair, improve, develop, preserve, mortgage or lease for any period any real property or any oil, mineral or gas properties, royalties, interests or rights held by it directly or through any corporation, either alone or by joining with others, using other Trust assets for any of such purposes; to modify,

extend, renew, waive or otherwise adjust any or all of the provisions of any such mortgage or lease; and to make provision for amortization of the investment in or depreciation of the value of such property;

(v) Generally, to do all acts, whether or not expressly authorized, which the Trustee may deem necessary or desirable for the protection of the Trust Fund; and

(vi) To exercise all the rights, powers, options and privileges now or hereafter granted to, provided for, or vested in, trustees under the Texas Trust Code, except such as conflict with the terms of this Agreement or applicable law. As far as possible, no subsequent legislation or regulation shall be in limitation of the rights, powers or privileges granted the Trustee hereunder or in the Texas Trust Code as it exists at the time of the execution hereof.

4.9 Payments and Distributions from Trust Fund: The Trustee shall make such payments and distributions from the Trust Fund at such time or times and to such person or persons, including a paying agent or agents designated by the Committee as paying agent (including a commercial banking account in a federally insured banking institution established by the Committee for such purpose; provided, however that the Trustee shall have no responsibility to account for funds held in or disbursed from any such commercial banking account, or to prepare any information returns for tax purposes as to distributions made therefrom), as the Committee shall direct in writing, provided, however, (i) that disbursements for ordinary transaction expenses incurred in the administration of the Trust Fund need not be authorized by the Committee and (ii) that no payment or distribution in respect of the Plan shall exceed the value of the Plan in the Trust Fund on the date such payment or distribution is made. Any cash or property so paid or delivered to any such paying agent shall be held in trust by such payee until disbursed in accordance with the Plan. Any written direction of the Committee shall constitute a certification that the distribution or payment so directed is one which the Committee is authorized to direct and the Trustee shall not be responsible for the adequacy of the value of the Plan to meet and discharge such distribution or payment.

The Trustee may make any distribution or payment required to be made by it hereunder by mailing its check for the specified amount, or delivering the specified property, including certificates representing shares of Company Stock in the ESOP Fund, if applicable, to the person to whom such distribution or payment is to be made, at such address as may have been last furnished to the Trustee, or, if no such address shall have been so furnished, to such person in care of the Company or the Committee, or (if so directed by the Committee by crediting the account of such person or by transferring funds to such person's account by bank wire or transfer). If a payment or distribution from the Trust is not claimed, the Trustee shall promptly notify the Committee thereof and thereafter handle such payment in accordance with the subsequent direction of the Committee.

4.10 Trustee's Dealings with Third Parties: Any corporation, transfer agent or other third party dealing with the Trustee shall not make, nor be required by any person to make, any inquiry whether the Trustee has authority to take or omit any action under this Trust Agreement or whether the Committee has instructed the Trustee to take or omit any such action, but shall be fully protected in relying upon the certificate of the Trustee that it has authority to take or omit such proposed action. The seal of the Trustee affixed to any instrument executed by it shall constitute the Trustee's certificate that it is authorized as Trustee hereunder to execute such instrument and proceed as may be provided for therein. No third party shall be required to follow the application by the Trustee of any money or property which may be paid or transferred to it.

4.11 Ancillary Trustee: If at any time the Trust Fund shall consist in whole or in part of assets located in a jurisdiction in which the Trustee is not authorized to act, the Trustee may appoint an individual or corporation in such jurisdiction as ancillary trustee and may confer upon such ancillary trustee, power to act solely with reference to such assets, and such ancillary trustee shall remit all net income or proceeds from the sale of such assets to the Trustee. The Trustee may pay such ancillary trustee reasonable compensation and may absolve it from any requirement that it furnish bond or other security unless otherwise required by law.

ARTICLE V

ADDITIONAL ESOP FUND PROVISIONS

It is specifically contemplated that the ESOP Fund will operate pursuant to a leveraged employee stock ownership plan. The Company may from time to time direct the Trustee to take such actions as the Company shall determine with respect to any loan previously incurred for the purpose of acquiring Company Stock (a "Loan"), including, without limitation, electing applicable interest rates and prepaying such Loan. Any such Loan shall continue to meet all of the requirements necessary to constitute an "exempt loan" within the meaning of Treasury Regulation Section 54.4975-7(b)(1)(iii) and shall continue to be used primarily for the benefit of the ESOP Fund Participants and their beneficiaries. The proceeds of any such Loan shall continue to be used, within a reasonable time after the Loan is obtained, only to purchase Company Stock or to repay such Loan or a prior Loan. Any such Loan shall continue to provide for no more than a reasonable rate of interest and must continue to be without recourse against the Plan and Trust. The Loan must not be payable at the demand of any person, except in the case of a default. The only assets of the ESOP Fund that may be given as collateral for a Loan are shares of Company Stock acquired with the proceeds of the Loan and shares of Company Stock that were used as collateral on prior Loans repaid with the proceeds of the current Loan. In the event that Company Stock was used as collateral for a Loan, such Company Stock shall be released from such encumbrance at an annual rate which is geared to the rate of total repayment (principal plus interest) of the Loan or the rate of principal repayment of the Loan, provided that in either case all applicable requirements of the applicable regulations shall be satisfied. No person entitled to payment under a Loan shall be entitled to payment from the ESOP Fund other than from shares of Company Stock acquired with the proceeds of the Loan which are collateral for the Loan, Company contributions made under the Plan for the purpose of satisfying the Loan obligation, earnings attributable to such Company Stock and such Company contributions, and such other assets, if any, as to which recourse may be permitted under Section 4975 of the Code. Payments of principal and interest on any such Loan shall be made by the Trustee (as directed by the Committee) only from (1) Company contributions made under the Plan for the purpose of satisfying such Loan obligation, earnings on such contributions and earnings on shares of Company Stock acquired with the proceeds of such Loan, (2) the proceeds of a subsequent Loan made to repay the prior Loan, and/or (3) the proceeds of the sale of any collateralized share of Company Stock acquired with the proceeds of such Loan. In the event of a default under a Loan, the value of ESOP Fund assets transferred to the lender shall not exceed the amount of the default, provided further that if the lender is a "party in interest" within the meaning of ERISA Section 3(14), a transfer of ESOP Fund assets upon default shall be made only if, and to the extent of, the ESOP Fund's failure to meet the Loan's payment schedule.

ARTICLE VI

FOR THE PROTECTION OF THE TRUSTEE

6.1 Composition of Committee: The Plan shall be administered by the Committee appointed by the Company pursuant to the provisions of the Plan, and the Trustee shall not be responsible in any respect for such administration. The members of the Committee shall serve pursuant to the provisions of the Plan, and the Company shall certify to the Trustee the names of the members of the Committee acting from time to time and furnish to the Trustee specimens of the signatures of such persons. The Committee may delegate any of its rights, powers and duties to any one or more of its members or to an agent. The Company shall indemnify and hold harmless each member of the Committee, from any and all claims, losses, damages, expenses (including counsel fees approved by the Committee), and liabilities (including any amounts paid in settlement with the Committee's approval but excluding any excise tax assessed against any member or members of the Committee pursuant to the provisions of Code Section 4975) arising from any act or omission of such member in connection with his duties and responsibilities under this Trust Agreement, except when the same is judicially determined to be due to the gross negligence and willful misconduct of such member. The foregoing right of indemnification shall be in addition to any rights to which any member of the Committee, may otherwise be entitled as a matter of law. When any member of the Committee, shall cease to act, the Company shall promptly give written notice to that effect to the Trustee, but until such notice is received by the Trustee it shall be fully protected in continuing to rely upon the authority of such persons. If the full number of members of the Committee, as provided under the Plan, shall not at any time have been designated, the remaining member or members acting at such time shall be deemed to have all of the powers and duties of the Committee; or, if at any time there is no member of the Committee, the Board of Directors of the Company shall be deemed to be the Committee.

6.2 Evidence of Action by Company or Committee: The Committee shall certify to the Trustee the name or names of any person or persons authorized to act for the Committee. Until the Committee notifies the Trustee that any such person is no longer authorized to act for the Committee, the Trustee may continue to rely on the authority of such person. The Trustee may rely upon any certificate, notice or direction purporting to have been signed on behalf of the Committee which the Trustee believes to have been signed by the Committee or the person or persons authorized to act for the Committee. Any action required by any provision of this Agreement to be taken by the Board of Directors of the Company shall be evidenced by a resolution of such Board of Directors, certified to the Trustee over the signature of its Secretary or Assistant Secretary, and the Trustee may rely upon, and shall be fully protected in acting in accordance with, such resolution so certified to it. Unless other evidence with respect thereto has been expressly prescribed in this Agreement, any other action of the Company or of an Affiliated Corporation under any provision of this Agreement, including any approval of, or exceptions to the Trustee's accounts, shall be evidenced by a certificate signed by an officer of the Company or of an Affiliated Corporation, as the case may be, and the Trustee shall be fully protected in relying upon such certificate.

Any action by the Trustee pursuant to any of the provisions of this Agreement shall be sufficiently evidenced by a certification of one of its Vice Presidents, Second Vice Presidents or other appropriate Trust Officers, and the Company, each Affiliated Corporation which participates in this Trust, the Committee and all other persons in interest may rely upon, and shall be fully protected in acting in accordance with, such certification.

6.3 Communications: Communications to the Trustee shall be addressed to it at 50 South LaSalle Street, Chicago, Illinois 60675. Communications to the Committee, the Company or any Affiliated Corporation shall be addressed to it at Five Post Oak Park, 4400 Post Oak Parkway, 27th Floor, Houston, Texas 77027, with a copy to the Benefits Committee, attention: Secretary, P.O. Box 61867, Houston, Texas 77208, unless the Trustee, the Committee, the Company or any Affiliated Corporation, respectively, shall request that communications be sent to another address. No communication shall be binding upon the Trust Fund or the Trustee, or upon the Committee, the Company or any Affiliated Corporation until it is received by the Trustee, the Committee or its agent, the Company or the appropriate Affiliated Corporation, as the case may be.

6.4 Advice of Counsel: The Trustee may consult with any legal counsel, including counsel to the Company or the Committee, with respect to the construction of this Trust Agreement, its duties hereunder, or any act which it proposes to take or omit.

6.5 Miscellaneous: The Trustee may assume until advised to the contrary that the Plan and the Trust Fund is qualified under Sections 401(a), 409 and 4975(e)(7) and exempt from taxation under Section 501(a) of the Code. The Trustee shall be accountable for contributions made to the Plan and included among the assets of the Trust Fund, but shall have no responsibility to determine whether the contributions comply with the provisions of the Plan and ERISA.

The Trustee's duties and obligations shall be limited to those expressly imposed upon it by this Trust, notwithstanding any reference to the Plan.

The Company, any Affiliated Corporation, the Committee or all of them, at any time may employ as agent (to perform any act, keep any records or accounts, or make any computations required of the Company, an Affiliated Corporation or the Committee by this Trust Agreement or the Plan) the corporation serving as Trustee hereunder. Nothing done by said corporation as such agent shall affect its responsibility or liability as Trustee hereunder.

6.6 Fiduciary Responsibilities:

A. The Trustee, the Investment Managers, if any, and the members of the Committee shall discharge their duties with respect to the Trust solely in the interest of the Participants in the Plan and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Trustee, Investment Managers, and the members of the Committee shall not be liable for any loss sustained by the Trust Fund by reason of

the purchase, retention, sale or exchange of any investment in good faith and in accordance with the provisions of this Trust Agreement and of any applicable Federal law.

B. No "fiduciary" (as such term is defined in Section 3(21) of ERISA, or any successor statutory provision) under this Trust Agreement shall be liable for an act or omission of another person in carrying out any fiduciary responsibility where such fiduciary responsibility is allocated to such other person by this Trust Agreement or pursuant to a procedure established in this Trust Agreement except to the extent otherwise required by ERISA.

6.7 Limitations on Powers: Except for the short-term investment of cash, the Company has limited the investment power of the Trustee in the HI Common Stock Fund and the ESOP Fund to the purchase and holding of Company Stock. The Trustee shall not be liable for the purchase, retention, voting, tender or sale of Company Stock in accordance with the provisions of Sections 4.2, 4.5, 4.6 and 4.7 hereof and the Company (which has the authority to do so under the laws of the state of its incorporation) agrees to indemnify The Northern Trust Company from any liability, loss and expense, including reasonable legal fees and expenses which The Northern Trust Company may sustain by reason of the purchase, retention, voting, tender or sale of Company Stock in accordance with the provisions of Sections 4.2 4.5, 4.6 and 4.7 hereof; provided, however, that the foregoing liability and indemnification provisions shall not apply to the extent that such liability, loss or expense arises from the Trustee's willful misconduct, bad faith or negligence in carrying out its ministerial functions under Sections 4.2, 4.5, 4.6 and 4.7. This paragraph shall survive the termination of this Agreement.

ARTICLE VII

TAXES, EXPENSES AND COMPENSATION OF TRUSTEE

7.1 Taxes and Expenses: Brokerage fees, commissions, stock transfer taxes and other charges and expenses incurred in connection with the purchase and sale of securities for the Trust Fund or distribution thereof shall be paid by the Trustee from the Trust Fund. All taxes imposed or levied with respect to the Trust Fund or any part thereof, under existing or future laws, shall be paid from the Trust Fund. The Trustee shall pay from the Trust Fund, to the extent not paid by the Company and/or the Affiliated Corporations which participate in the Plan, its reasonable expenses of management and administration of the Trust, including reasonable compensation of counsel and any agents engaged by the Trustee to assist it in such management and administration, and when so directed by the Committee shall pay from the Trust Fund the fees of any Investment Manager and any specified expenses of administration of the Plan including, but not limited to, audit fees, investment consulting fees, and recordkeeping expenses.

7.2 Compensation of the Trustee: The Trustee shall receive for its services as Trustee hereunder such reasonable compensation which may be agreed upon from time to time by the Company and the Trustee. All amounts due the Trustee as compensation for its services shall be paid by the Company, or prorated among the Company and the Affiliated Corporations which participate in this Trust in such a manner as they deem equitable, or disbursed by the Trustee out of the Trust Fund, and, until paid, shall constitute a charge upon the Trust Fund.

ARTICLE VIII

SETTLEMENT OF ACCOUNTS;
DETERMINATION OF INTERESTS UNDER TRUST

8.1 Settlement of Accounts of Trustee: The Trustee shall keep accurate and detailed accounts of all of its receipts, investments and disbursements under this Agreement on an accrual basis, accounting separately for each Investment Fund and the ESOP Fund. The financial statements, books and records of the Trustee with respect to the Trust shall be open to inspection during all business hours of the Trustee by the Company or the Committee or their representatives, including, without limitation, independent certified public accountants engaged by the Company or the Committee, on behalf of all participants in the Plan, to permit compliance with the reporting and disclosure requirements of ERISA. However, such financial statements, books and records may not be audited more frequently than twice in each fiscal year. If an examination of the financial statements of the Plan requires a review of the underlying transactions affecting such financial statements, such independent certified public accountants shall rely on the report of the independent certified public accountants engaged by the Trustee to review its procedures and controls, to the extent such reliance is permitted by generally accepted auditing standards.

Within 90 days after the close of each calendar year, or any termination of the duties of the Trustee, the Trustee shall prepare, sign and mail in duplicate to the Company and the Committee an account of its acts and transactions as Trustee hereunder. Such account shall include a statement of the value of the Trust Fund and in its component Investment Funds and in the ESOP Fund as of the last day of such year or other period and a statement of the portion of the Trust Fund under management by any Investment Manager as of the same date.

If the Company finds the account to be correct, the Company shall sign the instrument of settlement annexed to one counterpart of the account and return such counterpart to the Trustee, whereupon the account shall become an account stated. If within 90 days after receipt of the account or any amended account the Company has not signed and returned a counterpart to the Trustee, nor filed with the Trustee notice of any objection to any act or transaction of the Trustee, the account or amended account shall become an account stated. If any objection has been filed, and if the Company is satisfied that it should be withdrawn or if the account is adjusted to its satisfaction, the Company shall in writing filed with the Trustee signify its approval of the account and it shall become an account stated. In each case in which an account becomes an account stated, the account shall be an account stated between the Trustee and the Company and any Affiliated Corporation which had adopted the Plan.

When an account becomes an account stated, such account shall be finally settled, and the Trustee shall be completely discharged and released, as if such account had been settled and allowed by a judgment or decree of a court of competent jurisdiction in an action or proceeding in which the Trustee, the Company and any Affiliated Corporation which has adopted the Plan were parties.

The account of the Trustee's acts and transactions delivered to the Committee shall be settled, and shall become an account stated, in the same manner as the account delivered to the Company hereunder. When an account becomes an account stated as between the Trustee and the Committee, the account shall be finally settled and the Trustee shall be completely discharged and released, as if such account had been settled and allowed by a judgment or decree of a court of competent jurisdiction in an action or proceeding in which the Trustee and the Committee were parties.

The Trustee, the Committee or the Company shall have the right to apply at any time to a court of competent jurisdiction for judicial settlement of any account of the Trustee not previously settled as hereinabove provided. In any such action or proceeding it shall be necessary to join as parties only the Trustee, the Committee and the Company (although the Trustee may also join such other parties as it may deem appropriate), and any judgment or decree entered therein shall be conclusive.

8.2 Determination of Rights and Benefits of Persons Claiming an Interest in the Trust Fund; Enforcement of Trust Fund: The Committee shall have authority to determine the existence, non-existence, nature and amount of the rights and interests of all persons under the Plan and in or to the Trust Fund, and the Trustee shall have no power, authority, or duty in respect of such matters, or to question or examine any determination made by the Committee, or any direction given by the Committee to the Trustee. The Company and the Committee shall have authority, either jointly or severally, to enforce this Trust Agreement on behalf of any and all persons having or claiming any interest in the Trust Fund or under this Trust Agreement or the Plan.

ARTICLE IX

RESIGNATION, REMOVAL AND SUBSTITUTION OF THE TRUSTEE

9.1 Resignation of Trustee: The Trustee may resign its duties hereunder by filing with the Committee its written resignation. No such resignation shall take effect until 60 days from the date thereof unless shorter notice is acceptable to the Committee.

9.2 Removal of Trustee: The Trustee may be removed by the Board of Directors of the Company at any time upon not less than 60 days' notice to the Trustee, but such notice may be waived by the Trustee. Such removal shall be effected by delivering to the Trustee a written notice of its removal executed by the Company, and by giving notice to the Trustee of the appointment of a successor Trustee in the manner hereinafter set forth.

9.3 Appointment of Successor Trustee: The appointment of a successor Trustee hereunder shall be accomplished by and shall take effect upon the delivery to the resigning or removed Trustee, as the case may be, of (a) an instrument in writing appointing such successor Trustee, executed by the Company, together with a certified copy of the resolution of the Board of Directors of the Company to such effect and (b) an acceptance in writing of the office of successor Trustee hereunder executed by the successor so appointed, both of which documents shall be acknowledged in like manner as this Trust Agreement. The Company shall send notice of such appointment to each Affiliated Corporation which has adopted the Plan, and to each member of the Committee then in office. Any successor Trustee hereunder may be either a corporation authorized and empowered to exercise trust powers or one or more individuals. All of the provisions set forth herein with respect to the Trustee shall relate to each successor Trustee so appointed with the same force and effect as if such successor Trustee had been originally named herein as the Trustee hereunder. If within 60 days after notice of resignation shall have been given under the provisions of this Article IX a successor Trustee shall not have been appointed, the resigning Trustee or any member of the Committee may apply to any court of competent jurisdiction for the appointment of a successor Trustee.

9.4 Transfer of Trust Fund to Successor: Upon the appointment of a successor Trustee, the resigning or removed Trustee shall transfer and deliver the Trust Fund and the records relating thereto to such successor Trustee, after reserving such reasonable amount as it shall deem necessary to provide for its expenses in the settlement of its accounts, the amount of any compensation due it and any sums chargeable against the Trust Fund for which it may be liable, but if the sums so reserved are not sufficient for such purposes, the resigning or removed Trustee shall be entitled to reimbursement for any deficiency from the Trust Fund and from the Company and each Affiliated Corporation which has adopted the Plan, who shall be jointly and severally liable therefor.

ARTICLE X

DURATION AND TERMINATION OF TRUST; AMENDMENT

10.1 Duration and Termination: This Trust Agreement shall continue for such time as may be necessary to accomplish the purpose for which it was created but may be terminated at any time by the Company by action of its Board of Directors. Notice of such termination shall be given to the Trustee by an instrument in writing executed by the Company and acknowledged in the same form as this Agreement, together with a certified copy of the resolution of the Board of Directors of the Company authorizing such termination. The Company shall notify the Committee of such termination.

10.2 Distribution Upon Termination: If this Trust Agreement is terminated, the Trustee upon the written direction of the Committee shall liquidate the Trust Fund to the extent required for distribution and, after its final account has been settled as provided in Article VIII, shall distribute the net balance thereof to such person or persons, at such time or times and in such proportions and manner as may be directed by the Committee or in the absence of such direction, as may be directed by a judgment or decree of a court of competent jurisdiction. Upon making such distributions, the Trustee shall be relieved from all further responsibility. The powers of the Trustee hereunder shall continue so long as any assets of the Trust Fund remain in its hands. Notwithstanding the foregoing provisions of this Section 10.2, the Company may promptly advise the appropriate District Director of Internal Revenue of the termination of the Trust and the Trustee may delay the final distribution to Participants in the terminated Plan until said District Director shall advise in writing that such termination does not adversely affect the previously qualified status of the terminated Plan or the exemption from tax of the Trust under Code Section 401(a) or 501(a).

10.3 Certain Withdrawals: Each Affiliated Corporation which participates in the Trust shall have the right to withdraw from this Trust upon six months' written notice to the Trustee and the Committee, which written notice may be waived by the Trustee and the Committee. In the event that any Affiliated Corporation which participates in the Trust shall cease to be an Affiliated Corporation of the Company, such corporation shall withdraw from this Trust as soon as arrangements may be reasonably made therefor, but in any event such withdrawal shall be made not more than six months after the date such corporation ceases to be an Affiliated Corporation. Upon such withdrawal, the Committee shall certify to the Trustee the interest in the Trust Fund of the participants of such withdrawing corporation and the Trustee shall thereupon separate such interest from the Trust Fund as provided below in this Section. The Committee may at any time direct the Trustee to segregate and withdraw any portion as may be certified to the Trustee by the Committee as allocable to any specified group or groups of employees or beneficiaries in the Plan. Whenever segregation is required, the Trustee shall withdraw from the Trust Fund such assets as it shall in its absolute discretion deem to be equal in value to the equitable share to be segregated. Such withdrawal from the Trust Fund shall be in cash or in any property held in such Fund, or in a combination of both, in the absolute discretion of the Trustee. The Trustee shall thereafter hold the assets so withdrawn as a separate trust fund in accordance with the provisions either of this Agreement (which shall be

construed in respect of such assets as if the employer maintaining the Plan (determined without regard to whether any subsidiaries or affiliates of such employer have joined in the Plan)) had been named as the Company hereunder or of a separate trust agreement. Such segregation shall not preclude later readmission to the Trust.

10.4 Amendment: By an instrument in writing delivered to the Trustee executed pursuant to the order of the Company's Board of Directors and acknowledged in the same form as this Agreement, the Company shall have the right to amend or modify this Trust Agreement at any time and from time to time to the extent that it may deem advisable, except that the duties and responsibilities of the Trustee shall not be increased without the Trustee's written consent. The Committee shall have the right to amend or modify this Trust Agreement in order to modify the administrative provisions of the Trust, to change the Investment Funds offered under the Trust and for any changes required by applicable law or by the Internal Revenue Service to maintain the qualified status of the Plan and related Trust at any time and from time to time to the extent that it may deem advisable, except that the duties and responsibilities of the Trustee shall not be increased without the Trustee's written consent. However, no such amendment shall authorize or permit, at any time prior to the satisfaction of all liabilities with respect to employees and their beneficiaries under the Plan, any part of the Plan in the Trust Fund to be used for, or diverted to, any purposes other than for the exclusive benefit of such employees and their beneficiaries.

Any such amendment shall become effective upon (a) delivery to the Trustee of the written instrument of amendment executed (i) by the appropriate officers of the Company, together with a certified copy of the resolution of the Board of Directors of the Company authorizing such amendment, or (ii) by the appropriate member of the Committee, together with a certified copy of the resolution of the Committee and (b) endorsement by the Trustee on such instrument of its receipt thereof, together with its consent thereto if such consent is required.

ARTICLE XI

MISCELLANEOUS

11.1 Governing Law; No Bond Required of Trustee: Subject to the provisions of ERISA, as they may be amended from time to time, which may be applicable and provide to the contrary, this Trust Agreement and the Trust hereby created shall be governed, construed, administered and regulated in all respects under the laws of the State of Texas. No bond or other security for the faithful performance of its duties hereunder shall be required of the Trustee unless otherwise required by law.

11.2 Interest in Trust Fund; Assignment: No document shall be issued evidencing any interest in the Trust or in the Trust Fund, and no Affiliated Corporation shall have the power to assign all or any part of its equitable share of the Trust Fund or of its interest therein.

11.3 Invalid Provisions: If any provision or provisions of this Trust Agreement shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions of this Trust Agreement, but shall be fully severable and the Trust Agreement shall be construed and enforced as if said illegal or invalid provisions had never been inserted herein.

11.4 Prohibition of Diversion: Except as provided in Article VII hereof, it shall be impossible under this Trust Agreement for any part of the corpus or income of the Trust Fund to be used for, or diverted to, purposes other than for the exclusive benefit of the Participants. It shall also be impossible under this Trust Agreement for any part of the Trust Fund to revert directly or indirectly to the Company or any Affiliated Corporation which participates in the Plan, except to the extent such reversions are specifically authorized under Section 403(c)(2) of ERISA.

11.5 Headings for Convenience Only: The headings and subheadings in this Trust Agreement are inserted for convenience of reference only and are not to be used in construing this instrument or any provision thereof.

11.6 Successors and Assigns: This Trust Agreement shall bind and inure to the benefit of the successors and assigns of the Company and the Trustee, respectively.

IN WITNESS WHEREOF, the Company 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 19th day of December, 1995, but effective as of July 1, 1995.

HOUSTON INDUSTRIES INCORPORATED

By /s/ D. D. Sykora

D. D. Sykora
Chairman of the Benefits Committee

ATTEST:

/s/ R. B. Dauphin
- ---
Assistant Corporate Secretary

THE NORTHERN TRUST COMPANY,
TRUSTEE

By /s/ Bruce G. Heniken

Vice President

ATTEST:

/s/ Stephen M. Kuropas
- ---

HOUSTON INDUSTRIES INCORPORATED
EXHIBIT 10(z)

HOUSTON INDUSTRIES INCORPORATED
EXECUTIVE DEFERRED COMPENSATION TRUST

HOUSTON INDUSTRIES INCORPORATED
EXECUTIVE DEFERRED COMPENSATION TRUST

I N D E X

HOUSTON INDUSTRIES INCORPORATED
EXECUTIVE DEFERRED COMPENSATION TRUST

THIS TRUST AGREEMENT is entered into effective as of the 19th day of December, 1995, among HOUSTON INDUSTRIES INCORPORATED, a Texas corporation (the "Company"), HOUSTON LIGHTING & POWER COMPANY, a Texas corporation, and HOUSTON INDUSTRIES ENERGY, INC., a Delaware corporation, as settlors, and THE BANK OF NEW YORK, as Trustee (the "Trustee"), which in conjunction with the Plans described below, is intended to be maintained, as an irrevocable, grantor trust for the purpose of setting aside and providing a specialized funding mechanism for the deferred compensation provided under the Plans (as defined herein).

W I T N E S S E T H:

WHEREAS, the Company and certain of its subsidiaries and affiliates (the "Employers") have adopted one or more of the Plans, as herein defined; and

WHEREAS, each Employer has incurred or expects to incur liability under the terms of the Plan with respect to the individuals participating in the Plans; and

WHEREAS, each Employer wishes to establish the Trust (as herein defined) and to contribute to the Trust assets that shall be held therein, subject to the claims of such Employer's creditors in the event of such Employer's insolvency, until paid to the Beneficiaries (as herein defined) in such manner and at such times as specified in the Plans; and

WHEREAS, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Plans as unfunded plans maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended; and

WHEREAS, it is the intention of the Employers to make contributions to the Trust to provide themselves with a source of funds to assist them in the meeting of their liabilities under the Plans.

NOW, THEREFORE, the parties do hereby establish the Trust and agree that the Trust shall be comprised, held and disposed of as follows:

ARTICLE I

ESTABLISHMENT OF TRUST

The Employers have transferred and delivered to the Trustee in Trust the property described in Exhibit A attached to and made a part of this Trust Agreement for all purposes, which shall become the principal of the Trust to be held, administered and disposed of by the Trustee as provided in this Trust Agreement. The Trustee accepts such property in trust under the terms of this Trust Agreement.

ARTICLE II

DEFINITIONS

For purposes of this Trust Agreement, the following definitions shall apply:

BENEFICIARIES: The term "Beneficiaries" shall mean any "participant" or the "beneficiary" of such participant, as those terms are defined under the Plan. Where the context requires, such a "participant" or "beneficiary" of a participant shall be deemed to be the Beneficiary of the Employer for whom the participant performed services when accruing a benefit under a Plan.

CODE: The term "Code" shall mean the Internal Revenue Code of 1986, as amended (or predecessor or successor codes thereto).

COMPANY: The term "Company" shall mean Houston Industries Incorporated, a Texas corporation.

COMMITTEE: The term "Committee" shall mean the Benefits Committee of Houston Industries Incorporated.

EMPLOYER: The term "Employer" shall mean the Company, Houston Lighting & Power Company and Houston Industries Energy, Inc., or any other of the Company's affiliates or subsidiaries which adopt the Plan.

EQUITABLE SHARE: The term "Equitable Share" shall mean, with respect to a particular Plan at a particular time, the net value of the Trust's assets allocable to such Plan or to a particular Employer participating in such Plan, as reflected in the separate account maintained for such Employer and/or such Plan, as the case may be, pursuant to Article VI hereof.

ERISA: The term "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

PAYMENT SCHEDULE: The term "Payment Schedule" shall mean a schedule delivered by the Company to the Trustee that indicates the amounts payable in respect of each Beneficiary that

provides the amounts so payable, the form in which such amount is to be paid (as provided for as available under the Plan) and the time of commencement for payment of such amounts.

PLAN: The term "Plan" shall mean the applicable of the Houston Industries Incorporated Deferred Compensation Plan, effective September 1, 1985, the Houston Industries Incorporated Deferred Compensation Plan, as amended and restated effective January 1, 1989, the Houston Industries Incorporated Deferred Compensation Plan, as amended and restated effective January 1, 1991, the Houston Industries Incorporated Executive Incentive Compensation Plan, effective January 1, 1982, the Houston Industries Incorporated Executive Incentive Compensation Plan, effective January 1, 1985, the Houston Industries Incorporated Executive Incentive Compensation Plan, as amended and restated effective January 1, 1989, the Houston Industries Incorporated Executive Incentive Compensation Plan, as amended and restated effective January 1, 1991, the Houston Industries Incorporated Benefits Restoration Plan, effective June 1, 1985 and as amended and restated effective July 1, 1991, the Houston Industries Incorporated Savings Restoration Plan, effective January 1, 1991, including any amendments to said Plans, and any other executive deferred compensation plan for which the Trust has been adopted as a funding medium thereunder.

TRUST: The term "Trust" shall mean all property transferred to the Trustee by the Employer and thereafter held by the Trustee pursuant to this Trust Agreement, including the investments and reinvestments thereof. This Trust shall be known as the Houston Industries Incorporated Executive Deferred Compensation Trust.

TRUSTEE: The term "Trustee" shall mean the Trustee designated herein and any successor Trustee.

ARTICLE III

IRREVOCABILITY AND AMENDABILITY

3.1 General: Except as provided in Section 3.2, subject to the limited withdrawal right under Section 3.3, this Trust shall be irrevocable for its term and shall only terminate when all the assets of the Trust have been distributed in accordance with the terms of the Plan and this Trust Agreement, and no Employer shall have the right or power to revoke the Trust.

3.2 Revocation Upon Unfavorable Ruling or Tax Law Change: The provisions of Section 3.1 of this Article III shall not apply and the Trust may be revoked by the Company in the event that either of the following two events occurs:

(a) The Internal Revenue Service issues an unfavorable ruling under Section 451 or other relevant sections of the Code with respect to the Trust and Plan as a vehicle for providing non-qualified deferred compensation.

(b) The Company receives an opinion from counsel that, as a result of a change in the tax law, Beneficiaries will be deemed to recognize taxable income

under Section 83, 402(b) or 451 of the Code by reason of the creation or existence of the Trust.

In the event that either of the foregoing events occurs, the assets of the Trust shall revert to the Employers (less any unpaid fees and expenses owed to the Trustee), the amount reverting to be equal to each respective Employer's Equitable Share of the assets of the Trust at the time of reversion. The Trustee shall not be responsible for taking any action under this Section 3.2 in the absence of notification from the Company.

3.3 Limited Withdrawal Right: An Employer shall be permitted to withdraw, upon reasonable notice from the Company and prior to a Change of Control, up to its Equitable Share from the Trust from time to time; provided, however, that such withdrawal shall be permitted only if, and to the extent that, (a) after taking into account such withdrawal, the Employer's Equitable Share of the Trust's assets equals or exceeds 100% of the actuarially determined liabilities of the Plans which are attributable to such Employer and (b) such withdrawal will not at any time during the subsequent 10- year period materially adversely affect the liquidity of the Trust or otherwise materially impair the ability of the Trust to make distributions to Beneficiaries pursuant to the terms of the Plans without having to liquidate Trust assets. Such actuarial liabilities of the Plans (as set forth under clauses (a) and (b) in the preceding sentence) shall be determined by an independent actuarial firm selected by the Committee in its sole discretion, which determination shall be conclusive and may be relied upon conclusively by the Trustee.

3.4 Amendment: This Trust Agreement may be amended by the express written agreement of the Company and Trustee executed and acknowledged in the same form of this Trust Agreement. Notwithstanding the foregoing or any other provision of this Trust Agreement to the contrary, the Company shall not permit any amendment to conflict with the terms of the Plans or make the Trust revocable or permit a reversion or return of Trust assets to an Employer, except as otherwise expressly provided in this Trust Agreement.

3.5 Change of Control: Upon a Change of Control, the Company shall, as soon as possible, but in no event longer than 15 days following the Change of Control, make an irrevocable contribution to the Trust in an amount that is sufficient to fully fund the entire benefit to which each Beneficiary would be entitled pursuant to the terms of the Plans as of the date on which the Change of Control occurred. The amount of the contribution shall be calculated by the independent service provider retained by the Company that regularly performs calculations with respect to the Plans (or if no such service provider exists, by a service provider appointed by the Trustee and paid from the assets of the Trusts), by determining the present value, as of the Change of Control date, of all the projected benefits of each Beneficiary under each of the Plans. The discount rate utilized in the present value calculation shall be the same as the rate employed for determining liabilities for benefits under the Houston Industries Incorporated Retirement Plan. The contribution may be in cash or in kind; provided, however, that if the contribution is made in a form other than cash, it shall be valued, as of the time it is made, at net cash surrender value (if a life insurance policy) or fair market value (if a readily marketable security). For purposes of this Trust Agreement, a "Change of Control" shall be deemed to have occurred if:

(a) any "person," including a "group" as determined in accordance with Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act"), is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities;

(b) as a result of, or in connection with, any tender offer or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions (a "Transaction"), the persons who were directors of the Company before the Transaction shall cease to constitute a majority of the Board of Directors of the Company or any successor to the Company;

(c) the Company is merged or consolidated with another corporation and as a result of such merger or consolidation less than 70% of the outstanding voting securities of the surviving or resulting corporation shall then be owned in the aggregate by the former stockholders of the Company, other than (x) affiliates within the meaning of the Exchange Act, or (y) any party to such merger or consolidation;

(d) a tender offer or exchange offer is made and consummated for the ownership of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding voting securities; or

(e) the Company transfers substantially all of its assets to another corporation which is not a wholly owned subsidiary of the Company;

provided, however, that unless the Board of Directors of the Company determines otherwise prior to the date of any event described in the foregoing clauses (a) - (e) above ("Event"), a "Change of Control" shall not have occurred if any Event results, directly or indirectly, in the beneficial ownership by the employees, former employees or members of the Board of Directors of the Company of:

(x) substantially all of the assets of the Company; or

(y) securities of the Company representing 30% or more of the combined voting power of the outstanding securities of the Company or any successor to the Company.

Notwithstanding the foregoing definition, no Change of Control shall be deemed to have occurred for purposes of this Agreement unless and until the Trustee has actual knowledge from a reliable source, not including an officer of the Company, of such Change of Control. For this purpose, a report filed with the Securities and Exchange Commission or a public statement issued by the Company, or a periodical of general circulation, including but not limited to The New York Times or The Wall Street Journal, shall be deemed to be a reliable source.

ARTICLE IV

INCORPORATION OF OTHER DOCUMENTS

4.1 Other Documents: Each of the Plans is hereby incorporated herein by reference.

4.2 Order for Interpretation in the Event of Conflict: If a conflict between the interpretation of this Trust and a Plan occurs, then precedence shall be given to the provisions of the documents in the following order:

(a) The Trust; and

(b) The applicable Plan.

To the extent possible, the applicable Plan and Trust shall be interpreted as mutually consistent. The Trustee may request that the Company interpret any provision of the Plan and/or Trust, and may conclusively rely upon such interpretation.

ARTICLE V

LEGAL TREATMENT OF THE TRUST

5.1 Trustee: The Trustee of this Trust is the entity named herein, and said entity, evidenced by the authorized signature of its agent and representative hereon, accepts such position. The Trustee shall receive, hold and disburse the assets designated to be so handled under the relevant Plan in trust for the Beneficiaries in accordance with the provisions of this Trust Agreement.

5.2 Contributions:

A. The Employers shall make contributions to this Trust in a form reasonably acceptable to the Trustee in accordance with the provisions of the Plans or as may be required by the Committee as a means of providing deferred compensation to the Beneficiaries. Subject to the foregoing, the Employers shall transfer to the Trustee all amounts provided for in the Plans in accordance with the terms and conditions of each Plan or as may be required by the Committee, to be held by the Trustee, together with the investments and reinvestments thereof, in TRUST, for the purposes and with the powers and authorities provided by this Trust Agreement and subject to the terms and conditions of this Trust Agreement. Each Employer shall have the right at any time, and from time to time in its sole discretion, to substitute assets of equal fair market value reasonably acceptable to the Trustee for any asset previously contributed by it to (and still held in) the Trust. This right is exercisable by the Employer in a non-fiduciary capacity without the approval or consent of any person in a fiduciary capacity. Except as otherwise provided in a particular Plan and this Trust Agreement, all contributions made pursuant to the provisions of the Plans and this Trust Agreement and all assets and earnings of the Trust are solely and irrevocably dedicated to the payment of benefits to the Beneficiaries pursuant to the Plans, and, except as otherwise provided in Sections 3.2 and 3.3 and in this Section 5.2(A), the Employers shall have no right or power to direct the Trustee to return to

them or to divert to others any of the Trust assets before all payments of benefits have been made to the Beneficiaries pursuant to the terms of the Plans. The Trustee shall not have the responsibility for determining the amount of contributions or collecting contributions to the Trust from the Employers. The Trustee shall only be responsible for assets transferred to the Trustee by the Employers.

B. The Trustee shall not be required to determine amounts to be contributed or to take any legal action to collect such amounts or collect, preserve or maintain any Trust property unless it has been indemnified either by the Trust itself, with the approval of the Employers, or by the Employers with respect to any expenses or losses to which it may be subjected by taking such action. Any property acquired by the Trustee through the enforcement or compromise of any claim or claims it has as Trustee of this Trust will become a part of the assets of the Trust.

5.3 Alienation and Assignment; Spendthrift Trust: Except for debts owed the Employer, the interest of each Beneficiary in this Trust shall be held subject to a "spendthrift trust" within the meaning of the law of the State of New York. Subject to the limited right of assignment to Permitted Assignees in accordance with certain Sections of the Plans, the interest of the Beneficiaries in the Trust may not be anticipated, alienated, assigned, pledged or encumbered, voluntarily or involuntarily and any such attempt at anticipation, alienation, assignment, pledge or encumbrance shall be void, and such interest is not subject to attachment, garnishment, levy, execution or other legal or equitable process by, or subject to the claim of, any creditors of the Beneficiaries, except for debts owed the Employer.

5.4 Trust Subject to General Creditors of Each Employer:

A. The assets of the Trust (including principal and any earnings thereon) shall be held separate and apart from other funds of each Employer and shall be used exclusively for the uses and purposes of the Beneficiaries and general creditors of each such Employer as herein set forth. However, in accordance with this Section 5.4, an Employer's Equitable Share of the assets of the Trust shall be treated as general assets of such Employer and, as such, shall remain subject to claims of the general creditors of the Employer (including Beneficiaries) under applicable state and federal law, and any rights created under the Plans or this Trust Agreement shall be mere unsecured contractual rights of the Beneficiaries against the Employer. No Beneficiary shall have any preferred claim on or any beneficial ownership in the Trust prior to the time for distribution to such Beneficiary under the applicable Plan. Nor shall any Beneficiary with respect to a particular Employer be paid distributions from the Trust, except from such Employer's Equitable Share of the Trust. By agreeing to participate or continue to participate in a Plan (with respect to plans in effect on the date hereof), each Beneficiary who is or was an employee of an Employer shall, in the event that the Employer with respect to such Beneficiary becomes insolvent (as hereinafter defined), thereby waive any priority such Beneficiary may have had under law as an employee with respect to any claim against the Employer for amounts or benefits payable to such Beneficiary under such Plan and Trust beyond the rights such Beneficiary would have as a general creditor.

B. The Trustee shall cease payment of benefits to the Beneficiaries of an Employer if it receives actual notice in accordance with this Section 5.4(B) that the Employer is insolvent. An Employer shall be considered "insolvent" for purposes of this Trust Agreement if (1) the Employer is unable to pay its debts as they become due or (2) the Employer is subject to a pending proceeding

as a debtor under the United States Bankruptcy Code. At all times during the continuance of this Trust, an Employer's Equitable Share of the assets of the Trust shall be subject to claims of general creditors of such Employer under federal and state law in the manner set forth in this Section 5.4(B) below.

(i) The Board of Directors of the Company shall appoint an individual who shall have the duty to inform the Trustee in writing of an Employer's insolvency.

(ii) If (x) the individual described in clause (i) notifies the Trustee that an Employer is insolvent, (y) the Trustee actually receives a claim from a creditor of an Employer that such Employer is insolvent or (z) the Trustee is actually served with any order, process or paper from which it appears that an allegation has been made to the effect that the Employer is insolvent, the Trustee shall discontinue payments to the Beneficiaries with respect to such Employer, and unless the Trustee receives a notice specified under clause (iii) within 30 days after the first date of such discontinuance, shall hold the Employer's Equitable Share of the assets of the Trust for the benefit of the Employer's general creditors.

(iii) If the Trustee has discontinued making payments to Beneficiaries with respect to an affected Employer pursuant to clause (ii), the Trustee shall resume holding the Trust assets for the benefit of the Beneficiaries of such affected Employer and resume making any payments under the Plans to the Beneficiaries of such affected Employer only after (x) the Trustee receives an opinion from the certified public accountant regularly auditing the Employer's books that the Employer is not (or no longer is) insolvent and (y) the resumption of payments is not in contravention of any court order or automatic stay.

(iv) Unless the Trustee receives a notification specified in clause (ii), the Trustee shall have no duty to inquire whether the Employer is insolvent. The Trustee shall not be liable to any person for any good faith action that it takes in connection with the insolvency, or alleged insolvency, of an Employer.

(v) Provided that there are sufficient assets, if the Trustee discontinues the payment of benefits from the Trust pursuant to clause (iii) with respect to an affected Employer and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to Beneficiaries with respect to such Employer under the terms of the Plans for the period of such discontinuance, less the aggregate amount of any payments made to the Beneficiaries by the affected Employer in lieu of the payments provided hereunder during any such period of discontinuance. If more than one Employer participates in the Plan and Trust, the provisions of this Section 5.4(B) shall only apply to the affected Employer, its Beneficiaries under the Plan, and its Equitable Share of the assets of the Trust.

C. To the extent described in this Section 5.4(C), the provisions of Section 5.4(B) of the Trust are expressly made subject to and conditioned on the Plans' qualifying for an exemption from

Part 4 of Title I of ERISA or the assets of the Trust not constituting "plan assets" under Title I of ERISA. For purposes of the provisions of Section 5.4(B) of the Trust and notwithstanding any provision of the Trust to the contrary, if the Company shall provide the Trustee with an opinion of its tax and ERISA counsel to the effect that the conditions specified in the preceding sentence are not met, the assets of the Trust shall not be payable to the general creditors of any Employer and the Trustee shall not have the obligation to pay the assets of the Trust to any such general creditor prior to a direction to such effect by a court of competent jurisdiction. To the extent deemed necessary or appropriate by the Trustee, the Trustee shall pay the affected Employer's Equitable Share of the assets of the Trust into a court of competent jurisdiction which shall have interpleader jurisdiction over both the Employer, the general creditors of the Employer and the Beneficiaries of the affected Employer. In making its determination as to whether the affected Employer's Equitable Share of the assets of the Trust shall be paid to such general creditors, the court of competent jurisdiction shall take into account the provisions of the first sentence of this Section 5.4(C). If the conditions of such first sentence are not satisfied, then the affected Employer's Equitable Share of the assets of this Trust shall not be payable or paid to such general creditors and shall be held for the exclusive benefit of the Beneficiaries of the affected Employer in accordance with Part 4 of Title I of ERISA. In the event that a court of competent jurisdiction reaches the determination described in the preceding sentence or if the Company provides to the Trustee the opinion described in the second sentence of this Section 5.4(C), this Trust shall terminate and shall be promptly liquidated by paying the assets of the Trust to the Beneficiaries (of all the Employers) in a lump sum distribution of the balance of each Beneficiary's account (or accounts) in the Trust. The expenses or costs of the Trustee in connection with the proceedings of such a court of competent jurisdiction or such opinion of counsel shall be considered to be proper expenses within the meaning of Section 7.8 of this Trust and payable in accordance with the provisions of such section.

5.5 Grantor Trust: It is intended that the Trust be taxed as a grantor trust under the provisions of Section 671 and Section 677(a)(2) of the Code, that the Employers, as grantors, be treated as the "owners" (within the meaning of those provisions) of their respective Equitable Shares of the assets of the Trust, and that the Trust be construed accordingly. The Employers shall file their federal income tax returns in a manner consistent with the provisions of the preceding sentence.

ARTICLE VI

OPERATION AND TERMINATION OF TRUST

6.1 Distributions; Individual Accounts; Termination:

A. This Trust shall be an accumulation trust. Principal and all currently earned income shall be accumulated during the term of the Trust. The Trustee shall hold, manage, invest and reinvest the assets of the Trust, collect the income therefrom and, after deducting all charges and expenses properly payable therefrom, hold and distribute the then principal of the Trust and the income therefrom, all in accordance with, and subject to, the provisions of the applicable Plan and this Trust Agreement. The Company shall maintain a separate account reflecting the respective Equitable Share of each of the Plans and of each of the Employers in the same Plan, and a separate account reflecting the Equitable Share of each of the Employers in the Trust assets. The Equitable

Share of each Employer shall consist of the amount of cash and value of other property (as determined by the Trustee) transferred by the Employer to the Trustee, plus a proportionate share of the earnings and appreciation (and less losses and depreciation) of the Trust assets, less payments to Beneficiaries with respect to such Employer under the Plans. Contemporaneously with the transfer of assets to the Trustee, the Employer shall furnish the Trustee a written statement setting forth the amount of such assets to be credited to the accounts of each of the Plans. The Equitable Share of each Plan shall consist of the amount of cash and the value of the other property (as determined by the Trustee) credited to the account of the Plan as described in the preceding sentence, plus a proportionate amount of the earnings and appreciation (and less losses and depreciation) of the Trust assets, less payments to Beneficiaries under such Plan. Amounts credited to the separate account of any Plan shall not be available for payments under any other Plan. Amounts credited to the separate account of any Employer in a given Plan shall not be available for payments with respect to the Beneficiaries of any other Employer in the same or other Plan. Unless earlier revoked pursuant to the provisions of Section 3.2 of this Trust Agreement, this Trust shall terminate upon (a) a complete distribution of the Trust as provided in the Plans or (b) if earlier and if required by the applicable rule against perpetuities, one day prior to the last day of the period ending 21 years after the death of the last to die of the original "participants" under the Plans. The Company shall be solely responsible for determining the existence and date of termination pursuant to the preceding sentence and for advising the Trustee of such termination, and the Trustee may rely conclusively upon the determination of the Company. If the trust terminates pursuant to clause (b) above then the assets of this Trust shall be transferred to a successor trust established for this purpose; provided such a transfer does not result in the taxation of the transferred assets to the Beneficiaries. Except as otherwise provided in the applicable Plan or this Trust Agreement, any assets remaining in the Trust at the time of termination of the Trust shall revert to the Employers, the amount reverting to be equal to each respective Employer's Equitable Share of the assets of the Trust at the time of the reversion.

B. The entitlement of a Beneficiary to benefits under a Plan shall be determined by the Company, and any claim for such benefits shall be considered and reviewed under the procedures set out in the Plan. The Trustee shall have no responsibility or liability in respect of the entitlement of any Beneficiary to benefits under the Plan. Notwithstanding any provision of the Trust Agreement to the contrary, each Employer shall remain obligated to pay the benefits under the Plan. Nothing in this Trust Agreement shall relieve any Employer of its liabilities to pay the benefits except to the extent such liabilities are met by the application of Trust assets.

C. The Company may make payment of benefits directly to Beneficiaries as they become due under the terms of the Plans. The Company shall notify the Trustee of its decision to make payment of benefits directly at least 10 business days prior to the time amounts are payable to the Beneficiaries. In addition, if the assets of the Plan are not sufficient to make payments of benefits to such Beneficiary, the Company shall make the balance of each such payment as it falls due. The Trustee shall notify the Company where assets are not sufficient.

D. At least annually, the Company shall supply the Trustee with a list of participants in the Plans (the "List of Participants") substantially in the form set forth in Exhibit B attached hereto. The Trustee may rely conclusively on such List of Participants. Following a Change of Control, the name of a participant shall not be deleted from such List of Participants unless the Company files with the Trustee the written consent of such affected participant.

6.2 Determination of Rights and Benefits of Persons Claiming an Interest in the Trust; Enforcement of Trust: The Committee shall have the authority to determine the existence, non-existence, nature and amount of the rights and interests of all persons under the Plan and in or to the Trust, and the Trustee shall have no power, authority, or duty in respect of such matters, or to question or examine any determination made by the Committee, or any direction given by the Committee to the Trustee. The Company, other Employers and the Committee shall have authority, either jointly or severally, to enforce this Trust Agreement on behalf of any and all persons having or claiming any interest in the Trust or under this Trust Agreement or the Plans.

6.3 Payments to Beneficiaries: The Company shall deliver to the Trustee a schedule (the "Payment Schedule"), in a form to be mutually agreed upon by the Company and the Trustee, that indicates the amounts payable in respect of each Beneficiary that provides the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Plan) and the time of commencement for payment of such amounts. Such Payment Schedule may only be amended or revised following a Change of Control if the Company files the consent(s) of the affected Beneficiaries with the Trustee. Except as otherwise provided herein, the Trustee shall make payments to the Beneficiaries in accordance with such Payment Schedule, and shall not make any payments to any Beneficiary until such Beneficiary's Payment Schedule has been received by the Trustee from the Company. The Trustee shall not make any payments to Beneficiaries from the Trust not set forth on a Payment Schedule even though the Trustee may be informed from another source that payments are due under the Plan. Any amount payable under this Section 6.3 under a Plan that has individual participant accounts shall be charged against such Beneficiary's account and no payment with respect to a Beneficiary shall be made in excess of the amount then credited to such Beneficiary's account. In accordance with written instructions from the Company which may be relied upon exclusively by the Trustee, the Trustee shall make provision for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plans and shall pay amounts withheld to the appropriate taxing authorities. The Trustee may rely upon, and shall be under no duty to verify, amounts payable and other instructions contained in the Payment Schedule delivered to the Trustee by the Company, and may, by receipt of a certification to that effect by the Company, determine that any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plans have been reported, withheld and paid by the Company. The entitlement of a Beneficiary to benefits under the Plans shall be determined by the Committee or such party as it shall designate under the Plans, and any claim for such benefits shall be considered reviewed under the procedures set out in the Plans. The Company may make payment of benefits directly to Beneficiaries as they become due under the terms of the Plans. The Company shall notify the Trustee of its decision to make payment of benefits directly to a Beneficiary not currently receiving benefits from the Company at least 10 business days prior to the time amounts are payable to Beneficiaries. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plans, the Company shall make the balance of each such payment as it falls due. The Trustee shall notify the Company where principal and earnings are not sufficient. In the event the Company makes payment of benefits as permitted in this Section 6.3, the Company shall provide the Trustee with a schedule of all benefits, and taxes attributable thereto, that have been paid by the Company within 15 days after the end of the quarter in which such payments have been made.

ARTICLE VII

POWERS AND DUTIES OF TRUSTEE

7.1 General Powers: Except as provided herein to the contrary (including requirements herein that the Trustee act pursuant to authorization or direction), the Trustee shall have all the powers granted trustees under the laws of the State of New York, as amended from time to time, and shall have the power to perform every act necessary or appropriate to carry out the terms of this Trust to the maximum extent permitted by law, including, without limitation, the following:

(a) The receipt of contributions from the respective Employers under the Plans;

(b) The investment of Trust assets only in such forms of investment and pursuant to an investment policy as authorized and directed by the Committee; provided, however, that in no event may the Trust assets be invested in common stock or preferred stock of the Company. The Trustee is hereby authorized and directed by the Committee to invest in any whole life insurance policies described on Exhibit C and other whole life insurance policies all as may be directed by the Committee in accordance with the Committee's direction, all as is more particularly described in Section 7.2 of this Trust Agreement. The Trustee is also hereby authorized and directed to invest any funds not otherwise invested in accordance with the Committee's direction in a short-term investment fund, which is a money market fund maintained by the Trustee for group trust accounts ("STIF Fund"). Authorized investments by the Trustee are subject to change only by the direction of the Committee in accordance with Section 7.9 of this Trust Agreement. Any income from whatever source of investments authorized hereunder shall be invested in the STIF Fund until or unless the Committee directs otherwise.

(c) If so directed by the Committee, the assets of this Trust may be invested and reinvested in such personal property investments and insurance and annuity contracts as appropriate and consistent with the investment directions communicated by the Committee, including without limiting the generality of the foregoing: common and preferred stocks (excluding the common or preferred stock of the Company); trusts and participation certificates; bonds; debentures; covered call options; notes secured by personal property; obligations of governmental bodies, both domestic and foreign; notes, commercial paper and other evidences of indebtedness, secured or unsecured, including variable amount notes; convertible securities of all types and kinds; mutual funds shares; interest-bearing savings or deposit accounts with any federally-insured bank (including the Trustee) or savings and loan association; and any other personal property permitted as investments under applicable law. Further, the assets of this Trust may be invested and reinvested in such forms of collective investments as may be consistent with the investment directives communicated by the Committee.

(d) The Trustee shall follow the directions of the Committee regarding the investment and reinvestment of Trust funds and the voting of common stock, and shall be under no duty or obligation to review any investment to be acquired, held or disposed of pursuant to such directions nor to make any recommendations with respect to the disposition or continued retention of any such investment. The Trustee shall have no liability or responsibility for acting without question on the direction of, or failing to act in the absence of any direction from, the Committee.

(e) The entering into and performance of any agreement;

(f) Subject to the provisions of Section 5.2(B) of this Trust Agreement, the undertaking of any legal action, whether as plaintiff or defendant, on behalf of the Trust;

(g) The payment of any tax or assessment incurred in the administration of the Trust;

(h) The employment of any person, including attorneys, accountants, investment managers and agents, to advise and assist the Trustee in the performance of its duties;

(i) The execution and delivery of all instruments necessary or appropriate to accomplishing or facilitating the exercise of the Trustee's powers;

(j) The borrowing of money from any source as may be necessary or advisable to effectuate the purposes of the Trust on such terms and conditions as the Trustee, in the Trustee's absolute discretion, may deem advisable, and for this purpose to mortgage or pledge on a nonrecourse basis the assets of the Trust;

(k) To release, in the discretion of the Trustee, any fiduciary power at any time, whole or in part, temporarily or permanently, whenever the Trustee may deem it advisable, by acknowledged instrument;

(l) To keep any and all securities or other assets of the Trust in the name of some other person or entity with a power of attorney for the transfer attached or in bearer or Federal Reserve Book - Entry form or in the name of the Trustee without disclosing the fiduciary capacity of the Trustee;

(m) Subject to the provisions of Section 7.12 of this Trust Agreement, to vote, either in person or by proxy, any share of stock held as part of the assets of the Trust;

(n) To hold cash uninvested at any time and in any amount pending investment pursuant to the terms of the Plans; and

(o) The exercise of all rights associated with the assets of the Trust, it being the express intent of the parties that in no event shall such rights be exercisable by, or rest with, the Beneficiaries.

Notwithstanding any powers granted to the Trustee pursuant to this Trust Agreement or applicable law, (i) if an insurance policy is held as an asset of the Trust, the Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor trustee, or to loan to any person other than the Trust the proceeds of any borrowing against such policy and (ii) the Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of Section 301.7701-2 of the procedural and administrative regulations promulgated pursuant to the Internal Revenue Code.

7.2 Insurance Policies: With respect to the investment of the Trust in whole life insurance policies ("Insurance Policies"), the Committee shall direct the Trustee in the exercise of the powers set forth in Articles VI and VII and the Trustee shall exercise such powers in the manner directed in writing by the Committee. It shall be the duty of the Trustee to act strictly in accordance with each direction of the Committee relating to the investment of the Trust in Insurance Policies and the Trustee shall not have any duty to question any such direction. The Trustee shall not have any duty to review any such Insurance Policies held in the Trust pursuant to such direction, or to make suggestions to the Committee with respect to the exercise or non-exercise of any of the said powers. The Trustee shall be under no liability for any loss of any kind which may result by reason of any action taken by it in accordance with any direction of the Committee or by reason of its failure to exercise any of the said powers in respect of such Insurance Policies because of the failure of the Committee to give such direction.

(a) The Trustee, upon written direction of the Committee, shall pay from the Trust such sums to such insurance company or companies or other financial institutions (collectively referred to as an "insurance company") as the Committee may direct for the purpose of procuring individual or group policies of life insurance (hereinafter referred to as "Policies"). The Committee shall prepare, or cause to be prepared in such form as it shall prescribe, the application for any Policy to be applied for under any or all of the Plans and this Trust and the Trustee shall execute such application. The Committee shall inform the Trustee the portion of each policy to be allocated to each Employer and each Plan for purposes of determining Equitable Shares pursuant to Section 6.1, and the Trustee may conclusively rely upon such information. The Trustee shall receive and hold in the Trust, subject to the provisions hereinafter set forth in this Section, all Policies obtained pursuant to the Plans.

(b) The Trustee shall be the complete and absolute owner of Policies held in the Trust and, upon written direction of the Committee, shall have power, without the consent of any other person, to collect and receive all dividends or other payments of any kind payable with respect to any Policy held in the Trust or to leave the same with the issuing insurance company; to convert from one form to another any Policy held in the Trust; to change the person or persons designated in any Policy

to receive the proceeds; to designate any mode of settlement of the proceeds of any Policy held in the Trust; to sell or assign any Policy held in the Trust; to surrender for cash any Policy held in the Trust; to borrow sums of money from the issuing insurance company upon any Policy or Policies issued by it and held in the Trust, provided that the Trustee shall borrow such sums only in respect of all Policies for the time being held in the Trust and upon a uniform basis; to agree with the insurance company issuing any Policy to any release, reduction, modification or amendment thereof; and, without limitation of any of the foregoing, to exercise any and all of the rights, options or privileges that belong to the absolute owner of any Policy held in the Trust or that are granted by the terms of any such Policy or by the terms of this Trust Agreement.

(c) The Trustee shall have no discretion with respect to the exercise of any of the foregoing powers or to take any other action permitted by any Policy held in the Trust, but shall exercise such powers or take such action only upon the written direction of the Committee; the Trustee shall have no duty to exercise any of such powers or to take any such action unless and until it shall have received such direction. The Trustee, upon the written direction of the Committee, shall deliver any Policy held in the Trust to such person or persons as may be specified in the direction.

(d) The Trustee shall hold in the Trust the proceeds of any sale, assignment or surrender of any Policy held in the Trust and any and all dividends and other payments of any kind received in respect to any Policy held in the Trust, and shall distribute and/or allocate such proceeds in accordance with the directions of the Committee.

(e) If the Trustee shall have borrowed any sums of money upon any Policy held in the Trust, it shall have no duty to repay any part of the money so borrowed, notwithstanding the fact that thereafter it may have sufficient funds to make such repayment, unless and until it shall have both received written direction from the Committee to make the repayment and have sufficient funds to make such payment at the time of such direction.

(f) Upon the written direction of the Committee, the Trustee shall pay from the Trust premiums, assessments, dues, charges and interest, if any, upon any Policy held in the Trust. The Trustee shall have no duty to make any such payment unless and until it shall have received such direction. The written direction of the Committee to pay the premiums becoming due on any Policy specified in the direction shall be sufficient authority for the Trustee to pay any and all bills presented to it for premiums or the amount specified in any premium notice received from the insurance company issuing the Policy, and for such purposes the Trustee may use any money held by it as part of the Trust at the time the payment is due, unless the Committee shall have directed that such money shall not be used for such purpose. If the moneys held by the Trustee in the Trust at any time and available for the payment of premiums are not sufficient to pay all sums then due on all Policies held

in the Trust, the Trustee immediately shall notify the Committee of the amount of the deficiency, and the Committee shall make payment of the sum before the expiration of the last day of grace for such payment; and the Trustee shall be under no duty or obligation to pay any such amount if the Trustee shall have given such notice, unless (i) the Committee shall direct the Trustee to pay from the funds available a specified sum or sums upon a specified Policy or Policies or (ii) the Committee shall pay the amount of the deficiency to the Trustee at least five days before the date of expiration of the grace period, and in either event, the Trustee immediately shall pay over the same to the issuing insurance company or companies.

(g) Upon the direction of the Committee, the Trustee shall have power to execute all necessary receipts and releases to any insurance company issuing any Policy or Policies held in the Trust, and, upon written advice from the Committee and at the direction of the Committee that the proceeds of any Policy held in the Trust have become payable, shall make reasonable efforts in accordance with directions from the Committee to collect such sums as may appear to be due; but the Trustee shall have no duty to begin or maintain any action, suit or legal proceeding to collect the proceeds of any Policy unless it is in possession of funds sufficient for the purpose or unless it has been indemnified to its satisfaction for its counsel fees, costs, disbursements and all other expenses and liabilities to which it in its judgment may be subjected by beginning or maintaining the action, suit or other legal proceeding. The Trustee may use the assets of the Trust to defray the expenses incurred in connection with collection and enforcing payment of that Policy. The Trustee shall have power, with the written approval of the Committee, to compromise and adjust claims arising out of any Policy held in the Trust upon such terms and conditions as it may deem just, and the discretion of the Trustee shall be binding and conclusive upon all persons interested in the Trust.

(h) Any insurance company may deal with the Trustee as sole owner of any Policy issued by it and held in the Trust, without inquiry as to the authority of the Trustee to act, and may accept and rely upon any written notice, instruction, direction, certificate or other communication from the Trustee believed by it to be genuine and to be signed by an officer of the Trustee. No insurance company shall be required to look into the terms of this Trust Agreement, or to question any action of the Trustee or to see that any action of the Trustee is authorized by the terms of this Trust Agreement.

(i) The Trustee shall follow directions of the Committee concerning the exercise or non-exercise of any powers or options concerning any Policy held in the Trust. Notwithstanding any other provision of this Trust Agreement to the contrary, the Company hereby agrees to indemnify the Trustee and hold it harmless from and against any claim or liability which may be asserted against the Trustee by reason of its acting on any direction from the Committee or failing to act in the absence of any such direction with respect to any Policy or the acquisition of any Policy or exercise of any right of option thereunder.

(j) Notwithstanding any of the foregoing provisions or any other provision in this Trust Agreement, the Committee hereby directs the Trustee to pay the premiums on the Policies listed on Exhibit C and to borrow the full cash surrender value on each such Policy (in accordance with such procedures as the Committee and the Trustee may mutually agree upon) to the extent permitted under such Policies. Further, the Committee hereby directs that the Trustee shall not make any payments to Beneficiaries unless and until directed in writing to do so by the Committee pursuant to Section 6.3 of this Trust Agreement.

(k) With respect to any and all future Policies other than those listed on Exhibit C, the Trustee shall not act in any manner with regard to such future Policies, including but not limited to paying premiums thereon, borrowing the cash surrender value thereof or making payments to Beneficiaries thereunder, unless and until directed in writing to do so by the Committee.

7.3 Prudent Man Standard: Except to the extent otherwise provided in this Trust Agreement or the Plans, in acquiring, investing, reinvesting, exchanging, retaining, selling, supervising and managing trust property, the Trustee shall exercise the judgment and care under the current circumstances that persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income from as well as the probable increase in value and the safety of their capital. Provided, however, except as may otherwise be provided under applicable law which cannot be waived, the Trustee shall incur no liability to any person or entity for any action taken pursuant to a direction, request or approval (given by any Employer, the Committee or any agent appointed or representing such person or persons) contemplated by the terms of this Trust Agreement (or for the actions of an investment manager appointed hereunder) and to that extent shall be relieved of the prudent man standard regarding investments of the Trust. The Trustee will be under no duties whatsoever, except such duties as are specifically set forth as such in this Trust Agreement, and no implied covenant or obligation will be read into this Trust against the Trustee.

7.4 Compensation of Trustee: The Trustee shall be paid reasonable compensation for its services as set forth in Exhibit D attached hereto. Such payment shall be made by the person designated in Section 7.8 of this Trust Agreement.

7.5 Reliance by Third Parties: Any person dealing in good faith with the Trustee or in good faith assisting the Trustee in conducting a transaction shall be entitled to rely without inquiry upon the representation that the Trustee has the power it purports to exercise and has exercised such power in accordance with the provisions of this Trust Agreement, and in such event such person shall not be responsible for the application of money or property paid or delivered to the Trustee.

7.6 Receipt and Disbursement of Funds: The Trustee shall receive all contributions from the Employers and disburse the Trust in accordance with the provisions of the Plans and the terms of this Trust Agreement.

7.7 Cooperation with Employers and the Committee: The Trustee shall (i) exert reasonable efforts to cooperate with the Employers, the Committee and any investment manager or third party recordkeeper as to any filings, reports and disclosures required by United States federal, state and local law (but the Trustee shall only be required to act pursuant to directions in connection with such filings and disclosures) and (ii) keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, including such specific records as shall be agreed upon in writing between the Employer and the Trustee. Within 30 days (or such other reasonable time mutually agreeable to the Trustee and the Company) following the end of each Plan Year during the term of this Trust, the Trustee shall provide the Employers and the Committee with a verified written statement of accounts based on the Trustee's best information and knowledge in a form which shall substantially reflect the following:

(a) The period covered by the account;

(b) The total principal with which the Trustee is chargeable according to the last preceding written statement of accounts or the original principal if there is no preceding statement;

(c) An itemized schedule of all principal, cash and property received and disbursed, distributed, or otherwise disposed of during the period;

(d) An itemized schedule of income received and disbursed, distributed, or otherwise disposed of during the period; and

(e) The balance of principal and income remaining at the close of the period, how invested, and both the inventory and current market values of all investments.

Any information transmitted by the Trustee to the Employers and the Committee hereunder shall be certified to as complete and accurate by the Trustee. The Trustee shall not be responsible for complying with the provisions of this Section 7.7 to the extent that the underlying administrative responsibility has been allocated to a third party in accordance with the applicable Plan. Any information required to be provided for the preparation of any annual reporting and disclosure materials shall be provided on an annual basis not less than 30 days prior to the time required for filing the applicable report, disclosure or return (including extensions thereof), unless each Employer and the Trustee shall in writing have agreed to a later date for the provision of such information. The statements provided in accordance with the above shall be deemed correct and final and binding as to all parties 90 days after receipt by the Employers except to the extent objected to prior to the end of such period.

7.8 Payment of Expenses:

A. The expenses incurred by the Trustee in the performance of its duties, including reasonable fees for legal services rendered to the Trustee (whether or not rendered in connection with a judicial or administrative proceeding) and including, without limitation, all brokerage fees and transfer tax expenses and other expenses incurred in connection with the sale or purchase of

investments and all real and personal taxes, income taxes and other taxes of any kind at any time levied or assessed upon the Trust or any property included in the Trust and the costs of the accounting described in Section 7.7 above;

B. Any compensation paid to the Trustee in accordance with Section 7.4 above; and

C. All other proper charges and disbursements of the Trustee

shall be paid by the Trust unless paid by the Employers.

7.9 Direction of Investments: The Committee shall have the right and affirmative obligation and duty to establish the investment policy and to select (and to direct the Trustee as to) the investment alternatives provided in Section 7.1(b) of the Trust Agreement and to modify them from time to time, and the Trustee shall have sole and exclusive authority and responsibility to invest and reinvest the assets of the Trust Fund as directed by the Committee in accordance with said investment policy and in said investment alternatives. No Beneficiary shall have the right to make directions to the Committee as to the investment to be made of the amounts in such Beneficiary's account maintained by the Committee.

7.10 Valuation: The Trustee shall value the Trust at the fair market value of the assets in the Trust as of the last business day of each Plan year and upon such other dates as may be determined by the Company or the Trustee or as may be specified under the Plan. The determination of the Trustee with respect to the fair market value of any asset shall be final and conclusive. In making such valuation, the Trustee shall deduct all charges, expenses and other liabilities, if any, contingent or otherwise, then chargeable against the Trust, in order to give effect to income realized and expenses paid or incurred, losses sustained, and unrealized gains or losses constituting appreciation or depreciation in the value of the Trust investments since the last previous valuation.

7.11 Appointment of Other Fiduciaries and Service Providers: The Company and Trustee agree that either party with the prior consent of the other may appoint third parties to be allocated administrative or investment responsibilities under the Trust as mutually agreeable between the Company and Trustee, including recordkeeping and investment fund managers or sponsors. In addition, the Committee may appoint employees of the Company or other third parties to act as its agent and on its behalf in carrying out any or all of its administrative responsibilities under the Trust; provided, however, that contemporaneously with or within 10 days after any such appointment, the Committee shall notify the Trustee of such appointment and delegation of administrative duties hereunder.

7.12 Investment Company Shares: The voting rights of any shares of any investment company held in the Trust shall be exercised in accordance with the direction given the Trustee by the Committee.

7.13 Limitation of Trustee Liability: The Trustee shall not be liable to the Trust or to any person having a beneficial interest in the Trust for any losses or decline in value which may be incurred upon any investment of the Trust assets, as long as the Trustee acts in good faith and in accordance with the terms of the applicable Plan and this Trust Agreement. The Trustee shall not

be liable for any act or omission by the Trustee, because of a direction of any Employer or the Committee; nor for any act or omission of any Beneficiary, any Employer or the Committee, or any other agent appointed by any Employer or the Committee except to the extent required by applicable state or federal law under which liability cannot be waived.

7.14 Reliance on Information: When the Trustee acts in good faith, the Trustee, in all matters pertaining to the Trustee's management and investment of the Trust, may rely upon any notice, resolution, instruction, direction, order, certificate, opinion, letter, telegram or other document believed by the Trustee to be genuine, to have been signed by a proper representative of any Beneficiary, any Employer, the Committee or any investment manager or third party recordkeeper, if one is appointed, and to be the act of any Beneficiary, any Employer, the Committee or the investment manager or third party recordkeeper, as the case may be. The Trustee shall accept any certificate or other instrument duly signed by a proper representative of any Beneficiary, any Employer, the Committee or the investment manager or third party recordkeeper, if one is appointed which purports to evidence an instruction, direction or order of any Beneficiary, any Employer, the Committee or the investment manager or third party recordkeeper, as the case may be, as conclusive evidence thereof.

7.15 Indemnification: Each Employer hereby, jointly and severally, agrees to indemnify and hold harmless the Trustee from and against any and all losses, claims, damages, liabilities, costs and expenses, including but not limited to, liability for any judgments, settlements consented to in writing by the Trustee, which consents will not be unreasonably withheld, and reasonable attorneys fees arising out of or in connection with or as a direct or indirect result of its serving as Trustee of the Trust established under this Trust Agreement, (including but not limited to the Trustee's acts or omissions with respect to (a) the voting of any share of stock held as part of the assets of the Trust, or (b) the determination of insolvency of any Employer and the Trustee's acts or omissions in accordance with the terms and provisions of the Trust following any determination of insolvency of any Employer or any acts of the Trustee in accordance with the terms and provisions of Section 5.4(C) of this Trust Agreement), except only those losses, claims, charges, liabilities, costs and expenses, if any, arising out of or in connection with or as a direct or indirect result of the Trustee's bad faith, ordinary negligence or willful neglect or breach of trust. The Trustee shall promptly notify each Employer of any claim, action or proceeding for which it may seek indemnity. Such indemnity is a continuing obligation and shall be binding on each Employer and its successors, whether by merger or otherwise, and assigns. In addition, such indemnity shall survive the resignation or removal of the Trustee and/or the liquidation of the Trust.

ARTICLE VIII

ENFORCEMENT AND REMEDIES

8.1 Right to Sue: The Trustee may maintain on behalf of the Trust in its representative capacity a civil action for any legal or equitable remedy against a third person that it could maintain in its own right if it were the party aggrieved. The preceding sentence shall not require the Trustee to maintain any action, except as specifically provided for in this Trust Agreement.

8.2 Liens: The Trustee is entitled to a lien against the Trust:

(a) for any unpaid expenses properly chargeable against the Trust; and

(b) for payment of its compensation under Section 7.4 of this Trust Agreement.

ARTICLE IX

REMOVAL, RESIGNATION AND APPOINTMENT OF TRUSTEES

9.1 Removal of Trustee: The Trustee may be removed at any time by the Company. No such removal shall take effect until 30 days from the date that a written notice was delivered to the Trustee unless prior thereto a successor Trustee shall have been appointed and accepted and the Trustee consents to such earlier date.

9.2 Resignation of Trustee: The Trustee may resign at any time upon 30 days written notice delivered to the Company.

9.3 Appointment of Successor Trustee; Transfer of Funds: The Company shall appoint a qualified corporate fiduciary as Trustee to replace a removed or resigned Trustee and such appointment shall be made not later than the effective date of such removal or resignation of such Trustee. If no such appointment has been made, the Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of the Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust. The predecessor Trustee shall assign, transfer and pay over the assets of the Trust to the successor Trustee and shall complete such transfer within 60 days after the effective date of such Trustee's removal or resignation. The predecessor Trustee is authorized, however, to reserve such sum of money as is reasonable for the payment of its fees and expenses in connection with the settlement of its account or otherwise, and any balance of such reserve remaining after the payment of such fees and expenses shall be paid over to the successor Trustee.

9.4 Accounting of Removed or Resigned Trustee: Any Trustee removed under Section 9.1 above shall remain as Trustee until its successor shall have been appointed, but not more than 30 days following notice of removal. Within 90 days following the expiration of the 30-day period following its removal or resignation, the Trustee shall provide the Committee and each Employer with a full and final accounting. The written approval of such an accounting by the Company, or the failure of the Committee and the Company to notify the Trustee of their disapproval of such an accounting within 90 days after its receipt shall be final and binding as to the Trustee's administration of the Trust for the applicable accounting period upon the Employer and all persons who have or may thereafter have an interest in the Trust.

ARTICLE X

MISCELLANEOUS

10.1 Controlling Law: This Trust has been entered into in the State of New York and except to the extent preempted by ERISA or other federal law shall be construed and enforced in accordance with the laws of New York.

10.2 Income Tax Deferral; ERISA Status: This Trust is intended to comply with the law and rulings under Sections 83, 402(b), 451 and 671 of the Code and the economic benefit and constructive receipt doctrines thereunder, including the ruling positions and criteria of the Internal Revenue Service as in effect from time to time, and the related rulings and regulations, which result in a deferral of income tax to the Beneficiaries. This Trust is also intended to comply with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA and the related rules and regulations thereunder, applying to unfunded plans maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees.

10.3 Accountability For Funds Received: The Trustee shall be accountable only for funds or other property received by it pursuant to the Plans and Trust.

10.4 Non-Recourse Beyond Trust Assets: The rights of any Beneficiary or other person under the Plans and the Trust shall be limited to the assets of the Trust at any given time. No Employer shall be deemed a guarantor of or be held liable for any benefits under the Plan beyond the current assets of the Trust. Notwithstanding the provisions of the preceding two sentences, the rights of a Beneficiary against the Employer with respect to such Beneficiary for the payment of benefits under the Plans shall be preserved in accordance with the provisions of Section 5.4(A) of this Trust Agreement in the event that the assets of this Trust are paid to the general creditors of the Employer in accordance with the provisions of Section 5.4(B) of this Trust Agreement. The provisions of this Section 10.4 shall not limit the rights of the Beneficiaries under this Trust Agreement or as otherwise allowed by law with respect to the Trustee.

10.5 Facility of Payment: If the Committee determines that a payee under this Trust Agreement is unable to care for his own affairs because of physical or mental condition or minority, any such payment (unless a claim shall have been made therefor by a duly appointed guardian or other legal representative) may be made to the payee's guardian or spouse, or to any descendant, parent, relative, or other person determined by the Committee to be trustworthy to utilize the payment for the benefit of the payee, and the payments so made shall completely discharge the liability of the Trustee with respect thereto.

10.6 No Bond Required: Except as otherwise required by law, no Trustee acting hereunder shall be required to give bond or other security in any jurisdiction.

10.7 Gender and Number: To the extent required by the context herein, each gender shall include the masculine, the feminine and the neuter, and each number shall include the singular and the plural.

10.8 Execution in Counterparts: This Trust may be executed in counterparts, each of which shall be deemed an original.

10.9 Severability: Any provision of this Trust Agreement that is determined to be prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

IN WITNESS WHEREOF, the parties hereto have executed this TRUST AGREEMENT effective as of the day and year first above written.

HOUSTON INDUSTRIES INCORPORATED

By /s/ D. D. Sykora

D. D. Sykora
Chairman of the Benefits Committee

ATTEST:

/s/ Richard B. Dauphin

Assistant Corporate Secretary

HOUSTON LIGHTING & POWER COMPANY

By /s/ R. S. Letbetter

ATTEST:

/s/ Richard B. Dauphin

Assistant Corporate Secretary

HOUSTON INDUSTRIES ENERGY, INC.

By /s/ Lee W. Hogan

ATTEST:

/s/ Richard B. Dauphin

Assistant Corporate Secretary

THE BANK OF NEW YORK

By /s/ James Catera

Vice President

ATTEST:

/s/ Ellen R. Whalen

Assistant Vice President

THE STATE OF TEXAS)
)
COUNTY OF HARRIS)

BEFORE ME, the undersigned authority, on this day personally appeared D. D. Sykora, Chairman of the Benefits Committee 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 19th day of December, 1995.

/s/ Monica J. Huseby

Notary Public, State of Texas

THE STATE OF TEXAS)
)
COUNTY OF HARRIS)

BEFORE ME, the undersigned authority, on this day personally appeared R. S. Letbetter, President and COO of HOUSTON LIGHTING & POWER COMPANY, 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 LIGHTING & POWER COMPANY, 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 21st day of December, 1995.

/s/ Marita Kylene Hoffman

Notary Public, State of Texas

[seal] Marita Kylene Hoffman
Notary Public, State of Texas
My Commission Expires 10/16/96

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THE STATE OF TEXAS)
)
COUNTY OF HARRIS)

BEFORE ME, the undersigned authority, on this day personally appeared Lee W. Hogan , President and COO 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 21st day of December, 1995.

/s/ Marita Kylene Hoffman

Notary Public, State of Texas

[seal] Marita Kylene Hoffman
Notary Public, State of Texas
My Commission Expires 10/16/96

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

BEFORE ME, the undersigned authority, on this day personally appeared James Catera, Vice President 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 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 5th day of January, 1996.

Notary Public, State of New York

[seal] Albert T. Tarantola

Notary Public, State of New York
Qualified in Richmond County
My Commission Expires August 31, 1996

EXHIBIT A

One Thousand and no/100 Dollars ($1,000.00)

EXHIBIT B

FORM OF LIST OF PARTICIPANTS

Pursuant to Section 6.1 of the Trust Agreement, dated as of _____, 199__, between _____ (the "Company") and The Bank of New York as Trustee, the Company provides the following list of Participants in the Plan:

Dated: _____, 199___

[COMPANY]

By
Authorized Officer

EXHIBIT C

[LIST OF POLICIES]

EXHIBIT D

The Bank of New York
Proposed Schedule of Fees
for the
Houston Industries Incorporated
Executive Deferred Compensation Trust

ANNUAL FEES

These fees are payable quarterly. There are no initial set-up fees with the establishment/conversion of the trust to The Bank of New York.

ADMINISTRATIVE FEES:	$ 15,000

This fee includes normal administrative, asset reporting, and trust fiduciary tax reporting functions under the trust.

SPECIAL ASSET FEE:	$ 3,000

This fee is for each passive, commingled investment fund, mutual fund, and company stock account held as an asset per issuer.

There will be a $500 fee for each additional asset held in an account and a $7.50 charge per annum for an insurance policy held in an account.

TRANSACTION FEES:

Security Transaction, per security transaction	$ 15.00
Lump Sum Payment, per check plus postage	$ 12.50
Periodic Payment, per check plus postage	$ 2.00
Wire Transfers, per transfer	$ 15.00
Overnight Delivery	As Incurred

SPECIAL TRANSACTION FEES

Change of Control, per event	$ 12,000
Insolvency, per event	$ 12,000
Termination of the Trust, per event	$ 3,500
Proxy Services	As Incurred
Convert to Pay Status, per participant	$ 100.00

SPECIAL REPORTING FEES:

Schedule of Beneficial Interest (plan accounting)		
per investment pool	$	1,500
per plan, per investment pool	$	250

INVESTMENT MANAGEMENT FEE:

Minimum $6,250 (exclusive of the schedule of additional charges below)

Based on Market Value of Principal

1.25%	on the first	$5,000,000
1.00%	on the next	$5,000,000
.75%	on the next	$10,000,000
.50%	on the next	$10,000,000
.25%	on the balance	balance

SCHEDULE OF ADDITIONAL CHARGES:

A special fee of $250 is payable for reviewing and accepting an investment which requires special handling, such as an investment in a limited partnership.

OUT-OF-POCKET EXPENSES

Fees as quoted above do not include any out-of-pocket expenses including, but not limited to, facsimile, stationery, postage, telephone, overnight courier, and messenger costs. These expenses will be billed, at our cost, when incurred.

EXTERNAL COUNSEL FEES

Fees quoted do not include external counsel fees. A bill for counsel fees incurred up to closing will be presented for payment on the closing date.

MISCELLANEOUS SERVICES

In the event of a Change in Control, the annual Administrative Fee increases to $25,000. This fee is not inclusive of the Special Asset Fees, Transaction Fees, or Investment Management Fees, if applicable.

The charges for performing services not contemplated at the time of the execution of the documents or not specifically covered elsewhere in the schedule will be determined by appraisal in amounts commensurate with the service. These extraordinary services may partially be classified as amendments and releases; the preparation of special or interim reports which the trustee or agent must submit to security holders; unusual studies, considerations and actions taken with respect to

document provisions; and the custody of collateral which is diversified, voluminous in bulk or which involves the trustee or agent in unusual activity.

TERMS OF PROPOSAL

The Bank of New York's final acceptance of this appointment is subject to the full review and approval of all related documentation and financials and our conflict investigation. Please note that if this transaction does not proceed to a successful conclusion, you will be responsible for paying any expenses incurred for this transaction.

HOUSTON INDUSTRIES INCORPORATED
EXHIBIT 10(a)(a)

EXHIBIT (10 aa)

[Logo] Houston
Industries
Incorporated

June 14, 1991

Mr. David M. McClanahan
Vice President, Finance & Administration
KBLCOM Incorporated
800 Gessner, Suite 700
Houston, Texas 77024-4270

Dear David:

Effective January 1, 1991, you became Vice President, Finance & Administration of KBLCOM Incorporated ("KBLCOM"), necessitating the transfer of your employment from Houston Industries Incorporated ("HII") to KBLCOM. The purpose of this letter is to set forth the effect of the transfer on your retirement, savings and executive benefits.

(1) Retirement Plan. Concurrent with your transfer, you became eligible for and started accruing a pension benefit under the KBLCOM Retirement Plan; this benefit will accrue during your period of employment with KBLCOM. Your prior service with HII companies will be considered under the KBLCOM Retirement Plan for vesting purposes.

Under the terms of the Retirement Plan for Employees of Houston Industries Incorporated (the "HII Retirement Plan"), you will retain your benefit accrued to the date of transfer until your retirement or final termination of employment with HII and its subsidiaries. If you are later transferred to employment with HII or another of its subsidiaries, you will then resume accruing a benefit under the HII Retirement Plan.

Upon your eligibility for a retirement benefit under the HII Retirement Plan, you will be entitled to the full retirement benefit you would have received under the HII Retirement Plan as if all your periods of service had been with HII. If the sum of your benefits actually payable from the KBLCOM Retirement Plan and the HII Retirement Plan does not equal or exceed the amount you would have received from the HII Retirement Plan had all of your service been with HII, HII will pay the difference to you (or your beneficiary) in the same form and manner as your pension from the HII Retirement Plan.

(2) Savings Plan. During the period you are eligible for and elect to participate in the KBLCOM Incorporated Savings Plan (the "KBLCOM Savings Plan"), HII will account for the excess, if

any, of the employer matching contribution that would have been credited to your account under the Savings Plan of Houston Industries Incorporated (the "HII Savings Plan") over any employer matching contribution credited to your account under the KBLCOM Savings Plan. You will be vested in and eligible to receive any amount payable under this paragraph if, as and when any final distribution upon termination of employment is made to you from the HII Savings Plan. The amounts so credited on your behalf shall accrue earnings as if invested in HII common stock.

(3) Executive Benefits Plan. As an officer of HII, you participated in the HII Executive Benefits Plan which is designed to provide salary continuation and supplemental post-retirement benefits. As KBLCOM has not adopted the Executive Benefits Plan, you are no longer eligible for the benefits provided thereunder. However, during your period of employment as an officer of KBLCOM, HII hereby agrees to provide the benefits which otherwise would become payable to you (or your beneficiary) under the terms of the Executive Benefits Agreement between you and HII, dated June 20, 1986. Additionally, HII agrees that, in the event you become disabled during your employment as a KBLCOM officer, you shall receive benefits from the KBLCOM LTD Plan (and HII to the extent benefits are not payable under the KBLCOM LTD Plan) as if the term "total disability" under the KBLCOM LTD Plan was defined as an illness or injury which prevents you from performing the duties of an officer of KBLCOM.

(4) Long-Term Incentive Compensation Plan. The lapse of restrictions on your award of restricted shares for the performance cycle January 1, 1990 through December 31, 1992 will be determined on a prorata basis considering the length of your employment as an HII officer and KBLCOM officer during the performance cycle.

(5) Benefits Restoration and Savings Restoration Plans. HII agrees that it will pay you such amounts as would have been paid under each of these plans as if your employment as a KBLCOM officer had been as an officer of HII. HII will pay you such amounts, if any, at such times as they would have been paid under the applicable section of the Benefits Restoration Plan and Savings Restoration Plan.

(6) Executive Incentive Compensation Plan and Deferred Compensation Plan. Your service with KBLCOM is considered as

service with HII under each of the Executive Incentive Compensation Plan and the Deferred Compensation Plan for vesting and distribution purposes. Thus, any amounts credited on your behalf prior to your transfer will vest and be paid under each plan as if your period of KBLCOM employment had been with HII.

This letter confirms the benefits HII intends to provide you in recognition of your service as an officer of KBLCOM. All amounts payable hereunder are payable out of the general funds of HII.

Very truly yours,

/s/ Don D. Jordan

Don D. Jordan
Chairman, President &
Chief Executive Officer

HOUSTON INDUSTRIES INCORPORATED
EXHIBIT 11

Exhibit 11

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
COMPUTATION OF EARNINGS PER COMMON SHARE
AND COMMON EQUIVALENT SHARE
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	Year Ended December 31,		
	1995	1994	1993
		(Restated)	(Restated)
Primary Earnings Per Share:			
(1) Weighted average shares of common stock outstanding	247,706,457	245,706,746	260,008,136
(2) Effect of issuance of shares from assumed exercise of stock options (treasury stock method)	47,098	(79,048)	7,836
(3) Weighted average shares	247,753,555	245,627,698	260,015,972
(4) Net income	$ 1,105,524	$ 399,261	$ 416,036
(5) Primary earnings per share (line 4/line 3)	$ 4.46	$ 1.62	$ 1.60
Fully Diluted Earnings Per Share:			
(6) Weighted average shares per computation on line 3 above	247,753,555	245,627,698	260,015,972
(7) Shares applicable to options included on line 2 above	(47,098)	79,048	(7,836)
(8) Dilutive effect of stock options (treasury stock method) based on higher of the average price for the year or year-end price of $24.25, $18.00 and $23.82 for 1995, 1994 and 1993, respectively	52,730	(79,048)	14,600
(9) Weighted average shares	247,759,187	245,627,698	260,022,736
(10) Net income	$ 1,105,524	$ 399,261	$ 416,036
(11) Fully diluted earnings per share (line 10/line 9)	$ 4.46	$ 1.62	$ 1.60

Notes:

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

The calculations for year ended December 31, 1994 is submitted in accordance with Regulation S-K item 601(b)(11) although they are contrary to paragraphs 30 and 40 of APB No. 15 because they produce anti-dilutive results.

The amounts for 1994 reflect the adoption, effective January 1, 1994, of the American Institute of Certified Public Accountants Statement of Position 93-6 (SOP 93-6), "Employers' Accounting for Employee Stock Ownership Plans." See Notes 1(g) and 9(b) to the Company's Consolidated and HL&P's Financial Statements for information regarding the effects of SOP 93-6 on weighted average shares of common stock outstanding and net income, respectively. In accordance with SOP 93-6, periods prior to 1994 have not been restated.

All share amounts reflect the two-for-one stock split, effective December 1995.

HOUSTON INDUSTRIES INCORPORATED
EXHIBIT 12

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES Exhibit 12
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(THOUSANDS OF DOLLARS)

	Twelve Months Ended December 31,				
	1995	1994	1993	1992	1991
Fixed Charges as Defined:					
(1) Interest on Long-Term Debt	$ 279,491	$ 265,494	$ 304,462	$ 338,771	$ 340,810
(2) Other Interest	21,586	25,076	15,145	23,323	42,353
(3) Preferred Dividends Factor of Subsidiary (line 12)	44,933	51,718	52,399	58,204	67,433
(4) Interest Component of Rentals Charged to Operating Expense	3,102	3,951	4,449	5,116	5,943
(5) Total Fixed Charges	$ 349,112	$ 346,239	$ 376,455	$ 425,414	$ 456,539
Earnings as Defined:					
(6) Income from Continuing Operations Before Cumulative Effect of Change in Accounting	$ 397,400	$ 423,985	$ 440,531	$ 370,031	$ 484,275
(7) Income Taxes for Continuing Operations Before Cumulative Effect of Change in Accounting	199,555	230,424	228,863	177,276	224,215
(8) Fixed Charges (line 5)	349,112	346,239	376,455	425,414	456,539
(9) Earnings from Continuing Operations Before Cumulative Effect of Change in Accounting, Income Taxes and Fixed Charges	$ 946,067	$1,000,648	$1,045,849	$ 972,721	$1,165,029
Preferred Dividends Factor of Subsidiary:					
(10) Preferred Stock Dividends of Subsidiary	$ 29,955	$ 33,583	$ 34,473	$ 39,327	$ 46,187
(11) Ratio of Pre-Tax Income from Continuing Operations to Income from Continuing Operations (line 6 plus line 7 divided by line 6)	1.50	1.54	1.52	1.48	1.46
(12) Preferred Dividends Factor of Subsidiary (line 10 times line 11)	$ 44,933	$ 51,718	$ 52,399	$ 58,204	$ 67,433
Ratio of Earnings from Continuing Operations to Fixed Charges Before Cumulative Effect of Change in Accounting (line 9 divided by line 5)	2.71	2.89	2.78	2.29	2.55

HOUSTON INDUSTRIES INCORPORATED
EXHIBIT 21

Exhibit 21

SUBSIDIARIES OF THE COMPANY*

NAME	JURISDICTION
Houston Lighting & Power Company	Texas
Houston Industries (Delaware) Incorporated	Delaware

*The names of certain subsidiaries of the Company are omitted pursuant to Item 601(b)(21)(ii) of Regulation S-K.

HOUSTON INDUSTRIES INCORPORATED
EXHIBIT 23

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

HOUSTON INDUSTRIES INCORPORATED:

We consent to the incorporation by reference in Houston Industries Incorporated's (i) Registration Statements on Form S-3 Nos. 33-39921, 33-60756, 33-51431, 33-52207 and 33-55445 and (ii) Registration Statements on Form S-8 Nos. 33-37493, 33-50629, 33-52279, 33-55391 and 33-56855 of our report dated February 29, 1996 (March 26, 1996 as to Note 4), appearing in this Annual Report on Form 10-K of Houston Industries Incorporated for the year ended December 31, 1995.

DELOITTE & TOUCHE LLP

HOUSTON, TEXAS
MARCH 27, 1996

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

0000202131
Houston Industries Incorporated
1,000

YEAR
DEC-31-1995
DEC-31-1995
PER-BOOK
8,769,626
1,159,036
337,445
930,349
623,150
11,819,606
2,173,385
0
1,953,672
4,123,563
51,055
351,345
3,333,483
0
0
6,300
350,130
25,700
4,939
3,621
3,565,976
11,819,606
3,730,173
199,555
2,825,240
2,825,240
904,933
18,362
923,295
296,385
1,135,479
29,955
1,105,524
371,760
244,310
839,438
4.46
4.46

Reflects a two-for-one stock split effective December 9, 1995.

HOUSTON INDUSTRIES INCORPORATED
EXHIBIT 99

HOUSTON INDUSTRIES ENERGY, INC.
LONG-TERM PROJECT INCENTIVE COMPENSATION PLAN

(Effective January 1, 1994)

Second Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), established the Houston Industries Energy, Inc. Long-Term Project Incentive Compensation Plan, effective January 1, 1994 and as amended (the "Plan"), and having reserved the right under Article XIV thereof to amend the Plan, does hereby amend the definition of Project Review Committee contained in Article I of the Plan, effective as of December 6, 1995, to read as follows:

"PROJECT REVIEW COMMITTEE: The individual(s) or business entity appointed by the Chairman of the Board of Houston Industries Incorporated to review and determine the financial success of projects closed during a given Plan Year and to perform the other duties specified herein."

IN WITNESS WHEREOF, Houston Industries Incorporated has caused these presents to be executed by the duly authorized Chairman of the Benefits Committee 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 19th day of December, 1995, but effective as of the date stated herein.

HOUSTON INDUSTRIES INCORPORATED

By /s/ D. D. Sykora

D. D. Sykora
Chairman of the Benefits Committee

ATTEST:

/s/ Richard B. Dauphin
- ---
Assistant Corporate Secretary

HOUSTON LIGHTING & POWER COMPANY
EXHIBIT 4(a)(9)

FILE NO. 1-74-016051

==========

HOUSTON LIGHTING & POWER COMPANY

TO

TEXAS COMMERCE BANK NATIONAL ASSOCIATION

(successor to SOUTH TEXAS COMMERCIAL NATIONAL BANK OF HOUSTON),

As Trustee under
Houston Lighting & Power Company's
Mortgage and Deed of Trust,
dated as of November 1, 1944.

_____

SIXTY-FOURTH

SUPPLEMENTAL INDENTURE

_____

Dated as of July 1, 1995

This Instrument Contains After-Acquired Property Provisions.

This Instrument Grants A Security Interest By A Utility.

==========

This Instrument Contains After-Acquired Property Provisions.

This Instrument Grants A Security Interest By A Utility.

SIXTY-FOURTH SUPPLEMENTAL INDENTURE

INDENTURE, dated as of the 1st day of July, 1995, made and entered into by and between Houston Lighting & Power Company, a corporation of the State of Texas, hereinafter sometimes called the Company, and Texas Commerce Bank National Association, a national bank organized under the banking laws of the United States of America, whose principal place of business is in Houston, Texas, hereinafter sometimes called the Trustee, under the Mortgage and Deed of Trust, dated as of November 1, 1944, hereinafter called the Mortgage, which Mortgage was executed and delivered by Houston Lighting & Power Company to secure the payment of Bonds issued or to be issued under and in accordance with the provisions of the Mortgage, this Indenture, hereinafter called the Sixty-Fourth Supplemental Indenture, being supplemental thereto.

WHEREAS, by the Mortgage, the Company covenanted that it would execute and deliver such supplemental indenture or indentures and such further instruments and do such further acts as might be necessary or proper to carry out more effectually the purposes of the Mortgage and to make subject to the lien of the Mortgage any property thereafter acquired and intended to be subject to the lien thereof, and the Company has heretofore executed and delivered to the Trustee or its predecessor 63 supplemental indentures; and

WHEREAS, in addition to the property described in the Mortgage, as heretofore supplemented, the Company has acquired certain other property, rights and interests in property; and

WHEREAS, the Company has heretofore issued, in accordance with the provisions of the Mortgage, Bonds designated First Mortgage Bonds of the following series:

Series No.	Title	Aggregate Principal Amount Issued	Aggregate Principal Amount Outstanding
First	2 7/8% Series due 1974	$ 30,000,000	None
Second	3% Series due 1978	$ 15,000,000	None
Third	2 3/4% Series due 1985	$ 30,000,000	None
Fourth	3 1/4% Series due 1981	$ 20,000,000	None
Fifth	3% Series due 1989	$ 30,000,000	None
Sixth	3 1/4% Series due 1986	$ 30,000,000	None
Seventh	4 3/4% Series due 1987	$ 40,000,000	None
Eighth	4 7/8% Series due 1989	$ 25,000,000	None
Ninth	4 1/2% Series due 1992	$ 25,000,000	None
Tenth	5 1/4% Series due 1996	$ 40,000,000	$ 40,000,000

Series No.	Title	Aggregate Principal Amount Issued	Aggregate Principal Amount Outstanding
Eleventh	5 1/4% Series due 1997	$ 40,000,000	$ 40,000,000
Twelfth	6 3/4% Series due 1997	$ 35,000,000	$ 35,000,000
Thirteenth	6 3/4% Series due 1998	$ 35,000,000	$ 35,000,000
Fourteenth	7 1/2% Series due 1999	$ 30,000,000	None
Fifteenth	7 1/4% Series due 2001	$ 50,000,000	$ 50,000,000
Sixteenth	7 1/2% Series due 2001	$ 50,000,000	None
Seventeenth	8 1/8% Series due 2004	$100,000,000	None
Eighteenth	10 1/8% Series due September 1, 2004	$100,000,000	None
Nineteenth.	8 3/4% Series due March 1, 2005	$125,000,000	None
Twentieth	8 3/8% Series due October 1, 2006	$125,000,000	None
Twenty-First.	8 3/8% Series due October 1, 2007	$125,000,000	None
Twenty-Second	8 7/8% Series due September 1, 2008	$125,000,000	None
Twenty-Third.	9 1/4% Series due December 1, 2008	$100,000,000	None
Twenty-Fourth	11 1/4% Series due December 1, 2009	$125,000,000	None
Twenty-Fifth.	12% Series due June 1, 2010	$100,000,000	None
Twenty-Sixth.	13 7/8% Series due February 1, 1991	$125,000,000	None
Twenty-Seventh.	15 1/8% Series due March 1, 1992	$125,000,000	None
Twenty-Eighth	12 3/8% Series due March 15, 2013	$125,000,000	None
Twenty-Ninth.	11 5/8% Series due November 1, 2015	$200,000,000	None
Thirtieth	Pollution Control 7 7/8% Series due 2018	$ 50,000,000	$ 50,000,000
Thirty-First.	Pollution Control 7 7/8% Series due 2016	$ 68,000,000	$ 68,000,000
Thirty-Second	9% Series due March 1, 2017	$390,519,000	None
Thirty-Third.	9 3/8% Series due January 20, 1991	$132,000,000	None
Thirty-Fourth	9 3/8% Series due January 20, 1992	$132,000,000	None
Thirty-Fifth.	9 3/8% Series due January 20, 1993	$136,000,000	None
Thirty-Sixth.	Pollution Control 8 1/4% Series due May 1, 2015	$ 90,000,000	$ 90,000,000
Thirty-Seventh.	Pollution Control 8 1/4% Series due May 1, 2019	$100,000,000	$100,000,000
Thirty-Eighth	Pollution Control 8.10% Series due May 1, 2019	$100,000,000	$100,000,000
Thirty-Ninth.	Pollution Control 7 3/4% Series due October 1, 2015	$ 68,700,000	$ 68,700,000
Fortieth.	Medium-Term Note 15%	$200,000,000	$180,500,000

Series No.	Title	Aggregate Principal Amount Issued	Aggregate Principal Amount Outstanding
	Series due November 1, 2018		
Forty-First	10 1/4% Series due February 1, 2019	$225,000,000	None
Forty-Second	Pollution Control 7 7/8% Series due February 1, 2019	$ 29,685,000	$ 29,685,000
Forty-Third	Pollution Control 7.70% Series due February 1, 2019	$ 75,000,000	$ 75,000,000
Forty-Fourth	Medium-Term Note 15% Series due May 1, 2019	$200,000,000	$200,000,000
Forty-Fifth	Pollution Control 7% Series due December 1, 2008	$ 19,200,000	$ 19,200,000
Forty-Sixth	Pollution Control 7 1/8% Series due July 1, 2019	$100,000,000	$100,000,000
Forty-Seventh	Pollution Control 7 5/8% Series due May 1, 2019	$100,000,000	$100,000,000
Forty-Eighth	Pollution Control 7.60% Series due October 1, 2019	$ 70,315,000	$ 70,315,000
Forty-Ninth	Pollution Control 7.20% Series A due December 1, 2018	$100,000,000	$100,000,000
Fiftieth	Pollution Control 7.20% Series B due December 1, 2018	$ 75,000,000	$ 75,000,000
Fifty-First	9.15% Series due March 15, 2021 March 1, 1997	$160,000,000	$160,000,000
Fifty-Second	7 5/8% Series due	$150,000,000	$150,000,000
Fifty-Third	8 3/4% Series due March 1, 2022	$100,000,000	$ 81,000,000
Fifty-Fourth	Pollution Control 6.70% Series due March 1, 2017	$ 43,820,000	$ 43,820,000
Fifty-Fifth	Pollution Control 6.70% Series due March 1, 2027	$ 56,095,000	$ 56,095,000
Fifty-Sixth	Pollution Control 6 3/8% Series A due April 1, 2012	$ 33,470,000	$ 33,470,000
Fifty-Seventh	Pollution Control 6 3/8% Series B due April 1, 2012	$ 12,100,000	$ 12,100,000
Fifty-Eighth	Medium-Term Note 10% Series due February 1, 2028	$400,000,000	$400,000,000
Fifty-Ninth	7 3/4% Series due March 15, 2023	$250,000,000	$250,000,000
Sixtieth	7 1/2% Series due July 1, 2023	$200,000,000	$200,000,000
Sixty-First	Pollution Control 5.60% Series due December 1, 2017	$ 83,565,000	$ 83,565,000

Series No.	Title	Aggregate Principal Amount Issued	Aggregate Principal Amount Outstanding
Sixty-Second.	Pollution Control 4.90% Series due December 1, 2003	$ 16,600,000	$ 16,600,000
Sixty-Third	Medium-Term Note 10% Series due December 1, 2028	$350,000,000	$350,000,000

; and

WHEREAS, immediately following the execution and delivery of this Sixty-Fourth Supplemental Indenture, the Company will execute and deliver a Sixty-Fifth Supplemental Indenture relating to a series of Bonds designated "Pollution Control 15% Series due October 15, 2015" in the aggregate principal amount of $58,905,000; and

WHEREAS, the Trustee is duly qualified and eligible to act, and is acting, as trustee under the Mortgage, as heretofore supplemented, in accordance with the terms thereof; and

WHEREAS, Section 8 of the Mortgage provides for the issuance of Bonds in series, with the form of each series of Bonds (other than the First Series) issued thereunder to be established by resolution of the Board of Directors of the Company and the form of such series, as established by said Board of Directors, to specify the descriptive title of the Bonds and various other terms thereof, and to also contain such provisions as the Board of Directors may, in its discretion, cause to be inserted therein expressing or referring to the terms and conditions upon which such Bonds are to be issued and/or secured under the Mortgage; and

WHEREAS, the Company now desires to create a new series of Bonds and, in accordance with Section 126 of the Mortgage, to add to the covenants and agreements contained in the Mortgage, as heretofore supplemented, certain other covenants and agreements to be observed by it and modify in certain respects provisions contained in the Mortgage, as heretofore supplemented; and

WHEREAS, the execution and delivery by the Company of this Sixty-Fourth Supplemental Indenture, and the terms of the Bond of the Sixty-Fourth Series, hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate resolutions of said Board of Directors;

NOW, THEREFORE, THIS INDENTURE WITNESSETH: That Houston Lighting & Power Company, in consideration of the premises and in order further to secure the payment of the principal of and premium, if any, and interest on the Bonds from time to time issued under the Mortgage, as heretofore supplemented, according to their tenor and effect, and performance of all the provisions of the Mortgage (including any instruments supplemental thereto and any modification or alteration made as in the Mortgage provided) and of said Bonds, hereby grants, bargains, sells, releases, conveys, assigns, transfers, mortgages, pledges, sets over and confirms unto Texas Commerce Bank National Association, as Trustee under the Mortgage, as heretofore supplemented, and to its successor or successors in said trust and to it and its and their assigns forever, all properties, whether real, personal or mixed of the kind or nature specifically mentioned in the Mortgage, as heretofore supplemented, or of any other kind or nature acquired by the Company on or after the date of the execution and delivery of the Mortgage (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted), and whether now owned or hereafter acquired by the Company and wheresoever situated, including

(without limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in this Sixty-Fourth Supplemental Indenture) all lands, flowage rights, water rights, flumes, raceways, dams, rights-of-way and roads; all plants for the generation of electricity by water, steam and/or other power, power houses, gas plants, telephone systems, water works, water systems, steam heat plants, hot water plants, substations, measuring stations, regulating stations, gathering lines, gas transportation lines, transmission lines, distributing systems, bridges, culverts, tracks, rolling stock, vehicles, buses, automobiles, ice plants, refrigeration plants, railway systems whether street or interurban, all offices, buildings and structures, and the equipment thereof; all machinery, engines, boilers, dynamos, machines, regulators, meters, transformers, generators and motors; all appliances whether electrical, gas or mechanical, conduits, cables and lines; all pipes whether for water, steam heat, gas or other purposes; all mains and pipes, service pipes, fittings, valves and connections, poles, wires, tools, implements, apparatus, furniture and chattels; all municipal franchises and other franchises; all lines for the transportation, transmission and/or distribution of electric current, gas, steam heat or water for any purpose, including towers, poles, wires, cables, pipes, conduits and all apparatus for use in connection therewith; all real estate, lands, easements, servitudes, licenses, permits, rights, powers, franchises, privileges, rights-of-way and other rights in or relating to real estate or the occupancy of the same and (except as herein or in the Mortgage, as heretofore supplemented, expressly excepted) all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property herein or in the Mortgage, as heretofore supplemented, described or referred to.

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and (subject to the provisions of Section 59 of the Mortgage) the tolls, rents, revenues, issues, earnings, income, product and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid property and franchises and every part and parcel thereof.

IT IS HEREBY AGREED by the Company that all the property, rights and franchises acquired by the Company after the date hereof (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted) shall be as fully embraced within the lien hereof and the lien of the Mortgage, as heretofore supplemented, as if such property, rights and franchises were now owned by the Company and were specifically described herein and conveyed hereby.

PROVIDED that the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed hereunder and are hereby expressly excepted from the lien and operation of this Sixty-Fourth Supplemental Indenture and from the lien and operation of the Mortgage, as heretofore supplemented: (1) cash, shares of stock and obligations (including bonds, notes and other securities) not herein or in the Mortgage, as heretofore supplemented, specifically pledged, paid, deposited or delivered hereunder or under the Mortgage, as heretofore supplemented, or covenanted to be; (2) any goods, wares, merchandise, equipment,

materials or supplies acquired for the purpose of sale or resale in the usual course of business or for consumption in the operation of any properties of the Company; (3) bills, accounts receivable, judgments, demands and choses in action, and all contracts, leases and operating agreements not specifically pledged hereunder or under the Mortgage, as heretofore supplemented, or covenanted so to be; and (4) all timber, minerals, mineral rights and royalties; provided, however, that the property and rights expressly excepted from the lien and operation of the Mortgage, as heretofore supplemented, and this Sixty-Fourth Supplemental Indenture in the above subdivisions (2) and (3) of this paragraph shall (to the extent permitted by law) cease to be excepted in the event that the Trustee or a receiver or trustee shall enter upon and take possession of the mortgaged and pledged property in the manner provided in Article XII of the Mortgage by reason of the occurrence of a completed default as defined in Section 67 thereof.

TO HAVE AND TO HOLD all such properties, real, personal and mixed, granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed by the Company as aforesaid or intended so to be, unto the Trustee and its successors and assigns forever.

IN TRUST NEVERTHELESS, for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisions and covenants as are set forth in the Mortgage, as heretofore supplemented, this Sixty-Fourth Supplemental Indenture being supplemental to the Mortgage.

AND IT IS HEREBY COVENANTED by the Company that all the terms, conditions, provisos, covenants and provisions contained in the Mortgage, as heretofore supplemented, shall affect and apply to the property hereinbefore described and conveyed and to the estate, rights, obligations and duties of the Company and Trustee and the beneficiaries of the trust with respect to said property, and to the Trustee and its successors as Trustee of said property in the same manner and with the same effect as if the said property had been owned by the Company at the time of the execution of the Mortgage, and had been specifically and at length described in and conveyed to said Trustee, by the Mortgage as a part of the property therein stated to be conveyed.

The Company further covenants and agrees to and with the Trustee and its successors in said trust under the Mortgage, as follows:

ARTICLE I.

Sixty-Fourth Series of Bonds

SECTION 1. There shall be a series of Bonds designated "Pollution Control 15% Series due August 1, 2015" (herein sometimes referred to as the "Bond of the Sixty-Fourth Series") of which the Company shall be authorized to issue a maximum of $91,945,000 in total principal amount, each of which shall also bear the descriptive title First Mortgage Bond and the form thereof and the terms and provisions thereof are hereby established as follows:

[FORM OF BOND OF THE SIXTY-FOURTH SERIES]

THE BOND REPRESENTED BY THIS CERTIFICATE IS NOT TRANSFERABLE EXCEPT

TO ANY SUCCESSOR TRUSTEE UNDER THE TRUST INDENTURE, AS HEREIN DEFINED. IN ADDITION, THE BOND REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND SUCH BOND MAY NOT BE TRANSFERRED WITHOUT COMPLIANCE WITH APPLICABLE SECURITIES LAWS.

HOUSTON LIGHTING & POWER COMPANY
FIRST MORTGAGE BOND,
POLLUTION CONTROL 15% SERIES DUE AUGUST 1, 2015

No..... $.....

Houston Lighting & Power Company, a corporation of the State of Texas (hereinafter called the Company), for value received, hereby promises to pay to The First National Bank of Chicago (First Chicago), acting in its capacity as trustee (BRA Trustee) under that certain Trust Indenture, dated as of July 1, 1995 (Trust Indenture), between the Brazos River Authority and First Chicago relating to the Brazos River Authority Collateralized Revenue Refunding Bonds (Houston Lighting & Power Company Project) Series 1995 (Series 1995 Revenue Bonds), and its successors, on August 1, 2015 at the office or agency of the Company in the City of Houston, Texas, _____ Dollars in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay to the BRA Trustee interest thereon from July 1, 1995 or the most recent February 1 or August 1 to which interest has been paid or duly provided for, at the rate of 15% per annum in like coin or currency, at said office or agency on each February 1 and August 1 in each year, commencing February 1, 1996 and at maturity, until the Company's obligation with respect to the payment of such principal shall have been discharged. Notwithstanding the foregoing, the obligation of the Company to make any payment of the principal of and premium, if any, or interest on this Bond, whether at maturity, upon redemption or otherwise, shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged if at the time any such payment shall be due, the then-due principal or purchase price of, premium, if any, or interest on the Series 1995 Revenue Bonds shall have been fully or partially paid, deemed to have been paid or otherwise satisfied and discharged. In addition, such obligation to make any payment of the principal of, premium, if any, or interest on this Bond at any time shall be deemed to have been satisfied and discharged to the extent that the amount of the Company's obligation to make any payment of the principal of and premium, if any, and interest on this Bond exceeds the obligation of the Company at that time to make any Installment Payment (as defined in that certain Installment Payment and Bond Amortization Agreement, dated as of July 1, 1995 (Agreement), between the Brazos River Authority and the Company relating to the Series 1995 Revenue Bonds).

The Sixty-Fourth Supplemental Indenture to the Mortgage hereinafter mentioned provides that the amount of interest payable or paid on this Bond shall be limited and subject to reduction to an amount which shall not exceed the maximum nonusurious rate of interest allowed by the applicable laws of the State of Texas or any applicable law of the United States permitting a higher maximum nonusurious rate that preempts such applicable Texas laws, which could lawfully be contracted for, taken, reserved, charged or received, it being the intention of the parties hereto to conform strictly to the usury laws of the State of Texas.

This Bond shall not become obligatory until Texas Commerce Bank National Association, the Trustee under the Mortgage hereinafter mentioned, or its successor thereunder, shall have signed the form of certificate endorsed hereon.

IN WITNESS WHEREOF, Houston Lighting & Power Company has caused this Bond to be signed in its name by its President or one of its Vice Presidents and its corporate seal to be impressed or imprinted hereon and attested by its Secretary or one of its Assistant Secretaries.

Dated.....

HOUSTON LIGHTING & POWER COMPANY

By.....
President

Attest:

.....
Secretary

This is the Bond of the series herein designated, provided for in the within-mentioned Mortgage.

TEXAS COMMERCE BANK NATIONAL ASSOCIATION, Trustee/Authenticating Agent,

By_____
Authorized Signatory

HOUSTON INDUSTRIES INCORPORATED, Transfer Agent,

By_____
Authorized Officer

HOUSTON LIGHTING & POWER COMPANY

FIRST MORTGAGE BOND,

POLLUTION CONTROL 15% SERIES DUE AUGUST 1, 2015

This Bond is the Bond of the Company of the series specified in the title hereof, and is issued in the aggregate principal amount of $91,945,000 in order to provide the benefit of a lien to secure the obligations of the Company to pay the Installment Payments (as defined in the Agreement) under the Agreement, and is together with all Bonds of all series issued and to be issued under and equally secured (except insofar as any sinking fund, established in accordance with the provisions of the Mortgage hereinafter mentioned, may afford additional security for other Bonds of any particular series) by a Mortgage and Deed of Trust (herein, together with all indentures supplemental thereto, called the Mortgage), dated as of November 1, 1944, executed by the Company to South Texas Commercial National Bank of Houston (Texas Commerce Bank National Association, as successor trustee), as Trustee, to which reference is made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders of the Bonds in respect thereof, the duties and immunities of the Trustee and the terms and conditions upon which the Bonds are secured. With the consent of the Company and to the extent permitted by and as provided in the Mortgage, the rights and obligations of the Company and/or the rights of the holders of the Bonds and/or Coupons and/or the terms and provisions of the Mortgage may be modified or altered by the affirmative vote of the holders of at least seventy per centum (70%) in principal amount of the Bonds then outstanding under the Mortgage and, if the rights of one or more, but fewer than all, series of Bonds then outstanding are to be affected, then also by the affirmative vote of the holders of at least seventy per centum (70%) in principal amount of the Bonds then outstanding of each series of Bonds so to be affected (excluding in any case Bonds disqualified from voting by reason of the Company's interest therein as provided in the Mortgage); provided that, without the consent of the holder hereof, no such modification or alteration, among other things, shall impair or affect the right of the holder to receive payment of the principal of and premium, if any, and interest on this Bond, on or after the respective due dates expressed herein, or permit the creation of any lien equal or prior to the lien of the Mortgage or deprive the holder of the benefit of a lien on the mortgaged and pledged property.

The principal hereof may be declared or may become due on the conditions, in the manner and at the time set forth in the Mortgage, upon the occurrence of a completed default as in the Mortgage provided.

The applicable Supplemental Indenture to the Mortgage provides that the amount of interest payable or paid on this Bond shall be limited and subject to reduction to an amount which shall not exceed the maximum nonusurious rate of interest allowed by the applicable laws of the State of Texas or any applicable law of the United States permitting a higher maximum nonusurious rate that preempts such applicable Texas laws, which could lawfully be contracted for, taken, reserved, charged or received.

The Mortgage provides that no holder of any Bond shall have any right

to institute any suit, action or proceeding in equity or at law for the foreclosure of the Mortgage or for the execution of any trust thereof or for the appointment of a receiver or any other remedy thereunder, unless (i) such holder shall have previously given to the Trustee written notice of a default, (ii) the holders of 25% in principal amount of the Bonds then outstanding shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted to it in the Mortgage or to institute such action, suit or proceeding in its own name, (iii) such holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred and (iv) the Trustee shall have declined to take such action or shall have failed to do so within 60 days thereafter. Notwithstanding any other provision of the Mortgage, the right of any holder of any Bond to receive payment of the principal of and interest on such Bond, on or after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such holder. The Mortgage provides that the holders of not less than a majority in principal amount of the Bonds at the time outstanding may direct the time, method, and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee; provided, however, that such direction shall not be otherwise than in accordance with the provisions of law and the Mortgage and that, subject to certain provisions of the Mortgage, the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall by responsible officers determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustifiably prejudicial to nonassenting bondholders or that it will not be sufficiently indemnified for any expenditures in any action or proceeding so directed.

This Bond has been issued and delivered to, registered in the name of and pledged with the BRA Trustee under the Trust Indenture for the ratable benefit of the owners of the Series 1995 Revenue Bonds and shall not be transferable except to any successor trustee under the Trust Indenture, any such transfer to be made at the office or agency of the Company in the City of Houston, Texas, upon surrender and cancellation of this Bond, and thereupon a new fully registered Bond of the same series for a like principal amount will be issued to such transferee in exchange herefor as provided in the Mortgage. The Company hereby waives any right to make a charge for such an exchange or transfer of this Bond. The Company and the Trustee may deem and treat the BRA Trustee as the absolute owner hereof for the purpose of receiving payment and for all other purposes.

The Trustee may conclusively presume that the obligation of the Company to pay the principal of and premium, if any, and interest on the Bond of this series as the same shall become due and payable shall have been fully satisfied and discharged unless and until it shall have received a written notice from the BRA Trustee, signed by its president, a vice president or a trust officer, stating that an Installment Payment has become due and payable and has not been fully paid and specifying the amount of funds required to make such payment.

The Bond of this series shall not be redeemable at the option of the Company or otherwise pursuant to the requirements of the Mortgage, except

(i) pursuant to the provisions of the second immediately following paragraph or (ii) that in the event that any of the Series 1995 Revenue Bonds are to be redeemed pursuant to the terms thereof by reason of a Determination of Taxability, as such term is defined in the form of the Series 1995 Revenue Bonds, the Bond of this series, in a principal amount equal to the aggregate principal amount of the Series 1995 Revenue Bonds so to be redeemed, shall be redeemed by the Company, on the date fixed for redemption of such Series 1995 Revenue Bonds, at the principal amount thereof, plus accrued interest thereon equal to the amount of accrued interest of the Series 1995 Revenue Bonds so to be redeemed to such date fixed for redemption.

The Trustee may conclusively presume that no redemption of the Bond of this series is required pursuant to clause (ii) of the immediately preceding paragraph unless and until it shall have received a written notice from the BRA Trustee under the Trust Indenture, signed by its president, a vice president or a trust officer, stating that Series 1995 Revenue Bonds are to be redeemed by reason of such Determination of Taxability and specifying the principal amount and date fixed for redemption of the Series 1995 Revenue Bonds so to be redeemed.

The Bonds of this series shall also be redeemable in whole, by payment of the principal amount thereof plus accrued interest thereon equal to the amount of accrued interest of all of the Series 1995 Revenue Bonds then outstanding under the Trust Indenture to the date fixed for redemption, upon receipt by the Trustee of a written demand from the BRA Trustee under the Trust Indenture stating that the principal amount of all the Series 1995 Revenue Bonds then outstanding under the Trust Indenture has been declared immediately due and payable pursuant to the provisions of Section 8.02 of the Trust Indenture. The date fixed for such redemption shall not be more than 180 days after receipt by the Trustee of the aforesaid written demand and a notice of redemption shall be (i) published pursuant to the provisions of Section 54 of the Mortgage and (ii) delivered to each registered holder of a Bond of this series not less than 20 days prior to the date so fixed for such redemption pursuant to the provisions of Section 54 of the Mortgage. Such notice of redemption shall be rescinded and become null and void for all purposes under the Mortgage upon rescission, annulment or waiver of the aforesaid written demand or the aforesaid declaration of maturity pursuant to the terms and provisions of the Trust Indenture, and thereupon the obligation to redeem the Bonds of this series shall terminate and no redemption of the Bonds of this series and no payments in respect thereof as specified in such notice of redemption shall be effected or required.

The Company hereby waives its right to have any notice of redemption (i) by reason of a Determination of Taxability or (ii) pursuant to the provisions of the immediately preceding paragraph state that such notice is subject to the receipt of the redemption moneys by the Trustee on or before the date fixed for redemption. Notwithstanding the provisions of Section 54 of the Mortgage, any such notice will not be conditional.

No recourse shall be had for the payment of the principal of or premium, if any, or interest on this Bond against any incorporator or any past, present or future subscriber to the capital stock, stockholder, officer or director of the Company or of any predecessor or successor corporation, as such, either directly or through the Company or any

predecessor or successor corporation, under any rule of law, statute or constitution or by the enforcement of any assessment or otherwise, all such liability of incorporators, subscribers, stockholders, officers and directors, as such, being released by the holder or owner hereof by the acceptance of this Bond and being likewise waived and released by the terms of the Mortgage.

[END OF FORM OF BOND]

The Bond of the Sixty-Fourth Series shall be issued as a fully registered Bond; it shall bear interest at the rate per annum shown in its title, payable semi annually on February 1 and August 1 of each year, commencing February 1, 1996, and at maturity; the principal of and premium, if any, and interest on said Bond to be payable at the office or agency of the Company in the City of Houston, Texas, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts. The Bond of the Sixty-Fourth Series shall be dated as in Section 10 of the Mortgage provided.

The Trustee may conclusively presume that the obligation of the Company to pay the principal of and premium, if any, and interest on the Bond of the Sixty-Fourth Series as the same shall become due and payable shall have been fully satisfied and discharged unless and until it shall have received a written notice from the BRA Trustee, signed by its president, a vice president or a trust officer, stating that an Installment Payment, as such term is defined in the Agreement, has become due and payable and has not been fully paid and specifying the amount of funds required to make such payment.

The Bond of the Sixty-Fourth Series shall not be redeemable at the option of the Company or otherwise pursuant to the requirements of the Mortgage, except (i) pursuant to the provisions of the second immediately following paragraph or (ii) that in the event that any of the Series 1995 Revenue Bonds are to be redeemed pursuant to the terms thereof by reason of a Determination of Taxability, as such term is defined in the form of the Series 1995 Revenue Bonds, the Bond of the Sixty-Fourth Series, in a principal amount equal to the aggregate principal amount of the Series 1995 Revenue Bonds so to be redeemed, shall be redeemed by the Company, on the date fixed for redemption of such Series 1995 Revenue Bonds, at the principal amount thereof, plus accrued interest thereon equal to the amount of accrued interest of the Series 1995A Revenue Bonds so to be redeemed to such date fixed for redemption.

The Trustee may conclusively presume that no redemption of the Bond of the Sixty-Fourth Series is required pursuant to clause (ii) of the immediately preceding paragraph unless and until it shall have received a written notice from the BRA Trustee under the Trust Indenture, signed by its president, a vice president or a trust officer, stating that the Series 1995 Revenue Bonds are to be redeemed by reason of such Determination of Taxability and specifying the principal amount and the date fixed for redemption of the Series 1995 Revenue Bonds so to be redeemed.

The Bonds of the Sixty-Fourth Series shall also be redeemable in whole, by payment of the principal amount thereof plus accrued interest thereon equal to the amount of accrued interest of all of the Series 1995 Revenue Bonds then outstanding under the Trust Indenture to the date fixed

for redemption, upon receipt by the Trustee of a written demand from the BRA Trustee under the Trust Indenture stating that the principal amount of all the Series 1995 Revenue Bonds then outstanding under the Trust Indenture has been declared immediately due and payable pursuant to the provisions of Section 8.02 of the Trust Indenture. The date fixed for such redemption shall not be more than 180 days after receipt by the Trustee of the aforesaid written demand and a notice of redemption shall be (i) published pursuant to the provisions of Section 54 of the Mortgage and (ii) delivered to each registered holder of a Bond of the Sixty-Fourth Series not less than 20 days prior to the date so fixed for such redemption pursuant to the provisions of Section 54 of the Mortgage. Such notice of redemption shall be rescinded and become null and void for all purposes under the Mortgage upon rescission, annulment or waiver of the aforesaid written demand or the aforesaid declaration of maturity pursuant to the terms and provisions of the Trust Indenture, and thereupon the obligation to redeem the Bonds of the Sixty-Fourth Series shall terminate and no redemption of the Bonds of the Sixty-Fourth Series and no payments in respect thereof as specified in such notice of redemption shall be effected or required.

The Company hereby waives its right to have any notice of redemption (i) by reason of a Determination of Taxability or (ii) pursuant to the provisions of the immediately preceding paragraph state that such notice is subject to the receipt of the redemption moneys by the Trustee on or before the date fixed for redemption. Notwithstanding the provisions of Section 54 of the Mortgage, any such notice shall not be conditional.

ARTICLE II.

Replacement Fund Provisions

SECTION 2. Section 3 of the First Supplemental Indenture, as heretofore amended, is hereby further amended by inserting "Sixty-Fourth Series," before the words "Sixty-Third" each time such words appear in said Section 3, as heretofore amended.

ARTICLE III.

Miscellaneous Provisions

SECTION 3. Subject to the amendments provided for in this Sixty-Fourth Supplemental Indenture, the terms defined in the Mortgage, as heretofore supplemented, shall, for all purposes of this Sixty-Fourth Supplemental Indenture, have the meaning specified in the Mortgage, as heretofore supplemented.

So long as any Bonds of the Sixty-Fourth Series are outstanding, whenever a net earnings certificate is required by the Mortgage to be furnished to the Trustee as a condition precedent to the authentication and delivery of Bonds, no Bonds shall be authenticated and delivered by the Trustee unless such net earnings certificate shall show, in addition to the matters required by Sections 7 and 28 of the Mortgage, that after deducting from the net earnings of the Company as so calculated an amount equal to the Company's expenses and provisions for renewals, replacements, depreciation, depletion, retirement and amortization of property during the

period for which such net earnings shall have been calculated, the remainder of the net earnings of the Company shall have been at least equivalent to twice the annual interest requirements as shown by such net earnings certificate.

SECTION 4. This Sixty-Fourth Supplemental Indenture and the Bond of the Sixty-Fourth Series shall be deemed to be a contract made under the laws of the State of Texas, and for all purposes shall be construed in accordance with the laws of said State.

The amount of interest payable or paid on the Bond of the Sixty-Fourth Series shall be limited to an amount which shall not exceed the maximum nonusurious rate of interest allowed by the applicable laws of the State of Texas or any applicable law of the United States permitting a higher maximum nonusurious rate that preempts such applicable Texas laws, which could lawfully be contracted for, taken, reserved, charged or received (the "Maximum Interest Rate"). If, as a result of any circumstances whatsoever, the Company or any other person is deemed to have paid interest (or amounts deemed to be interest under applicable law) or any holder of a Bond of this Sixty-Fourth Series is deemed to have contracted for, taken, reserved, charged or received interest (or amounts deemed to be interest under applicable law), in excess of the Maximum Interest Rate, then, ipso facto, the obligation to be fulfilled shall be reduced to the limit of validity, and if from any such circumstance, the Trustee, acting on behalf of the holders, or any holder shall ever receive interest or anything that might be deemed interest under applicable law that would exceed the Maximum Interest Rate, such amount that would be excessive interest shall be applied to the reduction of the principal amount owing on the applicable Bond or Bonds and not to the payment of interest, or if such excessive interest exceeds the unpaid principal balance of any such Bond or Bonds, such excess shall be refunded to the Company. In addition, for purposes of determining whether payments in respect of the Bond of the Sixty-Fourth Series are usurious, all sums paid or agreed to be paid with respect to such Bond for the use, forbearance or detention of money shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such Bond.

SECTION 5. The Trustee hereby accepts the trusts herein declared, provided, created or supplemented and agrees to perform the same upon the terms and conditions herein and in the Mortgage, as heretofore supplemented, set forth and upon the following terms and conditions:

The Trustee shall not be responsible in any manner whatsoever for or in respect to the validity or sufficiency of this Sixty-Fourth Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company solely. In general, each and every term and condition contained in Article XVI of the Mortgage shall apply to and form part of this Sixty-Fourth Supplemental Indenture with the same force and effect as if the same were herein set forth in full with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this Sixty-Fourth Supplemental Indenture.

SECTION 6. Subject to the provisions of Articles XV and XVI of the

Mortgage, whenever in this Sixty-Fourth Supplemental Indenture either of the parties hereto is named or referred to, this shall be deemed to include the successors or assigns of such party, and all the covenants and agreements in this Sixty-Fourth Supplemental Indenture by or on behalf of the Company or by or on behalf of the Trustee shall bind and inure to the respective successors and assigns of such parties, whether so expressed or not.

SECTION 7. Nothing in this Sixty-Fourth Supplemental Indenture, expressed or implied, is intended, or shall be construed, to confer upon, or to give to, any person, firm or corporation, other than the parties hereto and the holders of the Bonds and coupons outstanding under the Mortgage, as heretofore supplemented, any right, remedy or claim under or by reason of this Sixty-Fourth Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this Sixty-Fourth Supplemental Indenture, by or on behalf of the Company, shall be for the sole and exclusive benefit of the parties hereto, and of the holders of the Bonds and coupons outstanding under the Mortgage, as heretofore supplemented.

SECTION 8. This Sixty-Fourth Supplemental Indenture may be simultaneously executed in several counterparts, and all such counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

IN WITNESS WHEREOF, HOUSTON LIGHTING & POWER COMPANY and TEXAS COMMERCE BANK NATIONAL ASSOCIATION each has caused this Sixty-Fourth Supplemental Indenture to be signed in its corporate name and its corporate seal to be affixed and attested by its duly authorized officers as of the 1st day of July, 1995.

HOUSTON LIGHTING & POWER COMPANY

Attest: By /s/ K. W. Nabors

Vice President

/s/ Rufus S. Scott
- ---
Assistant Secretary

[Corporate Seal]

TEXAS COMMERCE BANK
NATIONAL ASSOCIATION,

As Trustee.

Attest:

/s/ Jo Anne K. Gulliver
- ------------------------------
Jo Anne Gulliver
Vice President
& Trust Officer

By /s/ Wayne Mentz

Wayne Mentz
Assistant Vice President
& Trust Officer

[Corporate Seal]

STATE OF TEXAS
COUNTY OF HARRIS

This instrument was acknowledged before me on July 10, 1995 by K. W. Nabors of Houston Lighting & Power Company, a Texas corporation, on behalf of said corporation.

/s/ Miroslava D. Massar

Notary Public for the State of Texas

My Commission Expires: 9/30/96
[Notarial Seal]

STATE OF TEXAS
COUNTY OF HARRIS

This instrument was acknowledged before me on July 14, 1995 by Wayne Mentz, Assistant Vice President & Trust Officer of Texas Commerce Bank National Association, a national banking association organized under the laws of the United States, on behalf of said association.

/s/ Connie J. Arndt

Notary Public for the State of Texas
My Commission Expires: 3/6/99
[Notarial Seal]

STATE OF TEXAS
COUNTY OF HARRIS

The undersigned, Rufus S. Scott, Assistant Corporate Secretary of Houston Lighting & Power Company, a corporation of the State of Texas, being first duly sworn, deposes and says that Houston Lighting & Power Company, the corporation that executed the foregoing instrument, is a utility as defined in Section 35.01(2) of the Business and Commerce Code of the State of Texas, that is to say a corporation engaged in Texas in the generation, transmission or distribution and sale of electric power.

/s/ Rufus S. Scott

Rufus S. Scott

Subscribed and sworn to before me
this 10th day of July, 1995

/s/ Bonita Gatlin [Notarial Seal]
- ---
Notary Public for the State of Texas

My Commission Expires:

4-27-96

FILE NO. 1-74-016051

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HOUSTON LIGHTING & POWER COMPANY

TO

TEXAS COMMERCE BANK NATIONAL ASSOCIATION

(successor to SOUTH TEXAS COMMERCIAL NATIONAL BANK OF HOUSTON),

As Trustee under
Houston Lighting & Power Company's
Mortgage and Deed of Trust,
dated as of November 1, 1944.

_____

SIXTY-FIFTH

SUPPLEMENTAL INDENTURE

_____

Dated as of July 1, 1995

This Instrument Contains After-Acquired Property Provisions.

This Instrument Grants A Security Interest By A Utility.

==========

This Instrument Contains After-Acquired Property Provisions.

This Instrument Grants A Security Interest By A Utility.

SIXTY-FIFTH SUPPLEMENTAL INDENTURE

INDENTURE, dated as of the 1st day of July, 1995, made and entered into by and between Houston Lighting & Power Company, a corporation of the State of Texas, hereinafter sometimes called the Company, and Texas Commerce Bank National Association, a national bank organized under the banking laws of the United States of America, whose principal place of business is in Houston, Texas, hereinafter sometimes called the Trustee, under the Mortgage and Deed of Trust, dated as of November 1, 1944, hereinafter called the Mortgage, which Mortgage was executed and delivered by Houston Lighting & Power Company to secure the payment of Bonds issued or to be issued under and in accordance with the provisions of the Mortgage, this Indenture, hereinafter called the Sixty-Fifth Supplemental Indenture, being supplemental thereto.

WHEREAS, by the Mortgage, the Company covenanted that it would execute and deliver such supplemental indenture or indentures and such further instruments and do such further acts as might be necessary or proper to carry out more effectually the purposes of the Mortgage and to make subject to the lien of the Mortgage any property thereafter acquired and intended to be subject to the lien thereof, and the Company has heretofore executed and delivered to the Trustee or its predecessor 64 supplemental indentures; and

WHEREAS, in addition to the property described in the Mortgage, as heretofore supplemented, the Company has acquired certain other property, rights and interests in property; and

WHEREAS, the Company has heretofore issued, in accordance with the provisions of the Mortgage, Bonds designated First Mortgage Bonds of the following series:

Series No.	Title	Aggregate Principal Amount Issued	Aggregate Principal Amount Outstanding
First	2 7/8% Series due 1974	$ 30,000,000	None
Second	3% Series due 1978	$ 15,000,000	None
Third	2 3/4% Series due 1985	$ 30,000,000	None
Fourth	3 1/4% Series due 1981	$ 20,000,000	None
Fifth	3% Series due 1989	$ 30,000,000	None
Sixth	3 1/4% Series due 1986	$ 30,000,000	None
Seventh	4 3/4% Series due 1987	$ 40,000,000	None
Eighth	4 7/8% Series due 1989	$ 25,000,000	None
Ninth	4 1/2% Series due 1992	$ 25,000,000	None
Tenth	5 1/4% Series due 1996	$ 40,000,000	$ 40,000,000
Eleventh	5 1/4% Series due 1997	$ 40,000,000	$ 40,000,000

Series No.	Title	Aggregate Principal Amount Issued	Aggregate Principal Amount Outstanding
Twelfth	6 3/4% Series due 1997	$ 35,000,000	$ 35,000,000
Thirteenth	6 3/4% Series due 1998	$ 35,000,000	$ 35,000,000
Fourteenth	7 1/2% Series due 1999	$ 30,000,000	None
Fifteenth	7 1/4% Series due 2001	$ 50,000,000	$ 50,000,000
Sixteenth	7 1/2% Series due 2001	$ 50,000,000	None
Seventeenth	8 1/8% Series due 2004	$100,000,000	None
Eighteenth	10 1/8% Series due September 1, 2004	$100,000,000	None
Nineteenth.	8 3/4% Series due March 1, 2005	$125,000,000	None
Twentieth	8 3/8% Series due October 1, 2006	$125,000,000	None
Twenty-First.	8 3/8% Series due October 1, 2007	$125,000,000	None
Twenty-Second	8 7/8% Series due September 1, 2008	$125,000,000	None
Twenty-Third.	9 1/4% Series due December 1, 2008	$100,000,000	None
Twenty-Fourth	11 1/4% Series due December 1, 2009	$125,000,000	None
Twenty-Fifth.	12% Series due June 1, 2010	$100,000,000	None
Twenty-Sixth.	13 7/8% Series due February 1, 1991	$125,000,000	None
Twenty-Seventh.	15 1/8% Series due March 1, 1992	$125,000,000	None
Twenty-Eighth	12 3/8% Series due March 15, 2013	$125,000,000	None
Twenty-Ninth.	11 5/8% Series due November 1, 2015	$200,000,000	None
Thirtieth	Pollution Control 7 7/8% Series due 2018	$ 50,000,000	$ 50,000,000
Thirty-First.	Pollution Control 7 7/8% Series due 2016	$ 68,000,000	$ 68,000,000
Thirty-Second	9% Series due March 1, 2017	$390,519,000	None
Thirty-Third.	9 3/8% Series due January 20, 1991	$132,000,000	None
Thirty-Fourth	9 3/8% Series due January 20, 1992	$132,000,000	None
Thirty-Fifth.	9 3/8% Series due January 20, 1993	$136,000,000	None
Thirty-Sixth.	Pollution Control 8 1/4% Series due May 1, 2015	$ 90,000,000	$ 90,000,000
Thirty-Seventh.	Pollution Control 8 1/4% Series due May 1, 2019	$100,000,000	$100,000,000
Thirty-Eighth	Pollution Control 8.10% Series due May 1, 2019	$100,000,000	$100,000,000
Thirty-Ninth.	Pollution Control 7 3/4% Series due October 1, 2015	$ 68,700,000	$ 68,700,000
Fortieth.	Medium-Term Note 15% Series due November 1,	$200,000,000	$180,500,000

Series No.	Title	Aggregate Principal Amount Issued	Aggregate Principal Amount Outstanding
	2018		
Forty-First	10 1/4% Series due February 1, 2019	$225,000,000	None
Forty-Second	Pollution Control 7 7/8% Series due February 1, 2019	$ 29,685,000	$ 29,685,000
Forty-Third	Pollution Control 7.70% Series due February 1, 2019	$ 75,000,000	$ 75,000,000
Forty-Fourth	Medium-Term Note 15% Series due May 1, 2019	$200,000,000	$200,000,000
Forty-Fifth	Pollution Control 7% Series due December 1, 2008	$ 19,200,000	$ 19,200,000
Forty-Sixth	Pollution Control 7 1/8% Series due July 1, 2019	$100,000,000	$100,000,000
Forty-Seventh	Pollution Control 7 5/8% Series due May 1, 2019	$100,000,000	$100,000,000
Forty-Eighth	Pollution Control 7.60% Series due October 1, 2019	$ 70,315,000	$ 70,315,000
Forty-Ninth	Pollution Control 7.20% Series A due December 1, 2018	$100,000,000	$100,000,000
Fiftieth	Pollution Control 7.20% Series B due December 1, 2018	$ 75,000,000	$ 75,000,000
Fifty-First	9.15% Series due March 15, 2021	$160,000,000	$160,000,000
Fifty-Second	7 5/8% Series due March 1, 1997	$150,000,000	$150,000,000
Fifty-Third	8 3/4% Series due March 1, 2022 Series due March 1, 2017	$100,000,000	$ 81,000,000
Fifty-Fourth	Pollution Control 6.70% Series due March 1, 2017	$ 43,820,000	$ 43,820,000
Fifty-Fifth	Pollution Control 6.70% Series due March 1, 2027	$ 56,095,000	$ 56,095,000
Fifty-Sixth	Pollution Control 6 3/8% Series A due April 1, 2012	$ 33,470,000	$ 33,470,000
Fifty-Seventh	Pollution Control 6 3/8% Series B due April 1, 2012	$ 12,100,000	$ 12,100,000
Fifty-Eighth	Medium-Term Note 10% Series due February 1, 2028	$400,000,000	$400,000,000
Fifty-Ninth	7 3/4% Series due March 15, 2023	$250,000,000	$250,000,000
Sixtieth	7 1/2% Series due July 1, 2023	$200,000,000	$200,000,000
Sixty-First	Pollution Control 5.60%	$ 83,565,000	$ 83,565,000

Series No.	Title	Aggregate Principal Amount Issued	Aggregate Principal Amount Outstanding
	Series due December 1, 2017		
Sixty-Second.	Pollution Control 4.90% Series due December 1, 2003	$ 16,600,000	$ 16,600,000
Sixty-Third	Medium-Term Note 10% Series due December 1, 2028	$350,000,000	$350,000,000

; and

WHEREAS, immediately prior to the execution and delivery of this Sixty-Fifth Supplemental Indenture, the Company has executed and delivered a Sixty-Fourth Supplemental Indenture relating to a series of Bonds designated "Pollution Control 15% Series due August 1, 2015" in the aggregate principal amount of $91,945,000; and

WHEREAS, the Trustee is duly qualified and eligible to act, and is acting, as trustee under the Mortgage, as heretofore supplemented, in accordance with the terms thereof; and

WHEREAS, Section 8 of the Mortgage provides for the issuance of Bonds in series, with the form of each series of Bonds (other than the First Series) issued thereunder to be established by resolution of the Board of Directors of the Company and the form of such series, as established by said Board of Directors, to specify the descriptive title of the Bonds and various other terms thereof, and to also contain such provisions as the Board of Directors may, in its discretion, cause to be inserted therein expressing or referring to the terms and conditions upon which such Bonds are to be issued and/or secured under the Mortgage; and

WHEREAS, the Company now desires to create a new series of Bonds and, in accordance with Section 126 of the Mortgage, to add to the covenants and agreements contained in the Mortgage, as heretofore supplemented, certain other covenants and agreements to be observed by it and modify in certain respects provisions contained in the Mortgage, as heretofore supplemented; and

WHEREAS, the execution and delivery by the Company of this Sixty-Fifth Supplemental Indenture, and the terms of the Bond of the Sixty-Fifth Series, hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate resolutions of said Board of Directors;

NOW, THEREFORE, THIS INDENTURE WITNESSETH: That Houston Lighting & Power Company, in consideration of the premises and in order further to secure the payment of the principal of and premium, if any, and interest on the Bonds from time to time issued under the Mortgage, as heretofore supplemented, according to their tenor and effect, and performance of all the provisions of the Mortgage (including any instruments supplemental thereto and any modification or alteration made as in the Mortgage provided) and of said Bonds, hereby grants, bargains, sells, releases, conveys, assigns, transfers, mortgages, pledges, sets over and confirms unto Texas Commerce Bank National Association, as Trustee under the Mortgage, as heretofore supplemented, and to its successor or successors in said trust and to it and its and their assigns forever, all properties, whether real, personal or mixed of the kind or nature specifically mentioned in the Mortgage, as heretofore supplemented, or of any other kind

or nature acquired by the Company on or after the date of the execution and delivery of the Mortgage (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted), and whether now owned or hereafter acquired by the Company and wheresoever situated, including (without limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in this Sixty-Fifth Supplemental Indenture) all lands, flowage rights, water rights, flumes, raceways, dams, rights-of-way and roads; all plants for the generation of electricity by water, steam and/or other power, power houses, gas plants, telephone systems, water works, water systems, steam heat plants, hot water plants, substations, measuring stations, regulating stations, gathering lines, gas transportation lines, transmission lines, distributing systems, bridges, culverts, tracks, rolling stock, vehicles, buses, automobiles, ice plants, refrigeration plants, railway systems whether street or interurban, all offices, buildings and structures, and the equipment thereof; all machinery, engines, boilers, dynamos, machines, regulators, meters, transformers, generators and motors; all appliances whether electrical, gas or mechanical, conduits, cables and lines; all pipes whether for water, steam heat, gas or other purposes; all mains and pipes, service pipes, fittings, valves and connections, poles, wires, tools, implements, apparatus, furniture and chattels; all municipal franchises and other franchises; all lines for the transportation, transmission and/or distribution of electric current, gas, steam heat or water for any purpose, including towers, poles, wires, cables, pipes, conduits and all apparatus for use in connection therewith; all real estate, lands, easements, servitudes, licenses, permits, rights, powers, franchises, privileges, rights-of-way and other rights in or relating to real estate or the occupancy of the same and (except as herein or in the Mortgage, as heretofore supplemented, expressly excepted) all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property herein or in the Mortgage, as heretofore supplemented, described or referred to.

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and (subject to the provisions of Section 59 of the Mortgage) the tolls, rents, revenues, issues, earnings, income, product and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid property and franchises and every part and parcel thereof.

IT IS HEREBY AGREED by the Company that all the property, rights and franchises acquired by the Company after the date hereof (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted) shall be as fully embraced within the lien hereof and the lien of the Mortgage, as heretofore supplemented, as if such property, rights and franchises were now owned by the Company and were specifically described herein and conveyed hereby.

PROVIDED that the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed hereunder and are hereby expressly excepted from the lien and operation of this Sixty-Fifth Supplemental Indenture and from the lien and operation of the Mortgage, as heretofore supplemented: (1) cash, shares of stock and obligations

(including bonds, notes and other securities) not herein or in the Mortgage, as heretofore supplemented, specifically pledged, paid, deposited or delivered hereunder or under the Mortgage, as heretofore supplemented, or covenanted to be; (2) any goods, wares, merchandise, equipment, materials or supplies acquired for the purpose of sale or resale in the usual course of business or for consumption in the operation of any properties of the Company; (3) bills, accounts receivable, judgments, demands and choses in action, and all contracts, leases and operating agreements not specifically pledged hereunder or under the Mortgage, as heretofore supplemented, or covenanted so to be; and (4) all timber, minerals, mineral rights and royalties; provided, however, that the property and rights expressly excepted from the lien and operation of the Mortgage, as heretofore supplemented, and this Sixty-Fifth Supplemental Indenture in the above subdivisions (2) and (3) of this paragraph shall (to the extent permitted by law) cease to be excepted in the event that the Trustee or a receiver or trustee shall enter upon and take possession of the mortgaged and pledged property in the manner provided in Article XII of the Mortgage by reason of the occurrence of a completed default as defined in Section 67 thereof.

TO HAVE AND TO HOLD all such properties, real, personal and mixed, granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed by the Company as aforesaid or intended so to be, unto the Trustee and its successors and assigns forever.

IN TRUST NEVERTHELESS, for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisions and covenants as are set forth in the Mortgage, as heretofore supplemented, this Sixty-Fifth Supplemental Indenture being supplemental to the Mortgage.

AND IT IS HEREBY COVENANTED by the Company that all the terms, conditions, provisos, covenants and provisions contained in the Mortgage, as heretofore supplemented, shall affect and apply to the property hereinbefore described and conveyed and to the estate, rights, obligations and duties of the Company and Trustee and the beneficiaries of the trust with respect to said property, and to the Trustee and its successors as Trustee of said property in the same manner and with the same effect as if the said property had been owned by the Company at the time of the execution of the Mortgage, and had been specifically and at length described in and conveyed to said Trustee, by the Mortgage as a part of the property therein stated to be conveyed.

The Company further covenants and agrees to and with the Trustee and its successors in said trust under the Mortgage, as follows:

ARTICLE I.

Sixty-Fifth Series of Bonds

SECTION 1. There shall be a series of Bonds designated "Pollution Control 15% Series due October 15, 2015" (herein sometimes referred to as the "Bond of the Sixty-Fifth Series") of which the Company shall be authorized to issue a maximum of $58,905,000 in total principal amount, each of which shall also bear the descriptive title First Mortgage Bond and the form thereof and the terms and provisions thereof are hereby established as follows:

[FORM OF BOND OF THE SIXTY-FIFTH SERIES]

THE BOND REPRESENTED BY THIS CERTIFICATE IS NOT TRANSFERABLE EXCEPT TO ANY SUCCESSOR TRUSTEE UNDER THE TRUST INDENTURE, AS HEREIN DEFINED. IN ADDITION, THE BOND REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND SUCH BOND MAY NOT BE TRANSFERRED WITHOUT COMPLIANCE WITH APPLICABLE SECURITIES LAWS.

HOUSTON LIGHTING & POWER COMPANY
FIRST MORTGAGE BOND,
POLLUTION CONTROL 15% SERIES DUE OCTOBER 15, 2015

No..... $.....

Houston Lighting & Power Company, a corporation of the State of Texas (hereinafter called the Company), for value received, hereby promises to pay to The First National Bank of Chicago (First Chicago), acting in its capacity as trustee (MCND Trustee) under that certain Trust Indenture, dated as of July 1, 1995 (Trust Indenture), between the Matagorda County Navigation District Number One and First Chicago relating to the Matagorda County Navigation District Number One Collateralized Revenue Refunding Bonds (Houston Lighting & Power Company Project) Series 1995 (Series 1995 Revenue Bonds), and its successors, on October 15, 2015 at the office or agency of the Company in the City of Houston, Texas, _____ Dollars in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay to the MCND Trustee interest thereon from July 1, 1995 or the most recent April 15 or October 15 to which interest has been paid or duly provided for, at the rate of 15% per annum in like coin or currency, at said office or agency on April 15 and October 15 in each year, commencing April 15, 1996 and at maturity, until the Company's obligation with respect to the payment of such principal shall have been discharged. Notwithstanding the foregoing, the obligation of the Company to make any payment of the principal of and premium, if any, or interest on this Bond, whether at maturity, upon redemption or otherwise, shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged if at the time any such payment shall be due, the then-due principal or purchase price of, premium, if any, or interest on the Series 1995 Revenue Bonds shall have been fully or partially paid, deemed to have been paid or otherwise satisfied and discharged. In addition, such obligation to make any payment of the principal of, premium, if any, or interest on this Bond at any time shall be deemed to have been satisfied and discharged to the extent that the amount of the Company's obligation to make any payment of the principal of and premium, if any, and interest on this Bond exceeds the obligation of the Company at that time to make any Installment Payment (as defined in that certain Installment Payment and Bond Amortization Agreement, dated as of July 1, 1995 (Agreement), between the Matagorda County Navigation District Number One and the Company relating to the Series 1995 Revenue Bonds).

The Sixty-Fifth Supplemental Indenture to the Mortgage hereinafter mentioned provides that the amount of interest payable or paid on this Bond shall be limited and subject to reduction to an amount which shall not exceed the maximum nonusurious rate of interest allowed by the applicable laws of the State of Texas or any applicable law of the United States

permitting a higher maximum nonusurious rate that preempts such applicable Texas laws, which could lawfully be contracted for, taken, reserved, charged or received, it being the intention of the parties hereto to conform strictly to the usury laws of the State of Texas.

This Bond shall not become obligatory until Texas Commerce Bank National Association, the Trustee under the Mortgage hereinafter mentioned, or its successor thereunder, shall have signed the form of certificate endorsed hereon.

IN WITNESS WHEREOF, Houston Lighting & Power Company has caused this Bond to be signed in its name by its President or one of its Vice Presidents and its corporate seal to be impressed or imprinted hereon and attested by its Secretary or one of its Assistant Secretaries.

Dated.....

HOUSTON LIGHTING & POWER COMPANY

By.....
President

Attest:

.....
Secretary

This is the Bond of the series herein designated, provided for in the within-mentioned Mortgage.

TEXAS COMMERCE BANK
NATIONAL ASSOCIATION,
Trustee/Authenticating Agent,

By_____
Authorized Signatory

HOUSTON INDUSTRIES INCORPORATED,
Transfer Agent,

By_____
Authorized Officer

HOUSTON LIGHTING & POWER COMPANY

FIRST MORTGAGE BOND,

POLLUTION CONTROL 15% SERIES DUE OCTOBER 15, 2015

This Bond is the Bond of the Company of the series specified in the title hereof, and is issued in the aggregate principal amount of $58,905,000 in order to provide the benefit of a lien to secure the obligations of the Company to pay the Installment Payments (as defined in the Agreement) under the Agreement, and is together with all Bonds of all series issued and to be issued under and equally secured (except insofar as any sinking fund, established in accordance with the provisions of the Mortgage hereinafter mentioned, may afford additional security for other Bonds of any particular series) by a Mortgage and Deed of Trust (herein, together with all indentures supplemental thereto, called the Mortgage), dated as of November 1, 1944, executed by the Company to South Texas Commercial National Bank of Houston (Texas Commerce Bank National Association, as successor trustee), as Trustee, to which reference is made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders of the Bonds in respect thereof, the duties and immunities of the Trustee and the terms and conditions upon which the Bonds are secured. With the consent of the Company and to the extent permitted by and as provided in the Mortgage, the rights and obligations of the Company and/or the rights of the holders of the Bonds and/or Coupons and/or the terms and provisions of the Mortgage may be modified or altered by the affirmative vote of the holders of at least seventy per centum (70%) in principal amount of the Bonds then outstanding under the Mortgage and, if the rights of one or more, but fewer than all, series of Bonds then outstanding are to be affected, then also by the affirmative vote of the holders of at least seventy per centum (70%) in principal amount of the Bonds then outstanding of each series of Bonds so to be affected (excluding in any case Bonds disqualified from voting by reason of the Company's interest therein as provided in the Mortgage); provided that, without the consent of the holder hereof, no such modification or alteration, among other things, shall impair or affect the right of the holder to receive payment of the principal of and premium, if any, and interest on this Bond, on or after the respective due dates expressed herein, or permit the creation of any lien equal or prior to the lien of the Mortgage or deprive the holder of the benefit of a lien on the mortgaged and pledged property.

The principal hereof may be declared or may become due on the conditions, in the manner and at the time set forth in the Mortgage, upon the occurrence of a completed default as in the Mortgage provided.

The applicable Supplemental Indenture to the Mortgage provides that the amount of interest payable or paid on this Bond shall be limited and subject to reduction to an amount which shall not exceed the maximum nonusurious rate of interest allowed by the applicable laws of the State of Texas or any applicable law of the United States permitting a higher maximum nonusurious rate that preempts such applicable Texas laws, which could lawfully be contracted for, taken, reserved, charged or received.

The Mortgage provides that no holder of any Bond shall have any right

to institute any suit, action or proceeding in equity or at law for the foreclosure of the Mortgage or for the execution of any trust thereof or for the appointment of a receiver or any other remedy thereunder, unless (i) such holder shall have previously given to the Trustee written notice of a default, (ii) the holders of 25% in principal amount of the Bonds then outstanding shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted to it in the Mortgage or to institute such action, suit or proceeding in its own name, (iii) such holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred and (iv) the Trustee shall have declined to take such action or shall have failed to do so within 60 days thereafter. Notwithstanding any other provision of the Mortgage, the right of any holder of any Bond to receive payment of the principal of and interest on such Bond, on or after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such holder. The Mortgage provides that the holders of not less than a majority in principal amount of the Bonds at the time outstanding may direct the time, method, and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee; provided, however, that such direction shall not be otherwise than in accordance with the provisions of law and the Mortgage and that, subject to certain provisions of the Mortgage, the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall by responsible officers determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustifiably prejudicial to nonassenting bondholders or that it will not be sufficiently indemnified for any expenditures in any action or proceeding so directed.

This Bond has been issued and delivered to, registered in the name of and pledged with the MCND Trustee under the Trust Indenture for the ratable benefit of the owners of the Series 1995 Revenue Bonds and shall not be transferable except to any successor trustee under the Trust Indenture, any such transfer to be made at the office or agency of the Company in the City of Houston, Texas, upon surrender and cancellation of this Bond, and thereupon a new fully registered Bond of the same series for a like principal amount will be issued to such transferee in exchange herefor as provided in the Mortgage. The Company hereby waives any right to make a charge for such an exchange or transfer of this Bond. The Company and the Trustee may deem and treat the MCND Trustee as the absolute owner hereof for the purpose of receiving payment and for all other purposes.

The Trustee may conclusively presume that the obligation of the Company to pay the principal of and premium, if any, and interest on the Bond of this series as the same shall become due and payable shall have been fully satisfied and discharged unless and until it shall have received a written notice from the MCND Trustee, signed by its president, a vice president or a trust officer, stating that an Installment Payment has become due and payable and has not been fully paid and specifying the amount of funds required to make such payment.

The Bond of this series shall not be redeemable at the option of the Company or otherwise pursuant to the requirements of the Mortgage, except

(i) pursuant to the provisions of the second immediately following paragraph or (ii) that in the event that any of the Series 1995 Revenue Bonds are to be redeemed pursuant to the terms thereof by reason of a Determination of Taxability, as such term is defined in the form of the Series 1995 Revenue Bonds, the Bond of this series, in a principal amount equal to the aggregate principal amount of the Series 1995 Revenue Bonds so to be redeemed, shall be redeemed by the Company, on the date fixed for redemption of such Series 1995 Revenue Bonds, at the principal amount thereof, plus accrued interest thereon equal to the amount of accrued interest of Series 1995A Revenue Bonds so to be redeemed to such date fixed for redemption.

The Trustee may conclusively presume that no redemption of the Bond of this series is required pursuant to clause (ii) of the immediately preceding paragraph unless and until it shall have received a written notice from the MCND Trustee under the Trust Indenture, signed by its president, a vice president or a trust officer, stating that Series 1995 Revenue Bonds are to be redeemed by reason of such Determination of Taxability and specifying the principal amount and date fixed for redemption of the Series 1995 Revenue Bonds so to be redeemed.

The Bonds of this series shall also be redeemable in whole, by payment of the principal amount thereof plus accrued interest thereon equal to the amount of accrued interest of all of the Series 1995 Revenue Bonds then outstanding under the Trust Indenture to the date fixed for redemption, upon receipt by the Trustee of a written demand from the MCND Trustee under the Trust Indenture stating that the principal amount of all the Series 1995 Revenue Bonds then outstanding under the Trust Indenture has been declared immediately due and payable pursuant to the provisions of Section 8.02 of the Trust Indenture. The date fixed for such redemption shall not be more than 180 days after receipt by the Trustee of the aforesaid written demand and a notice of redemption shall be (i) published pursuant to the provisions of Section 54 of the Mortgage and (ii) delivered to each registered holder of a Bond of this series not less than 20 days prior to the date so fixed for such redemption pursuant to the provisions of Section 54 of the Mortgage. Such notice of redemption shall be rescinded and become null and void for all purposes under the Mortgage upon rescission, annulment or waiver of the aforesaid written demand or the aforesaid declaration of maturity pursuant to the terms and provisions of the Trust Indenture, and thereupon the obligation to redeem the Bonds of this series shall terminate and no redemption of the Bonds of this series and no payments in respect thereof as specified in such notice of redemption shall be effected or required.

The Company hereby waives its right to have any notice of redemption (i) by reason of a Determination of Taxability or (ii) pursuant to the provisions of the immediately preceding paragraph state that such notice is subject to the receipt of the redemption moneys by the Trustee on or before the date fixed for redemption. Notwithstanding the provisions of Section 54 of the Mortgage, any such notice will not be conditional.

No recourse shall be had for the payment of the principal of or premium, if any, or interest on this Bond against any incorporator or any past, present or future subscriber to the capital stock, stockholder, officer or director of the Company or of any predecessor or successor corporation, as such, either directly or through the Company or any

predecessor or successor corporation, under any rule of law, statute or constitution or by the enforcement of any assessment or otherwise, all such liability of incorporators, subscribers, stockholders, officers and directors, as such, being released by the holder or owner hereof by the acceptance of this Bond and being likewise waived and released by the terms of the Mortgage.

[END OF FORM OF BOND]

The Bond of the Sixty-Fifth Series shall be issued as a fully registered Bond; it shall bear interest at the rate per annum shown in its title, payable semi annually on April 15 and October 15 of each year, commencing April 15, 1996, and at maturity; the principal of and premium, if any, and interest on said Bond to be payable at the office or agency of the Company in the City of Houston, Texas, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts. The Bond of the Sixty-Fifth Series shall be dated as in Section 10 of the Mortgage provided.

The Trustee may conclusively presume that the obligation of the Company to pay the principal of and premium, if any, and interest on the Bond of the Sixty-Fifth Series as the same shall become due and payable shall have been fully satisfied and discharged unless and until it shall have received a written notice from the MCND Trustee, signed by its president, a vice president or a trust officer, stating that an Installment Payment, as such term is defined in the Agreement, has become due and payable and has not been fully paid and specifying the amount of funds required to make such payment.

The Bond of the Sixty-Fifth Series shall not be redeemable at the option of the Company or otherwise pursuant to the requirements of the Mortgage, except (i) pursuant to the provisions of the second immediately following paragraph or (ii) that in the event that any of the Series 1995 Revenue Bonds are to be redeemed pursuant to the terms thereof by reason of a Determination of Taxability, as such term is defined in the form of the Series 1995 Revenue Bonds, the Bond of the Sixty-Fifth Series, in a principal amount equal to the aggregate principal amount of the Series 1995 Revenue Bonds so to be redeemed, shall be redeemed by the Company, on the date fixed for redemption of such Series 1995 Revenue Bonds, at the principal amount thereof, plus accrued interest thereon equal to the amount of accrued interest of the Series 1995 Revenue Bonds so to be redeemed to such date fixed for redemption.

The Trustee may conclusively presume that no redemption of the Bond of the Sixty-Fifth Series is required pursuant to clause (ii) of the immediately preceding paragraph unless and until it shall have received a written notice from the MCND Trustee under the Trust Indenture, signed by its president, a vice president or a trust officer, stating that the Series 1995 Revenue Bonds are to be redeemed by reason of such Determination of Taxability and specifying the principal amount and the date fixed for redemption of the Series 1995 Revenue Bonds so to be redeemed.

The Bonds of the Sixty-Fifth Series shall also be redeemable in whole, by payment of the principal amount thereof plus accrued interest thereon equal to the amount of accrued interest of all of the Series 1995 Revenue Bonds then outstanding under the Trust Indenture to the date fixed

for redemption, upon receipt by the Trustee of a written demand from the MCND Trustee under the Trust Indenture stating that the principal amount of all the Series 1995 Revenue Bonds then outstanding under the Trust Indenture has been declared immediately due and payable pursuant to the provisions of Section 8.02 of the Trust Indenture. The date fixed for such redemption shall not be more than 180 days after receipt by the Trustee of the aforesaid written demand and a notice of redemption shall be (i) published pursuant to the provisions of Section 54 of the Mortgage and (ii) delivered to each registered holder of a Bond of the Sixty-Fifth Series not less than 20 days prior to the date so fixed for such redemption pursuant to the provisions of Section 54 of the Mortgage. Such notice of redemption shall be rescinded and become null and void for all purposes under the Mortgage upon rescission, annulment or waiver of the aforesaid written demand or the aforesaid declaration of maturity pursuant to the terms and provisions of the Trust Indenture, and thereupon the obligation to redeem the Bonds of the Sixty-Fifth Series shall terminate and no redemption of the Bonds of the Sixty-Fifth Series and no payments in respect thereof as specified in such notice of redemption shall be effected or required.

The Company hereby waives its right to have any notice of redemption (i) by reason of a Determination of Taxability or (ii) pursuant to the provisions of the immediately preceding paragraph state that such notice is subject to the receipt of the redemption moneys by the Trustee on or before the date fixed for redemption. Notwithstanding the provisions of Section 54 of the Mortgage, any such notice shall not be conditional.

ARTICLE II.

Replacement Fund Provisions

SECTION 2. Section 3 of the First Supplemental Indenture, as heretofore amended, is hereby further amended by inserting "Sixty-Fifth Series," before the words "Sixty-Fourth" each time such words appear in said Section 3, as heretofore amended.

ARTICLE III.

Miscellaneous Provisions

SECTION 3. Subject to the amendments provided for in this Sixty-Fifth Supplemental Indenture, the terms defined in the Mortgage, as heretofore supplemented, shall, for all purposes of this Sixty-Fifth Supplemental Indenture, have the meaning specified in the Mortgage, as heretofore supplemented.

So long as any Bonds of the Sixty-Fifth Series are outstanding, whenever a net earnings certificate is required by the Mortgage to be furnished to the Trustee as a condition precedent to the authentication and delivery of Bonds, no Bonds shall be authenticated and delivered by the Trustee unless such net earnings certificate shall show, in addition to the matters required by Sections 7 and 28 of the Mortgage, that after deducting from the net earnings of the Company as so calculated an amount equal to the Company's expenses and provisions for renewals, replacements, depreciation, depletion, retirement and amortization of property during the period for which such net earnings shall have been calculated, the

remainder of the net earnings of the Company shall have been at least equivalent to twice the annual interest requirements as shown by such net earnings certificate.

SECTION 4. This Sixty-Fifth Supplemental Indenture and the Bond of the Sixty-Fifth Series shall be deemed to be a contract made under the laws of the State of Texas, and for all purposes shall be construed in accordance with the laws of said State.

The amount of interest payable or paid on the Bond of the Sixty-Fifth Series shall be limited to an amount which shall not exceed the maximum nonusurious rate of interest allowed by the applicable laws of the State of Texas or any applicable law of the United States permitting a higher maximum nonusurious rate that preempts such applicable Texas laws, which could lawfully be contracted for, taken, reserved, charged or received (the "Maximum Interest Rate"). If, as a result of any circumstances whatsoever, the Company or any other person is deemed to have paid interest (or amounts deemed to be interest under applicable law) or any holder of a Bond of this Sixty-Fifth Series is deemed to have contracted for, taken, reserved, charged or received interest (or amounts deemed to be interest under applicable law), in excess of the Maximum Interest Rate, then, ipso facto, the obligation to be fulfilled shall be reduced to the limit of validity, and if from any such circumstance, the Trustee, acting on behalf of the holders, or any holder shall ever receive interest or anything that might be deemed interest under applicable law that would exceed the Maximum Interest Rate, such amount that would be excessive interest shall be applied to the reduction of the principal amount owing on the applicable Bond or Bonds and not to the payment of interest, or if such excessive interest exceeds the unpaid principal balance of any such Bond or Bonds, such excess shall be refunded to the Company. In addition, for purposes of determining whether payments in respect of the Bond of the Sixty-Fifth Series are usurious, all sums paid or agreed to be paid with respect to such Bond for the use, forbearance or detention of money shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such Bond.

SECTION 5. The Trustee hereby accepts the trusts herein declared, provided, created or supplemented and agrees to perform the same upon the terms and conditions herein and in the Mortgage, as heretofore supplemented, set forth and upon the following terms and conditions:

The Trustee shall not be responsible in any manner whatsoever for or in respect to the validity or sufficiency of this Sixty-Fifth Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company solely. In general, each and every term and condition contained in Article XVI of the Mortgage shall apply to and form part of this Sixty-Fifth Supplemental Indenture with the same force and effect as if the same were herein set forth in full with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this Sixty-Fifth Supplemental Indenture.

SECTION 6. Subject to the provisions of Articles XV and XVI of the Mortgage, whenever in this Sixty-Fifth Supplemental Indenture either of the parties hereto is named or referred to, this shall be deemed to include the

successors or assigns of such party, and all the covenants and agreements in this Sixty-Fifth Supplemental Indenture by or on behalf of the Company or by or on behalf of the Trustee shall bind and inure to the respective successors and assigns of such parties, whether so expressed or not.

SECTION 7. Nothing in this Sixty-Fifth Supplemental Indenture, expressed or implied, is intended, or shall be construed, to confer upon, or to give to, any person, firm or corporation, other than the parties hereto and the holders of the Bonds and coupons outstanding under the Mortgage, as heretofore supplemented, any right, remedy or claim under or by reason of this Sixty-Fifth Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this Sixty-Fifth Supplemental Indenture, by or on behalf of the Company, shall be for the sole and exclusive benefit of the parties hereto, and of the holders of the Bonds and coupons outstanding under the Mortgage, as heretofore supplemented.

SECTION 8. This Sixty-Fifth Supplemental Indenture may be simultaneously executed in several counterparts, and all such counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

IN WITNESS WHEREOF, HOUSTON LIGHTING & POWER COMPANY and TEXAS COMMERCE BANK NATIONAL ASSOCIATION each has caused this Sixty-Fifth Supplemental Indenture to be signed in its corporate name and its corporate seal to be affixed and attested by its duly authorized officers as of the 1st day of July, 1995.

HOUSTON LIGHTING & POWER COMPANY

Attest: By /s/ K. W. Nabors

Vice President

/s/ Rufus S. Scott
- ---
Assistant Secretary

[Corporate Seal]

TEXAS COMMERCE BANK
NATIONAL ASSOCIATION,

As Trustee.

Attest:

/s/ Jo Anne K. Gulliver
- ------------------------------
Jo Anne Gulliver
Vice President
& Trust Officer

By /s/ Wayne Mentz

Wayne Mentz
Assistant Vice President
& Trust Officer

[Corporate Seal]

STATE OF TEXAS
COUNTY OF HARRIS

This instrument was acknowledged before me on July 10, 1995 by K. W. Nabors of Houston Lighting & Power Company, a Texas corporation, on behalf of said corporation.

/s/ Miroslava D. Massar

Notary Public for the State of Texas
My Commission Expires: 9/30/96
[Notarial Seal]

STATE OF TEXAS
COUNTY OF HARRIS

This instrument was acknowledged before me on July 14, 1995 by Wayne Mentz, Assistant Vice President & Trust Officer of Texas Commerce Bank National Association, a national banking association organized under the laws of the United States, on behalf of said association.

/s/ Connie J. Arndt

Notary Public for
the State of Texas
My Commission Expires: 3/6/99
[Notarial Seal]

STATE OF TEXAS
COUNTY OF HARRIS

The undersigned, Rufus S. Scott, Assistant Corporate Secretary of Houston Lighting & Power Company, a corporation of the State of Texas, being first duly sworn, deposes and says that Houston Lighting & Power Company, the corporation that executed the foregoing instrument, is a utility as defined in Section 35.01(2) of the Business and Commerce Code of the State of Texas, that is to say a corporation engaged in Texas in the generation, transmission or distribution and sale of electric power.

/s/ Rufus S. Scott

Rufus S. Scott

Subscribed and sworn to before me
this 10th day of July, 1995

/s/ Bonita Gatlin [Notarial Seal]
Notary Public for the State of Texas

My Commission Expires:

4-27-96

HOUSTON LIGHTING & POWER COMPANY
EXHIBIT 12

Exhibit 12

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

		Twelve Months Ended December 31,				
		1995	1994	1993	1992	1991
Fixed Charges as Defined:						
(1)	Interest on Long-Term Debt	$ 244,384	$ 246,533	$ 276,049	$ 311,208	$ 326,722
(2)	Other Interest	8,117	8,493	12,317	19,548	41,216
(3)	Amortization of (Premium) Discount	8,762	8,484	7,234	5,346	4,209
(4)	Interest Component of Rentals Charged to Operating Expense	3,102	3,951	4,449	5,116	5,943
(5)	Total Fixed Charges	$ 264,365	$ 267,461	$ 300,049	$ 341,218	$ 378,090
Earnings as Defined:						
(6)	Net Income	$ 480,932	$ 486,764	$ 484,223	$ 509,462	$ 518,899
(7)	Cumulative Effect of Change in Accounting		8,200		(94,180)	
(8)	Income Before Cumulative Effect of Change in Accounting	480,932	494,964	484,223	415,282	518,899
Income Taxes:						
(9)	Current	186,010	181,109	113,394	129,611	143,054
(10)	Deferred (Net)	58,946	68,633	123,077	92,575	83,991
(11)	Cumulative Effect of Change in Accounting		4,415		(48,517)	
(12)	Total Income Taxes Before Cumulative Effect of Change in Accounting	244,956	254,157	236,471	173,669	227,045
(13)	Total Fixed Charges (line 5)	264,365	267,461	300,049	341,218	378,090
(14)	Earnings Before Income Taxes and Fixed Charges (line 8 plus line 12 plus line 13)	$ 990,253	$1,016,582	$1,020,743	$ 930,169	$1,124,034
Ratio of Earnings to Fixed Charges (line 14 divided by line 5)		3.75	3.80	3.40	2.73	2.97
Preferred Dividend Requirements:						
(15)	Preferred Dividends	$ 29,955	$ 33,583	$ 34,473	$ 39,327	$ 46,187
(16)	Less Tax Deduction for Preferred Dividends	54	54	54	56	56
(17)	Total	29,901	33,529	34,419	39,271	46,131
(18)	Ratio of Pre-Tax Income to Net Income (line 8 plus line 12 divided by line 8)	1.51	1.51	1.49	1.42	1.44
(19)	Line 17 times line 18	45,151	50,629	51,284	55,765	66,429
(20)	Add Back Tax Deduction (line 16)	54	54	54	56	56
(21)	Preferred Dividends Factor	$ 45,205	$ 50,683	$ 51,338	$ 55,821	$ 66,485
(22)	Total Fixed Charges (line 5)	$ 264,365	$ 267,461	$ 300,049	$ 341,218	$ 378,090
(23)	Preferred Dividends Factor (line 21)	45,205	50,683	51,338	55,821	66,485
(24)	Total	$ 309,570	$ 318,144	$ 351,387	$ 397,039	$ 444,575
	Ratio of Earnings to Fixed Charges and Preferred Dividends Requirements (line 14 divided by line 24)	3.20	3.20	2.90	2.34	2.53

HOUSTON LIGHTING & POWER COMPANY
EXHIBIT 23

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

HOUSTON LIGHTING & POWER COMPANY:

We consent to the incorporation by reference in Houston Lighting & Power Company's (i) Registration Statements on Form S-3 Nos. 33-46368 and 33-54228 and (ii) Post-Effective Amendment No. 1 to Registration Statement No. 33-51417 on Form S-3 of our report dated February 29, 1996, appearing in this Annual Report on Form 10-K of Houston Lighting & Power Company for the year ended December 31, 1995.

DELOITTE & TOUCHE LLP

HOUSTON, TEXAS
MARCH 27, 1996

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

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Houston Lighting & Power Company
1,000

YEAR
DEC-31-1995
JAN-01-1995
DEC-31-1995
PER-BOOK
8,769,626
0
371,163
903,146
621,324
10,665,259
1,675,927
0
2,150,086
3,826,013
51,055
351,345
2,984,570
0
0
0
150,130
25,700
4,939
3,621
3,267,886
10,665,259
3,680,297
245,807
2,699,826
2,945,633
734,664
(5,923)
728,741
247,809
480,932
29,955
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454,000
244,310
867,690
0
0