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

(Mark One)

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

For the quarterly period ended June 30, 1994.

OR

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

For the transition period from _____ to _____

Commission file number 1-7629

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

Texas	74-1885573
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5 Post Oak Park 4400 Post Oak Parkway Houston, Texas	77027
(Address of principal executive offices)	(Zip Code)

(713) 629-3000
(Registrant's telephone number, including area code)

Commission file number 1-3187

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

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

(713) 228-9211
(Registrant's telephone number, including area code)

_____

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

As of July 31, 1994, Houston Industries Incorporated had 131,296,631 shares of common stock outstanding. As of July 31, 1994, all 1,000 authorized and outstanding shares of Houston Lighting & Power Company's Class A voting common stock, without par value, were held by Houston Industries Incorporated and all 100 authorized and outstanding shares of Houston Lighting & Power Company's Class B non-voting common stock were held by Houston Industries (Delaware) Incorporated.

HOUSTON INDUSTRIES INCORPORATED AND HOUSTON LIGHTING & POWER COMPANY
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 1994

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1994	1993	1994	1993
REVENUES:				
Electric	$1,004,906	$1,005,149	$1,826,487	$1,810,834
Cable television	61,754	62,604	122,274	122,878
Total	1,066,660	1,067,753	1,948,761	1,933,712
EXPENSES:				
Electric:				
Fuel	235,514	262,603	452,702	461,166
Purchased power	103,906	129,224	202,455	258,923
Operation and maintenance	204,089	212,866	397,940	408,102
Taxes other than income taxes	62,959	62,468	126,071	124,332
Cable television operating expenses	38,923	36,950	78,150	73,791
Depreciation and amortization	120,472	115,956	239,973	231,731
Total	765,863	820,067	1,497,291	1,558,045
OPERATING INCOME	300,797	247,686	451,470	375,667
OTHER INCOME (EXPENSE):				
Allowance for other funds used during construction	93	1,080	1,409	1,788
Interest income	8,125	8,598	16,543	16,738
Equity in income of cable television partnerships	7,790	7,987	15,700	15,009
Other - net	(4,058)	(5,890)	(12,387)	(3,958)
Total	11,950	11,775	21,265	29,577
INTEREST AND OTHER CHARGES:				
Interest on long-term debt	86,449	96,547	173,462	193,623
Other interest	5,931	4,505	11,657	8,294
Allowance for borrowed funds used during construction	(129)	(1,170)	(1,817)	(1,914)
Preferred dividends of subsidiary	8,403	8,789	16,676	17,934

Total	100,654	108,671	199,978	217,937
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS	212,093	150,790	272,757	187,307
INCOME TAXES	78,265	50,581	100,554	60,043
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS	133,828	100,209	172,203	127,264
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS (NET OF INCOME TAXES OF $4,415)			(8,200)	
NET INCOME	$ 133,828	$ 100,209	$ 164,003	$ 127,264

(Continued)

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

(Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1994	1993	1994	1993
EARNINGS PER COMMON SHARE:				
EARNINGS PER COMMON SHARE BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS	$ 1.02	$ .77	$ 1.31	$ .98
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS			(.06)	
EARNINGS PER COMMON SHARE	$ 1.02	$ .77	$ 1.25	$ .98
DIVIDENDS DECLARED PER COMMON SHARE	$ .75	$ .75	$ 1.50	$ 1.50
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (000)	130,709	129,849	130,708	129,725

See Notes to Consolidated Financial Statements.

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

ASSETS

	June 30, 1994	December 31, 1993
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric plant:		
Plant in service	$11,637,250	$11,480,244
Construction work in progress	246,852	242,661
Nuclear fuel	211,874	211,785
Plant held for future use	197,491	196,330
Electric plant acquisition adjustments	3,166	3,166
Cable television property	393,229	372,178
Other property	59,998	47,494
Total	12,749,860	12,553,858
Less accumulated depreciation and amortization	3,522,695	3,355,616
Property, plant and equipment - net	9,227,165	9,198,242
CURRENT ASSETS:		
Cash and cash equivalents	8,098	14,884
Special deposits	13	11,834
Accounts receivable:		
Customers - net	6,854	4,985
Others	26,429	11,153
Accrued unbilled revenues	17,170	29,322
Fuel stock, at lifo cost	60,922	58,585
Materials and supplies, at average cost	165,259	166,477
Prepayments	18,939	20,432
Total current assets	303,684	317,672
OTHER ASSETS:		
Cable television franchises and intangible assets - net	961,233	984,032
Deferred plant costs	651,808	664,699
Deferred debits	357,838	371,773
Unamortized debt expense and premium on reacquired debt	166,229	169,465
Equity investment in cable television partnerships	142,745	122,531
Equity investment in foreign electric utility	35,529	36,984
Regulatory asset - net	241,194	246,763
Recoverable project costs	108,085	118,016
Total other assets	2,664,661	2,714,263
Total	$12,195,510	$12,230,177

See Notes to Consolidated Financial Statements.

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

CAPITALIZATION AND LIABILITIES

	June 30, 1994	December 31, 1993
CAPITALIZATION:		
Common Stock Equity:		
Common stock, no par value	$ 2,418,455	$ 2,415,256
Note receivable from ESOP	(327,916)	(332,489)
Retained earnings	1,164,822	1,191,230
Total common stock equity	3,255,361	3,273,997
Preference Stock, no par value, authorized 10,000,000 shares; none outstanding		
Cumulative Preferred Stock of Subsidiary, no par value:		
Not subject to mandatory redemption	351,345	351,354
Subject to mandatory redemption	121,910	167,236
Total cumulative preferred stock	473,255	518,590
Long-Term Debt:		
Debentures	548,636	548,544
Long-term debt of subsidiaries:		
Electric:		
First mortgage bonds	3,020,122	3,019,843
Pollution control revenue bonds	155,232	155,218
Other	12,875	15,010
Cable television:		
Senior bank debt	364,000	364,000
Senior and subordinated notes	124,783	140,580
Total long-term debt	4,225,648	4,243,195
Total capitalization	7,954,264	8,035,782
CURRENT LIABILITIES:		
Notes payable	649,800	591,385
Accounts payable	205,673	239,814
Taxes accrued	125,870	187,503
Interest accrued	81,247	84,178
Dividends accrued	104,607	105,207
Accrued liabilities to municipalities	22,311	22,589
Customer deposits	65,717	65,604
Current portion of long-term debt and preferred stock	67,312	55,109
Other	65,541	62,688
Total current liabilities	1,388,078	1,414,077
DEFERRED CREDITS:		
Accumulated deferred income taxes	2,009,608	1,987,336
Unamortized investment tax credit	424,705	434,597
Other	418,855	358,385
Total deferred credits	2,853,168	2,780,318
COMMITMENTS AND CONTINGENCIES		
Total	$ 12,195,510	$ 12,230,177

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)

	Six Months Ended June 30,	
	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 164,003	$ 127,264
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	239,973	231,731
Amortization of nuclear fuel	5,421	2,101
Deferred income taxes	26,687	29,546
Investment tax credits	(9,892)	(10,143)
Allowance for other funds used during construction	(1,409)	(1,788)
Fuel cost (refund) and over/(under) recovery - net	27,408	(45,799)
Equity in income of cable television partnerships	(15,700)	(15,009)
Cumulative effect of change in accounting for postemployment benefits	8,200	
Changes in other assets and liabilities:		
Accounts receivable and accrued unbilled revenues	(4,993)	302,123
Inventory	(1,119)	3,057
Other current assets	13,314	(6,509)
Accounts payable	(34,141)	(6,293)
Interest and taxes accrued	(58,564)	(60,106)
Other current liabilities	2,050	(19,512)
Other - net	62,851	51,241
Net cash provided by operating activities	424,089	581,904
CASH FLOWS FROM INVESTING ACTIVITIES:		
Electric capital expenditures (including allowance for borrowed funds used during construction)	(191,637)	(132,429)
Cable television additions	(32,692)	(23,280)
Other construction expenditures	(12,253)	
Other - net	(20,532)	(5,686)
Net cash used in investing activities	(257,114)	(161,395)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

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

	Six Months Ended June 30,	
	1994	1993
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from common stock		$ 21,001
Decrease in note receivable from ESOP	$ 4,573	
Proceeds from first mortgage bonds		545,243
Proceeds from senior bank debt		20,000
Extinguishment of long-term debt		(477,083)
Payment of matured bonds	(19,500)	(136,000)
Payment of senior bank debt		(182,349)
Payment of senior and subordinated notes	(10,384)	(6,372)
Payment of common stock dividends	(196,064)	(194,555)
Increase (decrease) in notes payable - net	58,415	(27,999)
Redemption of preferred stock	(20,000)	(40,000)
Other - net	9,199	(733)
Net cash used in financing activities	(173,761)	(478,847)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,786)	(58,338)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,884	69,317
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 8,098	$ 10,979
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest (net of amounts capitalized)	$ 187,333	$ 210,534
Income taxes	65,090	33,814

See Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1994	1993	1994	1993
Balance at Beginning of Period	$ 1,125,167	$ 1,186,012	$ 1,191,230	$ 1,254,584
Net Income for the Period	133,828	100,209	164,003	127,264
Total	1,258,995	1,286,221	1,355,233	1,381,848
Common Stock Dividends	(98,032)	(97,365)	(196,102)	(194,555)
Tax Benefit of ESOP Dividends	3,859	2,449	5,691	4,012
Redemption of HL&P Preferred Stock		(402)		(402)
Balance at End of Period	$ 1,164,822	$ 1,190,903	$ 1,164,822	$ 1,190,903

See Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1994	1993	1994	1993
OPERATING REVENUES	$ 1,004,906	$ 1,005,149	$ 1,826,487	$ 1,810,834
OPERATING EXPENSES:				
Fuel	235,514	262,603	452,702	461,166
Purchased power	103,906	129,224	202,455	258,923
Operation	141,835	143,898	274,802	284,505
Maintenance	62,254	68,968	123,138	123,597
Depreciation and amortization	99,675	96,217	198,604	192,432
Income taxes	81,921	52,705	108,994	63,653
Other taxes	62,959	62,468	126,071	124,332
Total	788,064	816,083	1,486,766	1,508,608
OPERATING INCOME	216,842	189,066	339,721	302,226
OTHER INCOME (EXPENSE):				
Allowance for other funds used during construction	93	1,080	1,409	1,788
Other - net	(2,773)	(1,543)	(5,759)	(1,176)
Total	(2,680)	(463)	4,350)	612
INCOME BEFORE INTEREST CHARGES	214,162	188,603	335,371	302,838
INTEREST CHARGES:				
Interest on long-term debt	61,557	70,853	123,399	140,458
Other interest	1,853	4,366	4,749	9,021
Allowance for borrowed funds used during construction	(129)	(1,170)	(1,817)	(1,914)
Total	63,281	74,049	126,331	147,565
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS	150,881	114,554	209,040	155,273
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS (NET OF INCOME TAXES OF $4,415)			(8,200)	
NET INCOME	150,881	114,554	200,840	155,273
DIVIDENDS ON PREFERRED STOCK	8,403	8,789	16,676	17,934
INCOME AFTER PREFERRED DIVIDENDS	$ 142,478	$ 105,765	$ 184,164	$ 137,339

See Notes to Financial Statements.

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

ASSETS

	June 30, 1994	December 31, 1993
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric plant	$11,637,250	$11,480,244
Construction work in progress	246,852	242,661
Plant held for future use	197,491	196,330
Nuclear fuel	211,874	211,785
Electric plant acquisition adjustments	3,166	3,166
Total	12,296,633	12,134,186
Less accumulated depreciation and amortization	3,349,081	3,194,127
Property, plant and equipment - net	8,947,552	8,940,059
CURRENT ASSETS:		
Cash and cash equivalents	428	12,413
Special deposits	13	11,834
Accounts receivable:		
Affiliated companies	988	1,792
Others	13,765	2,540
Accrued unbilled revenues	17,170	29,322
Inventory:		
Fuel stock, at lifo cost	60,922	58,585
Materials and supplies, at average cost	157,456	160,371
Prepayments	15,271	9,234
Total current assets	266,013	286,091
OTHER ASSETS:		
Deferred plant costs	651,808	664,699
Deferred debits	310,956	333,620
Unamortized debt expense and premium on reacquired debt	162,291	164,368
Regulatory asset - net	241,194	246,763
Recoverable project costs	108,085	118,016
Total other assets	1,474,334	1,527,466
Total	$10,687,899	$10,753,616

See Notes to Financial Statements.

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

CAPITALIZATION AND LIABILITIES

	June 30, 1994	December 31, 1993
CAPITALIZATION:		
Common Stock Equity:		
Common stock, class A; no par value	$ 1,524,949	$ 1,524,949
Common stock, class B; no par value	150,978	150,978
Retained earnings	2,048,593	2,028,924
Total common stock equity	3,724,520	3,704,851
Cumulative Preferred Stock:		
Not subject to mandatory redemption	351,345	351,354
Subject to mandatory redemption	121,910	167,236
Total cumulative preferred stock	473,255	518,590
Long-Term Debt:		
First mortgage bonds	3,020,122	3,019,843
Pollution control revenue bonds	155,232	155,218
Other	12,875	15,010
Total long-term debt	3,188,229	3,190,071
Total capitalization	7,386,004	7,413,512
CURRENT LIABILITIES:		
Notes payable	113,500	171,100
Accounts payable	157,401	190,583
Accounts payable to affiliated companies	19,862	8,449
Taxes accrued	145,766	187,517
Interest and dividends accrued	61,739	65,238
Accrued liabilities to municipalities	22,311	22,589
Customer deposits	65,717	65,604
Current portion of long-term debt and preferred stock	51,514	44,725
Other	66,035	63,607
Total current liabilities	703,845	819,412
DEFERRED CREDITS:		
Accumulated deferred federal income taxes	1,831,149	1,798,976
Unamortized investment tax credit	421,301	430,996
Other	345,600	290,720
Total deferred credits	2,598,050	2,520,692
COMMITMENTS AND CONTINGENCIES		
Total	$10,687,899	$ 10,753,616

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY
STATEMENTS OF CASH FLOWS

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

	Six Months Ended June 30,	
	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 200,840	$ 155,273
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	198,604	192,432
Amortization of nuclear fuel	5,421	2,101
Deferred income taxes	36,588	26,352
Investment tax credits	(9,695)	(9,946)
Allowance for other funds used during construction	(1,409)	(1,788)
Fuel cost (refund) and over/(under) recovery - net	27,408	(45,799)
Cumulative effect of change in accounting for postemployment benefits	8,200	
Changes in other assets and liabilities:		
Accounts receivable - net	1,731	170,111
Material and supplies	2,915	1,091
Fuel stock	(2,337)	3,550
Accounts payable	(21,769)	801
Interest and taxes accrued	(45,250)	(46,248)
Other current liabilities	3,547	(209)
Other - net	58,217	40,399
Net cash provided by operating activities	463,011	488,120
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and nuclear fuel expenditures (including allowance for borrowed funds used during construction)	(191,637)	(132,429)
Other - net	(6,355)	(5,661)
Net cash used in investing activities	(197,992)	(138,090)

(Continued)

HOUSTON LIGHTING & POWER COMPANY
STATEMENTS OF CASH FLOWS

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

(CONTINUED)

	Six Months Ended June 30,	
	1994	1993
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from first mortgage bonds		$ 545,243
Payment of matured bonds	$ (19,500)	(136,000)
Payment of dividends	(181,885)	(202,817)
Decrease in notes payable	(57,600)	(4,590)
Decrease in notes payable to affiliated company		(19,000)
Redemption of preferred stock	(20,000)	(40,000)
Extinguishment of long-term debt		(477,083)
Other - net	1,981	(3,036)
Net cash used in financing activities	(277,004)	(337,283)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,985)	12,747
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,413	4,254
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 428	$ 17,001
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest (net of amounts capitalized)	$ 131,634	$ 159,622
Income taxes	57,913	31,002

See Notes to Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1994	1993	1994	1993
Balance at Beginning of Period	$ 1,990,614	$ 1,851,136	$ 2,028,924	$ 1,922,558
Net Income for the Period	150,881	114,554	200,840	155,273
Redemption of Preferred Stock		(402)		(402)
Total	2,141,495	1,965,288	2,229,764	2,077,429
Deductions - Cash Dividends:				
Preferred	8,403	8,789	16,676	17,934
Common	84,499	79,995	164,495	182,991
Total	92,902	88,784	181,171	200,925
Balance at End of Period	$ 2,048,593	$ 1,876,504	$ 2,048,593	$ 1,876,504

See Notes to Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AND

HOUSTON LIGHTING & POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

(1) REGULATORY PROCEEDINGS AND LITIGATION REFERENCE

The information presented in the following Notes in this Form 10-Q should be read in conjunction with the Houston Industries Incorporated (Company) Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7629), filed in combined form with the Houston Lighting & Power Company (HL&P) Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-3187) (collectively, the 1993 Combined Form 10-K), including the Notes to the Company's Consolidated and HL&P's Financial Statements included in Item 8 thereof. Notes 9, 10 and 11 to the Company's Consolidated and HL&P's Financial Statements in the 1993 Combined Form 10-K, as updated by the description of developments in the regulatory and litigation matters contained in Notes 8, 9 and 10 of the Notes to the Company's Consolidated and HL&P's Financial Statements included in this Report, are incorporated herein by reference as they relate to the Company and HL&P, respectively.

(2) COMMON STOCK

COMPANY. At June 30, 1994, and December 31, 1993, the Company had authorized 400,000,000 shares of common stock, of which 130,708,985 and 130,658,755 shares, respectively, were outstanding. For a discussion of additional shares issued by the Company in July 1994, see Note 12 of the Notes to the Company's Consolidated and HL&P's Financial Statements in this Report.

HL&P. 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 (Houston Industries Delaware), a wholly-owned subsidiary of the Company.

(3) HL&P PREFERRED STOCK

At June 30, 1994, and December 31, 1993, HL&P had 10,000,000 shares of preferred stock authorized, of which 5,232,397 and 5,432,397 shares, respectively, were outstanding.

In June 1994, HL&P redeemed, at $100 per share, 200,000 shares of its $8.50 cumulative preferred stock in satisfaction of mandatory sinking fund requirements.

(4) EARNINGS PER COMMON SHARE

COMPANY. Earnings per common share for the Company is computed by dividing net income by the weighted average number of shares outstanding during the respective period.

HL&P. Earnings per share data for HL&P is not computed since all of its common stock is held by the Company and Houston Industries Delaware.

(5) LONG-TERM DEBT

COMPANY. In March 1994, KBL Cable, Inc. made a scheduled repayment of $10.4 million principal amount of its senior notes and senior subordinated notes.

HL&P. In January 1994, HL&P repaid at maturity $19.5 million principal amount of Series A collateralized medium-term notes.

(6) POSTEMPLOYMENT BENEFITS FOR THE COMPANY AND HL&P

The Company and HL&P adopted Statement of Financial Accounting Standards (SFAS) No. 112, "Employer's Accounting for Postemployment Benefits", effective January 1, 1994. SFAS No. 112 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. In the Company's and HL&P's case, this liability is principally 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 1994 charges to income are expected to be immaterial.

(7) ENVIRONMENTAL AND CABLE REGULATIONS

(A) ENVIRONMENTAL REGULATIONS. For information regarding the impact

of environmental regulations on the Company and its subsidiaries, see the fifth paragraph of Note 8(a) to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K, which paragraph is incorporated herein by reference.

(B) IMPACT OF THE CABLE TELEVISION CONSUMER PROTECTION AND COMPETITION ACT OF 1992 ON KBLCOM INCORPORATED (KBLCOM). In March 1994, the Federal Communications Commission (FCC) issued its revised benchmark rules (Rate Rule II) as well as its interim cost-of-service rule (Interim COS Rule). Each of these rules became effective on May 15, 1994. Rate Rule II revises the "benchmark formulas" established by the FCC in May 1993. Under Rate Rule II (which will be applied prospectively), cable operators must reduce their existing rates to the higher of (i) the rates calculated using the revised benchmark formulas (Revised Benchmarks) or (ii) a level 17% below such cable operators' rates as of September 30, 1992, adjusted for inflation. Cable operators which cannot or do not wish to comply with the Revised Benchmarks may choose to justify their existing rates under the Interim COS Rule. The Interim COS Rule establishes a cost-of-service rate system similar to that used in the telephone industry. KBLCOM expects that it will incur increased administrative burdens under these new rules, and that the Revised Benchmarks will impose some additional reductions in KBLCOM's rates for regulated services. The extent of the anticipated decline in revenues cannot be determined at this time, but will have an adverse impact on KBLCOM's financial position and results of operations.

(8) JOINTLY-OWNED NUCLEAR PLANT

(A) HL&P INVESTMENT. HL&P is project manager and one of four co-owners in the South Texas Project Electric Generating Station (South Texas Project), which consists of two 1,250 megawatt nuclear generating units. Each co-owner funds its own share of capital and operating costs associated with the plant, with HL&P's interest in the project being 30.8%. HL&P's share of the operation and maintenance expenses is included in electric operation and maintenance expenses on the Company's Statements of Consolidated Income and in the corresponding operating expense amounts on HL&P's Statements of Income. As of June 30, 1994, HL&P's investments (net of accumulated depreciation and amortization) in the South Texas Project and in nuclear fuel, including Allowance for Funds Used During Construction, were $2.1 billion and $114.1 million, respectively.

(B) CITY OF AUSTIN LITIGATION. In February 1994, the City of Austin (Austin), one of the other owners of the South Texas Project, filed suit against HL&P. That suit remains pending in the 152nd District Court for Harris County, Texas. Austin alleges that the outages at the South Texas Project 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 under the terms and conditions of the Operating Licenses and Technical Specifications relating to the South Texas Project. Austin claims that such failures have caused Austin damages of at least $125 million due to the incurrence of increased operating and maintenance costs, the cost of replacement power and lost profits on wholesale transactions that did not occur.

As it did in litigation filed against HL&P in 1983, Austin asserts that HL&P breached obligations HL&P owed under the Participation Agreement to Austin, and Austin seeks a declaration that HL&P had a duty to exercise reasonable care in the operation and maintenance of the South Texas Project. In that earlier litigation (which was won by HL&P at trial, affirmed on appeal and became final in 1993), however, the courts concluded that the Participation Agreement did not impose on HL&P a duty to exercise reasonable skill and care as project manager. In April 1994, HL&P filed a motion for partial summary judgment on the grounds that Austin's negligence claims are barred by RES JUDICATA and collateral estoppel. Following a hearing in June 1994, HL&P's motion for summary judgment was denied. Trial has been set for October 1995.

Austin also asserts in the pending suit that certain terms of a settlement reached in 1992 among HL&P and Central and South West Corporation (CSW) and its subsidiary, Central Power and Light Company (CPL), another co-owner of the South Texas Project, are invalid and void. The Participation Agreement permits arbitration of certain disputes among the owners, and the challenged settlement terms provide that in any future arbitration, HL&P and CPL would each appoint an arbitrator acceptable to the other. Austin asserts that, as a result of this agreement, the arbitration provisions of the Participation Agreement are void and Austin should not be required to participate in or be bound by arbitration proceedings. HL&P, however, considers that Austin's claims on this issue have largely been rendered moot in this case as a result of HL&P's election not to demand arbitration of Austin's current claims as permitted by the Participation Agreement, but to proceed to trial in the Harris County district court.

In May 1994, the City of San Antonio (San Antonio) intervened in the litigation filed by Austin against HL&P and asserted claims similar to those asserted by Austin, though San Antonio has not identified the amount of damages it seeks from HL&P. In its petition, San Antonio has also adopted arguments similar to those of Austin regarding the effect of HL&P's settlement with CPL on the arbitration provisions of the Participation Agreement. HL&P opposes San Antonio's intervention on the grounds that San Antonio has already elected to arbitrate its claims against HL&P regarding HL&P's management of the South Texas Project in the arbitration proceeding currently pending among HL&P, San Antonio, Austin and CPL, and to that end, HL&P has asserted its own demand for arbitration of San Antonio's 1993-94 outage claims pursuant to the terms of the Participation Agreement (see Note 8(c) of the Notes to the Company's Consolidated and HL&P's Financial Statements in this Report). The Harris County district court has scheduled a hearing on HL&P's opposition to San Antonio's intervention for September 1994.

HL&P and the Company do not believe there is merit to either Austin's or San Antonio's claims, and they intend to defend vigorously against them. However, there can be no assurance as to the ultimate outcome of these matters.

For more detailed information regarding the outage of the South Texas Project, the previous litigation filed by Austin and the settlement with CSW and CPL referred to above, see Notes 9(b), 9(c) and 9(f) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K. Also, see Note 8(f) of the Notes to the Company's Consolidated and HL&P's Financial Statements in this Report.

(C) ARBITRATION WITH CO-OWNERS. For a discussion of the arbitration requested by San Antonio for its claim under the Participation Agreement, see Note 8(b) of the Notes to the Company's Consolidated and HL&P's Financial Statements in this Report and Note 9(c) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K.

The four arbitrators appointed by the owners to consider San Antonio's claims against HL&P in this arbitration have met and are currently considering the appointment of a fifth arbitrator which they are to select under the terms of the arbitration provisions in the Participation Agreement.

(D) NUCLEAR INSURANCE. HL&P and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverages as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain $500 million in primary property damage insurance from American Nuclear Insurers (ANI). Additionally, the owners of the South Texas Project maintain the maximum amounts of excess property insurance available through the insurance industry, $2.25 billion. This excess property insurance coverage consists of $850 million of excess insurance from ANI and $1.4 billion of excess property insurance coverage through participation in the Nuclear Electric Insurance Limited (NEIL) II program. Under NEIL II, HL&P and the other owners of the South Texas Project are subject to a maximum assessment, in the aggregate, of approximately $15.9 million in any one policy year. The application of the proceeds of such property insurance is subject to the priorities established by the United States

Nuclear Regulatory Commission (NRC) regulations relating to the safety of licensed reactors and decontamination operations.

Pursuant to the Price Anderson Act, the maximum liability to the public for owners of nuclear power plants, such as the South Texas Project, was decreased from $9.3 billion to $9.2 billion effective June 3, 1994. 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 is $75.5 million per reactor subject to indexing for inflation, a possible 5% surcharge (but no more than $10 million per reactor per incident in any one year) and a 3% 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 could have a material adverse effect on HL&P's and the Company's financial condition.

(E) NUCLEAR DECOMMISSIONING. HL&P and the other co-owners of the South Texas Project are required by the NRC to meet minimum decommissioning funding requirements to pay the costs of decommissioning the South Texas Project. Pursuant to the terms of the order of the Public Utility Commission of Texas (Utility Commission) in Docket No. 9850, HL&P is currently funding

decommissioning costs with an independent trustee at an annual amount of $6 million. This funding level was estimated to provide approximately $146 million in 1989 dollars at the time of scheduled decommissioning. In May 1994, an outside consultant estimated HL&P's portion of decommissioning costs to be approximately $318 million in 1994 dollars with a corresponding funding level of $16 million per year. The consultant's calculation of decommissioning costs for financial planning purposes used the DECON methodology (prompt removal/dismantling), one of three alternatives acceptable to the NRC, and assumed deactivation of Unit No. 1 and Unit No. 2 upon expiration of their 40 year operating licenses. HL&P is currently in a rate proceeding, see Note 9(e) of the Notes to the Company's Consolidated and HL&P's Financial Statements in this Report. Until the issuance of an order in the pending rate proceeding, the exact funding level in excess of the minimum NRC requirements cannot be determined. While the current funding levels exceed minimum NRC requirements, no assurance can be given that (i) the amount held in the trust will be adequate to cover the actual decommissioning costs of the South Texas Project or (ii) the assumptions used in estimating decommissioning costs will ultimately prove to be correct.

(F) NRC INSPECTIONS AND OPERATIONS. Both generating units at the South Texas Project were out of service from February 1993 to February 1994, when Unit No. 1 was returned to service. Unit No. 2 was returned to service in May 1994. HL&P removed the units from service in February 1993 when a problem was encountered with certain of the units' auxiliary feedwater pumps. At that time HL&P concluded, and the NRC confirmed, that the units should not resume operation until HL&P had determined the root cause of the failure, had briefed the NRC, and had taken corrective action.

The South Texas Project is currently listed on the NRC's "watch list" of plants with "weaknesses that warrant increased NRC attention." The decision to place the South Texas Project on the "watch list" followed the June 1993 issuance of a report by a Diagnostic Evaluation Team (DET) which conducted a review of the South Texas Project and identified a number of areas requiring improvement at the South Texas Project. Plants in this category are authorized to operate but are subject to close monitoring by the NRC. The NRC reviews the status of plants on the list semi-annually with the last review conducted in June 1994 and the next review planned in January 1995.

Other proceedings concerning the South Texas Project also remain pending. As previously reported, certain former employees and an employee of a contractor have asserted claims that their employment was terminated or disrupted in retaliation for their having made safety related complaints to the NRC. In 1993, it was reported that the NRC had referred these claims to the Department of Justice. HL&P understands that these matters are no longer under consideration by the Department of Justice. However, civil proceedings by the complaining personnel and administrative proceedings by the Department of Labor remain pending against HL&P, and the NRC could take enforcement action against HL&P and/or individual employees with respect to these matters. Also, a subcommittee of the U.S. House of Representatives (Subcommittee) has notified HL&P that it is conducting an inquiry related to the South Texas Project, and HL&P has begun to provide documents and other assistance to that Subcommittee's Staff in connection with that inquiry. Although the precise focus and timing of the inquiry has not been identified by the Subcommittee, it is anticipated that the Subcommittee will inquire into matters related to HL&P's handling of "whistleblower" complaints and to issues related to the NRC's DET review of the South Texas Project. In connection with that inquiry, HL&P has been advised that the U. S. General Accounting Office (GAO) has begun a review of the NRC's inspection process as it relates to the South Texas Project and other plants, and HL&P is cooperating with the GAO in its investigation and with the NRC in a similar review it has initiated.

For additional information regarding the foregoing matters, including the DET's report on weaknesses at the South Texas Project, increases in fuel and non-fuel expenditures relating to the outage, the possible impact of the outage on the results of HL&P's pending rate proceeding under Section 42 of the Texas Public Utility Regulatory Act of 1975, as amended (PURA), involving the Company's rates, and various civil and administrative proceedings relating to the South Texas Project, see Notes 9(f) and 10(g) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K. Also, see Notes 9(e) and 9(f) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in this Report.

(G) LOW-LEVEL RADIOACTIVE WASTE. In response to the federal Low-Level Radioactive Waste Policy Act of 1980 which assigns responsibility for low-level waste disposal to the states, Texas has created the Texas Low-Level Radioactive Waste Disposal Authority (Waste Disposal Authority) to build and operate a low-level waste disposal facility. HL&P's portion of the State of Texas assessment for the development work on this facility

was approximately $0.7 million in 1994 and will be approximately $1.3 million for 1995. Nuclear facilities in Texas formerly had access to the low-level waste disposal facility at Barnwell, South Carolina which was closed in June 1994 to generators

of radioactive waste located in states which are not members of the Southeast compact.

HL&P has constructed a temporary low-level radioactive waste storage facility at the South Texas Project which will be utilized for interim storage of low-level radioactive waste prior to the opening of the Texas Low-Level Radioactive Waste Site. The Waste Disposal Authority currently estimates that the Texas site could begin receiving waste in mid-1997.

(9) UTILITY COMMISSION PROCEEDINGS

Pursuant to a series of applications filed by HL&P in recent years, the Utility Commission has granted HL&P rate increases to reflect in electric rates HL&P's substantial investment in new plant construction, including the South Texas Project. Although Utility Commission action on those applications has been completed, judicial review of a number of the Utility Commission orders is pending. 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. The pending appeals from the Utility Commission orders are in various stages. In the event the courts ultimately reverse actions of the Utility Commission in any of these proceedings, such matters would be remanded to the Utility Commission for action in light of the courts' orders. Because of the number of variables which can affect the ultimate resolution of such matters on remand, the Company and HL&P generally are not in a position at this time to predict the outcome of the matters on appeal or the ultimate effect that adverse action by the courts could have on the Company and HL&P. On remand, the Utility Commission's action could range from granting rate relief substantially equal to the rates previously approved to a reduction in 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.

Judicial review is pending on the final orders of the Utility Commission in (a) through (d) described below.

(A) DOCKET NO. 8425. For information concerning HL&P's application for a rate increase in Docket No. 8425 (1988 rate case) and the status of appeals relating thereto, see Note 10(b) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K. For information on the decision of the Supreme Court of Texas regarding deferred accounting with respect to Docket Nos. 8230 and 9010, see Note 9(d) of the Notes to the Company's Consolidated and HL&P's Financial Statements in this Report.

(B) DOCKET NO. 9850. For a discussion of HL&P's 1991 rate case (Docket No. 9850), the settlement agreement approved by the Utility Commission, and the status of appeals relating thereto, see Note 10(c) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K.

In August 1992, a district court in Travis County affirmed the Utility Commission's final order in HL&P's 1991 rate case (Docket No. 9850). That decision was appealed by certain parties to the Austin Court of Appeals, raising issues concerning the Utility Commission's approval

of a non-unanimous settlement in that docket, the Utility Commission's calculation of federal income tax expense and the allowance of deferred accounting reflected in the settlement. In August 1993, the Austin Court of Appeals affirmed the ruling by the Travis County District Court on the procedural ground that the appellant had not timely filed a statement of facts.

On review of that decision in June 1994, the Supreme Court of Texas reversed the decision of the Austin Court of Appeals insofar as it refused to consider all assertions of error by the appellant. The Supreme Court held that, even in the absence of a timely filed statement of facts, the Court of Appeals could take judicial notice of the Utility Commission's published order and consider errors of law that may be evident from the face of the order, and do not require reference to the administrative record. Accordingly, it remanded the case for limited reconsideration by the Court of Appeals. For a discussion of certain other judicial decisions which may affect the Utility Commission's calculation of federal income tax expense in Docket No. 9850, see Note 10(b) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K.

(C) DOCKET NO. 6668. For a discussion of Docket No. 6668, the Utility

Commission's inquiry into the prudence of the planning, management and construction of the South Texas Project, see Note 10(d) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K.

Separate appeals are pending from Utility Commission orders in Docket Nos. 8425 and 9850 in which the findings of the order in Docket No. 6668 are reflected in rates. See also Notes 9(a) and 9(b) above.

(D) DOCKET NOS. 8230 AND 9010. For a description of the Utility Commission's authorization of deferred accounting for the South Texas Project (Docket Nos. 8230 and 9010) and appeals thereof, see Note 10(e) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K.

In June 1994, the Supreme Court of Texas decided the appeal of Docket Nos. 8230 and 9010, as well as all other pending deferred accounting cases, upholding deferred accounting treatment for both carrying costs and operation and maintenance expenses as within the Utility Commission's statutory authority and reversed the Austin Court of Appeals decision to the extent that the Austin Court of Appeals had rejected deferred accounting treatment for carrying charges. Because the lower appellate court had upheld deferred accounting only as to operating and maintenance expenses, the Supreme Court remanded Docket Nos. 8230 and 9010 to the Austin Court of Appeals to consider the points of error challenging the grant of deferred accounting for carrying costs which it had not reached in its earlier consideration of the case. The Supreme Court opinion did state, however, that when deferred costs are considered for addition to the utility's rate base in an ensuing rate case, the Utility Commission must then determine to what extent inclusion of the deferred costs is necessary to preserve the utility's financial integrity.

A motion for rehearing of the Supreme Court of Texas's decision has been filed. The decision will not be final until this motion is decided.

(E) DOCKET NO. 12065. In February 1994, an administrative law judge (ALJ) of the Utility Commission ruled that a proceeding should be conducted pursuant to Section 42 of PURA in order to inquire into HL&P's existing rates. That order subsequently was affirmed by the Utility Commission, and in July 1994, HL&P filed data in support of its existing rates, as required by the ALJ. In that material, HL&P asserts that its existing rates continue to be just and reasonable and should not be reduced by the Utility Commission. HL&P further asserts that it would be able to demonstrate an entitlement of an increase in rates if it were to file for a rate increase. No such increase is currently being sought. In addition, HL&P will file a request in connection with Docket No. 12065 for reconciliation of fuel related expenses incurred during the period from April 1, 1990 through July 31, 1994, a period which includes the 1993-94 outages at the South Texas Project units. Also in connection with Docket No. 12065, the Utility Commission has determined to conduct an inquiry (Docket No. 13126) into the prudence of HL&P's operation of the South Texas Project, the results of which will be considered in determining whether additional fuel expense incurred during the 1993-94 outage at the South Texas Project should be deemed by the Utility Commission to be unreasonable and whether there has been mismanagement of the South Texas Project by HL&P which should be taken into account in considering the appropriate rate of return in the Section 42 proceeding. In July 1994, the Utility Commission approved the hiring of a consultant to conduct a review of HL&P's prudence in the management of the South Texas Project in order to assist the Utility Commission Staff in preparing testimony for the prudence inquiry. Hearings regarding the matters to be considered in connection with Docket No. 12065 are expected to begin in late November 1994. No final decision by the Utility Commission on these matters is expected before the summer of 1995. Although HL&P and the Company believe that the Section 42 inquiry into HL&P's rates is unwarranted and that the South Texas Project has not been imprudently managed, there can be no assurance as to the outcome of this proceeding, and HL&P's rates could be reduced following a hearing. HL&P believes that any reduction in base rates as a result of a Section 42 inquiry would take effect prospectively.

For additional information regarding Docket No. 12065, see Note 10(f) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K.

(F) FUEL RECONCILIATION. At June 30, 1994, HL&P had recovered through the fuel factor included in its rates approximately $89 million (including interest) less than the amounts expended for fuel, a significant portion of which under recovery occurred in 1993 during the outage of the South Texas Project. Although over or under recoveries do not affect earnings until reconciled in a proceeding before the Utility Commission, any amounts disallowed as unreasonably incurred would not be recoverable from customers and charged against earnings. As discussed above, in August 1994, a fuel

reconciliation will be filed in Docket No. 12065. For additional information regarding HL&P's recovery of fuel costs incurred in electric generation (including possible assertions in Docket No. 12065 that a portion of such costs should be disallowed as unreasonable), see Note 10(g) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K. Also, see Note 9(e) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in this Report.

(10) DEFERRED PLANT COSTS

The Utility Commission authorized deferred accounting with respect to the South Texas Project (Docket Nos. 8230 and 9010 for Unit No. 1 and Docket No. 8425 for Unit No. 2).

In May 1991, HL&P implemented under bond, in Docket No. 9850, a $313 million base rate increase. At that time, HL&P ceased all cost deferrals related to the South Texas Project and began the recovery of such amounts. These deferrals are being amortized on a straight-line basis as allowed by the final order in Docket No. 9850. The amortization of these deferrals totaled $6.4 million and $12.9 million for the three months and six months ended June 30, 1994, respectively, and is recorded on the Company's Statements of Consolidated Income and HL&P's Statements of Income in depreciation and amortization expense.

The following table shows the original balance of the deferrals and the unamortized balance at June 30, 1994.

	Original Balance	Balance at June 30, 1994
	(Thousands of Dollars)	
Deferred Accounting: (a)		
Deferred Expenses	$250,151	$230,139
Deferred Carrying Costs on Plant Investment	399,972	367,975
Total	650,123	598,114
Qualified Phase-In Plan: (b)	82,254	53,694
Total Deferred Plant Costs	$732,377	$651,808

(a) Amortized over the estimated depreciable life of the South Texas Project.

(b) Amortized over nine years beginning in May 1991.

As of June 30, 1994, HL&P has recorded deferred income taxes of $198.2 million with respect to deferred accounting and $13.4 million with respect to the deferrals associated with the qualified phase-in plan.

The accounting for deferred plant costs is described in greater detail in Note 9(d) of the Notes to the Company's Consolidated and HL&P's Financial Statements in this Report and Note 11 of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K.

(11) MALAKOFF ELECTRIC GENERATING STATION

As previously disclosed, HL&P ceased all development work on the Malakoff Electric Generating Station (Malakoff) in 1987. HL&P is no longer considering construction of the power generating units due to the availability of other cost effective options. Previously, the Utility Commission has addressed portions of HL&P's investment in Malakoff and has accorded various rate treatments for those costs,

including amortization of portions of those costs. For a further discussion of the accounting treatment of costs related to Malakoff and the Utility Commission's previous treatment of those costs, see Note 12 of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K, which note is incorporated herein by reference.

In its recent filing in Docket No. 12065 described in Note 9(e) of the Notes to the Company's Consolidated and HL&P's Financial Statements in this Report, HL&P provided for amortization of its entire remaining investment in Malakoff, including $78.2 million attributable to the portion of the engineering design costs for which amortization had not previously been authorized and $147.6 million attributable to related lignite reserves which had not previously been addressed by the Utility Commission. If appropriate rate treatment of these amounts is not ultimately received, HL&P could be required to write off any unrecoverable portions of its Malakoff investment.

(12) SUBSEQUENT EVENTS

COMPANY. In July 1994, KBLCOM acquired the stock of three cable companies serving approximately 48,000 customers in the Minneapolis area in exchange for 587,646 shares of common stock of the Company. The total purchase price of approximately $80 million included the assumption of approximately $60 million in liabilities.

HL&P. In July 1994, HL&P contributed as equity its rights to receive certain railroad settlement payments to HL&P Receivables, Inc. (HLPR), a wholly-owned subsidiary of HL&P. HLPR transferred the receivables to a trust. A bank purchased certificates evidencing a senior interest in the trust and HLPR holds a certificate evidencing a subordinate interest in the trust. HL&P received as a dividend on its equity investment in HLPR approximately $66.1 million, an amount equal to HLPR's proceeds from the sale. Consistent with the manner in which HL&P recorded receipts of the settlement payments, HL&P has recorded the transaction as a $66.1 million reduction to reconcilable fuel expense in July 1994.

(13) INTERIM PERIOD RESULTS: RECLASSIFICATIONS

The results of interim periods are not necessarily indicative of results expected for the year due to the seasonal nature of HL&P's business. In the opinion of management, the interim information reflects all adjustments (consisting only of normal recurring adjustments) necessary for a full presentation of the results for the interim periods. Certain amounts from the previous year have been reclassified to conform to the 1994 presentation of consolidated financial statements. Such reclassifications do not affect earnings.

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

RESULTS OF OPERATIONS

COMPANY. Selected financial data for Houston Industries Incorporated (Company) is set forth below:

	Three Months Ended June 30,		
	1994	1993	Percent Change
	(Thousands of Dollars)		
Revenues	$1,066,660	$1,067,753	--
Operating Expenses	765,863	820,067	(7)
Operating Income	300,797	247,686	21
Other Income	11,950	11,775	1
Interest and Other Charges	100,654	108,671	(7)
Income Taxes	78,265	50,581	55
Net Income	133,828	100,209	34

	Six Months Ended June 30,		
	1994	1993	Percent Change
	(Thousands of Dollars)		
Revenues	$1,948,761	$1,933,712	1
Operating Expenses	1,497,291	1,558,045	(4)
Operating Income	451,470	375,667	20
Other Income	21,265	29,577	(28)
Interest and Other Charges	199,978	217,937	(8)
Income Taxes	100,554	60,043	67
Net Income	164,003	127,264	29

The Company had consolidated earnings per share of $1.02 for the second quarter of 1994, compared to consolidated earnings per share of $.77 for the second quarter of 1993. Consolidated earnings per share for the six months ended June 30, 1994 was $1.25, compared to $.98 per share for the same period in 1993.

Electric Utility Operations:

HL&P. GENERAL. Selected financial data for Houston Lighting & Power Company (HL&P) is set forth below:

	Three Months Ended June 30,		
	1994	1993	Percent Change
	(Thousands of Dollars)		
Revenues	$1,004,906	$1,005,149	--
Operating Expenses	788,064	816,083	(3)
Operating Income	216,842	189,066	15
Interest Charges	63,281	74,049	(15)
Income After Preferred Dividends	142,478	105,765	35

	Six Months Ended June 30,		
	1994	1993	Percent Change
	(Thousands of Dollars)		
Revenues	$1,826,487	$1,810,834	1
Operating Expenses	1,486,766	1,508,608	(1)
Operating Income	339,721	302,226	12
Interest Charges	126,331	147,565	(14)
Income After Preferred Dividends	184,164	137,339	34

The increase in HL&P's earnings for the second quarter and first six months of 1994 resulted primarily from increased energy sales due primarily to improved economic activities in the service area and unusually mild weather in 1993, and reduced interest expense resulting from refinancing activities.

OPERATING REVENUES AND SALES. Electric operating revenues were relatively unchanged for the second quarter, while they increased $15.7 million for the first six months of 1994, compared to the same periods in 1993. The increase in the first six months of 1994 was primarily due to increased residential and commercial kilowatt-hour (KWH) sales. Residential KWH sales for the second quarter and first six months of 1994 increased 11% and 8%, respectively, compared to the same periods in 1993, while commercial KWH sales increased 8% and 6%, respectively, for the same periods. Base revenues for the second quarter and first six months of 1994 increased $51.3 million and $80.2 million, respectively, compared to the same periods in 1993. These increases were due mainly to the unusually mild weather experienced in the first six months of 1993, and a 1.7% increase in the number of customers for the second quarter and first six months of 1994 compared to 1993.

FUEL AND PURCHASED POWER EXPENSES. Fuel expenses decreased $27.1 million and $8.5 million for the second quarter and first six months of 1994, respectively, compared to the same periods of the previous year. These decreases were primarily due to decreases in the unit cost of gas and the resumption of the use of nuclear fuel coinciding with the start up of Unit Nos. 1 and 2 of the South Texas Project Electric Generating Station

(South Texas Project). For additional information regarding the South Texas Project, see Notes 8(f), 9(e) and 9(f) of the Notes to the Company's Consolidated and HL&P's Financial Statements in Item 1 of this Report. Purchased power expense decreased $25.3 million for the second quarter and $56.5 million for the first six months of 1994 due to the expiration of a purchase power contract. The average cost of fuel for the second quarter and first six months of 1994 was $1.63 per million British Thermal Units (MMBtu) and $1.71 per MMBtu, respectively, compared to $1.93 per MMBtu and $1.86 per MMBtu for the same periods in 1993. The combined costs of fuel used by HL&P and the fuel portion of purchased power was 1.76 cents per KWH for the second quarter and 1.83 cents per KWH for the first six months of 1994. These costs decreased from 2.06 cents per KWH and 2.00 cents per KWH for the comparable periods in 1993.

OPERATION AND MAINTENANCE, DEPRECIATION AND AMORTIZATION, AND INTEREST EXPENSES. Electric operation and maintenance expense for the second quarter and first six months of 1994 decreased $8.8 million and $10.2 million, respectively, compared to the same periods in 1993. Depreciation and amortization expense for the second quarter and first six months of 1994 increased $3.5 million and $6.2 million, respectively, compared to the same periods in 1993, primarily due to an increase in depreciable property and the amortization, beginning in January 1994, of Demand Side Management expenditures. Interest expense for the second quarter and first six months of 1994 decreased $11.8 million and $21.3 million, respectively, compared to the same periods in 1993, primarily due to refinancing activities.

RATE PROCEEDINGS. In February 1994, an administrative law judge (ALJ) of the Public Utility Commission of Texas (Utility Commission) ruled that a proceeding should be conducted pursuant to Section 42 of the Texas Public Utility Regulatory Act of 1975, as amended (PURA), in order to inquire into HL&P's existing rates. That order subsequently was affirmed by

the Utility Commission, and in July 1994, HL&P filed data in support of its existing rates, as required by the ALJ. In that material, HL&P asserts that its existing rates continue to be just and reasonable and should not be reduced by the Utility Commission. HL&P further asserts that it would be able to demonstrate an entitlement of an increase in rates if it were to file for a rate increase. No such increase is currently being sought. In addition, HL&P will file a request in connection with Docket No. 12065 for reconciliation of fuel related expenses incurred during the period from April 1, 1990 through July 31, 1994, a period which includes the 1993-94 outages at the South Texas Project units (see Note 9(f) of the Notes to the Company's Consolidated and HL&P's Financial Statements in Item I of this Report). Also in connection with Docket No. 12065, the Utility Commission has determined to conduct an inquiry into the prudence of HL&P's operation of the South Texas Project, the results of which will be considered in determining whether additional fuel expense incurred during the 1993-94 outage at the South Texas Project should be deemed by the Utility Commission to be unreasonable and whether there has been mismanagement of the South Texas Project by HL&P which should be taken into account in considering the appropriate rate of return in the Section 42 proceeding. In July 1994, the Utility Commission approved the hiring of a consultant to conduct a review of HL&P's prudence in the management of the South Texas Project in order to assist the Utility Commission Staff in preparing testimony for the prudence inquiry. Hearings regarding the matters to be considered in connection with Docket No. 12065 are expected to begin in late November 1994. No final decision by the Utility Commission on these matters is expected before the summer of 1995. Although HL&P and the Company believe that the Section 42 inquiry into HL&P's rates is unwarranted and that the South Texas Project has not been imprudently managed, there can be no assurance as to the outcome of this proceeding,

and HL&P's rates could be reduced following a hearing. HL&P believes that any reduction in base rates as a result of a Section 42 inquiry would take effect prospectively.

UNITED STATES NUCLEAR REGULATORY COMMISSION (NRC) DIAGNOSTIC EVALUATION OF THE SOUTH TEXAS PROJECT. In June 1993, the NRC announced that the South Texas Project had been placed on its "watch list" of plants with "weaknesses that warrant increased NRC attention." For a discussion of the NRC diagnostic evaluation of the South Texas Project and related matters, see Note 8(f) of the Notes to the Company's Consolidated and HL&P's Financial Statements in Item 1 of this Report and Note 9(f) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7629), filed in combined form with the HL&P Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-3187) (collectively, the 1993 Combined Form 10-K).

Cable Television Operations:

KBLCOM. KBLCOM Incorporated (KBLCOM), the Company's cable television subsidiary, experienced a loss, before long-term financing cost with parent, of $2.9 million in the second quarter of 1994 compared to a loss of $.1 million for the same period in 1993. For the six months ended June 30, 1994, KBLCOM experienced a loss of $6.1 million compared to $4.2 million for the same period in the prior year.

KBLCOM's results of operations for the second quarter and first six months of 1994 declined due to lower revenues resulting from lower rates for basic service mandated by the Cable Television Consumer Protection and Competition Act of 1992 (1992 Cable Act). KBLCOM's results of operations also declined due to higher operating expenses and higher depreciation and amortization costs.

REVENUES AND EXPENSES. Revenues for the second quarter and first six months of 1994 decreased 1.4% and .5%, respectively, compared to the same periods in 1993. Operating expenses for the second quarter and first six months of 1994 increased 5.3% and 5.9%, respectively, compared to the same periods in 1993. Operating margins (revenue less operating expenses exclusive of depreciation and amortization) decreased from 41% to 37% for the second quarter of 1993 and 1994, respectively, and from 40% to 36% for the six months ended June 30, 1993 and 1994, respectively. Depreciation and amortization expense for the quarter and six months ended June 30, 1994 increased $1.1 million or 5.5% and $2.1 million or 5.4%, respectively, compared to the same periods in 1993. KBLCOM's equity interest in the pre-tax earnings of its jointly-owned cable television partnership, Paragon Communications, for the second quarter of 1994 was $7.7 million, a decrease of $.5 million or 6.4%, while earnings for the six months ended June 30, 1994 were $15.6 million, an increase of $.4 million or 2.8% when compared to the same periods of the previous year.

Basic service revenues for the second quarter and six months ended June 30, 1994 decreased $3 million or 7% and $4.9 million or 5.8%, respectively, compared to the same periods of the previous year due to the regulation (commencing in the third quarter of 1993) of basic service rates under the 1992 Cable Act. This decrease was partially offset by the addition of approximately 33,000 customers from the second quarter of 1993. At June 30, 1994 and 1993, KBLCOM operated systems serving approximately 621,000 and 588,000 basic subscribers, respectively.

Premium service revenues for the quarter and six months ended June 30, 1994 increased $.6 million or 6.3% and $1 million or 5%, respectively, compared to the same periods in the previous year due primarily to increased sales of premium products.

Pay-per-view revenues for the quarter and six months ended June 30, 1994 decreased $.3 million or 10% and $.3 million or 4%, respectively,

compared to the same periods of the previous year.

Ancillary revenues including advertising and installation fees for the quarter and six months ended June 30, 1994 increased $1.8 million or 25% and $3.6 million or 26%, respectively, compared to the same periods of the previous year.

1992 CABLE ACT. In October 1992, the 1992 Cable Act became law. The 1992 Cable Act significantly revised various provisions of the Cable Communications Policy Act of 1984. For a further discussion regarding the 1992 Cable Act, see "Business-Business of KBLCOM Regulation" in Item 1 of the 1993 Combined Form 10-K and Item 5 of Part II of the Combined Form 10-Q filed for the quarter ended March 31, 1994.

In February 1994, the Federal Communications Commission (FCC) announced further changes in the rate regulations and announced its interim cost-of-service standards. In March 1994, the FCC issued its revised benchmark rules (Rate Rule II) as well as its interim cost-of-service rule (Interim COS Rule). Each of these rules became effective on May 15, 1994. Rate Rule II revises the "benchmark formulas" established by the FCC in May 1993. Under Rate Rule II (which will be applied prospectively), cable operators must reduce their existing rates to the higher of (i) the rates calculated using the revised benchmark formulas (Revised Benchmarks) or (ii) a level 17% below such cable operators' rates as of September 30, 1992, adjusted for inflation. The FCC believes that the application of the Revised Benchmarks will result in a reduction of cable system rates to approximately 17% below September 1992 rate levels. Cable operators which cannot or do not wish to comply with the Revised Benchmarks may choose to justify their existing rates under the Interim COS Rule. The Interim COS Rule establishes a cost-of-service rate system similar to that used in the telephone industry.

Rate Rule II and the Interim COS Rule are lengthy and complex. KBLCOM expects that it will incur increased administrative burdens under these new rules, as well as additional reductions in KBLCOM's rates for regulated services. The extent of the anticipated decline in revenues cannot be determined at this time, but will have an adverse impact on KBLCOM's financial position and results of operations.

LIQUIDITY AND CAPITAL RESOURCES

The Company:

GENERAL. The Company's cash requirements stem primarily from operating expenses, capital expenditures, payment of common stock dividends, payment of preferred stock dividends and interest and principal payments on debt. Net cash provided by operating activities totaled $424.1 million for the six months ended June 30, 1994.

Net cash used in investing activities for the six months ended June 30, 1994, totaled $257.1 million, primarily due to electric capital expenditures of $191.6 million, cable television additions of $32.7 million and other construction expenditures of $12.3 million.

Financing activities for the six months of 1994 resulted in a net cash outflow of $173.8 million. The Company's primary financing activities reflect the incurrence of additional short-term borrowings offset by the redemption of preferred stock, the payment of dividends and the repayment of matured long-term debt. For further information with respect to these matters, reference is made to Notes 3 and 5 of the Notes to the Company's Consolidated and HL&P's Financial Statements in Item 1 of this Report.

SOURCES OF CAPITAL RESOURCES AND LIQUIDITY. The Company has registered with the Securities and Exchange Commission (SEC) $250 million of debt securities which remain unissued. Proceeds from any sales of these securities are expected to be used for general corporate purposes including investments in and loans to subsidiaries.

The Company also has registered with the SEC five million shares of its common stock. Proceeds from the sale of these securities will 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's outstanding commercial paper at June 30, 1994 was approximately $536.3 million, which is supported by a $600 million bank credit facility.

RATIOS OF EARNINGS TO FIXED CHARGES. The Company's ratios of earnings to fixed charges for the six and twelve months ended June 30, 1994 were 2.28 and 2.69, respectively. The Company believes that the ratio for the six-month period is not necessarily indicative of the ratio for a twelve-month period due to the seasonal nature of HL&P's business.

Electric Utility:

HL&P. GENERAL. HL&P's cash requirements stem primarily from operating expenses, capital expenditures, payment of dividends and interest and principal payments on debt. HL&P's net cash provided by operating activities for the first six months of 1994 totaled $463.0 million.

In January 1994, HL&P repaid at maturity $19.5 million principal amount of Series A collateralized medium-term notes.

In June 1994, HL&P redeemed, at $100 per share, 200,000 shares of its $8.50 cumulative preferred stock in satisfaction of mandatory sinking fund requirements.

In July 1994, HL&P contributed as equity its rights to receive certain railroad settlement payments to HL&P Receivables, Inc., a wholly-owned subsidiary of HL&P. For a further discussion, see Note 12 of the Notes to the Company's Consolidated and HL&P's Financial Statements in Item 1 of this Report.

Net cash used in HL&P's investing activities for the first six months of 1994 totaled $198.0 million. HL&P's construction and nuclear fuel expenditures (excluding Allowance for Funds Used During Construction) for the first six months of 1994 totaled $189.8 million out of the $478 million annual budget. HL&P expects to finance substantially all of its 1994 capital expenditures through funds generated internally from operations.

HL&P's financing activities for the first six months of 1994 resulted in a net cash outflow of approximately $277.0 million. Included in these activities were the payment of dividends, repayment of short-term borrowings, the redemption of preferred stock, and the repayment of matured long-term debt. For further information with respect to these matters, reference is made to Notes 3 and 5 of the Notes to the Company's Consolidated and HL&P's Financial Statements in Item 1 of this Report.

SOURCES OF CAPITAL RESOURCES AND LIQUIDITY. HL&P has registered with the SEC $230 million aggregate liquidation value of preferred stock and $580 million aggregate principal amount of debt securities that may be issued as first mortgage bonds and/or as debt securities collateralized by first mortgage bonds. Proceeds from the sales 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.

HL&P's outstanding commercial paper at June 30, 1994 was approximately $113.5 million, which is supported by a $400 million bank credit facility.

RATIOS OF EARNINGS TO FIXED CHARGES. HL&P's ratios of earnings to fixed charges for the six and twelve months ended June 30, 1994, were 3.37 and 3.94, respectively. HL&P's ratios of earnings to fixed charges and preferred dividends for the six and twelve months ended June 30, 1994, were 2.83 and 3.33, respectively. HL&P believes that the ratios for the six-month period are not necessarily indicative of the ratios for a twelve-month period due to the seasonal nature of HL&P's business.

Cable Television:

KBLCOM. GENERAL. KBLCOM's cash requirements stem primarily from operating expenses, capital expenditures, and interest and principal payments on debt. KBLCOM's net cash provided by operating activities was $24.1 million for the six months ended June 30, 1994.

Net cash used in KBLCOM's investing activities for the six months ended June 30, 1994 totaled $36.7 million, primarily due to cable television additions of $32.7 million. These amounts were financed principally through internally generated funds and intercompany borrowings.

KBLCOM's financing activities for the six months ended June 30, 1994 resulted in a net cash inflow of $12.6 million. Included in these activities were the reduction of third party debt, and an increase in borrowings from the Company.

The Company has engaged an investment banking firm to assist in finding a strategic partner or investor for KBLCOM in the telecommunications industry.

In July 1994, KBLCOM acquired the stock of three cable companies serving approximately 48,000 customers in the Minneapolis area in exchange for 587,646 shares of common stock of the Company. The total purchase price of approximately $80 million included the assumption of approximately $60 million in liabilities.

SOURCES OF CAPITAL RESOURCES AND LIQUIDITY. In March 1994, KBL Cable, Inc. (KBL Cable) reduced its outstanding indebtedness by $10.4 million through scheduled principal payments. Additional borrowings under KBL Cable's bank facilities are subject to certain covenants which relate primarily to the maintenance of certain financial ratios, principally debt to cash flow and interest coverages. KBL Cable presently is in compliance with such covenants. KBLCOM's cash requirements for the remainder of 1994 are expected to be met primarily through intercompany borrowings.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For a description of legal proceedings affecting the Company and its subsidiaries, including HL&P, reference is made to the information set forth in Item 1 of Part II of the Combined Form 10-Q for the quarter ended March 31, 1994, and Item 3 of the 1993 Combined Form 10-K and Notes 9, 10 and 11

to the Company's Consolidated and HL&P's Financial Statements in Item 8 of the 1993 Combined Form 10-K, as updated by the description of developments in regulatory and litigation matters contained in Notes 8, 9 and 10 of the Notes to the Company's Consolidated and HL&P's Financial Statements included in Part I of this Form 10- Q, all of which are incorporated herein by reference.

In April 1994, the state district judge of the 268th Judicial District Court, Fort Bend County, Texas, dismissed for lack of subject matter jurisdiction a suit (PACE AND SCOTT v. HL&P) in which it was alleged that HL&P was charging illegal rates. The claim was based on the argument that the Utility Commission had failed to allocate to ratepayers the alleged tax benefits accruing to the Company and HL&P by virtue of the fact that HL&P's federal income taxes are paid as part of a consolidated group. The time within which an appeal of the District Court's dismissal could be perfected has now expired. However, one of the two plaintiffs filed a second lawsuit (PACE, INDIVIDUALLY AND AS A REPRESENTATIVE FOR ALL OTHERS SIMILARLY SITUATED v. HL&P) alleging substantially the same causes of action in the 56th Judicial District Court of Galveston County, Texas in June 1994. Management believes that the suit is without merit.

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

THE COMPANY

At the annual meeting of shareholders of the Company on May 4, 1994, the matters voted upon and the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes as to each such matter (including a separate tabulation with respect to each nominee for office) were as follows:

Item 1. To elect five directors to hold office in accordance with the Amended and Restated Bylaws of the Company.

CLASS I DIRECTORS - TERM EXPIRING 1997:

	FOR	AGAINST OR WITHHELD	BROKER NON-VOTE
Robert J. Cruikshank	112,719,184	1,733,472	0
Linnet F. Deily	112,732,302	1,720,354	0
Alexander F. Schilt	112,637,735	1,814,921	0
Jack T. Trotter	110,305,129	4,147,527	0

CLASS II DIRECTOR - TERM EXPIRING 1995:

	FOR	AGAINST OR WITHHELD	BROKER NON-VOTE
Bertram Wolfe	110,794,934	3,657,722	0

Item 2. To ratify the appointment of Deloitte & Touche as independent auditors for the Company for 1994.

FOR	AGAINST	ABSTAIN	BROKER NON-VOTE
112,492,116	1,223,252	737,288	0

HL&P

The annual shareholder meeting of HL&P was held on May 4, 1994. Houston Industries Incorporated, the owner and holder of all of the outstanding Class A voting common stock of HL&P, by the duly authorized vote of its Chairman and Chief Executive Officer Don D. Jordan, elected the following Board of Directors for the ensuing year or until their successors shall have qualified:

Milton Carroll, John T. Cater, Robert J. Cruikshank, Linnet F. Deily, Joseph M. Hendrie, Howard W. Horne, Don D. Jordan, Alexander F. Schilt, Kenneth L. Schnitzer, Sr., Don D. Sykora, Jack T. Trotter and Bertram Wolfe.

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

(a) Exhibits.

HOUSTON INDUSTRIES INCORPORATED:

Exhibit 10(a) - Agreement dated June 6, 1994 between the Company and Don D. Jordan.

Exhibit 10(b) - Agreement dated June 6, 1994 between the Company and Don D. Sykora.

Exhibit 11 - Computation of Earnings per Common Share and Common Equivalent Share.

Exhibit 12 - Computation of Ratios of Earnings to Fixed Charges.

Exhibit 99(a) - Notes 8(a), 9, 10, 11 and 12 of the Notes to the Consolidated Financial Statements included on pages 83 through 97 of the Company's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7629).

Exhibit 99(b) - Part I, Item 3 - Legal Proceedings included on pages 37 and 38 of the Company's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1- 7629).

Exhibit 99(c) - Part II, Item 1 - Legal Proceedings included on pages 31 and 32 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994 (File No. 1-7629).

HOUSTON LIGHTING & POWER COMPANY:

Exhibit 12 - Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Fixed Charges and Preferred Dividends.

Exhibit 99(a) - Notes 8(a), 9, 10, 11 and 12 of the Notes to the Financial Statements included on page 104 of HL&P's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-3187) (incorporated by reference to Exhibit 99(a) to the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 1994 (File No. 1-7629).

Exhibit 99(b) - Part I, Item 3 - Legal Proceedings included on pages 37 and 38 of HL&P's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1- 3187) (incorporated by reference to Exhibit 99(b) to the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 1994 (File No. 1-7629).

Exhibit 99(c) - Part II, Item 1 - Legal Proceedings included on pages 31 and 32 of HL&P's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994 (File No. 1- 3187) (incorporated by reference to Exhibit 99(c) to the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 1994 (File No. 1-7629).

(b) Reports on Form 8-K.

None.

SIGNATURE

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

HOUSTON INDUSTRIES INCORPORATED
(Registrant)

/s/ MARY P. RICCIARDELLO
Mary P. Ricciardello
Comptroller and
Principal Accounting Officer

Date: August 12, 1994

SIGNATURE

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

HOUSTON LIGHTING & POWER COMPANY
(Registrant)

/s/ KEN W. NABORS
Ken W. Nabors
Vice President and Comptroller
and Principal Accounting Officer

Date: August 12, 1994

EXHIBIT 10(a)

AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT ("Agreement" herein) by and between HOUSTON INDUSTRIES INCORPORATED, a Texas corporation (said corporation, together with its successors and assigns permitted under this Agreement, hereinafter referred to as the "Company"), and DON D. JORDAN (the "Executive"), dated this 6th day of June, 1994.

W I T N E S S E T H:

WHEREAS, on May 12, 1994, the Company and Executive entered into an Employment Agreement (the "Prior Agreement") under which Executive would receive certain employment rights and benefits upon a "Change of Control" (as defined therein); and

WHEREAS, the parties to said Prior Agreement desire to completely amend and restate said Prior Agreement so that the Company shall have the option to benefit from the continued services of Executive beyond his attainment of age 65 and Executive has consented to make himself available to be so employed; and

WHEREAS, Section 15(A) of the Prior Agreement authorizes the amendment of said Agreement with the mutual consent of the parties and the parties desire to so amend and restate the Prior Agreement;

NOW, THEREFORE, in consideration and mutual covenants and agreements herein contained, the parties hereto agree that the Prior Agreement shall be amended and restated in its entirety to read as follows (the Prior Agreement as so amended and restated being hereinafter called "this Agreement"):

PART A

CHANGE OF CONTROL PERIOD

The Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its shareholders to assure that the Company will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined below) of the Company. The Board believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the Executive's full attention and dedication to the Company in the event of any threatened or pending Change of Control, and to provide the Executive with compensation and benefits arrangements upon a Change of Control which ensure that the compensation and benefits expectations of the Executive will be satisfied and which are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. CERTAIN DEFINITIONS:

A. "AFFILIATED COMPANIES" shall mean and include any company controlled by, controlling or under common control with the Company within the meaning of Section 414(o) of the Code.

B. "ANNUAL BASE SALARY" shall mean the salary of the Executive provided for in Section 4(B)(i) below, as adjusted and in effect from time to time.

C. "BENEFICIARY" shall mean the person or persons named in writing and filed with the Company to receive any compensation or benefit payable hereunder following Executive's death, or in the event no such person is named or survives the Executive, his estate. In the event of the Executive's death or a judicial determination of his incompetence, reference in this Agreement to the Executive shall be deemed, where appropriate, to refer to his Beneficiary, estate or other legal representative.

D. "BOARD" shall mean the Board of Directors of the Company.

E. "CAUSE" shall mean those specific reasons for Executive's termination of employment as specified in Section 5(B) hereof.

F. "CHANGE OF CONTROL" shall have the meaning ascribed to it in Section 2 hereof.

G. "CHANGE OF CONTROL PERIOD" shall mean the period commencing on the date hereof and ending on the first day of the month next following the Executive's retirement on or after his Normal Retirement Date under the Company's tax-qualified retirement plan or any successor retirement plan (the "Retirement Plan").

H. "CODE" shall mean the Internal Revenue Code of 1986, as now in effect and as hereafter amended.

I. "DISABILITY" shall mean the absence of the Executive

from Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to Executive or Executive's legal representative. Such agreement as to acceptability by the Executive not to be withheld unreasonably.

J. "EFFECTIVE DATE" shall mean the first date during the Change of Control Period (as defined in Section 1(G)) on which a Change of Control occurs. Anything in this Agreement to the contrary notwithstanding, if a Change of Control occurs and if the Executive's employment with the Company is terminated or the Executive ceases to be an officer of the Company prior to the date on which the Change of Control occurs, and if it is reasonably demonstrated by the Executive that such termination of employment or cessation of status as a officer (i) was at the request of a third party who has taken steps reasonably

calculated to effect the Change of Control or (ii) otherwise arose in connection with or anticipation of the Change of Control, then for all purposes of this Agreement, the "Effective Date" shall mean the date immediately prior to the date of such termination of employment or cessation of status as an officer.

K. "EMPLOYMENT PERIOD" shall mean the period commencing on the Effective Date and ending on the date described in Section 3.

L. "SPOUSE" shall mean the person who is legally married to the Executive.

2. CHANGE OF CONTROL: For the purpose of this 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.

3. EMPLOYMENT PERIOD: The Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company, in accordance with the terms and provisions of this Agreement, for the period commencing on the Effective Date and ending on the earlier to occur of (i) the fifth anniversary of such Effective Date or (ii) the first day of the month coinciding with or next following the Executive's attainment of age 67.

4. TERMS OF EMPLOYMENT:

A. POSITION AND DUTIES:

(i) During the Employment Period and until the date of his termination of employment hereunder, the Executive shall be employed as the Chairman and Chief

Executive Officer of the Company and be responsible for the general management of the affairs of the Company; provided, however, that the Executive may upon agreement of the parties relinquish the office of Chief Executive Officer of the Company. Executive shall, however, at all times remain employed as Chairman of the Board. It is the intention of the parties that during the Employment Period the Executive shall continue to be elected to and serve on the Board as its Chairman. The Executive, in carrying out his duties under this Agreement, shall report only to the Board. During the Employment Period, (a) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 90-day period immediately preceding the Effective Date, except as otherwise provided immediately above and (b) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the Effective Date or any office which is the headquarters of the Company and is less than 250 miles from such location. It is hereby agreed and understood that Executive may be required by the Company to move his business office (within the 250-mile limit set forth above) but not his principle place of residence. In the event that the Company requires Executive to move his main office outside of Harris County, the Company shall provide, at no expense to Executive, an apartment or townhome in the new location which is commensurate with Executive's standard of living.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this

Agreement for the Executive to (a) serve on corporate, civic or charitable boards or committees, (b) deliver lectures, fulfill speaking engagements or teach at educational institutions and (c) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

B. COMPENSATION:

(i) ANNUAL BASE SALARY: During the Employment Period, the Executive shall receive an Annual Base Salary at a monthly rate at least equal to the highest monthly base salary paid to the Executive by the Company during the 12-month period immediately preceding the month in which the Effective Date occurs. Thereafter, the Annual Base Salary shall increase by not less than 5% each year (unless a smaller percentage is agreed upon between the parties) with the increases being effective on the same date that similar salary changes are effective for other members of the senior group of executives of the Company. During the Employment Period and subject to the provisions of the preceding sentence, the Annual Base Salary shall be reviewed at least annually and shall be increased at any time and from time to time as shall be substantially consistent with increases in base salary generally awarded in the ordinary course of business to other peer executives of the Company and its Affiliated Companies. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase and the term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased.

(ii) ANNUAL BONUS: In addition to Annual Base Salary, the Executive shall be awarded, for each fiscal year ending during the Employment Period, an annual bonus (the "Annual Bonus") in cash and/or common stock of the Company as determined in accordance with the existing bonus plans of the Company, the Executive Incentive Compensation Plan ("EICP") and the Long-Term Incentive Compensation Plan ("LICP"), or any successor plan or plans, if any successor of the Company has a superior bonus plan or plans. Each such Annual Bonus shall be in an amount not less than the greater of (1) 125% of Annual Base Salary or (2) the bonus payable to the Executive for the applicable year under the EICP and LICP or said successor superior plan assuming that any performance objectives thereunder had been met at the "target" level;

and, such Annual Bonus shall be paid at the same time or times as similar bonuses are paid to other peer executives of the Company, unless the Executive shall elect to defer the receipt of such Annual Bonus. For all

purposes of this Agreement, "Annual Bonus" shall be deemed to include but not necessarily limited to the aggregate of (a) cash paid during a given year under the EICP for short-term annual awards thereunder and (b) the dollar value of shares of the Company's common stock paid out during a given year under the LICP based on the achievement of certain performance goals, plus dividend equivalent accruals during the performance period.

(iii) INCENTIVE, SAVINGS AND RETIREMENT PLANS: During the Employment Period, the Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Company and its Affiliated Companies, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than the most favorable of those provided by the Company and its Affiliated Companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 90-day period immediately preceding the Effective Date or if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and its Affiliated Companies.

(iv) WELFARE BENEFIT PLANS: During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its Affiliated Companies (including, without limitation, medical, prescription, dental, disability, executive salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its Affiliated Companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits which are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and its Affiliated Companies.

(v) EXPENSES: During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Company and its Affiliated Companies in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its Affiliated Companies.

(vi) FRINGE BENEFITS: During the Employment Period, the Executive shall be entitled to fringe benefits in accordance with the most favorable plans, practices, programs and policies of the Company and its Affiliated Companies in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its Affiliated Companies.

(vii) OFFICE AND SUPPORT STAFF: During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its Affiliated Companies at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other peer executives of the Company and its Affiliated Companies.

(viii) VACATION: During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its Affiliated Companies as in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the

Company and its Affiliated Companies.

(ix) OTHER PERQUISITES: During the Employment Period, the Executive shall continue to be provided with such perquisites as were provided to the Executive on the Effective Date of this Agreement. Such perquisites shall be reviewed annually by the Personnel Committee of the Board. In addition, the Executive shall be entitled to reimbursement for expenses incurred with respect to the preparation of his personal income tax returns and for financial counseling in an amount not to exceed $10,000 per calendar year.

5. TERMINATION OF EMPLOYMENT:

A. DEATH OR DISABILITY: The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period, it may give to the Executive written notice in accordance with Section 15(B) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties.

B. CAUSE: The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean

(i) repeated violations by the Executive of the Executive's obligations under Section 4(A) of this Agreement (other than as a result of incapacity due to physical or mental illness) which are demonstrably willful and deliberate on the Executive's part, which are committed in bad faith or without reasonable belief that such violations are in the best interests of the Company and which are not remedied in a reasonable period of time after receipt of written notice from the Company specifying such violations or (ii) the conviction of the Executive of a felony involving moral turpitude.

C. GOOD REASON: The Executive's employment may be terminated during the Employment Period by the Executive for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 4(A) of this Agreement, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to comply with any of the provisions of Section 4(B) of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) the Company's requiring the Executive to be based at any office or location other than that described in Section 4(A)(i) hereof or the Company's failure to provide the residence required by Section 4(A)(i);

(iv) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(v) any failure by the Company to comply with and satisfy Section 11(C) of this Agreement, provided that such successor has received at least ten days' prior written notice from the Company or the Executive of the requirements of Section 11(C) of this Agreement.

For purposes of this Section 5(C), any good faith determination of "Good Reason" made by the Executive shall be conclusive.

D. NOTICE OF TERMINATION: Any termination by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 15(B) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the

specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of

receipt of such notice, specifies the termination date (which date shall be not more than 15 days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

E. DATE OF TERMINATION: "Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination and (iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

6. OBLIGATIONS OF THE COMPANY UPON TERMINATION:

A. GOOD REASON, OTHER THAN FOR CAUSE, DEATH OR DISABILITY: If, during the Employment Period, the Company shall terminate the Executive's employment other than for Cause or Disability or the Executive shall terminate employment for Good Reason, then:

(i) the Company shall pay to the Executive in a lump sum in cash (or common stock of the Company with respect to certain payments under LICP), within 30 days after the Date of Termination, the aggregate of (1) the Executive's Annual Base Salary and Annual Bonus remaining owing to the Executive for the Employment Period as if there had been no termination determined without any reduction for the present value of such lump-sum payment and (2) any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1) and (2) above shall be hereinafter referred to as the "Accrued Obligations");

(ii) the benefits accrued up to the Date of Termination under the Retirement Plan and the Benefit Restoration Plan of the Company or any successor plan thereto ("SERP" herein) shall commence immediately thereunder in such form as elected by the Executive in accordance with the terms of said Plans and, notwithstanding any provision of the SERP to the contrary, the Company and the Board hereby agree to cause the SERP to be administered so that no benefit payable under the SERP may be commuted and paid in a lump sum by the Company;

(iii) the Company shall pay a separate monthly supplemental retirement benefit equal to the difference between (1) the benefit payable under

the Retirement Plan and the SERP or any other successor supplemental and/or excess retirement plan of the Company and its Affiliated Companies providing benefits for the Executive which the Executive would receive if the Executive's employment continued at the compensation level provided for in Sections 4(B)(i) and 4(B)(ii) of this Agreement for the remainder of the Employment Period, assuming for this purpose that all accrued benefits are fully vested and that benefit accrual formulas and actuarial assumptions are no less advantageous to the Executive than those in effect during the 90-day period immediately preceding the Effective Date, and (2) the Executive's actual benefit (paid or payable), if any, under the Retirement Plan and the SERP (the amount of such benefit calculated under this Section 6(A)(iii) which shall commence at the same time and be payable in the same form as the amounts described in Section 6(A)(ii) shall be hereinafter referred to as the "Supplemental Retirement Benefit");

(iv) for the remainder of the Employment Period, or such longer period as any plan, program, practice or policy may provide, the Company shall continue benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies described in Section 4(B)(iv) of this Agreement if the Executive's employment had not been terminated in accordance with the most favorable plans, practices, programs or policies of the Company and its Affiliated Companies as in effect and applicable generally to other peer executives and their families during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its Affiliated Companies and their families; provided, however, that if the Executive becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility (such continuation of such benefits for the applicable period herein set forth shall be hereinafter

referred to as "Welfare Benefit Continuation"). For purposes of determining eligibility of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until the end of the Employment Period and to have retired on the last day of such period;

(v) to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive and/or the Executive's family any other amounts or benefits required to be paid or provided or which the Executive and/or the Executive's family is eligible to receive pursuant to this Agreement and under any plan, program, policy or practice or contract or agreement of the Company and its Affiliated Companies as in effect and applicable generally to other peer executives and their families during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally thereafter with respect to other peer executives

of the Company and its Affiliated Companies and their families (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits"); provided, however, that the Company and the Board hereby agree to cause the Deferred Compensation Plan to be administered so that any and all amounts of salary and/or bonus theretofore deferred by Executive and held under the Deferred Compensation Plan of the Company with instructions from Executive to pay in 15 annual installments shall be paid in said 15 installments commencing at the end of the Employment Period and shall not be commuted and paid in a lump sum, notwithstanding any provision of the Deferred Compensation Plan to the contrary; and

(vi) the Company shall pay to Executive in a lump sum in cash, within 30 days after the Date of Termination, the amount it would have contributed as an employer contribution to the tax-qualified Savings Plan of the Company for the remainder of the Employment Period had Executive contributed at the maximum rate during said period and had the terms of said Savings Plan as in effect on the Effective Date remained unchanged during said remainder of the Employment Period.

B. DEATH: If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the Executive's Beneficiary or other legal representatives under this Agreement, other than for (i) payment of Accrued Obligations (which shall be paid to the Executive's Beneficiary in a lump sum in cash (or common stock of the Company with respect to certain payments under LICP) within 30 days of the Date of Termination) and the timely payment or provision of the Welfare Benefit Continuation and Other Benefits and (ii) payment to the Executive's Beneficiary in a lump sum in cash within 30 days of the Date of Termination of an amount equal to the actuarial equivalent (utilizing for this purpose the assumptions utilized with respect to the Retirement Plan on the Effective Date) of the Supplemental Retirement Benefit.

C. DISABILITY: If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, this Agreement shall terminate without further obligations to the Executive under this Agreement, other than for (i) payment of Accrued Obligations (which shall be paid to the Executive in a lump sum in cash (or common stock of the Company with respect to certain payments under LICP) within 30 days of the Date of Termination) and the timely payment or provision of the Welfare Benefit Continuation and Other Benefits and (ii) payment to the Executive in a lump sum in cash within 30 days of the Date of Termination of an amount equal to the actuarial equivalent (utilizing for this purpose the assumptions utilized with respect to the Retirement Plan on the Effective Date) of the Supplemental Retirement Benefit.

D. CAUSE; OTHER THAN FOR GOOD REASON: If the Executive's employment shall be terminated for Cause during the Employment Period or if the Executive terminates employment during the Employment Period, excluding a termination for Good Reason or by reason of death or Disability, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to Executive the Annual Base Salary through the

Date of Termination plus the amount of any compensation previously deferred by the Executive, in each case to the extent theretofore unpaid, and the timely provision of Other Benefits. In such case, any unpaid but due Annual Base Salary shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

E. GROUP LIFE INSURANCE: Upon a termination of employment during or at the end of the Employment Period for any reason other than death or for Cause, the Executive may elect to retain the group life insurance coverage provided to Executive and other employees of the Company under the Group Life Insurance Plan of the Company, and, if the election is made, Executive shall pay, or reimburse the Company for the cost of, the premiums for such insurance paid by the Company at the same rate charged active employees of the Company for similar coverage utilizing the same method or procedure for calculating the premium as

in effect and applicable for Executive as of the date of execution hereof. Such right to maintain group coverage shall be in the minimum amount of three times Annual Base Salary and shall continue for the life of Executive. It is hereby understood and agreed that there shall be no increase in said premium because of any reallocation due to age or risk that may occur after the date of execution hereof.

F. RETIREMENT: If Executive terminates his employment with the Company by reason of retirement with the consent of the Company during the Employment Period, he shall be entitled to receive under this Agreement, in addition to all other benefits otherwise due from the Company upon retirement, the prompt payment of all benefits due under Section 6(A) had the Executive terminated employment for Good Reason. Furthermore, Executive shall be entitled until the end of the Employment Period to the prompt reimbursement of all expenses incurred for civic or industry activities undertaken on behalf of the Company which are of a similar nature and scope to those expenses reimbursable by the Company to Executive on the Effective Date. In this connection, Executive shall also be afforded reasonable use of any Company aircraft.

G. OFFICE: Upon a termination of employment during the Employment Period for any reason other than death or for Cause, the Company shall provide Executive with suitable executive office space and secretarial help at an acceptable location outside the premises of any Company location. Such office and secretary shall be provided Executive until such time as mutually agreed by the parties to be no longer necessary.

H. SALARY CONTINUATION PLAN: Upon a termination of employment during the Employment Period for any reason, the Company hereby agrees that Executive shall be fully vested in the benefit provided under the Salary Continuation Plan, as in effect on the Effective Date, and that the benefit payable thereunder shall be based on his Annual Base Salary as provided in Section 4(B)(i).

7. NON-EXCLUSIVITY OF RIGHTS: Except as provided in Section 6 of this Agreement, nothing in this Agreement shall prevent or limit the Executive's continuing or further participation in any plan, program, policy or practice provided by the Company or any of its Affiliated Companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its Affiliated Companies. Amounts which are vested benefits or which

the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its Affiliated Companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

8. FULL SETTLEMENT; RESOLUTION OF DISPUTES:

A. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as provided in Section 6(A)(iv) of this Agreement, such amounts shall not be reduced whether or not the Executive obtains other employment. The Company agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code. In addition and to the extent not already provided by the terms of any insurance policy owned by the Company, the Company hereby agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any litigation or other legal action filed against the Executive or his estate arising out of, or in any way connected with or resulting from, actions taken or omitted to be taken by Executive during his employment with the Company.

B. If there shall be any dispute between the Company and the Executive (i) in the event of any termination of the Executive's employment by the Company, whether such termination was for Cause, or (ii) in the event of any termination of employment by the Executive, whether Good Reason existed, then, unless and until there is a final, nonappealable judgment by a court of competent jurisdiction declaring that such termination was for Cause or that the determination by the Executive of the existence of Good Reason was not made in good faith, the Company shall pay all amounts, and provide all benefits, to the Executive and/or the Executive's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide pursuant to Section 6(A) hereof as though such termination were by the Company without Cause or by the Executive with Good Reason; provided, however, that the Company shall not be required to pay any disputed

amounts pursuant to this paragraph except upon receipt of an undertaking by or on behalf of the Executive to repay all such amounts to which the Executive is ultimately adjudged by such court not to be entitled.

9. CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY:

A. Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for benefit of the

Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 9) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment (whether through withholding at the source or otherwise) by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto), employment taxes and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

B. Subject to the provisions of Section 9(C), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Deloitte & Touche (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9(C) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

C. The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the

date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all

costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax, employment tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(C), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax, employment tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

D. If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(C), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 9(C)) promptly pay to the Company the amount of such refund

(together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(C), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such termination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

10. CONFIDENTIAL INFORMATION: The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its Affiliated Companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its Affiliated Companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 10 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

11. SUCCESSORS:

A. This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

B. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

C. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

12. SOURCE OF PAYMENTS: All payments provided in this Agreement shall, unless the plan or program pursuant to which they are made provide otherwise, be paid in cash from the general funds of the Company, and no special or separate funds shall be established and no other segregation of assets shall be made to assure payment. Executive shall have no right, title or interest whatever in or to any investments which the Company may make to aid the Company in meeting its obligations hereunder. Nothing contained in this Agreement, and no action taken pursuant to this provision, shall create or be construed to create a trust of any

kind, or a fiduciary relationship, between the Company and Executive or any other person. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

13. EFFECT OF PRIOR AGREEMENTS: This Agreement contains the entire understanding between the parties hereto and supersedes any prior employment agreement between the Company or any predecessor of the Company and Executive, except that this Agreement shall not affect or operate to reduce any benefit or compensation inuring to Executive of a kind elsewhere provided and not expressly provided or modified in this Agreement. Specifically, but not by way of limitation, this Agreement supersedes and replaces that certain Employment Agreement between the parties, dated May 12, 1994.

14. CONSOLIDATION, MERGER OR SALE OF ASSETS: Nothing in this Agreement shall preclude the Company from consolidating or merging into or with, or transferring all or substantially all of its assets to, another corporation which assumes this Agreement and all obligations and undertakings of the Company hereunder; provided that no such action shall diminish Executive's rights hereunder, including, without limitation, rights under paragraph 5(C). Upon such a consolidation, merger or transfer of assets in assumption, the term "Company" as used herein shall mean such other corporation.

15. MISCELLANEOUS:

A. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

B. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified-mail, return receipt requested, postage prepaid, addressed as follows:

IF TO THE EXECUTIVE: Don D. Jordan
5 Stayton Circle
Houston, Texas 77024

IF TO THE COMPANY: Houston Industries Incorporated
Five Post Oak Park
P.O. Box 4567
Houston, Texas 77210

ATTENTION: Mr. Hugh Rice Kelly
Vice President, General
Counsel and Secretary

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

C. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

D. The Company may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

E. The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 5(C)(i)-(v) of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

F. The headings of paragraphs herein are included solely for convenience and reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

G. Contemporaneously with execution of this Agreement, Executive shall be furnished a certified copy of a resolution of the Board of Directors authorizing the execution and delivery of this Agreement.

PART B

EXTENDED EMPLOYMENT TERM

The Board has determined that it is in the best interests of the Company and its shareholders to assure that the Company will have the continued benefit of the Executive's services for a transition period following the Executive's attainment of age 65 in the event that

the Executive remains employed by the Company on the date he attains age 65. Therefore, in order to accomplish this objective and in consideration of Executive's agreement to remain employed beyond normal retirement age, the Board has caused the Company to enter into this Part B of this Agreement. This Part B shall be effective immediately upon the execution of this Agreement and shall be null and void immediately upon (a) a Change in Control (as defined in Part A above), whereupon the provisions of Part A shall govern, or (b) the day that the Executive attains age 65 if he is not employed by the Company on such day.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. EMPLOYMENT PRIOR TO AGE 65: The parties hereby agree that the Executive's employment with the Company is terminable at will by either party until the date that the Executive attains age 65.

2. CERTAIN DEFINITIONS: Capitalized terms in this Part B shall have the meanings herein ascribed to them or, if not defined in this Part B, the meanings ascribed to them in Part A of this Agreement ("Part A").

3. PROVISIONS INCORPORATED BY REFERENCE: Sections 7, 8 and 10 through 15 of Part A are hereby incorporated by reference into this Part B.

4. EMPLOYMENT PERIOD: In the event that the Executive is employed by the Company on the date that he attains age 65, the Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company, in accordance with the terms and provisions of this Part B, for the period commencing on the date immediately following the date the Executive attains age 65 and ending on the first day of the month coinciding with or next following the Executive's attainment of age 67 (the "Extended Employment Term").

5. TERMS OF EMPLOYMENT:

A. POSITION AND DUTIES: During the Extended Employment Term and until the date of his termination of employment hereunder, the Executive shall be employed as the Chairman of the Company or in such other executive capacities, consistent with the Executive's years of experience with the Company, as the Board may determine in its discretion from time to time. Unless otherwise requested by the Board, Executive shall resign and relinquish his office as Chief Executive Officer of the Company effective as of his attainment of age 65.

B. COMPENSATION:

(i) ANNUAL BASE SALARY: During the Extended Employment Term, the Executive shall receive an annual base salary (the "Annual Base Salary") at a monthly rate set by the Board in its discretion, which salary shall be in an amount commensurate with the Executive's position, duties and years of experience with the Company.

(ii) BENEFIT AND BONUS PLANS: During the Extended Employment Term, (a) the Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Company and its Affiliated Companies and (b) the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its Affiliated Companies (including, without limitation, medical, prescription, dental, disability, executive salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its Affiliated Companies (the benefits described in clauses (a) and (b) collectively referred to herein as the "Other Benefits").

(iii) SUPPLEMENTAL RETIREMENT BENEFIT: Executive may be entitled to a Supplemental Retirement Benefit under this Agreement; provided that Executive shall not be entitled to such a benefit if Executive's employment terminates for Cause or voluntarily during the Extended Employment Term. For purposes of determining the amount of any Supplemental Retirement Benefit hereunder, Executive's benefit under the SERP (including both the Retirement Plan Restoration Benefit and the Supplemental Retirement Benefit) shall be calculated as provided in the SERP except that for purposes of such calculation Executive's "Average Monthly Compensation" (as defined in the Retirement Plan and referenced in the SERP) shall be deemed to be the result obtained by dividing the sum of (a) and (b) by 12, where (a) is Executive's salary received from the Company for the 12 months ended May 31, 1997 and where (b) is the EICP bonus that would have been paid to the Executive with respect to the year in which Executive reached age 64 had the performance objectives thereunder been achieved at a target level for such year. If the benefit so calculated is greater than the benefit payable to the Executive under the terms of the SERP, the Company shall pay to the Executive the amount

of the difference (a "Supplemental Retirement Benefit"). The Supplemental Retirement Benefit shall be paid at the same time and in the same manner as the Executive's benefit under the SERP.

(iv) SUPPLEMENTAL BENEFIT UPON DEATH OR DISABILITY: If the Executive's employment is terminated by reason of the Executive's death or Disability during the Extended Employment Term or if the Executive dies following completion of the Extended Employment Term, any death or disability benefit that is payable to the Executive or his Beneficiary under the Company's Executive Benefits Plan and that is calculated with reference to the Executive's salary at termination of employment shall be calculated hereunder based on the Executive's salary in effect immediately prior to attainment of age 65. If a death or disability benefit is greater when calculated under this Section B than the benefit payable pursuant to the Executive Benefits Plan (the "Underlying Benefit"), the Company shall pay to the Executive or his Beneficiary the amount of the difference (a "Supplemental Benefit"). Any Supplemental Benefit shall be paid at the same time and in the same manner as the Underlying Benefit.

(v) GROUP LIFE INSURANCE: Upon a termination of employment (a) during the Extended Employment Term for any reason other than voluntarily, by death or for Cause or (b) at the end of the Extended Employment Term, the Executive may elect to retain the group life insurance coverage provided to Executive and other employees of the Company under the Group Life Insurance Plan of the Company, and, if the election is made, Executive shall pay, or reimburse the Company for the cost of, the premiums for such insurance paid by the Company at the same rate charged active employees of the Company for similar coverage utilizing the same method or procedure for calculating the premium as in effect and applicable for Executive on the date hereof. Such right to maintain group coverage shall be in an amount not to exceed three times Annual Base Salary of Executive in effect prior to Executive reaching age 65

and shall continue for the life of Executive. It is hereby understood and agreed that there shall be no increase in said premium because of any reallocation due to age or risk that may occur after the date of execution hereof.

6. OBLIGATIONS OF THE COMPANY UPON TERMINATION:

A. VOLUNTARILY, FOR CAUSE OR BY DEATH OR DISABILITY: If the Executive's employment shall be terminated for Cause during the Extended Employment Term or if the Executive voluntarily terminates employment during the Extended Employment Term, including a termination by reason of death or Disability, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to Executive the Annual Base Salary through the Date of Termination plus the amount of any compensation previously deferred by the Executive, in each case to the extent theretofore unpaid, and the timely provision of Other Benefits; provided that in the case of a death or Disability, the Company shall also pay or provide any benefit for which Executive or his Beneficiary is eligible pursuant to Section 5(B)(iii)-(v) hereof. Any unpaid but due Annual Base Salary shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

B. TERMINATION OTHER THAN VOLUNTARILY, FOR CAUSE OR BY DEATH OR DISABILITY: If, during the Extended Employment Term, the Company shall terminate the Executive's employment other than for Cause or Disability, then:

(i) the Company shall pay to the Executive in a lump sum in cash (or common stock of the Company with respect to certain payments under LICP), within 30 days after the Date of Termination, the aggregate of (1) the Executive's Annual Base Salary and any annual bonus remaining owing to the Executive for the Extended Employment Term as if there had been no termination determined without any reduction for the present value of such lump-sum payment and (2) any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1) and (2) above shall be hereinafter referred to as the "Accrued Obligations");

(ii) for the remainder of the Extended Employment Term, or such longer period as any plan, program, practice or policy may provide, the Company shall continue benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies described in Section 5(B)(ii)(b) of this Part B if the Executive's employment had not been terminated; and

(iii) to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive and/or the Executive's family any other amounts or benefits required to be paid or provided or which the Executive and/or the Executive's family is eligible to receive pursuant to this

Agreement and under any plan, program, policy or practice or contract or agreement of the Company and its Affiliated Companies as in effect and applicable generally to other peer executives and their families.

7. DEFERRED COMPENSATION PLAN AND SERP PAYMENTS: Notwithstanding any provision herein or any provision of the Deferred Compensation Plan of the Company to the contrary, the Company and the Board hereby agree to cause the Deferred Compensation Plan to be administered so that any and all amounts of salary and/or bonus theretofore deferred by Executive and held under the Deferred Compensation Plan with instructions from Executive to pay in 15 annual installments shall be paid in said 15 installments, shall remain in said Plan earning interest at the rate prescribed therein until installment distributions commence, shall commence as provided under the terms of the Deferred Compensation Plan but shall not be commuted and paid in a lump sum. Notwithstanding any provision of this Agreement or any provision of the SERP to the contrary, the Company and the Board hereby agree to cause the SERP to be administered so that no benefit payable to or on behalf of Executive under the SERP may be commuted and paid in a lump sum.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name and on its behalf, all as of the day and year first above written.

HOUSTON INDUSTRIES INCORPORATED

By /s/ JOHN T. CATER
John T. Cater, Chairman of Personnel Committee of the Board of Directors

EXECUTIVE
DON D. JORDAN
Don D. Jordan

EXHIBIT 10(b)

AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT ("Agreement" herein) by and between HOUSTON INDUSTRIES INCORPORATED, a Texas corporation (said corporation, together with its successors and assigns permitted under this Agreement, hereinafter referred to as the "Company"), and DON D. SYKORA (the "Executive"), dated this 6th day of June, 1994.

W I T N E S S E T H:

WHEREAS, on May 12, 1994, the Company and Executive entered into an Employment Agreement (the "Prior Agreement") under which Executive would receive certain employment rights and benefits upon a "Change of Control" (as defined therein); and

WHEREAS, the parties to said Prior Agreement desire to completely amend and restate said Prior Agreement so that the Company shall have the option to benefit from the continued services of Executive beyond his attainment of age 65 and Executive has consented to make himself available to be so employed; and

WHEREAS, Section 15(A) of the Prior Agreement authorizes the amendment of said Agreement with the mutual consent of the parties and the parties desire to so amend and restate the Prior Agreement;

NOW, THEREFORE, in consideration and mutual covenants and agreements herein contained, the parties hereto agree that the Prior Agreement shall be amended and restated in its entirety to read as follows (the Prior Agreement as so amended and restated being hereinafter called "this Agreement"):

PART A

CHANGE OF CONTROL PERIOD

The Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its shareholders to assure that the Company will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined below) of the Company. The Board believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the Executive's full attention and dedication to the Company in the event of any threatened or pending Change of Control, and to provide the Executive with compensation and benefits arrangements upon a Change of Control which ensure that the compensation and benefits expectations of the Executive will be satisfied and which are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. CERTAIN DEFINITIONS:

A. "AFFILIATED COMPANIES" shall mean and include any company controlled by, controlling or under common control with the Company within the meaning of Section 414(o) of the Code.

B. "ANNUAL BASE SALARY" shall mean the salary of the Executive provided for in Section 4(B)(i) below, as adjusted and in effect from time to time.

C. "BENEFICIARY" shall mean the person or persons named in writing and filed with the Company to receive any compensation or benefit payable hereunder following Executive's death, or in the event no such person is named or survives the Executive, his estate. In the event of the Executive's death or a judicial determination of his incompetence, reference in this Agreement to the Executive shall be deemed, where appropriate, to refer to his Beneficiary, estate or other legal representative.

D. "BOARD" shall mean the Board of Directors of the Company.

E. "CAUSE" shall mean those specific reasons for Executive's termination of employment as specified in Section 5(B) hereof.

F. "CHANGE OF CONTROL" shall have the meaning ascribed to it in Section 2 hereof.

G. "CHANGE OF CONTROL PERIOD" shall mean the period commencing on the date hereof and ending on the first day of the month next following the Executive's retirement on or after his Normal Retirement Date under the Company's tax-qualified retirement plan or any successor retirement plan (the "Retirement Plan").

H. "CODE" shall mean the Internal Revenue Code of 1986, as now in effect and as hereafter amended.

I. "DISABILITY" shall mean the absence of the Executive from Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a

physician selected by the Company or its insurers and acceptable to Executive or Executive's legal representative. Such agreement as to acceptability by the Executive not to be withheld unreasonably.

J. "EFFECTIVE DATE" shall mean the first date during the Change of Control Period (as defined in Section 1(G)) on which a Change of Control occurs. Anything in this Agreement to the contrary notwithstanding, if a Change of Control occurs and if the Executive's employment with the Company is terminated or the Executive ceases to be an officer of the Company prior to the date on which the Change of Control occurs, and if it is reasonably demonstrated by the Executive that such termination of employment or cessation of status as a officer (i) was at the request of a third party who has taken steps reasonably calculated to effect the Change of Control or (ii) otherwise arose in connection with or

anticipation of the Change of Control, then for all purposes of this Agreement, the "Effective Date" shall mean the date immediately prior to the date of such termination of employment or cessation of status as an officer.

K. "EMPLOYMENT PERIOD" shall mean the period commencing on the Effective Date and ending on the date described in Section 3.

L. "SPOUSE" shall mean the person who is legally married to the Executive.

2. CHANGE OF CONTROL: For the purpose of this 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.

3. EMPLOYMENT PERIOD: The Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company, in accordance with the terms and provisions of this Agreement, for the period commencing on the Effective Date and ending on the earlier to occur of (i) the third anniversary of such Effective Date or (ii) the first day of the month coinciding with or next following the Executive's attainment of age 67.

4. TERMS OF EMPLOYMENT:

A. POSITION AND DUTIES:

(i) During the Employment Period and until the date of his termination of employment hereunder, the Executive shall be employed as the President of the Company and be responsible for the general management of the affairs of the Company. It is the intention of the parties that during the Employment Period the Executive shall continue to be elected to and serve on the Board for approximately one year and that he will not seek reelection in 1995. The Executive, in carrying out his duties under this Agreement, shall report only to the Chairman

of the Board. During the Employment Period, (a) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 90-day period immediately preceding the Effective Date, except as otherwise provided immediately above and (b) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the Effective Date or any office which is the headquarters of the Company and is less than 250 miles from such location. It is hereby agreed and understood that Executive may be required by the Company to move his business office (within the 250-mile limit set forth above) but not his principle place of residence. In the event that the Company requires Executive to move his main office outside of Harris County, the Company shall provide, at no expense to Executive, an apartment or townhome in the new location which is commensurate with Executive's standard of living.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to (a) serve on corporate, civic or charitable boards or committees, (b) deliver lectures, fulfill speaking engagements or teach at educational institutions and (c) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's

responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

B. COMPENSATION:

(i) ANNUAL BASE SALARY: During the Employment Period, the Executive shall receive an Annual Base Salary at a monthly rate at least equal to the highest monthly base salary paid to the Executive by the Company during the 12-month period immediately preceding the month in which the Effective Date occurs. Thereafter, the Annual Base Salary shall increase by not less than 5% each year (unless a smaller percentage is agreed upon between the parties) with the increases being effective on the same date that similar salary changes are effective for other members of the senior group of executives of the Company. During the Employment Period and subject to the provisions of the preceding sentence, the Annual Base Salary shall be reviewed at least annually and shall be increased at any time and from time to time as shall be substantially consistent with increases in base salary generally awarded in the ordinary course of business to other peer executives of the Company and its Affiliated Companies. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase and the term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased.

(ii) ANNUAL BONUS: In addition to Annual Base Salary, the Executive shall be awarded, for each fiscal year ending during the Employment Period, an annual bonus (the "Annual Bonus") in cash and/or common stock of the Company as determined in accordance with the existing bonus plans of the Company, the Executive Incentive Compensation Plan ("EICP") and the Long-Term Incentive Compensation Plan ("LICP"), or any successor plan or plans, if any successor of the Company has a superior bonus plan or plans. Each such Annual Bonus shall be in an amount not less than the greater of (1) 125% of Annual Base Salary or (2) the bonus payable to the Executive for the applicable year under the EICP and LICP or said successor superior plan assuming that any performance objectives thereunder had been met at the "target" level; and, such Annual Bonus shall be paid at the same time or times as similar bonuses are paid to other peer executives of the Company, unless the Executive shall elect to defer the receipt of such Annual Bonus. For all purposes of this Agreement, "Annual Bonus" shall be deemed to include but not necessarily limited to the aggregate of (a) cash paid during a given year under the EICP for short-term annual awards thereunder and (b) the dollar value of shares of the Company's common stock paid out during a given year under the LICP based on the achievement of certain performance goals, plus dividend equivalent accruals during the performance period.

(iii) INCENTIVE, SAVINGS AND RETIREMENT PLANS: During the Employment Period, the Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Company and its Affiliated Companies, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than the most favorable of those provided by the Company and its Affiliated Companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 90-day period immediately preceding the Effective Date or if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and its Affiliated Companies.

(iv) WELFARE BENEFIT PLANS: During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its Affiliated Companies (including, without limitation, medical, prescription, dental, disability, executive salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its Affiliated Companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits which are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and its Affiliated Companies.

(v) EXPENSES: During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Company and its Affiliated Companies in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its Affiliated Companies.

(vi) FRINGE BENEFITS: During the Employment Period, the Executive shall be entitled to fringe benefits in accordance with the most favorable plans, practices, programs and policies of the Company and its Affiliated Companies in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its Affiliated Companies.

(vii) OFFICE AND SUPPORT STAFF: During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its Affiliated Companies at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other peer executives of the Company and its Affiliated Companies.

(viii) VACATION: During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its Affiliated Companies as in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its Affiliated Companies.

(ix) OTHER PERQUISITES: During the Employment Period, the Executive shall continue to be provided with such perquisites as were provided to the Executive on the Effective Date of this Agreement. Such perquisites shall be reviewed annually by the Personnel Committee of the Board. In addition, the Executive shall be entitled to reimbursement for expenses incurred with respect to the preparation of his personal income tax returns and for financial counseling in an amount not to exceed $10,000 per calendar year.

5. TERMINATION OF EMPLOYMENT:

A. DEATH OR DISABILITY: The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period, it may give to the Executive written notice in accordance with Section 15(B) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties.

B. CAUSE: The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean (i) repeated violations by the Executive of the Executive's obligations under Section 4(A) of this Agreement (other than as a result of incapacity due to physical or mental illness) which are demonstrably willful and deliberate on the Executive's part, which are committed in bad faith or without reasonable belief that such violations are in the best interests of the Company and which are not remedied in a reasonable period of time after receipt of written notice from the Company specifying such violations or (ii) the conviction of the Executive of a felony involving moral turpitude.

C. GOOD REASON: The Executive's employment may be terminated during the Employment Period by the Executive for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 4(A) of this Agreement, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to comply with any of the provisions of Section 4(B) of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) the Company's requiring the Executive to be based at any office or location other than that described in Section 4(A)(i) hereof or the Company's failure to provide the residence required by Section 4(A)(i);

(iv) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(v) any failure by the Company to comply with and satisfy Section 11(C) of this Agreement, provided that such successor has received at least ten days' prior written notice from the Company or the Executive of the requirements of Section 11(C) of this Agreement.

For purposes of this Section 5(C), any good faith determination of "Good Reason" made by the Executive shall be conclusive.

D. NOTICE OF TERMINATION: Any termination by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 15(B) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 15 days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company

from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

E. DATE OF TERMINATION: "Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination and (iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the

Executive or the Disability Effective Date, as the case may be.

6. OBLIGATIONS OF THE COMPANY UPON TERMINATION:

A. GOOD REASON, OTHER THAN FOR CAUSE, DEATH OR DISABILITY: If, during the Employment Period, the Company shall terminate the Executive's employment other than for Cause or Disability or the Executive shall terminate employment for Good Reason, then:

(i) the Company shall pay to the Executive in a lump sum in cash (or common stock of the Company with respect to certain payments under LICP), within 30 days after the Date of Termination, the aggregate of (1) the Executive's Annual Base Salary and Annual Bonus remaining owing to the Executive for the Employment Period as if there had been no termination determined without any reduction for the present value of such lump-sum payment and (2) any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1) and (2) above shall be hereinafter referred to as the "Accrued Obligations");

(ii) the benefits accrued up to the Date of Termination under the Retirement Plan and the Benefit Restoration Plan of the Company or any successor plan thereto ("SERP" herein) shall commence immediately thereunder in such form as elected by the Executive in accordance with the terms of said Plans and, notwithstanding any provision of the SERP to the contrary, the Company and the Board hereby agree to cause the SERP to be administered so that no benefit payable under the SERP may be commuted and paid in a lump sum by the Company;

(iii) the Company shall pay a separate monthly supplemental retirement benefit equal to the difference between (1) the benefit payable under the Retirement Plan and the SERP or any other successor supplemental and/or excess retirement plan of the Company and its Affiliated Companies providing benefits for the Executive which the Executive would receive if the Executive's employment continued at the compensation level provided for in Sections 4(B)(i) and 4(B)(ii) of this Agreement for the remainder of the Employment Period, assuming for this purpose that all accrued benefits are fully vested and that benefit accrual formulas and actuarial assumptions are no less advantageous to the Executive than those in effect during the 90-day period immediately

preceding the Effective Date, and (2) the Executive's actual benefit (paid or payable), if any, under the Retirement Plan and the SERP (the amount of such benefit calculated under this Section 6(A)(iii) which shall commence at the same time and be payable in the same form as the amounts described in Section 6(A)(ii) shall be hereinafter referred to as the "Supplemental Retirement Benefit");

(iv) for the remainder of the Employment Period, or such longer period as any plan, program, practice or policy may provide, the Company shall continue benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies described in Section 4(B)(iv) of this Agreement if the Executive's employment had not been terminated in accordance with the most favorable plans, practices, programs or policies of the Company and its Affiliated Companies as in effect and applicable generally to other peer executives and their families during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its Affiliated Companies and their families; provided, however, that if the Executive becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility (such continuation of such benefits for the applicable period herein set forth shall be hereinafter referred to as "Welfare Benefit Continuation"). For purposes of determining eligibility of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until the end of the Employment Period and to have retired on the last day of such period;

(v) to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive and/or the Executive's family any other amounts or benefits required to be paid or provided or which the Executive and/or the Executive's family is eligible to receive pursuant to this Agreement and under any plan, program, policy or practice or contract or agreement of the Company and its Affiliated Companies as in effect and applicable generally to other peer executives and their families during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally thereafter with respect to other peer executives of the Company and its Affiliated Companies and their families (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits"); provided, however, that the Company and the Board

hereby agree to cause the Deferred Compensation Plan to be administered so that any and all amounts of salary and/or bonus theretofore deferred by Executive and held under the Deferred Compensation Plan of the Company with instructions from Executive to pay in 15 annual installments shall be paid in said 15 installments commencing at the end of the Employment Period and shall not be commuted

and paid in a lump sum, notwithstanding any provision of the Deferred Compensation Plan to the contrary; and

(vi) the Company shall pay to Executive in a lump sum in cash, within 30 days after the Date of Termination, the amount it would have contributed as an employer contribution to the tax-qualified Savings Plan of the Company for the remainder of the Employment Period had Executive contributed at the maximum rate during said period and had the terms of said Savings Plan as in effect on the Effective Date remained unchanged during said remainder of the Employment Period.

B. DEATH: If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the Executive's Beneficiary or other legal representatives under this Agreement, other than for (i) payment of Accrued Obligations (which shall be paid to the Executive's Beneficiary in a lump sum in cash (or common stock of the Company with respect to certain payments under LICP) within 30 days of the Date of Termination) and the timely payment or provision of the Welfare Benefit Continuation and Other Benefits and (ii) payment to the Executive's Beneficiary in a lump sum in cash within 30 days of the Date of Termination of an amount equal to the actuarial equivalent (utilizing for this purpose the assumptions utilized with respect to the Retirement Plan on the Effective Date) of the Supplemental Retirement Benefit.

C. DISABILITY: If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, this Agreement shall terminate without further obligations to the Executive under this Agreement, other than for (i) payment of Accrued Obligations (which shall be paid to the Executive in a lump sum in cash (or common stock of the Company with respect to certain payments under LICP) within 30 days of the Date of Termination) and the timely payment or provision of the Welfare Benefit Continuation and Other Benefits and (ii) payment to the Executive in a lump sum in cash within 30 days of the Date of Termination of an amount equal to the actuarial equivalent (utilizing for this purpose the assumptions utilized with respect to the Retirement Plan on the Effective Date) of the Supplemental Retirement Benefit.

D. CAUSE; OTHER THAN FOR GOOD REASON: If the Executive's employment shall be terminated for Cause during the Employment Period or if the Executive terminates employment during the Employment Period, excluding a termination for Good Reason or by reason of death or Disability, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to Executive the Annual Base Salary through the Date of Termination plus the amount of any compensation previously deferred by the Executive, in each case to the extent theretofore unpaid, and the timely provision of Other Benefits. In such case, any unpaid but due Annual Base Salary shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

E. GROUP LIFE INSURANCE: Upon a termination of employment during or at the end of the Employment Period for any reason other than death or for Cause, the Executive may elect to retain the group life insurance coverage provided to Executive and other employees of the Company under the Group Life Insurance Plan of the Company, and, if the election is made, Executive shall pay, or reimburse the Company for the cost of, the premiums for such insurance paid by the Company at the same rate charged active employees of the Company for similar coverage utilizing the same method or procedure for calculating the premium as in effect and applicable for Executive as of the date of execution hereof. Such right to maintain group coverage shall be in the minimum amount of three times Annual Base Salary and shall continue for the life of Executive. It is hereby understood and agreed that there shall be no increase in said premium because of any reallocation due to age or risk that may occur after the date of execution hereof.

F. RETIREMENT: If Executive terminates his employment with the Company by reason of retirement with the consent of the Company during the Employment Period, he shall be entitled to receive under this Agreement, in addition to all other benefits otherwise due from the Company upon retirement, the prompt payment of all benefits due under Section 6(A) had the Executive terminated employment for Good Reason. Furthermore, Executive shall be entitled until the end of the Employment Period to the prompt reimbursement of all expenses incurred for civic or industry activities undertaken on behalf of the Company which are of a similar nature and scope to those expenses reimbursable by the Company to Executive on the Effective Date. In this connection, Executive shall also be afforded reasonable use of any Company aircraft.

G. OFFICE: Upon a termination of employment during the Employment Period for any reason other than death or for Cause, the Company shall provide Executive with suitable executive office space and secretarial help at an acceptable location outside the premises of any Company location. Such office and secretary shall be provided Executive until such time as mutually agreed by the parties to be no longer

necessary.

H. SALARY CONTINUATION PLAN: Upon a termination of employment during the Employment Period for any reason, the Company hereby agrees that Executive shall be fully vested in the benefit provided under the Salary Continuation Plan, as in effect on the Effective Date, and that the benefit payable thereunder shall be based on his Annual Base Salary as provided in Section 4(B)(i).

7. NON-EXCLUSIVITY OF RIGHTS: Except as provided in Section 6 of this Agreement, nothing in this Agreement shall prevent or limit the Executive's continuing or further participation in any plan, program, policy or practice provided by the Company or any of its Affiliated Companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its Affiliated Companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its Affiliated Companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

8. FULL SETTLEMENT; RESOLUTION OF DISPUTES:

A. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as provided in Section 6(A)(iv) of this Agreement, such amounts shall not be reduced whether or not the Executive obtains other employment. The Company agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code. In addition and to the extent not already provided by the terms of any insurance policy owned by the Company, the Company hereby agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any litigation or other legal action filed against the Executive or his estate arising out of, or in any way connected with or resulting from, actions taken or omitted to be taken by Executive during his employment with the Company.

B. If there shall be any dispute between the Company and the Executive (i) in the event of any termination of the Executive's employment by the Company, whether such termination was for Cause, or (ii) in the event of any termination of employment by the Executive, whether Good Reason existed, then, unless and until there is a final, nonappealable judgment by a court of competent jurisdiction declaring that such termination was for Cause or that the determination by the Executive of the existence of Good Reason was not made in good faith, the Company shall pay all amounts, and provide all benefits, to the Executive and/or the Executive's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide pursuant to Section 6(A) hereof as though such termination were by the Company without Cause or by the Executive with Good Reason; provided, however, that the Company shall not be required to pay any disputed amounts pursuant to this paragraph except upon receipt of an undertaking by or on behalf of the Executive to repay all such amounts to which the Executive is ultimately adjudged by such court not to be entitled.

9. CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY:

A. Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 9) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are

hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment (whether through withholding at the source or otherwise) by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto), employment taxes and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

B. Subject to the provisions of Section 9(C), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such

Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Deloitte & Touche (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9(C) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

C. The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax, employment tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(C), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax, employment tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

D. If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(C), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of

Section 9(C)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(C), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest

such denial of refund prior to the expiration of 30 days after such termination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

10. CONFIDENTIAL INFORMATION: The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its Affiliated Companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its Affiliated Companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 10 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

11. SUCCESSORS:

A. This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

B. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

C. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

12. SOURCE OF PAYMENTS: All payments provided in this Agreement shall, unless the plan or program pursuant to which they are made provide otherwise, be paid in cash from the general funds of the Company, and no special or separate funds shall be established and no other segregation of assets shall be made to assure payment. Executive shall have no right, title or interest whatever in or to any investments which the Company may make to aid the Company in meeting its obligations hereunder. Nothing contained in this Agreement, and no action taken pursuant to this provision, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Company and Executive or any other person. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

13. EFFECT OF PRIOR AGREEMENTS: This Agreement contains the entire understanding between the parties hereto and supersedes any prior employment agreement between the Company or any predecessor of the Company and Executive, except that this Agreement shall not affect or operate to reduce any benefit or compensation inuring to Executive of a kind elsewhere provided and not expressly provided or modified in this Agreement. Specifically, but not by way of limitation, this Agreement supersedes and replaces that certain Employment Agreement between the parties, dated May 12, 1994.

14. CONSOLIDATION, MERGER OR SALE OF ASSETS: Nothing in this Agreement shall preclude the Company from consolidating or merging into or with, or transferring all or substantially all of its assets to, another corporation which assumes this Agreement and all obligations and undertakings of the Company hereunder; provided that no such action shall diminish Executive's rights hereunder, including, without limitation, rights under paragraph 5(C). Upon such a consolidation, merger or transfer of assets in assumption, the term "Company" as used herein shall mean such other corporation.

15. MISCELLANEOUS:

A. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

B. All notices and other communications hereunder shall be in

writing and shall be given by hand delivery to the other party or by registered or certified-mail, return receipt requested, postage prepaid, addressed as follows:

IF TO THE EXECUTIVE: Don D. Sykora
5300 Mercer
#8 Auburn Place
Houston, Texas 77005

IF TO THE COMPANY: Houston Industries Incorporated
Five Post Oak Park
P.O. Box 4567
Houston, Texas 77210

ATTENTION: Mr. Hugh Rice Kelly
Vice President, General
Counsel and Secretary

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

C. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

D. The Company may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

E. The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 5(C)(i)-(v) of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

F. The headings of paragraphs herein are included solely for convenience and reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

G. Contemporaneously with execution of this Agreement, Executive shall be furnished a certified copy of a resolution of the Board of Directors authorizing the execution and delivery of this Agreement.

PART B

EXTENDED EMPLOYMENT TERM

The Board has determined that it is in the best interests of the Company and its shareholders to assure that the Company will have the continued benefit of the Executive's services for a transition period following the Executive's attainment of age 65 in the event that the Executive remains employed by the Company on the date he attains age 65. Therefore, in order to accomplish this objective and in consideration of Executive's agreement to remain employed beyond normal retirement age, the Board has caused the Company to enter into this Part B of this Agreement. This Part B shall be effective immediately upon the execution of this Agreement and shall be null and void immediately upon (a) a Change in Control (as defined in Part A above), whereupon the provisions of Part A shall govern, or (b) the day that the Executive attains age 65 if he is not employed by the Company on such day.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. EMPLOYMENT PRIOR TO AGE 65: The parties hereby agree that the Executive's employment with the Company is terminable at will by either party until the date that the Executive attains age 65.

2. CERTAIN DEFINITIONS: Capitalized terms in this Part B shall have the meanings herein ascribed to them or, if not defined in this Part B, the meanings ascribed to them in Part A of this Agreement ("Part A").

3. PROVISIONS INCORPORATED BY REFERENCE: Sections 7, 8 and 10 through 15 of Part A are hereby incorporated by reference into this Part B.

4. EMPLOYMENT PERIOD: In the event that the Executive is employed by the Company on the date that he attains age 65, the Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company, in accordance with the terms and provisions of this Part B, for the period commencing on the date immediately following the date the Executive attains age 65 and ending on the first day of the month coinciding with or next following the Executive's attainment of age 67 (the "Extended Employment Term").

5. TERMS OF EMPLOYMENT:

A. POSITION AND DUTIES: During the Extended Employment Term and until the date of his termination of employment hereunder, the Executive shall be employed as the President of the Company or in such

other executive capacities, consistent with the Executive's years of experience with the Company, as the Board may determine in its discretion from time to time. Unless otherwise requested by the Board, Executive shall resign and relinquish his office as President of the Company effective as of his attainment of age 65.

B. COMPENSATION:

(i) ANNUAL BASE SALARY: During the Extended Employment Term, the Executive shall receive an annual base salary (the "Annual Base Salary") at a monthly rate set by the Board in its discretion, which salary shall be in an amount commensurate with the Executive's position, duties and years of experience with the Company.

(ii) BENEFIT AND BONUS PLANS: During the Extended Employment Term, (a) the Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Company and its Affiliated Companies and (b) the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its Affiliated Companies (including, without limitation, medical, prescription, dental, disability, executive salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its Affiliated Companies (the benefits described in clauses (a) and (b) collectively referred to herein as the "Other Benefits").

(iii) SUPPLEMENTAL RETIREMENT BENEFIT: Executive may be entitled to a Supplemental Retirement Benefit under this Agreement; provided that Executive shall not be entitled to such a benefit if Executive's employment terminates for Cause or voluntarily during the Extended Employment Term. For purposes of determining the amount of any Supplemental Retirement Benefit

hereunder, Executive's benefit under the SERP (including both the Retirement Plan Restoration Benefit and the Supplemental Retirement Benefit) shall be calculated as provided in the SERP except that for purposes of such calculation Executive's "Average Monthly Compensation" (as defined in the Retirement Plan and referenced in the SERP) shall be deemed to be the result obtained by dividing the sum of (a) and (b) by 12, where (a) is Executive's salary received from the Company for the 12 months ended August 31, 1995 and where (b) is the EICP bonus that would have been paid to the Executive with respect to the year in which Executive reached age 64 had the performance objectives thereunder been achieved at a target level for such year. If the benefit so calculated is greater than the benefit payable to the Executive under the terms of the SERP, the Company shall pay to the Executive the amount of the difference (a "Supplemental Retirement Benefit"). The Supplemental Retirement Benefit shall be paid at the same time and in the same manner as the Executive's benefit under the SERP.

(iv) SUPPLEMENTAL BENEFIT UPON DEATH OR DISABILITY: If the Executive's employment is terminated by reason of the Executive's death or Disability during the Extended Employment Term or if the Executive dies following completion of the Extended Employment Term, any death or disability benefit that is payable to the Executive or his Beneficiary under the Company's Executive Benefits Plan and that is calculated with reference to the Executive's salary at termination of employment shall be calculated hereunder based on the Executive's salary in effect immediately prior to attainment of age 65. If a death or disability benefit is greater when calculated under this Section B than the benefit payable pursuant to the Executive Benefits Plan (the "Underlying Benefit"), the Company shall pay to the Executive or his Beneficiary the amount of the difference (a "Supplemental Benefit"). Any Supplemental Benefit shall be paid at the same time and in the same manner as the Underlying Benefit.

(v) GROUP LIFE INSURANCE: Upon a termination of employment (a) during the Extended Employment Term for any reason other than voluntarily, by death or for Cause or (b) at the end of the Extended Employment Term, the Executive may elect to retain the group life insurance coverage provided to Executive and other employees of the Company under the Group Life Insurance Plan of the Company, and, if the election is made, Executive shall pay, or reimburse the Company for the cost of, the premiums for such insurance paid by the Company at the same rate charged active employees of the Company for similar coverage utilizing the same method or procedure for calculating the premium as in effect and applicable for Executive on the date hereof. Such right to maintain group coverage shall be in an amount not to exceed three times Annual Base Salary of Executive in effect prior to Executive reaching age 65 and shall continue for the life of Executive. It is hereby understood and agreed that there shall be no increase in said premium because of any reallocation due to age or risk

that may occur after the date of execution hereof.

6. OBLIGATIONS OF THE COMPANY UPON TERMINATION:

A. VOLUNTARILY, FOR CAUSE OR BY DEATH OR DISABILITY: If the Executive's employment shall be terminated for Cause during the Extended Employment Term or if the Executive voluntarily terminates employment during the Extended Employment Term, including a termination by reason of death or Disability, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to Executive the Annual Base Salary through the Date of Termination plus the amount of any compensation previously deferred by the Executive, in each case to the extent theretofore unpaid, and the timely provision of Other Benefits; provided that in the case of a death or Disability, the Company shall also pay or provide any benefit for which Executive or his Beneficiary is eligible pursuant to Section 5(B)(iii)-(v) hereof. Any unpaid but due Annual Base Salary shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

B. TERMINATION OTHER THAN VOLUNTARILY, FOR CAUSE OR BY DEATH OR DISABILITY: If, during the Extended Employment Term, the Company shall terminate the Executive's employment other than for Cause or Disability, then:

(i) the Company shall pay to the Executive in a lump sum in cash (or common stock of the Company with respect to certain payments under LICP), within 30 days after the Date of Termination, the aggregate of (1) the Executive's Annual Base Salary and any annual bonus remaining owing to the Executive for the Extended Employment Term as if there had been no termination determined without any reduction for the present value of such lump-sum payment and (2) any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1) and (2) above shall be hereinafter referred to as the "Accrued Obligations");

(ii) for the remainder of the Extended Employment Term, or such longer period as any plan, program, practice or policy may provide, the Company shall continue benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies described in Section 5(B)(ii)(b) of this Part B if the Executive's employment had not been terminated; and

(iii) to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive and/or the Executive's family any other amounts or benefits required to be paid or provided or which the Executive and/or the Executive's family is eligible to receive pursuant to this Agreement and under any plan, program, policy or practice or contract or agreement of the Company and its Affiliated Companies as in effect and applicable generally to other peer executives and their families.

7. DEFERRED COMPENSATION PLAN AND SERP PAYMENTS: Notwithstanding any provision herein or any provision of the Deferred Compensation Plan of the Company to the contrary, the Company and the Board hereby agree to cause the Deferred Compensation Plan to be administered so that any and all amounts of salary and/or bonus theretofore deferred by

Executive and held under the Deferred Compensation Plan with instructions from Executive to pay in 15 annual installments shall be paid in said 15 installments, shall remain in said Plan earning interest at the rate prescribed therein until installment distributions commence, shall commence as provided under the terms of the Deferred Compensation Plan but shall not be commuted and paid in a lump sum. Notwithstanding any provision of this Agreement or any provision of the SERP to the contrary, the Company and the Board hereby agree to cause the SERP to be administered so that no benefit payable to or on behalf of Executive under the SERP may be commuted and paid in a lump sum.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name and on its behalf, all as of the day and year first above written.

HOUSTON INDUSTRIES INCORPORATED

By JOHN T. CATER
John T. Cater, Chairman of Personnel Committee of the Board of Directors

EXECUTIVE

DON D. SYKORA
Don D. Sykora

Exhibit 11

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

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

		Three Months Ended June 30,		Six Months Ended June 30,	
		1994	1993	1994	1993
Primary Earnings Per Share:					
(1)	Weighted average shares of common stock outstanding	130,708,985	129,849,302	130,707,875	129,725,481
(2)	Effect of issuance of shares from assumed exercise of stock options (treasury stock method)	(66,344)	(619)	(42,705)	2,543
(3)	Weighted average shares	130,642,641	129,848,683	130,665,170	129,728,024
(4)	Net income	$ 133,828	$ 100,209	$ 164,003	$ 127,264
(5)	Primary earnings per share (line 4/line 3)	$ 1.02	$ .77	$ 1.26	$ .98
Fully Diluted Earnings Per Share:					
(6)	Weighted average shares per computation on line 3 above	130,642,641	129,848,683	130,665,170	129,728,024
(7)	Shares applicable to options included on line 2 above	66,344	619	42,705	(2,543)
(8)	Dilutive effect of stock options based on the average price for the period or period-end price, whichever is higher, of $33.63 and $44.67 for the second quarter of 1994 and 1993, respectively, and $37.06 and $45.77 for the first six months of 1994 and 1993, respectively. (treasury stock method)	(66,344)	(619)	(42,705)	2,543
(9)	Weighted average shares	130,642,641	129,848,683	130,665,170	129,728,024
(10)	Net income	$ 133,828	$ 100,209	$ 164,003	$ 127,264
(11)	Fully diluted earnings per share (line 10/line 9)	$ 1.02	$ .77	$ 1.26	$ .98

Notes:

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

The calculations for the quarters and six months ended June 30, 1994 and 1993 are 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.

EXHIBIT 12

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

	Six Months Ended June 30, 1994	Twelve Months Ended June 30, 1994
Fixed Charges as Defined:		
(1) Interest on Long-Term Debt	$ 173,462	$ 359,927
(2) Other Interest	11,657	15,728
(3) Preferred Dividends Factor of Subsidiary	26,348	52,810
(4) Interest Component of Rentals Charged to Operating Expense	1,909	4,151
(5) Total Fixed Charges	$ 213,376	$ 432,616
Earnings as Defined:		
(6) Income Before Cumulative Effect of Change in Accounting for Postemployment Benefits	$ 172,203	$ 460,974
(7) Income Taxes	100,554	271,641
(8) Fixed Charges (line 5)	213,376	432,616
(9) Earnings Before Income Taxes and Fixed Charges	$ 486,133	$ 1,165,231
Preferred Dividends Factor of Subsidiary:		
(10) Preferred Stock Dividends of Subsidiary	$ 16,676	$ 33,214
(11) Ratio of Pre-Tax Income to Net Income (line 6 plus line 7 divided by line 6)	1.58	1.59
(12) Preferred Dividends Factor of Subsidiary (line 10 times line 11)	$ 26,348	$ 52,810
Ratio of Earnings to Fixed Charges (line 9 divided by line 5)	2.28	2.69

(8) COMMITMENTS AND CONTINGENCIES

(a) HL&P. 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.

HL&P's capital program (exclusive of AFUDC) is presently estimated to cost $478 million in 1994, $381 million in 1995 and $418 million in 1996. These amounts do not include expenditures on projects for which HL&P expects to be reimbursed by customers or other parties.

HL&P has entered into several long-term coal, lignite and natural gas contracts which have various quantity requirements and durations. Minimum obligations for coal and transportation agreements are approximately $167 million in 1994, and $165 million in 1995 and 1996. In addition, the minimum obligations under the lignite mining and lease agreements will be approximately $14 million annually during the 1994-1996 period. HL&P has entered into several gas purchase agreements containing contract terms in excess of one year which provide for specified purchase and delivery obligations. Minimum obligations for natural gas purchase and natural gas storage contracts are approximately $57.4 million in 1994, $58.9 million in 1995 and $60.5 million in 1996. Collectively, the gas supply contracts included in these figures could amount to 11% of HL&P's annual natural gas requirements. The Utility Commission's rules provide for recovery of the coal, lignite and natural gas costs described above through the energy component of HL&P's electric rates. Nuclear fuel costs are also included in the energy component of HL&P's electric rates based on the cost of nuclear fuel consumed in the reactor.

HL&P has commitments to purchase firm capacity from cogenerators of approximately $145 million in 1994, $32 million in 1995 and $22 million in 1996. The Utility Commission's rules allow recovery of these costs through HL&P's base rates for electric service and additionally authorize HL&P to charge or credit customers for any variation in actual purchased power cost 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 three principal firm capacity contracts contain provisions allowing HL&P to suspend or reduce payments and seek repayment for amounts disallowed.

In November 1990, the Clean Air Act was extensively amended by Congress. HL&P has already made an investment in pollution control facilities, and all of its generating facilities currently comply in all material respects with sulfur dioxide emission standards established by the legislation. Provisions of the Clean Air Act dealing with urban air pollution required establishing new emission limitations for nitrogen oxides from existing sources. The cost of modifications necessary to reduce nitrogen oxide emissions from existing sources has been estimated at $29 million in 1994 and $10.5 million in 1995. In addition, continuous emission monitoring regulations are anticipated to require expenditures of $12 million in 1994 and $2 million in 1995. Capital expenditures are expected to total $71 million for the years 1994 through 1996.

The Energy Policy Act of 1992, which became law in October 1992, includes a provision that assesses a fee upon domestic utilities having purchased enrichment services from the Department of Energy before October 22, 1992. This fee is to cover a portion of the cost to decontaminate and decommission the enrichment facilities. It is currently estimated that the assessment to the South Texas Project Electric Generating Station (South Texas Project) will be approximately $4 million in 1994 and approximately $2 million each year thereafter (subject to escalation for inflation), of which HL&P's share is 30.8%. This assessment will continue until the earlier of 15 years or when $2.25 billion (adjusted for inflation) has been collected from domestic utilities. Based on HL&P's actual payment of $579,810 in 1993, it recorded an estimated liability of $8.7 million.

HL&P's service area is heavily dependent on oil, gas, refined products, petrochemicals and related business. Significant adverse events affecting these industries would negatively impact the revenues of the Company and HL&P.

(9) JOINTLY-OWNED NUCLEAR PLANT

(a) HL&P INVESTMENT. HL&P is project manager and one of four co-owners in the South Texas Project, which consists of two 1,250 megawatt nuclear generating units. Unit Nos. 1 and 2 of the South Texas Project achieved commercial operation in August 1988 and June 1989, respectively. Each co-owner funds its own share of capital and operating costs associated with the plant, with HL&P's interest in the project being 30.8%. HL&P's share of the

operation and maintenance expenses is included in electric operation and maintenance expenses on the Company's Statements of Consolidated Income and in the corresponding operating expense amounts on HL&P's Statements of Income.

As of December 31, 1993, HL&P's investments (net of accumulated depreciation and amortization) in the South Texas Project and in nuclear fuel, including AFUDC, were $2.1 billion and $119 million, respectively.

(b) CITY OF AUSTIN LITIGATION. In 1983, the City of Austin (Austin), one of the four co-owners of the South Texas Project, filed a lawsuit against the Company and HL&P alleging that it was fraudulently induced to participate in the South Texas Project and that HL&P failed to perform properly its duties as project manager. After a jury trial in 1989, judgment was entered in favor of HL&P, and that judgment was affirmed on appeal. In May 1993, following the expiration of Austin's rights to appeal to the United States Supreme Court, the judgment in favor of the Company and HL&P became final.

On February 22, 1994, Austin filed a new suit against HL&P. In that suit, filed in the 164th District Court for Harris County, Texas, Austin alleges that the outages at the South Texas Project since February 1993 are 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 asserts that such failures have caused Austin damages of at least $125 million, which are continuing, due to the incurrence of increased operating and maintenance costs, the cost of replacement power and lost profits on wholesale transactions that did not occur. Austin states that it will file a "more detailed" petition at a later date. For a discussion of the 1993 outage, see Note 9(f).

As it did in the litigation filed against HL&P in 1983, Austin asserts that HL&P breached obligations HL&P owed under the Participation Agreement to Austin, and Austin seeks a declaration that HL&P had as duty to exercise reasonable care in the operation and maintenance of the South Texas Project. In that earlier litigation, however, the courts concluded that the Participation Agreement did not impose on HL&P a duty to exercise reasonable skill and care as Project Manager.

Austin also asserts in its new suit that certain terms of a settlement reached in 1992 among HL&P and Central and South West Corporation (CSW) and its subsidiary, Central Power and Light Company (CPL), are invalid and void. The Participation Agreement permits arbitration of certain disputes among the owners, and the challenged settlement terms provide that in any future arbitration, HL&P and CPL would each appoint an arbitrator acceptable to the other. Austin asserts that, as a result of this agreement, the arbitration provisions of the Participation Agreement are void and Austin should not be required to participate in or be bound by arbitration proceedings; alternatively, Austin asserts that HL&P's rights with respect to CPL's appointment of an arbitrator should be shared with all the owners or canceled, and Austin seeks injunctive relief against arbitration of its dispute with HL&P. For a further discussion of the settlement among HL&P, CSW and CPL, see Note 9(c) below.

HL&P and the Company do not believe there is merit to Austin's claims, and they intend to defend vigorously against them. However, there can be no assurance as to the ultimate outcome of this matter.

(c) ARBITRATION WITH CO-OWNERS. During the course of the litigation filed by Austin in 1983, the City of San Antonio (San Antonio) and CPL, the other two co-owners in the South Texas Project, asserted claims for unspecified damages against HL&P as project manager of the South Texas Project, alleging HL&P breached its duties and obligations. San Antonio and CPL requested arbitration of their claims under the Participation Agreement. This matter was severed from the Austin litigation and is pending before the 101st District Court in Dallas County, Texas.

The 101st District Court ruled that the demand for arbitration is valid and enforceable under the Participation Agreement, and that ruling has been upheld by appellate courts. Arbitrators were appointed by HL&P and each of the other co-owners in connection with the District Court's ruling. The Participation Agreement provides that the four appointed arbitrators will select a fifth arbitrator, but that action has not yet occurred.

In 1992, the Company and HL&P entered into a settlement with CPL and CSW, with respect to various matters including the arbitration and related legal proceedings. Pursuant to the settlement, CPL withdrew its demand for arbitration under the Participation Agreement, and the Company, HL&P, CSW and CPL dismissed litigation associated with the dispute. The settlement also resolved other disputes between the parties concerning various transmission agreements and related billing disputes. In addition, the parties also agreed to support, and to seek consent of the other owners of the South Texas Project to, certain amendments to the Participation Agreement, including changes in the management structure of the South Texas Project through which HL&P would be replaced as project manager by an independent entity.

Although settlement with CPL does not directly affect San Antonio's pending demand for arbitration, HL&P and CPL have reached certain other understandings which contemplate that: (i) CPL's arbitrator previously appointed for that proceeding would be replaced by CPL; (ii) arbitrators approved by CPL and HL&P for any future arbitrations will be mutually acceptable to HL&P and CPL; and (iii) HL&P and CPL will resolve any future disputes between them concerning the South Texas Project without resorting to the arbitration provision of the Participation Agreement. The settlement with CPL did not have a material adverse effect on the Company's or HL&P's financial position and results of operations.

In February 1994, San Antonio indicated a desire to move forward with its demand for arbitration and suggested that San Antonio considers all allegations of mismanagement against HL&P to be appropriate subjects for arbitration in that proceeding, not just allegations related to the planning and construction of the South Texas Project. It is unclear what additional allegations San Antonio may make, but it is possible that San Antonio will assert that HL&P has liability for all or some portion of the additional costs incurred by San Antonio due to the 1993 outage of the South Texas Project. For a discussion of that outage see Note 9(f).

HL&P and the Company continue to regard San Antonio's claims to be without merit. From time to time, HL&P and other parties to these proceedings have held discussions with a view toward settling their differences on these matters.

While HL&P and the Company cannot give definite assurance regarding the ultimate resolution of the San Antonio litigation and arbitration, they presently do not believe such resolutions will have a material adverse impact on HL&P's or the Company's financial position and results of operations.

(d) NUCLEAR INSURANCE. HL&P and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverages as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain $500 million in primary property damage insurance from American Nuclear Insurers (ANI). Effective November 15, 1993, the maximum amounts of excess property insurance available through the insurance industry increased from $2.125 billion to $2.2 billion. This $2.2 billion of excess property insurance coverage includes $800 million of excess insurance from ANI and $1.4 billion of excess property insurance coverage through participation in the Nuclear Electric Insurance Limited (NEIL) II program. The owners of the South Texas Project have approved the purchase of the additional available excess property insurance coverage. Additionally, effective January 1, 1994, ANI will be increasing their excess property insurance limits to $850 million, and the owners of the South Texas Project have also approved the purchase of the additional limits at the March 1, 1994 renewal for ANI excess property insurance. Under NEIL II, HL&P and the other owners of the South Texas Project are subject to a maximum assessment, in the aggregate, of approximately $15.9 million in any one policy year. The application of the proceeds of such property insurance is subject to the priorities established by the United States Nuclear Regulatory Commission (NRC) regulations relating to the safety of licensed reactors and decontamination operations.

Pursuant to the Price Anderson Act, the maximum liability to the public for owners of nuclear power plants, such as the South Texas Project, was increased from $7.9 billion to $9.3 billion effective February 18, 1994. 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. Effective August 20, 1993, the assessment of deferred premiums provided by the plan for each nuclear incident has increased from $63 million to up to $75.5 million per reactor subject to indexing for inflation, a possible 5% surcharge (but no more than $10 million per reactor per incident in any one year) and a 3% 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.

(e) NUCLEAR DECOMMISSIONING. HL&P and the other co-owners of the South Texas Project are required by the NRC to meet minimum decommissioning funding requirements to pay the costs of decommissioning the South Texas Project. Pursuant to the terms of the order of the Utility Commission in Docket No. 9850, HL&P is currently funding decommissioning costs for the South Texas Project with an independent trustee at an annual amount of $6 million.

As of December 31, 1993, the trustee held approximately $18.7 million for decommissioning, for which the asset and liability are reflected on the Company's Consolidated and HL&P's Balance

Sheets in deferred debits and deferred credits, respectively. HL&P's funding level is estimated to provide approximately $146 million in 1989 dollars, an amount which currently exceeds the NRC minimum. However, the South Texas Project co-owners have engaged an outside consultant to review the estimated decommissioning costs of the South Texas Project which review should be completed by the end of 1994. While changes to present funding levels, if any, cannot be estimated at this time, a substantial increase in funding may be necessary. No assurance can be given that the amounts held in trust will be adequate to cover the decommissioning costs.

(f) NRC INSPECTIONS AND OPERATIONS. Both generating units at the South Texas Project were out of service from February 1993 to February 1994, when Unit No. 1 was authorized by the NRC to return to service. Currently, Unit No. 1 is out of service for repairs to a small steam generator leak encountered following the unit's shutdown to repair a feedwater control valve. Those repairs are scheduled for completion by mid-March 1994, and no formal NRC approval is required to resume operation of Unit No. 1. Unit No. 2 is currently scheduled to resume operation after completion of regulatory reviews, in the spring of 1994. HL&P removed the units from service in February 1993 when a problem was encountered with certain pumps. At that time HL&P concluded that the units should not resume operation until HL&P had determined the root cause of the failure and had briefed the NRC and corrective action had been taken. The NRC formalized that commitment in a Confirmatory Action Letter, which confirmed that HL&P would not resume operations until it had briefed the NRC on its findings and actions. Subsequently, that Confirmatory Action Letter was supplemented by the NRC to require HL&P, prior to resuming operations, to address additional matters which were identified during the course of analyzing the issues associated with the original pump failure and during various subsequent NRC inspections and reviews.

In June 1993, the NRC announced that the South Texas Project had been placed on the NRC's "watch list" of plants with "weaknesses that warrant increased NRC attention." Plants in this category are authorized to operate but are subject to close monitoring by the NRC. The NRC reviews the status of plants on this list semi-annually, but HL&P does not anticipate that the South Texas Project would be removed from that list until there has been a period of operation for both units, and the NRC concludes that the concerns which led the NRC to place the South Texas Project on that list have been satisfactorily addressed.

The NRC's decision to place the South Texas Project on its "watch list" followed the June 1993 issuance of a report by its Diagnostic Evaluation Team (DET) which conducted a review of the South Texas Project in the spring of 1993 and identified a number of areas requiring improvement at the South Texas Project. Conducted infrequently, NRC diagnostic evaluations do not evaluate compliance with NRC regulations but are broad-based evaluations of overall plant operations and are intended to review the strengths and weaknesses of the licensee's performance and to identify the root cause of performance problems.

The DET report found, among other things, weaknesses in maintenance and testing, deficiencies in training and in the material condition of some equipment, strained staffing levels in operations and several weaknesses in engineering support. The report cited the need to reduce backlogs of engineering and maintenance work and to simplify work processes which, the DET found, placed excessive burdens on operating and other plant personnel. The report also identified the need to strengthen management communications, oversight and teamwork as well as the capability to identify and correct the root causes of problems. The DET also expressed concern with regard to the adequacy of resources committed to resolving issues at the South Texas Project but noted that many issues had already been identified and were being addressed by HL&P.

In response to the DET report, HL&P presented its plan to address the issues raised in that report and began its action program to address those concerns. While those programs were being implemented, HL&P also initiated additional activities and modifications that were not previously scheduled during 1993 but which are designed to eliminate the need for some future outages and to enhance operations at the South Texas Project. The NRC conducted additional inspections and reviews of HL&P's plans and agreed in February 1994 that HL&P's progress in addressing the NRC's concerns had satisfied the issues raised in the Confirmatory Action Letter with respect to Unit No. 1. The NRC concurred in HL&P's determination that Unit No. 1 could resume operation. Work is now underway to address the NRC's concerns with respect to Unit No. 2, which HL&P anticipates will not require as extensive an effort as was required by the NRC for Unit No. 1. However, difficulties encountered in completing actions required on Unit No. 2 and any additional issues which may be raised in the conduct of those activities or in the operation of Unit No. 1 could adversely affect the anticipated schedule for resuming operation of Unit No. 2. During the outage, HL&P has not had, and does not anticipate having, difficulty in meeting its energy needs.

During the outage, both fuel and non-fuel expenditures have been higher for HL&P than levels originally projected for the year.

HL&P's non-fuel expenditures for the South Texas Project during 1993 were approximately $115 million greater than originally budgeted levels (of which HL&P's share was $35 million) for work undertaken in connection with the DET and for other initiatives taken during the year. It is expected that, subsequent to 1993, operation and maintenance costs will continue to be higher than previous levels in order to support additional initiatives developed in 1993. Fuel costs also were necessarily higher due to the use of higher cost alternative fuels. However, these increased expenditures are expected to be offset to some extent by savings from future outages that can now be avoided as a result of activities accelerated into 1993 and from overall improvement in operations resulting from implementing the programs developed during the outage. For a discussion of regulatory treatment related to the outage, see Notes 10(f) and 10(g).

During 1993, the NRC imposed a total of $500,000 in civil penalties (of which HL&P's share was $154,000) in connection with violations of NRC requirements.

In March 1993, a Houston newspaper reported that the NRC had referred to the Department of Justice allegations that the employment of three former employees and an employee of a contractor to HL&P had been terminated or disrupted in retaliation for their having made safety-related complaints to the NRC. Such retaliation, if proved, would be contrary to requirements of the Atomic Energy Act and regulations promulgated by the NRC. The NRC has confirmed to HL&P that these matters have been referred to the Department of Justice for consideration of further action and has notified HL&P that the NRC is considering enforcement action against HL&P and one or more HL&P employees in connection with one of those cases. HL&P has been advised by counsel that most referrals by the NRC to the Department of Justice do not result in prosecutions. The Company and HL&P strongly believe that the facts underlying these events would not support action by the Department of Justice against HL&P or any of its personnel; accordingly, HL&P intends to defend vigorously against such charges. HL&P also intends to defend vigorously against civil proceedings filed in the state court in Matagorda County, Texas, by the complaining employees and against administrative proceedings before the Department of Labor and the NRC, which, independently of the Department of Justice, could impose administrative sanctions if they find violations of the Atomic Energy Act or the NRC regulations. These administrative sanctions may include civil penalties in the case of the NRC and, in the case of the Department of Labor, ordering reinstatement and back pay and/or imposing civil penalties. Although the Company and HL&P do not believe these allegations have merit or will have a material adverse effect on the Company or HL&P, neither the Company nor HL&P can predict at this time their outcome.

(10) UTILITY COMMISSION PROCEEDINGS

Pursuant to a series of applications filed by HL&P in recent years, the Utility Commission has granted HL&P rate increases to reflect in electric rates HL&P's substantial investment in new plant construction, including the South Texas Project. Although Utility Commission action on those applications has been completed, judicial review of a number of the Utility Commission orders is pending. 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. The pending appeals from the Utility Commission orders are in various stages. In the event the courts ultimately reverse actions of the Utility Commission in any of these proceedings, such matters would be remanded to the Utility Commission for action in light of the courts' orders. Because of the number of variables which can affect the ultimate resolution of such matters on remand, the Company and HL&P generally are not in a position at this time to predict the outcome of the matters on appeal or the ultimate effect that adverse action by the courts could have on the Company and HL&P. On remand, the Utility Commission's action could range from granting rate relief substantially equal to the rates previously approved, to a reduction in 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.

Judicial review has been concluded or currently is pending on the final orders of the Utility Commission described below.

(a) DOCKET NOS. 6765, 6766 AND 5779. In February 1993, the Austin Court of Appeals granted a motion by the Office of Public Utility Counsel (OPC) to voluntarily dismiss its appeal of the Utility Commission's order in HL&P's 1984 rate case (Docket No. 5779). In December 1993, the Supreme Court of Texas granted a similar motion by OPC to dismiss its appeal of the Utility Commission's order in HL&P's 1986 rate case (Docket Nos. 6765 and 6766). As a result, appellate review of the Utility Commission's orders in those dockets has been concluded, and the orders have been affirmed.

(b) DOCKET NO. 8425. In October 1992, a District Court in Travis

County, Texas affirmed the Utility Commission's order in HL&P's 1988 rate case (Docket No. 8425). An appeal to the Austin Court of Appeals is pending. In its final order in that docket, the Utility Commission granted HL&P a $227 million increase in base revenues, allowed a 12.92% return on common equity, authorized a qualified phase-in plan for Unit No. 1 of the South Texas Project (including approximately 72% of HL&P's investment in Unit No. 1 of the South Texas Project in rate base) and authorized HL&P to use deferred accounting for Unit No. 2 of the South Texas Project. Rates substantially corresponding to the increase granted were implemented by HL&P in June 1989 and remained in effect until May 1991.

In the appeal of the Utility Commission's order, certain parties have challenged the Utility Commission's decision regarding deferred accounting, treatment of federal income tax expense and certain other matters. A recent decision of the Austin Court of Appeals, in an appeal involving another utility (and to which HL&P was not a party), adopted some of the arguments being advanced by parties challenging the Utility Commission's order in Docket No. 8425. In that case, PUBLIC UTILITY COMMISSION OF TEXAS VS. GTE-SW, the Austin Court of Appeals ruled that when a utility pays federal income taxes as part of a consolidated group, the utility's ratepayers are entitled to a fair share of the tax savings actually realized, which can include savings resulting from unregulated activities. The Texas Supreme Court has agreed to hear an appeal of that decision, but on points not involving the federal income tax issues, though tax issues could be decided in such opinion.

In its final order in Docket No. 8425, the Utility Commission did not reduce HL&P's tax expense by any of the tax savings resulting from the Company's filing of a consolidated tax return. Although the GTE decision was not legally dispositive of the tax issues presented in the appeal of Docket No. 8425, it is possible that the Austin Court of Appeals could utilize the reasoning in GTE in addressing similar issues in the appeal of Docket No. 8425. However, in February 1993 the Austin Court of Appeals, considering an appeal involving another telephone utility, upheld Utility Commission findings that the tax expense for the utility included the utility's fair share of the tax savings resulting from a consolidated tax return, even though the utility's fair share of the tax savings was determined to be zero. HL&P believes that the Utility Commission findings in Docket No. 8425 and in Docket No. 9850 (see Note 10(c)) should be upheld on the same principle (i.e., that the Utility Commission determined that the fair share of tax savings to be allocated to ratepayers is determined to be zero). However, no assurance can be made as to the ultimate outcome of this matter.

The Utility Commission's order in Docket No. 8425 may be affected also by the ultimate resolution of appeals concerning the Utility Commission's treatment of deferred accounting. For a discussion of appeals of the Utility Commission's orders on deferred accounting, see Notes 10(e) and 11.

(c) DOCKET NO. 9850. In August 1992, a district court in Travis County affirmed the Utility Commission's final order in HL&P's 1991 rate case (Docket No. 9850). That decision was appealed by certain parties to the Austin Court of Appeals, raising issues concerning the Utility Commission's approval of a non-unanimous settlement in that docket, the Utility Commission's calculation of federal income tax expense and the allowance of deferred accounting reflected in the settlement. In August 1993, the Austin Court of Appeals affirmed on procedural grounds the ruling by the Travis County District Court, and applications for writ of error were filed with the Supreme Court of Texas by one of the other parties to the proceeding. The Supreme Court has not yet ruled on these applications. In Docket No. 9850, the Utility Commission approved a settlement agreement reached with most parties. That settlement agreement provided for a $313 million increase in HL&P's base rates, termination of deferrals granted with respect to Unit No. 2 of the South Texas Project and of the qualified phase-in plan deferrals granted with respect to Unit No. 1 of the South Texas Project, and recovery of deferred plant costs. The settlement authorized a 12.55% return on common equity for HL&P, and HL&P agreed not to request additional increases in base rates that would be implemented prior to May 1, 1993. Rates contemplated by that settlement agreement were implemented in May 1991 and remain in effect.

The Utility Commission's order in Docket No. 9850 found that HL&P would have been entitled to more rate relief than the $313 million agreed to in the settlement, but certain recent actions of the Austin Court of Appeals could, if ultimately upheld and applied to the appeal of Docket No. 9850, require a remand of that settlement to the Utility Commission. HL&P believes that the amount which the Utility Commission found HL&P was entitled to would exceed any disallowance that would have been required under the Austin Court of Appeals' ruling regarding deferred accounting (see Notes 10(e) and 11) or any adverse effect on the calculation of tax expense if the court's ruling in the GTE decision were applied to that settlement (see Note 10(b) above). However, the amount of rate relief to which the Utility Commission found HL&P to be entitled in excess of the $313 million agreed to in the settlement may not be sufficient if the reasoning in both the GTE decision and the ruling on deferred accounting were to be applied to the settlement agreement in

Docket No. 9850. Although HL&P believes that it should be entitled to demonstrate entitlement to rate relief equal to that agreed to in the stipulation in Docket No. 9850, HL&P cannot rule out the possibility that a remand and reopening of that settlement would be required if decisions unfavorable to HL&P are rendered on both the deferred accounting treatment and the calculation of tax expense for ratemaking purposes.

(d) DOCKET NO. 6668. In June 1990, the Utility Commission issued the final order in Docket No. 6668, the Utility Commission's inquiry into the prudence of the planning, management and construction of the South Texas Project. The Utility Commission's findings and order in Docket No. 6668 were incorporated in Docket No. 8425, HL&P's 1988 general rate case. Pursuant to the findings in Docket No. 6668, the Utility Commission found imprudent $375.5 million out of HL&P's $2.8 billion investment in the two units of the South Texas Project.

The Utility Commission's findings did not reflect $207 million in benefits received in a settlement of litigation with the former architect-engineer of the South Texas Project or the effects of federal income taxes, investment tax credits or certain deferrals. In addition, accounting standards require that the equity portion of AFUDC accrued for regulatory purposes under deferred accounting orders be utilized to determine the cost disallowance for financial reporting purposes. After taking all of these items into account, HL&P recorded an after-tax charge of $15 million in 1990 and continued to reduce such loss with the equity portion of deferrals in 1991 related to Unit No. 2 of the South Texas Project. The findings in Docket No. 6668 represent the Utility Commission's final determination regarding the prudence of expenditures associated with the planning and construction of the South Texas Project. Unless the order is modified or reversed on appeal, HL&P will be precluded from recovering in rate proceedings the amount found imprudent by the Utility Commission.

Appeals by HL&P and other parties of the Utility Commission's order in Docket No. 6668 were dismissed by a District Court in Travis County in May 1991. However, in December 1992 the Austin Court of Appeals reversed the District Court's dismissals on procedural grounds. HL&P and other parties have filed applications for writ of error with the Supreme Court of Texas concerning the order by the Austin Court of Appeals, but unless the order is modified on further review, HL&P anticipates that the appeals of the parties will be reinstated and that the merits of the issues raised in those appeals of Docket No. 6668 will be considered by the District Court, with the possibility of subsequent judicial review once the District Court has acted on those appeals. In addition, separate appeals are pending from Utility Commission orders in Docket Nos. 8425 and 9850, in which the findings of the order in Docket No. 6668 are reflected in rates. See Notes 10(b) and 10(c).

(e) DOCKET NOS. 8230 AND 9010. Deferred accounting treatment for Unit No. 1 of the South Texas Project was authorized by the Utility Commission in Docket No. 8230 and was extended in Docket No. 9010. Similar deferred accounting treatment with respect to Unit No. 2 of the South Texas Project was authorized in Docket No. 8425. For a discussion of the deferred accounting treatment granted, see Note 11. In September 1992, the Austin Court of Appeals, in considering the appeal of the Utility Commission's final order in Docket Nos. 8230 and 9010, upheld the Utility Commission's action in granting deferred accounting treatment for operation and maintenance expenses, but rejected such treatment for the carrying costs associated with the investment in Unit No. 1 of the South Texas Project. That ruling followed the Austin Court of Appeals decision rendered in August 1992, on a motion for rehearing, involving another utility which had been granted similar deferred accounting treatment for another nuclear plant. In its August decision, the court ruled that Texas law did not permit the Utility Commission to allow the utility to place the carrying costs associated with the investment in the utility's rate base, though the court observed that the Utility Commission could allow amortization of such costs.

The Supreme Court of Texas has granted applications for writ of error with respect to the Austin Court of Appeals decision regarding Docket Nos. 8230 and 9010. The Supreme Court of Texas has also granted applications for writ of error on three other decisions by the Austin Court of Appeals regarding deferred accounting treatment granted to other utilities by the Utility Commission. The Supreme Court heard oral arguments on these appeals on September 13, 1993. The court has not yet ruled.

(f) DOCKET NO. 12065. HL&P is not currently seeking authority to change its base rates for electric service, but the Utility Commission has authority to initiate a rate proceeding pursuant to Section 42 of the Public Utility Regulatory Policy Act (PURA) to determine whether existing rates are unjust or unreasonable. In 1993, the Utility Commission referred to an administrative law judge (ALJ) the complaint of a former employee of HL&P seeking to initiate such a proceeding.

On February 23, 1994, the ALJ concluded that a Section 42 proceeding should be conducted and that HL&P should file full information, testimony and schedules justifying its rates. The ALJ acknowledged that the decision was a close one, and is

subject to review by the Utility Commission. However, he concluded that information concerning HL&P's financial results as of December 1992 indicated that HL&P's adjusted revenues could be approximately $62 million (or 2.33% of its adjusted base revenues) more than might be authorized in a current rate proceeding. The ALJ's conclusion was based on various accounting considerations, including use of a different treatment of federal income tax expense than the method utilized in HL&P's last rate case. The ALJ also found that there could be a link between the 1993 outage at the South Texas Project, the NRC's actions with respect to the South Texas Project and possible mismanagement by HL&P, which in turn could result in a reduction of HL&P's authorized rate of return as a penalty for imprudent management.

HL&P and the Company believe that the examiner's analysis is incorrect, that the South Texas Project has not been imprudently managed, and that ordering a Section 42 proceeding at this time is unwarranted and unnecessarily expensive and burdensome. HL&P has appealed the ALJ's decision to the Utility Commission.

If HL&P ultimately is required to respond to a Section 42 inquiry, it will assert that it remains entitled to rates at least at the levels currently authorized. However, there can be no assurance as to the outcome of a Section 42 proceeding if it is ultimately authorized, and HL&P's rates could be reduced following a hearing. HL&P believes that any reduction in base rates as a result of a Section 42 inquiry would take effect prospectively.

HL&P is also a defendant in a lawsuit filed in a Fort Bend County, Texas, district court by the same former HL&P employee who originally initiated the Utility Commission complaint concerning HL&P's rates. In that suit, Pace and Scott v. HL&P, the former employee contends that HL&P is currently charging illegal rates since the rates authorized by the Utility Commission do not allocate to ratepayers tax benefits accruing to the Company and to HL&P by virtue of the fact that HL&P's federal income taxes are paid as part of a consolidated group. HL&P is seeking dismissal of that suit because in Texas exclusive jurisdiction to set electric utility rates is vested in municipalities and in the Utility Commission, and the courts have no jurisdiction to set such rates or to set aside authorized rates except through judicial appeals of Utility Commission orders in the manner prescribed in applicable law. Although substantial damages have been claimed by the plaintiffs in that litigation, HL&P and the Company consider this litigation to be wholly without merit, and do not presently believe that it will have a material adverse effect on the Company's or HL&P's results of operations, though no assurances can be given as to its ultimate outcome at this time.

(g) FUEL RECONCILIATION. HL&P recovers fuel costs incurred in electric generation through a fixed fuel factor that is set by the Utility Commission. The difference between fuel revenues billed pursuant to such factor and fuel expense incurred is recorded as an addition to or a reduction of revenues, with a corresponding entry to under- or over-recovered fuel, as appropriate. Amounts collected pursuant to the fixed fuel factor must be reconciled periodically by the Utility Commission against actual, reasonable costs as determined by the Utility Commission. Any fuel costs which the Utility Commission determines are unreasonable in a fuel reconciliation proceeding would not be recoverable from customers, and a charge against earnings would result. Under Utility Commission rules, HL&P is required to file an application to reconcile those costs in 1994. Such a filing would also be required in conjunction with any rate proceeding that may be filed, such as the Section 42 proceeding described in Note 10(f).

Unless filed earlier in conjunction with a rate proceeding, HL&P currently anticipates filing its fuel reconciliation application in the fourth quarter of 1994 in accordance with a schedule proposed by the Utility Commission staff. If that schedule is approved by the Utility Commission, HL&P anticipates that fuel costs through some time in 1994 will be submitted for reconciliation. No hearing would be anticipated in that reconciliation proceeding before 1995.

The schedule for a fuel reconciliation proceeding could be affected by the institution of a prudence inquiry concerning the outage at the South Texas Project. The Utility Commission staff has indicated a desire to conduct an inquiry into the prudence of HL&P's management prior to and during the outage, but it is currently unknown what action the Utility Commission will take on that request or what the nature and scope of any such proceeding would be. Such an inquiry could also be conducted in connection with a rate proceeding under Section 42 of PURA if one is instituted by the Utility Commission.

Through the end of 1993, HL&P had recovered through the fuel factor approximately $115 million (including interest) less than the amounts expended for fuel, a significant portion of which under recovery occurred in 1993 during the outage at the South Texas Project. In any review of costs incurred during the period of the 1993 outage at the South Texas Project, it is anticipated that other parties will contend that a portion of fuel costs incurred should be attributed to imprudence on the part of HL&P and thus should be disallowed as unreasonable, with recovery from

ratepayers denied. Those amounts could be substantial. HL&P intends to defend vigorously against any allegation that its actions have been imprudent or that any portion of its costs incurred should be judged to be unreasonable, but no prediction can be made as to the ultimate outcome of such a proceeding.

(11) DEFERRED PLANT COSTS

Deferred plant costs were authorized for the South Texas Project by the Utility Commission in two contexts. In the first context, or "deferred accounting," the Utility Commission orders permitted HL&P, for regulatory purposes, to continue to accrue carrying costs in the form of AFUDC (at a 10% rate) on its investment in the two units of the South Texas Project until costs of such units were reflected in rates (which was July 1990 for approximately 72% of Unit No. 1, and May 1991 for the remainder of Unit No. 1 and 100% of Unit No. 2) and to defer and capitalize depreciation, operation and maintenance, insurance and tax expenses associated with such units during the deferral period. Accounting standards do not permit the accrual of the equity portion of AFUDC for financial reporting purposes under these circumstances. However, in accordance with accounting standards, such amounts were utilized to determine the amount of plant cost disallowance for financial reporting purposes.

The deferred expenses and the debt portion of the carrying costs associated with the South Texas Project are included on the Company's Statements of Consolidated Income in deferred expenses and deferred carrying costs, respectively.

Beginning with the June 1990 order in Docket No. 8425, deferrals were permitted in a second context, a "qualified phase-in plan" for Unit No. 1 of the South Texas Project. Accounting standards require allowable costs deferred for future recovery under a qualified phase-in plan to be capitalized as a deferred charge if certain criteria are met. The qualified phase-in plan as approved by the Utility Commission meets these criteria.

During the period June 1990 through May 15, 1991, HL&P deferred depreciation and property taxes related to the 28% of its investment in Unit No. 1 of the South Texas Project not reflected in the Docket No. 8425 rates and recorded a deferred return on that investment as part of the qualified phase-in plan. Deferred return represents the financing costs (equity and debt) associated with the qualified phase-in plan. The deferred expenses and deferred return related to the qualified phase-in plan are included on the Company's Statements of Consolidated Income and HL&P's Statements of Income in deferred expenses and deferred return under phase-in plan, respectively. Under the phase-in plan, these accumulated deferrals will be recoverable within ten years of the June 1990 order.

On May 16, 1991, HL&P implemented under bond, in Docket No. 9850, a $313 million base rate increase consistent with the terms of the settlement. Accordingly, HL&P ceased all cost deferrals related to the South Texas Project and began the recovery of such amounts. These deferrals are being amortized on a straight-line basis as allowed by the final order in Docket No. 9850. The amortization of these deferrals totaled $25.8 million for both 1993 and 1992 and $16.1 million in 1991, and is included on the Company's Statements of Consolidated Income and HL&P's Statements of Income in depreciation and amortization expense. See also Notes 10(b), 10(c) and 10(e).

The following table shows the original balance of the deferrals and the unamortized balance at December 31, 1993.

	Original Balance	Balance at December 31, 1993
	(Thousands of Dollars)	
Deferred Accounting: (a)		
Deferred Expenses	$ 250,151	$ 233,341
Deferred Carrying Costs on Plant Investment	399,972	373,094
Total	650,123	606,435
Qualified Phase-In Plan: (b)	82,254	58,264
Total Deferred Plant Cost	$ 732,377	$ 664,699

(a) Amortized over the estimated depreciable life of the South Texas Project.

(b) Amortized over nine years beginning in May 1991.

As of December 31, 1993, HL&P has recorded deferred income taxes of $200.9 million with respect to deferred accounting and $14.5 million with respect to the deferrals associated with the qualified phase-in plan.

(12) MALAKOFF ELECTRIC GENERATING STATION

The scheduled in-service dates for the Malakoff Electric

Generating Station (Malakoff) units were postponed during the 1980's as expectations of continued strong load growth were tempered. These units have been indefinitely deferred due to the availability of other cost effective resource options. In 1987, all developmental work was stopped and AFUDC accruals ceased.

Due to the indefinite postponement of the in-service date for Malakoff, the engineering design work is no longer considered viable. The costs associated with this engineering design work are currently included in rate base and are earning a return per the Utility Commission's final order in Docket No. 8425. Pursuant to HL&P's determination that such costs will have no future value, $84.1 million was reclassified from plant held for future use to recoverable project costs as of December 31, 1992. An additional $7.0 million was reclassified to recoverable project costs in 1993. Amortization of these amounts began in 1993. Amortization amounts will correspond to the amounts being earned as a result of the inclusion of such costs in rate base. The Utility Commission's action in allowing treatment of those costs as plant held for future use has been challenged in the pending appeal of the Utility Commission's final order in Docket No. 8425. Also, recovery of such Malakoff costs may be addressed if rate proceedings are initiated such as that proposed under Section 42 of PURA. See Notes 10(b) and 10(f) for a discussion of these respective proceedings.

In June 1990, HL&P purchased from its then fuel supply affiliate, Utility Fuels, all of Utility Fuels' interest in the lignite reserves and lignite handling facilities for Malakoff. The purchase price was $138.2 million, which represented the net book value of Utility Fuels' investment in such reserves and facilities. As part of the June 1990 rate order (Docket No. 8425), the Utility Commission ordered that issues related to the prudence of the amounts invested in the lignite reserves be considered in HL&P's next general rate case which was filed in November 1990 (Docket No. 9850). However, under the October 1991 Utility Commission order in Docket No. 9850, this determination was postponed to a subsequent docket.

HL&P's remaining investment in Malakoff through December 31, 1993 of $167 million, consisting primarily of lignite reserves and land, is included on the Company's Consolidated and HL&P's Balance Sheets in plant held for future use. For the 1994-1996 period, HL&P anticipates $14 million of expenditures relating to lignite reserves, primarily to keep lignite leases and other related agreements in effect.

ITEM 3. LEGAL PROCEEDINGS.

For a description of certain legal and regulatory proceedings affecting the Company and its subsidiaries, see Notes 9 through 12 to the Company's Consolidated and HL&P's Financial Statements in Item 8 of this Report, which notes are incorporated herein by reference.

In August 1993, HL&P entered into a Consent Agreement with the EPA that resolved three Administrative Orders issued by the EPA in 1991 and 1992 regarding alleged violations of certain provisions of the Clean Water Act at Limestone during the period 1989 through 1992. Pursuant to the Consent Agreement, HL&P, while neither admitting nor denying the allegations contained in the complaint, agreed to pay the EPA $87,500. On August 29, 1991, the EPA issued an Administrative Order related to alleged noncompliance at W. A. Parish. HL&P has taken action to address the issues cited by the EPA and believes them to be substantially resolved at this time.

From time to time, HL&P sells equipment and material it no longer requires for its business. In the past, some purchasers may have improperly handled the material, principally through improper disposal of oils containing PCBs used in older transformers. Claims have been asserted against HL&P for clean-up of environmental contamination as well as for personal injury and property damages resulting from the purchasers' alleged improper activities. Although HL&P has disputed its responsibility for the actions of such purchasers, HL&P has, in some cases, participated in or contributed to the remediation of those sites. Such undertakings in the past have not required material expenditures by HL&P. In 1990, HL&P, together with other companies, participated in the clean-up of one such site. Three suits have been brought against HL&P and a number of other parties for personal injury and property damages in connection with that site and its cleanup. In two of the cases, Dumes, et al. vs. Houston Lighting & Power Company, et al., pending in the United States District Court for the Southern District of Texas, Corpus Christi Division, and Trevino, et al. vs. Houston Lighting & Power Company, et al., pending before the 117th District Court of Nueces County, Texas, landowners near the site are seeking damages primarily for lead contamination to their property. A third lawsuit, Holland vs. Central Power and Light Company, et al., involving an allegation of exposure to PCBs disposed of at the site, was dismissed pursuant to a settlement agreement entered into by the parties in July 1993. The terms of the settlement were not material. In all these cases, HL&P has disputed its responsibility for the actions of the disposal site operator and whether injuries or damages occurred. In addition, Gulf States has filed suit in the United States District Court for the Southern District of Texas, Houston Division, against HL&P and two other utilities concerning another site in Houston, Texas, which allegedly has been contaminated by PCBs and which Gulf States has undertaken to remediate pursuant to an EPA order. Gulf States seeks contribution from HL&P and the other utilities for Gulf States' remediation costs. HL&P does not currently believe that it has any responsibility for that site, and HL&P has not been determined by the EPA to be a responsible party for that site. Discovery is underway in all these pending cases and, although their ultimate outcomes cannot be predicted at this time, HL&P and the Company believe, based on information currently available, that none of these cases will result in a material adverse effect on the Company's or HL&P's financial condition or results of operations.

For information with respect to the EPA's identification of HL&P as a "potentially responsible party" for remediation of a CERCLA site adjacent to one of HL&P's transmission lines in Harris County, see "Liquidity and Capital Resources - HL&P - Environmental Expenditures" in Item 7 of this Report, which information is incorporated herein by reference.

HL&P and the other owners of the South Texas Project have filed suit against Westinghouse in the District Court for Matagorda County, Texas (Cause No. 90-S-0684-C), alleging breach of warranty and misrepresentation in connection with the steam generators supplied by Westinghouse for the South Texas Project. In recent years, other utilities have encountered stress corrosion cracking in steam generator tubes in Westinghouse units similar to those supplied for the South Texas Project. Failure of such tubes can result in a reduction of plant efficiency, and, in some cases, utilities have replaced their steam generators. During an inspection concluded in the fall of 1993, evidence was found of stress corrosion cracking consistent with that encountered with Westinghouse steam generators at other facilities, and a small number of tubes were found to require plugging. To date, stress corrosion cracking has not had a significant impact on operation of either unit; however, the owners of the South Texas Project have approved remedial operating plans and have undertaken expenditures to minimize and delay further corrosion. The litigation, which is in discovery, seeks appropriate damages and other relief from Westinghouse and is currently scheduled for trial in the fall of 1994. No prediction can be made as to the ultimate outcome of that litigation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For a description of legal proceedings affecting the Company and its subsidiaries, including HL&P, reference is made to the information set forth in Item 3 of the 1993 Combined Form 10-K and Notes 9, 10 and 11 to the Company's Consolidated and HL&P's Financial Statements in Item 8 of the 1993 Combined Form 10-K, which information, as qualified and updated by the description of developments in regulatory and litigation matters contained in Notes 10, 11 and 12 of the Notes to the Company's Consolidated and HL&P's Financial Statements included in Part I of this Form 10-Q, is incorporated herein by reference.

In April 1994, two former employees of HL&P filed a lawsuit against the Company, HL&P and certain executive officers and directors of the Company and HL&P. In this lawsuit (PACE AND FUENTEZ V. THE COMPANY, HL&P, ET AL.), the former employees alleged that certain officers and directors of the Company and HL&P had engaged in various acts of mismanagement. The lawsuit, which purports to have been filed as a class action and shareholder derivative suit on behalf of all shareholders of the Company, is pending in the 212th Judicial District Court of Galveston County, Texas. Management believes that the suit is without merit.

In April 1994, the state district judge of the 268th Judicial District Court, Fort Bend County, Texas, dismissed for lack of subject matter jurisdiction a suit (PACE AND SCOTT V. HL&P) filed by two former employees of HL&P, who alleged that HL&P was charging illegal rates. The claim was based on the argument that the Utility Commission had failed to allocate to ratepayers the alleged tax benefits accruing to the Company and HL&P by virtue of the fact that HL&P's federal income taxes are paid as part of a consolidated group.

In March 1994, the United States District Court for the Southern District of Texas granted summary judgment in favor of the Company and HL&P and dismissed a lawsuit filed by former HL&P employees who claimed that their employment had been terminated in violation of the WORKER ADJUSTMENT AND RETRAINING NOTIFICATION ACT (WARN). In a separate order, another judge of the United States District Court for the Southern District of Texas granted summary judgment in favor of the Company and HL&P on the validity of releases executed by most of the employees who had been terminated in the 1992 reduction which gave rise to the claims under the WARN Act. The question of the validity of those releases in the WARN Act case and in other pending cases involving that staff reduction was consolidated for decision. Notices of appeal to the United States Court of Appeals for the Fifth Circuit have been filed from both decisions. Other legal proceedings, which the Company and HL&P believe to be immaterial and without merit, have been filed by former employees of HL&P seeking damages alleged to have been caused by that staff reduction. Although there can be no assurance that additional proceedings asserting labor related claims will not be filed, the Company and HL&P believe that the resolution of these claims will not have a material adverse effect on the Company's or HL&P's results of operations.

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)

		Six Months Ended June 30, 1994	Twelve Months Ended June 30, 1994
Fixed Charges as Defined:			
(1)	Interest on Long-Term Debt	$ 123,399	$ 258,991
(2)	Other Interest	4,749	8,045
(3)	Amortization of (Premium) Discount	4,241	8,149
(4)	Interest Component of Rentals Charged to Operating Expense	1,909	4,151
(5)	Total Fixed Charges	$ 134,298	$ 279,336
Earnings as Defined:			
(6)	Net Income	$ 200,840	$ 529,791
(7)	Cumulative Effect of Change in Accounting for Postemployment Benefits	8,200	8,200
(8)	Income Before Cumulative Effect of Change in Accounting for Postemployment Benefits	209,040	537,991
Federal Income Taxes:			
(9)	Current	76,761	138,469
(10)	Deferred (Net)	27,407	139,032
(11)	Cumulative Effect of Change in Accounting for Postemployment Benefits	4,415	4,415
(12)	Total Federal Income Taxes Before Cumulative Effect of Change in Accounting for Postemployment Benefits	108,583	281,916
(13)	Fixed Charges (line 5)	134,298	279,336
(14)	Earnings Before Income Taxes and Fixed Charges (line 8 plus line 12 plus line 13)	$ 451,921	$1,099,243
	Ratio of Earnings to Fixed Charges (line 14 divided by line 5)	3.37	3.94
Preferred Dividends Requirements:			
(15)	Preferred Dividends	$ 16,676	$ 33,214
(16)	Less Tax Deduction for Preferred Dividends	27	54
(17)	Total	16,649	33,160
(18)	Ratio of Pre-Tax Income to Net Income (line 8 plus line 12 divided by line 8)	1.52	1.52
(19)	Line 17 times line 18	25,306	50,403
(20)	Add Tax Deduction for Preferred Dividends (line 16)	27	54
(21)	Preferred Dividends Factor	$ 25,333	$ 50,457
(22)	Fixed Charges (line 5)	$ 134,298	$ 279,336
(23)	Preferred Dividends Factor (line 21)	25,333	50,457
(24)	Total	$ 159,631	$ 329,793
Ratio of Earnings to Fixed Charges and Preferred Dividends (line 14 divided by line 24)		2.83	3.33