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, 1996

OR

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

For the transition period from _____ to _____

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Commission file number 1-7629

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

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

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

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Commission file number 1-3187

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

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

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

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes X No
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As of July 31, 1996, Houston Industries Incorporated had 261,352,547 shares of common stock outstanding, including 13,798,263 ESOP shares not deemed outstanding for financial statement purposes. As of July 31, 1996, all 1,100 shares of Houston Lighting & Power Company's common stock were held, directly or indirectly, by Houston Industries Incorporated.

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1996 | 1995 | 1996 | 1995 |
| REVENUES: | | | | |
| Electric utility | $1,099,971 | $ 978,225 | $1,911,936 | $1,724,391 |
| Other | 13,792 | 11,618 | 26,248 | 20,690 |
| Total | 1,113,763 | 989,843 | 1,938,184 | 1,745,081 |
| EXPENSES: | | | | |
| Electric Utility: | | | | |
| Fuel | 300,666 | 238,465 | 498,288 | 422,067 |
| Purchased power | 74,137 | 50,822 | 152,316 | 116,410 |
| Operation and maintenance | 237,366 | 217,650 | 430,814 | 416,179 |
| Taxes other than income taxes | 65,303 | 64,616 | 127,868 | 135,566 |
| Depreciation and amortization | 129,511 | 112,286 | 258,858 | 216,482 |
| Other operating expenses | 20,500 | 22,210 | 46,293 | 39,430 |
| Total | 827,483 | 706,049 | 1,514,437 | 1,346,134 |
| OPERATING INCOME | 286,280 | 283,794 | 423,747 | 398,947 |
| OTHER INCOME (EXPENSE): | | | | |
| Litigation settlements | | | (95,000) | |
| Time Warner dividend income | 10,402 | | 20,805 | |
| Interest income | 1,602 | 2,125 | 2,294 | 2,662 |
| Allowance for other funds used during construction | 1,051 | 2,014 | 2,182 | 4,643 |
| Other - net | (529) | (8,927) | (2,956) | (11,575) |
| Total | 12,526 | (4,788) | (72,675) | (4,270) |
| INTEREST AND OTHER CHARGES: | | | | |
| Interest on long-term debt | 68,857 | 64,042 | 140,252 | 129,258 |
| Other interest | 9,475 | 9,678 | 11,049 | 18,677 |
| Allowance for borrowed funds used during construction | (672) | (1,133) | (1,357) | (2,938) |
| Preferred dividends of subsidiary | 5,313 | 7,450 | 11,945 | 16,435 |
| Total | 82,973 | 80,037 | 161,889 | 161,432 |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 215,833 | 198,969 | 189,183 | 233,245 |
| INCOME TAXES | 70,499 | 65,709 | 60,589 | 76,136 |
| INCOME FROM CONTINUING OPERATIONS | 145,334 | 133,260 | 128,594 | 157,109 |
| DISCONTINUED OPERATIONS (NET OF INCOME TAXES) - Gain on sale of cable television subsidiary | | | | 90,607 |
| NET INCOME | $ 145,334 | $ 133,260 | $ 128,594 | $ 247,716 |

(continued)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME

(CONTINUED)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1996 | 1995 | 1996 | 1995 |
| EARNINGS PER COMMON SHARE: | | | | |
| CONTINUING OPERATIONS | $ 0.58 | $ 0.54 | $ 0.52 | $ 0.63 |
| DISCONTINUED OPERATIONS - Gain on sale of cable television subsidiary | | | | 0.37 |
| EARNINGS PER COMMON SHARE | $ 0.58 | $ 0.54 | $ 0.52 | $ 1.00 |
| DIVIDENDS DECLARED PER COMMON SHARE | $ 0.375 | $ 0.375 | $ 0.75 | $ 0.75 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (000) | 248,656 | 247,538 | 248,561 | 247,369 |

See Notes to Consolidated Financial Statements.

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

ASSETS

| | June 30, 1996 | December 31, 1995 |
|---|---|---|
| PROPERTY, PLANT AND EQUIPMENT - AT COST: | | |
| Electric plant: | | |
| Plant in service | $ 12,319,896 | $ 12,089,490 |
| Construction work in progress | 208,235 | 320,040 |
| Nuclear fuel | 227,462 | 217,604 |
| Plant held for future use | 48,631 | 48,631 |
| Other property | 118,856 | 105,624 |
| Total | 12,923,080 | 12,781,389 |
| Less accumulated depreciation and amortization | 4,123,055 | 3,916,540 |
| Property, plant and equipment - net | 8,800,025 | 8,864,849 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 5,150 | 11,779 |
| Special deposits | 10 | 433 |
| Accounts receivable - net | 32,659 | 39,635 |
| Accrued unbilled revenues | 61,676 | 59,017 |
| Time Warner dividends receivable | 10,313 | 10,313 |
| Fuel stock | 66,195 | 59,699 |
| Materials and supplies, at average cost | 133,164 | 138,007 |
| Prepayments | 23,603 | 18,562 |
| Total current assets | 332,770 | 337,445 |
| OTHER ASSETS: | | |
| Investment in Time Warner securities | 1,029,250 | 1,027,875 |
| Deferred plant costs - net | 600,243 | 613,134 |
| Equity investments in and advances to foreign and non-regulated affiliates - net | 479,958 | 41,395 |
| Deferred debits | 345,875 | 311,758 |
| Regulatory asset - net | 216,200 | 228,587 |
| Recoverable project costs - net | 212,265 | 232,775 |
| Unamortized debt expense and premium on reacquired debt | 158,200 | 161,788 |
| Total other assets | 3,041,991 | 2,617,312 |
| Total | $ 12,174,786 | $ 11,819,606 |

See Notes to Consolidated Financial Statements.

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

CAPITALIZATION AND LIABILITIES

| | June 30, 1996 | December 31, 1995 |
|---|---|---|
| CAPITALIZATION: | | |
| Common Stock Equity: | | |
| Common stock, no par value | $ 2,445,143 | $ 2,441,790 |
| Treasury stock | (27,156) | |
| Unearned ESOP shares | (259,883) | (268,405) |
| Retained earnings | 1,896,173 | 1,953,672 |
| Unrealized loss on investment in Time Warner common securities | (2,600) | (3,494) |
| Total common stock equity | 4,051,677 | 4,123,563 |
| Preference Stock, no par value, authorized 10,000,000 shares; none outstanding | | |
| Cumulative Preferred Stock of Subsidiary, no par value: | | |
| Not subject to mandatory redemption | 351,345 | 351,345 |
| Subject to mandatory redemption | | 51,055 |
| Total cumulative preferred stock | 351,345 | 402,400 |
| Long-Term Debt: | | |
| Debentures | 349,006 | 348,913 |
| Long-term debt of subsidiaries: | | |
| First mortgage bonds | 2,704,655 | 2,979,293 |
| Pollution control revenue bonds | 5,000 | 4,426 |
| Other | 3,620 | 5,790 |
| Total long-term debt | 3,062,281 | 3,338,422 |
| Total capitalization | 7,465,303 | 7,864,385 |
| CURRENT LIABILITIES: | | |
| Notes payable | 832,136 | 6,300 |
| Accounts payable | 166,658 | 136,008 |
| Taxes accrued | 133,520 | 174,925 |
| Interest accrued | 73,459 | 79,380 |
| Dividends declared | 98,056 | 98,502 |
| Accrued liabilities to municipalities | 22,254 | 20,773 |
| Customer deposits | 61,117 | 61,582 |
| Current portion of long-term debt and preferred stock | 419,457 | 379,451 |
| Other | 56,698 | 58,664 |
| Total current liabilities | 1,863,355 | 1,015,585 |
| DEFERRED CREDITS: | | |
| Accumulated deferred income taxes | 2,054,248 | 2,067,246 |
| Unamortized investment tax credit | 382,425 | 392,153 |
| Fuel-related credits | 89,216 | 122,063 |
| Other | 320,239 | 358,174 |
| Total deferred credits | 2,846,128 | 2,939,636 |
| COMMITMENTS AND CONTINGENCIES | | |
| Total | $ 12,174,786 | $ 11,819,606 |

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 1996 | 1995 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Income from continuing operations | $ 128,594 | $ 157,109 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: | | |
| Depreciation and amortization | 258,858 | 216,482 |
| Amortization of nuclear fuel | 14,895 | 13,912 |
| Deferred income taxes | (13,479) | 38,573 |
| Investment tax credit | (9,728) | (9,715) |
| Allowance for other funds used during construction | (2,182) | (4,643) |
| Fuel cost (refund) and over/(under) recovery - net | (89,988) | (83,337) |
| Net cash provided by discontinued cable television operations | | 5,495 |
| Changes in other assets and liabilities: | | |
| Accounts receivable and accrued unbilled revenues | 4,317 | (15,792) |
| Inventory | (1,653) | (9,760) |
| Other current assets | (4,618) | 2,608 |
| Accounts payable | 30,650 | 10 |
| Interest and taxes accrued | (47,326) | (51,826) |
| Other current liabilities | (1,396) | (5,165) |
| Other - net | 8,654 | 90,115 |
| Net cash provided by operating activities | 275,598 | 344,066 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Electric capital and nuclear fuel expenditures (including allowance for borrowed funds used during construction) | (153,079) | (133,151) |
| Non-regulated electric power project expenditures | (438,563) | (12,378) |
| Corporate headquarters expenditures (including capitalized interest) | (5,795) | (56,899) |
| Net cash used in discontinued cable television operations | | (47,045) |
| Other - net | (16,734) | (7,552) |
| Net cash used in investing activities | (614,171) | (257,025) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Purchase of treasury stock | (27,156) | |
| Payment of matured bonds | (150,000) | |
| Redemption of preferred stock | (51,400) | (91,400) |
| Payment of common stock dividends | (186,093) | (185,581) |
| Increase in notes payable - net | 825,836 | 274,874 |
| Extinguishment of long-term debt | (85,263) | (20,273) |
| Net cash used in discontinued cable television operations | | (40,798) |
| Other - net | 6,020 | 3,272 |
| Net cash provided by (used in) financing activities | 331,944 | (59,906) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (6,629) | 27,135 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 11,779 | 10,443 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 5,150 | $ 37,578 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash Payments: | | |
| Interest (net of amounts capitalized) | $ 150,742 | $ 188,852 |
| Income taxes | 56,299 | 30,525 |

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, | |
|---|---|---|---|---|
| | 1996 | 1995 | 1996 | 1995 |
| Balance at Beginning of Period | $1,843,723 | $1,242,925 | $1,953,672 | $1,221,221 |
| Net Income for the Period | 145,334 | 133,260 | 128,594 | 247,716 |
| Total | 1,989,057 | 1,376,185 | 2,082,266 | 1,468,937 |
| Common Stock Dividends | (92,884) | (92,859) | (186,093) | (185,611) |
| Balance at End of Period | $1,896,173 | $1,283,326 | $1,896,173 | $1,283,326 |

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, | |
|---|---|---|---|---|
| | 1996 | 1995 | 1996 | 1995 |
| OPERATING REVENUES | $ 1,099,971 | $ 978,225 | $ 1,911,936 | $ 1,724,391 |
| OPERATING EXPENSES: | | | | |
| Fuel | 300,666 | 238,465 | 498,288 | 422,067 |
| Purchased power | 74,137 | 50,822 | 152,316 | 116,410 |
| Operation | 160,739 | 153,606 | 300,511 | 294,926 |
| Maintenance | 76,627 | 64,044 | 130,303 | 121,253 |
| Depreciation and amortization | 129,377 | 111,961 | 257,811 | 215,874 |
| Income taxes | 82,242 | 77,292 | 114,305 | 96,310 |
| Other taxes | 65,303 | 64,616 | 127,868 | 135,566 |
| Total | 889,091 | 760,806 | 1,581,402 | 1,402,406 |
| OPERATING INCOME | 210,880 | 217,419 | 330,534 | 321,985 |
| OTHER INCOME (EXPENSE): | | | | |
| Litigation settlements (net of tax) | | | (61,750) | |
| Allowance for other funds used during construction | 1,051 | 2,014 | 2,182 | 4,643 |
| Other - net | (2,650) | (9,055) | (6,010) | (10,508) |
| Total | (1,599) | (7,041) | (65,578) | (5,865) |
| INCOME BEFORE INTEREST CHARGES | 209,281 | 210,378 | 264,956 | 316,120 |
| INTEREST CHARGES: | | | | |
| Interest on long-term debt | 54,953 | 61,399 | 112,458 | 122,917 |
| Other interest | 5,360 | 789 | 7,770 | 3,924 |
| Allowance for borrowed funds used during construction | (672) | (1,133) | (1,357) | (2,938) |
| Total | 59,641 | 61,055 | 118,871 | 123,903 |
| NET INCOME | 149,640 | 149,323 | 146,085 | 192,217 |
| DIVIDENDS ON PREFERRED STOCK | 5,313 | 7,450 | 11,945 | 16,435 |
| INCOME AFTER PREFERRED DIVIDENDS | $ 144,327 | $ 141,873 | $ 134,140 | $ 175,782 |

See Notes to Financial Statements.

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

ASSETS

| | June 30, 1996 | December 31, 1995 |
|---|---|---|
| PROPERTY, PLANT AND EQUIPMENT - AT COST: | | |
| Electric plant in service | $ 12,319,896 | $ 12,089,490 |
| Construction work in progress | 208,235 | 320,040 |
| Nuclear fuel | 227,462 | 217,604 |
| Plant held for future use | 48,631 | 48,631 |
| Total | 12,804,224 | 12,675,765 |
| Less accumulated depreciation and amortization | 4,116,921 | 3,906,139 |
| Property, plant and equipment - net | 8,687,303 | 8,769,626 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 649 | 75,851 |
| Special deposits | 10 | 433 |
| Accounts receivable: | | |
| Affiliated companies | 2,985 | 2,845 |
| Others | 17,398 | 23,858 |
| Accrued unbilled revenues | 61,676 | 59,017 |
| Inventory: | | |
| Fuel stock | 66,195 | 59,699 |
| Materials and supplies, at average cost | 132,491 | 137,584 |
| Prepayments | 20,473 | 11,876 |
| Total current assets | 301,877 | 371,163 |
| OTHER ASSETS: | | |
| Deferred plant costs - net | 600,243 | 613,134 |
| Deferred debits | 317,730 | 290,012 |
| Unamortized debt expense and premium on reacquired debt | 156,649 | 159,962 |
| Regulatory asset - net | 216,200 | 228,587 |
| Recoverable project costs - net | 212,265 | 232,775 |
| Total other assets | 1,503,087 | 1,524,470 |
| Total | $ 10,492,267 | $ 10,665,259 |

See Notes to Financial Statements.

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

CAPITALIZATION AND LIABILITIES

| | June 30, 1996 | December 31, 1995 |
|---|---|---|
| CAPITALIZATION: | | |
| Common Stock Equity: | | |
| Common stock, class A; no par value | $ 1,524,949 | $ 1,524,949 |
| Common stock, class B; no par value | 150,978 | 150,978 |
| Retained earnings | 2,119,726 | 2,150,086 |
| Total common stock equity | 3,795,653 | 3,826,013 |
| Cumulative Preferred Stock: | | |
| Not subject to mandatory redemption | 351,345 | 351,345 |
| Subject to mandatory redemption | | 51,055 |
| Total cumulative preferred stock | 351,345 | 402,400 |
| Long-Term Debt: | | |
| First mortgage bonds | 2,704,655 | 2,979,293 |
| Pollution control revenue bonds | 5,000 | 4,426 |
| Other | 3,620 | 5,790 |
| Total long-term debt | 2,713,275 | 2,989,509 |
| Total capitalization | 6,860,273 | 7,217,922 |
| CURRENT LIABILITIES: | | |
| Notes payable | 245,725 | |
| Accounts payable | 158,718 | 119,032 |
| Accounts payable to affiliated companies | 6,673 | 6,982 |
| Taxes accrued | 137,869 | 192,673 |
| Interest accrued | 61,552 | 70,823 |
| Accrued liabilities to municipalities | 22,254 | 20,773 |
| Customer deposits | 61,117 | 61,582 |
| Current portion of long-term debt and preferred stock | 219,457 | 179,451 |
| Other | 50,403 | 54,149 |
| Total current liabilities | 963,768 | 705,465 |
| DEFERRED CREDITS: | | |
| Accumulated deferred federal income taxes | 1,955,038 | 1,947,488 |
| Unamortized investment tax credit | 382,425 | 392,153 |
| Fuel-related credits | 89,216 | 122,063 |
| Other | 241,547 | 280,168 |
| Total deferred credits | 2,668,226 | 2,741,872 |
| COMMITMENTS AND CONTINGENCIES | | |
| Total | $ 10,492,267 | $ 10,665,259 |

See Notes to Financial Statements.

Houston Lighting & POWER COMPANY
STATEMENTS OF CASH FLOWS

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

| | Six Months Ended June 30, 1996 | Six Months Ended June 30, 1995 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 146,085 | $ 192,217 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 257,811 | 215,874 |
| Amortization of nuclear fuel | 14,895 | 13,912 |
| Deferred income taxes | 7,550 | 40,933 |
| Investment tax credits | (9,728) | (9,715) |
| Allowance for other funds used during construction | (2,182) | (4,643) |
| Fuel cost (refund) and over/(under) recovery - net | (89,988) | (83,337) |
| Changes in other assets and liabilities: | | |
| Accounts receivable - net | 3,661 | (2,418) |
| Material and supplies | 5,093 | (527) |
| Fuel stock | (6,496) | (8,901) |
| Accounts payable | 39,377 | (5,975) |
| Interest and taxes accrued | (64,075) | (41,876) |
| Other current liabilities | (1,405) | (3,311) |
| Other - net | (3,920) | 72,415 |
| Net cash provided by operating activities | 296,678 | 374,648 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital and nuclear fuel expenditures (including allowance for borrowed funds used during construction) | (153,079) | (218,151) |
| Other - net | (4,498) | (6,940) |
| Net cash used in investing activities | (157,577) | (225,091) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payment of matured bonds | (150,000) | |
| Payment of dividends | (177,771) | (183,057) |
| Increase in notes payable | 245,725 | |
| Redemption of preferred stock | (51,400) | (91,400) |
| Extinguishment of long-term debt | (85,263) | (20,273) |
| Other - net | 4,406 | 3,709 |
| Net cash used in financing activities | (214,303) | (291,021) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (75,202) | (141,464) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 75,851 | 235,867 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 649 | $ 94,403 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| - ---------- | | |
| Cash Payments: | | |
| Interest (net of amounts capitalized) | $ 120,487 | $ 123,563 |
| Income taxes | 68,088 | 34,974 |

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, | |
|---|---|---|---|---|
| | 1996 | 1995 | 1996 | 1995 |
| Balance at Beginning of Period | $ 2,057,649 | $ 2,104,768 | $ 2,150,086 | $ 2,153,109 |
| Net Income for the Period | 149,640 | 149,323 | 146,085 | 192,217 |
| Total | 2,207,289 | 2,254,091 | 2,296,171 | 2,345,326 |
| Deductions - Cash Dividends: | | | | |
| Preferred | 5,313 | 7,450 | 11,945 | 16,435 |
| Common | 82,250 | 82,250 | 164,500 | 164,500 |
| Total | 87,563 | 89,700 | 176,445 | 180,935 |
| Balance at End of Period | $ 2,119,726 | $ 2,164,391 | $ 2,119,726 | $ 2,164,391 |

See Notes to Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AND

HOUSTON LIGHTING & POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

(1) GENERAL

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

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

(2) CERTAIN CONTINGENCIES

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

(3) JOINTLY-OWNED NUCLEAR PLANT

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

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

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

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

(4) HI ENERGY

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

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

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

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

(5) RATE CASE PROCEEDINGS

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

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

(6) CAPITAL STOCK

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

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

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

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

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

(7) LONG-TERM DEBT

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

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

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

(8) SUBSEQUENT EVENT

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

(9) INTERIM PERIOD RESULTS: RECLASSIFICATIONS

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

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

The following discussion and analysis should be read in combination with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of the Form 10-K, the financial statements and notes contained in Item 8 of the Form 10-K, the First Quarter 10-Q and the Interim Financial Statements. Statements contained in this Form 10-Q that are not historical facts are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Such statements are expectations as to future economic performance and are not statements of fact. Actual results might differ materially from those projected in these statements. Important factors that could cause future results to differ include the effects of competition, legislative and regulatory changes, fluctuations in the weather and changes in the economy as well as other factors discussed in this and the Company's and HL&P's other filings with the Securities and Exchange Commission.

## AGREEMENT AND PLAN OF MERGER

On August 11, 1996, the Company, HL&P and a newly formed Delaware subsidiary of the Company (HI Merger, Inc.) entered into an Agreement and Plan of Merger with NorAm Energy Corp. (NorAm). Under the merger agreement and assuming all necessary regulatory and shareholder approvals, the Company would merge with and into HL&P, which would be renamed "Houston Industries Incorporated" (HII). NorAm would merge with and into HI Merger, Inc. and would become a wholly owned subsidiary of HII. Consideration for the purchase of NorAm shares will be a combination of cash and shares of HII common stock. The transaction is valued at $3.8 billion, consisting of $2.4 billion for NorAm's common stock and equivalents and $1.4 billion of NorAm debt. For information regarding the merger, reference is made to Note 8 to the Interim Financial Statements and the Company and HL&P's Combined Report on Form 8-K dated August 11, 1996, which report is incorporated herein by reference. The Company anticipates that the cash portion of the merger will be financed initially through a combination of internally generated funds, commercial paper and bank debt, with eventual refinancing in the capital markets possible.

## RESULTS OF OPERATIONS

### COMPANY

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

| | Three Months Ended June 30, 1996 | 1995 | Percent Change |
|---|---|---|---|
| | (Thousands of Dollars) | | |
| Revenues | $1,113,763 | $ 989,843 | 13 |
| Operating Expenses | 827,483 | 706,049 | 17 |
| Operating Income | 286,280 | 283,794 | 1 |
| Other Income (Expense) | 12,526 | (4,788) | --- |
| Interest and Other Charges | 82,973 | 80,037 | 4 |
| Income Taxes | 70,499 | 65,709 | 7 |
| Net Income | 145,334 | 133,260 | 9 |

| | Six Months Ended June 30, 1996 | 1995 | Percent Change |
|---|---|---|---|
| | (Thousands of Dollars) | | |
| Revenues | $1,938,184 | $1,745,081 | 11 |
| Operating Expenses | 1,514,437 | 1,346,134 | 13 |
| Operating Income | 423,747 | 398,947 | 6 |
| Other Income (Expense) | (72,675) | (4,270) | --- |
| Interest and Other Charges | 161,889 | 161,432 | --- |
| Income Taxes | 60,589 | 76,136 | (20) |
| Income from Continuing Operations | 128,594 | 157,109 | (18) |
| Gain from Discontinued Operations | | 90,607 | --- |
| Net Income | 128,594 | 247,716 | (48) |

The Company had consolidated earnings per share of $.58 for the second quarter of 1996 compared to consolidated earnings per share of $.54 for the second quarter of 1995. The increase in 1996 second quarter earnings was

primarily the result of after-tax dividend income of approximately $9 million from the Company's investment in Time Warner Inc. (Time Warner) equity securities. In addition, second quarter earnings benefited from increased residential and commercial kilowatt-hour (KWH) sales at HL&P, the Company's principal subsidiary.

The Company's consolidated earnings for the six months ended June 30, 1996, were $.52 per share compared to $1.00 per share for the same period in 1995. Earnings for the first six months of 1996 included a $62 million, or $.25 per share, after-tax charge recorded in the first quarter of 1996 in connection with the settlement of litigation claims relating to the South Texas Project, while 1995 earnings included a one-time gain of $91 million, or $.37 per share, recorded in the first quarter of 1995 in connection with the sale of the Company's cable television subsidiary. Excluding the effects of these items and a $3.1 million after-tax charge to earnings recorded in the first quarter of 1996 with respect to HI Energy's two waste tire-to-energy projects, the Company's consolidated income from continuing operations for the first six months of 1996 would have been $.78 per share, and its consolidated income from continuing operations for the first six months of 1995 would have been $.63 per share. This 24 percent increase in earnings per share reflects increased KWH sales at HL&P and the Company's after-tax dividend income from its investment in Time Warner equity securities.

## HL&P

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

| | Three Months Ended June 30, 1996 | 1995 | Percent Change |
|---|---|---|---|
| | (Thousands of Dollars) | | |
| Base Revenues (1) | $ 742,313 | $ 706,001 | 5 |
| Reconcilable Fuel Revenues (2) | 357,658 | 272,224 | 31 |
| Operating Expenses (3) | 889,091 | 760,806 | 17 |
| Operating Income (3) | 210,880 | 217,419 | (3) |
| Other Income (Expense) | (1,599) | (7,041) | (77) |
| Interest Charges | 59,641 | 61,055 | (2) |
| Income After Preferred Dividends | 144,327 | 141,873 | 2 |

| | Six Months Ended June 30, 1996 | 1995 | Percent Change |
|---|---|---|---|
| | (Thousands of Dollars) | | |
| Base Revenues (1) | $1,294,647 | $1,230,012 | 5 |
| Reconcilable Fuel Revenues (2) | 617,289 | 494,379 | 25 |
| Operating Expenses (3) | 1,581,402 | 1,402,406 | 13 |
| Operating Income (3) | 330,534 | 321,985 | 3 |
| Other Income (Expense) | (65,578) | (5,865) | --- |
| Interest Charges | 118,871 | 123,903 | (4) |
| Income After Preferred Dividends | 134,140 | 175,782 | (24) |

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

In the second quarter of 1996, HL&P's income after preferred dividends was $144 million compared to $142 million in the second quarter of 1995. The $2 million increase in income in the second quarter of 1996 reflects increased electric sales partially offset by increased depreciation and amortization expenses related to HL&P's investments in the South Texas Project and certain lignite reserves as described below under " -- Other Operating Expenses."

HL&P's income after preferred dividends for the first six months of 1996 was $134 million compared to $176 million for the same period in 1995. The $42 million decrease in HL&P's first six months income after preferred dividends was primarily the result of the $62 million, or $.25 per share, after-tax charge to earnings recorded in connection with the settlement of South Texas Project litigation claims. Excluding this $62 million charge to earnings, HL&P's income after preferred dividends for the first six months of 1996 would have been $196 million compared to $176 million for the comparable 1995 period. This increase primarily reflects increased KWH sales, as described below.

OPERATING REVENUES AND SALES

HL&P's second quarter 1996 base revenues benefited from an 8 percent increase in residential KWH sales and a 2 percent increase in commercial KWH sales compared to the second quarter of 1995. Residential and commercial KWH sales for the first six months of 1996 increased 12 percent and 4 percent, respectively, compared to the same period in 1995. Weather was a major factor in the increase of KWH sales. Other factors contributing to increased sales were continued customer growth and increased electricity usage per customer.

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

FUEL AND PURCHASED POWER EXPENSES

HL&P's fuel expense for the second quarter and first six months of 1996 increased $62 million and $76 million, respectively, compared to the comparable 1995 periods. The average cost of fuel for the second quarter and first six months of 1996 was $2.01 per million British Thermal Units (MMBtu) and $1.87 per MMBtu, respectively, compared to $1.66 per MMBtu and $1.65 per MMBtu for the comparable 1995 periods. Fuel costs increased due to an increase in the unit cost of gas (the average cost of which was $2.28 per MMBtu for the second quarter of 1996 and $2.24 per MMBtu for the first six months of 1996 compared to $1.72 and $1.71, respectively, for the comparable periods in 1995).

Purchased power expense increased $23 million and $36 million, respectively, for the second quarter and first six months of 1996 compared to the comparable 1995 periods as a result of increased energy purchases, primarily reflecting the increase in electric sales. The increase in purchased power expense for the first six months of 1996 was partially offset by a decrease in firm capacity costs resulting from the renegotiation of a purchased power contract in April 1995.

OTHER OPERATING EXPENSES

Operations expense for the second quarter and the first six months of 1996 increased $7 million and $6 million, respectively, compared to the same periods in 1995. The increase in operations expense was primarily attributable to an increase in municipal franchise payments, which were lower during the first six months of 1995 because of the effects of a $112 million refund of reconcilable fuel revenues in April of that year.

Maintenance expense for the second quarter of 1996 and the first six months of 1996 increased $13 million and $9 million, respectively, compared to the comparable 1995 periods. Increased maintenance expense for the second quarter of 1996 was primarily the result of a scheduled refueling outage at Unit No. 1 of the South Texas Project. Scheduled outages at the W.A. Parish and P.H. Robinson generation stations and increases in general plant maintenance contributed to the increase for the second quarter and first six months of 1996. In addition, an outage at the W.A. Parish generation station scheduled to occur in the first six months of 1995 did not occur until the second quarter of 1996.

Depreciation and amortization expense increased $17 million and $42 million during the second quarter and first six months of 1996, respectively, compared to the comparable 1995 periods. This increase reflects HL&P's decision to write down a portion of its investment in the

South Texas Project ($12.5 million for the second quarter 1996 and $25 million for the first six months of 1996 compared to $7 million for both periods in 1995) as permitted under the settlement of HL&P's 1995 rate case (Docket No. 12065). In addition, HL&P began amortization in 1996 of its investment in certain lignite reserves at a rate of approximately $22 million per year (amounting to $5.5 million in the second quarter 1996 and $11 million for the first six months of 1996). The increase in depreciation and amortization expense for the second quarter and first six months of 1996 also included amortization of HL&P's 1995 early retirement program and increased plant depreciation expense.

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

Taxes other than income taxes decreased by $8 million for the first six months of 1996 compared to the same period in 1995 primarily due to reduced property tax assessments.

## LIQUIDITY AND CAPITAL RESOURCES

### COMPANY

#### GENERAL

The Company's net cash provided by operating activities for the first six months of 1996 totaled $276 million. Net cash used in the Company's investing activities for the first six months of 1996 totaled $614 million, primarily due to equity investments in foreign utilities as well as electric capital and nuclear fuel expenditures. The Company's financing activities for the first six months of 1996 resulted in a net cash inflow of $332 million. The Company's primary financing activities were payment of matured HL&P bonds, payment of dividends on the Company's common stock, redemption of HL&P preferred stock, the purchase of common stock under the Company's repurchase program, and extinguishment of long-term debt funded by an increase in notes payable in the form of commercial paper.

#### SOURCES OF CAPITAL RESOURCES AND LIQUIDITY

As of June 30, 1996, the Company had approximately $584 million of commercial paper outstanding, which is supported by bank credit facilities of $750 million (exclusive of bank credit facilities of subsidiaries).

During the second quarter of 1996, the Company purchased 1,195,900 shares of its common stock for $27 million. The purchases were financed by short-term borrowings. For additional information on the Company's common stock repurchase program, see Note 6 to the Interim Financial Statements.

In the second quarter of 1996, a subsidiary of HI Energy purchased 11.35 percent of the common shares of Light - Servicos de Eletricidade S.A. (Light), a Brazilian electric utility, for approximately $392 million. HI Energy obtained the funds to purchase the shares of Light from the Company. Although it is HI Energy's goal to refinance a portion of the acquisition costs of Light on a non-recourse basis, no assurance can be given that such financing will be available on commercially acceptable terms. In the second quarter of 1996, a subsidiary of HI Energy acquired for approximately $45 million an additional 32 percent of the capital stock of Edelap, an Argentine utility. For information regarding these acquisitions, see Note 4 to the Interim Financial Statements.

In the fourth quarter of 1996, the Company will be required to redeem $200 million of its debentures. Based on current market conditions, the Company intends to fund this redemption requirement using short-term borrowings or other external sources. The $200 million in debentures are recorded as current portion of long-term debt and preferred stock on the Company's Consolidated Balance Sheet.

RATIOS OF EARNINGS TO FIXED CHARGES

The Company's ratios of earnings to fixed charges for the six and twelve months ended June 30, 1996, were 2.12 and 2.61, 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.

## HL&P

GENERAL

HL&P's net cash provided by operating activities for the first six months of 1996 totaled $297 million. Net cash used in HL&P's investing activities for the first six months of 1996 totaled $158 million. HL&P's capital and nuclear fuel expenditures (excluding allowance for funds used during construction) for the first six months of 1996 totaled $152 million out of the $387 million annual budget. HL&P's financing activities for the first six months of 1996 resulted in a net cash outflow of approximately $214 million attributable to the payment of dividends, the extinguishment of long-term debt, the repayment of matured long-term debt, and the redemption of preferred stock (all of which exceeded the increase in short-term borrowings).

SOURCES OF CAPITAL RESOURCES AND LIQUIDITY

As of June 30, 1996, HL&P had approximately $246 million of commercial paper outstanding. HL&P's commercial paper borrowings are supported by a bank line of credit of $400 million.

In January 1996, HL&P repaid at maturity an aggregate principal amount of $110 million (plus accrued interest) of two series of its collateralized medium term notes. In April 1996, HL&P redeemed 514,000 shares of its $9.375 series of preferred stock. In May 1996, HL&P repaid upon maturity $40 million principal amount of its 5 1/4% first mortgage bonds due April 1, 1996, and redeemed all outstanding principal amounts of its 6 3/4% first mortgage bonds due April 1, 1998, and its 7 1/4% first mortgage bonds due February 1, 2001. For additional information regarding these repurchases and redemptions, see Note 7 to the Interim Financial Statements.

RATIOS OF EARNINGS TO FIXED CHARGES

HL&P's ratios of earnings to fixed charges for the six and twelve months ended June 30, 1996 were 2.81 and 3.59, respectively. HL&P's ratios of earnings to fixed charges and preferred dividends for the six and twelve months ended June 30, 1996, were 2.45 and 3.12, 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.

## RECENT REGULATORY DEVELOPMENTS

On June 24, 1996, HL&P and other Texas electric utilities were required to file estimates of their "Excess Cost Over Market" (ECOM) (sometimes referred to as "stranded cost investment"). The Utility Commission intends to use the information derived from these filings in connection with the preparation of a report to the Texas legislature on methods or procedures for quantifying the magnitude of stranded investment, procedures for allocating costs and the acceptable methods of recovering stranded costs. Based on the assumptions, economic models and methodologies established by the Utility Commission for purposes of this report, HL&P filed estimates of ECOM in response to 54 scenarios requested by the Utility Commission. The estimates vary by as much as $7 billion (including one scenario resulting in an estimated ECOM of $6.7 billion and another scenario resulting in an estimated ECOM of negative $300 million). HL&P has filed a motion arguing that the Utility Commission's assumptions do not adequately capture the range of uncertainty in this matter and that, based on other scenarios, HL&P's ECOM could vary within a range of $10 billion. The calculation of ECOM is dependent on a number of factors (future electric prices, generating needs, the timing of deregulation, etc.); therefore, no assurance can be given that any estimates regarding ECOM will ultimately prove to be accurate.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

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

In February 1996, the City of Wharton, on behalf of itself and certain incorporated municipalities, filed a lawsuit against HL&P and Houston Industries Finance Co., a wholly-owned subsidiary of the Company, seeking to recover amounts allegedly owed to such municipalities pursuant to municipal franchise agreements. The case is now pending in a district court in Harris County (Cause No. 96-016613, 127th Judicial District of Harris County, Texas), which has certified the case as a class action. HL&P has appealed that ruling to the First Court of Appeals in Houston and is awaiting a ruling from that court. The plaintiff cities contend that HL&P has underpaid franchise fees under its franchise agreement primarily by failing to make payments on revenues received from activities other than the sale of electricity, a claim HL&P vigorously disputes. Although the plaintiff cities have not specified the damages sought, one of their witnesses during a hearing alleged that damages could range as high as $220 million. The Company and HL&P believe that the claims asserted by the cities are without merit and intend to vigorously contest the lawsuit, though no assurance can be given as to the ultimate outcome of this matter.

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

Company

At the annual meeting of the Company's shareholders held on May 22, 1996, the matters voted upon and the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes as to such matters (including a separate tabulation with respect to each nominee for office) were as stated below:

For Item 1, the election of five nominees for Class III directors to serve three-year terms expiring in 1999:

| | For | Against or Withheld | Broker Non-Vote |
|---|---|---|---|
| James A. Baker, III | 224,493,738 | 6,610,208 | 0 |
| Richard E. Balzhiser | 226,386,244 | 4,717,702 | 0 |
| Howard W. Horne | 226,536,810 | 4,567,136 | 0 |
| Don D. Jordan | 226,601,535 | 4,502,411 | 0 |
| Kenneth L. Schnitzer, Sr. | 225,308,509 | 5,795,437 | 0 |

On July 19, 1996, Mr. Schnitzer resigned from the Board of Directors of the Company.

For Item 2, the adoption of the Houston Industries Incorporated Stock Plan for Outside Directors:

| For | Against | Abstain | Broker Non-Vote |
|---|---|---|---|
| 200,170,339 | 24,693,871 | 6,238,333 | 1,403 |

For Item 3, the ratification of the appointment of Deloitte & Touche LLP as independent accountants and auditors for the Company for 1996:

| For | Against | Abstain | Broker Non-Vote |
|---|---|---|---|
| 226,641,726 | 3,076,347 | 1,385,873 | 0 |

HL&P

The annual shareholder meeting of HL&P was held on May 22, 1996. 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:

William T. Cottle, Jack D. Greenwade, Lee W. Hogan, Don D. Jordan, Hugh Rice Kelly, David M. McClanahan, Stephen W. Naeve, R. Steve Letbetter, Stephen C. Schaeffer, Robert L. Waldrop.

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

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

Houston Industries Incorporated:

*Exhibit 2 - Agreement and Plan of Merger among the Company, HL&P, HI Merger, Inc. and NorAm dated August 11, 1996 (incorporated by reference to Exhibit 2 to the Company and HL&P's Report on Form 8-K dated August 11, 1996).

Exhibit 3 - Amended and Restated Bylaws of the Company (as of May 22, 1996).

Exhibit 10(a) - Seventh Amendment to the Executive Incentive Compensation Plan of the Company (As Amended and Restated Effective January 1, 1991) effective January 1, 1996.

Exhibit 10(b) - Sixth Amendment to the Deferred Compensation Plan of the Company (As Established Effective September 1, 1985) effective December 1, 1995.

| | |
|---|---|
| Exhibit 10(c) - | Sixth Amendment to the Deferred Compensation Plan of the Company (As Amended and Restated Effective January 1, 1989) effective December 1, 1995. |
| Exhibit 10(d) - | Seventh Amendment to the Deferred Compensation Plan of the Company (As Amended and Restated Effective January 1, 1991) effective December 1, 1995. |
| Exhibit 11 - | Computation of Earnings per Common Share and Common Equivalent Share. |
| Exhibit 12 - | Computation of Ratios of Earnings to Fixed Charges. |
| Exhibit 27 - | Financial Data Schedule. |
| Exhibit 99(a) - | Notes 1(b), 2, 3, 4 and 11 to the Financial Statements included on pages 57, 59 through 64 and 73 through 74 of the Form 10-K. |
| Exhibit 99(b) - | Notes 3, 7(a) and 7(b) to the Financial Statements included on pages 13, 14 and 15 of the First Quarter Form 10-Q. |
| *Exhibit 99(c) - | Houston Industries Incorporated Savings Plan (As Amended and Restated Effective July 1, 1995) (incorporated by reference to Exhibit 99(c) to the Company's Report on Form 10-Q for the quarter ended March 31, 1995). |
| *Exhibit 99(d) - | First Amendment to the Houston Industries Incorporated Savings Plan (As Amended and Restated Effective July 1, 1995) effective June 30, 1995 (incorporated by reference to Exhibit 99(g) to the Company's Report on Form 10-Q for the quarter ended June 30, 1995.) |
| Exhibit 99(e) - | Second Amendment to the Savings Plan (As Amended and Restated Effective July 1, 1995) effective August 1, 1996. |

Houston Lighting & Power Company:

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| *Exhibit 2 - | Agreement and Plan of Merger among the Company, HL&P, HI Merger, Inc. and NorAm dated August 11, 1996 (incorporated by reference to Exhibit 2 to the Company and HL&P's Report on Form 8-K dated August 11, 1996). |
| Exhibit 3 - | Amended and Restated Bylaws of HL&P (as of June 5, 1996). |
| *Exhibit 10(a) - | Seventh Amendment to the Executive Incentive Compensation Plan of the Company (As Amended and Restated Effective January 1, 1991) effective January 1, 1996 (incorporated by reference to Exhibit 10(a) to the Company's Report on Form 10-Q for the quarter ended June 30, 1996, File No. 1-7629). |

| | |
|---|---|
| *Exhibit 10(b) - | Sixth Amendment to the Deferred Compensation Plan of the Company (As Established Effective September 1, 1985) effective December 1, 1995 (incorporated by reference to Exhibit 10(b) to the Company's Report on Form 10-Q for the quarter ended June 30, 1996, File No. 1-7629). |
| *Exhibit 10(c) - | Sixth Amendment to the Deferred Compensation Plan of the Company (As Amended and Restated Effective January 1, 1989) effective December 1, 1995 (incorporated by reference to Exhibit 10(c) to the Company's Report on Form 10-Q for the quarter ended June 30, 1996, File No. 1-7629). |
| *Exhibit 10(d) - | Seventh Amendment to the Deferred Compensation Plan of the Company (As Amended and Restated Effective January 1, 1991) effective December 1, 1995 (incorporated by reference to Exhibit 10(d) to the Company's Report on Form 10-Q for the quarter ended June 30, 1996, File No. 1-7629). |
| Exhibit 12 - | Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Fixed Charges and Preferred Dividends. |
| Exhibit 27 - | Financial Data Schedule. |
| Exhibit 99(a) - | Notes 1(b), 2, 3, 4 and 11 to the Financial Statements included on pages 57, 59 through 64 and 73 through 74 of the Form 10-K. |
| Exhibit 99(b) - | Notes 3, 7(a) and 7(b) to the Financial Statements included on pages 13, 14 and 15 of the First Quarter Form 10-Q. |

(b) Reports on Form 8-K.

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

SIGNATURE

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

HOUSTON INDUSTRIES INCORPORATED
(Registrant)

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

Date: August 13, 1996

SIGNATURE

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

HOUSTON LIGHTING & POWER COMPANY
(Registrant)

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

Date: August 13, 1996

INDEX TO EXHIBITS

Houston Industries Incorporated:

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Exhibit 3 - Amended and Restated Bylaws of the Company (as of May 22, 1996).

Exhibit 10(a) - Seventh Amendment to the Executive Incentive Compensation Plan of the Company (As Amended and Restated Effective January 1, 1991) effective January 1, 1996.

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

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

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EXHIBIT 3

# AMENDED AND RESTATED BYLAWS

# OF

# HOUSTON INDUSTRIES INCORPORATED

(Adopted by Resolution of the
Board of Directors as of
May 22, 1996)

## ARTICLE I

## CAPITAL STOCK

Section 1. Share Ownership. Shares for the capital stock of the Company may be certificated or uncertificated. Owners of shares of the capital stock of the Company shall be recorded in the share transfer records of the Company and ownership of such shares shall be evidenced by a certificate or book entry notation in the share transfer records of the Company. Any certificates representing such shares shall be signed by the Chairman of the Board, if there is one, the Chief Executive Officer, if there is one, the President or a Vice President and either the Secretary or an Assistant Secretary and shall be sealed with the seal of the Company, which signatures and seal may be facsimiles. In case any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Company with the same effect as if he were such officer at the date of its issuance.

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

Section 3. Transfer of Shares. The shares of the capital stock of the Company shall be transferable in the share transfer records of the Company by the holder of record thereof, or his duly authorized attorney or legal representative. All certificates representing shares surrendered for transfer, properly endorsed, shall be cancelled and new certificates for a like number of shares shall be issued therefor. In the case of lost, stolen, destroyed or mutilated certificates representing shares for which the Company has been requested to issue new certificates, new certificates or other evidence of such new shares may be issued upon such conditions as may be required by the Board of Directors or the Secretary for the protection of the Company and any transfer agent or registrar. Uncertificated shares shall be transferred in the share transfer records of the Company upon the written instruction originated by the appropriate person to transfer the shares.

Section 4. Shareholders of Record and Fixing of Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive a distribution by the Company (other than a distribution involving a purchase or redemption by the Company of any of its own shares) or a share dividend, or in order to make a determination of shareholders for any other proper purpose (other than determining shareholders entitled to consent to action by shareholders proposed to be taken without a meeting of shareholders), the Board of Directors may provide that the share transfer records shall be closed for a stated period of not more than sixty days, and in the case of a meeting of shareholders not less than ten days, immediately preceding the meeting, or it may fix in advance a record date for any such determination of shareholders, such date to be not more than sixty days, and in the case of a meeting of shareholders not less than ten days, prior to the date on which the particular action requiring such determination of shareholders is to be taken. If the share transfer records are not closed and no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive a distribution (other than a distribution involving a purchase or redemption by the Company of any of its own shares) or a share dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such distribution or share dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as herein provided, such determination shall apply to any adjournment thereof except where the determination has been made through the closing of the share transfer records and the stated period of closing has expired.

## ARTICLE II

## MEETINGS OF SHAREHOLDERS

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

Section 2. Annual Meeting. The annual meeting of the shareholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors or as may otherwise be stated in the notice of the meeting. Failure to designate a time for the annual meeting or to hold the annual meeting at the designated time shall not work a dissolution of the Company.

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

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

Any notice required to be given to any shareholder, under any provision of the Texas Business Corporation Act, as amended (TBCA), the Articles of Incorporation of the Company or these Bylaws, need not be given to a shareholder if notice of two consecutive annual meetings and all notices of meetings held during the period between those annual meetings, if any, or all (but in no event less than two) payments (if sent by first class mail) of distributions or interest on securities during a 12-month period have been mailed to that person, addressed at his address as shown on the share transfer records of the Company, and have been returned undeliverable. Any action or meeting taken or held without notice to such person shall have the same force and effect as if the notice had been duly given. If such a person delivers to the Company a written notice setting forth his then current address, the requirement that notice be given to that person shall be reinstated.

Section 5. Voting List. The officer or agent having charge of the share transfer records for shares of the Company shall make, at least ten days before each meeting of shareholders, a complete list of the shareholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each, which list, for a period of ten days prior to such meeting, shall be kept on file at the registered office of the Company and shall be subject to inspection by any shareholder at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original share transfer records shall be prima facie evidence as to who are the shareholders entitled to examine such list or to vote at any meeting of shareholders. Failure to comply with any requirements of this Section 5 shall not affect the validity of any action taken at such meeting.

Section 6. Voting; Proxies. Except as otherwise provided in the Articles of Incorporation of the Company or as otherwise provided in the TBCA, each holder of shares of capital stock of the Company entitled to vote shall be entitled to one vote for each share standing in his name on the records of the Company, either in person or by proxy executed in writing by him or by his duly authorized attorney-in-fact. A proxy shall be revocable unless expressly provided therein to be irrevocable and the proxy is coupled with an interest. At each election of directors, every holder of shares of the Company entitled to vote shall have the right to vote, in person or by proxy, the number of shares owned by him for as many persons as there are directors to be elected, and for whose election he has a right to vote, but in no event shall he be permitted to cumulate his votes for one or more directors.

Section 7. Quorum and Vote of Shareholders. Except as otherwise provided by law, the Articles of Incorporation of the Company or these Bylaws, the holders of a majority of shares entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders, but, if a quorum is not represented, a majority in interest of those represented may adjourn the meeting from time to time. Directors shall be elected by a plurality of the votes cast by the holders of shares entitled to vote in the election of directors at a meeting of shareholders at which a quorum is present. With respect to each matter other than the election of directors as to which no other voting requirement is specified by law, the Articles of Incorporation of the Company or in this Section 7 or in Article VII of these Bylaws, the affirmative vote of the holders of a majority of the shares entitled to vote on that matter and represented in person or by proxy at a meeting at which a quorum is present shall be the act of the shareholders. With respect to a matter submitted to a vote of the shareholders as to which a shareholder approval requirement is applicable under the shareholder approval policy of the New York Stock Exchange, Rule 16b-3 under the Securities Exchange Act of 1934, as amended (Exchange Act), or any provision of the Internal Revenue Code, in each case for which no higher voting requirement is specified by law, the Articles of Incorporation of the Company or these Bylaws, the affirmative vote of the holders of a majority of the shares entitled to vote on, and voted for or against, that matter at a meeting at which a quorum is present shall be the act of the shareholders, provided that approval of such matter shall also be conditioned on any more restrictive requirement of such shareholder approval policy, Rule 16b- 3 or Internal Revenue Code provision, as applicable, being satisfied. With respect to the approval of independent public accountants (if submitted for a vote of the shareholders), the affirmative vote of the holders of a majority of the shares entitled to vote on, and voted for or against, that matter at a meeting of shareholders at which a quorum is present shall be the act of the shareholders.

Section 8. Presiding Officer and Conduct of Meetings. The Chairman of the Board, if there is one, or in his absence, the Chief Executive Officer, if there is one, or in his absence, the President shall preside at all meetings of the shareholders or, if such officers are not present at a meeting, by such other person as the Board of Directors shall designate or if no such person is designated by the Board of Directors, the most senior officer of the Company present at the meeting. The Secretary of the Company, if present, shall act as secretary of each meeting of shareholders; if he is not present at a meeting, then such person as may be designated by the presiding officer shall act as secretary of the meeting. Meetings of shareholders shall follow reasonable and fair procedure. Subject to the

foregoing, the conduct of any meeting of shareholders and the determination of procedure and rules shall be within the absolute discretion of the officer presiding at such meeting (Chairman of the Meeting), and there shall be no appeal from any ruling of the Chairman of the Meeting with respect to procedure or rules. Accordingly, in any meeting of shareholders or part thereof, the Chairman of the Meeting shall have the sole power to determine appropriate rules or to dispense with theretofore prevailing rules. Without limiting the foregoing, the following rules shall apply:

(a) If disorder should arise which prevents continuation of the legitimate business of meeting, the Chairman of the Meeting may announce the adjournment of the meeting; and upon so doing, the meeting shall be immediately adjourned.

(b) The Chairman of the Meeting may ask or require that anyone not a bona fide shareholder or proxy leave the meeting.

(c) A resolution or motion shall be considered for vote only if proposed by a shareholder or a duly authorized proxy, and seconded by an individual who is a shareholder or a duly authorized proxy, other than the individual who proposed the resolution or motion, subject to compliance with any other requirements concerning such proposed resolution or motion contained in these Bylaws. The Chairman of the Meeting may propose any motion for vote.

(d) The order of business at all meetings of shareholders shall be determined by the Chairman of the Meeting.

(e) The Chairman of the Meeting may impose any reasonable limits with respect to participation in the meeting by shareholders, including, but not limited to, limits on the amount of time taken up by the remarks or questions of any shareholder, limits on the number of questions per shareholder and limits as to the subject matter and timing of questions and remarks by shareholders.

(f) Before any meeting of shareholders, the Board of Directors may appoint three persons other than nominees for office to act as inspectors of election at the meeting or its adjournment. If no inspectors of election are so appointed, the Chairman of the Meeting may, and on the request of any shareholder or a shareholder's proxy shall, appoint inspectors of election at the meeting of the shareholders and the number of such inspectors shall be three. If any person appointed as inspector fails to appear or fails or refuses to act, the Chairman of the Meeting may, and upon the request of any shareholder or a shareholder's proxy shall, appoint a person to fill such vacancy.

The duties of the inspectors shall be to:

(i) determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity and effect of proxies and ballots;

(ii) receive votes or ballots;

(iii) hear and determine all challenges and questions in any way arising in connection with the vote;

(iv) count and tabulate all votes;

(v) report to the Board of Directors the results based on the information assembled by the inspectors; and

(vi) do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

Notwithstanding the foregoing, the final certification of the results of the election or other matter acted upon at a meeting of shareholders shall be made by the Board of Directors.

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

## ARTICLE III

## DIRECTORS

Section 1. Number and Classification of Board of Directors; Qualifications. The business and affairs of the Company shall be managed by the Board of Directors. The number of directors that shall constitute the whole Board of Directors of the Company shall be not less than nine nor more than eighteen as specified from time to time by the affirmative vote of at least 80% of all directors then in office at any regular or special meeting of the Board of Directors called for that purpose. The directors shall be divided into three classes, Class I, Class II and Class III. Such classes shall be as nearly equal in number of directors as possible. Each director, other than those who may be elected by the holders of Preference Stock pursuant to Section 6 of Division A of Article VI of the Articles of Incorporation of the Company (or elected by such directors to fill a vacancy) and except as provided in the penultimate paragraph of this Section 1, shall serve for a term ending on the third

annual meeting following the annual meeting at which such director was elected. Each director elected by the holders of Preference Stock pursuant to Section 6 of Division A of Article VI of the Articles of Incorporation of the Company (or elected by such directors to fill a vacancy) shall serve for a term ending upon the earlier of the election of his successor or the termination at any time of a right of the holders of Preference Stock to elect members of the Board of Directors.

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

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

No person shall be eligible to serve as a director of the Company subsequent to the annual meeting of shareholders occurring on or after the first day of the month immediately following the month of such person's seventieth birthday. No person shall be eligible to stand for reelection at the annual meeting of shareholders on or immediately following the tenth anniversary of such person's initial election or appointment to the Board of Directors. Any vacancy on the Board of Directors resulting from any director being rendered ineligible to serve as a director of the Company by the immediately preceding two sentences shall be filled by the shareholders entitled to vote thereon at such annual meeting of shareholders. Any director chosen to succeed a director who is so rendered ineligible to serve as a director of the Company shall be of the same class as the director he succeeds. Notwithstanding the rule that a director may not stand for reelection at the annual meeting of shareholders on or immediately following the tenth anniversary of such person's initial election or appointment to the Board of Directors, an incumbent director may nevertheless continue as a director until the expiration of his current term, or his prior death, resignation, disqualification or removal; provided, however, that no person serving as a director as of April 1, 1992 shall be affected by such term limitation provision, nor shall such term limitation provision apply to directors who are also employees of the Company or its corporate affiliates.

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

No person shall be eligible for election or reelection or to continue to serve as a member of the Board of Directors who is an officer, director, agent, representative, partner, employee, or nominee of, or otherwise acting at the direction of, or acting in concert with, (a) a "public-utility company" (other than Houston Lighting & Power Company) as such term is defined in Section 2(a)(5) of the Public Utility Holding Company Act of 1935, as in effect on May 1, 1996 (35 Act), or (b) an "affiliate" (as defined in either Section 2(a)(11) of the 35 Act or in Rule 405 under the Securities Act of 1933, as amended) of any such "public-utility company" specified in clause (a) immediately preceding.

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

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

Section 3. Nomination of Directors. Nominations for the election of directors may be made by the Board of Directors or by any shareholder (Nominator) entitled to vote in the election of directors. Such nominations, other than those made by the Board of Directors, shall be made in writing pursuant to timely notice delivered to or mailed and received by the Secretary of the Company as set forth in this Section 3. To be timely in connection with an annual meeting of shareholders, a Nominator's notice, setting forth the name and address of the person to be nominated, shall be delivered to or mailed and received at the principal executive offices of the Company not less than ninety days nor more than 180 days prior to the date on which the immediately preceding year's annual meeting of shareholders was held. To be timely in connection with any election of a director at a special meeting of the shareholders, a Nominator's notice, setting forth the name of the person to be nominated, shall be delivered to or mailed and received at the principal executive offices of the Company not less than forty days nor more than sixty days prior to the date of such meeting;

provided, however, that in the event that less than forty-seven days' notice or prior public disclosure of the date of the special meeting of the shareholders is given or made to the shareholders, the Nominator's notice to be timely must be so received not later than the close of business on the seventh day following the day on which such notice of date of the meeting was mailed or such public disclosure was made. At such time, the Nominator shall also submit written evidence, reasonably satisfactory to the Secretary of the Company, that the Nominator is a shareholder of the Company and shall identify in writing (a) the name and address of the Nominator, (b) the number of shares of each class of capital stock of the Company owned beneficially by the Nominator, (c) the name and address of each of the persons with whom the Nominator is acting in concert, (d) the number of shares of capital stock beneficially owned by each such person with whom the Nominator is acting in concert, and (e) a description of all arrangements or understandings between the Nominator and each nominee and any other persons with whom the Nominator is acting in concert pursuant to which the nomination or nominations are to be made. At such time, the Nominator shall also submit in writing (i) the information with respect to each such proposed nominee that would be required to be provided in a proxy statement prepared in accordance with Regulation 14A under the Exchange Act and (ii) a notarized affidavit executed by each such proposed nominee to the effect that, if elected as a member of the Board of Directors, he will serve and that he is eligible for election as a member of the Board of Directors. Within thirty days (or such shorter time period that may exist prior to the date of the meeting) after the Nominator has submitted the aforesaid items to the Secretary of the Company, the Secretary of the Company shall determine whether the evidence of the Nominator's status as a shareholder submitted by the Nominator is reasonably satisfactory and shall notify the Nominator in writing of his determination. The failure of the Secretary of the Company to find such evidence reasonably satisfactory, or the failure of the Nominator to submit the requisite information in the form or within the time indicated, shall make the person to be nominated ineligible for nomination at the meeting at which such person is proposed to be nominated. The presiding person at each meeting of shareholders shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded. Beneficial ownership shall be determined in accordance with Rule 13d-3 under the Exchange Act.

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

Section 5. Regular Meetings. The Board of Directors shall meet each year immediately following the annual meeting of the shareholders for the transaction of such business as may properly be brought before the meeting. The Board of Directors shall also meet regularly at such other times as shall be designated by the Board of Directors. No notice of any kind to either existing or newly elected members of the Board of Directors for such annual or regular meetings shall be necessary.

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

Section 7. Quorum and Voting. Except as otherwise provided by law, the Articles of Incorporation of the Company or these Bylaws, a majority of the number of directors fixed in the manner provided in these Bylaws as from time to time amended shall constitute a quorum for the transaction of business. Except as otherwise provided by law, the Articles of Incorporation of the Company or these Bylaws, the affirmative vote of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. Any regular or special directors' meeting may be adjourned from time to time by those present, whether a quorum is present or not.

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

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

Except as may otherwise be provided by law, cause for removal of a director shall be construed to exist only if: (a) the director whose removal is proposed has been convicted, or where a director is granted immunity to testify where another has been convicted, of a felony by a court of

competent jurisdiction and such conviction is no longer subject to direct appeal; (b) such director has been found by the affirmative vote of at least 80% of all directors then in office at any regular or special meeting of the Board of Directors called for that purpose or by a court of competent jurisdiction to have been negligent or guilty of misconduct in the performance of his duties to the Company in a matter of substantial importance to the Company; or (c) such director has been adjudicated by a court of competent jurisdiction to be mentally incompetent, which mental incompetency directly affects his ability as a director of the Company.

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

No proposal by a shareholder to remove a director of the Company, regardless of whether such director was elected by holders of outstanding shares of Preference Stock (or elected by such directors to fill a vacancy), shall be voted upon at a meeting of the shareholders unless such shareholder shall have delivered or mailed in a timely manner (as set forth in this Section 9) and in writing to the Secretary of the Company (a) notice of such proposal, (b) a statement of the grounds, if any, on which such director is proposed to be removed, (c) evidence, reasonably satisfactory to the Secretary of the Company, of such shareholder's status as such and of the number of shares of each class of the capital stock of the Company beneficially owned by such shareholder, (d) a list of the names and addresses of other beneficial owners of shares of the capital stock of the Company, if any, with whom such shareholder is acting in concert, and of the number of shares of each class of the capital stock of the Company beneficially owned by each such beneficial owner, and (e) an opinion of counsel, which counsel and the form and substance of which opinion shall be reasonably satisfactory to the Board of Directors of the Company (excluding the director proposed to be removed), to the effect that, if adopted at a duly called special or annual meeting of the shareholders of the Company by the required vote as set forth in the first paragraph of this Section 9, such removal would not be in conflict with the laws of the State of Texas, the Articles of Incorporation of the Company or these Bylaws. To be timely in connection with an annual meeting of shareholders, a shareholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Company not less than ninety nor more than 180 days prior to the date on which the immediately preceding year's annual meeting of shareholders was held. To be timely in connection with the removal of any director at a special meeting of the shareholders, a shareholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Company not less than forty days nor more than sixty days prior to the date of such meeting; provided, however, that in the event that less than forty-seven days' notice or prior public disclosure of the date of the special meeting of shareholders is given or made to the shareholders, the shareholder's notice and other aforesaid items to be timely must be so received not later than the close of business on the seventh day following the day on which such notice of date of the meeting was mailed or such public disclosure was made. Within thirty days (or such shorter period that may exist prior to the date of the meeting) after such shareholder shall have delivered the aforesaid items to the Secretary of the Company, the Secretary and the Board of Directors of the

Company shall respectively determine whether the items to be ruled upon by them are reasonably satisfactory and shall notify such shareholder in writing of their respective determinations. If such shareholder fails to submit a required item in the form or within the time indicated, or if the Secretary or the Board of Directors of the Company determines that the items to be ruled upon by them are not reasonably satisfactory, then such proposal by such shareholder may not be voted upon by the shareholders of the Company at such meeting of shareholders. The presiding person at each meeting of shareholders shall, if the facts warrant, determine and declare to the meeting that a proposal to remove a director of the Company was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare to the meeting and the defective proposal shall be disregarded. Beneficial ownership shall be determined as specified in accordance with Rule 13d-3 under the Exchange Act.

Section 10. Executive and Other Committees. The Board of Directors, by resolution or resolutions adopted by a majority of the full Board of Directors, may designate one or more members of the Board of Directors to constitute an Executive Committee, and one or more other committees, which shall in each case be comprised of such number of directors as the Board of Directors may determine from time to time. Subject to such restrictions as may be contained in the Company's Articles of Incorporation or that may be imposed by the TBCA, any such committee shall have and may exercise such powers and authority of the Board of Directors in the management of the business and affairs of the Company as the Board of Directors may determine by resolution and specify in the respective resolutions appointing them, or as permitted by applicable law, including, without limitation, the power and authority to (a) authorize a distribution, (b) authorize the issuance of shares of the Company and (c) exercise the authority of the Board of Directors vested in it pursuant to Article 2.13 of the TBCA or such successor statute as may be in effect from time to time. Each duly- authorized action taken with respect to a given matter by any such duly-appointed committee of the Board of Directors shall have the same force and effect as the action of the full Board of Directors and shall constitute for all purposes the action of the full Board of Directors with respect to such matter.

The designation of any such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed upon it or him by law, nor shall such committee function where action of the Board of Directors cannot be delegated to a committee thereof under applicable law. The Board of Directors shall have the power at any time to change the membership of any such committee and to fill vacancies in it. A majority of the members of any such committee shall constitute a quorum. The Board of Directors shall name a chairman at the time it designates members to a committee. Each such committee shall appoint such subcommittees and assistants as it may deem necessary. Except as otherwise provided by the Board of Directors, meetings of any committee shall be conducted in accordance with the provisions of Sections 4 and 6 of this Article III as the same shall from time to time be amended. Any member of any such committee elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the Company will be served

thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of a member of a committee shall not of itself create contract rights.

## ARTICLE IV

## OFFICERS

Section 1. Officers. The officers of the Company shall consist of a President and a Secretary and such other officers and agents as the Board of Directors may from time to time elect or appoint, which may include, without limitation, a Chairman of the Board, a Chief Executive Officer, one or more Vice Presidents (whose seniority and titles, including Executive Vice Presidents, Senior Vice Presidents and such assistant or subordinate Vice Presidents, may be specified by the Board of Directors), a Treasurer, one or more Assistant Treasurers, and one or more Assistant Secretaries. Each officer shall hold office until his successor shall have been duly elected and shall qualify or until his death or until he shall resign or shall have been removed in the manner hereinafter provided. Any two or more offices may be held by the same person. Except for the Chairman of the Board, if any, no officer need be a director.

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

Section 3. Powers and Duties of Officers. The officers of the Company shall have such powers and duties as generally pertain to their offices as well as such powers and duties as from time to time shall be conferred by the Board of Directors.

## ARTICLE V

## INDEMNIFICATION

Section 1. General. The Company shall indemnify and hold harmless the Indemnitee (as this and all other capitalized words are defined in this Article or in Article 2.02-1 of the TBCA), to the fullest extent permitted, or not prohibited, by the TBCA or other applicable law as the same exists or may hereafter be amended (but in the case of any such amendment, with respect to Matters occurring before such amendment, only to the extent that such amendment permits the Company to

provide broader indemnification rights than said law permitted the Company to provide prior to such amendment). The provisions set forth below in this Article are provided as means of furtherance and implementation of, and not in limitation on, the obligation expressed in this Section 1.

Section 2. Advancement or Reimbursement of Expenses. The rights of the Indemnitee provided under Section 1 of this Article shall include, but not be limited to, the right to be indemnified and to have Expenses advanced (including the payment of expenses before final disposition of a Proceeding) in all Proceedings to the fullest extent permitted, or not prohibited, by the TBCA or other applicable law. If the Indemnitee is not wholly successful, on the merits or otherwise, in a Proceeding, but is successful, on the merits or otherwise, as to any Matter in such Proceeding, the Company shall indemnify the Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf relating to each Matter. The termination of any Matter in a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such Matter. In addition, to the extent the Indemnitee is, by reason of his Corporate Status, a witness or otherwise participates in any Proceeding at a time when he is not named a defendant or respondent in the Proceeding, he shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith. The Indemnitee shall be advanced Expenses, within ten days after any request for such advancement, to the fullest extent permitted, or not prohibited, by Article 2.02-1 of the TBCA; provided that the Indemnitee has provided to the Company all affirmations, acknowledgments, representations and undertakings that may be required of the Indemnitee by Article 2.02-1 of the TBCA.

Section 3. Determination of Request. Upon written request to the Company by an Indemnitee for indemnification pursuant to these Bylaws, a determination, if required by applicable law, with respect to an Indemnitee's entitlement thereto shall be made in accordance with Article 2.02-1 of the TBCA; provided, however, that notwithstanding the foregoing, if a Change in Control shall have occurred, such determination shall be made by Special Legal Counsel selected by the Indemnitee, unless the Indemnitee shall request that such determination be made in accordance with Article 2.02-1F (1) or (2). The Company shall pay any and all reasonable fees and expenses of Special Legal Counsel incurred in connection with any such determination. If a Change in Control shall have occurred, the Indemnitee shall be presumed (except as otherwise expressly provided in this Article) to be entitled to indemnification under this Article upon submission of a request to the Company for indemnification, and thereafter the Company shall have the burden of proof in overcoming that presumption in reaching a determination contrary to that presumption. The presumption shall be used by Special Legal Counsel, or such other person or persons determining entitlement to indemnification, as a basis for a determination of entitlement to indemnification unless the Company provides information sufficient to overcome such presumption by clear and convincing evidence or the investigation, review and analysis of Special Legal Counsel or such other person or persons convinces him or them by clear and convincing evidence that the presumption should not apply.

Section 4. Effect of Certain Proceedings. The termination of any Proceeding or of any Matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or

its equivalent, shall not (except as otherwise expressly provided in this Article) of itself adversely affect the right of the Indemnitee to indemnification or create a presumption that (a) the Indemnitee did not conduct himself in good faith and in a manner which he reasonably believed, in the case of conduct in his official capacity as a director of the Company, to be in the best interests of the Company, or, in all other cases, that at least his conduct was not opposed to the Company's best interests, or (b) with respect to any criminal Proceeding, that the Indemnitee had reasonable cause to believe that his conduct was unlawful.

Section 5. Expenses of Enforcement of Article. In the event that an Indemnitee, pursuant to this Article, seeks a judicial adjudication to enforce his rights under, or to recover damages for breach of, rights created under or pursuant to this Article, the Indemnitee shall be entitled to recover from the Company, and shall be indemnified by the Company against, any and all Expenses actually and reasonably incurred by him in such judicial adjudication but only if he prevails therein. If it shall be determined in said judicial adjudication that the Indemnitee is entitled to receive part but not all of the indemnification or advancement of Expenses sought, the Expenses incurred by Indemnitee in connection with such judicial adjudication shall be reasonably prorated in good faith by counsel for the Indemnitee. Notwithstanding the foregoing, if a Change in Control shall have occurred, Indemnitee shall be entitled to indemnification under this Section regardless of whether indemnitee ultimately prevails in such judicial adjudication.

Section 6. Nonexclusive Rights. The rights of indemnification and to receive advancement of Expenses as provided by this Article shall not be deemed exclusive of any other rights to which the Indemnitee may at any time be entitled under applicable law, the Articles of Incorporation of the Company, these Bylaws, agreement, insurance, arrangement, a vote of shareholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Article or any provision thereof shall be effective as to any Indemnitee for acts, events and circumstances that occurred, in whole or in part, before such amendment, alteration or repeal. The provisions of this Article shall continue as to an Indemnitee whose Corporate Status has ceased and shall inure to the benefit of his heirs, executors and administrators.

Section 7. Invalidity. If any provision or provisions of this Article shall be held to be invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby; and, to the fullest extent possible, the provisions of this Article shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

Section 8. Definitions. For purposes of this Article:

"Change of Control" means a change in control of the Company occurring after the date of adoption of these Bylaws in any of the following circumstances: (a) there shall have occurred an event required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Exchange Act, whether or not the Company is then subject to such

reporting requirement; (b) any "person" (as such term is used in Section 13(d) and 14(d) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation or other entity owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, shall have become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding voting securities without prior approval of at least two-thirds of the members of the Board of Directors in office immediately prior to such person attaining such percentage interest; (c) the Company is a party to a merger, consolidation, share exchange, sale of assets or other reorganization, or a proxy contest, as a consequence of which members of the Board of Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors thereafter; (d) during any fifteen month period, individuals who at the beginning of such period constituted the Board of Directors (including for this purpose any new director whose election or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board of Directors.

"Corporate Status" means the status of a person who is or was a director, officer, partner, venturer, proprietor, trustee, employee (including an employee acting in his Designated Professional Capacity), or agent or similar functionary of the Company or of any other foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise which such person is or was serving in such capacity at the request of the Company. The Company hereby acknowledges that unless and until the Company provides the Indemnitee with written notice to the contrary, the Indemnitee's service as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of an Affiliate of the Company shall be conclusively presumed to be at the Company's request. An Affiliate of the Company shall be deemed to be (a) any foreign or domestic corporation in which the Company owns or controls, directly or indirectly, 5% or more of the shares entitled to be voted in the election of directors of such corporation; (b) any foreign or domestic partnership, joint venture, proprietorship or other enterprise in which the Company owns or controls, directly or indirectly, 5% or more of the revenue interests in such partnership, joint venture, proprietorship or other enterprise; or (c) any trust or employee benefit plan the beneficiaries of which include the Company, any Affiliate of the Company as defined in the foregoing clauses (a) and (b) or any of the directors, officers, partners, venturers, proprietors, employees, agents or similar functionaries of the Company or of such Affiliates of the Company.

"Expenses" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending,

preparing to prosecute or defend, investigating, or being or preparing to be a witness in a Proceeding.

"Indemnitee" includes any person who is, or is threatened to be made, a witness in or a party to any Proceeding as described in Section 1 or 2 of this Article by reason of his Corporate Status.

"Matter" is a claim, a material issue, or a substantial request for relief.

"Proceeding" includes any threatened, pending or completed action, suit, arbitration, alternate dispute resolution proceeding, investigation, administrative hearing and any other proceeding, whether civil, criminal, administrative, investigative or other, any appeal in such action, suit, arbitration, proceeding or hearing, or any inquiry or investigation, whether conducted by or on behalf of the Company, a subsidiary of the Company or any other party, formal or informal, that the Indemnitee in good faith believes might lead to the institution of any such action, suit, arbitration, proceeding, investigation or hearing, except one initiated by an Indemnitee pursuant to Section 5 of this Article.

"Special Legal Counsel" means a law firm, or member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the five years previous to his selection or appointment has been, retained to represent: (a) the Company or the Indemnitee in any matter material to either such party; (b) any other party to the Proceeding giving rise to a claim for indemnification hereunder; or (c) 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 voting securities. Notwithstanding the foregoing, the term "Special Legal Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or the Indemnitee in an action to determine the Indemnitee's rights to indemnification under these Bylaws.

For the purposes of this Article, an employee acting in his "Designated Professional Capacity" shall include, but not be limited to, a physician, nurse, psychologist or therapist, registered surveyor, registered engineer, registered architect, attorney, certified public accountant or other person who renders such professional services within the course and scope of his employment, who is licensed by appropriate regulatory authorities to practice such profession and who, while acting in the course of such employment, committed or is alleged to have committed any negligent acts, errors or omissions in rendering such professional services at the request of the Company or pursuant to his employment (including, without limitation, rendering written or oral opinions to third parties).

Section 9. Notice. Any communication required or permitted to the Company under this Article shall be addressed to the Secretary of the Company and any such communication to the

Indemnitee shall be addressed to his home address unless he specifies otherwise and shall be personally delivered or delivered by overnight mail or courier delivery.

Section 10. Insurance and Self-Insurance Arrangements. The Company may procure or maintain insurance or other similar arrangements, at its expense, to protect itself and any Indemnitee against any expense, liability or loss asserted against or incurred by such person, incurred by him in such a capacity or arising out of his Corporate Status as such a person, whether or not the Company would have the power to indemnify such person against such expense or liability. In considering the cost and availability of such insurance, the Company (through the exercise of the business judgment of its directors and officers) may, from time to time, purchase insurance which provides for any and all of (a) deductibles, (b) limits on payments required to be made by the insurer, or (c) coverage which may not be as comprehensive as that previously included in insurance purchased by the Company. The purchase of insurance with deductibles, limits on payments and coverage exclusions will be deemed to be in the best interest of the Company but may not be in the best interest of certain of the persons covered thereby. As to the Company, purchasing insurance with deductibles, limits on payments, and coverage exclusions is similar to the Company's practice of self-insurance in other areas. In order to protect the Indemnitees who would otherwise be more fully or entirely covered under such policies, the Company shall indemnify and hold each of them harmless as provided in Section 1 or 2 of this Article, without regard to whether the Company would otherwise be entitled to indemnify such officer or director under the other provisions of this Article, or under any law, agreement, vote of shareholders or directors or other arrangement, to the extent (i) of such deductibles, (ii) of amounts exceeding payments required to be made by an insurer or (iii) that prior policies of officer's and director's liability insurance held by the Company or its predecessors would have provided for payment to such officer or director. Notwithstanding the foregoing provision of this Section, no Indemnitee shall be entitled to indemnification for the results of such person's conduct that is intentionally adverse to the interests of the Company. This Section is authorized by Section 2.02-1(R) of the TBCA as in effect on May 1, 1996, and further is intended to establish an arrangement of self-insurance pursuant to that section.

## ARTICLE VI

## MISCELLANEOUS PROVISIONS

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

Section 2. Resignations. Any director or officer may resign at any time. Such resignations shall be made in writing and shall take effect at the time specified therein, or, if no time be specified, at the time of its receipt by the Chairman of the Board, if there is one, the Chief Executive Officer,

if there is one, the President or the Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

Section 3. Seal. The seal of the Company shall be circular in form, with the name "HOUSTON INDUSTRIES INCORPORATED."

Section 4. Separability. If one or more of the provisions of these Bylaws shall be held to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other provision hereof and these Bylaws shall be construed as if such invalid, illegal or unenforceable provision or provisions had never been contained herein.

## ARTICLE VII

## AMENDMENT OF BYLAWS

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

Section 2. Shareholder Proposals. No proposal by a shareholder made pursuant to Section 1 of this Article VII may be voted upon at a meeting of shareholders unless such shareholder shall have delivered or mailed in a timely manner (as set forth in this Section 2) and in writing to the Secretary of the Company (a) notice of such proposal and the text of the proposed alteration, amendment or repeal, (b) evidence reasonably satisfactory to the Secretary of the Company, of such shareholder's status as such and of the number of shares of each class of capital stock of the Company of which such shareholder is the beneficial owner, (c) a list of the names and addresses of other beneficial owners of shares of the capital stock of the Company, if any, with whom such shareholder is acting in concert, and the number of shares of each class of capital stock of the Company beneficially owned by each such beneficial owner and (d) an opinion of counsel, which counsel and the form and substance of which opinion shall be reasonably satisfactory to the Board of Directors of the Company, to the effect that the Bylaws (if any) resulting from the adoption of such proposal would not be in conflict with the Articles of Incorporation of the Company or the laws of the State of Texas. To be timely in connection with an annual meeting of shareholders, a shareholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Company not less than ninety nor more than 180 days prior to the date on which the immediately preceding year's annual meeting of shareholders was held. To be timely in connection with the voting on any such proposal at a special meeting of the shareholders, a shareholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Company not less than forty days nor more than sixty days prior to the date of such meeting; provided, however, that in the event that less than forty-seven days' notice or prior public disclosure

of the date of the special meeting of the shareholders is given or made to the shareholders, the shareholder's notice and other aforesaid items to be timely must be so received not later than the close of business on the seventh day following the day on which such notice of date of the meeting was mailed or such public disclosure was made. Within thirty days (or such shorter period that may exist prior to the date of the meeting) after such shareholder shall have submitted the aforesaid items, the Secretary and the Board of Directors of the Company shall respectively determine whether the items to be ruled upon by them are reasonably satisfactory and shall notify such shareholder in writing of their respective determinations. If such shareholder fails to submit a required item in the form or within the time indicated, or if the Secretary or the Board of Directors of the Company determines that the items to be ruled upon by them are not reasonably satisfactory, then such proposal by such shareholder may not be voted upon by the shareholders of the Company at such meeting of shareholders. The presiding person at each meeting of shareholders shall, if the facts warrant, determine and declare to the meeting that a proposal made pursuant to Section 1 of this Article VII was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare to the meeting and the defective proposal shall be disregarded. Beneficial ownership shall be determined in accordance with Rule 13d-3 under the Exchange Act.

EXHIBIT 10(a)

HOUSTON INDUSTRIES INCORPORATED
EXECUTIVE INCENTIVE COMPENSATION PLAN

(As Amended and Restated Effective January 1, 1991)

Seventh Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having amended and restated the Houston Industries Incorporated Executive Incentive Compensation Plan, effective January 1, 1991 (the "Plan"), and having reserved the right under Paragraph 18 thereof to amend the Plan, does hereby amend the Plan, effective January 1, 1996, as follows:

1. Paragraph 11B. of the Plan is hereby amended to read as follows:

"B. Payment of Long-Term Award. Upon satisfaction of the Long-Term Performance Goal as determined by the Committee, payment of the Long-Term Award shall be made in cash and/or full shares of HII Stock (as determined by the Committee in its sole and absolute discretion) to the Participant as soon as practicable after the close of the four (4) consecutive calendar year measurement period described in paragraph 6 above, provided that (i) the Participant has satisfied the requirements of paragraph 4 throughout such measurement period and (ii) the payment in the form of HII Stock shall be permitted only with respect to measurement periods commencing on or after January 1, 1996.

If the form of payment of a Long-Term Award is undesignated by the Committee, such Award will be paid entirely in the form of cash. If all or any portion of such Award is to be paid in HII Stock, the number of full shares payable shall be determined by dividing the portion of such Participant's Long-Term Award payable in cash by an amount equal to the Market Price of HII Stock as of the date of the Committee determination regarding payment of the Long-Term Award. Any fractional share shall be paid in cash."

2. Paragraph 15 of the Plan is hereby amended by adding at the end thereof the following:

"With respect to any Long-Term Award payable in full shares of HII Common Stock, the Committee shall deduct applicable taxes (without regard to any alternative rule permitting the use of the flat percentage rate in computing such applicable income tax withholding amounts) and withhold, at the time of delivery or other appropriate time, an appropriate amount of cash or number of shares of HII Common Stock or

combination thereof for payment of taxes as required by law, such withholding to be administered on a uniform basis (not involving any election by any Participant). If shares of HII Common Stock are used to satisfy tax withholding, such shares shall be valued based on the Fair Market Value when the tax withholding is required to be made."

IN WITNESS WHEREOF, Houston Industries Incorporated has caused these presents to be executed by its duly authorized officer in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 18th day of June, 1996, but effective as of the date stated herein.

HOUSTON INDUSTRIES INCORPORATED

By: /s/ D. D. Sykora
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D. D. Sykora
Chairman of the Benefits Committee

ATTEST:

/s/ Rufus S. Scott
---
Assistant Corporate Secretary

EXHIBIT 10(B)

HOUSTON INDUSTRIES INCORPORATED
DEFERRED COMPENSATION PLAN

(As Established Effective September 1, 1985)

Sixth Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having established the Houston Industries Incorporated Deferred Compensation Plan, effective September 1, 1985 and as amended (the "Plan"), and having reserved the right under Section 7.1 thereof to amend the Plan, does hereby amend the last sentence of Section 7.1 of the Plan, effective as of December 1, 1995, to read as follows:

> "Any such amendment or termination shall not, however, without the written consent of the affected Participant, reduce the interest rate applicable to, or otherwise adversely affect the rights of a Participant with respect to, Compensation with respect to which a Participant made an irrevocable deferral election before the later of the date that such amendment is executed or effective."

IN WITNESS WHEREOF, Houston Industries Incorporated has caused these presents to be executed by the duly authorized Chairman of the Benefits Committee in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 18th day of June, 1996, but effective as of the date stated herein.

HOUSTON INDUSTRIES INCORPORATED

By: /s/ D. D. Sykora
---
D. D. Sykora
Chairman of the Benefits
Committee

ATTEST:

/s/ Rufus S. Scott
- ---
Assistant Corporate Secretary

EXHIBIT 10(c)

HOUSTON INDUSTRIES INCORPORATED
DEFERRED COMPENSATION PLAN

(As Amended and Restated Effective January 1, 1989)

Sixth Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having established the Houston Industries Incorporated Deferred Compensation Plan, as amended and restated effective January 1, 1989 and as amended (the "Plan"), and having reserved the right under Section 7.1 thereof to amend the Plan, does hereby amend the last sentence of Section 7.1 of the Plan, effective as of December 1, 1995, to read as follows:

> "Any such amendment or termination shall not, however, without the written consent of the affected Participant, reduce the interest rate applicable to, or otherwise adversely affect the rights of a Participant with respect to, Compensation with respect to which a Participant made an irrevocable deferral election before the later of the date that such amendment is executed or effective."

IN WITNESS WHEREOF, Houston Industries Incorporated has caused these presents to be executed by the duly authorized Chairman of the Benefits Committee in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 18th day of June, 1996, but effective as of the date stated herein.

HOUSTON INDUSTRIES INCORPORATED

By: /s/ D. D. Sykora
---
D. D. Sykora
Chairman of the Benefits Committee

ATTEST:

/s/ Rufus S. Scott
- ---
Assistant Corporate Secretary

EXHIBIT 10(d)

HOUSTON INDUSTRIES INCORPORATED
DEFERRED COMPENSATION PLAN

(As Amended and Restated Effective January 1, 1991)

Seventh Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having established the Houston Industries Incorporated Deferred Compensation Plan, as amended and restated effective January 1, 1991 and as amended (the "Plan"), and having reserved the right under Section 7.1 thereof to amend the Plan, does hereby amend the last sentence of Section 7.1 of the Plan, effective as of December 1, 1995, to read as follows:

> "Any such amendment or termination shall not, however, without the written consent of the affected Participant, reduce the interest rate applicable to, or otherwise adversely affect the rights of a Participant with respect to, Compensation with respect to which a Participant made an irrevocable deferral election before the later of the date that such amendment is executed or effective."

IN WITNESS WHEREOF, Houston Industries Incorporated has caused these presents to be executed by the duly authorized Chairman of the Benefits Committee in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 18th day of June, 1996, but effective as of the date stated herein.

HOUSTON INDUSTRIES INCORPORATED

By: /s/ D. D. Sykora
---
D. D. Sykora
Chairman of the Benefits Committee

ATTEST:

/s/ Rufus S. Scott
- ---
Assistant Corporate Secretary

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, | |
|---|---|---|---|---|---|
| | | 1996 | 1995 | 1996 | 1995 |
| Primary Earnings Per Share: | | | | | |
| (1) | Weighted average shares of common stock outstanding | 248,656,061 | 247,538,498 | 248,561,076 | 247,368,572 |
| (2) | Effect of issuance of shares from assumed exercise of stock options (treasury stock method) | 18,885 | (9,266) | (15,577) | (24,190) |
| (3) | Weighted average shares | 248,674,946 | 247,529,232 | 248,545,499 | 247,344,382 |
| (4) | Net income | $ 145,334 | $ 133,260 | $ 128,594 | $ 247,716 |
| (5) | Primary earnings per share (line 4/line 3) | $ 0.58 | $ 0.54 | $ 0.52 | $ 1.00 |
| Fully Diluted Earnings Per Share: | | | | | |
| (6) | Weighted average shares per computation on line 3 above | 248,674,946 | 247,529,232 | 248,545,499 | 247,344,382 |
| (7) | Shares applicable to options included on line 2 above | (18,885) | 9,266 | 15,577 | 24,190 |
| (8) | Dilutive effect of stock options based on the average price for the period or period-end price, whichever is higher, of $24.63 and $21.06 for the second quarter of 1996 and 1995, respectively, and $24.63 and $21.06 for the first six months of 1996 and 1995, respectively. (treasury stock method) | 58,282 | (2,728) | 58,283 | (2,728) |
| (9) | Weighted average shares | 248,714,343 | 247,535,770 | 248,619,359 | 247,365,844 |
| (10) | Net income | $ 145,334 | $ 133,260 | $ 128,594 | $ 247,716 |
| (11) | Fully diluted earnings per share (line 10/line 9) | $ 0.58 | $ 0.54 | $ 0.52 | $ 1.00 |

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, 1996 and 1995 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, 1996 | Twelve Months Ended June 30, 1996 |
|---|---|---|---|
| Fixed Charges as Defined: | | | |
| (1) | Interest on Long-Term Debt | $ 140,252 | $ 290,485 |
| (2) | Other Interest | 11,049 | 13,957 |
| (3) | Preferred Dividends Factor of Subsidiary | 17,559 | 38,198 |
| (4) | Interest Component of Rentals Charged to Operating Expense | 591 | 1,768 |
| (5) | Total Fixed Charges | $ 169,451 | $ 344,408 |
| Earnings as Defined: | | | |
| (6) | Income from Continuing Operations | $ 128,594 | $ 368,885 |
| (7) | Income Taxes for Continuing Operations | 60,589 | 184,008 |
| (8) | Fixed Charges (line 5) | 169,451 | 344,408 |
| (9) | Income from Continuing Operations Before Income Taxes and Fixed Charges | $ 358,634 | $ 897,301 |
| Preferred Dividends Factor of Subsidiary: | | | |
| (10) | Preferred Stock Dividends of Subsidiary | $ 11,945 | $ 25,465 |
| (11) | Ratio of Pre-Tax Income from Continuing Operations to Income from Continuing Operations (line 6 plus line 7 divided by line 6) | 1.47 | 1.50 |
| (12) | Preferred Dividends Factor of Subsidiary (line 10 times line 11) | $ 17,559 | $ 38,198 |
| Ratio of Earnings to Fixed Charges (line 9 divided by line 5) | | 2.12 | 2.61 |

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

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Houston Industries Incorporated
1,000

6-MOS
DEC-31-1996
JUN-30-1996
PER-BOOK
8,687,303
1,621,930
332,770
1,532,783
0
12,174,786
2,155,504
0
1,896,173
4,051,677
0
351,345
3,059,406
0
2,544
829,592
390,130
25,700
2,875
3,627
3,457,890
12,174,786
1,938,184
60,589
1,514,437
1,514,437
423,747
(72,675)
351,072
149,944
140,539
11,945
128,594
186,093
112,430
275,598
0.52
0.52

EXHIBIT 99(a)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE YEARS ENDED DECEMBER 31, 1995

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

(2) JOINTLY-OWNED NUCLEAR PLANT

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

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

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

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

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

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

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

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

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

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

(3) RATE MATTERS

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

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

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

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

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

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

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

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

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

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

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

(4) INVESTMENTS IN FOREIGN AND NON-REGULATED ENTITIES

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

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

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

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

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

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

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

(11) COMMITMENTS AND CONTINGENCIES

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

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

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

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

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AND

HOUSTON LIGHTING & POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

(1) GENERAL

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

(2) CERTAIN CONTINGENCIES

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

(3) JOINTLY-OWNED NUCLEAR PLANT

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

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

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

(4) RATE CASE PROCEEDINGS

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

(5) CAPITAL STOCK

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

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

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

(6) LONG-TERM DEBT

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

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

(7) SUBSEQUENT EVENTS

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

Trial of Austin's suit began in March 1996, and the settlement was reached in April 1996. Under the settlement, HL&P agreed to pay Austin $20 million in cash to resolve all pending disputes between HL&P and Austin, and Austin agreed to

support the formation of a new operating company to assume HL&P's role as project manager for the South Texas Project. The Company and HL&P have recorded the $20 million ($13 million net of tax) payment to Austin on the Company's Statements of Consolidated Income and HL&P's Statements of Income as litigation settlements expense.

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

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

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

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

(8) INTERIM PERIOD RESULTS: RECLASSIFICATIONS

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

EXHIBIT 99e

HOUSTON INDUSTRIES INCORPORATED
SAVINGS PLAN

(As Amended and Restated Effective July 1, 1995)

Second Amendment

The Benefits Committee of Houston Industries Incorporated, having reserved the right under Section 10.3 of the Houston Industries Incorporated Savings Plan, as amended and restated effective July 1, 1995 and thereafter amended (the "Plan"), to amend the Plan, does hereby amend the Plan as follows, effective August 1, 1996:

1. Section 6.2 of the Plan is hereby amended in its entirety as follows:

"6.2 Disability of Participants: If a Participant satisfies the definition of 'Disability' under the Company's long-term disability plan and commences to receive disability benefits thereunder, such Participant shall become entitled to receive the entire interest in his Pre-Tax Contribution Account, his After-Tax Contribution Account, his Employer Matching Account and his ESOP Account. The determination of whether a Participant has become 'Disabled' under the Company's long-term disability plan by such disability plan's administrator shall be final and binding on all parties concerned."

2. The fourth paragraph of Section 8.1 of the Plan is hereby amended by deleting the second sentence therefrom.

IN WITNESS WHEREOF, the Benefits Committee of Houston Industries Incorporated has caused these presents to be executed by its duly authorized Chairman in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently

evidenced by any executed copy hereof, this 31st day of July, 1996, but effective as of August 1, 1996.

BENEFITS COMMITTEE OF HOUSTON
INDUSTRIES INCORPORATED

By /s/ D. D. Sykora
D. D. Sykora, Chairman

ATTEST:

/s/ Elizabeth P. Weylandt
Elizabeth P. Weylandt,
Secretary of the Benefits Committee

EXHIBIT 3

# AMENDED AND RESTATED BYLAWS

# OF

# HOUSTON LIGHTING & POWER COMPANY

(Adopted by Resolution of the
Board of Directors on
June 5, 1996)

## ARTICLE I

## CAPITAL STOCK

Section 1. Share Ownership. Shares for the capital stock of the Company may be certificated or uncertificated. Owners of shares of the capital stock of the Company shall be recorded in the share transfer records of the Company and ownership of such shares shall be evidenced by a certificate or book entry notation in the share transfer records of the Company. Any certificates representing such shares shall be signed by the Chairman of the Board, if there is one, the Chief Executive Officer, if there is one, the President or a Vice President and either the Secretary or an Assistant Secretary and shall be sealed with the seal of the Company, which signatures and seal may be facsimiles. In case any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Company with the same effect as if he were such officer at the date of its issuance.

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

Section 3. Transfer of Shares. The shares of the capital stock of the Company shall be transferable in the share transfer records of the Company by the holder of record thereof, or his duly authorized attorney or legal representative. All certificates representing shares surrendered for transfer, properly endorsed, shall be cancelled and new certificates for a like number of shares shall

be issued therefor. In the case of lost, destroyed or mutilated certificates representing shares for which the Company has been requested to issue new certificates, new certificates or other evidence of such new shares may be issued upon such conditions as may be required by the Board of Directors or the Secretary for the protection of the Company and any transfer agent or registrar. Uncertificated shares shall be transferred in the share transfer records of the Company upon the written instruction originated by the appropriate person to transfer the shares.

Section 4. Shareholders of Record and Fixing of Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive a distribution by the Company (other than a distribution involving a purchase or redemption by the Company of any of its own shares) or a share dividend, or in order to make a determination of shareholders for any other proper purpose (other than determining shareholders entitled to consent to action by shareholders proposed to be taken without a meeting of shareholders), the Board of Directors may provide that the share transfer records shall be closed for a stated period of not more than sixty days, and in the case of a meeting of shareholders not less than ten days, immediately preceding the meeting, or it may fix in advance a record date for any such determination of shareholders, such date to be not more than sixty days, and in the case of a meeting of shareholders not less than ten days, prior to the date on which the particular action requiring such determination of shareholders is to be taken. If the share transfer records are not closed and no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive a distribution (other than a distribution involving a purchase or redemption by the Company of any of its own shares) or a share dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such distribution or share dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as herein provided, such determination shall apply to any adjournment thereof except where the determination has been made through the closing of the share transfer records and the stated period of closing has expired.

## ARTICLE II

## MEETINGS OF SHAREHOLDERS

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

Section 2. Annual Meeting. The annual meeting of the shareholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors or as may otherwise be stated in the notice of the meeting. Failure to designate a time for the annual meeting or to hold the annual meeting at the designated time shall not work a dissolution of the Company.

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

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

Any notice required to be given to any shareholder, under any provision of the Texas Business Corporation Act, as amended (TBCA), the Articles of Incorporation of the Company or these Bylaws, need not be given to a shareholder if notice of two consecutive annual meetings and all notices of meetings held during the period between those annual meetings, if any, or all (but in no event less than two) payments (if sent by first class mail) of distributions or interest on securities during a 12-month period have been mailed to that person, addressed at his address as shown on the share transfer records of the Company, and have been returned undeliverable. Any action or meeting taken or held without notice to such person shall have the same force and effect as if the notice had been duly given. If such a person delivers to the Company a written notice setting forth his then-current address, the requirement that notice be given to that person shall be reinstated.

Section 5. Voting List. The officer or agent having charge of the share transfer records for shares of the Company shall make, at least ten days before each meeting of shareholders, a complete list of the shareholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each, which list, for a period of ten days prior to such meeting, shall be kept on file at the registered office of the Company and shall be subject to inspection by any shareholder at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original share transfer records shall be prima facie evidence as to who are the shareholders entitled to examine such list or to vote at any meeting of shareholders. Failure to comply with any requirements of this Section 5 shall not affect the validity of any action taken at such meeting.

Section 6. Voting; Proxies. Except as otherwise provided in the Articles of Incorporation of the Company, or as otherwise provided in the TBCA, each holder of shares of capital stock of the Company entitled to vote shall be entitled to one vote for each share standing in his name on the records of the Company, either in person or by proxy executed in writing by him or by his duly

authorized attorney-in-fact. A proxy shall be revocable unless expressly provided therein to be irrevocable and the proxy is coupled with an interest. At each election of directors, every holder of shares of the Company entitled to vote shall have the right to vote, in person or by proxy, the number of shares owned by him for as many persons as there are directors to be elected, and for whose election he has a right to vote, but in no event shall he be permitted to cumulate his votes for one or more directors.

Section 7. Quorum and Vote of Shareholders. Except as otherwise provided by law, the Articles of Incorporation of the Company, or these Bylaws, the holders of a majority of shares entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders, but, if a quorum is not represented, a majority in interest of those represented may adjourn the meeting from time to time. Directors shall be elected by a plurality of the votes cast by the holders of shares entitled to vote in the election of directors at a meeting of shareholders at which a quorum is present. With respect to each matter other than the election of directors as to which no other voting requirement is specified by law, the Articles of Incorporation of the Company or in this Section 7 of these Bylaws, the affirmative vote of the holders of a majority of the shares entitled to vote on that matter and represented in person or by proxy at a meeting at which a quorum is present shall be the act of the shareholders.

Section 8. Presiding Officer and Conduct of Meetings. The Chairman of the Board, if there is one, or in his absence, the Chief Executive Officer, if there is one, or in his absence, the President shall preside at all meetings of the shareholders or, if such officers are not present at a meeting, by such other person as the Board of Directors shall designate or if no such person is designated by the Board of Directors, the most senior officer of the Company present at the meeting. The Secretary of the Company, if present, shall act as secretary of each meeting of shareholders; if he is not present at a meeting, then such person as may be designated by the presiding officer shall act as secretary of the meeting. Meetings of shareholders shall follow reasonable and fair procedure. Subject to the foregoing, the conduct of any meeting of shareholders and the determination of procedure and rules shall be within the absolute discretion of the officer presiding at such meeting (Chairman of the Meeting), and there shall be no appeal from any ruling of the Chairman of the Meeting with respect to procedure or rules. Accordingly, in any meeting of shareholders or part thereof, the Chairman of the Meeting shall have the sole power to determine appropriate rules or to dispense with theretofore prevailing rules.

## ARTICLE III

## DIRECTORS

Section 1. Number and Tenure; Qualifications. The business and affairs of the Company shall be managed by the Board of Directors. The number of directors that shall constitute the whole Board of Directors shall be fixed by the affirmative vote of a majority of the members at any time constituting the Board of Directors, and such number may be increased or decreased from time to

time; provided, however, that no such decrease shall have the effect of shortening the term of any incumbent director. Except as otherwise provided herein, a member of the Board of Directors shall hold office until the next annual meeting of shareholders.

No person shall be eligible to serve as a director of the Company subsequent to the annual meeting of shareholders occurring on or after the first day of the month immediately following such person's seventieth birthday and the term of any director who is thereby rendered ineligible to serve as a director of the Company shall expire at such annual meeting of shareholders. No person who is also an officer of the Company or its corporate affiliates, including Houston Industries Incorporated (HI), shall be eligible to serve as a director upon termination of such person's service as an officer, whether by reason of retirement, resignation, or otherwise, and the term of any such director shall simultaneously terminate when that director's service as an officer terminates.

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

No person shall be eligible for election or reelection or to continue to serve as a member of the Board of Directors who is an officer, director, agent, representative, partner, employee, or nominee of, or otherwise acting at the direction of, or acting in concert with, (a) a "public-utility company" (other than the Company) as such term is defined in Section 2(a)(5) of the Public Utility Holding Company Act of 1935, as in effect on May 1, 1996 (35 Act), or (b) an "affiliate" (as defined in either Section 2(a)(11) of the 35 Act or in Rule 405 under the Securities Act of 1933, as amended), other than HI, of any such "public-utility company" specified in clause (a) immediately preceding.

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

Notwithstanding the foregoing paragraph of this Section 2, whenever holders of outstanding shares of Preferred Stock are entitled to elect members of the Board of Directors pursuant to the provisions of Section 6 of Division A of Article VI of the Articles of Incorporation of the Company, any vacancy or vacancies resulting by reason of the death, resignation, disqualification or removal of

any director or directors or any increase in the number of directors shall be filled in accordance with the provisions of such section.

Section 3. Place of Meetings and Meetings by Telephone. Meetings of the Board of Directors may be held either within or without the State of Texas, at whatever place is specified by the officer calling the meeting. Meetings of the Board of Directors may also be held by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in such a meeting by means of conference telephone or similar communications equipment shall constitute presence in person at such meeting, except where a director participates in a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. In the absence of specific designation by the officer calling the meeting, the meetings shall be held at the principal office of the Company.

Section 4. Regular Meetings. The Board of Directors shall meet each year immediately following the annual meeting of the shareholders for the transaction of such business as may properly be brought before the meeting. The Board of Directors shall also meet regularly at such other times as shall be designated by the Board of Directors. No notice of any kind to either existing or newly elected members of the Board of Directors for such annual or regular meetings shall be necessary.

Section 5. Special Meetings. Special meetings of the Board of Directors may be held at any time upon the call of the Chairman of the Board, if there is one, the Chief Executive Officer, if there is one, the President or the Secretary of the Company or a majority of the directors then in office. Notice shall be sent by mail, facsimile or telegram to the last known address of the director at least two days before the meeting, or oral notice may be substituted for such written notice if received not later than the day preceding such meeting. Notice of the time, place and purpose of such meeting may be waived in writing before or after such meeting, and shall be equivalent to the giving of notice. Attendance of a director at such meeting shall also constitute a waiver of notice thereof, except where he attends for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. Except as otherwise provided by these Bylaws, neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

Section 6. Quorum and Voting. Except as otherwise provided by law, the Articles of Incorporation of the Company or these Bylaws, a majority of the number of directors fixed in the manner provided in these Bylaws as from time to time amended shall constitute a quorum for the transaction of business. Except as otherwise provided by law, the Articles of Incorporation of the Company or these Bylaws, the affirmative vote of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. Any regular or special directors' meeting may be adjourned from time to time by those present, whether a quorum is present or not.

Section 7. Compensation. Directors shall receive such compensation for their services as shall be determined by the Board of Directors.

Section 8. Removal. Any director may be removed, either with or without cause, at any meeting of shareholders by the affirmative vote of a majority of the outstanding shares entitled to vote at elections of directors. The notice calling such meeting shall give express notice of the intention to act upon such matter, and if the notice so provides, the vacancy caused by such removal may be filled at such meeting by vote of a majority of the shares represented at such meeting and entitled to vote for the election of directors.

Section 9. Executive and Other Committees. The Board of Directors, by resolution or resolutions adopted by a majority of the full Board of Directors, may designate one or more members of the Board of Directors to constitute an Executive Committee and one or more other committees, which shall in each case be comprised of such number of directors as the Board of Directors may determine from time to time. Subject to such restrictions as may be contained in the Company's Articles of Incorporation or that may be imposed by the TBCA, any such committee shall have and may exercise such powers and authority of the Board of Directors in the management of the business and affairs of the Company as the Board of Directors may determine by resolution and specify in the respective resolutions appointing them, or as permitted by applicable law, including, without limitation, the power and authority to (a) authorize a distribution, (b) authorize the issuance of shares of the Company and (c) exercise the authority of the Board of Directors vested in it pursuant to Article 2.13 of the TBCA or such successor statute as may be in effect from time to time. Each duly- authorized action taken with respect to a given matter by any such duly-appointed committee of the Board of Directors shall have the same force and effect as the action of the full Board of Directors and shall constitute for all purposes the action of the full Board of Directors with respect to such matter.

The designation of any such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed upon it or him by law, nor shall such committee function where action of the Board of Directors cannot be delegated to a committee thereof under applicable law. The Board of Directors shall have the power at any time to change the membership of any such committee and to fill vacancies in it. A majority of the members of any such committee shall constitute a quorum. The Board of Directors shall name a chairman at the time it designates members to a committee. Each such committee shall appoint such subcommittees and assistants as it may deem necessary. Except as otherwise provided by the Board of Directors, meetings of any committee shall be conducted in accordance with the provisions of Sections 3 and 5 of this Article III as the same shall from time to time be amended. Any member of any such committee elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the Company will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of a member of a committee shall not of itself create contract rights.

ARTICLE IV

OFFICERS

Section 1. Officers. The officers of the Company shall consist of a President and a Secretary and such other officers as the Board of Directors may from time to time elect or appoint, which may include, without limitation, a Chairman of the Board, a Chief Executive Officer, one or more Vice Presidents (whose seniority and titles, including Executive Vice Presidents, Senior Vice Presidents and such assistant or subordinate Vice Presidents, may be specified by the Board of Directors), a Treasurer, one or more Assistant Treasurers, and one or more Assistant Secretaries. Each officer shall hold office until his successor shall have been duly elected and shall qualify or until his death or until he shall resign or shall have been removed in the manner hereinafter provided. Any two or more offices may be held by the same person. Except for the Chairman of the Board, if any, no officer need be a director.

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

Section 3. Powers and Duties of Officers. The officers of the Company shall have such powers and duties as generally pertain to their offices as well as such powers and duties as from time to time shall be conferred by the Board of Directors.

ARTICLE V

INDEMNIFICATION

Section 1. General. The Company shall indemnify and hold harmless the Indemnitee (as this and all other capitalized words are defined in this Article or in Article 2.02-1 of the TBCA), to the fullest extent permitted, or not prohibited, by the TBCA or other applicable law as the same exists or may hereafter be amended (but in the case of any such amendment, with respect to Matters occurring before such amendment, only to the extent that such amendment permits the Company to provide broader indemnification rights than said law permitted the Company to provide prior to such amendment). The provisions set forth below in this Article are provided as means of furtherance and implementation of, and not in limitation on, the obligation expressed in this Section 1.

Section 2. Advancement or Reimbursement of Expenses. The rights of the Indemnitee provided under Section 1 of this Article shall include, but not be limited to, the right to be indemnified

and to have Expenses advanced (including the payment of expenses before final disposition of a Proceeding) in all Proceedings to the fullest extent permitted, or not prohibited, by the TBCA or other applicable law. If the Indemnitee is not wholly successful, on the merits or otherwise, in a Proceeding, but is successful, on the merits or otherwise, as to any Matter in such Proceeding, the Company shall indemnify the Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf relating to each Matter. The termination of any Matter in a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such Matter. In addition, to the extent the Indemnitee is, by reason of his Corporate Status, a witness or otherwise participates in any Proceeding at a time when he is not named a defendant or respondent in the Proceeding, he shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith. The Indemnitee shall be advanced Expenses, within ten days after any request for such advancement, to the fullest extent permitted, or not prohibited, by Article 2.02-1 of the TBCA; provided that the Indemnitee has provided to the Company all affirmations, acknowledgments, representations and undertakings that may be required of the Indemnitee by Article 2.02-1 of the TBCA.

Section 3. Determination of Request. Upon written request to the Company by an Indemnitee for indemnification pursuant to these Bylaws, a determination, if required by applicable law, with respect to an Indemnitee's entitlement thereto shall be made in accordance with Article 2.02-1 of the TBCA; provided, however, that notwithstanding the foregoing, if a Change in Control shall have occurred, such determination shall be made by Special Legal Counsel selected by the Indemnitee, unless the Indemnitee shall request that such determination be made in accordance with Article 2.02-1F (1) or (2). The Company shall pay any and all reasonable fees and expenses of Special Legal Counsel incurred in connection with any such determination. If a Change in Control shall have occurred, the Indemnitee shall be presumed (except as otherwise expressly provided in this Article) to be entitled to indemnification under this Article upon submission of a request to the Company for indemnification, and thereafter the Company shall have the burden of proof in overcoming that presumption in reaching a determination contrary to that presumption. The presumption shall be used by Special Legal Counsel, or such other person or persons determining entitlement to indemnification, as a basis for a determination of entitlement to indemnification unless the Company provides information sufficient to overcome such presumption by clear and convincing evidence or the investigation, review and analysis of Special Legal Counsel or such other person or persons convinces him or them by clear and convincing evidence that the presumption should not apply.

Section 4. Effect of Certain Proceedings. The termination of any Proceeding or of any Matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Article) of itself adversely affect the right of the Indemnitee to indemnification or create a presumption that (a) the Indemnitee did not conduct himself in good faith and in a manner which he reasonably believed, in the case of conduct in his official capacity as a director of the Company, to be in the best interests of the Company, or, in all other cases, that at least his conduct was not opposed to the Company's best

interests, or (b) with respect to any criminal Proceeding, that the Indemnitee had reasonable cause to believe that his conduct was unlawful.

Section 5. Expenses of Enforcement of Article. In the event that an Indemnitee, pursuant to this Article, seeks a judicial adjudication to enforce his rights under, or to recover damages for breach of, rights created under or pursuant to this Article, the Indemnitee shall be entitled to recover from the Company, and shall be indemnified by the Company against, any and all Expenses actually and reasonably incurred by him in such judicial adjudication but only if he prevails therein. If it shall be determined in said judicial adjudication that the Indemnitee is entitled to receive part but not all of the indemnification or advancement of Expenses sought, the Expenses incurred by Indemnitee in connection with such judicial adjudication shall be reasonably prorated in good faith by counsel for the Indemnitee. Notwithstanding the foregoing, if a Change in Control shall have occurred, the Indemnitee shall be entitled to indemnification under this Section regardless of whether Indemnitee ultimately prevails in such judicial adjudication.

Section 6. Nonexclusive Rights. The rights of indemnification and to receive advancement of Expenses as provided by this Article shall not be deemed exclusive of any other rights to which the Indemnitee may at any time be entitled under applicable law, the Articles of Incorporation of the Company, these Bylaws, agreement, insurance, arrangement, a vote of shareholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Article or any provision thereof shall be effective as to any Indemnitee for acts, events and circumstances that occurred, in whole or in part, before such amendment, alteration or repeal. The provisions of this Article shall continue as to an Indemnitee whose Corporate Status has ceased and shall inure to the benefit of his heirs, executors and administrators.

Section 7. Invalidity. If any provision or provisions of this Article shall be held to be invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby; and, to the fullest extent possible, the provisions of this Article shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

Section 8. Definitions. For purposes of this Article:

"Change of Control" means a change in control of HI or the Company occurring after the date of adoption of these Bylaws in any of the following circumstances: (a) there shall have occurred an event required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Exchange Act, whether or not HI or the Company, as the case may be, is then subject to such reporting requirement; (b) any "person" (as such term is used in Section 13(d) and 14(d) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of HI or the Company or a corporation or other entity owned directly or indirectly by the shareholders of HI or the Company in substantially

the same proportions as their ownership of stock of HI or the Company, as the case may be, shall have become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of HI or the Company representing 30% or more of the combined voting power of HI's or the Company's then- outstanding voting securities without prior approval of at least two-thirds of the members of the Board of Directors of HI or the Company, as the case may be, in office immediately prior to such person attaining such percentage interest; (c) HI or the Company is a party to a merger, consolidation, share exchange, sale of assets or other reorganization, or a proxy contest, as a consequence of which members of the Board of Directors of HI or the Company, as the case may be, in office immediately prior to such transaction or event constitute less than a majority of the respective Board of Directors thereafter; (d) during any fifteen-month period, individuals who at the beginning of such period constituted the Board of Directors of HI or the Company (including for this purpose any new director whose election or nomination for election by HI's or the Company's shareholders was approved by a vote of at least two-thirds of the respective directors then still in office who were directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board of Directors of HI or the Company, as the case may be.

"Corporate Status" means the status of a person who is or was a director, officer, partner, venturer, proprietor, trustee, employee (including an employee acting in his Designated Professional Capacity), or agent or similar functionary of the Company or of any other foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise which such person is or was serving in such capacity at the request of the Company. The Company hereby acknowledges that unless and until the Company provides the Indemnitee with written notice to the contrary, the Indemnitee's service as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of an Affiliate of the Company shall be conclusively presumed to be at the Company's request. An Affiliate of the Company shall be deemed to be (a) any foreign or domestic corporation in which the Company owns or controls, directly or indirectly, 5% or more of the shares entitled to be voted in the election of directors of such corporation; (b) any foreign or domestic partnership, joint venture, proprietorship or other enterprise in which the Company owns or controls, directly or indirectly, 5% or more of the revenue interests in such partnership, joint venture, proprietorship or other enterprise; or (c) any trust or employee benefit plan the beneficiaries of which include the Company, any Affiliate of the Company as defined in the foregoing clauses (a) and (b) or any of the directors, officers, partners, venturers, proprietors, employees, agents or similar functionaries of the Company or of such Affiliates of the Company.

"Expenses" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all

other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, or being or preparing to be a witness in a Proceeding.

"Indemnitee" includes any person who is, or is threatened to be made, a witness in or a party to any Proceeding as described in Section 1 or 2 of this Article by reason of his Corporate Status.

"Matter" is a claim, a material issue, or a substantial request for relief.

"Proceeding" includes any threatened, pending or completed action, suit, arbitration, alternate dispute resolution proceeding, investigation, administrative hearing and any other proceeding, whether civil, criminal, administrative, investigative or other, any appeal in such action, suit, arbitration, proceeding or hearing, or any inquiry or investigation, whether conducted by or on behalf of the Company, a subsidiary of the Company or any other party, formal or informal, that the Indemnitee in good faith believes might lead to the institution of any such action, suit, arbitration, proceeding, investigation or hearing, except one initiated by an Indemnitee pursuant to Section 5 of this Article.

"Special Legal Counsel" means a law firm, or member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the five years previous to his selection or appointment has been, retained to represent: (a) HI, the Company or the Indemnitee in any matter material to either such party; (b) any other party to the Proceeding giving rise to a claim for indemnification hereunder; or (c) the beneficial owner, directly or indirectly, of securities of HI or the Company representing 30% or more of the combined voting power of the Company's then-outstanding voting securities. Notwithstanding the foregoing, the term "Special Legal Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or the Indemnitee in an action to determine the Indemnitee's rights to indemnification under these Bylaws.

For the purposes of this Article, an employee acting in his "Designated Professional Capacity" shall include, but not be limited to, a physician, nurse, psychologist or therapist, registered surveyor, registered engineer, registered architect, attorney, certified public accountant or other person who renders such professional services within the course and scope of his employment, who is licensed by appropriate regulatory authorities to practice such profession and who, while acting in the course of such employment, committed or is alleged to have committed any negligent acts, errors or omissions in rendering such professional services at the request of the Company or pursuant to his employment (including, without limitation, rendering written or oral opinions to third parties).

Section 9. Notice. Any communication required or permitted to the Company under this Article shall be addressed to the Secretary of the Company and any such communication to the Indemnitee shall be addressed to his home address unless he specifies otherwise and shall be personally delivered or delivered by overnight mail or courier delivery.

Section 10. Insurance and Self-Insurance Arrangements. The Company may procure or maintain insurance or other similar arrangements, at its expense, to protect itself and any Indemnitee against any expense, liability or loss asserted against or incurred by such person, incurred by him in such a capacity or arising out of his Corporate Status as such a person, whether or not the Company would have the power to indemnify such person against such expense or liability. In considering the cost and availability of such insurance, the Company (through the exercise of the business judgment of its directors and officers) may, from time to time, purchase insurance which provides for any and all of (a) deductibles, (b) limits on payments required to be made by the insurer, or (c) coverage which may not be as comprehensive as that previously included in insurance purchased by the Company. The purchase of insurance with deductibles, limits on payments and coverage exclusions will be deemed to be in the best interest of the Company but may not be in the best interest of certain of the persons covered thereby. As to the Company, purchasing insurance with deductibles, limits on payments, and coverage exclusions is similar to the Company's practice of self-insurance in other areas. In order to protect the Indemnitees who would otherwise be more fully or entirely covered under such policies, the Company shall indemnify and hold each of them harmless as provided in Section 1 or 2 of this Article, without regard to whether the Company would otherwise be entitled to indemnify such officer or director under the other provisions of this Article, or under any law, agreement, vote of shareholders or directors or other arrangement, to the extent (i) of such deductibles, (ii) of amounts exceeding payments required to be made by an insurer or (iii) that prior policies of officer's and director's liability insurance held by the Company or its predecessors would have provided for payment to such officer or director. Notwithstanding the foregoing provision of this Section, no Indemnitee shall be entitled to indemnification for the results of such person's conduct that is intentionally adverse to the interests of the Company. This Section is authorized by Section 2.02-1(R) of the TBCA as in effect on May 1, 1996, and further is intended to establish an arrangement of self-insurance pursuant to that section.

## ARTICLE VI

## MISCELLANEOUS PROVISIONS

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

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

Section 3. Seal. The seal of the Company shall be circular in form, with the name "HOUSTON LIGHTING & POWER COMPANY."

Section 4. Separability. If one or more of the provisions of these Bylaws shall be held to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other provision hereof and these Bylaws shall be construed as if such invalid, illegal or unenforceable provision or provisions had never been contained herein.

Section 5. Amendments. These Bylaws may be altered or repealed at any regular meeting of the shareholders or at any special meeting of the shareholders at which a quorum is present or represented, provided notice of the proposed alteration or repeal be contained in the notice of such special meeting, by the affirmative vote of a majority of the shares entitled to vote at such meeting and present or represented thereat, or by the affirmative vote of a majority of the Board of Directors at any regular meeting of the Board of Directors or at any special meeting of the Board of Directors if notice of the proposed alteration or repeal be contained in the notice of such special meeting, except that the directors shall not alter, amend or repeal any bylaw adopted by the shareholders or enact any bylaw in conflict with a bylaw adopted by the shareholders.

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 30,1996 | Twelve Months Ended June 30, 1996 |
|---|---|---|---|
| Fixed Charges as Defined: | | | |
| (1) | Interest on Long-Term Debt | $ 112,458 | $ 233,925 |
| (2) | Other Interest | 7,770 | 11,963 |
| (3) | Amortization of Discount | 4,521 | 9,036 |
| (4) | Interest Component of Rentals Charged to Operating Expense | 591 | 1,768 |
| (5) | Total Fixed Charges | $ 125,340 | $ 256,692 |
| Earnings as Defined: | | | |
| (6) | Net Income | $ 146,085 | $ 434,800 |
| | Federal Income Taxes: | | |
| (7) | Current | 77,208 | 201,610 |
| (8) | Deferred (Net) | 3,422 | 28,091 |
| (9) | Total Federal Income Taxes | 80,630 | 229,701 |
| (10) | Fixed Charges (line 5) | 125,340 | 256,692 |
| (11) | Earnings Before Income Taxes and Fixed Charges (line 6 plus line 9 plus line 10) | $ 352,055 | $ 921,193 |
| Ratio of Earnings to Fixed Charges (line 11 divided by line 5) | | 2.81 | 3.59 |
| Preferred Dividends Requirements: | | | |
| (12) | Preferred Dividends | $ 11,945 | $ 25,465 |
| (13) | Less Tax Deduction for Preferred Dividends | 27 | 54 |
| (14) | Total | 11,918 | 25,411 |
| (15) | Ratio of Pre-Tax Income to Net Income (line 6 plus line 9 divided by line 6) | 1.55 | 1.53 |
| (16) | Line 14 times line 15 | 18,473 | 38,879 |
| (17) | Add Back Tax Deduction (line 13) | 27 | 54 |
| (18) | Preferred Dividends Factor | $ 18,500 | $ 38,933 |
| (19) | Fixed Charges (line 5) | $ 125,340 | $ 256,692 |
| (20) | Preferred dividends Factor (line 18) | 18,500 | 38,933 |
| (21) | Total | $ 143,840 | $ 295,625 |
| Ratio of Earnings to Fixed Charges and Preferred Dividends (line 11 divided by line 21) | | 2.45 | 3.12 |

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

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Houston Lighting & Power Company
1,000

6-MOS
DEC-31-1996
JUN-30-1996
PER-BOOK
8,687,303
0
301,877
1,503,087
0
10,492,267
1,675,927
0
2,119,726
3,795,653
0
351,345
2,710,400
0
0
245,725
190,130
25,700
2,875
3,627
3,166,812
10,492,267
1,911,936
114,305
1,467,097
1,581,402
330,534
(65,578)
264,956
118,871
146,085
11,945
134,140
164,500
112,430
296,678
0
0