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 MARCH 31, 1995

OR

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

For the transition period from ______________ to _______________

Commission file number 1-7629

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

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

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

Commission file number 1-3187

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

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

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

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

As of April 30, 1995, Houston Industries Incorporated had 131,336,234 shares of common stock outstanding, including 7,569,547 ESOP shares not deemed outstanding for financial statement purposes. As of April 30, 1994, 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 MARCH 31, 1995

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	THREE MONTHS ENDED MARCH 31, 1995	1994 (Restated)
REVENUES	$ 746,166	$ 821,581
EXPENSES:		
Fuel	183,602	217,188
Purchased power	65,588	98,549
Operation and maintenance	198,529	193,851
Taxes other than income taxes	70,950	63,112
Depreciation and amortization	104,196	99,224
Total	622,865	671,924
OPERATING INCOME	123,301	149,657
OTHER INCOME (EXPENSE):		
Allowance for other funds used during construction	2,629	1,316
Interest income	298	398
Other - net	(10,557)	(7,478)
Total	(7,630)	(5,764)
INTEREST AND OTHER CHARGES:		
Interest on long-term debt	65,216	66,645
Other interest	8,999	6,412
Allowance for borrowed funds used during construction	(1,805)	(1,688)
Preferred dividends of subsidiary	8,985	8,273
Total	81,395	79,642
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	34,276	64,251
INCOME TAXES	10,427	22,652
INCOME FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	23,849	41,599
DISCONTINUED OPERATIONS:		
Loss from discontinued cable television operations (net of income tax benefit of $2,196)		(7,501)
Tax benefit from discontinued cable television operations	90,607	

CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS (NET OF INCOME TAXES OF $4,415)		(8,200)
NET INCOME	$ 114,456	$ 25,898

EARNINGS PER COMMON SHARE:		
CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	$ .20	$ .34
DISCONTINUED OPERATIONS:		
Loss from discontinued cable television operations		(.06)
Tax benefit from discontinued cable television operations	.73	
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS		(.07)
EARNINGS PER COMMON SHARE	$ .93	$ .21
DIVIDENDS DECLARED PER COMMON SHARE	$ .75	$ .75
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (000)	123,598	122,421

See Notes to Consolidated Financial Statements.

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

ASSETS

	MARCH 31, 1995	DECEMBER 31, 1994
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric plant:		
Plant in service	$11,814,919	$11,743,070
Construction work in progress	302,251	333,180
Nuclear fuel	212,748	212,795
Plant held for future use	201,833	201,741
Electric plant acquisition adjustments	3,166	3,166
Other property	123,094	85,529
Total	12,658,011	12,579,481
Less accumulated depreciation and amortization	3,610,058	3,527,598
Property, plant and equipment - net	9,047,953	9,051,883
CURRENT ASSETS:		
Cash and cash equivalents	17,167	10,443
Special deposits	15	10
Accounts receivable - net	31,422	22,149
Accrued unbilled revenues	41,587	38,372
Fuel stock, at lifo cost	64,737	56,711
Materials and supplies, at average cost	148,885	148,007
Prepayments	7,432	14,398
Total current assets	311,245	290,090
OTHER ASSETS:		
Net assets of discontinued cable television operations	731,018	669,132
Deferred plant costs - net	632,471	638,917
Deferred debits	280,972	271,454
Unamortized debt expense and premium on reacquired debt	158,284	161,885
Equity investment in foreign electric utility	35,879	35,449
Regulatory asset - net	234,088	235,463
Recoverable project costs - net	94,158	98,954
Total other assets	2,166,870	2,111,254
Total	$11,526,068	$11,453,227

See Notes to Consolidated Financial Statements.

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

CAPITALIZATION AND LIABILITIES

	MARCH 31, 1995	DECEMBER 31, 1994
CAPITALIZATION:		
Common Stock Equity:		
Common stock, no par value	$ 2,439,196	$ 2,437,638
Unearned ESOP shares	(284,025)	(289,611)
Retained earnings	1,242,925	1,221,221
Total common stock equity	3,398,096	3,369,248
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	121,910	121,910
Total cumulative preferred stock	473,255	473,255
Long-Term Debt:		
Debentures	548,775	548,729
Long-term debt of subsidiaries:		
First mortgage bonds	2,910,539	3,020,400
Pollution control revenue bonds	155,254	155,247
Other	8,860	9,757
Total long-term debt	3,623,428	3,734,133
Total capitalization	7,494,779	7,576,636
CURRENT LIABILITIES:		
Notes payable	634,155	423,291
Accounts payable	88,023	159,225
Taxes accrued	110,217	212,226
Interest accrued	92,341	73,527
Dividends declared	98,499	98,469
Accrued liabilities to municipalities	18,426	21,307
Customer deposits	63,940	64,905
Current portion of long-term debt and preferred stock	159,457	49,475
Fuel refund, including interest	108,940	
Other	70,254	64,026
Total current liabilities	1,444,252	1,166,451
DEFERRED CREDITS:		
Accumulated deferred income taxes	1,686,584	1,770,844
Unamortized investment tax credit	406,722	411,580
Fuel-related credits	166,534	242,912
Other	327,197	284,804
Total deferred credits	2,587,037	2,710,140
COMMITMENTS AND CONTINGENCIES		
Total	$ 11,526,068	$ 11,453,227

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)

	THREE MONTHS ENDED MARCH 31,	
	1995	1994
		(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from continuing operations	$ 23,849	$ 41,599
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	104,196	99,224
Amortization of nuclear fuel	6,557	257
Deferred income taxes	6,347	6,771
Investment tax credit	(4,858)	(4,840)
Allowance for other funds used during construction	(2,629)	(1,316)
Fuel cost (refund) and over/(under) recovery - net	48,136	16,008
Net cash used in discontinued cable television operations	(3,682)	(5,220)
Changes in other assets and liabilities:		
Accounts receivable and accrued unbilled revenues	(12,488)	(10,444)
Inventory	(8,904)	3,180
Other current assets	6,961	11,691
Accounts payable	(71,202)	(57,746)
Interest and taxes accrued	(83,195)	(97,511)
Other current liabilities	2,382	4,241
Other - net	29,827	4,542
Net cash provided by operating activities	41,297	10,436
CASH FLOWS FROM INVESTING ACTIVITIES:		
Electric capital and nuclear expenditures (including allowance for borrowed funds used during construction)	(55,915)	(88,038)
Non-regulated electric power project expenditures	(11,699)	(358)
Corporate headquarters expenditures (including capitalized interest)	(25,945)	(2,655)
Net cash used in discontinued cable television operations	(17,406)	(15,988)
Other - net	(2,956)	(1,860)
Net cash used in investing activities	(113,921)	(108,899)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of matured bonds		(19,500)
Payment of common stock dividends	(92,722)	(91,837)
Increase in notes payable - net	210,864	221,931
Net cash used in discontinued cable television operations	(40,798)	(10,384)
Other - net	2,004	2,447
Net cash provided by financing activities	79,348	102,657
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,724	4,194
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	10,443	14,884
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 17,167	$ 19,078
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest (net of amounts capitalized)	$ 84,349	$ 94,051
Income taxes	1,424	23,365
Income tax refund	(1,909)	

See Notes to Consolidated Financial Statements.

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

	THREE MONTHS ENDED MARCH 31,	
	1995	1994
Balance at Beginning of Period	$ 1,221,221	$ 1,191,230
Net Income for the Period	114,456	25,898
Total	1,335,677	1,217,128
Common Stock Dividends	(92,752)	(91,875)
Balance at End of Period	$ 1,242,925	$ 1,125,253

See Notes to Consolidated Financial Statements.

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

	THREE MONTHS ENDED MARCH 31,	
	1995	1994
OPERATING REVENUES	$ 746,166	$ 821,581
OPERATING EXPENSES:		
Fuel	183,602	217,188
Purchased power	65,588	98,549
Operation	141,320	132,967
Maintenance	57,209	60,884
Depreciation and amortization	103,913	98,929
Income taxes	19,018	27,073
Other taxes	70,950	63,112
Total	641,600	698,702
OPERATING INCOME	104,566	122,879
OTHER INCOME (EXPENSE):		
Allowance for other funds used during construction	2,629	1,316
Other - net	(1,453)	(2,986)
Total	1,176	(1,670)
INCOME BEFORE INTEREST CHARGES	105,742	121,209
INTEREST CHARGES:		
Interest on long-term debt	61,518	61,842
Other interest	3,135	2,896
Allowance for borrowed funds used during construction	(1,805)	(1,688)
Total	62,848	63,050
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	42,894	58,159
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS (NET OF INCOME TAXES OF $4,415)		(8,200)
NET INCOME	42,894	49,959
DIVIDENDS ON PREFERRED STOCK	8,985	8,273
INCOME AFTER PREFERRED DIVIDENDS	$ 33,909	$ 41,686

See Notes to Financial Statements.

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

ASSETS

	MARCH 31, 1995	DECEMBER 31, 1994
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric plant in service	$11,814,919	$11,743,070
Construction work in progress	302,251	333,180
Nuclear fuel	212,748	212,795
Plant held for future use	201,833	201,741
Electric plant acquisition adjustments	3,166	3,166
Total	12,534,917	12,493,952
Less accumulated depreciation and amortization	3,600,242	3,517,923
Property, plant and equipment - net	8,934,675	8,976,029
CURRENT ASSETS:		
Cash and cash equivalents	136,384	235,867
Special deposits	15	10
Accounts receivable:		
Affiliated companies	2,557	4,213
Others	7,975	8,896
Accrued unbilled revenues	41,587	38,372
Inventory:		
Fuel stock, at lifo cost	64,737	56,711
Materials and supplies, at average cost	148,763	147,922
Prepayments	3,092	9,665
Total current assets	405,110	501,656
OTHER ASSETS:		
Deferred plant costs - net	632,471	638,917
Deferred debits	249,920	241,611
Unamortized debt expense and premium on reacquired debt	156,376	158,351
Regulatory asset - net	234,088	235,463
Recoverable project costs - net	94,158	98,954
Total other assets	1,367,013	1,373,296
Total	$10,706,798	$10,850,981

See Notes to Financial Statements.

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

CAPITALIZATION AND LIABILITIES

	MARCH 31, 1995	DECEMBER 31, 1994
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	2,104,768	2,153,109
Total common stock equity	3,780,695	3,829,036
Cumulative Preferred Stock:		
Not subject to mandatory redemption	351,345	351,345
Subject to mandatory redemption	121,910	121,910
Total cumulative preferred stock	473,255	473,255
Long-Term Debt:		
First mortgage bonds	2,910,539	3,020,400
Pollution control revenue bonds	155,254	155,247
Other	8,860	9,757
Total long-term debt	3,074,653	3,185,404
Total capitalization	7,328,603	7,487,695
CURRENT LIABILITIES:		
Accounts payable	75,786	148,042
Accounts payable to affiliated companies	2,101	10,936
Taxes accrued	82,377	181,043
Interest accrued	74,380	64,732
Accrued liabilities to municipalities	18,426	21,307
Customer deposits	63,940	64,905
Current portion of long-term debt and preferred stock	159,457	49,475
Fuel refund, including interest	108,940	
Other	63,292	59,912
Total current liabilities	648,699	600,352
DEFERRED CREDITS:		
Accumulated deferred federal income taxes	1,883,534	1,876,300
Unamortized investment tax credit	406,722	411,580
Fuel-related credits	166,534	242,912
Other	272,706	232,142
Total deferred credits	2,729,496	2,762,934
COMMITMENTS AND CONTINGENCIES		
Total	$10,706,798	$10,850,981

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY
STATEMENTS OF CASH FLOWS

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

	THREE MONTHS ENDED MARCH 31,	
	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 42,894	$ 49,959
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	103,913	98,929
Amortization of nuclear fuel	6,557	257
Deferred income taxes	7,234	8,922
Investment tax credits	(4,858)	(4,840)
Allowance for other funds used during construction	(2,629)	(1,316)
Fuel cost (refund) and over/(under) recovery - net	48,136	16,008
Cumulative effect of change in accounting for postemployment benefits		8,200
Changes in other assets and liabilities:		
Accounts receivable - net	(638)	(6,883)
Material and supplies	(841)	3,152
Fuel stock	(8,026)	54
Accounts payable	(81,091)	(70,030)
Interest and taxes accrued	(89,018)	(100,117)
Other current liabilities	(261)	5,180
Other - net	27,180	22,262
Net cash provided by operating activities	48,552	29,737
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital and nuclear fuel expenditures (including allowance for borrowed funds used during construction)	(55,915)	(88,038)
Other - net	(2,525)	(2,556)
Net cash used in investing activities	(58,440)	(90,594)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of matured bonds		(19,500)
Payment of dividends	(91,461)	(88,233)
Increase in notes payable		164,730
Other - net	1,866	41
Net cash provided by (used in) financing activities	(89,595)	57,038
NET DECREASE IN CASH AND CASH EQUIVALENTS	(99,483)	(3,819)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	235,867	12,413
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 136,384	$ 8,594
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest (net of amounts capitalized)	$ 57,915	$ 72,111
Income taxes	1,176	14,821

See Notes to Financial Statements.

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

	THREE MONTHS ENDED MARCH 31,	
	1995	1994
Balance at Beginning of Period	$2,153,109	$2,028,924
Net Income for the Period	42,894	49,959
Total	2,196,003	2,078,883
Deduct - Cash Dividends:		
Preferred	8,985	8,273
Common	82,250	79,996
Total	91,235	88,269
Balance at End of Period	$2,104,768	$1,990,614

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

(a) DISCONTINUED OPERATIONS. In connection with the pending sale of KBLCOM Incorporated (KBLCOM), Houston Industries Incorporated's (Company) cable television subsidiary, to Time Warner Inc. (Time Warner) pursuant to an agreement dated January 26, 1995, the Company has restated its consolidated financial statements in the Company's and Houston Lighting & Power Company's (HL&P) Annual Report on Form 10-K for the year ended December 31, 1994 (File Nos. 1-7629 and 1-3187) to reflect KBLCOM's operations as discontinued. The Company's restated consolidated financial statements, selected five-year financial data, and management's discussion and analysis of financial condition and results of operations (which includes the description of the pending sale) are contained in the Company's and HL&P's combined Form 8-K (File Nos. 1-7629 and 1-3187), dated as of May 12, 1995 (the Combined Form 8-K). HL&P financial information has not been restated.

(b) REGULATORY PROCEEDINGS AND LITIGATION. The information presented in the following Notes in this Form 10-Q should be read in conjunction with the Combined Form 8-K, including the Notes to the Company's Consolidated and HL&P's Financial Statements. Notes 1(f), 2, 3, 4, 5 and 20(a) to the Company's Consolidated and HL&P's Financial Statements in the Combined Form 8-K are incorporated herein by reference as they relate to the Company and HL&P, respectively.

(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 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 and bears a corresponding share of capital and operating costs associated with the project. As of March 31, 1995, HL&P's investments (net of accumulated depreciation and amortization) in the South Texas Project and in nuclear fuel, including allowance for funds used during construction, were $2.1 billion and $92 million, respectively.

(b) UNITED STATES NUCLEAR REGULATORY COMMISSION (NRC) INSPECTIONS AND OPERATIONS. HL&P removed both generating units at the South Texas Project from service in February 1993 when a problem was encountered with certain of the units' auxiliary feedwater pumps. The units were out of service from February 1993 to February 1994, when Unit No. 1 was returned to service.

Unit No. 2 was returned to service in May 1994. In June 1993, the NRC placed the South Texas Project on its "watch list" of plants with weaknesses that warrant increased attention after a review of the South Texas Project operations. In February 1995, the NRC removed the South Texas Project from its "watch list".

Certain current and former employees or contractors of HL&P have asserted claims that their employment was terminated or disrupted in retaliation for their having made safety-related complaints to the NRC. Civil proceedings by the complaining personnel and administrative proceedings by the Department of Labor remain pending against HL&P, and the NRC has jurisdiction to take enforcement action against HL&P and/or individual employees with respect to these matters. On May 8, 1995, the

NRC announced that it was withdrawing a previously proposed Notice of Violation and $100,000 civil penalty, as well as possible individual enforcement action against two HL&P managers in connection with one such case, involving a contractor employee whose site access was terminated. Allegations of retaliation by that individual remain pending before an Administrative Law Judge (ALJ) of the Department of Labor. In another such case, involving two former HL&P employees who were terminated during a reduction in force, another Department of Labor ALJ in April 1995 issued his recommended decision in favor of the former employees, ordering reinstatement of one with back-pay and back-pay without reinstatement to another. The ALJ ruled out ordering HL&P to pay exemplary damages to the individuals, but indicated his intention to hold a further hearing to consider whether additional compensatory damages should be awarded. HL&P considers the ALJ's conclusions to be erroneous and is asking the Secretary of Labor not to adopt the ALJ's recommendation. If the recommendation is adopted by the Secretary of Labor, HL&P could appeal that decision to the United States Court of Appeals. Civil actions by these employees remain pending. For additional information, see Note 2(b) of the notes to the financial statements included in the Combined Form 8-K.

While no prediction can be made at this time as to the ultimate outcome of these matters, the Company and HL&P do not believe that they will have a material adverse effect on the Company's or HL&P's financial condition or results of operations.

(c) LITIGATION WITH CO-OWNERS OF THE SOUTH TEXAS PROJECT. In February 1994, the City of Austin (Austin), one of the four co-owners of the South Texas Project, filed suit (Austin II Litigation) against HL&P. That suit is pending in the 152nd District Court for Harris County, Texas, which has set a trial date for October 1995. However, in view of the recent appointment of the judge of that court to the court of appeals, it is anticipated that the case will be reassigned to another trial court, which may affect the current schedule. 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 under the terms and conditions of the Operating Licenses and Technical Specifications relating to the South Texas Project. Austin claims that such failures have caused Austin damages of at least $125 million due to the incurrence of increased operating and maintenance costs, the cost of replacement power and lost profits on wholesale transactions that did not occur. 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 $275 million. HL&P is contesting San Antonio's intervention and has called for arbitration of San Antonio's claim under the arbitration provisions of the Participation Agreement. The trial court denied HL&P's motions to strike San Antonio's intervention and to compel San Antonio to arbitrate its claims against HL&P and in April 1995, the Court of Appeals of the First District of Texas affirmed the trial court's decision. HL&P is seeking further review of these decisions by the Supreme Court of Texas.

For a discussion of a previous lawsuit relating to the South Texas Project filed in 1983 by Austin against the Company and HL&P (in which the Company and HL&P prevailed), of the settlement entered into by the Company and HL&P regarding related matters and of certain claims by San Antonio against the Company and HL&P and the related arbitration thereof, see Note 2(c) of the notes to the financial statements included in the Combined Form 8-K.

Although HL&P and the Company do not believe there is merit to either Austin's or San Antonio's claims and have opposed San Antonio's intervention in the Austin II Litigation, there can be no assurance as to the ultimate outcome of these matters.

(d) 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. There can be no assurance, however, 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. For a discussion of the nuclear property and nuclear liability insurance maintained in connection with the South Texas Project and potential assessments associated therewith, see Note 2(d) of the notes to the financial statements included in the Combined Form 8-K.

(e) NUCLEAR DECOMMISSIONING. For a discussion of nuclear decommissioning costs, the Company's decommissioning funding level and the accounting for debt and equity securities held by the decommissioning trust, see Note 2(e) of the notes to the financial statements included in the Combined Form 8-K.

(f) DEFERRED PLANT COSTS. For a discussion of deferred plant costs, see Note 1(f) of the notes to the financial statements included in the Combined Form 8-K. The amortization of these deferrals totaled $6.4 million for both the three months ended March 31, 1995 and 1994, and is included on the Company's Statements of Consolidated Income and HL&P's Statements of

Income in depreciation and amortization expense.

(3) RATE REVIEW, FUEL RECONCILIATION AND OTHER PROCEEDINGS

In February 1994, the Public Utility Commission of Texas (Utility Commission) initiated a proceeding (Docket No. 12065) to determine whether HL&P's existing rates are just and reasonable. Subsequently, the scope of the docket was expanded to include reconciliation of HL&P's fuel costs from April 1, 1990 to July 31, 1994. The Utility Commission also initiated a

separate proceeding (Docket No. 13126) to review issues regarding the prudence of operation of the South Texas Project from the date of commercial operation through the present. That review would encompass the outage at the South Texas Project during 1993 and 1994.

Hearings began in Docket No. 12065 in January 1995. In February 1995, all major parties to these proceedings signed an agreement resolving the issues with respect to HL&P, including the prudence issues related to operation of the South Texas Project (Proposed Settlement). Approval of the Proposed Settlement by the Utility Commission will be required. Hearings on the Proposed Settlement are currently scheduled to begin in early June 1995. A decision by the Utility Commission on the Proposed Settlement is not anticipated before late summer.

Under the Proposed Settlement, HL&P's base rates would be reduced by approximately $62 million per year, effective retroactively to January 1, 1995, and HL&P would be precluded from seeking rate increases for three years, subject to certain conditions. Under the Proposed Settlement, HL&P would amortize its remaining investment of $218 million in the cancelled Malakoff Electric Generating Station (Malakoff) plant over a period not to exceed seven years. HL&P also would increase its decommissioning expense for the South Texas Project by $9 million per year.

The Proposed Settlement also provides HL&P the option to write down up to $50 million per year of its investment in the South Texas Project during the five-year period commencing January 1, 1995. The parties to the Proposed Settlement agreed that any write down would 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.

Until the approval of the Proposed Settlement by the Utility Commission, HL&P's existing rates will continue in effect; however, HL&P's financial statements for the first quarter of 1995 reflect the estimated effects of the Proposed Settlement. In the first quarter of 1995, HL&P's pre-tax earnings were reduced by approximately $17 million in the aggregate as a result of reflecting the estimated effects of the Proposed Settlement on revenues and expenses for the quarter. Deferred revenues are included on the Company's Consolidated and HL&P's Balance Sheets in other deferred credits subject to refund when the Proposed Settlement is approved.

Under the Proposed Settlement, approximately $70 million of fuel expenditures and related interest incurred by HL&P during the fuel reconciliation period would not be recoverable from ratepayers. This $70 million was recorded in the fourth quarter of 1994 as a one-time, pre-tax charge to reconcilable fuel revenues to reflect the anticipation of approval of the Proposed Settlement. Under the Proposed Settlement, HL&P would also establish a new fuel factor approximately 17 percent below that currently in effect and would refund to customers the balance in its fuel over-recovery account, estimated to be approximately $180 million after giving effect to the amounts not recoverable from ratepayers. As contemplated by the Proposed Settlement and approved by an ALJ, HL&P implemented a new fuel factor 17 percent lower than its previous factor and refunded to customers approximately $110 million of the approximately $180 million in fuel cost overrecoveries in April 1995. The remaining $70 million will be refunded if the Proposed Settlement is approved by the Utility Commission.

In the event the Proposed Settlement is not approved by the Utility Commission, Docket No. 12065 would be remanded to an ALJ to resume detailed hearings in this docket and with respect to issues related to the South Texas Project. Prior to reaching agreement on the terms of the Proposed Settlement, HL&P argued that its existing rates were just and reasonable and should not be reduced. Other parties argued that rate decreases in annual amounts ranging from $26 million to $173 million were required and that additional decreases might be justified following an examination of the prudence of the management of the South Texas Project and the costs incurred in connection with the outages at the South Texas Project. Testimony filed by the Utility Commission staff included a recommendation to remove from rate base $515 million of HL&P's investment in the South Texas Project to reflect the staff's view that such investment was not fully "used and useful" in providing service, a position HL&P vigorously disputes.

In the event the Proposed Settlement is not approved by the Utility Commission, the fuel reconciliation issues in Docket Nos. 12065 and 13126 would be remanded to an ALJ for additional proceedings. A major issue in Docket No. 13126 would be whether the incremental fuel costs incurred as a result of outages at the South Texas Project represent reasonable costs. The Utility Commission has retained a consultant to review the South Texas Project for the purpose of providing testimony in Docket No. 13126 regarding the prudence of HL&P's management of operation of the South Texas Project. HL&P filed testimony in Docket No. 13126, which testimony concluded that the outages at the South Texas

Project did not result from imprudent management. HL&P also filed testimony analyzing the extent to which regulatory issues extended the outages. In that testimony an outside consultant retained by HL&P concluded that the duration of the outages was controlled by both the resolution of NRC regulatory issues as well as necessary equipment repairs unrelated to NRC regulatory issues and that the incremental effect of NRC regulatory issues on the duration of the outages was only 39 days per unit. Estimates as to the cost of replacement power may vary significantly based on a number of factors, including the capacity factor at which the South Texas Project might be assumed to have operated had it not been out of service due to the outages. However, HL&P believes that applying a reasonable range of assumptions would result in replacement fuel costs of less than $10 million for the 39 day periods identified by HL&P's consultant and less than $100 million for the entire length of the outages. Any fuel costs determined to have been unreasonably incurred would not be recoverable from customers and would be charged against the Company's earnings.

Although the Company and HL&P believe that the Proposed Settlement is in the best interest of HL&P, its ratepayers, the Company and its shareholders, no assurance can be given that (i) the Utility Commission ultimately will approve the terms of the Proposed Settlement or (ii) in the event the Proposed Settlement is not approved and proceedings against HL&P are resumed, that the outcome of such proceedings would be favorable to HL&P.

(4) APPEALS OF PRIOR UTILITY COMMISSION RATE ORDERS

Pursuant to a series of applications filed by HL&P in recent years, the Utility Commission has granted HL&P rate increases to reflect in electric rates HL&P's substantial investment in new plant construction, including the South Texas Project. Although Utility Commission action on

those applications has been completed, judicial review of a number of the Utility Commission orders is pending. In Texas, Utility Commission orders may be appealed to a District Court in Travis County, and from that Court's decision an appeal may be taken to the Court of Appeals for the 3rd District at Austin (Austin Court of Appeals). Discretionary review by the Supreme Court of Texas may be sought from decisions of the Austin Court of Appeals. The pending appeals from the Utility Commission orders are in various stages. In the event the courts ultimately reverse actions of the Utility Commission in any of these proceedings, such matters would be remanded to the Utility Commission for action in light of the courts' orders. Because of the number of variables which can affect the ultimate resolution of such matters on remand, the Company and HL&P generally are not in a position at this time to predict the outcome of the matters on appeal or the ultimate effect that adverse action by the courts could have on the Company and HL&P. On remand, the Utility Commission's action could range from granting rate relief substantially equal to the rates previously approved to a reduction in the revenues to which HL&P was entitled during the time the applicable rates were in effect, which could require a refund to customers of amounts collected pursuant to such rates. Judicial review has been concluded or currently is pending on the final orders of the Utility Commission described below.

(a) 1991 RATE CASE. In HL&P's 1991 rate case (Docket No. 9850), the Utility Commission approved a non-unanimous settlement agreement providing for a $313 million increase in HL&P's base rates, termination of deferrals granted with respect to Unit No. 2 of the South Texas Project and of the qualified phase-in plan deferrals granted with respect to Unit No. 1 of the South Texas Project, and recovery of deferred plant costs. The settlement authorized a 12.55 percent return on common equity for HL&P. Rates contemplated by the settlement agreement were implemented in May 1991 and remain in effect (subject to the outcome of the current rate proceeding described in Note 3 to these financial statements).

The Utility Commission's order in Docket No. 9850 was affirmed on review by a District Court, and the Austin Court of Appeals affirmed that decision on procedural grounds due to the failure of the appellant to file the record with the court in a timely manner. On review, the Texas Supreme Court has remanded the case to the Austin Court of Appeals for consideration of any asserted errors of law that may be evident from the face of the Utility Commission's order. The Appellant has raised issues regarding deferred accounting, the treatment of federal income tax expense and certain other matters. As to federal tax issues, in an appeal involving GTE-SW (and to which HL&P was not a party), the Texas Supreme Court held in April 1995 that the Utility Commission is not required by the Texas Public Utility Regulatory Act of 1975, as amended, to take into account the tax effects of expenses disallowed for rate making purposes in determining a utility's federal income tax expense for rate making purposes, that the Utility Commission has discretion in determining the utility's "fair share" of tax savings when a utility pays federal income taxes as part of a consolidated group, and is not required to reduce utility tax expense by savings resulting from unregulated activities. The GTE-SW opinion clarified a 1987 Texas Supreme Court decision in an HL&P case and rejected arguments that the HL&P decision required utility tax expense to be calculated on the basis of "actual taxes paid". Under the GTE-SW decision, the treatment of federal income tax issues in Docket No. 9850 appears to have been determined in favor of the Utility Commission's actions, provided the principles and rationale of the GTE-SW opinion are applied.

For a discussion of another recent Texas Supreme Court decision

upholding deferred accounting treatment, see Note 4(c) of the notes to the financial statements included in the Combined Form 8-K.

Because the Utility Commission's order in Docket No. 9850 found that HL&P would have been entitled to rate relief greater than the $313 million agreed to in the settlement, HL&P believes that any disallowance that might be required if the Austin Court of Appeals concludes that the Utility Commission's inclusion of deferred accounting costs in the settlement was improper would be offset by that greater amount.

The parties to the Proposed Settlement have agreed to withdraw their appeals of the Utility Commission's orders in such docket, subject to HL&P's dismissing its appeal in Docket No. 6668 (see Note 4(d) to these financial statements.)

(b) 1988 RATE CASE. In HL&P's 1988 rate case (Docket No. 8425), the Utility Commission granted HL&P a $227 million increase in base revenues, allowed a 12.92 percent return on common equity, authorized a qualified phase-in for Unit No. 1 of the South Texas Project (including approximately 72 percent of HL&P's investment in Unit No. 1 of the South Texas Project in rate base) and authorized HL&P to use deferred accounting for Unit No. 2 of the South Texas Project. Rates substantially corresponding to the increase granted were implemented by HL&P in June 1989 and remained in effect until May 1991.

In August 1994, the Austin Court of Appeals affirmed the Utility Commission's order in Docket No. 8425 on all matters other than the Utility Commission's treatment of tax savings associated with deductions taken for expenses disallowed from cost of service. The court held that the Utility Commission had failed to require that such tax savings be passed on to ratepayers. Both HL&P and other parties sought review by the Texas Supreme Court, which granted discretionary review as to the issue of certain Malakoff plant expenditures treated as "Plant Held for Future Use", and brought the entire case before it for consideration, including the tax issue raised by HL&P. The case has not yet been set for argument and no further action has been taken by the Texas Supreme Court.

In April 1995, the Texas Supreme Court decided an appeal involving GTE-SW (to which HL&P was not a party) and held that the Utility Commission was not required to include income tax deductions for disallowed expenses in determining a utility's federal income tax liability for rate making purposes. Under the GTE-SW decision, the treatment of the tax issue in Docket No. 8425 appears to have been determined in favor of the Utility Commission's actions, provided the same principles and rationale are applied. This was the only issue on which the Austin Court of Appeals reversed the Utility Commission's order.

(c) DEFERRED ACCOUNTING. For information regarding deferred accounting treatment granted for certain costs associated with the South Texas Project, see Note 4(c) of the notes to the financial statements included in the Combined Form 8-K and Note 2(f) to these financial statements.

The Office of the Public Utility Counsel (OPUC) has agreed, pursuant to the Proposed Settlement, to withdraw and dismiss its appeal of the Utility Commission's order granting deferred accounting if the Proposed Settlement becomes effective and on the condition that HL&P dismisses its appeal in Docket No. 6668. However, the appeal of the State of Texas remains pending.

(d) PRUDENCE REVIEW OF THE CONSTRUCTION OF THE SOUTH TEXAS PROJECT. For a discussion of the Utility Commission's inquiry into the prudence of the planning, management and construction of the South Texas Project (Docket No. 6668), see Note 4(d) of the notes to the financial statements included in the Combined Form 8-K.

Under the Proposed Settlement, OPUC, HL&P and the City of Houston each has agreed to dismiss its respective appeals of Docket No. 6668. A separate party to this appeal, however, has not agreed to dismiss its appeal. If this party does not elect to dismiss its appeal, HL&P may elect to maintain its appeal, whereupon OPUC and City of Houston shall also be entitled to maintain their appeals.

(5) MALAKOFF

For a discussion of the current and Proposed Settlement rate treatment of HL&P's investment in Malakoff and related matters (including (i) HL&P's proposal to amortize $218 million of its investment in Malakoff over a period not to exceed seven years and (ii) the possible write-off of unrecoverable portions of the Malakoff investment if appropriate rate treatment is not ultimately received), see Notes 3 and 5 of the notes to the financial statements included in the Combined Form 8-K.

(6) COMMON STOCK

COMPANY. At March 31, 1995 and December 31, 1994, the Company had authorized 400,000,000 shares of common stock, of which 123,716,504 and 123,526,350 shares, respectively, were outstanding. Outstanding shares exclude the unallocated Employee Stock Ownership Plan shares which as of March 31, 1995 and December 31, 1994 were 7,619,730 and 7,770,313, respectively.

HL&P. All issued and outstanding Class A voting common stock of HL&P is held by the Company and all issued and outstanding Class B non-voting common stock of HL&P is held by Houston Industries (Delaware)

Incorporated (HI Delaware), a wholly-owned subsidiary of the Company.

(7) HL&P PREFERRED STOCK

At March 31, 1995, and December 31, 1994, HL&P had 10,000,000 shares of preferred stock authorized of which 5,232,397 shares were outstanding.

(8) EARNINGS PER COMMON SHARE

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

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

(9) CHANGE IN ACCOUNTING FOR THE COMPANY AND HL&P

The Company and HL&P adopted Statement of Financial Accounting Standards (SFAS) No. 112, "Employer's Accounting for Postemployment Benefits", effective January 1, 1994. SFAS No. 112 requires companies to recognize the liability for benefits provided to former or inactive employees, their beneficiaries and covered dependents after employment but before retirement. Those benefits include, but are not limited to, salary continuation, supplemental unemployment benefits, severance benefits, disability-related benefits (including worker's compensation), job training and counseling, and continuation of benefits such as health care and life insurance. SFAS No. 112 requires the transition obligation (liability from prior years) to be expensed upon adoption. As a result, the Company and HL&P recorded in the first quarter of 1994 a one-time, after-tax charge to income of $8.2 million.

(10) DISCONTINUED CABLE TELEVISION OPERATIONS

In January 1995, Time Warner and the Company reached an agreement in which Time Warner would acquire KBLCOM in a tax-deferred, stock-for-stock merger with a subsidiary of Time Warner for a sales price of approximately $2.2 billion, subject to closing adjustments. Closing of this transaction, which is subject to, among other things, (i) the parties obtaining necessary consents of certain franchise authorities and other governmental entities, (ii) the absence of any change that might have a material adverse effect on KBLCOM or Time Warner, and (iii) the absence of any material litigation, is expected to take place in mid-1995. For a discussion of the terms of the pending sale of KBLCOM, see Note 20(a) of the notes to the financial statements included in the Combined Form 8-K.

In connection with this agreement, effective January 1, 1995, the operations of KBLCOM have been accounted for as discontinued and prior periods have been restated for consistency in reflecting KBLCOM as a discontinued operation. The Company recorded a $90.6 million tax benefit in the first quarter of 1995 in recognition of the deferred tax asset arising from the Company's excess tax basis in KBLCOM stock.

Operating results from discontinued operations for the three months ended March 31, 1995 and 1994 were as follows:

	THREE MONTHS ENDED MARCH 31,	
	1995	1994
	(Thousands of Dollars)	
Revenues	$ 67,105	$ 60,520
Operating expenses (1)	42,455	39,227
Gross operating margin (1)	24,650	21,293
Depreciation, amortization, interest and other	36,635	30,990
Income tax benefits	(3,449)	(2,196)
Deferred loss	(8,536)	
Loss from discontinued operations	$ 0	($ 7,501)

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(1) Exclusive of depreciation and amortization.

The net loss from discontinued operations of KBLCOM for the first quarter of 1995 has been deferred by the Company until the gain on sale is recognized at closing. The deferred loss is included on the Company's Consolidated Balance Sheets in net assets of discontinued cable television operations.

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

Net assets of discontinued operations were as follows:

	MARCH 31, 1995	DECEMBER 31, 1994
	(Thousands of Dollars)	
Assets:		
Cable television property, net of accumulated depreciation of $168,252 and $161,402 for 1995 and 1994, respectively	$ 280,247	$ 276,624
Equity in cable television partnerships	176,391	160,363
Intangible assets	1,018,388	1,029,440
Other assets	50,156	43,625
Total assets	1,525,182	1,510,052
Less:		
Cable television debt	(441,595)	(488,783)
Accumulated deferred income taxes	(302,602)	(308,627)
Other liabilities	(49,967)	(43,510)
Net assets	$ 731,018	$ 669,132

In March 1995, KBL Cable, Inc. (KBL Cable), a subsidiary of KBLCOM, made a scheduled repayment of $15.8 million principal amount of its senior notes and senior subordinated notes. In the first quarter of 1995, KBL Cable repaid borrowings under its senior bank credit facility in the amount of $25.0 million.

(11) 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 1995 presentation of financial statements. Such reclassifications do not affect earnings.

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

CURRENT ISSUES

HOUSTON LIGHTING & POWER COMPANY (HL&P)

RATE REVIEW, FUEL RECONCILIATION AND OTHER PROCEEDINGS. In February 1994, the Public Utility Commission of Texas (Utility Commission) initiated a proceeding (Docket No. 12065) to determine whether HL&P's existing rates are just and reasonable. Subsequently, the scope of the docket was expanded to include a reconciliation of HL&P's fuel costs from April 1, 1990 to July 31, 1994. The Utility Commission also initiated a separate proceeding (Docket No. 13126) to review issues regarding the prudence of operation of the South Texas Project Electric Generating Station (South Texas Project) from the date of commercial operation through the present. That review would encompass the outage at the South Texas Project during 1993 and 1994.

In February 1995, all major parties to these proceedings signed a settlement agreement resolving the issues with respect to HL&P, including the prudence issues related to operation of the South Texas Project (Proposed Settlement).

Approval of that settlement by the Utility Commission will be required. To that end, the parties have established procedural dates for a hearing on issues raised by the parties who are opposed to the Proposed Settlement. Hearings on the Proposed Settlement are currently scheduled to begin in early June 1995. A decision by the Utility Commission on the Proposed Settlement is not anticipated before late summer.

Under the Proposed Settlement, HL&P's base rates would be reduced by approximately $62 million per year, effective retroactively to January 1, 1995, and HL&P would be precluded from seeking rate increases for three years, subject to certain conditions. Under the Proposed Settlement, HL&P would amortize its remaining investment of $218 million in the cancelled Malakoff Electric Generating Station plant, over a period not to exceed seven years. HL&P also would increase its decommissioning expense for the South Texas Project by $9 million per year.

The Proposed Settlement also provides HL&P the option to write down up to $50 million per year of its investment in the South Texas Project during the five-year period commencing January 1, 1995. The parties to the Proposed Settlement agreed that any write down would 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.

Until the approval of the Proposed Settlement by the Utility Commission, HL&P's existing rates will continue in effect; however, HL&P's financial statements for the first quarter of 1995 reflect the estimated effects of the Proposed Settlement. In the first quarter of 1995, HL&P's pre-tax earnings were reduced by approximately $17 million in the aggregate as a result of reflecting the estimated effects of the Proposed Settlement on revenues and expenses for the quarter. Deferred revenues are included on Houston Industries Incorporated's (Company) Consolidated and HL&P's Balance Sheets in other deferred credits subject to refund when the Proposed Settlement is approved.

Under the Proposed Settlement, approximately $70 million of fuel expenditures and related interest incurred by HL&P during the fuel reconciliation period would not be recoverable from ratepayers. This $70 million was recorded in the fourth quarter of 1994 as a one-time, pre-tax charge to reconcilable fuel revenues to reflect the anticipation of approval of the Proposed Settlement. Under the Proposed Settlement, HL&P would also establish a new fuel factor approximately 17 percent below that currently in effect and would refund to customers the balance in its fuel over-recovery account, estimated to be approximately $180 million after giving effect to the amounts not recoverable from ratepayers. As contemplated by the Proposed Settlement and approved by an Administrative Law Judge, HL&P implemented a new fuel factor 17 percent lower than its previous factor and refunded to customers approximately $110 million of the approximately $180 million in fuel cost overrecoveries in April 1995. The remaining $70 million will be refunded if the Proposed Settlement is approved by the Utility Commission.

For additional information regarding HL&P's rate proceeding, see Note 3 to Company's Consolidated and HL&P's Financial Statements (Financial Statements) in Item 1 of this Report.

DISCONTINUED CABLE TELEVISION OPERATIONS

In January 1995, Time Warner Inc. (Time Warner) and the Company reached an agreement in which Time Warner would acquire KBLCOM Incorporated (KBLCOM) in a tax-deferred, stock-forstock merger with a subsidiary of Time Warner for a sales price of approximately $2.2 billion, subject to closing adjustments. Closing of the transaction, which is subject to certain conditions, is expected to take place in mid-1995. In connection with this agreement, effective January 1, 1995, the operations of KBLCOM have been accounted for as discontinued and prior periods have been restated for consistency in reflecting KBLCOM as a discontinued operation. The Company recorded a $90.6 million tax benefit in the first quarter of 1995 in recognition of the deferred tax asset arising from the Company's excess tax basis in KBLCOM stock. For additional information regarding the pending sale of KBLCOM, see Note 10 to the Financial Statements in Item 1 of this Report.

For a presentation of the Company's financial statements for the years 1992 through 1994 which reflects KBLCOM on a discontinued operations basis, reference is made to the Company's Consolidated Financial Statements contained in the Company's and HL&P's combined Form 8-K (File Nos. 1-7629 and 1-3187), dated as of May 12, 1995.

RESULTS OF OPERATIONS

COMPANY

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

	THREE MONTHS ENDED, 1995	THREE MONTHS ENDED, 1994 (Restated)	PERCENT CHANGE
	(Thousands of Dollars)		
Revenues	$ 746,166	$ 821,581	(9)
Operating Expenses	622,865	671,924	(7)
Operating Income	123,301	149,657	(18)
Interest and Other Charges	81,395	79,642	2
Income Taxes	10,427	22,652	(54)
Discontinued Operations	90,607	(7,501)	--
Net Income	114,456	25,898	342

The Company had consolidated earnings per share of $.93 for the first quarter of 1995, compared to consolidated earnings per share of $.21 for the first quarter of 1994. The increase in earnings for the first quarter of 1995 is due to the recognition of a $90.6 million tax benefit in recognition of the deferred tax asset arising from the Company's excess tax basis in KBLCOM stock, partially offset by the effects of HL&P's Proposed Settlement, which reduced operating income.

HL&P

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

	THREE MONTHS ENDED,		PERCENT CHANGE
	1995	1994	
	(Thousands of Dollars)		
Revenues	$746,166	$821,581	(9)
Operating Expenses (1)	641,600	698,702	(8)
Operating Income (1)	104,566	122,879	(15)
Interest Charges	62,848	63,050	--
Income After Preferred Dividends	33,909	41,686	(19)

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(1) Inclusive of income taxes.

In the first quarter of 1995, HL&P's pre-tax earnings were reduced by approximately $17 million which represents the estimated effects of the Proposed Settlement on revenues and expenses for the quarter. For information regarding HL&P's current regulatory proceedings and the Proposed Settlement, see "CURRENT ISSUES - HL&P - Rate Review, Fuel Reconciliation and Other Proceedings" above and Note 3 to the Financial Statements in Item 1 of this Report.

OPERATING REVENUES AND SALES

Operating revenues decreased $75.4 million for the first quarter of 1995 compared to the same period in 1994. The decrease was primarily due to a decrease in reconcilable fuel revenues ($65 million), and the effects of the settlement-related reduction ($14 million), partially offset by a base revenue increase ($3.5 million) resulting from a 6 percent increase in commercial kilowatt-hour sales. Residential sales decreased 1 percent due to milder weather and firm industrial sales remained relatively flat. Firm industrial sales exclude electricity sold at a reduced rate under agreements which allow HL&P to interrupt service under some circumstances.

FUEL AND PURCHASED POWER EXPENSES

Fuel expenses decreased $33.6 million for the first quarter of 1995 compared to the same period of 1994. The decrease was primarily due to a decrease in the unit cost of gas and an increase in nuclear generation which has fuel cost that is substantially lower than HL&P's other fuel sources. The average cost of fuel for the first quarter of 1995 was $1.62 per million British Thermal Units (MMBtu) compared to $1.81 per MMBtu for the same period in 1994. Purchased power expense decreased $33.0 million for the first quarter of 1995 when compared to the same period in 1994 primarily due to the expiration of a purchased power contract.

OPERATION AND MAINTENANCE, DEPRECIATION AND AMORTIZATION, AND OTHER TAXES

Operation and maintenance expense increased $4.7 million, or 2 percent, for the first quarter of 1995 compared to the first quarter of 1994. Depreciation and amortization expense for the first quarter of 1995 increased $5.0 million compared to 1994, primarily due to an increase in depreciable property and an increase in decommissioning expense as a result of the Proposed Settlement. Other taxes increased $7.8 million in the first quarter of 1995 compared to the same period in 1994, primarily due to increased franchise and property taxes.

LIQUIDITY AND CAPITAL RESOURCES

COMPANY

GENERAL

The Company's cash requirements stem primarily from operating expenses, capital expenditures, payment of common stock dividends, payment of preferred stock dividends and interest and principal payments on debt. Net cash provided by operating activities totaled $41.3 million for the three months ended March 31, 1995.

Net cash used in investing activities for the three months ended March 31, 1995, totaled $113.9 million, primarily due to electric capital expenditures of $55.9 million (including allowance for borrowed funds used during construction) and corporate headquarters expenditures (including capitalized interest) of $25.9 million.

Financing activities for the first three months of 1995 resulted in a net cash inflow of $79.3 million. The Company's primary financing activities were the increase in short-term borrowings offset by

the payment of dividends and the repayment of long-term debt. For information with respect to the repayment of debt, reference is made to Note 10 to the Financial Statements in Item 1 of this Report.

SOURCES OF CAPITAL RESOURCES AND LIQUIDITY

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

The Company also has registered with the SEC five million shares of its common stock. Proceeds from the sale of these securities will be used for general corporate purposes, including, but not limited to, the redemption, repayment or retirement of outstanding indebtedness of the Company or the advance or contribution of funds to one or more of the Company's subsidiaries to be used for their general corporate purposes, including, without limitation, the redemption, repayment or retirement of indebtedness or preferred stock.

Effective December 1994, the Company registered with the SEC four million shares of its common stock for purchase through the new Investor's Choice Plan, which restated and amended the Company's existing dividend reinvestment plan.

The Company's outstanding commercial paper at March 31, 1995 was approximately $634.2 million, which is supported by an $800 million bank credit facility.

On January 26, 1995, the Company entered into an agreement with Time Warner to sell all of its cable television operations. In exchange for KBLCOM's common stock, Time Warner will issue to the Company one million shares of its common stock and 11 million shares of a newly-issued series of its convertible preferred stock (with a liquidation value of $100 per share). The preferred stock will be convertible into approximately 22.9 million shares of Time Warner common stock. After four years, Time Warner will have the right to exchange the preferred stock for common stock at the stated conversion rate, unless the Company elects to convert the shares before such time. In addition, Time Warner will purchase KBLCOM's intercompany debt for an estimated $600 million in cash. Approximately $685 million of KBLCOM's third party debt and other liabilities will be assumed by Time Warner upon the closing of the sale. Closing of the transaction, which is expected to occur in mid-1995, is subject to certain conditions (see Note 10 to the Financial Statements in Item 1 of this Report).

Based on a Time Warner common stock price of $35.50 and assuming the closing occurs on July 1, 1995, the Company estimates that it will recognize an after-tax gain of approximately $650 million. The Company recorded $90.6 million of this gain in the first quarter of 1995 in recognition of the deferred tax asset arising from the Company's excess tax basis in KBLCOM stock. The remainder of the gain will be recognized at closing. The Company believes that the transaction will improve its liquidity by exchanging the Company's investment in KBLCOM for cash and marketable securities. In addition, the terms of the preferred stock to be issued by Time Warner provide for the payment of an annual cash dividend of $3.75 per share for four years. Assuming Time Warner common stock were to continue to pay its current dividend of $.36 per share, the

Company would expect to receive after-tax dividend payments on the Time Warner common and preferred stock of approximately $37 million per year.

It is anticipated that the $600 million proceeds to be received in connection with the sale of KBLCOM's intercompany debt would be used for general corporate purposes, including but not limited to the redemption of or retirement of indebtedness of the Company, the advance or contribution of funds to one or more subsidiaries to be used for their general corporate purposes or (depending on market and other conditions) the possible repurchase of outstanding shares of the Company's common stock.

RATIOS OF EARNINGS TO FIXED CHARGES

The Company's ratios of earnings to fixed charges for the three and twelve months ended March 31, 1995 were 1.39 and 2.79, respectively. The Company believes that the ratio for the three-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 cash requirements stem primarily from operating expenses, capital expenditures, payment of dividends and interest and principal payments on debt. HL&P's net cash provided by operating activities for the first three months of 1995 totaled $48.6 million.

Net cash used in HL&P's investing activities for the first three months of 1995 totaled $58.4 million. HL&P's capital and nuclear fuel expenditures (excluding allowance for funds used during construction) for the first three months of 1995 totaled $54.1 million out of the $364 million annual budget. HL&P expects to finance substantially all of its 1995 capital expenditures through funds generated internally from operations.

HL&P's financing activities for the first three months of 1995 resulted in a net cash outflow of approximately $89.6 million consisting primarily of dividend payments.

SOURCES OF CAPITAL RESOURCES AND LIQUIDITY

HL&P has registered with the SEC $230 million aggregate liquidation value of preferred stock and $580 million aggregate principal amount of debt securities that may be issued as first mortgage bonds and/or as debt securities collateralized by first mortgage bonds. Proceeds from any sale of these securities are expected to be used for general corporate purposes including the purchase, redemption (to the extent permitted by the terms of the outstanding securities), repayment or retirement of outstanding indebtedness or preferred

stock of HL&P.

At March 31, 1995, HL&P had approximately $136 million in cash and cash equivalents invested in short-term investments. In addition, HL&P has a commercial paper program supported by a bank credit facility of $400 million. HL&P had no commercial paper outstanding at March 31, 1995.

RATIOS OF EARNINGS TO FIXED CHARGES

HL&P's ratios of earnings to fixed charges for the three and twelve months ended March 31, 1995 were 1.91 and 3.72, respectively. HL&P's ratios of earnings to fixed charges and preferred dividends for the three and twelve months ended March 31, 1995, were 1.60 and 3.11, respectively. HL&P believes that the ratios for the three-month period are not necessarily indicative of the ratios for a twelve-month period due to the seasonal nature of HL&P's business.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For a description of legal proceedings affecting the Company and its subsidiaries, including HL&P, reference is made to the information set forth in Item 3 of the Company's and HL&P's Annual Report on Form 10-K for the year ended December 31, 1994 (1994 Combined Form 10-K) and Notes 2, 3 and 4 to the Company's Consolidated and HL&P's Financial Statements in the Combined Form 8-K, which information, as qualified and updated by the description of developments in regulatory and litigation matters contained in Notes 2, 3 and 4 of the Notes to the Company's Consolidated and HL&P's Financial Statements included in Part I of this Report, is incorporated herein by reference.

In April 1995, the government filed a notice of appeal with respect to the judgment entered in favor of the Company in its refund suit pending in the U.S. Court of Federal Claims. For additional information regarding the Company's tax case, see Item 3 to the 1994 Combined Form 10-K.

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

THE COMPANY

At the annual meeting of shareholders of the Company held on May 3, 1995, 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 matter (including a separate tabulation with respect to each nominee for office) were as follows:

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

CLASS II DIRECTORS - TERM EXPIRING 1998:

	FOR	AGAINST OR WITHHELD	BROKER NON-VOTE
Milton Carroll	113,723,039	1,310,326	0
John T. Cater	113,668,086	1,365,279	0
R. Steve Letbetter	113,583,808	1,449,557	0
Bertram Wolfe	113,574,906	1,458,459	0

CLASS I DIRECTOR - TERM EXPIRING 1997:

	FOR	AGAINST OR WITHHELD	BROKER NON-VOTE
Lee W. Hogan	113,822,167	1,211,198	0

Item 2. To ratify the appointment of Deloitte & Touche LLP as independent accountants and auditors for the Company for 1995.

FOR	AGAINST	ABSTAIN	BROKER NON-VOTE
113,391,999	894,434	746,931	0

HL&P

The annual shareholder meeting of HL&P was held on May 3, 1995. Houston Industries Incorporated, the owner and holder of all of the outstanding Class A voting common stock of HL&P, by the duly authorized vote of its Chairman and Chief Executive Officer Don D. Jordan, elected the following Board of Directors for the ensuing year or until their successors shall have qualified:

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

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

(a) Exhibits.

HOUSTON INDUSTRIES INCORPORATED:

Exhibit 2 - Agreement and Plan of Merger dated as of January 26, 1995

among KBLCOM Incorporated, Houston Industries Incorporated, Time Warner Inc. and TW KBLCOM Acquisition Corp. including all exhibits and a list of schedules thereto, incorporated by reference in Exhibit 2(a) to the Company's Current Report on Form 8-K dated January 26, 1995.

Exhibit 10(a) - First Amendment to Houston Industries Incorporated Master Savings Trust Effective May 1, 1995.

Exhibit 10(b) - First Amendment to Savings Plan of Houston Industries Incorporated ESOP Trust Agreement Effective May 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(f), 2, 3, 4, 5 and 20(a) to the Company's Consolidated Financial Statements included on pages 39 through 67 of the Company's and HL&P's combined Form 8-K for the year ended December 31, 1994 (File No. 1-7629 and 1-3187), dated as of May 12, 1995 (Combined Form 8-K).

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Exhibit 99(b) - Notes 2, 3, and 4 to the Company's Consolidated and HL&P's Financial Statements included on pages 71 through 81 of the 1994 Combined Form 10-K.

Exhibit 99(c) - Houston Industries Incorporated Savings Plan (As Amended and Restated Effective July 1, 1995).

HOUSTON LIGHTING & POWER COMPANY:

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

Exhibit 27 - Financial Data Schedule.

Exhibit 99(a) - Notes 1(f), 2, 3, 4 and 5 to the Company's Consolidated Financial Statements included on pages 39 through 50 of the Combined Form 8-K.

Exhibit 99(b) - Notes 2, 3 and 4 to the Company's Consolidated and HL&P's Financial Statements included on pages 71 through 81 of the 1994 Combined Form 10-K.

(b) Reports on Form 8-K.

HOUSTON INDUSTRIES INCORPORATED AND HOUSTON LIGHTING & POWER COMPANY:

Current Report on Form 8-K dated May 12, 1995 (Item 5. Other Events).

Current Report on Form 8-K dated January 26, 1995 (Item 5. Other Events).

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SIGNATURE

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

HOUSTON INDUSTRIES INCORPORATED
(Registrant)

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

Date: May 15, 1995

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SIGNATURE

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

HOUSTON LIGHTING & POWER COMPANY
(Registrant)

/s/ KEN W. NABORS

Ken W. Nabors
Vice President and Comptroller
and Principal Accounting Officer

Date: May 15, 1995

EXHIBIT 10(a)

HOUSTON INDUSTRIES INCORPORATED
MASTER SAVINGS TRUST

(As Amended and Restated Effective January 1, 1994)

FIRST AMENDMENT

Houston Industries Incorporated, a Texas corporation (the "Company"), having established the Houston Industries Incorporated Master Savings Trust, as amended and restated effective January 1, 1994 (the "Trust"), and having reserved the right to amend the Trust under Section 10.4 thereof, does hereby amend the Trust as follows, effective May 1, 1995:

1. The first sentence of the second paragraph of Section 4.1 is hereby amended to read as follows:

"In accordance with normal pricing methods, assets shall be valued by the Trustee at their fair market values at the close of business on the Valuation Date, or, in the absence of readily ascertainable fair market values, at such fair values as the Trustee shall in good faith determine."

2. Section 4.3 is hereby amended in its entirety to read as follows:

"4.3 AUTHORITY OF COMPANY AND COMMITTEE: When the Master Trust is the trust under the plan of any Affiliated Corporation, such Affiliated Corporation shall be bound by the decisions, instructions, actions and directions of the Company, Committee, Investment Managers, and named fiduciaries (as such term is defined in Section 5.6 of the Master Trust) under this Agreement and the Trustee shall be indemnified by the Company and such Affiliated Corporation for such expenses and liabilities incurred by relying upon such decisions, instructions, actions or directions or where such losses or expenses were incurred by the Trustee due to the failure of such parties to carry out their responsibilities under the Plan and Master Trust. The Trustee shall not be required to give notice to or obtain the consent of any such Affiliated Corporation with respect to any action which is taken by the Trustee pursuant to this Agreement."

3. Section 5.1 is hereby amended by adding the following sentence to the end thereof:

"The Trustee shall transfer assets to and from each Investment Fund as directed by the Committee or its agent."

4. The last sentence of Section 5.2(a) is hereby amended to read as follows:

"Except in the case of fractional shares received in any stock dividend, stock split or other recapitalization, or as necessary to make any distribution or payment from the Trust Fund or any transfer among the Investment Funds, the Trustee shall have no power or duty to sell or otherwise dispose of any stock acquired for Fund A."

5. The fourth sentence of the second paragraph of Section 5.2(f) is hereby amended to read as follows:

"Subject to contrary instructions, the Trustee shall invest cash held by it in an account subject to the management of an Investment Manager in short-term obligations, either separately or by investment collectively with funds of other pension and profit-sharing trusts exempt from tax under Code Section 501(a) by reason of qualifying under Code Section 401(a) through the medium of any common, collective, commingled or group trust fund which has been or hereafter may be established by the Trustee or by any other bank or trust company in the United States, the instrument or instruments establishing such trust fund or funds, as amended from time to time, being made a part of this Agreement so long as any portion of the Master Trust Fund shall be invested through the medium thereof."

6. The last sentence of the second paragraph of Section 5.2(f) is hereby amended to read as follows:

"Any such collective investment shall be managed by the Trustee in its sole discretion."

7. Section 5.6 is hereby amended by adding the following paragraph to the end thereof:

"C. Except for the short-term investment of cash, the Company has limited the investment power of the Trustee in Investment Fund A to the purchase and holding of Company Stock. The Trustee shall not be liable for the purchase, retention, voting, tender or sale of Company Stock in accordance with the provisions of Sections 5.2(a) and 5.6 hereof, and the Company (which has the

authority to do so under the laws of the state of its incorporation) agrees to indemnify Trustee from any liability, loss and expense, including reasonable legal fees and expenses, which Trustee may sustain by reason of the purchase, retention, voting, tender or sale of Company Stock in accordance with the provisions of Sections 5.2(a) and 5.6 hereof; provided, however, that the foregoing liability and indemnification provisions shall not apply to the extent that such liability, loss or expense arises from the Trustee's willful misconduct, bad faith or negligence in carrying out its ministerial functions under Sections 5.2(a) and 5.6. This paragraph shall survive the termination of this Agreement."

8. Section 5.7(i) is hereby amended in its entirety to read as follows:

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

9. Section 9.4 is hereby amended in its entirety to read as follows:

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

IN WITNESS WHEREOF, Houston Industries Incorporated has caused these presents to be executed by its duly authorized officers in a number of copies, all of which shall

constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 27th day of April, 1995, but effective May 1, 1995. HOUSTON INDUSTRIES INCORPORATED

By D. D. SYKORA
D. D. Sykora,
President and Chief Operating Officer

ATTEST:

CHRISTIAN SCHLEY
Assistant Corporate Secretary

THE NORTHERN TRUST COMPANY, as successor trustee, effective May 1, 1995, under the Houston Industries Incorporated Master Savings Trust, as amended and restated effective January 1, 1994 (the "Trust"), hereby consents to and approves of the foregoing First Amendment to the Trust, this 26th day of April, 1995, but effective May 1, 1995.

THE NORTHERN TRUST COMPANY

By BRUCE G. HENIKEN
Vice President

ATTEST:

JOHN H. ST. LAURENT
Assistant Corporate Secretary

EXHIBIT 10(b)

SAVINGS PLAN OF
HOUSTON INDUSTRIES INCORPORATED
ESOP TRUST AGREEMENT

(As Amended and Restated Effective October 5, 1990)

FIRST AMENDMENT

Houston Industries Incorporated, a Texas corporation (the "Company"), having established the Savings Plan of Houston Industries Incorporated ESOP Trust Agreement, as amended and restated effective October 5, 1990 (the "Trust"), and having reserved the right to amend the Trust under Article IX thereof, does hereby amend the Trust as follows, effective May 1, 1995:

1. Section 1.8 is hereby amended in its entirety to read as follows:

"1.8 ESOP TRUSTEE: The Northern Trust Company, an Illinois corporation."

2. Section 1.12 is hereby amended in its entirety to read as follows:

"1.12 SAVINGS TRUSTEE: The Northern Trust Company, an Illinois corporation."

3. Section 6.3 is hereby amended in its entirety to read as follows:

"6.3 Except for the short-term investment of cash, the Company has limited the investment power of the ESOP Trustee to the purchase and holding of Company Stock in the ESOP Fund. The ESOP Trustee shall not be liable for the purchase, retention, voting, tender or sale of Company Stock in accordance with the provisions of Sections 3.2, 3.4 and 3.5 hereof, and the Company (which has the authority to do so under the laws of the state of its incorporation) agrees to indemnify the ESOP Trustee from any liability, loss and expense, including reasonable legal fees and expenses, which the ESOP Trustee may sustain by reason of the purchase, retention, voting, tender or sale of Company Stock in accordance with the provisions of Sections 3.2, 3.4 and 3.5 hereof; provided, however, that the foregoing liability and indemnification provisions shall not apply to the extent that such liability, loss or expense arises from the ESOP Trustee's willful misconduct, bad faith or negligence in carrying out its ministerial functions under Sections 3.2, 3.4 and 3.5. This paragraph shall survive the termination of this Agreement."

4. Section 6.5 is hereby deleted in its entirety and Sections 6.6 through 6.8 are hereby renumbered as Sections 6.5 through 6.7.

5. The first sentence of Section 8.1 is hereby amended to read as follows:

"The ESOP Trustee may resign as ESOP Trustee under this Agreement at any time by a written instrument delivered to the Company giving notice of such resignation, which shall be effective on the earlier of (i) sixty (60) days after receipt or at such other time as is agreed by the Company and the ESOP Trustee or (ii) the appointment of a successor trustee by the Company."

6. The first sentence of Section 13.3 is hereby amended to read as follows:

"This Agreement shall be administered, construed and enforced in accordance with ERISA and to the extent not governed by ERISA, in accordance with the laws of Texas."

IN WITNESS WHEREOF, Houston Industries Incorporated has caused these presents to be executed by its duly authorized officers in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 27th day of April, 1995, but effective May 1, 1995.

HOUSTON INDUSTRIES INCORPORATED

By D. D. SYKORA
D. D. Sykora,
President and Chief Operating Officer

ATTEST:

CHRISTIAN SCHLEY
Assistant Corporate Secretary

THE NORTHERN TRUST COMPANY, as successor trustee, effective May 1, 1995, under the Savings Plan of Houston Industries Incorporated ESOP Trust Agreement, as amended and restated effective October 5, 1990 (the "Trust"), hereby consents to and approves of the foregoing First Amendment to the Trust, this 26th day of April, 1995, but effective May 1, 1995.

THE NORTHERN TRUST COMPANY

By BRUCE G. HENIKEN
Vice President

ATTEST:

JOHN H. ST. LAURENT
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 MARCH 31,	
	1995	1994
Primary Earnings Per Share:		
(1) Weighted average shares of common stock outstanding	123,598,379	122,421,159
(2) Effect of issuance of shares from assumed exercise of stock options (treasury stock method)	(20,145)	(23,017)
(3) Weighted average shares	123,578,234	122,398,142
(4) Net income	$ 114,456	$ 25,898
(5) Primary earnings per share (line 4 divided by line 3)	$ .93	$ .21
Fully Diluted Earnings Per Share:		
(6) Weighted average shares per computation (line 3)	123,578,234	122,398,142
(7) Shares applicable to options included (line 2)	20,145	23,017
(8) Dilutive effect of stock options based on the average price for the quarter or quarter-end price, whichever is higher, of $38.75 and $40.50 for 1995 and 1994, respectively (treasury stock method)	(20,145)	(23,017)
(9) Weighted average shares	123,578,234	122,398,142
(10) Net income	$ 114,456	$ 25,898
(11) Fully diluted earnings per share (line 10 divided by line 9)	$ .93	$ .21

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 three months ended March 31, 1995 and 1994 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)

	THREE MONTHS ENDED MARCH 31, 1995	TWELVE MONTHS ENDED MARCH 31, 1995
Fixed Charges as Defined:		
(1) Interest on Long-Term Debt	$ 65,216	$ 264,065
(2) Other Interest	8,999	27,663
(3) Preferred Dividends Factor of Subsidiary	12,938	52,814
(4) Interest Component of Rentals Charged to Operating Expense	936	3,813
(5) Total Fixed Charges	$ 88,089	$ 348,355
Earnings as Defined:		
(6) Income from Continuing Operations Before Cumulative Effect of Change in Accounting	$ 23,849	$ 406,236
(7) Income Taxes for Continuing Operations Before Cumulative Effect of Change in Accounting	10,427	218,199
(8) Fixed Charges (line 5)	88,089	348,355
(9) Income from Continuing Operations Before Cumulative Effect of Change in Accounting,Income Taxes and Fixed Charges	$ 122,365	$ 972,790
Preferred Dividends Factor of Subsidiary:		
(10) Preferred Stock Dividends of Subsidiary	$ 8,985	$ 34,295
(11) Ratio of Pre-Tax Income from Continuing Operations to Income from Continuing Operations (line 6 plus line 7 divided by line 6)	1.44	1.54
(12) Preferred Dividends Factor of Subsidiary (line 10 times line 11)	$ 12,938	$ 52,814
Ratio of Earnings to Fixed Charges (line 9 divided by line 5)	1.39	2.79

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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
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3-MOS
DEC-31-1995
MAR-31-1995
PER-BOOK
8,934,675
149,157
311,245
1,399,973
731,018
11,526,068
2,155,171
0
1,242,925
3,398,096
121,910
351,345
3,615,424
0
0
634,155
110,143
45,700
8,004
3,614
3,237,677
11,526,068
746,166
10,427
622,865
622,865
123,301
(7,630)
115,671
72,410
123,441
8,985
114,456
92,752
61,497
41,297
0.93
0.93

Total annual interest charges on all bonds for year-to-date 3/31/95.

EXHIBIT 99(a)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE YEARS ENDED DECEMBER 31, 1994

(1)SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(f) DEFERRED PLANT COSTS. The Utility Commission authorized deferred accounting treatment for certain costs related to the South Texas Project Electric Generating Station (South Texas Project) in two contexts. The first was "deferred accounting" where HL&P was permitted to continue to accrue carrying costs in the form of AFUDC and defer and capitalize depreciation and other operating costs on its investment in the South Texas Project until such costs were reflected in rates. The second was the "qualified phase-in plan" where HL&P was permitted to capitalize as deferred charges allowable costs, including return, deferred for future recovery

under the approved plan. The accumulated deferrals for "deferred accounting" and "qualified phase-in plan" are being recovered over the estimated depreciable life of the South Texas Project and within the ten year phase-in period, respectively. The amortization of these deferrals totaled $25.8 million for each of the years 1994, 1993, and 1992 and is included on the Company's Statements of Consolidated Income and HL&P's Statements of Income in depreciation and amortization expense. Under the terms of the settlement agreement regarding the issues raised in Docket Nos. 12065 and 13126 (Proposed Settlement), see Note 3, the South Texas Project deferrals will continue to be amortized using the schedules discussed above.

(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, 1994, HL&P's investments (net of accumulated depreciation and amortization) in the South Texas Project and in nuclear fuel, including AFUDC, were $2.1 billion and $99 million, respectively.

(b) UNITED STATES NUCLEAR REGULATORY COMMISSION (NRC) INSPECTIONS AND OPERATIONS. Both generating units at the South Texas Project were out of service from February 1993 to February 1994, when Unit No. 1 was returned to service. Unit No. 2 was returned to service in May 1994. HL&P removed the units from service in February 1993 when a problem was encountered with certain of the units' auxiliary feedwater pumps.

In February 1995, the NRC removed the South Texas Project from its "watch list" of plants with weaknesses that warranted increased NRC attention. The NRC placed the South Texas Project on the "watch list" in June 1993, following the issuance of a report by an NRC Diagnostic Evaluation Team (DET) which conducted a review of the South Texas Project operations.

Certain current and former employees of HL&P or contractors of HL&P have asserted claims that their employment was terminated or disrupted in retaliation for their having made safety-related complaints to the NRC. Civil proceedings by the complaining personnel and administrative proceedings by the Department of Labor remain pending against HL&P, and the NRC has jurisdiction to take enforcement action against HL&P and/or individual employees with respect to these matters. Based on its own internal investigation, in October 1994 the NRC issued a notice of violation and proposed a $100,000 civil penalty against HL&P in one such case in which HL&P had terminated the site access of a former contractor employee. In that action, the NRC also requested information relating to possible further enforcement action in this matter against two HL&P managers involved in such termination. HL&P strongly disagrees with the NRC's conclusions, and has requested the NRC to give further consideration of its notice. In February 1995, the NRC conducted an enforcement conference with respect to that matter, but no result has been received.

HL&P has provided documents and other assistance to a subcommittee of the U. S. House of Representatives (Subcommittee) that is conducting an inquiry related to the South Texas Project. Although the precise focus and timing of the inquiry has not been identified by the Subcommittee, it is anticipated that the Subcommittee will inquire into matters related to HL&P's handling of employee concerns and to issues related to the NRC's 1993 DET review of the South Texas Project. In connection with that inquiry, HL&P has been advised that the U. S. General Accounting Office (GAO) is conducting a review of the NRC's inspection process as it relates to the South Texas Project and other plants, and HL&P is cooperating with the GAO in its investigation and with the NRC in a similar review it has initiated. While no prediction can

be made at this time as to the ultimate outcome of these matters, the Company and HL&P do not believe that they will have a material adverse

effect on the Company's or HL&P's financial condition or results of operations.

(c) LITIGATION WITH CO-OWNERS OF THE SOUTH TEXAS PROJECT. In February 1994, the City of Austin (Austin), one of the four co-owners of the South Texas Project, filed suit (Austin II Litigation) against HL&P. That suit is pending in the 152nd District Court for Harris County, Texas, which has set a trial date for October 1995. 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 under the terms and conditions of the Operating Licenses and Technical Specifications relating to the South Texas Project. Austin claims that such failures have caused Austin damages of at least $125 million due to the incurrence of increased operating and maintenance costs, the cost of replacement power and lost profits on wholesale transactions that did not occur. 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. San Antonio has not identified the amount of damages it intends to seek from HL&P. HL&P is contesting San Antonio's intervention and has called for arbitration of San Antonio's claim under the arbitration provisions of the Participation Agreement. The trial court has denied HL&P's requests, but review of these decisions is currently pending before the 1st Court of Appeals in Houston.

In a previous lawsuit (Austin I Litigation) filed in 1983 against the Company and HL&P, Austin alleged that it had been fraudulently induced to participate in the South Texas Project and that HL&P had failed to perform properly its duties as project manager. In May 1993, the courts entered a judgement in favor of the Company and HL&P, concluding, among other things, that the Participation Agreement did not impose on HL&P a duty to exercise reasonable skill and care as project manager. During the course of the Austin I Litigation, San Antonio and Central Power and Light Company (CPL), a subsidiary of Central and South West Corporation, two of the co-owners in the South Texas Project, also asserted claims for unspecified damages against HL&P as project manager of the South Texas Project, alleging HL&P breached its duties and obligations. San Antonio and CPL requested arbitration of their claims under the Participation Agreement. In 1992, the Company and HL&P entered into a settlement agreement with CPL (CPL Settlement) providing for CPL's withdrawal of its demand for arbitration. San Antonio's claims for arbitration remain pending. Under the Participation Agreement, San Antonio's arbitration claims will be heard by a panel of five arbitrators consisting of four arbitrators named by each co-owner and a fifth arbitrator selected by the four appointed arbitrators.

Although the CPL Settlement did not directly affect San Antonio's pending demand for arbitration, HL&P and CPL reached certain understandings in such agreement which contemplated that: (i) CPL's previously appointed arbitrator would be replaced by CPL; (ii) arbitrators approved by CPL or HL&P in any future arbitrations would be mutually acceptable to HL&P and CPL; and (iii) HL&P and CPL would resolve any future disputes between them concerning the South Texas Project without resorting to the arbitration provision of the

Participation Agreement. Austin and San Antonio have asserted in the pending Austin II Litigation that such understandings have rendered the arbitration provisions of the Participation Agreement void and that neither Austin nor San Antonio should be required to participate in or be bound by such proceedings.

Although HL&P and the Company do not believe there is merit to either Austin's or San Antonio's claims and have opposed San Antonio's intervention in the Austin II Litigation, there can be no assurance as to the ultimate outcome of these matters.

(d) 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 the maximum amount of property damage insurance currently available through the insurance industry, consisting 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 on March 1, 1995 and under portions of the excess property insurance coverage in effect prior to March 1, 1995, HL&P and the other owners of the South Texas Project are subject to assessments, the maximum aggregate assessment under current policies being $26.9 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 decreased from $9.0 billion to $8.92 billion effective in November 1994. Owners are required under the Act to insure their liability for nuclear incidents and protective evacuations by maintaining the maximum amount of financial protection available from private sources and by maintaining secondary financial protection through an industry retrospective rating plan. The assessment of

deferred premiums provided by the plan 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.

(e) NUCLEAR DECOMMISSIONING. HL&P and the other co-owners of the South Texas Project are required by the NRC to meet minimum decommissioning funding requirements to pay the costs of decommissioning the South Texas Project. Pursuant to the terms of the order of the Utility Commission in Docket No. 9850, HL&P is currently funding decommissioning costs for the South Texas Project with an independent trustee at an annual amount of $6 million, which is recorded in depreciation and amortization expense. HL&P's funding level is estimated to provide approximately $146 million, in 1989 dollars, an amount which exceeds the current NRC minimum.

The Company adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," effective January 1, 1994. At December 31, 1994, the securities held in the Company's nuclear decommissioning trust totaling $25.1 million (reflected on the Company's Consolidated and HL&P's Balance Sheets in deferred debits and deferred credits) are classified as available for sale. Such securities are reported on the balance sheets at fair value, which at December 31, 1994 approximates cost, and any unrealized gains or losses will be reported as a separate component of common stock equity. Earnings, net of taxes and administrative costs, are reinvested in the funds.

In May 1994, an outside consultant estimated HL&P's portion of decommissioning costs to be approximately $318 million, in 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. Under the terms of the Proposed Settlement, HL&P would increase funding of decommissioning costs to an annual amount of approximately $14.8 million consistent with such study. 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 or the assumptions used in estimating decommissioning costs will ultimately prove to be correct.

(3) RATE REVIEW, FUEL RECONCILIATION AND OTHER PROCEEDINGS

In February 1994, the Utility Commission initiated a proceeding (Docket No. 12065) to determine whether HL&P's existing rates are just and reasonable. Subsequently, the scope of the docket was expanded to include reconciliation of HL&P's fuel costs from April 1, 1990 to July 31, 1994. The Utility Commission also initiated a separate proceeding (Docket No. 13126) to review issues regarding the prudence of operation of the South Texas Project from the date of commercial operation through the present. That review would encompass the outage at the South Texas Project during 1993 through 1994.

Hearings began in Docket No. 12065 in January 1995, and the Utility Commission has retained a consultant to review the South Texas Project for the purpose of providing testimony in Docket No. 13126 regarding the prudence of HL&P's management of operation of the South Texas Project. In February 1995, all major parties to these proceedings signed the Proposed Settlement resolving the issues with respect to HL&P, including the prudence issues related to operation of the South Texas Project. Approval of the Proposed Settlement by the Utility Commission will be required. To that end, the parties have established procedural dates for a hearing on issues raised by the parties who are opposed to the Proposed Settlement. A decision by the Utility Commission on the Proposed Settlement is not anticipated before early summer.

Under the Proposed Settlement, HL&P's base rates would be reduced by approximately $62 million per year, effective retroactively to January 1, 1995, and rates would be frozen for three years, subject to certain conditions. Under the Proposed Settlement, HL&P would amortize its remaining investment of $218 million in the cancelled Malakoff plant over a period not to exceed

seven years. HL&P also would increase its decommissioning expense for the South Texas Project by $9 million per year.

Under the Proposed Settlement, approximately $70 million of fuel expenditures and related interest incurred by HL&P during the fuel reconciliation period would not be recoverable from ratepayers. This $70 million was recorded as a one-time, pre-tax charge to reconcilable fuel revenues to reflect the anticipation of approval of the Proposed Settlement. HL&P also would establish a new fuel factor approximately 17 percent below that currently in effect and would refund to customers the balance in its fuel over-recovery account, estimated to

be approximately $180 million after giving effect to the amounts not recoverable from ratepayers.

HL&P recovers fuel costs incurred in electric generation through a fixed fuel factor that is set by the Utility Commission. The difference between fuel revenues billed pursuant to such factor and fuel expense incurred is recorded as an addition to or a reduction of revenue, with a corresponding entry to under- or over-recovered fuel, as appropriate. Amounts collected pursuant to the fixed fuel factor must be reconciled periodically against actual, reasonable costs as determined by the Utility Commission. Currently, HL&P has an over-recovery fuel account balance that will be refunded pursuant to the Proposed Settlement.

In the event that the Proposed Settlement is not approved by the Utility Commission, including issues related to the South Texas Project, Docket No. 12065 will be remanded to an Administrative Law Judge (ALJ) to resume detailed hearings in this docket. Prior to reaching agreement on the terms of the Proposed Settlement, HL&P argued that its existing rates were just and reasonable and should not be reduced. Other parties argued that rate decreases in annual amounts ranging from $26 million to $173 million were required and that additional decreases might be justified following an examination of the prudence of the management of the South Texas Project and the costs incurred in connection with the outages at the South Texas Project. Testimony filed by the Utility Commission staff included a recommendation to remove from rate base $515 million of HL&P's investment in the South Texas Project to reflect the staff's view that such investment was not fully "used and useful" in providing service, a position HL&P vigorously disputes.

In the event the Proposed Settlement is not approved by the Utility Commission, the fuel reconciliation issues in Docket Nos. 12065 and 13126 would be remanded to an ALJ for additional proceedings. A major issue in Docket No. 13126 will be whether the incremental fuel costs incurred as a result of outages at the South Texas Project represent reasonable costs. HL&P filed testimony in Docket No. 13126, which testimony concluded that the outages at the South Texas Project did not result from imprudent management. HL&P also filed testimony analyzing the extent to which regulatory issues extended the outages. In that testimony an outside consultant retained by HL&P concluded that the duration of the outages was controlled by both the resolution of NRC regulatory issues as well as necessary equipment repairs unrelated to NRC regulatory issues and that the incremental effect of NRC regulatory issues on the duration of the outages was only 39 days per unit. Estimates as to the cost of replacement power may vary significantly based on a number of factors, including the capacity factor at which the South Texas Project might be assumed to have operated had it not been out of service due to the outages. However, HL&P believes that applying a reasonable range

of assumptions would result in replacement fuel costs of less than $10 million for the 39 day periods identified by HL&P's consultant and less than $100 million for the entire length of the outages. Any fuel costs determined to have been unreasonably incurred would not be recoverable from customers and would be charged against the Company's earnings.

Although the Company and HL&P believe that the Proposed Settlement is in the best interest of HL&P, its ratepayers, and the Company and its shareholders, no assurance can be given that (i) the Utility Commission ultimately will approve the terms of the Proposed Settlement or (ii) in the event the Proposed Settlement is not approved and proceedings against HL&P resumed, that the outcome of such proceedings would be favorable to HL&P.

(4) APPEALS OF PRIOR UTILITY COMMISSION RATE ORDERS

Pursuant to a series of applications filed by HL&P in recent years, the Utility Commission has granted HL&P rate increases to reflect in electric rates HL&P's substantial investment in new plant construction, including the South Texas Project. Although Utility Commission action on those applications has been completed, judicial review of a number of the Utility Commission orders is pending. In Texas, Utility Commission orders may be appealed to a District Court in Travis County, and from that Court's decision an appeal may be taken to the Court of Appeals for the 3rd District at Austin (Austin Court of Appeals). Discretionary review by the Supreme Court of Texas may be sought from decisions of the Austin Court of Appeals. The pending appeals from the Utility Commission orders are in various stages. In the event the courts ultimately reverse actions of the Utility Commission in any of these proceedings, such matters would be remanded to the Utility Commission for action in light of the courts' orders. Because of the number of variables which can affect the ultimate resolution of such matters on remand, the Company and HL&P generally are not in a position at this time to predict the outcome of the matters on appeal or the ultimate effect that adverse action by the courts could have on the Company and HL&P. On remand, the Utility Commission's action could range from granting rate relief substantially equal to the rates previously approved to a reduction in the revenues to which HL&P was entitled during the time the applicable rates were in effect, which could require a refund to customers of amounts collected pursuant to such rates. Judicial review has been concluded or currently is pending on the final orders of the Utility Commission described below.

(a) 1991 RATE CASE. In HL&P's 1991 rate case (Docket No. 9850), the Utility Commission approved a non-unanimous settlement agreement providing for a $313 million increase in HL&P's base rates, termination of deferrals granted with respect to Unit No. 2 of the South Texas Project and of the qualified phase-in plan deferrals granted with respect to Unit No. 1 of the South Texas Project, and recovery of deferred plant costs. The settlement authorized a 12.55 percent return on common equity for HL&P. Rates contemplated by the settlement agreement were implemented in May 1991 and remain in effect (subject to the outcome of the current rate proceeding described in Note 3).

The Utility Commission's order in Docket No. 9850 was affirmed on review by a District Court, and the Austin Court of Appeals affirmed that decision on procedural grounds due to the failure of the appellant to file the record with the court in a timely manner. On review, the Texas

Supreme Court has remanded the case to the Austin Court of Appeals for consideration of the appellant's challenges to the Utility Commission's order, which include issues regarding deferred accounting, the treatment of federal income tax expense and certain other matters. As to federal tax issues, a recent decision of the Austin Court of Appeals, in an appeal involving GTE-SW (and to which HL&P was not a party), held that when a utility pays federal income taxes as part of a consolidated group, the utility's ratepayers are entitled to a fair share of the tax savings actually realized, which can include savings resulting from unregulated activities. The Texas Supreme Court has agreed to hear an appeal of that decision, but on points not involving the federal income tax issues, though tax issues could be decided in such opinion.

Because the Utility Commission's order in Docket No. 9850 found that HL&P would have been entitled to rate relief greater than the $313 million agreed to in the settlement, HL&P believes that any disallowance that might be required if the court's ruling in the GTE decision were applied in Docket No. 9850 would be offset by that greater amount. However, that amount may not be sufficient if the Austin Court of Appeals also concludes that the Utility Commission's inclusion of deferred accounting costs in the settlement was improper. For a discussion of the Texas Supreme Court's decision on deferred accounting treatment, see Note 4(c). Although HL&P believes that it could demonstrate entitlement to rate relief equal to that agreed to in the stipulation in Docket No. 9850, HL&P cannot rule out the possibility that a remand and reopening of that settlement would be required if decisions unfavorable to HL&P are rendered on both the deferred accounting treatment and the calculation of tax expense for rate making purposes.

The parties to the Proposed Settlement have agreed to withdraw their appeals of the Utility Commission's orders in such docket, subject to HL&P's dismissing its appeal in Docket No. 6668.

(b) 1988 RATE CASE. In HL&P's 1988 rate case (Docket No. 8425), the Utility Commission granted HL&P a $227 million increase in base revenues, allowed a 12.92 percent return on common equity, authorized a qualified phase-in plan for Unit No. 1 of the South Texas Project (including approximately 72 percent of HL&P's investment in Unit No. 1 of the South Texas Project in rate base) and authorized HL&P to use deferred accounting for Unit No. 2 of the South Texas Project. Rates substantially corresponding to the increase granted were implemented by HL&P in June 1989 and remained in effect until May 1991.

In August 1994, the Austin Court of Appeals affirmed the Utility Commission's order in Docket No. 8425 on all matters other than the Utility Commission's treatment of tax savings associated with deductions taken for expenses disallowed in cost of service. The court held that the Utility Commission had failed to require that such tax savings be passed on to ratepayers, and ordered that the case be remanded to the Utility Commission with instructions to adjust HL&P's cost of service accordingly. Discretionary review is being sought from the Texas Supreme Court by all parties to the proceeding.

The parties to the Proposed Settlement have agreed to dismiss their respective appeals of Docket No. 8425, subject to HL&P's dismissing its appeal in Docket No. 6668. A separate party to this appeal, however, has not agreed to dismiss its appeal.

(c) DEFERRED ACCOUNTING. Deferred accounting treatment for certain costs associated with Unit No. 1 of the South Texas Project was authorized by the Utility Commission in Docket No. 8230 and was extended in Docket No. 9010. Similar deferred accounting treatment with respect to Unit No. 2 of the South Texas Project was authorized in Docket No. 8425. For a discussion of the deferred accounting treatment granted, see Note 1(f).

In June 1994, the Texas Supreme Court decided the appeal of Docket Nos. 8230 and 9010, as well as all other pending deferred accounting cases involving other utilities, upholding deferred accounting treatment for both carrying costs and operation and maintenance expenses as within the Utility Commission's statutory authority and reversed the Austin Court of Appeals decision to the extent that the Austin Court of Appeals had rejected deferred accounting treatment for carrying charges. Because the lower appellate court had upheld deferred accounting only as to operation and maintenance expenses, the

Texas Supreme Court remanded Docket Nos. 8230 and 9010 to the Austin Court of Appeals to consider the points of error challenging the granting of deferred accounting for carrying costs which it had not reached in its earlier consideration of the case. The Texas Supreme Court opinion did state, however, that when deferred costs are considered for addition to the utility's rate base in an ensuing rate case, the Utility Commission must then determine to what extent inclusion of the deferred costs is necessary to preserve the utility's financial integrity. Under the terms of the Proposed Settlement, South Texas Project deferrals will continue to be amortized under the schedule previously established.

The Office of the Public Utility Counsel (OPUC) has agreed, pursuant to the Proposed Settlement, to withdraw and dismiss its appeal if the Proposed Settlement becomes effective and on the condition that HL&P dismisses its appeal in Docket No. 6668. However, the appeal of the State of Texas remains pending.

(d) PRUDENCE REVIEW OF THE CONSTRUCTION OF THE SOUTH TEXAS PROJECT. In June 1990, the Utility Commission ruled in a separate docket (Docket No. 6668) that had been created to review the prudence of HL&P's planning and construction of the South Texas Project that $375.5 million out of HL&P's $2.8 billion investment in the two units of the South Texas Project had been imprudently incurred. That ruling was incorporated into HL&P's 1988 and 1991 rate cases and resulted in HL&P's recording an after-tax charge of $15 million in 1990. Several parties appealed the Utility Commission's decision, but a District Court dismissed these appeals on procedural grounds. The Austin Court of Appeals reversed and directed consideration of the appeals, and the Texas Supreme Court denied discretionary review in 1994. At this time, no action has been taken by the appellants to proceed with the appeals. Unless the order in Docket No. 6668 is modified or reversed on appeal, the amount found imprudent by the Utility Commission will be sustained.

Under the Proposed Settlement, OPUC, HL&P and the City of Houston each has agreed to dismiss its respective appeals of Docket No. 6668. A separate party to this appeal, however, has not agreed to dismiss its appeal. If this party does not elect to dismiss its appeal, HL&P may elect to maintain its appeal, whereupon OPUC and City of Houston shall also be entitled to maintain their appeals.

(5) MALAKOFF

The scheduled in-service dates for the Malakoff units were postponed during the 1980's as expectations of continued strong load growth were tempered. In 1987, all developmental work was stopped and AFUDC accruals ceased. These units have been cancelled due to the availability of other cost effective resource options.

In Docket No. 8425, the Utility Commission allowed recovery of certain costs associated with the cancelled Malakoff units by amortizing those costs over ten years for rate making purposes. Such recoverable costs were not included in rate base and, as a result, no return on investment is being earned during the recovery period. The remaining balance at December 31, 1994 is $34 million with a recovery period of 66 months.

Also as a result of the final order in Docket No. 8425, the costs associated with the engineering design work for the Malakoff units were included in rate base and are earning a return. Subsequently, in December 1992, HL&P determined that such costs would have no future value and reclassified $84.1 million from plant held for future use to recoverable project costs. In 1993, an additional $7 million was reclassified to recoverable project costs. Amortization of these amounts began in 1993. The balance at December 31, 1994 was $65 million with a remaining recovery period of 60 months. The amortization amount is approximately equal to the amount currently earning a cash return in rates. The Utility Commission's decision to allow treatment of these costs as plant held for future use has been challenged in the pending appeal of the Docket No. 8425 final order. See Note 4(b) for a discussion of this proceeding.

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

HL&P's remaining investment in Malakoff lignite reserves as of December 31, 1994 of $153 million is included on the Company's Consolidated and HL&P's Balance Sheets in plant held for future use. HL&P anticipates that an additional $8 million of expenditures relating to lignite reserves will be incurred in 1995 and 1996.

In Docket No. 12065, HL&P filed testimony in support of the amortization of substantially all of its remaining investment in Malakoff, including the portion of the engineering design costs for which amortization had not previously been authorized and the amount attributable to related lignite reserves which had not previously been

addressed by the Utility Commission. Under the Proposed Settlement of Docket No. 12065, HL&P would amortize its investment in Malakoff over a period not to exceed seven years such that the entire investment will be written off no later than December 31, 2002. See Note 3. In the event that the Utility Commission does not

approve the Proposed Settlement, and if appropriate rate treatment of these amounts is not ultimately received, HL&P could be required to write off any unrecoverable portions of its Malakoff investment.

(20) SUBSEQUENT EVENTS

(a) KBLCOM. On January 26, 1995, Time Warner and the Company reached an agreement in which Time Warner would acquire KBLCOM in a tax-deferred, stock-for-stock merger with a subsidiary of Time Warner for a sales price of approximately $2.2 billion, subject to closing adjustments. Time Warner will issue one million shares of Time Warner common stock and 11 million shares of a newly-issued series of its convertible preferred stock, which will have a liquidation value of $100 per share, to the Company. The preferred stock will be convertible into approximately 22.9 million shares of Time Warner common stock and, until the earlier of conversion or the fourth anniversary of its issuance, pays an annual dividend of $3.75 per share. After four years, Time Warner will have the right to exchange the Time Warner preferred stock for Time Warner common stock at the stated conversion rate. In addition, at the closing Time Warner will purchase for cash certain intercompany debt of KBLCOM from the Company for approximately $600 million subject to adjustment for changes in or levels of specified indebtedness and liabilities, working capital, capital expenditures and related items. Closing of this transaction, which is subject to, among other things, (i) the parties obtaining necessary consents of certain franchise authorities and other governmental entities, (ii) the absence of any change that might have a material adverse effect on KBLCOM or Time Warner, (iii) the absence of any material litigation and (iv) the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended, is expected to take place in the second half of 1995.

Operating results from discontinued operations for years ended December 31, 1994, 1993 and 1992 were as follows:

	Year Ended December 31,		
	1994	1993	1992
	(Thousands of Dollars)		
Revenues	$ 255,772	$ 244,067	$ 235,258
Operating expenses (a)	156,084	148,325	140,242
Gross operating margin (a)	99,688	95,742	95,016
Depreciation, amortization, interest and other	128,023	117,982	137,227
Income taxes (benefit)	(11,811)	2,255	(12,667)
Loss from discontinued operations	$ (16,524)	$ (24,495)	$ (29,544)

(a)Exclusive of depreciation and amortization.

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

Net assets of discontinued operations were as follows:

	December 31, 1994	December 31, 1993
	(Thousands of Dollars)	
Assets:		
Cable television property, net of accumulated depreciation of $161,402 and $151,671 for 1994 and 1993, respectively	$ 276,624	$ 220,507
Equity in cable television partnerships	160,363	122,531
Intangible assets	1,029,440	984,032
Other assets	43,625	35,526
Total assets	1,510,052	1,362,596
Less:		
Cable television debt	(488,783)	(504,580)
Accumulated deferred income taxes	(308,627)	(297,624)
Other liabilities	(43,510)	(19,169)
Net assets	$ 669,132	$ 541,223

At December 31, 1994 pursuant to the acquisition of cable systems,

KBLCOM has unutilized Separate Return Limitation Year (SRLY) net operating loss tax benefits of approximately $22.1 million and unutilized SRLY investment tax credits of approximately $14.0 million which expire in the years 1995 through 2008, and 1995 through 2003, respectively. In addition, KBLCOM has unutilized restricted state loss tax benefits of $20.0 million, which expire in the years 1995 through 2009, and unutilized minimum tax credits of $1.8 million. The Company does not anticipate full utilization of these losses and tax credits and, therefore, has established a valuation allowance. Utilization of preacquisition carryforwards in the future would not affect income of the Company and KBLCOM, but would be applied to reduce the carrying value of

cable television franchises and intangible assets. These tax benefits and credits will inure to the benefit of Time Warner upon closing of the pending sale.

Based on a Time Warner common stock price of $35.50 and assuming the closing occurs on September 30, 1995, the Company estimates that it will recognize an after-tax gain of approximately $650 million. The Company anticipates that it will record a portion of this gain (estimated to be approximately $100 million) in the first quarter of 1995 in recognition of the deferred tax asset arising from the Company's excess tax basis in KBLCOM stock. The remainder of the gain will be recognized at closing.

EXHIBIT 99(b)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE YEARS ENDED DECEMBER 31, 1994

(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, 1994, HL&P's investments (net of accumulated depreciation and amortization) in the South Texas Project and in nuclear fuel, including AFUDC, were $2.1 billion and $99 million, respectively.

(b) UNITED STATES NUCLEAR REGULATORY COMMISSION (NRC) INSPECTIONS AND OPERATIONS. Both generating units at the South Texas Project were out of service from February 1993 to February 1994, when Unit No. 1 was returned to service. Unit No. 2 was returned to service in May 1994. HL&P removed the units from service in February 1993 when a problem was encountered with certain of the units' auxiliary feedwater pumps.

In February 1995, the NRC removed the South Texas Project from its "watch list" of plants with weaknesses that warranted increased NRC attention. The NRC placed the South Texas Project on the "watch list" in June 1993, following the issuance of a report by an NRC Diagnostic Evaluation Team (DET) which conducted a review of the South Texas Project operations.

Certain current and former employees of HL&P or contractors of HL&P have asserted claims that their employment was terminated or disrupted in retaliation for their having made safety-related complaints to the NRC. Civil proceedings by the complaining personnel and administrative proceedings by the Department of Labor remain pending against HL&P, and the NRC has jurisdiction to take enforcement action against HL&P and/or individual employees with respect to these matters. Based on its own internal investigation, in October 1994 the NRC issued a notice of violation and proposed a $100,000 civil penalty against HL&P in one such case in which HL&P had terminated the site access of a former contractor employee. In that action, the NRC also requested information relating to possible further enforcement action in this matter against two HL&P managers involved in such termination. HL&P strongly disagrees with the NRC's conclusions, and has requested the NRC to give further consideration of its notice. In February 1995, the NRC conducted an enforcement conference with respect to that matter, but no result has been received.

HL&P has provided documents and other assistance to a subcommittee of the U. S. House of Representatives (Subcommittee) that is conducting an inquiry related to the South Texas Project. Although the precise focus and timing of the inquiry has not been identified by the Subcommittee, it is anticipated that the Subcommittee will inquire into matters related to HL&P's handling of employee concerns and to issues related to the NRC's 1993 DET review of the South Texas Project. In connection with that inquiry, HL&P has been advised that the U. S. General Accounting Office (GAO) is conducting a review of the NRC's inspection process as it relates to the South Texas Project and other plants, and HL&P is cooperating with the GAO in its investigation and with the NRC in a similar review it has initiated. While no prediction can be made at this time as to the ultimate outcome of these matters, the Company and HL&P do not believe that they will have a material adverse effect on the Company's or HL&P's financial condition or results of operations.

(c) LITIGATION WITH CO-OWNERS OF THE SOUTH TEXAS PROJECT. In February 1994, the City of Austin (Austin), one of the four co-owners of the South Texas Project, filed suit (Austin II Litigation) against HL&P. That suit is pending in the 152nd District Court for Harris County, Texas, which has set a trial date for October 1995. 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 under the terms and conditions of the Operating Licenses and Technical Specifications relating to the South Texas Project. Austin claims that such failures have caused Austin damages of at least $125 million due to the incurrence of increased operating and maintenance costs, the cost of replacement power and lost profits on wholesale transactions that did not occur. 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. San Antonio has not identified the amount of damages it intends to seek from HL&P. HL&P is contesting San Antonio's intervention and has called for arbitration of San Antonio's claim under the arbitration provisions of the Participation Agreement. The trial court has denied HL&P's requests, but review of these decisions is currently pending before the 1st Court of Appeals in Houston.

In a previous lawsuit (Austin I Litigation) filed in 1983 against the Company and HL&P, Austin alleged that it had been fraudulently induced to participate in the South Texas Project and that HL&P had failed to perform properly its duties as project manager. In May 1993, the courts entered a judgement in favor of the Company and HL&P, concluding, among other things, that the Participation Agreement did not impose on HL&P a duty to exercise reasonable skill and care as project manager. During the course of the Austin I Litigation, San Antonio and Central Power and Light Company (CPL), a subsidiary of Central and South West Corporation, two of the co-owners in the South Texas Project, also asserted claims for unspecified damages against HL&P as project manager of the South Texas Project, alleging HL&P breached its duties and obligations. San Antonio and CPL requested arbitration of their claims under the Participation Agreement. In 1992, the Company and HL&P entered into a settlement agreement with CPL (CPL Settlement) providing for CPL's withdrawal of its demand for arbitration. San Antonio's claims for arbitration remain pending. Under the Participation Agreement, San Antonio's arbitration claims will be heard by a panel of five arbitrators consisting of four arbitrators named by each co-owner and a fifth arbitrator selected by the four appointed arbitrators.

Although the CPL Settlement did not directly affect San Antonio's pending demand for arbitration, HL&P and CPL reached certain understandings in such agreement which contemplated that: (i) CPL's previously appointed arbitrator would be replaced by CPL; (ii) arbitrators approved by CPL or HL&P in any future arbitrations would be mutually acceptable to HL&P and CPL; and (iii) HL&P and CPL would resolve any future disputes between them concerning the South Texas Project without resorting to the arbitration provision of the Participation Agreement. Austin and San Antonio have asserted in the pending Austin II Litigation that such understandings have rendered the arbitration provisions of the Participation Agreement void and that neither Austin nor San Antonio should be required to participate in or be bound by such proceedings.

Although HL&P and the Company do not believe there is merit to either Austin's or San Antonio's claims and have opposed San Antonio's intervention in the Austin II Litigation, there can be no assurance as to the ultimate outcome of these matters.

(d) 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 the maximum amount of property damage insurance currently available through the insurance industry, consisting 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 on March 1, 1995 and under portions of the excess property insurance coverage in effect prior to March 1, 1995, HL&P and the other owners of the South Texas Project are subject to assessments, the maximum aggregate assessment under current policies being $26.9 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 decreased from $9.0 billion to $8.92 billion effective in November 1994. Owners are required under the Act to insure their liability for nuclear incidents and protective evacuations by maintaining the maximum amount of financial protection available from private sources and by maintaining secondary financial protection through an industry retrospective rating plan. The assessment of deferred premiums provided by the plan 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.

(e) NUCLEAR DECOMMISSIONING. HL&P and the other co-owners of the South Texas Project are required by the NRC to meet minimum decommissioning funding requirements to pay the costs of decommissioning the South Texas Project. Pursuant to the terms of the order of the Utility Commission in Docket No. 9850, HL&P is currently funding decommissioning costs for the South Texas Project with an independent trustee at an annual amount of $6 million, which is recorded in depreciation and amortization expense. HL&P's funding level is estimated to provide approximately $146 million, in 1989 dollars, an amount which exceeds the current NRC minimum.

The Company adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," effective January 1, 1994. At December 31, 1994, the securities held in the Company's nuclear decommissioning trust totaling $25.1 million (reflected on the Company's Consolidated and HL&P's Balance Sheets in deferred debits and deferred credits) are classified as available for sale. Such securities are reported on the balance sheets at fair value, which at December 31, 1994 approximates cost, and any unrealized gains or losses will be reported as a separate

component of common stock equity. Earnings, net of taxes and administrative costs, are reinvested in the funds.

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In May 1994, an outside consultant estimated HL&P's portion of decommissioning costs to be approximately $318 million, in 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. Under the terms of the Proposed Settlement, HL&P would increase funding of decommissioning costs to an annual amount of approximately $14.8 million consistent with such study. 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 or the assumptions used in estimating decommissioning costs will ultimately prove to be correct.

(3) RATE REVIEW, FUEL RECONCILIATION AND OTHER PROCEEDINGS

In February 1994, the Utility Commission initiated a proceeding (Docket No. 12065) to determine whether HL&P's existing rates are just and reasonable. Subsequently, the scope of the docket was expanded to include reconciliation of HL&P's fuel costs from April 1, 1990 to July 31, 1994. The Utility Commission also initiated a separate proceeding (Docket No. 13126) to review issues regarding the prudence of operation of the South Texas Project from the date of commercial operation through the present. That review would encompass the outage at the South Texas Project during 1993 through 1994.

Hearings began in Docket No. 12065 in January 1995, and the Utility Commission has retained a consultant to review the South Texas Project for the purpose of providing testimony in Docket No. 13126 regarding the prudence of HL&P's management of operation of the South Texas Project. In February 1995, all major parties to these proceedings signed the Proposed Settlement resolving the issues with respect to HL&P, including the prudence issues related to operation of the South Texas Project. Approval of the Proposed Settlement by the Utility Commission will be required. To that end, the parties have established procedural dates for a hearing on issues raised by the parties who are opposed to the Proposed Settlement. A decision by the Utility Commission on the Proposed Settlement is not anticipated before early summer.

Under the Proposed Settlement, HL&P's base rates would be reduced by approximately $62 million per year, effective retroactively to January 1, 1995, and rates would be frozen for three years, subject to certain conditions. Under the Proposed Settlement, HL&P would amortize its remaining investment of $218 million in the cancelled Malakoff plant over a period not to exceed seven years. HL&P also would increase its decommissioning expense for the South Texas Project by $9 million per year.

Under the Proposed Settlement, approximately $70 million of fuel expenditures and related interest incurred by HL&P during the fuel reconciliation period would not be recoverable from ratepayers. This $70 million was recorded as a one-time, pre-tax charge to reconcilable fuel revenues to reflect the anticipation of approval of the Proposed Settlement. HL&P also would establish a new fuel factor approximately 17 percent below that currently in effect and would

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refund to customers the balance in its fuel over-recovery account, estimated to be approximately $180 million after giving effect to the amounts not recoverable from ratepayers.

HL&P recovers fuel costs incurred in electric generation through a fixed fuel factor that is set by the Utility Commission. The difference between fuel revenues billed pursuant to such factor and fuel expense incurred is recorded as an addition to or a reduction of revenue, with a corresponding entry to under- or over-recovered fuel, as appropriate. Amounts collected pursuant to the fixed fuel factor must be reconciled periodically against actual, reasonable costs as determined by the Utility Commission. Currently, HL&P has an over-recovery fuel account balance that will be refunded pursuant to the Proposed Settlement.

In the event that the Proposed Settlement is not approved by the Utility Commission, including issues related to the South Texas Project, Docket No. 12065 will be remanded to an Administrative Law Judge (ALJ) to resume detailed hearings in this docket. Prior to reaching agreement on the terms of the Proposed Settlement, HL&P argued that its existing rates were just and reasonable and should not be reduced. Other parties argued that rate decreases in annual amounts ranging from $26 million to $173 million were required and that additional decreases might be justified following an examination of the prudence of the management of the South Texas Project and the costs incurred in connection with the outages at the South Texas Project. Testimony filed by the Utility Commission staff included a recommendation to remove from rate base $515 million of HL&P's investment in the South Texas Project to reflect the staff's view that such investment was not fully "used and useful" in providing service, a position HL&P vigorously disputes.

In the event the Proposed Settlement is not approved by the Utility Commission, the fuel reconciliation issues in Docket Nos. 12065 and 13126 would be remanded to an ALJ for additional proceedings. A major issue in Docket No. 13126 will be whether the incremental fuel costs

incurred as a result of outages at the South Texas Project represent reasonable costs. HL&P filed testimony in Docket No. 13126, which testimony concluded that the outages at the South Texas Project did not result from imprudent management. HL&P also filed testimony analyzing the extent to which regulatory issues extended the outages. In that testimony an outside consultant retained by HL&P concluded that the duration of the outages was controlled by both the resolution of NRC regulatory issues as well as necessary equipment repairs unrelated to NRC regulatory issues and that the incremental effect of NRC regulatory issues on the duration of the outages was only 39 days per unit. Estimates as to the cost of replacement power may vary significantly based on a number of factors, including the capacity factor at which the South Texas Project might be assumed to have operated had it not been out of service due to the outages. However, HL&P believes that applying a reasonable range of assumptions would result in replacement fuel costs of less than $10 million for the 39 day periods identified by HL&P's consultant and less than $100 million for the entire length of the outages. Any fuel costs determined to have been unreasonably incurred would not be recoverable from customers and would be charged against the Company's earnings.

Although the Company and HL&P believe that the Proposed Settlement is in the best interest of HL&P, its ratepayers, and the Company and its shareholders, no assurance can be given that (i) the Utility Commission ultimately will approve the terms of the Proposed Settlement or

(ii) in the event the Proposed Settlement is not approved and proceedings against HL&P resumed, that the outcome of such proceedings would be favorable to HL&P.

(4) APPEALS OF PRIOR UTILITY COMMISSION RATE ORDERS

Pursuant to a series of applications filed by HL&P in recent years, the Utility Commission has granted HL&P rate increases to reflect in electric rates HL&P's substantial investment in new plant construction, including the South Texas Project. Although Utility Commission action on those applications has been completed, judicial review of a number of the Utility Commission orders is pending. In Texas, Utility Commission orders may be appealed to a District Court in Travis County, and from that Court's decision an appeal may be taken to the Court of Appeals for the 3rd District at Austin (Austin Court of Appeals). Discretionary review by the Supreme Court of Texas may be sought from decisions of the Austin Court of Appeals. The pending appeals from the Utility Commission orders are in various stages. In the event the courts ultimately reverse actions of the Utility Commission in any of these proceedings, such matters would be remanded to the Utility Commission for action in light of the courts' orders. Because of the number of variables which can affect the ultimate resolution of such matters on remand, the Company and HL&P generally are not in a position at this time to predict the outcome of the matters on appeal or the ultimate effect that adverse action by the courts could have on the Company and HL&P. On remand, the Utility Commission's action could range from granting rate relief substantially equal to the rates previously approved to a reduction in the revenues to which HL&P was entitled during the time the applicable rates were in effect, which could require a refund to customers of amounts collected pursuant to such rates. Judicial review has been concluded or currently is pending on the final orders of the Utility Commission described below.

(a) 1991 RATE CASE. In HL&P's 1991 rate case (Docket No. 9850), the Utility Commission approved a non-unanimous settlement agreement providing for a $313 million increase in HL&P's base rates, termination of deferrals granted with respect to Unit No. 2 of the South Texas Project and of the qualified phase-in plan deferrals granted with respect to Unit No. 1 of the South Texas Project, and recovery of deferred plant costs. The settlement authorized a 12.55 percent return on common equity for HL&P. Rates contemplated by the settlement agreement were implemented in May 1991 and remain in effect (subject to the outcome of the current rate proceeding described in Note 3).

The Utility Commission's order in Docket No. 9850 was affirmed on review by a District Court, and the Austin Court of Appeals affirmed that decision on procedural grounds due to the failure of the appellant to file the record with the court in a timely manner. On review, the Texas Supreme Court has remanded the case to the Austin Court of Appeals for consideration of the appellant's challenges to the Utility Commission's order, which include issues regarding deferred accounting, the treatment of federal income tax expense and certain other matters. As to federal tax issues, a recent decision of the Austin Court of Appeals, in an appeal involving GTE-SW (and to which HL&P was not a party), held that when a utility pays federal income taxes as part of a consolidated group, the utility's ratepayers are entitled to a fair share of the tax savings actually realized, which can include savings resulting from unregulated activities. The

Texas Supreme Court has agreed to hear an appeal of that decision, but on points not involving the federal income tax issues, though tax issues could be decided in such opinion.

Because the Utility Commission's order in Docket No. 9850 found that HL&P would have been entitled to rate relief greater than the $313 million agreed to in the settlement, HL&P believes that any disallowance that might be required if the court's ruling in the GTE decision were applied in Docket No. 9850 would be offset by that greater amount. However, that amount may not be sufficient if the Austin Court of

Appeals also concludes that the Utility Commission's inclusion of deferred accounting costs in the settlement was improper. For a discussion of the Texas Supreme Court's decision on deferred accounting treatment, see Note 4(c). Although HL&P believes that it could demonstrate entitlement to rate relief equal to that agreed to in the stipulation in Docket No. 9850, HL&P cannot rule out the possibility that a remand and reopening of that settlement would be required if decisions unfavorable to HL&P are rendered on both the deferred accounting treatment and the calculation of tax expense for rate making purposes.

The parties to the Proposed Settlement have agreed to withdraw their appeals of the Utility Commission's orders in such docket, subject to HL&P's dismissing its appeal in Docket No. 6668.

(b) 1988 RATE CASE. In HL&P's 1988 rate case (Docket No. 8425), the Utility Commission granted HL&P a $227 million increase in base revenues, allowed a 12.92 percent return on common equity, authorized a qualified phase-in plan for Unit No. 1 of the South Texas Project (including approximately 72 percent of HL&P's investment in Unit No. 1 of the South Texas Project in rate base) and authorized HL&P to use deferred accounting for Unit No. 2 of the South Texas Project. Rates substantially corresponding to the increase granted were implemented by HL&P in June 1989 and remained in effect until May 1991.

In August 1994, the Austin Court of Appeals affirmed the Utility Commission's order in Docket No. 8425 on all matters other than the Utility Commission's treatment of tax savings associated with deductions taken for expenses disallowed in cost of service. The court held that the Utility Commission had failed to require that such tax savings be passed on to ratepayers, and ordered that the case be remanded to the Utility Commission with instructions to adjust HL&P's cost of service accordingly. Discretionary review is being sought from the Texas Supreme Court by all parties to the proceeding.

The parties to the Proposed Settlement have agreed to dismiss their respective appeals of Docket No. 8425, subject to HL&P's dismissing its appeal in Docket No. 6668. A separate party to this appeal, however, has not agreed to dismiss its appeal.

(c) DEFERRED ACCOUNTING. Deferred accounting treatment for certain costs associated with Unit No. 1 of the South Texas Project was authorized by the Utility Commission in Docket No. 8230 and was extended in Docket No. 9010. Similar deferred accounting treatment with respect to Unit No. 2 of the South Texas Project was authorized in Docket No. 8425. For a discussion of the deferred accounting treatment granted, see Note 1(f).

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

The Office of the Public Utility Counsel (OPUC) has agreed, pursuant to the Proposed Settlement, to withdraw and dismiss its appeal if the Proposed Settlement becomes effective and on the condition that HL&P dismisses its appeal in Docket No. 6668. However, the appeal of the State of Texas remains pending.

(d) PRUDENCE REVIEW OF THE CONSTRUCTION OF THE SOUTH TEXAS PROJECT. In June 1990, the Utility Commission ruled in a separate docket (Docket No. 6668) that had been created to review the prudence of HL&P's planning and construction of the South Texas Project that $375.5 million out of HL&P's $2.8 billion investment in the two units of the South Texas Project had been imprudently incurred. That ruling was incorporated into HL&P's 1988 and 1991 rate cases and resulted in HL&P's recording an after-tax charge of $15 million in 1990. Several parties appealed the Utility Commission's decision, but a District Court dismissed these appeals on procedural grounds. The Austin Court of Appeals reversed and directed consideration of the appeals, and the Texas Supreme Court denied discretionary review in 1994. At this time, no action has been taken by the appellants to proceed with the appeals. Unless the order in Docket No. 6668 is modified or reversed on appeal, the amount found imprudent by the Utility Commission will be sustained.

Under the Proposed Settlement, OPUC, HL&P and the City of Houston each has agreed to dismiss its respective appeals of Docket No. 6668. A separate party to this appeal, however, has not agreed to dismiss its appeal. If this party does not elect to dismiss its appeal, HL&P may elect to maintain its appeal, whereupon OPUC and City of Houston shall also be entitled to maintain their appeals.

EXHIBIT 99(c)

HOUSTON INDUSTRIES INCORPORATED
SAVINGS PLAN

(As Amended and Restated Effective July 1, 1995)

HOUSTON INDUSTRIES INCORPORATED
SAVINGS PLAN

(As Amended and Restated Effective July 1, 1995)

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HOUSTON INDUSTRIES INCORPORATED
SAVINGS PLAN

(As Amended and Restated Effective July 1, 1995)

RECITALS

Houston Industries Incorporated (the "Company"), a Texas corporation with its principal place of business in Houston, Harris County, Texas, established a Savings Plan effective July 1, 1973 for the benefit of its eligible Employees and retained the right to amend such Savings Plan under Section 10.3 thereof. Effective as of January 1, 1989, said Savings Plan was amended to comply with the provisions of the Tax Reform Act of 1986 and to make certain other changes therein.

Effective October 5, 1990, the Savings Plan was amended and restated to include an employee stock ownership plan which is a stock bonus plan intended to qualify under Sections 401(a) and 4975(e)(7) of the Internal Revenue Code of 1986, as amended (the "Code"), and as such is designed to invest primarily in Company Stock (said Savings Plan, as amended and restated effective October 5, 1990, and as thereafter amended and in effect on December 31, 1993, being herein referred to as the "HII Plan").

In connection with the HII Plan, the Company adopted the Houston Industries Incorporated Master Savings Trust (the "Master Savings Trust"), as established effective July 1, 1989, with Texas Commerce Bank National Association as trustee thereof, and also adopted the Savings Plan of Houston Industries Incorporated ESOP Trust (the "ESOP Trust"), as established by Trust Agreement with State Street Bank and Trust Company dated October 5, 1990.

KBLCOM Incorporated ("KBLCOM"), a Delaware corporation and wholly owned subsidiary of the Company, established the KBLCOM Incorporated Savings Plan, effective July 1, 1989 (the "KBLCOM Plan"), for the benefit of its eligible employees. In connection with the establishment of the KBLCOM Plan, KBLCOM adopted the Master Savings Trust to fund and administer funds contributed under the KBLCOM Plan for the exclusive benefit of the participants thereunder.

Effective as of January 1, 1994, the Boards of Directors of the Company and KBLCOM authorized and directed that the KBLCOM Plan be amended, restated, consolidated with, merged into and continued in the form of and by the adoption of the Houston Industries Incorporated Savings Plan, as amended and restated effective January 1, 1994 (the "Prior Plan"), so as to provide for a continuation of substantially identical benefits for the former participants of each of the KBLCOM Plan and the HII Plan, respectively, and the merger of all the assets held under the Master Savings Trust for the benefit of the participants in the KBLCOM Plan with all the assets held under the Master Savings Trust for the benefit of the participants in the HII Plan so that from and after January 1, 1994, such Plans constituted a "single plan" within the meaning and purview of Section 414(l) of the Code (with the HII Plan being the surviving

plan for all legal purposes, including reporting and disclosure under ERISA), notwithstanding that KBLCOM Participants (as herein defined) are not eligible to make After-Tax Contributions to the Plan.

The Northern Trust Company was appointed successor trustee to Texas Commerce Bank National Association under the Master Savings Trust, effective as of May 1, 1995. The Northern Trust Company also replaced State Street Bank & Trust Company as successor trustee under the ESOP Trust, effective as of May 1, 1995. Effective as of July 1, 1995, the Master Savings Trust and the ESOP Trust each were amended, restated and continued in the form of a single trust known as the Houston Industries Incorporated Savings Trust. The Savings Trust is intended to form a part of the Plan.

Effective as of July 1, 1995, the Benefits Committee of the Company (the "Committee") authorized and directed that the Prior Plan be amended, restated, and continued in order to (i) reflect the consolidation of the trust agreements and the successor trustee thereunder, (ii) provide for daily valuations, (iii) provide for the addition of new investment funds, and (iv) make certain other changes therein (hereinafter referred to as the "Plan").

The provisions of this Plan shall apply to a Participant who continues his Service after the Effective Date. Except as otherwise expressly set forth herein, the rights and benefits, if any, of a Prior Plan Participant (as herein defined) who terminated his Service prior to the Effective Date shall be determined under the provisions of the applicable Prior Plan (as herein

defined) in effect on the date his Service terminated.

NOW, THEREFORE, the Committee hereby amends, restates, and continues the Prior Plan in the form of and by the adoption of the Plan as herein set forth, effective as of July 1, 1995, to read as follows:

ARTICLE I

DEFINITIONS

As used in the Plan, the following words and phrases shall have the following meanings unless the context clearly requires a different meaning:

1.1 ACCOUNTS: The accounts maintained for a Participant pursuant to Section 5.1.

1.2 AFFILIATE: A corporation or other trade or business which, together with an Employer, is "under common control" within the meaning of Section 414(b) or (c), as modified by Section 415(h) of the Code; any organization (whether or not incorporated) which is a member of an "affiliated service group" (within the meaning of Section 414(m) of the Code) which includes the Employer; and any other entity required to be aggregated with the Employer pursuant to regulations under Section 414(o) of the Code. In addition, "Affiliate" means, for all purposes of the Plan except for testing under Sections 4.4, 4.5, 4.10 and 4.11 and determining maximum Annual Additions under Section 5.5 of the Plan, Paragon Communications, a partnership, as long as the Company or one of its wholly owned subsidiaries owns at least 50% of the profits interest or 50% of the capital interest of Paragon Communications.

1.3 AFTER-TAX CONTRIBUTIONS: Any amount contributed by a Participant to the Trust Fund from his Compensation as "After-Tax Basic Contributions" and "After-Tax Excess Contributions" pursuant to Section 4.3.

1.4 AFTER-TAX CONTRIBUTION ACCOUNT: The account or accounts maintained for each Participant to reflect his After-Tax Basic Contributions and After-Tax Excess Contributions, and adjustments relating thereto.

1.5 ANNIVERSARY DATE: January 1.

1.6 BENEFICIARY: Such natural person or persons, or the trustee of an INTER VIVOS trust for the benefit of natural persons, entitled to receive a Participant's death benefits under the Plan, as provided in Section 6.3 hereof.

1.7 CODE: The Internal Revenue Code of 1986, as amended.

1.8 COMMITTEE: The Benefits Committee as described in Article II and, in regard to any provision of this Plan under which an agent has been appointed by the Benefits Committee pursuant to Article II to administer such provision of this Plan, such agent.

1.9 COMPANY: Houston Industries Incorporated, a Texas corporation, or a successor to Houston Industries Incorporated in the ownership of substantially all of its assets, and prior to January 14, 1977, Houston Lighting & Power Company, a Texas corporation.

1.10 COMPANY STOCK: Common stock or convertible preference stock of the Company which is readily tradeable on an established securities market.

1.11 COMPENSATION: The total cash compensation actually paid for personal services to the respective Participant by the Employer during the applicable payroll period plus any amounts contributed by an Employer pursuant to a salary reduction agreement and which is not includable in gross income of the Participant under Code Section 125. Compensation specifically includes salaries, wages, commissions, overtime pay, benefits paid under the Houston Industries Incorporated Executive Incentive Compensation Plan (including annual and long-term awards), the KBLCOM Incorporated Executive Incentive Compensation Plan and the Houston Industries Energy, Inc. Annual Incentive Compensation Plan, and any other payments of compensation which would be subject to tax under Code Section 3101(a), without the dollar limitations of Code Section 3121(a)(1). Compensation specifically excludes (i) expense allowances; (ii) benefits received under the Long Term Disability Plan of an Employer; (iii) contributions of the Employer to or benefits under this Plan or any other welfare or deferred compensation plan not expressly included above; (iv) any payments made in connection with a Participant's termination of employment or severance pay; and (v) Compensation taken into account under the Plan for any Participant during a given Plan Year beginning on or after January 1, 1994 exceeding $150,000, or such other dollar amount as may be prescribed by the Secretary of the Treasury or his delegate. For purposes of applying the $150,000 limit on Compensation, the family unit of an Employee who either is a 5% owner or is both a highly compensated employee and one of the ten most highly compensated employees will be treated as a single Employee with one Compensation, and the $150,000 limit will be allocated among the members of the family unit in proportion to the total Compensation of each member of the family unit. For this purpose, a family unit consists of the Employee who is a 5% owner or one of the ten most highly compensated employees, the Employee's spouse, and the Employee's lineal descendants who have not attained age 19 before the close of the year. The Compensation of the respective Participants as reflected by the books and records of the Employer shall be conclusive.

1.12 CONTRIBUTION: Any amount contributed to the Trust Fund pursuant to the provisions of this Plan by the Employer or by a Participant from his Compensation, including ESOP Contributions, Employer Matching Contributions, Pre-Tax Basic Contributions, Pre-Tax Excess Contributions, After-Tax Basic Contributions, and After-Tax Excess Contributions.

1.13 DEFINED BENEFIT PLAN: The Houston Industries Incorporated Retirement Plan, the KBLCOM Retirement Plan and/or any other defined benefit plan (as defined in Section 415(k) of the Code) maintained by the Company or by any Affiliate.

1.14 EFFECTIVE DATE: July 1, 1995.

1.15 EMPLOYEE: Any person employed by an Employer, and including (i) any disabled individual on "Initial LTD Status" or inactive status under the Long Term Disability Plan of an Employer and (ii) any "leased employee" (as defined in Section 414 of the Code, subject to Section 414(n)(5)) performing services for an Employer. In addition to the above, the term

"Employee" shall include any person receiving remuneration for personal services (or would be receiving such remuneration except for an authorized leave of absence) rendered as an employee of a foreign affiliate (as defined in Code Section 3121(l)(6)) of an Employer to which an agreement extending coverage under the Federal Social Security Act entered into by an Employer under Section 3121(l) of said Code applies, provided that such person is a citizen or resident of the United States.

1.16 EMPLOYER: The Company, its successors, Houston Lighting & Power Company, Houston Industries Energy, Inc., Houston Industries Products, Inc., KBLCOM Incorporated, and any other eligible organization that shall adopt this Plan pursuant to the provisions of Article X, and the successors, if any, to such organization.

1.17 EMPLOYER CONTRIBUTIONS: Collectively, the Employer Matching Contributions and ESOP Contributions.

1.18 EMPLOYER MATCHING ACCOUNT: The account maintained to reflect the Employer Matching Contributions to the Plan for each Participant or to the applicable Prior Plan for each Prior Plan Participant, and any adjustments thereto made pursuant to the provisions of the Plan.

1.19 EMPLOYER MATCHING CONTRIBUTIONS: Any amount, with the exception of ESOP Contributions, contributed to the Trust Fund by the Employer pursuant to Section 4.1.

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

1.21 ESOP ACCOUNT: The account maintained for each Participant to reflect the interest in the ESOP Fund allocated to each Participant.

1.22 ESOP CONTRIBUTIONS: The Employer Contributions to the Trust on behalf of the ESOP Fund for the purpose of repayment of an Exempt Loan, as described in Section 4.1.

1.23 ESOP FUND: The investment fund held by the Trustee which shall be primarily invested and reinvested in shares of Company Stock.

1.24 EXEMPT LOAN: Any loan or other extension of credit made or guaranteed by a disqualified person as defined in Code Section 4975(e)(2) that is used to finance the purchase of Company Stock by the Trustee and that meets the requirements of Section 5.6.

1.25 FIDUCIARIES: The Employer, the Committee, the Trustee, and any other person designated as a Fiduciary with respect to the Plan or the Trust Agreement, but only with respect to the specific responsibilities of each as described in Section 2.13 hereof. Any person or group of persons may serve in more than one fiduciary capacity with respect to the Plan.

1.26 FINANCED STOCK: Company Stock acquired with the proceeds of an Exempt Loan; provided, however, that the number of shares of Financed Stock shall be proportionately

adjusted to reflect any share split, share dividend or combination of outstanding shares of the Company Stock that were acquired with the proceeds of an Exempt Loan.

1.27 HII PARTICIPANT: A Participant who is participating in this Plan as an employee of Houston Industries Incorporated or as an employee of any of its subsidiaries or affiliates other than KBLCOM Incorporated and the subsidiaries of KBLCOM Incorporated.

1.28 INVESTMENT FUND: One of the Investment Funds held under the Trust Fund, as described in Section 8.1, of which the ESOP Fund is not a part.

1.29 INVESTMENT MANAGER: The Investment Manager, if any, appointed by the Committee under the Trust, as such term is defined by Section 3(38) of ERISA.

1.30 KBLCOM PARTICIPANT: A Participant who is participating in this Plan as an employee of KBLCOM Incorporated or as an employee of any of KBLCOM Incorporated's subsidiaries.

1.31 PARTICIPANT: A current or former eligible Employee who, pursuant to the provisions of Article III hereof, has elected to participate in the Plan, and who at any relevant time is either making, or has made, Pre-Tax Basic Contributions and/or After-Tax Basic Contributions to the Plan, and for whom contribution accounts continue to be held under the Plan. A former Employee shall be deemed a Participant under the Plan as long as he has an Account in the Trust Fund which has not been forfeited under Section 6.1 hereof and thus will

be entitled to exercise all the rights and privileges granted active Employees who are Participants except as otherwise specifically provided in the case of Participant loans under Section 7.4 hereof.

1.32 PLAN: The Savings Plan set forth herein, intended to constitute a profit-sharing plan under Section 401(a)(27) of the Code and an employee stock ownership plan under Section 4975(e)(7) of the Code, including all subsequent amendments hereto.

1.33 PLAN YEAR: Each fiscal year commencing January 1 and ending December 31 of each calendar year.

1.34 PRE-TAX CONTRIBUTIONS: Any amount deferred by a Participant from his Compensation as "Pre-Tax Basic Contributions" and "Pre-Tax Excess Contributions" pursuant to Section 4.2.

1.35 PRE-TAX CONTRIBUTION ACCOUNT: The account or accounts maintained for each Participant to reflect his Pre-Tax Basic Contributions and Pre-Tax Excess Contributions to the Plan, and any adjustments thereto made pursuant to the provisions of the Plan.

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

1.37 PRIOR PLAN PARTICIPANT: Any person who is in the employment of an Employer or Affiliate on the Effective Date and was included in and covered by the Prior Plan immediately prior thereto, or who is the alternate payee, beneficiary, spouse or estate representative of such a person who died or was receiving or entitled to receive benefits under the Prior Plan.

1.38 RETIREMENT: Termination of employment on or after the Retirement Date of a Participant.

1.39 RETIREMENT DATE: With respect to HII Participants employed prior to January 1, 1988 and with respect to KBLCOM Participants hired prior to July 1, 1989, the term "Retirement Date" shall mean the first day of the calendar month coincident with or next following the 65th birthday of a Participant; and, with respect to HII Participants hired on or after January 1, 1988 and with respect to KBLCOM Participants hired on or after July 1, 1989, such term shall mean the later of (i) the Participant's attainment of age 65 or (ii) the fifth anniversary of the Participant's commencement of participation in the Plan.

1.40 SERVICE: Active employment as an Employee of an Employer and periods of Authorized Absences of the kinds described in Section 3.5.

1.41 STOCK SUSPENSE ACCOUNT: The suspense account maintained by the Trustee in accordance with Section 5.1 and to which will be credited all shares of Financed Stock prior to the allocation of such shares to the ESOP Accounts in accordance with Section 5.3.

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

1.43 TRUST FUND: All contributions of Employers and Participants, and the investments and reinvestments thereof, held by the Trustee under the Trust Agreement, together with all income, profits or increments thereon.

1.44 TRUSTEE: The Northern Trust Company, an Illinois corporation.

1.45 VALUATION DATE: Any date on which the New York Stock Exchange is open for trading and any date on which the value of the assets of the Trust Fund is determined by the Trustee pursuant to Section 5.2. The last business day of each calendar month shall be the "monthly Valuation Date," and the last business day of December of each Plan Year shall be the "annual Valuation Date."

1.46 VESTING COMPUTATION PERIOD: The 12 consecutive month period beginning January 1 and ending December 31.

1.47 VESTING SERVICE: The period of a Participant's employment considered in the determination of his eligibility for benefits under Section 3.6 of the Plan.

Words used in this Plan and in the Trust Agreement in the singular shall include the plural and in the plural the singular, and the gender of words used shall be construed to include whichever may be appropriate under any particular circumstances of the masculine, feminine or neuter genders.

ARTICLE II

ADMINISTRATION OF THE PLAN

2.1 APPOINTMENT OF COMMITTEE: The Board of Directors of the Company shall appoint a Committee of not less than three persons, who may be Employees of the Company, to perform the administrative duties set forth herein. The Committee shall be the administrator of the Plan for the purposes of ERISA. Each member of the Committee shall serve for such term as the Board of Directors of the Company may designate or until his death, resignation or removal by the Board. The Board of Directors of the Company shall promptly appoint successors to fill any vacancies in the Committee.

2.2 RECORDS OF COMMITTEE: The Committee shall keep appropriate records of its proceedings and the administration of the Plan. The Committee shall make

available to Participants and their Beneficiaries for examination, during business hours, such records of the Plan as pertain to the examining person and such documents relating to the Plan as are required by any applicable disclosure acts.

2.3 COMMITTEE ACTION: The Committee may act through the concurrence of a majority of its members expressed either at a meeting of the Committee, or in writing without a meeting. Any member of the Committee, or the Secretary or Assistant Secretary of the Committee (who need not be members of the Committee), may execute on behalf of the Committee any certificate or other written instrument evidencing or carrying out any action approved by the Committee. The Committee may delegate any of its rights, powers and duties to any one or more of its members or to an agent. The Chairman of the Committee shall be agent of the Plan and the Committee for the service of legal process at the principal office of the Company in Houston, Texas.

2.4 COMMITTEE DISQUALIFICATION: A member of the Committee who may be a Participant shall not vote on any question relating specifically to himself.

2.5 COMMITTEE COMPENSATION AND EXPENSES: The members of the Committee shall serve without bond (unless otherwise required by law) and without compensation for their services as such. The Committee may select and authorize the Trustee to suitably compensate such attorneys, agents and representatives as it may deem necessary or advisable to the performance of its duties. Expenses of the Committee that shall arise in connection with the administration of the Plan shall be paid by the Company or, if not paid by the Company, by the Trustee out of the Trust Fund.

2.6 COMMITTEE LIABILITY: Except to the extent that such liability is created by ERISA, no member of the Committee shall be liable for any act or omission of any other member of the Committee, nor for any act or omission on his own part except for his gross negligence or willful misconduct, nor for the exercise of any power or discretion in the performance of any duty assumed by him hereunder. The Company shall indemnify and hold harmless each member of the Committee from any and all claims, losses, damages, expenses (including counsel fees

approved by the Committee) and liabilities (including any amounts paid in settlement with the Committee's approval, but excluding any excise tax assessed against any member or members of the Committee pursuant to the provisions of Section 4975 of the Code) arising from any act or omission of such member in connection with duties and responsibilities under the Plan, except where the same is judicially determined to be due to the gross negligence or willful misconduct of such member.

2.7 COMMITTEE DETERMINATIONS: The Committee shall enforce this Plan in accordance with its terms and shall have all powers necessary for the accomplishment of that purpose, including, but not by way of limitation, the following powers:

(a) To employ such agents and assistants, such counsel (who may be of counsel to the Company) and such clerical, accounting, administrative, and investment services as the Committee may require in carrying out the provisions of the Plan.

(b) To authorize one or more of their number, or any agent, to make payment, or to execute or deliver any instrument, on behalf of the Committee, except that all requisitions for funds from, and requests, directions, notifications, certifications, and instructions to, the Trustee (except as provided in (i) below) or to the Company shall be signed either by a member of the Committee or by the Secretary or Assistant Secretary of the Committee.

(c) To determine from the records of the Company the considered Compensation, Service and other pertinent facts regarding Employees and Participants for the purpose of the Plan.

(d) To construe and interpret the Plan, decide all questions of eligibility and determine the amount, manner and time of payment of any benefits hereunder.

(e) To prescribe forms and procedures to be followed by Employees for participation in the Plan, by Participants or Beneficiaries filing applications for benefits, by Participants applying for withdrawals or loans, and for other occurrences in the administration of the Plan.

(f) To prepare and distribute, in such manner as the Committee determines to be appropriate, information explaining the Plan.

(g) To furnish the Company and the Participants, upon request, such annual reports with respect to the administration of the Plan as are reasonable and appropriate.

(h) To certify to the Trustee the amount and kind of benefits payable to Participants and their Beneficiaries.

(i) To authorize all disbursements by the Trustee from the Trust Fund by a written authorization signed either by a member of the Committee or by the Secretary or Assistant Secretary of the Committee; provided, however, that disbursements for ordinary expenses incurred in the administration of the Trust Fund and disbursements to Participants need not be authorized by the Committee.

(j) In the event of any share split, share dividend or

combination of outstanding shares of Company Stock, to determine the appropriate allocation of shares of Company Stock to the Stock Suspense Account and the Accounts maintained for the Participants and to determine the appropriate number of shares distributable to a Participant under Section 6.6 hereof immediately following such share split, share dividend or combination so as to effectuate the intent and purpose of the Plan.

(k) To interpret and construe all terms, provisions, conditions and limitations of this Plan and to reconcile any inconsistency or supply any omitted detail that may appear in this Plan in such manner and to such extent, consistent with the general terms of this Plan, as the Committee shall deem necessary and proper to effectuate the Plan for the greatest benefit of all parties interested in the Plan.

(l) To make and enforce such rules and regulations for the administration of the Plan as are not inconsistent with the terms set forth herein.

(m) In addition to all other powers herein granted, and in general consistent with provisions hereof, the Committee shall have all other rights and powers reasonably necessary to supervise and control the administration of this Plan.

2.8 INFORMATION FROM EMPLOYER: To enable the Committee to perform its functions, the Employer shall supply full and timely information to the Committee of all matters relating to the dates of employment of its Employees for purposes of determining eligibility of Employees to participate hereunder, the Compensation of all Participants, their Retirement, death or other cause for termination of employment, and such other pertinent facts as the Committee may require; and the Committee shall advise the Trustee of such of the foregoing facts as may be pertinent to the Trustee's administration of the Trust Fund.

2.9 UNIFORM ADMINISTRATION: Whenever in the administration of the Plan any action is required by the Employer or the Committee, including, but not by way of limitation, action with respect to eligibility of Employees, Contributions, and benefits, such action shall be uniform in nature as applied to all persons similarly situated, and no action shall be taken which will discriminate in favor of Participants who are officers or shareholders of the Employer, highly compensated Employees, or persons whose principal duties consist of supervising the work of others.

2.10 REPORTING RESPONSIBILITIES: As administrator of the Plan under ERISA, the Committee shall file or distribute all reports, returns and notices required under ERISA or other applicable law.

2.11 DISCLOSURE RESPONSIBILITIES: The Committee shall make available to each Participant and Beneficiary such records, documents and other data as may be required under ERISA, and Participants or Beneficiaries shall have the right to examine such records at reasonable times during business hours. Nothing contained in this Plan shall give any Participant or Beneficiary the right to examine any data or records reflecting the Compensation paid to, or relating to any Account of, any other Participant or Beneficiary, except as may be required under ERISA.

2.12 ANNUAL STATEMENTS: As soon as practicable after each annual Valuation Date, the Committee shall prepare and deliver to each Participant a written statement reflecting as of that annual Valuation Date:

(a) Such information applicable to contributions by and for each such Participant and the increase or decrease thereof as a consequence of valuation adjustments as may be pertinent in the premises.

(b) The balance in his Account as of that annual Valuation Date.

2.13 ALLOCATION OF RESPONSIBILITY AMONG FIDUCIARIES FOR PLAN AND TRUST ADMINISTRATION: The Fiduciaries shall have only those specific powers, duties, responsibilities and obligations as are specifically given them under this Plan or the Trust Agreement. In general, the Employer shall have the sole responsibility for making the Contributions provided for under Sections 4.1, 4.2 and 4.3. The Company shall have the sole authority to appoint and remove the Trustee and members of the Committee. The Company may amend or terminate, in whole or in part, this Plan or the Trust Agreement. The Committee shall have the sole responsibility for the administration of the Plan and the sole authority to appoint and remove any Investment Manager which may be provided for under the Trust. The Trustee shall have the sole responsibility for the administration of the Trust Fund and shall have exclusive authority and discretion to manage and control the assets held under the Trust Fund, except to the extent that the authority to manage, acquire and dispose of the assets of the Trust Fund is delegated to an Investment Manager, all as specifically provided in the Trust Agreement. Each Fiduciary warrants that any directions given, information furnished, or action taken by it shall be in accordance with the provisions of the Plan or the Trust Agreement, as the case may be, authorizing or providing for such direction, information or action. Furthermore, each Fiduciary may rely upon any such direction, information or action of another Fiduciary as being proper under this Plan or the Trust Agreement and is not required under this Plan or the Trust Agreement to inquire into the propriety of any such direction, information or action. It is intended under this Plan and the Trust Agreement that each Fiduciary shall be responsible for the proper exercise of its own powers, duties, responsibilities and obligations under this Plan and the Trust Agreement and shall not be responsible for any act or failure to act of another

Fiduciary. No Fiduciary guarantees the Trust Fund in any manner against investment loss or depreciation in asset value.

2.14 ANNUAL AUDIT: The Committee shall engage, on behalf of all Participants, an independent Certified Public Accountant who shall conduct an annual examination of any financial statements of the Plan and Trust Fund and of other books and records of the Plan and Trust Fund as the Certified Public Accountant may deem necessary to enable him to form and provide a written opinion as to whether the financial statements and related schedules required to be filed with the Internal Revenue Service, Securities and Exchange Commission, or Department of Labor or furnished to each Participant are presented fairly and in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding Plan Year. If, however, the statements required to be submitted as part of the reports to the Department of Labor are prepared by a bank or similar institution or insurance carrier regulated and supervised and subject to periodic examination by a state or federal agency and if such statements are, in fact, made a part of the annual report to the Department of Labor and no such audit is required by ERISA, then the audit required by the foregoing provisions of this Section shall be optional with the Committee.

2.15 PRESENTING CLAIMS FOR BENEFITS: Any Participant or any other person claiming under any deceased Participant may submit written application to the Committee for the payment of any benefit asserted to be due him under the Plan. Such application shall set forth the nature of the claim and such other information as the Committee may reasonably request. Promptly upon the receipt of any application required by this Section, the Committee shall determine whether or not the Participant or Beneficiary involved is entitled to a benefit hereunder and, if so, the amount thereof and shall notify the applicant of its findings.

The Committee shall notify the applicant of the benefits determination within a reasonable time after receipt of the claim, such time not to exceed 90 days unless special circumstances require an extension of time for processing the application. If such an extension of time for processing is required, written notice of the extension shall be furnished to the applicant prior to the end of the initial 90-day period. In no event shall such extension exceed a period of 90 days from the end of such initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render its final decision. Notice of the Committee's decision to deny a claim in whole or in part shall be set forth in a manner calculated to be understood by the applicant and shall contain the following:

(a) the specific reason or reasons for the denial;

(b) specific reference to the pertinent Plan provisions on which the denial is based;

(c) a description of any additional material or information necessary for the applicant to perfect the claim and an explanation of why such material or information is necessary; and

(d) an explanation of the claims review procedures set forth in Section 2.16 hereof.

If notice of denial is not furnished and if the claim is not granted within the period of time set forth above, the claim shall be deemed denied for purposes of proceeding to the review stage described in Section 2.16. Participants shall be given timely written notice of the time limits set forth herein for determination on claims, appeal of claim denial and decisions on appeal.

2.16 CLAIMS REVIEW PROCEDURE: If an application filed by a Participant or Beneficiary under Section 2.15 above shall result in a denial by the Committee of the benefit applied for, either in whole or in part, such applicant shall have the right, to be exercised by written request filed with the Committee within 60 days after receipt of notice of the denial of his application or, if no such notice has been given, within 60 days after the application is deemed denied under Section 2.15, for the review of his application and of his entitlement to the benefit for which he applied. Such request for review may contain such additional information and comments as the applicant may wish to present. The Committee shall reconsider the application in light of such additional information and comments as the applicant may have presented and, if the applicant shall have so requested, may grant the applicant a formal hearing before the Committee in its discretion. The Committee shall also permit the applicant or his designated representative to review pertinent documents in its possession, including copies of the Plan document and information provided by the Employer relating to the applicant's entitlement to such benefit. The Committee shall render a decision no later than the date of the Committee meeting next following receipt of the request for review, except that (i) a decision may be rendered no later than the second following Committee meeting if the request is received within 30 days of the first meeting and (ii) under special circumstances which require an extension of time for rendering a decision (including but not limited to the need to hold a hearing), the decision may be rendered not later than the date of the third Committee meeting following the receipt of the request for review. If such an extension of time for review is required because of special circumstances, written notice of the extension shall be furnished to the applicant prior to the commencement of the extension. Notice of such final determination of the Committee shall be furnished to the applicant in writing, in a manner calculated to be understood by him, and shall set forth the specific reasons for the decision and specific references to the pertinent provisions of the Plan upon which the decision is based. If the decision on review is not furnished within the time period set forth above, the claim shall be deemed denied on review.

2.17 DISPUTED BENEFITS: If any dispute shall arise between a Participant or other person claiming under a Participant and the Committee after review of a claim for benefits, or in the event any dispute shall develop as to the person to whom the payment of any benefit under the Plan shall be made, the Trustee may withhold the payment of all or any part of the benefits payable hereunder to the Participant or other person claiming under the Participant until such dispute has been resolved by a court of competent jurisdiction or settled by the parties involved.

ARTICLE III

PARTICIPATION IN THE PLAN

3.1 ELIGIBILITY OF EMPLOYEES: An Employee eligible under the applicable Prior Plan immediately preceding the Effective Date shall continue to be eligible to participate in this Plan in accordance with the provisions of this Plan. From and after the Effective Date, each Employee who is eligible and who is not a Participant and who began Service with an Employer on or after April 1, 1995 shall be initially eligible to participate in the Plan as soon as practicable following the later of (i) the Effective Date, or (ii) the date he first began Service with such Employer. Each of (i) an Employee who is employed as a building trades worker under a construction industry collective bargaining agreement providing specifically for retirement benefit payments to be made thereunder for such building trades worker and (ii) an Employee who is a "leased employee" as defined in Section 414(n) of the Code shall be ineligible to participate in this Plan.

3.2 EMPLOYEE INFORMATION: The Committee shall maintain records which shall reflect as to each Employee his date of birth, all dates reflecting when he entered into or left the employment of any Employer, and his years of Vesting Service. The Employer shall make available to the Committee all such information as may be required by the Committee for the purposes of maintaining such information as to each Employee.

3.3 NOTIFICATION OF ELIGIBLE EMPLOYEES: Each eligible Employee shall be notified that he is eligible to participate in the Plan upon commencement of his Service.

3.4 APPLICATION BY PARTICIPANTS: Each Employee who shall become eligible to participate in the Plan and who shall desire to become a Participant shall complete an application in such form as may be prescribed by the Committee in which the Participant shall elect to make and designate the amount of his Contributions, as contemplated under Sections 4.2 and 4.3 hereof, and his choice of investment options under Section 8.1 hereof.

3.5 AUTHORIZED ABSENCES: Authorized Absences shall have the following meaning and consequences:

(a) The following shall be "Authorized Absences":

(i) Absence without pay of an Employee due to membership in the Armed Forces of the United States (but if such absence is not pursuant to orders issued by the Armed Forces of the United States, only if with the consent of the Employer).

(ii) Absence due to an authorized leave of absence without pay granted by the Employer in a non-discriminatory manner in order that all Employees under similar circumstances shall be treated alike.

(iii) An absence otherwise recognized as an "Authorized Absence" shall not be so recognized (1) under (i) above unless such Employee shall apply for reinstatement in the employment of Employer within 90 days after discharge or release to inactive duty, as the case may be, or (2) under (ii) above unless within ten days after the expiration date thereof such Employee shall apply for reinstatement in the employment of the Employer.

(b) The years of Vesting Service of an Employee immediately after his re-employment following an Authorized Absence shall be determined as if he had continued employment throughout his Authorized Absence. If, however, an Employee, following his re-employment after an Authorized Absence, thereafter terminates his employment (other than as a consequence of Retirement, death, disability, or subsequent Authorized Absence) before completion of one year of Service or fails to apply for re-employment as specified under Section 3.5(a)(iii), the commencement date of his Authorized Absence will be treated as having marked the termination of the employment of such Employee for all purposes of the Plan (including specifically but without limitation his years of Vesting Service); provided that for valuation purposes only, the distributions from the Plan to which such an Employee may then be entitled shall be determined by reference to the value of his Pre-Tax Contribution Account, his After-Tax Contribution Account, his Employer Matching Account and his ESOP Account as of the last immediately preceding Valuation Date.

(c) Solely for the purpose of determining the eligibility of an Employee to participate in the Plan immediately following the resumption of his employment after expiration of his Authorized Absence, the employment status of such Employee prior to his Authorized Absence shall be considered as continuing throughout his Authorized Absence.

3.6 VESTING SERVICE: An Employee shall be credited with one and only one year of Vesting Service for each Vesting Computation Period before or after the Effective Date during which such Employee completes at least 1,000 Hours of Service for an Employer or an Affiliate. An Employee will not be credited with a year of Vesting Service with respect to a Vesting Computation Period if the Employee completes less than 1,000 Hours of Service for the Employer or an Affiliate during such Vesting Computation Period.

3.7 HOUR OF SERVICE: An Employee shall be credited with an Hour of Service as follows:

(a) An Hour of Service shall be credited to an Employee for each hour for which an Employee is directly paid, or entitled to payment, by the Employer or an Affiliate for the performance of duties during the applicable computation period. Such hours shall be credited to the Employee for the computation period or periods in which the duties were performed.

(b) An Hour of Service shall be credited to an Employee for each hour for which back pay, irrespective of mitigation of damages, has been either awarded or agreed to by the Employer or an Affiliate. These hours shall be credited to the Employee for the computation period or periods to which the award or agreement pertains rather than the computation period in which the award, agreement, or payment is made. Hours of Service shall not be credited to an Employee under both paragraphs (a) and (b) of this Section.

(c) In addition to Hours of Service credited in paragraphs (a) and (b) of this Section, an Hour of Service shall be credited to an Employee for each hour for which such Employee is directly or indirectly paid, or entitled to such payment by the Employer or an Affiliate for reasons (such as vacation, sickness, or disability) other than for the performance of duties during the applicable computation period. For purposes of this paragraph (c), irrespective of whether such hours have accrued in other computation periods, such hours shall be counted in the computation period in which either payment is actually made or amounts payable to the Employee become due. For purposes of this paragraph (c), Hours of Service shall be determined by dividing the payments received or due for reasons other than the performance of duties by the lesser of (i) the Employee's most recent hourly rates of compensation for the performance of duties or (ii) the Employee's average hourly rate of compensation for the performance of duties for the most recent computation period in which the Employee completed more than 500 Hours of Service.

(d) The number of Hours of Service which are credited for reasons other than the performance of duties for the Employer in determining a Break In Service shall be determined in accordance with Sections 2530.200b-2(b) and (c) of Title 29, Chapter XXV of the Code of Federal Regulations.

Hours of Service will be credited for employment with other members of an affiliated service group (under Section 414(m)), a controlled group of corporations (under Section 414(b)), or a group of trades or businesses under common control (under Section 414(c)) of which the adopting Employer is a member.

Notwithstanding the foregoing, no Hours of Service will be credited for a KBLCOM Participant's employment with an "employer" as defined in the KBLCOM Incorporated Savings Plan prior to the later of (i) July 1, 1989 or (ii) the date such "employer" became an Affiliate of KBLCOM.

Solely for purposes of determining whether a Break In Service, as defined in Section 3.8, for participation and vesting purposes has occurred in a computation period for any Plan Year beginning after December 31, 1984, an individual who is absent from work for maternity or paternity reasons shall receive credit for the Hours of Service which would otherwise have been credited to such individual but for such absence, or in any case in which such hours cannot be determined, eight Hours of Service per day of such absence. For purposes

of this paragraph, an absence from work for maternity or paternity reasons means an absence (i) by reason of the pregnancy of the individual, (ii) by reason of the birth of a child of the individual, (iii) by reason of the placement of a child with the individual in connection with the adoption of such child by such individual, or (iv) for purposes of caring for such child for a period beginning immediately following such birth or placement. The Hours of Service credited under this paragraph shall be credited (1) in the computation period in which the absence begins if the crediting is necessary to prevent a Break In Service in that period or (2) in all other cases, in the following computation period.

3.8 BREAK IN SERVICE: A Vesting Computation Period during which a Participant completes 500 Hours of Service or less for an Employer or an Affiliate shall constitute a Break In Service. Upon incurring a Break In Service, an Employee's or former Employee's rights and benefits under this Plan shall be determined as provided in Section 3.9.

3.9 PARTICIPATION AND VESTING UPON RE-EMPLOYMENT: Participation in the Plan shall cease at the close of the pay period during which the termination of Service occurs. Termination of Service may result from Retirement, death or voluntary or involuntary termination of employment with the Employer and its Affiliates, if any, unauthorized absence, or by failure to return to active employment with the Employer by the date on which an Authorized Absence expired. Upon the re-employment prior to or after a Break In Service of any person who had previously been employed by the Employer, the following rules shall apply in determining his Participation in the Plan and his Vesting Service under Sections

3.1 and 3.6:

(a) PARTICIPATION: If the re-employed Employee was not a Participant in the Plan during his prior period of Service, he shall be eligible to commence participation in the Plan on the date of his re-employment. If the re-employed Employee was a Participant in the Plan during his prior period of Service, he shall recommence participation in the Plan on the date of his re-employment, and any forfeitures from his Employer Matching Account and ESOP Account shall be reinstated to the extent provided in Section 6.9.

(b) VESTING: Any Vesting Service attributable to a re-employed Employee's prior period of employment shall be reinstated as of the date of his recommencement of participation in the Plan.

3.10 TRANSFERS:

(a) For the purposes of determining eligibility to participate in the Plan and Service under this Article III, a Participant shall receive Vesting Service and Hours of Service for employment with an Affiliate after it became an Affiliate, provided that all such employment is determined in accordance with the re-employment provisions of Section 3.9.

If an individual is transferred to eligible employment covered by this Plan from employment with an Employer or Affiliate not covered by the

Plan, he shall be eligible to participate in this Plan as of the date of his transfer or as of a date that is as soon as practicable thereafter, provided he would otherwise meet the requirements of Section 3.1. In addition, if such transferred Participant had an account in a qualified defined contribution plan maintained by such Affiliate, such account shall be transferred to the Trust Fund under this Plan if the transfer is permitted by the terms of said plan and if the Committee determines that the transferred account will not fail to satisfy Section 401(a) or 411(d)(6) of the Code. Any transferred account shall be subject to the provisions of this Plan; provided, however, that the vesting provisions of the transferor plan shall continue to apply.

(b) If a Participant is transferred to employment with an Employer or Affiliate which is not eligible employment covered by the Plan, his participation in the Plan shall be suspended, provided, however, that during the period of his employment in such ineligible position:

(i) subject to the re-employment provisions of Section 3.9, service for vesting purposes shall continue to accrue;

(ii) he shall cease to have any right to make Contributions pursuant to Sections 4.2 and 4.3;

(iii) his Employer Matching Account and ESOP Account shall receive no Employer Matching Contribution or ESOP Contribution allocations under Section 4.1;

(iv) he shall continue to participate in income allocations of the earnings and/or losses of the Trust Fund pursuant to Section 5.3;

(v) no distribution event shall be deemed to have occurred under Section 6.1; and

(vi) the loan privileges under Article VII and the provisions of Article VIII shall continue to apply.

In addition, the Committee may, at its discretion, authorize the transfer of his Accounts under this Plan to the Trust Fund funding the qualified defined contribution plan, if any, of the Affiliate to which the Participant was transferred. In such event, the provisions of the transferee plan shall govern.

ARTICLE IV

CONTRIBUTIONS TO THE PLAN

4.1 EMPLOYER CONTRIBUTIONS: For each Plan Year during which an Exempt Loan is outstanding, the Employer shall make an ESOP Contribution to the Trust in such amount and at such times as shall be determined by the Company.

The Employer shall also make an Employer Matching Contribution (subject to adjustments for forfeitures and limitations on annual additions as elsewhere specified in the Plan) in the amount, if any, necessary to result in a total allocation under Article V to each Participant's Prior Plan and ESOP Accounts of not less than (i) 70% of the total of his Pre-Tax Basic Contribution and After-Tax Basic Contribution for the Plan Year in the case of HII Participants and (ii) 70% of the total of his Pre-Tax Basic Contribution for the Plan Year in the case of KBLCOM Participants. Further, the Employer shall make an additional ESOP Contribution and/or Employer Matching Contribution, if necessary, to make the allocation required under Section 5.3(d)(ii) with respect to dividends used to repay an Exempt Loan.

To the extent specified in Section 5.3(d)(iii), any amounts

attributable to forfeitures will be applied to reduce, to the extent of such forfeitures, the Employer Matching Contributions required to be made next following the determination of any such forfeiture amounts.

In the event that a forfeiture arising under Section 6.1 is reinstated under Section 6.9 because of the return to the employment of the terminated Participant, or in the event that a forfeiture arising under Section 6.11 is reinstated in accordance with the provisions of Section 6.11 because of an appropriate claim of forfeited unclaimed benefit by the Participant, Beneficiary or other distributee, the Employer shall contribute, within a reasonable time following such re-employment or claim, an amount equal to the forfeiture to be reinstated.

4.2 PRE-TAX CONTRIBUTIONS: Each Participant who has elected to defer a portion of his salary as a Pre-Tax Basic Contribution to the Plan pursuant to Section 3.4 shall defer as his Pre-Tax Basic Contribution to the Trust Fund 1%, 2%, 3%, 4%, 5% or 6%, as he may designate, of his Compensation. In addition, each HII Participant may also elect to defer any whole percent, up to a maximum of 10%, of his Compensation, and each KBLCOM Participant may also elect to defer any whole percent, up to a maximum of 4%, of his Compensation, as a Pre-Tax Excess Contribution. Each Participant's Pre-Tax Basic Contribution and Pre-Tax Excess Contribution, if any, shall be contributed to the Trust Fund by the Employer as soon as practicable. A Participant's Pre-Tax Contributions under this Plan and all other plans, contracts or arrangements of the Employer shall not exceed a maximum contribution of $9,240 (as adjusted by the Secretary of the Treasury) for each calendar year. In the event a Participant's Pre-Tax Contributions exceed the applicable limit described in the preceding sentence, or in the event the Participant submits a written claim under the Plan, at the time and in the manner prescribed by the Committee, specifying an amount of Pre-Tax Contributions that will exceed the applicable limit of Section 402(g) of the Code when added to the amounts deferred by the

Participant in other plans or arrangements, such excess (the "Excess Deferrals"), plus any income and minus any loss allocable to such amount, shall be returned to the Participant by the April 15 of the following year. Excess Deferrals shall be treated as Annual Additions under Section 5.5 of the Plan. Each Participant's Pre-Tax Contribution Account shall be fully vested and non-forfeitable at all times.

When first electing to participate in the Plan, each Participant shall give advance notification by electronic, telephonic, written or other such manner as may be prescribed from time to time by the Committee, of the amount he elects to defer as a Pre-Tax Basic Contribution and as a Pre-Tax Excess Contribution. Each such election shall continue in effect during subsequent Plan Years unless the Participant shall give timely notice of his election to change or discontinue his Pre-Tax Basic Contribution or his Pre-Tax Excess Contribution in accordance with procedures established from time to time by the Committee.

A Participant may change the rate of his Pre-Tax Basic Contribution and/or Pre-Tax Excess Contribution, with no restrictions on frequency, by electronic, telephonic, written or other such manner as may be prescribed from time to time by the Committee. A Participant may discontinue his Pre-Tax Basic Contribution and/or Pre-Tax Excess Contribution, with no restrictions on frequency, by electronic, telephonic, written or other such manner as may be prescribed from time to time by the Committee. Any such change or discontinuance in the rate of Pre-Tax Basic and/or Excess Contributions shall be effective as soon as reasonably practicable following receipt of the change or discontinuance of elections.

4.3 AFTER-TAX CONTRIBUTIONS: Each HII Participant who has elected to make a Pre-Tax Basic Contribution of less than 6% of his Compensation may elect to make an After-Tax Basic Contribution to the Plan pursuant to Section 3.4 of 1%, 2%, 3%, 4%, 5% or 6%, as he may designate, of his Compensation, provided that the total of his Pre-Tax Basic Contribution, if any, and his After-Tax Basic Contribution does not exceed 6% of his Compensation. In addition, each HII Participant who has elected to make a Pre-Tax Excess Contribution of less than 10% of his Compensation may elect to contribute to the Plan any whole percent, up to a maximum of 10%, of his Compensation, as an After-Tax Excess Contribution; provided that the total of his Pre-Tax Excess Contribution, if any, and his After-Tax Excess Contribution does not exceed 10% of his Compensation. Each HII Participant's After-Tax Basic Contribution and After-Tax Excess Contribution, if any, shall be withheld from each of his paychecks and contributed to the Trust Fund by the Employer as soon as practicable. Each HII Participant's After-Tax Contribution Account shall be fully vested and non-forfeitable at all times.

When first electing to participate in the Plan, each HII Participant shall give advance notification by electronic, telephonic, written or other such manner as may be prescribed from time to time by the Committee, of the amount he elects to contribute as an After-Tax Basic Contribution and as an After-Tax Excess Contribution. Each such election shall continue in effect during subsequent Plan Years unless the HII Participant shall give timely notice of his election to change or discontinue his After-Tax Basic Contribution or his After-Tax Excess Contribution in accordance with procedures established from time to time by the Committee.

An HII Participant may change the amount of his After-Tax Basic Contribution and/or After-Tax Excess Contribution, with no restrictions on frequency, by electronic, telephonic, written or other such manner as may be prescribed from time to time by the Committee. A Participant may discontinue his After-Tax Basic Contribution and/or After-Tax Excess Contribution, with no restrictions on frequency, by electronic, telephonic, written or other such manner as may be prescribed from time to time by the Committee. Any such change or discontinuance in the amount of After-Tax Basic or Excess Contributions shall

be effective as soon as reasonably practicable following receipt of the change or discontinuance of elections.

KBLCOM Participants are not eligible to make After-Tax Basic Contributions or After-Tax Excess Contributions.

4.4 ACTUAL DEFERRAL PERCENTAGE: The Actual Deferral Percentage for a specified group of Employees for a Plan Year shall be the average of the ratios (calculated separately for each Employee in such group) of:

(a) the amount of Pre-Tax Contributions (i) allocated to each such Employee's Account under the Plan as of a date during the Plan Year, without contingency on future participation in the Plan or performance of future services, (ii) actually paid to the Plan on behalf of each such Employee for such Plan Year no later than the end of the 12-month period immediately following such Plan Year and (iii) that relate to Compensation that either would have been received by the Employee in such Plan Year (but for the deferral election) or are attributable to services performed by the Employee in the Plan Year and would have been received by the Employee within 2 1/2 months after the close of the Plan Year (but for the deferral election); over

(b) the Employee's Compensation (as defined in Treasury Regulation Section 1.414(s)-1(c)) for such Plan Year. Notwithstanding any provision in this Plan to the contrary, an Employer may, to the extent permitted by the Code and applicable regulations, elect to include as Compensation pre-tax or after-tax contributions made under this Plan or any other plan of the Employer, and may elect to exclude as Compensation any Compensation received by a Participant during the Plan Year while such Participant was not eligible to be a Participant in the Plan.

An eligible Employee for the purpose of computing the Actual Deferral Percentage is defined in Treasury Regulation Section 1.401(k)-1(g)(4). The Actual Deferral Percentage of an eligible Employee who makes no Pre-Tax Contributions is zero. The individual ratios and Actual Deferral Percentages shall be calculated to the nearest 1/100 of 1% of an Employee's Compensation.

4.5 ACTUAL DEFERRAL PERCENTAGE LIMITS: The Actual Deferral Percentage for the eligible Highly Compensated Employees for any Plan Year shall not exceed the greater of (a) or (b), as follows:

(a) the Actual Deferral Percentage of Compensation for the eligible non-Highly Compensated Employees times 1.25; or

(b) the lesser of (i) the Actual Deferral Percentage of Compensation for the eligible non-Highly Compensated Employees times 2.0 or (ii) the Actual Deferral Percentage of Compensation for the eligible non-Highly Compensated Employees plus two percentage points or such lesser amount as the Secretary of the Treasury shall prescribe to prevent the multiple use of this alternative limitation with respect to any Highly Compensated Employee.

"Highly Compensated Employee" shall mean any Employee and any employee of an Affiliate who is a highly compensated employee under Section 414(q) of the Code, including any Employee and any employee of an Affiliate who is a highly compensated employee under Section 414(q) of the Code and who, during the current Plan Year or prior Plan Year:

(i) was at any time a 5% owner; or

(ii) received Compensation (as defined in Section 5.5(d)(6)) in excess of $75,000 (or such other amount as determined by the Secretary of the Treasury which reflects cost-of-living increases in accordance with the provisions of Code Section 414(q)(1)); or

(iii) received Compensation (as defined in Section 5.5(d)(6)) in excess of $50,000 (or such other amount as determined by the Secretary of the Treasury which reflects cost-of-living increases in accordance with the provisions of Code Section 414(q)(1)) and was in the "top-paid group" (the top 20% of payroll, excluding Employees described in Code Section 414(q)(8) and applicable regulations) for the Plan Year; or

(iv) was an officer receiving Compensation (as defined in Section 5.5(d)(6)) exceeding 50% of the dollar limit in Section 415(b)(1)(A) of the Code. The number of officers shall be limited to 50 employees (or, if lesser, the greater of three employees or 10% of the employees).

If for any year no officer of the Employer is described in subparagraph (iv) above, the highest paid officer of the Employer for such year shall be treated as described in such paragraph.

In determining an Employee's status as a Highly Compensated Employee within the meaning of Section 414(q), the entities set forth in Treasury Regulation Section 1.414(q)-1T Q&A-6(a)(1) through (4) must be taken into account as a single employer.

For purposes of determining whether an individual is a Highly Compensated Employee for the current Plan Year, an Employee who meets the definition of Highly Compensated Employee set forth in this Section by virtue of

subparagraph (ii), (iii) or (iv) for the current Plan Year (but not for the prior Plan Year) shall not be treated as a Highly Compensated Employee unless such individual is a member of the group consisting of the 100 individuals who were paid the greatest Compensation (as defined in Section 5.5(d)(6)) during the current Plan Year.

In determining the Actual Deferral Percentage of an Employee who is a 5% owner or one of the ten most Highly Compensated Employees and who has a Family Member who is an Employee, any remuneration paid to the Family Member for services rendered to an Employer or an Affiliate and any contributions made on behalf of or by such Family Member shall be attributed to such Highly Compensated Employee. Family Members, with respect to Highly Compensated Employees, shall be disregarded as separate Employees in determining the Actual Deferral Percentage both for Employees who are non-Highly Compensated Employees and for Employees who are Highly Compensated Employees. "Family Member" means the spouse and the lineal ascendants and descendants (and spouses of such ascendants and descendants) of any Employee or former Employee.

The Actual Deferral Percentage for any Highly Compensated Employee who is eligible to have deferred contributions allocated to his account under one or more plans described in Section 401(k) of the Code that are maintained by an Employer or an Affiliate in addition to this Plan shall be determined as if all such contributions were made to this Plan. For purposes of determining whether the Actual Deferral Percentage limits of this Section are satisfied, all Pre-Tax Contributions that are made under two or more plans that are aggregated for purposes of Code Section 401(a)(4) or 410(b) (other than Code Section 410(b)(2)(A)(ii)) are to be treated as made under a single plan, and if two or more plans are permissively aggregated for purposes of Code Section 401(k), the aggregated plans must also satisfy Code Sections 401(a)(4) and 410(b) as though they were a single plan.

4.6 REDUCTION OF PRE-TAX CONTRIBUTION RATES BY LEVELING METHOD: If, on the basis of the Pre-Tax Contribution rates elected by Participants for any Plan Year, the Committee determines, in its sole discretion, that neither of the tests contained in (a) or (b) of Section 4.5 will be satisfied, the Committee may reduce the Pre-Tax Contribution rate of any Participant who is among the eligible Highly Compensated Employees to the extent necessary to reduce the overall Actual Deferral Percentage for eligible Highly Compensated Employees to a level which will satisfy either (a) or (b) of Section 4.5. The reductions in Pre-Tax Contribution rates shall be made in a manner so that the Actual Deferral Percentage of the affected Participants who elected the highest Actual Deferral Percentage shall be first lowered to the level of the affected Participants who elected the next to the highest Actual Deferral Percentage. If further overall reductions are required to achieve compliance with (a) or (b) of Section 4.5, both of the above-described groups of Participants will be lowered to the level of Participants with the next highest Actual Deferral Percentage, and so on, until sufficient total reductions in Pre-Tax Contribution rates have occurred to achieve compliance with (a) or (b) of Section 4.5. The

Committee may, in its discretion, permit a Participant whose Pre-Tax Contributions are reduced under this paragraph to contribute a like amount to his After-Tax Contribution Account.

4.7 INCREASE IN PRE-TAX CONTRIBUTION RATES: If a Participant's Pre-Tax Contribution is reduced below the level necessary to satisfy either (a) or (b) of Section 4.5 for the Plan Year, such Participant may be eligible to increase his Pre-Tax Contribution rate for the remainder of the Plan Year to a level not in excess of that level which will satisfy the greater of (a) or (b) of Section 4.5. Such an increase in the Pre-Tax Contribution rate shall be made by Participants on a uniform and non-discriminatory basis, pursuant to such rules and procedures as the Committee may prescribe.

4.8 EXCESS PRE-TAX CONTRIBUTIONS: As soon as possible following the end of the Plan Year, the Committee shall determine whether either of the tests contained in Section 4.5 were satisfied as of the end of the Plan Year, and any excess Pre-Tax Contributions, plus any income and minus any loss attributable thereto, of those Participants who are among the Highly Compensated Employees shall be distributed to such Participants. In addition, the Employer Contribution made with respect to such excess Pre-Tax Contributions shall be forfeited and applied to reduce future Employer Contributions otherwise required under Section 4.1. In the event of excess Pre-Tax Contributions attributable to a Highly Compensated Employee whose actual deferral ratio is determined under the rules of family aggregation, the actual deferral ratio shall be reduced using the leveling method set forth below, and the excess Pre-Tax Contributions to be distributed thereby shall be allocated among the Family Members in proportion to the Pre-Tax Contribution of each Family Member that is combined to determine the actual deferral ratio. Such income shall include the allocable gain or loss for the Plan Year only.

The amount of any excess Pre-Tax Contributions to be distributed to a Participant shall be reduced by Excess Deferrals previously distributed to him pursuant to Section 4.2 for the taxable year ending in the same Plan Year. All excess Pre-Tax Contributions shall be returned to the Participants no later than the last day of the following Plan Year. The excess Pre-Tax Contributions, if any, of each Participant who is among the Highly Compensated Employees shall be determined by computing the maximum Actual Deferral Percentage which each such Participant may defer under (a) or (b) of Section 4.5 and then reducing the Actual Deferral Percentage of some or all of such Participants who elected an Actual Deferral Percentage in excess of such maximum by an amount of sufficient size to reduce the overall Actual Deferral Percentage for eligible Participants who are among the Highly Compensated Employees to a level which satisfies either (a) or (b) of Section 4.5. The excess Pre-Tax Contributions, if any, of each Participant shall be determined in such a manner that the Actual Deferral Percentage of such Participants who elected the highest Actual Deferral Percentage shall be first lowered to the level of such Participants who elected the next to the highest Actual Deferral

Percentage. If further overall reductions are required to achieve compliance with (a) or (b) of Section 4.5, both of the above-described groups of Participants will be lowered to the level of Participants with the next highest Actual Deferral Percentages, and so on, until sufficient total reductions have occurred to achieve compliance with (a) or (b) of Section 4.5.

The income or loss attributable to the Participant's excess Pre-Tax Contributions for the Plan Year shall be determined by multiplying the income or loss attributable to the Participant's Pre-Tax Contribution Account balance for the Plan Year by a fraction, the numerator of which is the excess Pre-Tax Contribution and the denominator of which is the Participant's total Pre-Tax Contribution Account balance. Excess Pre-Tax Contributions shall be treated as Annual Additions under Section 5.5 of the Plan.

4.9 AGGREGATION OF FAMILY MEMBERS IN DETERMINING THE ACTUAL DEFERRAL RATIO:

A. CALCULATION OF ACTUAL DEFERRAL RATIOS: If an eligible Highly Compensated Employee is subject to the family aggregation rules of Section 414(q)(6) of the Code because such Employee is either a 5% owner or one of the ten most Highly Compensated Employees, the combined actual deferral ratio of this family group (which is treated as one Highly Compensated Employee) shall be determined by combining the Pre-Tax Contributions and the Compensation for all the eligible Family Members.

Pre-Tax Contributions and Compensation of all Family Members are disregarded for purposes of determining the actual deferral percentage for the group of non-Highly Compensated Employees, except to the extent taken into account in paragraph (A) above.

B. AGGREGATION OF FAMILY GROUPS: If an Employee is required to be aggregated as a Family Member of more than one family group, all eligible Employees who are Family Members of those groups that include the Employee are aggregated as one family group in accordance with paragraph (A) above.

C. EXCESS PRE-TAX CONTRIBUTIONS OF FAMILY MEMBERS: In the event that it becomes necessary to determine and correct the excess Pre-Tax Contributions of a Highly Compensated Employee whose actual deferral ratio is determined under the rules of Section 414(q)(6) of the Code and this Section 4.9, the actual deferral ratio calculated in paragraph (A) above shall be reduced using the leveling method set forth in Section 4.6 and Section 4.8, and the excess Pre-Tax Contributions to be distributed thereby shall be allocated among the Family Members in proportion to the Pre-Tax Contribution of each Family Member that is combined to determine the actual deferral ratio.

4.10 CONTRIBUTION PERCENTAGE AND ESOP PERCENTAGE:

A. CONTRIBUTION PERCENTAGE: The Contribution Percentage for a specified group of Employees for a Plan Year shall be the average of the ratios (calculated separately for each Employee in such group) of:

(a) the total of the Employer Matching Contributions and the After-Tax Contributions (the "Aggregate Contributions") paid under the Plan on behalf of each such Employee for such Plan Year; to

(b) the Employee's Compensation (as defined in Section 4.4(b)).

In computing the Contribution Percentage, the Employer may elect to take into account After-Tax and Pre-Tax Contributions made under this Plan or any other plan of the Employer to the extent that the following requirements are satisfied:

(i) the amount of non-elective contributions, including those qualified non-elective contributions treated as Employer Matching Contributions for purposes of calculating the Contribution Percentage, satisfies the requirements of Section 401(a)(4) of the Code;

(ii) the amount of non-elective contributions, excluding those qualified non-elective contributions treated as Employer Matching Contributions for purposes of calculating the Contribution Percentage and those qualified non-elective contributions treated as elective contributions under Section 1.401(k)-1(b)(5) for purposes of calculating the Actual Deferral Percentage, satisfies the requirements of Section 401(a)(4) of the Code;

(iii) the elective contributions, including those treated as Employer Matching Contributions for purposes of calculating the Contribution Percentage, satisfy the requirements of Code Section 401(k)(3);

(iv) the qualified non-elective contributions are allocated to the Employee under the Plan as of a date within the Plan Year and the elective contributions satisfy Section 1.401(k)-1(b)(i) for the Plan Year; and, if applicable, the Plan and the plans to which the qualified non-elective contributions and elective contributions are made, are or could be aggregated for purposes of Code Section 410(b).

A Participant's Contribution Percentage shall be determined after determining the Participant's Excess Deferrals, if any, pursuant to Section 4.2, and after determining the Participant's excess Pre-Tax Contributions pursuant to Section 4.8.

B. ESOP PERCENTAGE: The ESOP Percentage for a specified group of Employees for a Plan Year shall be the average of the ratios (calculated separately for each Employee in such group) of:

(a) The total of the ESOP Contributions paid under the Plan on behalf of each such Employee for such Plan Year; to

(b) The Employee's Compensation (as defined in Section 4.4(b)).

A Participant's ESOP Percentage shall be determined after determining the Participant's Excess Deferrals, if any, pursuant to Section 4.2 and after determining the Participant's excess Pre-Tax Contributions pursuant to Section 4.8.

An eligible Employee for purposes of computing the Contribution Percentage is defined in Treasury Regulation Section 1.401(m)-1(f)(4). The Contribution Percentage will be zero for an eligible Employee who received no allocation of Aggregate Contributions.

4.11 CONTRIBUTION PERCENTAGE AND ESOP PERCENTAGE LIMITS: Each of the Contribution Percentage and ESOP Percentage (with respect to each, the "Applicable Percentage") for the eligible Employees for any Plan Year who are Highly Compensated Employees shall not exceed the greater of (a) or (b), as follows:

(a) the Applicable Percentage for the eligible Employees who are not Highly Compensated Employees times 1.25; or

(b) the lesser of (i) the Applicable Percentage for the eligible Employees who are not Highly Compensated Employees times 2.0 or (ii) the Applicable Percentage for the eligible Employees who are not Highly Compensated Employees plus two percentage points or such lesser amount as the Secretary of the Treasury shall prescribe to prevent the multiple use of this alternative limitation with respect to any Highly Compensated Employee.

In determining the Applicable Percentage of an Employee who is a 5% owner or one of the ten most Highly Compensated Employees and who has a Family Member who is an Employee, any remuneration paid to the Family Member for services rendered to an Employer or an Affiliate and any contributions made on behalf of or by such Family Member shall be attributed to such Highly Compensated Employee. Family Members, with respect to Highly Compensated Employees, shall be disregarded as separate Employees in determining the Applicable Percentage both for Employees who are non-Highly Compensated Employees and for Employees who are Highly Compensated Employees.

The Contribution Percentage for any Highly Compensated Employee for any Plan Year who is eligible to have matching employer contributions made on his behalf or to make after-tax contributions under one or more plans described in Section 401(a) of the Code that are maintained by an Employer or an Affiliate in addition to this Plan shall be determined as if all such contributions were made to this Plan.

In the event that this Plan must be combined with one or more other plans in order to satisfy the requirements of Code Section 410(b), then the Contribution Percentage shall be determined as if all such plans were a single plan. If two or more plans are permissively aggregated for the purposes of Code Section 410(b) (other than the average benefit percentage test), then the Contribution Percentage shall be determined as if all such plans were a single plan.

4.12 TREATMENT OF EXCESS AGGREGATE CONTRIBUTIONS OR ESOP CONTRIBUTIONS: If neither of the tests described above in Section 4.11 are satisfied with respect to either Aggregate Contributions or ESOP Contributions, the excess Aggregate Contributions or ESOP Contributions (as applicable), plus any income and minus any loss attributable thereto, shall be forfeited or, if not forfeitable, shall be distributed no later than the last day of the Plan Year following the Plan Year in which such excess Aggregate Contributions or ESOP Contributions (as applicable) were made. Such income shall include the allocable gain or loss for the Plan Year only. The income or loss attributable to the Participant's excess Aggregate Contributions or ESOP Contributions (as applicable) for the Plan Year shall be determined by multiplying the income or loss attributable to the Participant's Account for the Plan Year by a fraction, the numerator of which is the excess Aggregate Contribution or ESOP Contributions (as applicable), and the denominator of which is the Participant's total Account balance. Excess Aggregate Contributions or ESOP Contributions shall be treated as Annual Additions under Section 5.5 of the Plan.

The excess Aggregate Contributions or ESOP Contributions (as applicable), if any, of each Participant who is among the Highly Compensated Employees shall be determined by computing the maximum Contribution Percentage under (a) or (b) of Section 4.11 and then reducing the Contribution Percentage of some or all of such Participants whose Contribution Percentage exceeds the maximum by an amount of sufficient size to reduce the overall Contribution Percentage for eligible Participants who are among the Highly Compensated Employees to a level which satisfies either (a) or (b) of Section 4.11. The excess Aggregate Contributions or ESOP Contributions (as applicable), if any, of each Participant shall be determined in such a manner that the Contribution Percentage of such Participants who have the highest actual contribution ratio under Section 4.10 shall be first lowered to the level of such Participants with the next to the highest actual contribution ratio under Section 4.10. If further overall reductions are required to achieve compliance with (a) or (b) of Section 4.11, both of the above-described groups of Participants will be lowered to the level of Participants with the next highest actual contribution ratio under

Section 4.10, and so on, until sufficient total reductions have occurred to achieve compliance with (a) or (b) of Section 4.11. For each Participant who is a Highly Compensated Employee, the amount of excess Aggregate Contributions or ESOP Contributions (as applicable) is equal to the total Employer Contributions and After-Tax Contributions on behalf of the Participant (determined prior to the application of this paragraph) minus the amount determined by multiplying the Participant's actual contribution ratio (determined after application of this paragraph) by his Compensation used in determining such ratio. The individual ratios and Contribution Percentages shall be calculated to the nearest 1/100 of 1% of the Employee's Compensation, as such term is used in paragraph (b) of Section 4.11.

4.13 AGGREGATION OF FAMILY MEMBERS IN DETERMINING THE ACTUAL CONTRIBUTION RATIO:

A. CALCULATION OF ACTUAL CONTRIBUTION RATIO: If an eligible Highly Compensated Employee is subject to the family aggregation rules of Section 414(q)(6) of the Code because such Employee is either a 5% owner or one of the ten most Highly Compensated Employees, the combined actual contribution ratio for the family group (which is treated as one Highly

Compensated Employee) shall be determined by combining the Employer Contributions not taken into account in applying the Actual Deferral Percentage test, After-Tax Contributions and Compensation of all the eligible Family Members.

The Employer Contributions, After-Tax Contributions and Compensation of all Family Members are disregarded for purposes of determining the Contribution Percentage for the group of Highly Compensated Employees and the group of non-Highly Compensated Employees except to the extent taken into account in paragraph (A) of this Section.

B. AGGREGATION OF FAMILY GROUPS: If an Employee is required to be aggregated as a Family Member of more than one family group, all eligible Employees or Family Members of those groups that include the Employee shall be aggregated as one family group in accordance with paragraph (A) above.

C. EXCESS AGGREGATE CONTRIBUTIONS OF FAMILY MEMBERS: In the event that it becomes necessary to determine and correct the excess Aggregate Contributions of a Highly Compensated Employee whose actual contribution ratio is determined under the rules of Code Section 414(q)(6) and this Section 4.13, the actual contribution ratio shall be reduced as required under Section 4.12, and the excess Aggregate Contributions to be forfeited or distributed thereby shall be allocated among the Family Members in proportion to the Employer Contributions and After-Tax Contributions of each Family Member that are combined to determine the actual contribution ratio.

4.14 MULTIPLE USE OF ALTERNATIVE LIMITATION: The rules set forth in Treasury Regulation Section 1.401(m)-2(b) for determination of multiple use of the alternative methods of compliance with respect to Sections 4.5(b) and 4.11(b) are hereby incorporated into the Plan. If a multiple use of the alternative limitation occurs with respect to two or more plans or arrangements maintained by an Employer, it shall be treated as an excess Aggregate Contribution and must be corrected by reducing the actual contribution ratio of Highly Compensated Employees eligible both to make elective contributions to receive matching contributions under the 401(k) arrangement or to make contributions under the 401(m) plan. Such reduction shall be by the leveling process set forth in Section 4.12.

4.15 ESOP CONTRIBUTIONS, EMPLOYER MATCHING CONTRIBUTIONS AND PRE-TAX CONTRIBUTIONS TO BE TAX DEDUCTIBLE: ESOP Contributions, Employer Matching Contributions and Pre-Tax Contributions shall not be made in excess of the amount deductible under applicable Federal law now or hereafter in effect limiting the allowable deduction for contributions to profit-sharing plans. The ESOP Contributions, Employer Matching Contributions and Pre-Tax Contributions to this Plan when taken together with all other contributions made by the Employer to other qualified retirement plans shall not exceed the maximum amount deductible under Section 404 of the Code.

4.16 MAXIMUM ALLOCATIONS: Notwithstanding the above, the total Annual Additions made to the Account of any Participant shall not exceed the limits prescribed in Section 5.5.

4.17 REFUNDS TO EMPLOYER: Once Contributions are made to the Plan by the Employer on behalf of the Participants, they are not refundable to the Employer unless a Contribution:

(a) was made by mistake of fact; or

(b) was made conditioned upon the contribution being allowed as a deduction and such deduction was disallowed.

Any Contribution made by the Employer during any Plan Year in excess of the amount deductible or any Contribution attributable to a good faith mistake of fact shall be refunded to the Employer. The amount which may be returned to the Employer is the excess of the amount contributed over the amount that would have been contributed had there not occurred a mistake of fact or the excess of the amount contributed over the amount deductible, as applicable. A Contribution made by reason of a mistake of fact may be refunded only within one year following the date of payment. Any Contribution to be refunded because it was not deductible under Section 404 of the Code may be refunded only within one year following the date the deduction was disallowed. Earnings attributable to any such excess Contribution may not be withdrawn, but losses attributable thereto must reduce the amount to be returned. In no event may a refund be due which would cause the Account balance of any Participant to be reduced to less

than the Participant's Account balance would have been had the mistaken amount, or the amount determined to be non-deductible, not been contributed.

4.18 ROLLOVER CONTRIBUTIONS: Notwithstanding any other provision of the Plan, the Trustee shall be authorized to accept an "eligible rollover distribution" within the meaning of Code Section 402(c)(4) on behalf of or from a person who is (or who will be entitled under Section 3.1 to become) a Participant in this Plan, provided that the transfer of the assets to this Plan is one described in Section 402(c)(4), 403(a)(4) or 408(d)(3)(A)(ii) of the Code. Such a transferred distribution is referred to herein as a "rollover contribution."

The acceptance of rollover contributions under this Section 4.18 shall be subject to the following conditions:

(a) No rollover contribution shall be in an amount less than $500.

(b) Rollover contributions shall be in cash only.

(c) No rollover contribution may be transferred to the Plan without the prior approval of the Committee. The Committee shall develop such procedures and may require such information from an Employee desiring to make such a transfer as it deems necessary or desirable. The Committee may act in its sole discretion in determining whether to accept the transfer, and shall act in a uniform, non-discriminatory manner in this regard.

(d) Upon approval by the Committee, a rollover contribution shall be paid to the Trustee to be held in the Trust Fund.

(e) A separate account shall be established and maintained for each Employee who has made a rollover contribution. A rollover account shall share in the earnings and/or losses of the Trust Fund (and component Investment Funds in which such account may be invested) commencing on the Valuation Date coincident with or next following the date on which the transferred amount is placed in the Trust Fund. The Employee's interest in his rollover contribution account shall be fully vested and non-forfeitable. If an Employee who is otherwise eligible to participate in the Plan but who has not yet begun participation under Section 3.1 of the Plan makes a rollover contribution to the Plan, his rollover contribution account shall represent his sole interest in the Plan until he becomes a Participant.

(f) A rollover account shall be subject to the same rules as a Pre-Tax Contribution Account for purposes of the Plan, including, but not by way of limitation, rules regarding investments, withdrawals, distributions and loans under the Plan.

(g) No rollover contributions may be transferred from a plan which is required to provide automatic survivor benefits under Section 401(a)(11) of the Code, or which is a transferee of a plan required to provide such benefits.

(h) The Committee shall be entitled to rely on the representation of the Employee that the rollover contribution is an eligible rollover distribution. If, however, it is determined that a transfer received from or on behalf of a Employee failed to qualify as an eligible rollover distribution within the meaning of Code Section 402(c)(4), then the balance in the Employee's account attributable to the ineligible transfer shall, as soon as is administratively practicable, be:

(1) segregated from all other Plan assets;

(2) treated as a non-qualified trust established by and for the benefit of the Participant; and

(3) distributed to the Employee.

Such an ineligible transfer shall be deemed never to have been a part of the Plan or Trust.

ARTICLE V

PARTICIPANTS' ACCOUNTS

5.1 TRUST ACCOUNTS: The Committee shall create and maintain adequate records to reflect all transactions of the Trust Fund and to disclose the interest in the Trust Fund of each Participant (whether on active or inactive status), former Participant and Beneficiary.

(a) ACCOUNTS FOR PARTICIPANTS: Such accounts shall be maintained for each Participant as may be appropriate from time to time to reflect his interest in the ESOP Fund and each Investment Fund in which he may be participating at any time as contemplated under Section 8.1. The interest in each Investment Fund attributable to the Contributions made by or on behalf of each Participant shall be reflected in a Pre-Tax Contribution Account and/or an After-Tax Contribution Account for each Participant. The interest in the HI Common Stock Fund of each Participant attributable to the Employer Matching Contributions made to the Plan or the Prior Plan shall be reflected in an Employer Matching Account for each Participant. The interest in the ESOP Fund of each Participant shall be reflected in an ESOP Account for each Participant as described in Section 5.3.

(b) STOCK SUSPENSE ACCOUNT: There shall also be established and maintained under the Trust a suspense account to be known as the Stock Suspense Account.

(c) RIGHTS IN TRUST FUND: The maintenance of individual Accounts is only for accounting purposes, and a segregation of the assets of the Trust Fund to each Account shall not be required. Distribution and withdrawals made from an Account shall be charged to the Account as of the date paid.

5.2 VALUATION OF TRUST FUND: A valuation of the Trust Fund shall be made as of each annual Valuation Date and on any other date during the Plan Year that the Committee deems a valuation to be advisable. Any such interim valuation shall be exercised on a uniform and non-discriminatory basis. For the purposes of each such valuation, the assets of each Investment Fund shall be valued at their respective current market values, and the amount of any obligations for which the Investment Fund may be liable, as shown on the books of the Trustee, shall be deducted from the total value of the assets. For the purposes of maintenance of books of account in respect of properties comprising the Trust Fund, and of making any such valuation, the Trustee shall account for the transactions of the Trust Fund on an accrual basis. The current market value shall, for the purposes hereof, be determined as follows:

(a) Where the properties are securities which are listed on a securities exchange, or which are actively traded over the counter, the value shall be the net asset value, if appropriate, otherwise the last recorded sales price. In the event transactions regarding such property are recorded over more than one such

exchange, the Trustee may select the exchange to be used for purposes hereof. Recorded information regarding any such securities published in THE WALL STREET JOURNAL or any other publication deemed appropriate may be relied upon by the Trustee. If no transactions involving any such securities have been recorded within ten days prior to the particular Valuation Date, such securities shall be valued as provided in paragraph (b) below.

(b) Where paragraph (a) hereof shall be inapplicable in the valuation of any properties, the Trustee shall obtain from at least two qualified persons an opinion as to the value of such properties as of the close of business on the particular Valuation Date. The average of such estimates shall be used.

5.3 ALLOCATION TO ACCOUNTS:

(a) PRE-TAX, AFTER-TAX AND EMPLOYER MATCHING CONTRIBUTIONS: Pre-Tax Contributions and After-Tax Contributions received in the Trust Fund since the preceding Valuation Date shall be credited to the respective Pre-Tax Contribution Accounts and After-Tax Contribution Accounts of the Participants and invested in the Investment Funds in accordance with their instructions pursuant to Section 8.1. Employer Matching Contributions received in the Trust Fund since the preceding Valuation Date shall be allocated to the Participants' Employer Matching Accounts in the ratio that the sum of each Participant's Pre-Tax Basic Contribution and After-Tax Basic Contribution for the period bears to the total Pre-Tax Basic Contributions and After-Tax Basic Contributions of all Participants for the period.

(b) ESOP ACCOUNTS: The ESOP Account of each Participant shall be credited with his allocable portion of (i) the Company Stock investment in the ESOP Fund purchased and paid for by the Trust (other than Financed Stock) or contributed in kind by the Employer, (ii) forfeitures from the ESOP Fund, (iii) the Company Stock investment in the ESOP Fund released from the Stock Suspense Account and (iv) any cash held in the ESOP Fund. Such allocation shall be made in the ratio that the sum of each Participant's Pre-Tax Basic Contribution and After-Tax Basic Contribution for the period bears to the total Pre-Tax Basic Contributions and After-Tax Basic Contributions of all Participants for the period. Allocations made pursuant to this Section 5.3(b) shall be made as soon as practicable after the close of each payroll period in an amount not to exceed (i) 70% of the total of each HII Participant's Pre-Tax Basic Contributions and After-Tax Basic Contributions and (ii) 70% of the total of each KBLCOM Participant's Pre-Tax Basic Contributions. All amounts not otherwise allocated hereunder during the Plan Year as provided above shall be allocated in full on the annual Valuation Date.

(c) STOCK SUSPENSE ACCOUNT: The Stock Suspense Account shall be credited as of each Valuation Date with the number of shares of Financed Stock purchased by the Trustee since the preceding Valuation Date. In addition, the

Stock Suspense Account shall be credited with all ESOP Contributions for the Plan Year which are to be used to repay Exempt Loans. The Stock Suspense Account shall be debited with amounts used to repay Exempt Loans and with the number of shares of Financed Stock that are to be released from such Account in accordance with the provisions of Section 5.3(b).

(d) ALLOCATION PROCEDURES: The Accounts of Participants, former Participants and Beneficiaries shall be adjusted in accordance with the following:

(i) EARNINGS OF THE INVESTMENT FUND: The earnings (or

loss) of the Investment Fund since the preceding Valuation Date (including the appreciation or depreciation in value of the assets of the Investment Fund) shall be allocated to the Accounts of Participants (other than a terminated Participant's Accounts which have become current obligations of the Investment Fund) in proportion to the balances in such Accounts on the preceding Valuation Date, but after first reducing each such Account balance by any distribution from such Account since the preceding Valuation Date.

(ii) INCOME AND APPRECIATION IN VALUE OF STOCK SUSPENSE ACCOUNT AND ESOP ACCOUNTS IN THE TRUST FUND: The income of the ESOP Fund shall be allocated in proportion to the balances, as of the preceding Valuation Date, in the Stock Suspense Account and the ESOP Accounts, but after first reducing each such Account balance by any distributions or charges from such Accounts since the preceding Valuation Date. Notwithstanding anything to the contrary in the Plan, if and to the extent that dividends credited to Participants' ESOP Accounts are used to amortize an Exempt Loan pursuant to Section 5.6, an interest in the ESOP Fund with a fair market value not less than the amount of such dividends must be allocated to the Participants' ESOP Accounts (resulting from the release of Financed Stock attributable to such use of dividends to amortize the Exempt Loan) for the year of payment of such dividends to the Plan, and the Company shall make such additional Employer Matching Contributions as are necessary to accomplish such result. Any dividends with respect to Financed Stock that are used to amortize an Exempt Loan shall be used first to repay current principal and then to repay current interest with respect to such loan.

(iii) FORFEITURES: As of each Valuation Date, any amounts in the Employer Matching Accounts which have become forfeitures since the preceding Valuation Date shall first be made available to reinstate previously forfeited Account balances of former

Participants, if any, in accordance with Section 6.9 and previous Participants who have unclaimed benefits, if any, in accordance with Section 6.11. The remaining forfeitures from the Employer Matching Accounts and all forfeitures from the ESOP Accounts, if any, shall be used to reduce Employer Matching Contributions as specified under Section 4.1.

5.4 TREATMENT OF COMPANY STOCK PURCHASED WITH AN EXEMPT LOAN:

(a) FINANCED STOCK: Any Company Stock purchased by the Trust on behalf of the ESOP Fund with the proceeds of an Exempt Loan shall be credited initially to the Stock Suspense Account.

(b) ALLOCATION FROM STOCK SUSPENSE ACCOUNT TO ESOP ACCOUNTS: As of each monthly Valuation Date, and as of any special Valuation Date if directed by the Committee, there shall be released an interest in the ESOP Fund equal to the excess, if any, of shares of Financed Stock determined in (i) over (ii), where (i) and (ii) are as follows: (i) is equal to the product of the number of shares of Financed Stock not released prior to January 1 of the current Plan Year multiplied by the ratio of (y) the amount of principal and interest paid under the Exempt Loan during the current Plan Year to (z) the sum of the amount determined in clause (y) plus the total of all principal and interest to be paid in the future, assuming if the interest rate is variable that the interest rate in the future will be the same as that currently in effect, and (ii) is equal to the number of shares of Financed Stock previously released in the current Plan Year. The Company Stock investment in the ESOP Fund released pursuant to the preceding sentence shall be allocated to the Participants' ESOP Accounts in accordance with the provisions of Section 5.3(b).

(c) PAYMENTS ON EXEMPT LOANS: As of each Valuation Date, installment payments, including principal and interest, made by the Trustee since the last preceding Valuation Date under Exempt Loans will be debited to the Stock Suspense Account and to Participants' ESOP Accounts under the provisions of Section 5.3 hereof. Specified income shall not include shares of Company Stock attributable to any share split or share dividend on outstanding shares.

For purposes of determining payments on Exempt Loans, payment of principal and interest shall be accounted for substantially in accordance with the following: All income ("specified income") allocable to the Stock Suspense Account that is attributable to collateral for the Exempt Loan or to ESOP Contributions shall be used, before any ESOP Contributions are so used, to pay principal amounts due under such Exempt Loan; ESOP Contributions shall be first applied to repay interest under such Exempt Loan with any excess ESOP Contribution used to fund current principal requirements not otherwise funded by the specified income; if the specified income exceeds the amount necessary to pay

principal due on Exempt Loans for the Plan Year, then such excess amount shall be first used to pay interest currently due with respect to the Exempt Loans and any remaining amount of income may, at the direction of the Committee, be used to prepay principal due on Exempt Loans in succeeding periods. In the event that there are insufficient funds available to make payments of principal or interest on Exempt Loans when due, the Committee may direct (i) the Trustee to obtain a

new Exempt Loan in an amount sufficient to make such payments or (ii) the Trustee to sell any Financed Stock which has not yet been allocated to ESOP Accounts provided such sale meets the requirements of the following sentence. In directing any such sale of Financed Stock, the Committee shall consider all of the facts and circumstances surrounding the proposed transaction and the reasons therefor and shall act in the best interest of Plan Participants in accordance with the applicable Treasury Regulations and ERISA.

5.5 MAXIMUM ANNUAL ADDITIONS: Notwithstanding anything contained herein to the contrary, the total Annual Additions made to the Account of a Participant for any Plan Year commencing on or after the Effective Date shall be subject to the following limitations:

(a) SINGLE DEFINED CONTRIBUTION PLAN

1. If an Employer does not maintain any other qualified plan, the amount of Annual Additions which may be allocated under this Plan on a Participant's behalf for a Limitation Year shall not exceed the lesser of the Maximum Permissible Amount or any other limitation contained in this Plan.

2. Prior to the determination of the Participant's actual Compensation for a Limitation Year, the Maximum Permissible Amount may be determined on the basis of the Participant's estimated annual Compensation for such Limitation Year. Such estimated annual Compensation shall be determined on a reasonable basis and shall be uniformly determined for all Participants similarly situated. Any Employer contributions (including allocation of forfeitures) based on estimated annual Compensation shall be reduced by any Excess Amounts carried over from prior years.

3. As soon as is administratively feasible after the end of the Limitation Year, the Maximum Permissible Amount for such Limitation Year shall be determined on the basis of the Participant's actual Compensation for such Limitation Year.

4. If there is an Excess Amount with respect to a Participant for the Limitation Year, such Excess Amount shall be disposed of as follows:

A. There shall first be returned to the Participant his After-Tax Excess Contributions as defined in Section 4.3, if any, attributable to that Limitation Year, and then his Pre-Tax Excess

Contributions as defined in Section 4.2, if any, attributable to that Limitation Year to the extent such returned Contributions would reduce the Excess Amount. If any such Excess Amount shall then remain, the Participant's After-Tax Basic Contributions as defined in Section 4.3, if any, attributable to that Limitation Year shall be returned to the Participant, and the Employer Matching Contributions made with respect to said After-Tax Basic Contributions shall be reduced and allocated to a suspense account in the manner set forth in Paragraph B below, both to the extent such returned and reduced Contributions would reduce the Excess Amount. If any such Excess Amount shall then remain, the Participant's Pre-Tax Basic Contributions as defined in Section 4.2, if any, attributable to that Limitation Year shall be returned to the Participant, and the Employer Matching Contributions made with respect to said Pre-Tax Basic Contributions shall be reduced and allocated to a suspense account in the manner set forth in Paragraph B below, both to the extent such returned and reduced Contributions would reduce the Excess Amount. All such amounts shall be adjusted for any income or loss allocated thereon.

B. The amount of the reduction of the Employer Matching Contributions for the Participant shall be reallocated out of the ESOP Account of such Participant and shall be held in a suspense account which shall be applied as a part of (and to reduce to such extent what would otherwise be) the Employer Matching Contributions for all Participants required to be made to the Plan during the next subsequent calendar quarter or quarters. No portion of such Excess Amount may be distributed to Participants or former Participants. If a suspense account is in existence at any time during the Limitation Year pursuant to this Paragraph B, such suspense account shall not participate in the allocation of investment gains or losses of the Trust Fund.

(b) TWO OR MORE DEFINED CONTRIBUTION PLANS

1. If, in addition to this Plan, the Employer maintains any other qualified defined contribution plan, the amount of Annual Additions which may be allocated under this Plan on a Participant's behalf for a Limitation Year, shall not exceed the lesser of:

A. the Maximum Permissible Amount, reduced by the sum of any Annual Additions allocated to the Participant's accounts for the same Limitation Year under such other defined contribution plan or plans; or

B. any other limitation contained in this Plan.

2. Prior to the determination of the Participant's actual Compensation for the Limitation Year, the amount referred to in paragraph 1.A. above may be determined on the basis of the Participant's estimated annual Compensation for such Limitation Year. Such estimated annual Compensation shall be determined on a reasonable basis and shall be uniformly determined for all Participants similarly situated. Any Employer Contribution (including allocation of forfeitures) based on estimated annual Compensation shall be reduced by any Excess Amounts carried over from prior years.

3. As soon as is administratively feasible after the end of the Limitation Year, the amounts referred to in paragraph 1.A. above shall be determined on the basis of the Participant's actual Compensation for such Limitation Year.

4. If a Participant's Annual Additions under this Plan and all such other defined contribution plans result in an Excess Amount, such Excess Amount shall be deemed to consist of the amounts last allocated.

5. If an Excess Amount was allocated to a Participant on an allocation date of this Plan which coincides with an allocation date of another plan, the Excess Amount attributed to this Plan will be the product of:

A. the total Excess Amount allocated as of such date (including any amount which would have been allocated but for the limitations of Section 415 of the Code); TIMES

B. the ratio of (i) the amount allocated to the Participant as of such date under this Plan divided by (ii) the total amount allocated as of such date under all qualified defined contribution plans (determined without regard to the limitations of Section 415 of the Code).

6. Any Excess Amounts attributed to this Plan shall be disposed of as provided in paragraph (a) above.

(c) DEFINED CONTRIBUTION PLAN AND DEFINED BENEFIT PLAN

1. GENERAL RULE: If the Employer maintains (or has ever maintained) one or more defined contribution plans and one or more defined benefit plans, the sum of the "defined contribution plan fraction" and the "defined benefit plan fraction," as defined below, cannot exceed 1.0 for any Limitation Year. For purposes of this paragraph (c) of Section 5.5, employee contributions to a qualified defined benefit plan are treated as a separate defined contribution plan, and all defined contribution plans of an Employer are to be treated as one defined

contribution plan, and all defined benefit plans of an Employer are to be treated as one defined benefit plan, whether or not such plans have been terminated.

2. If the sum of the defined contribution plan fraction and defined benefit plan fraction exceeds 1.0, the annual benefit of the defined benefit plan or plans will be reduced so that the sum of the fractions will not exceed 1.0. If additional reductions are required for the sum of the fractions to equal 1.0, the reductions will then be made first to the Annual Additions of the defined contribution plans.

3. Defined Contribution Fraction

A. GENERAL RULE: The defined contribution fraction for any year is (i) divided by (ii), where (i) and (ii) are:

(i) the numerator: the sum of the actual Annual Additions to the Participant's account at the close of the Limitation Year; and

(ii) the denominator: the sum of the lesser of the following amounts determined for such year and for each prior year of service of the Employee:

a. 1.25 times the dollar limitation in effect for each such year (without regard to the special dollar limitations for employee stock ownership plans); or

b. 1.4 times 25% of the Participant's Compensation for each such year.

B. SPECIAL ADJUSTMENT TO DEFINED CONTRIBUTION PLAN FRACTION: The numerator of the Defined Contribution Plan Fraction of any Participant in the Plan on December 31, 1982 shall be reduced by an amount required to decrease the combined fractions of such Participant to 1.0 as of December 31, 1982. The amount to be subtracted is the product of (i) the excess of the sum of the fractions over 1.0 and (ii) the denominator of the Defined Contribution Plan Fraction, as computed through the Limitation Year ending December 31, 1982.

If the Employee was a Participant as of the end of the first day of the first Limitation Year beginning

after December 31,

1986, in one or more defined contribution plans maintained by the Employer which were in existence on May 6, 1986, the numerator of this fraction will be adjusted if the sum of this fraction and the defined benefit fraction would otherwise exceed 1.0 under the terms of this Plan. Under the adjustment, an amount equal to the product of (i) the excess of the sum of the fractions over 1.0 times (ii) the denominator of this fraction, will be permanently subtracted from the numerator of this fraction. The adjustment is calculated using the fractions as they would be computed as of the end of the last Limitation Year beginning before January 1, 1987, and disregarding any changes in the terms and conditions of the Plan made after May 5, 1986, but using the Code Section 415 limitation applicable to the first Limitation Year beginning on or after January 1, 1987.

The Annual Addition for any Limitation Year beginning before January 1, 1987, shall not be recomputed to treat all employee contributions as Annual Additions.

4. Defined Benefit Plan Fraction

A. GENERAL RULE: The defined benefit plan fraction for any year is (i) divided by (ii), where:

(i) is the projected annual benefit of the Participant under the Plan (determined as of the close of the Limitation Year); and

(ii) is the lesser of:

a. 1.25 times the dollar limitation (adjusted, if necessary) for such year; or

b. 1.4 times 100% of the Participant's Average Compensation for the high three years (adjusted, if necessary).

B. SPECIAL RULE FOR ACCRUED BENEFITS ON DECEMBER 31, 1982: In the case of an individual who before January 1, 1983 was a Member in the Retirement Plan for Employees of Houston Industries Incorporated whose current accrued benefit under said Plan on December 31, 1982 exceeded the limitation of Section 415(b) of the Code, as amended by the Tax Equity and Fiscal Responsibility Act of 1982, then, for purposes of

subsections (b) and (e) of said Section 415 of the Code, the maximum permissible amount under the limitation described in subsection (b) of Section 415 with respect to such individual shall be equal to such current accrued benefit under said Plan; and for purposes hereof, the term "current accrued benefit" shall be defined as provided in Section 415(b)(2) of the Code.

Notwithstanding the above, if the Participant was a participant as of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined benefit plans maintained by the Employer which were in existence on May 6, 1986, the denominator of this fraction will not be less than 125% of the sum of the annual benefits accrued by the participant under such plans as of the close of the last Limitation Year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the Plan after May 5, 1986. The preceding sentence applies only if the defined benefit plans individually and in the aggregate satisfied the requirements of Code Section 415 for all Limitation Years beginning before January 1, 1987.

(d) DEFINITIONS

1. EMPLOYER: The Employer that adopts this Plan. In the case of a group of employers which constitutes a controlled group of corporations (as defined in Section 414(b) of the Code as modified by Section 415(h)) or which constitutes trades and businesses (whether or not incorporated) which are under common control (as defined in Section 414(c) as modified by Section 415(h)) or an affiliated service group (as defined in Section 414(m)), all such employers shall be considered a single Employer for purposes of applying the limitations of this Section.

2. ANNUAL ADDITIONS: With respect to each Plan Year (Limitation Year), the total of the Employer Matching Contributions, ESOP Contributions (except to the extent herein provided), Pre-Tax Contributions, After-Tax Contributions, forfeitures, and amounts described in Sections 415(e)(1) and 419(d)(2) of the Code, which are allocated to the Participant's Account; excluding, however, any amounts contributed to reinstate an amount forfeited or an unclaimed benefit. ESOP Contributions used to repay interest on an Exempt Loan as described in Section 5.6 of the Plan shall not constitute an Annual Addition. Subject to the provisions of Section 415(c)(6) of the Code, Annual Additions shall not

include (i) forfeitures of Financed Stock, or

(ii) ESOP Contributions used to pay interest on the Exempt Loan and charged against the Participant's Account.

3. EXCESS AMOUNT: The excess of the Participant's Annual Additions for the Limitation Year over the Maximum Permissible Amount.

4. LIMITATION YEAR: A 12 consecutive month period ending on December 31.

5. MAXIMUM PERMISSIBLE AMOUNT: For a Limitation Year, the Maximum Permissible Amount with respect to any Participant shall be the lesser of:

A. $30,000 (or, if greater, 1/4 of the defined benefit dollar limitation set forth in Section 415(b)(1) of the Code as in effect for the Limitation Year); or

B. 25% of the Participant's Compensation for the Limitation Year.

6. COMPENSATION: For purposes of applying the limitations of Code Section 415, Compensation shall include the Participant's wages, salaries, fees for professional service and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with an Employer maintaining the Plan to the extent that the amounts are includable in gross income (including, but not limited to, commissions paid to salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, reimbursements and expense allowances) and shall exclude the following:

A. (i) Contributions made by the Employer to a plan of deferred compensation to the extent that, before the application of the Code Section 415 limitations to the Plan, the contributions are not includable in the gross income of the Employee for the taxable year in which contributed, (ii) Employer contributions made on behalf of an Employee to a simplified employee pension plan described in Code Section 408(k) to the extent such contributions are excludable from the Employee's gross income and (iii) any distributions from a plan

of deferred compensation regardless of whether such amounts are includable in the gross income of the Employee when distributed, except any amounts received by an Employee pursuant to an unfunded non-qualified plan to the extent such amounts are includable in the gross income of the Employee;

B. Amounts realized from the exercise of a non-qualified stock option or when restricted stock (or property) held by an Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture;

C. Amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; and

D. Other amounts which receive special tax benefits, such as premiums for group life insurance (but only to the extent that the premiums are not includable in the gross income of the Employee), or contributions made by the Employer (whether or not under a salary reduction agreement) towards the purchase of any annuity contract described in Code Section 403(b) (whether or not the contributions are excludable from the gross income of the Employee).

For the purposes of this Section, the determination of Compensation shall be made by not including amounts that would otherwise be excluded from a Member's gross income by reason of the application of Code Sections 125, 402(a)(8), 402(h)(1)(B) and, in the case of Employer contributions made pursuant to a salary reduction agreement, Code Section 403(b). For "Limitation Years" beginning after December 31, 1993, Compensation shall be limited to $150,000 (unless adjusted in the same manner as permitted under Code Section 415(d)). Notwithstanding anything to the contrary, the definition Code Section 415 Compensation shall include any and all items which may be included under Code Section 415(c)(3).

7. AVERAGE COMPENSATION: The average compensation during a Participant's high three years of Service, which period is the three consecutive calendar years (or, the actual number of consecutive years of employment for those Employees who are

employed for less than three consecutive years with the Employer) during which the Participant had the greatest aggregate compensation from the Employer.

8. ANNUAL BENEFIT: A benefit payable annually in the form of a straight life annuity (with no ancillary benefits) under a plan to which Employees do not contribute and under which no rollover contributions are made.

5.6 CERTAIN CONDITIONS APPLICABLE TO COMPANY STOCK: It is the express purpose of this Plan and the Trust Agreement to invest substantial sums in Company Stock for the benefit of Participants in the Plan. Pursuant to this purpose, the Trustee has borrowed funds either through installment purchase contract, loan agreement or other instrument of indebtedness in order to purchase Company Stock (with such indebtedness qualifying as an "Exempt Loan" within the ambit of Section 54.4975-7(b)(1)(iii) of the Treasury Regulations). Such loans shall continue to be primarily for the benefit of Participants and their Beneficiaries within the meaning of Treasury Regulation Section 54.4975-7(b)(3). In addition to other provisions of the Plan as may be applicable from time to time, the provisions of this Section 5.6 shall be especially applicable to indebtedness which was incurred to purchase Company Stock and Company Stock purchased with loan proceeds.

(a) USE OF PROCEEDS: All proceeds of such an Exempt Loan shall continue to be used within a reasonable time after receipt by the Trustee only for any or all of the following purposes: to purchase Company Stock, to repay obligations incurred under the loan agreement or to repay a prior Exempt Loan.

(b) NON-RECOURSE LOANS ONLY: Any loan must continue to be without recourse as against the Plan and the Trust Fund.

(c) COLLATERAL: The only assets of the Plan and Trust Fund that may be given as collateral for a loan are shares of Company Stock acquired with the proceeds of the loan and those shares of Company Stock that were used as collateral on a prior Exempt Loan repaid with the proceeds of the current Exempt Loan; provided, however, that such shares of Company Stock shall be proportionately adjusted upon any share split, share dividend or combination of outstanding shares of such Company Stock.

(d) CREDITOR'S RIGHTS TO ASSETS: No person entitled to payment under the loan agreement shall have any right to assets of the Plan or Trust Fund other than collateral given for the loan, contributions (other than contributions of Company Stock) that are made under the Plan to meet the Plan's obligations under the loan and earnings attributable to such collateral and the investment of such contributions.

(e) TRANSFERS UPON DEFAULT: In the event of default of the Exempt Loan, the value of Plan assets transferred in satisfaction of the loan must not exceed the amount of default. If the lender is a "disqualified person," the loan must continue to provide for a transfer of Plan assets upon default only upon and to the extent of failure of the Plan to meet the payment schedule of the loan.

(f) INTEREST: The interest rate of any loan described herein must not be in excess of a reasonable rate of interest. In determining what is a reasonable rate of interest, all relevant factors will be considered, including the amount and duration of the loan, the security and guarantee (if any) involved, the credit standing of the Plan and Trust Fund and the guarantor (if any), and the interest rate prevailing for comparable loans. A variable interest rate is permissible if determined to be reasonable.

(g) RELEASE FROM COLLATERAL OR SUSPENSE: The instrument evidencing indebtedness shall continue to provide for release from collateral or suspense in accordance with the provisions of Section 5.4(b) of the Plan.

(h) LIMITATION ON RESTRICTIONS ON COMPANY STOCK: No Company Stock acquired with the proceeds of a loan described herein may be subject to a put, call, or other option, or buy-sell or similar arrangement while held by and when distributed from the Plan or its related Trust Fund, whether or not the Plan is then an "ESOP" within the ambit of Section 54.4975-7(b)(1) of the Treasury Regulations, unless specifically required or permitted by such regulations.

(i) LIMITATIONS ON PAYMENTS: The payments made during any Plan Year, with respect to a loan described herein, may not exceed an amount equal to the sum of the ESOP Contributions and any earnings received during or previous to the current Plan Year on Company Stock purchased with such loan, less payments previously made with respect to such loan; provided, however, that payment may in any event be made from the proceeds of the sale of any Company Stock which was purchased with the loan and which has not yet been allocated to Participants' ESOP Accounts in the event of default, or in the event of termination of the Trust Fund, to the extent provided in Section 5.3(c) or Section 10.5, or under other circumstances determined appropriate by the Committee subject to the requirements of the last sentence of the second paragraph of Subsection (c) of Section 5.4 of the Plan. The ESOP Contributions and earnings described herein must be accounted for separately on the books of account of the Plan and Trust until any Exempt Loan is repaid, as is provided in the other provisions of Article V of this Plan. For purposes of this Section 5.6(i), Company

Stock purchased with a loan shall reflect proportionate adjustments attributable to any share split, share dividend or combination of outstanding shares of Company Stock.

(j) CERTAIN RIGHTS WITH RESPECT TO FINANCED STOCK: Any Financed Stock, if it is not publicly traded when distributed or is subject to a trading

limitation when distributed, must be subject to a put option. The put option is to be exercisable only by the Participant, the Participant's donees, or by a person (including an estate or its distributee) to whom the Company Stock passes by reason of a Participant's death. The put option must permit the Participant to put the Company Stock to the Employer. The put option must be exercisable during the 60 consecutive days beginning on the date that the Company Stock subject to the put option is distributed by the Plan, and for another 60 consecutive days during the Plan Year next following the Plan Year in which the shares were distributed. The put option may be exercised by the holder notifying the Employer in writing that the put option is being exercised. The period during which a put option is exercisable does not include any period when a distributee is unable to exercise it because the party bound by the put option is prohibited from honoring it by applicable Federal or State law. The price at which the put option is exercisable is the fair market value of the Company Stock on the date of the transaction determined in good faith based on all relevant factors. In the discretion of the Committee, either (i) payment under a put option will be in cash within 30 days after the put option is exercised or (ii) if the payment in respect of a put option is to repurchase Company Stock which is distributed as part of a total distribution, then the amount to be paid may be paid in substantially equal periodic payments not less frequently than annually over a period beginning not later than 30 days after the exercise of the put option and not exceeding five years provided that there is adequate security provided and a reasonable interest paid on unpaid amounts. For purposes of the preceding sentence, a total distribution means the distribution within one taxable year to the recipient of the balance of the credit of the recipient's Account. The provisions described in this subparagraph (j) are non-terminable even if the exempt loan is repaid or the Plan ceases to be an ESOP.

(k) TERM OF EXEMPT LOANS: Any Exempt Loan made by the Plan or Trust Fund for the purpose of purchasing Company Stock must continue to be for a specific term and may not be payable on the demand of any person, except in the case of default.

ARTICLE VI

PARTICIPANTS' BENEFITS

6.1 TERMINATION OF SERVICE: Notwithstanding any provisions of the Plan to the contrary, the vesting provisions of this Section 6.1 shall apply to any former Employee who participated in the Prior Plan and who terminated employment prior to the Effective Date, but if and only if he has an Account balance in this Plan on or after the Effective Date. In the event of termination of Service on or after the Effective Date of any Participant for any reason other than disability, Retirement on or after Retirement Date, or death, a Participant shall, subject to the further provisions of the Plan, be entitled to receive 100% of the values in his Pre-Tax Contribution Account and After-Tax Contribution Account, plus a portion of his Employer Matching Account and ESOP Account determined by reference to his number of years of Vesting Service and the following schedule:

YEARS OF VESTING SERVICE	VESTING PERCENTAGE
Less than 2	0%
2 but less than 3	20%
3 but less than 4	40%
4 but less than 5	60%
5 but less than 6	80%
6 and more	100%

If a Participant terminates Service and, at the time of termination, the present value of the Participant's vested benefit is zero, the Participant will be deemed to have then received a distribution of such vested benefit. Any portion of the Employer Matching Account and ESOP Account of a terminated Participant in excess of the vested portion specified herein shall be forfeited to the extent provided in Section 6.9. Payment of benefits due under this Section shall be made in accordance with Section 6.6.

6.2 DISABILITY OF PARTICIPANTS: If the Committee shall find and advise the Trustee that the employment of a Participant has been terminated as a consequence of such Participant having become totally and permanently disabled and entitled to receive disability benefits under the provisions of the Employer's Long Term Disability Plan, 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. Disability hereunder shall not include any disability sustained in the course of, or as a consequence of, military service, or occupational hazard arising out of, and in the course of, employment by any person other than an Employer, or the commission of any criminal offense.

6.3 DEATH OF PARTICIPANTS: In the event of the death of any Participant, the entire amount in the Accounts of such Participant after receipt by the Committee of acceptable proof of death shall be payable as follows:

(a) The Participant's Account shall be distributed to the Participant's surviving spouse, but if there is no surviving spouse, or if the surviving spouse has already consented by a qualified election pursuant to Section 6.3(b), to the Beneficiary or Beneficiaries designated by the Participant in a written designation filed with his Employer, or if no such designation shall have been so filed, or if no designated Beneficiary survives the Participant or can be located by the Committee, then to the duly appointed executor or administrator of the Participant's estate; or if no administration of the estate of such decedent is necessary, then to the Beneficiary entitled thereto under the last will of such deceased Participant; or if such decedent left no will, to the legal heirs of such decedent determined in accordance with the laws of intestate succession of the state of the decedent's domicile. No designation of any Beneficiary other than the Participant's surviving spouse shall be effective unless in writing and received by the Participant's Employer and in no event shall it be effective as of the date prior to such receipt. The former spouse of a Participant shall be treated as a surviving spouse to the extent provided under a qualified domestic relations order as described in Section 414(p) of the Code.

(b) The Participant's spouse may waive the right to be the Participant's sole Beneficiary and consent to the Beneficiary designation made by the Participant. The waiver must be in writing and the spouse must acknowledge the effect of the waiver. The spouse's waiver must be witnessed by a Plan representative or a notary public. The Beneficiary designated by the Participant may not be changed without the spouse's consent, unless the consent of the spouse permits designation of Beneficiaries by the Participant without any requirement of further consent by the spouse. The Participant may file a waiver without the spouse's consent if it is established to the satisfaction of the Committee that such written consent may not be obtained because there is no spouse or the spouse may not be located. Any consent under this Section 6.3(b) will be valid only with respect to the spouse who signs the consent. Additionally, a revocation of a prior spousal waiver may be made by a Participant without the consent of the spouse at any time before the distribution of the Account. The number of revocations shall not be limited.

6.4 RETIREMENT OF PARTICIPANTS ON OR AFTER RETIREMENT DATE: A Participant's interest in the full balance of his Account shall be fully vested and non-forfeitable upon reaching his Retirement Date. Any Participant who terminates his Service on or after his Retirement Date shall attain a fully vested non-forfeitable interest in the entire amount of his Account and shall be entitled to receive the entire amount of his Account upon the termination of his Service.

6.5 IN-SERVICE DISTRIBUTIONS: Cash dividends paid with respect to shares of Company Stock in a Participant's ESOP Account may be distributed at least annually in the discretion of the Committee. Otherwise, except to the extent that distribution of a Participant's Account is required prior to termination of his employment under Section 6.10 hereof (in the case of a Participant whose required beginning date occurs prior to his termination of employment) or under

Section 10.5 hereof relating to termination of the Plan, or at the election of the Participant under Article VII hereof relating to certain withdrawals and loans, no distribution or withdrawal of any benefits under the Plan shall be permitted prior to the Participant's termination of employment.

6.6 PAYMENTS OF BENEFITS: Upon a Participant's entitlement to payment of benefits under either Section 6.1, 6.2 or 6.4, he shall file his written election on such form or forms, and subject to such conditions, as the Committee shall prescribe. His election shall specify whether he wishes payment of his benefits to be made as of such entitlement or to be deferred to the extent provided below. If payments become due for any reason other than Retirement, death or Disability, and if the amounts due from the Participant's Accounts are in excess of $3,500, payment of such amounts shall be deferred to the extent provided below unless the Participant consents to earlier payment. If the Participant so consents to an earlier payment, such payment shall be made as soon as practicable. If the amounts due from the Participant's Accounts do not exceed $3,500, payment of such amounts shall automatically be made in a lump-sum cash payment as soon as possible following termination of employment.

In the case of a distribution under Section 6.3 on account of the Participant's death, the Committee shall pay the entire amount in the Participant's Accounts to the party or parties entitled thereto under Section 6.3 within five years after the death of such Participant.

Unless a Participant elects otherwise, payment of his benefits under this Plan shall be made or commence no later than the 60th day after the later of (a) the end of the Plan Year of his 65th birthday or (b) the end of the Plan Year in which his employment terminates. Any distribution to be made to a Participant under the provisions of this Article VI shall be made within one week of the termination of employment of such Participant, unless such Participant duly elects in writing for a deferred distribution as provided above. A Participant or his designated Beneficiaries (but only by his designated Beneficiaries in the event of the death of a Participant without having made such an election), may elect that the benefits payable to the Participant and/or Beneficiary be paid in one of, or in any combination of, the following methods:

(a) As a lump-sum distribution in cash, provided that no lump-sum distribution may be paid to the Participant, unless he has elected such distribution on an election form prescribed by the

Committee.

(b) As a distribution in kind of the shares held for his Account in the HI Common Stock Fund and the ESOP Fund. If Company Stock acquired with the proceeds of an Exempt Loan and available for distribution consists of more than one class, a Participant shall receive substantially the same proportion of each such class to the extent the distribution is a distribution from the ESOP Fund. A Participant may elect to receive any percentage, up to 100%, of the vested portion of his Accounts in the HI Common Stock Fund and the ESOP Fund in whole shares of Company Stock, and the remaining HI Common Stock Fund balance, ESOP Fund balance and other Investment Fund balances in cash. If a Participant elects to receive the entire vested portion of his Accounts in the HI Common Stock Fund and the ESOP Fund in whole shares of Company Stock, such Participant

shall be entitled to receive a whole number of shares of Company Stock equal to the total number of shares held in such HI Common Stock Fund and the ESOP Fund as of the Valuation Date specified in Section 6.8 multiplied by a fraction the numerator of which shall be (i) the value in the HI Common Stock Fund held in his Pre-Tax Contribution Account and/or his After-Tax Contribution Account as of such Valuation Date, plus (ii) the vested portion of the value in the HI Common Stock Fund held in his Employer Matching Account and the vested portion of the value in the ESOP Fund held in his ESOP Account as of such Valuation Date, and the denominator of which shall be the total value in the HI Common Stock Fund and the ESOP Fund held in the Pre-Tax Contribution Accounts, After-Tax Contribution Accounts, Employer Matching Accounts and ESOP Accounts for all Participants as of such Valuation Date. If a Participant elects to receive a percentage which is less than 100% of the vested portion of his Accounts in the HI Common Stock Fund and the ESOP Fund in whole shares of Company Stock, then the result obtained from the preceding formula shall be multiplied by such percentage to obtain the number of whole shares of Company Stock to be distributed to such Participant.

All amounts attributable to (i) any excess of the values attributable to the interest in his Pre-Tax Contribution Account and/or his After-Tax Contribution Account, and the vested portion of his interest in his Employer Matching Account and his ESOP Account that are invested in the HI Common Stock Fund and the ESOP Fund, over the interest therein provided to be distributed to him in kind, plus (ii) any interest of such Participant in his Pre-Tax Contribution Account and/or his After-Tax Contribution Account in any other Investment Fund, with the exception of the HI Common Stock Fund shall be distributed in cash.

6.7 PAYMENT OF DISTRIBUTION DIRECTLY TO ELIGIBLE RETIREMENT PLAN:

(a) Notwithstanding any provision of the Plan to the contrary that would otherwise limit a Distributee's election under this Section, a Distributee may elect, at the time and in the manner prescribed by the Committee, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover.

(b) The terms used in Section 6.7(a) above shall have the following meaning:

(i) ELIGIBLE ROLLOVER DISTRIBUTION: An Eligible Rollover Distribution is any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated Beneficiary, or for a

specified period of ten years or more; any distribution to the extent that such distribution is required under Section 401(a)(9) of the Code; and the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

(ii) ELIGIBLE RETIREMENT PLAN: An Eligible Retirement Plan is an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code, that accepts the Distributee's Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to the surviving spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.

(iii) DISTRIBUTEE: A Distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code, are Distributees with regard to the interest of the spouse or former spouse.

(iv) DIRECT ROLLOVER: A Direct Rollover is a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

(c) In the event that a Distributee, after receiving the explanation required by Section 402(f) of the Code, does not affirmatively elect a Direct Rollover under Section 6.7(a) above, the Distributee shall be deemed to have elected not to have any portion of the Eligible Rollover Distribution paid directly to an Eligible Retirement Plan.

(d) Each Eligible Rollover Distribution which a Distributee elects to have distributed in a Direct Rollover may be paid to only one Eligible Retirement Plan designated by the Distributee.

(e) Notwithstanding any provisions of this Section to the contrary, a Distributee may not elect a Direct Rollover with respect to Eligible Rollover Distributions under this Plan which are reasonably expected to total less than $200 during any calendar year.

6.8 PARTICIPATION RIGHTS DETERMINED AS OF VALUATION DATE COINCIDING WITH OR PRECEDING TERMINATION OF EMPLOYMENT: In the case of any Participant whose employment shall be

terminated for any reason, no further credits or charges arising from any source shall be made to the Accounts of any such terminating Participant after the credits or charges made as of the Valuation Date coinciding with or immediately preceding his termination of employment, except for:

(a) Pre-Tax Contributions, After-Tax Contributions and Employer Matching Contributions and ESOP Contributions made subsequent to such Valuation Date;

(b) Withdrawals or distributions made subsequent to such Valuation Date; or

(c) In the case of a delayed distribution pursuant to a Participant's election as provided in Section 6.6, such subsequent adjustments to the values in the Accounts of such Participant up to the Valuation Date coinciding with or preceding the receipt of the Participant's election for distribution.

6.9 TREATMENT OF NON-VESTED ACCOUNT BALANCES UPON TERMINATION OF SERVICE: This Section 6.9 does not apply to Participants who are fully vested at the time of termination of Service.

If a Participant receives an actual or deemed distribution pursuant to Section 6.1 prior to the close of the second Plan Year following the Plan Year in which the Participant's Service terminates, the non-vested portion of his Employer Matching Account and ESOP Account shall be forfeited and shall become available for allocation as provided in Section 5.3(d)(iii). If a Participant who has received an actual distribution as described in this paragraph thereafter resumes Service under the Plan at any time, he shall be entitled to have the forfeited amounts reinstated to such Accounts upon his recommencement of participation in the Plan. If a Participant who has received a deemed distribution as described in this paragraph thereafter resumes Service under the Plan before incurring five consecutive one-year Breaks in Service, he shall be entitled to have the forfeited amounts reinstated to such Accounts upon his recommencement of participation in the Plan.

If a Participant does not receive a distribution of his vested benefit by the close of the second Plan Year following the Plan Year in which his Service terminates, but receives such a distribution before incurring five consecutive one-year Breaks in Service, the non-vested balance in the Participant's Employer Matching Account and ESOP Account shall be credited to a suspense account at the time of distribution of the vested benefit. If such a Participant is thereafter reemployed prior to incurring five consecutive one-year Breaks in Service, the Participant's vested interest in the suspense account, including any gains or losses thereon, at any subsequent relevant time shall be an amount "X" determined by the following formula: $X = P(AB + D) - D$. For purposes of applying this formula: P is the vested percentage at such relevant time; AB is the account balance at the relevant time; D is the amount of the prior distribution to the Participant. If the Participant is not reemployed before he has incurred five

consecutive one-year Breaks in Service, his suspense account shall then be forfeited and shall become available for allocation as described in Section 5.3(d)(iii).

If a Participant does not receive a distribution of his vested benefit before incurring five consecutive one-year Breaks in Service, the non-vested balance in the Participant's Employer Matching Account and ESOP Account shall then be forfeited and shall become available for allocation as described in Section 5.3(d)(iii).

If more than one class of Company Stock acquired with an Exempt Loan has been allocated to a Participant's ESOP Account and any amounts are forfeited from such Account pursuant to this Section, the same proportion shall be forfeited from each class.

6.10 REQUIRED MINIMUM DISTRIBUTIONS: Notwithstanding any provision of this Plan to the contrary, any benefits to which a Participant is entitled shall commence not later than the April 1 following the calendar year in which the Participant attains age 70 1/2, whether or not his employment had terminated in such year. Such distribution shall be at least equal to the required minimum

distributions under the Code; however, any installment distributions pursuant to this Section 6.10 to Participants who have not terminated employment shall be made over a period not to exceed ten years.

6.11 UNCLAIMED BENEFITS: If at, after or during the time when a benefit hereunder is payable to any Participant, Beneficiary or other distributee, the Committee, upon request of the Trustee, or at its own instance, shall mail by registered or certified mail to such distributee, at his last known address, a written demand for his present address or for satisfactory evidence of his continued life, or both, and if such distributee shall fail to furnish the same to the Committee within two years from mailing of such demand, then the Committee may, in its sole discretion, determine that such Participant, Beneficiary or other distributee has forfeited his right to such benefit and may declare such benefit, or any unpaid portion thereof, terminated, as if the death of the distributee (with no surviving Beneficiary) had occurred on the later of the date of the last payment made thereon, or the date such Participant, Beneficiary or other distributee first became entitled to receive benefit payments. Any such forfeited benefit shall be applied as a part of (and to reduce to such extent) the Employer Contributions required to be made next following the date such forfeiture is declared to be forfeited by the Committee. Notwithstanding the provisions of this Section 6.11, any such forfeited benefit shall be reinstated if a claim for the same is made by the Participant, Beneficiary or other distributee at any time thereafter. The reinstatement shall be made by a mandatory contribution by the Company, allocated solely to such reinstatement.

ARTICLE VII

WITHDRAWALS AND LOANS

7.1 WITHDRAWAL OF AFTER-TAX EXCESS CONTRIBUTIONS: Pursuant to advance notice given in the manner prescribed by the Committee from time to time, and subject to the conditions of Section 7.3, each Participant may elect to withdraw all or any amounts attributable to his After-Tax Excess Contributions determined as of the Valuation Date immediately preceding the withdrawal date.

7.2 WITHDRAWAL OF AFTER-TAX BASIC CONTRIBUTIONS: Pursuant to advance notice given in the manner prescribed by the Committee from time to time, and subject to the conditions of Section 7.3, each Participant may elect to withdraw (in addition to any amounts attributable to his After-Tax Excess Contributions) an amount specified by the Participant which may be attributable to his After-Tax Basic Contributions under this Plan and to his After-Tax Basic Contributions under the Prior Plan determined as of the Valuation Date immediately preceding such withdrawal date. No withdrawal shall be charged to the After-Tax Basic Contributions of a Participant until the withdrawable amounts attributable to the After-Tax Excess Contributions of a Participant have been withdrawn.

7.3 CONDITIONS OF WITHDRAWALS: Each Participant who elects to withdraw all or a portion of his After-Tax Basic Contributions shall be suspended from participation in the Plan from the Valuation Date preceding the distribution of the withdrawal until the date following six full months from the date of such withdrawal provided the Committee or its agent has received prior to such date the Participant's election (in the form and manner prescribed in Section 3.4 hereof) to commence participation after such suspension; provided further, however, that such suspension shall not apply to any Participant who has at least five years of Service. There shall be no limit on the number of withdrawals a Participant may make from his After-Tax Contribution Account within any 12-month period. No Participant shall be permitted to withdraw from his After-Tax Contribution Account less than $500, or the balance of his Account, if less than $500. Except as provided under Article VI, no withdrawals shall be permitted from a Participant's Pre-Tax Contribution Account, Employer Matching Account or ESOP Account.

7.4 LOANS: Any Participant who is an Employee (including any such Participant on an Authorized Absence) may make application to borrow from his Pre-Tax Contribution Account in the Trust Fund. In addition to Participants who are Employees (including any such Participant on an Authorized Absence), loans shall be available to any former Participant or any Beneficiary or "alternate payee" with respect to a former Participant, but, if and only if, such person is a "party in interest" with respect to the Plan within the meaning of ERISA Section 3(14) and who must be eligible to obtain a Plan loan in order for exemptions set forth in 29 C.F.R. ss. 2550.408b-1 to apply to the Plan (herein, together with Participants who are Employees and those on Authorized Absence, collectively referred to as "Borrower"). Loans shall be granted in a uniform and non-discriminatory manner on terms and conditions determined by the Committee which shall not result in more favorable treatment of highly compensated employees and shall be set forth in written procedures promulgated by the Committee in accordance with applicable

governmental regulations. All such loans shall also be subject to the following terms and conditions:

(a) The amount of the loan when added to the amount of any outstanding loan or loans to the Borrower from any other plan of the Employer or an Affiliate which is qualified under Code Section 401(a) shall not exceed the lesser of (i) $50,000, reduced by the excess, if any, of the highest outstanding balance of loans from all such plans during the one-year period ending on the day before the date on which such loan was made over the outstanding balance of loans from the Plan on the date on which such loan was made or (ii) 50% of the present value of Borrower's vested Account balance under the Plan. In no event shall a loan of less than $500 be made to a Borrower.

(b) The loan shall be for a term not to exceed five years and

shall be evidenced by a note signed by the Borrower. The loan shall be payable in periodic installments and shall bear interest at a reasonable rate which shall be determined on a uniform and consistent basis in accordance with procedures established by the Committee, which shall be in accordance with applicable governmental regulations. Payments by a Borrower who is an Employee will be made by means of payroll deduction from the Borrower's compensation. If the Borrower is not receiving compensation from the Employer, the loan repayment shall be made in accordance with the terms and procedures established by the Committee. A Borrower may repay an outstanding loan in full at any time; provided, however, that there shall be a 30-day wait between the time the Participant pays the full balance of a loan under this Section 7.4 and the time such Participant may request a subsequent loan under this Section 7.4.

(c) In the event an installment payment is not paid within seven days following the monthly due date, written notice shall be sent to the Borrower at his last known address. If such installment payment is not made within 30 days thereafter, the Committee or its agent shall proceed with foreclosure in order to collect the full remaining loan balance or shall make such other arrangements with the Borrower as the Committee deems appropriate. Foreclosures need not be effected until occurrence of a distributable event under the terms of the Plan and no rights against the Borrower or the security shall be deemed waived by the Plan as a result of such delay.

(d) The unpaid balance of the loan, together with interest thereon, shall become due and payable upon the date of distribution of the Account and the Trustee shall first satisfy the indebtedness from the amount payable to the Borrower or to the Borrower's Beneficiary before making any payments to the Borrower or to the Beneficiary.

(e) Any loan to a Borrower under the Plan shall be adequately secured. Such security shall include a pledge of a portion of the Borrower's right, title and

interest in the Trust Fund which shall not exceed 50% of the present value of the Borrower's vested Account balance under the Plan as determined immediately after the loan is extended. Such pledge shall be evidenced by the execution of a promissory note by the Borrower which shall grant the security interest and provide that, in the event of any default by the Borrower on a loan repayment, the Committee or any agent appointed by the Committee to administer such loan shall be authorized to take any and all appropriate lawful actions necessary to enforce collection of the unpaid loan.

(f) A request by a Borrower for a loan shall be made by electronic, telephonic, written or other such manner as the Committee shall prescribe from time to time and shall specify the amount of the loan. If a Borrower's request for a loan is approved, the Committee or any agent appointed by the Committee to administer such loan shall furnish the Trustee with written instructions directing the Trustee to make the loan in a lump-sum payment of cash to the Borrower. The cash for such payment shall be obtained by redeeming proportionately as of the date of payment the Investment Fund or Funds, or portions thereof, that are credited to the Pre-Tax Contribution Account of such Borrower. A fee of $25 ("Loan Origination Fee") shall be charged to each Borrower who receives a loan under this Section 7.4. The Trustee shall first satisfy the Loan Origination Fee from the amount payable to the Borrower before making any payment to the Borrower.

(g) A loan to a Borrower shall be considered an investment of the Pre-Tax Contribution Account of the Borrower from which the loan is made. All loan repayments shall be credited pro rata to such Pre-Tax Contribution Account and reinvested exclusively in shares of one or more of the Investment Funds in accordance with Section 8.1.

ARTICLE VIII

INVESTMENT DIRECTIONS

8.1 INVESTMENT OF TRUST FUND: Except as provided in Article VII with respect to Plan loans and as provided below with respect to the ESOP Fund, prior to July 1, 1995, the Trust Fund was divided into four separate Investment Funds, namely, Fund A, Fund B, Fund C and Fund D.

Effective July 1, 1995 except as provided in Article VII with respect to Plan loans and as provided below with respect to the ESOP Fund, the Trustee shall divide the Trust Fund into the following separate Investment Funds in accordance with the directions of the Participant and following such rules and procedures prescribed by the Committee:

(a) HI Common Stock Fund: Contributions are primarily invested and reinvested in Company Stock.

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

(c) Growth & Income Equity Fund: Contributions are primarily invested and reinvested in a pool of stock funds with the goals of growth and current income. The funds buy stocks of growing companies and companies that have a history of paying steady dividends.

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

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

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

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

The Committee from time to time may revise the number and type of Investment Funds provided hereunder. Subject to such rules and procedures adopted by the Committee, each Participant shall have the right to direct the Committee or any agent appointed by the Committee to administer the investment of the Trust Fund to instruct the Trustee to invest his Pre-Tax Contributions and After-Tax Contributions, and the earnings and accretions thereon, in any whole percentages totalling 100% between the Investment Funds. In the event a Participant does not make an election with respect to the transfer of his Pre-Tax Contribution Account and/or After- Tax Contribution Account effective July 1, 1995, such amounts and any subsequent Pre-Tax and/or After-Tax Contributions shall be invested and reinvested in the Money Market Fund until the Participant provides investment directions for such amounts.

From and after September 1, 1995, with no restrictions on frequency, each Participant may by electronic, telephonic, written or other such manner as may be prescribed from time to time by the Committee and subject to any restrictions or conditions which may be established by the Committee, direct the investment of his future After-Tax and/or Pre-Tax Contributions or the transfer of the current values in his After-Tax and Pre-Tax Contribution Accounts among the various Investment Funds in any whole percentages totalling 100%. Notwithstanding the above, in the event a Participant transfers the current values in his After-Tax and Pre-Tax Contribution Accounts into or out of the HI Common Stock Fund, such Participant will not be permitted to enter into any other transactions affecting the HI Common Stock Fund for thirty days. Any such change in Investment Funds shall be effective as soon as reasonably practicable following receipt of the change of Investment Funds, but in no event shall such change be effective earlier than the close of business on the Valuation Date on which such change is received.

Except as otherwise expressly provided herein, interest, dividends and other income and all profits and gains produced by each Investment Fund shall be paid in such Investment Fund, and such interest, dividends and other income, and profits or gains without distinction between principal and income, shall be invested and reinvested, but only in property of the class hereinabove specified for the particular Investment Fund. However, the Committee may direct that dividends paid with respect to shares in the ESOP Fund be distributed on an annual basis or more frequently in order that the deduction under Code Section 404(k) be available to the Company, in which event income that constitutes dividends on shares of Company Stock in the ESOP Fund shall not be invested in Company Stock but shall be temporarily invested in cash equivalents until distribution to Participants. In making payments in respect of Exempt Loans, the Trustee shall utilize income and ESOP Contributions as is specified in Section 5.3 hereof; namely, that income shall be first used to fund principal payments and ESOP Contributions shall be first used to fund interest payments. All purchases of Company Stock shall be made at prices which, in the judgment of the Trustee, do not exceed the fair market value of such Company Stock. Pending such investment or application of cash, the Trustee may retain cash uninvested without liability for interest if it is prudent to do so, or may invest all or any part thereof in Treasury Bills, commercial paper, or like holdings.

It is hereby explicitly provided and expressly acknowledged that up to 100% of the assets of the Plan held in the Trust Fund may be invested in Common Stock, as contemplated by the exception provided in Section 407(b) of ERISA.

8.2 DIVERSIFICATION ELECTION: Each qualified Participant (as defined herein) may elect within 90 days after the close of each Plan Year in the initial election period (as defined herein), to direct the investment of up to 25% of the sum of the balances in the Participant's ESOP Account and Employer Matching Account (to the extent such portion exceeds the amount to which a prior election to diversify under this Section 8.2 applies) into any or all Investment Funds with the exception of the HI Common Stock Fund, and such election shall be effective as of the last Valuation Date in March. In each Plan Year after the initial election period, the percentage shall be 50% instead of 25%. A qualified Participant is any Participant who has completed at least ten years of participation in the Plan and the Prior Plan and who has attained age 55. The initial election period means the five Plan Year period beginning with the first Plan Year on or after January 1, 1992 in which the Participant first became a qualified Participant.

8.3 VOTING OF COMPANY STOCK; EXERCISE OF OTHER RIGHTS:

(a) Voting rights with respect to shares of Company Stock in the ESOP Fund allocated to the ESOP Accounts of Participants and shares in the HI Common Stock Fund allocated to the Accounts of Participants shall be voted by the Trustee in such manner as may be directed by the respective Participants, with fractional shares being voted on a combined basis to the extent possible to reflect the direction of the voting Participants. The Trustee shall vote both allocated shares of Company Stock for which they have not received direction, as well as shares of Company Stock held in the Stock Suspense Account, in the same proportion as directed shares are voted, giving effect to all affirmative directions by Participants, including directions to vote for or against, to abstain or to withhold the vote, and the Trustee shall have no discretion in such matter.

(b) In the event that there is a tender offer or exchange offer for outstanding shares of Company Stock, rights with respect to the tender offer or exchange offer shall be as with respect to voting rights described in Section 8.3(a) above. If the Trustee shall not receive timely instruction from a Participant as to the manner in which to respond to such a tender offer, the Trustee shall not tender or exchange any shares of Company Stock with respect to which such Participant has the right to direction, and the Trustee shall have no discretion in such matter. With respect to shares of Company Stock held in the Stock Suspense Account and fractional shares of Company Stock allocated to Participants' ESOP Accounts and Employer Matching Accounts, voting rights and rights to tender or exchange in connection with a tender offer or exchange offer for the shares of Company Stock shall be exercised by the Trustee in the same proportion as they vote, tender or exchange shares of Company Stock with respect to shares allocated to the Participants' ESOP Accounts and Employer Matching Accounts, and the Trustee shall have no discretion in such matter.

(c) Solicitation of exercise of Participants' voting rights by management of the Company and others under a proxy or consent provision applicable to all holders of Company Stock shall be permitted. Solicitation of exercise of Participant tender or exchange offer rights by management of the Company and others shall be permitted. The Trustee shall notify Participants of each occasion for the exercise of voting rights or rights with respect to a tender offer or exchange offer within a reasonable time before such rights are to be exercised. Such notification shall include all information distributed to shareholders by the Company regarding the exercise of such rights. Copies of Company written communications to Participants relating to each opportunity for Participant exercise of rights under this Section 8.3 shall be promptly furnished to the Trustee. The instructions received by the Trustee from Participants shall be held by the Trustee in confidence and shall not be divulged or released to any person, including the Committee or officers or employees of the Company or its Affiliates. In the event any shares of Company Stock held in the Stock Suspense Account are tendered or exchanged pursuant to this Section 8.3, the proceeds shall at the direction of the Board of Directors of the Company either (i) if and to the extent the proceeds are attributable to unallocated Company Stock be used to repay installment purchase or other indebtedness used to purchase the Common Stock to which such proceeds are attributable or (ii) be reinvested in Company Stock within 90 days, or within such longer period as may be approved by the Commissioner of Internal Revenue.

ARTICLE IX

TRUST AGREEMENT AND TRUST FUND

9.1 TRUST AGREEMENT: As part of the Plan, the Company has entered into a trust agreement with The Northern Trust Company, as Trustee, effective July 1, 1995, known as the Houston Industries Incorporated Savings Trust. Said Trust is an amendment, restatement and continuation of the Houston Industries Incorporated Master Savings Trust, as amended and restated effective January 1, 1994, and the Savings Plan of Houston Industries Incorporated ESOP Trust, as established effective October 5, 1990. The provisions of such Trust Agreement are herein incorporated by reference as fully as if set out herein, and the assets held under said Trust Agreement on behalf of this Plan shall constitute the Trust Fund.

9.2 BENEFITS PAID SOLELY FROM TRUST FUND: All of the benefits provided to be paid under Article VI hereof shall be paid by the Trustee out of the Trust Fund to be administered under such Trust Agreement. Neither the Employer nor the Trustee shall be responsible or liable in any manner for payment of any such benefits, and all Participants hereunder shall look solely to such Trust Fund and to the adequacy thereof for the payment of any such benefits of any nature or kind which may at any time be payable hereunder.

9.3 COMMITTEE DIRECTIONS TO TRUSTEE: The Trustee shall make only such payments out of the Trust Fund as may be directed by the Committee. The Trustee shall not be required to determine or make any investigation to determine the identity or mailing address of any person entitled to any payments out of the Trust Fund and shall have discharged its obligation in that respect when it shall have sent checks or other papers by ordinary mail to such persons and addresses as may be certified to it by the Committee.

9.4 TRUSTEE'S RELIANCE ON COMMITTEE INSTRUCTIONS: In any case where the Trustee shall be required hereunder to act upon instructions to be received from the Committee, the Trustee shall be protected in relying on any such instructions which shall be in writing and signed by any member of, or Secretary of, the Committee, and the Trustee shall be protected in relying upon the authority to act of any person certified to it by the Company as a member of, or

Secretary of, the Committee until a successor to any such person shall be certified to the Trustee by the Company.

9.5 AUTHORITY OF TRUSTEE IN ABSENCE OF INSTRUCTIONS FROM THE COMMITTEE: If at any time the Committee shall be incapable for any reason of giving any directions, instructions or authorizations to the Trustee as are herein provided for and as may be required incidental to the administration of this Plan, the Trustee may act and shall be completely protected and without liability in so acting without such directions, instructions and authorizations as it in its sole discretion deems appropriate and advisable under the circumstances for the carrying out of the provisions of this Plan. In the event of termination of this Plan for any reason, the Committee shall be authorized to give all such instructions to the Trustee, and the Trustee shall be protected in relying on all such instructions, as may be necessary to make payment to any persons then

interested in the Trust Fund of all such amounts as are specified herein to be paid under Section 10.3 hereof upon the termination of this Plan and the Trust Agreement.

9.6 COMPLIANCE WITH EXCHANGE ACT RULE 10(B)(18): At any time that the Trustee makes open market purchases of Company Stock, the Trustee will either (i) be an "agent independent of the issuer" as that term is defined in Rule 10(b)(18) promulgated pursuant to the Securities and Exchange Act of 1934, as amended (the "Exchange Act") or (ii) make such open market purchases in accordance with the provisions, and subject to the restrictions, of Rule 10(b)(18) of the Exchange Act.

ARTICLE X

ADOPTION OF PLAN BY OTHER CORPORATIONS, AMENDMENT AND TERMINATION OF THE PLAN, AND DISCONTINUANCE OF CONTRIBUTIONS TO THE TRUST FUND

10.1 ADOPTION BY EMPLOYERS: Every Employer which shall have adopted the Plan shall thereby become a participating Employer whose eligible Employees, subject to the Plan provisions, shall make and receive Contributions and have established for them Accounts under the Plan. Any corporation or other organization with employees, now in existence or hereafter formed or acquired which is not already an Employer under this Plan and which is otherwise legally eligible may, with the approval of the Company as evidenced by action of the Committee, adopt and become an Employer by executing and delivering to the Committee and the Trustee an adoptive instrument specifying the classification of its Employees who shall be eligible to participate in the Plan and evidencing the terms of the Plan with respect to its eligible Employees. The adoptive instrument may contain such changes and amendments in the terms and provisions of the Plan as adopted by such Employer as may be desired by such Employer and acceptable to the Committee. Any such Affiliate which shall adopt this Plan shall designate the Company as its agent to act for it in all transactions affecting the administration of the Plan and shall designate the Committee to act for such corporation and its Participants in the same manner in which the Committee may act for the Company and its Participants hereunder. The adoptive instrument shall specify the effective date of such adoption of the Plan and shall become, as to such corporation and its Employees, a part of this Plan. Upon an Employer's liquidation, bankruptcy, insolvency, sale, consolidation or merger to or with another organization that is not an Employer hereunder, in which such Employer is not the surviving company, all obligations of that Employer hereunder and under the Trust Agreement shall terminate automatically, and the Trust Fund assets attributable to the Employees of such Employer shall be held or distributed as herein provided unless, with the approval of the Company as evidenced by action of the Committee, the successor to that Employer assumes the duties and responsibilities of such Employer, by adopting this Plan and the Trust Agreement, or by establishment of a separate plan and trust to which the assets of the Trust Fund held on behalf of the Employees of such Employer shall be transferred with the consent and agreement of that Employer. Upon the consolidation or merger of two or more of the Employers under this Plan with each other, the surviving Employer or organization shall automatically succeed to all the rights and duties under the Plan and Trust Agreement of the Employers involved.

10.2 CONTINUOUS SERVICE: The following special provisions shall apply to all Employers:

(a) An Employee shall be considered in continuous Service while regularly employed simultaneously or successively by one or more Employers.

(b) The transfer of a Participant from one Employer to another Employer shall not be deemed a termination of Service.

10.3 AMENDMENT OF THE PLAN: Except as otherwise expressly provided in this Section, (i) the Company shall have the right to amend or modify this Plan and the Trust Agreement (with the consent of the Trustee, if required) at any time and from time to time to the extent that it may deem advisable and (ii) the Committee shall have the right to amend or modify this Plan and the Trust Agreement (with the consent of the Trustee, if required) to modify the administrative provisions of the Plan, to change the Investment Funds offered under the Plan and for any changes required by applicable law or by the Internal Revenue Service to maintain the qualified status of the Plan and related Trust at any time and from time to time to the extent that it may deem advisable. Any such amendment or modification shall be set out in an instrument in writing duly authorized by the Board of Directors of the Company or the Committee, as the case may be, and executed by an appropriate officer of the Company or member of the Committee. Upon delivery by the Company of such an instrument amending the

Plan to the Trustee, this Plan shall be deemed to have been amended or modified in such manner and to such extent and effective as of the date therein set forth, and thereupon any and all Participants whether or not they shall have become such prior to such amendment or modification shall be bound thereby. No such amendment or modification shall, however, increase the duties or responsibilities of the Trustee without its consent thereto in writing, or have the effect of transferring to or vesting in any Employer any interest or ownership in any properties of the Trust Fund, or of permitting the same to be used for or diverted to purposes other than for the exclusive benefit of the Participants and their Beneficiaries. No such amendment shall decrease the Account of any Participant or shall decrease any Participant's vested interest in his Account. No amendment shall directly or indirectly reduce a Participant's non-forfeitable vested percentage in his benefits under Section 6.1 of this Plan, unless each Participant having not less than three years of Service is permitted to elect to have his non-forfeitable vested percentage in his benefits computed under the provisions of Section 6.1 without regard to the amendment. Such election shall be available during an election period, which shall begin on the date such amendment is adopted, and shall end on the latest of (i) the date 60 days after such amendment is adopted, (ii) the date 60 days after such amendment is effective, or (iii) the date 60 days after such Participant is issued written notice of the amendment by the Committee or the Employer. Notwithstanding anything herein to the contrary, the Plan or the Trust Agreement may be amended in such manner as may be required at any time to make it conform to the requirements of the Code or of any United States statutes with respect to employees' trusts, or of any amendment thereto, or of any regulations or rulings issued pursuant thereto, and no such amendment shall be considered prejudicial to any then existing rights of any Participant or his Beneficiary under the Plan.

10.4 TERMINATION OF THE PLAN: The Plan may be terminated pursuant to the provisions of, and as of any subsequent date specified in, an instrument in writing executed by the Company, and approved and authorized by the Board of Directors of the Company, and which said instrument shall be delivered to the Trustee.

10.5 DISTRIBUTION OF TRUST FUND ON TERMINATION: In the event of a termination of the Plan by the Company, the assets and properties of the Trust Fund shall be valued and allocated as provided in Sections 5.2 and 5.3, and each Participant shall be fully vested in all amounts attributable to his Employer Matching Account and his ESOP Account, and thereafter, each such Participant shall become entitled to distributions in respect of his Accounts in the Plan in the

manner as provided in Sections 6.6(a) and 6.6(b) herein provided that no Employer or Affiliate then establishes or maintains another defined contribution plan (other than an employee stock ownership plan within the meaning of Code Section 4975(e)(7) or Code Section 409 or a simplified employee pension within the meaning of Code Section 408(k)). In the event the Plan is terminated with respect to all Employers, any Company Stock held in the Suspense Stock Account shall be sold to the extent necessary to pay the outstanding principal balance and any accrued interest on any installment purchase contracts and/or loan obligations of the Trust Fund incurred for the purpose of directly or indirectly funding the purchase of such Stock, and any such installment purchase contracts and/or loan obligations shall be paid in full prior to distribution of the assets of the Trust Fund to Participants; provided, however, that the Board of Directors of the Company may authorize distribution of Trust Fund assets prior to satisfaction of installment purchase contracts and/or loan obligations, but only if under applicable federal law such assets or income attributable thereto cannot be used to repay such installment purchase contracts or loan obligations.

10.6 EFFECT OF DISCONTINUANCE OF CONTRIBUTIONS: If the Company shall discontinue its Contributions to the Trust Fund, or suspend its Contributions to the Trust Fund under such circumstances so as to constitute a discontinuance of Contributions within the purview of the reasoning of Treasury Regulations Section 1.401-6(c), then all amounts theretofore credited to the Accounts of the Participants shall become fully vested, and throughout any such period of discontinuance of Contributions, all other provisions of the Plan shall continue in full force and effect other than the provisions for Contributions by an Employer or Participants and the forfeiture provisions of Section 6.1.

10.7 MERGER OF PLAN WITH ANOTHER PLAN: In the case of any merger or consolidation of the Plan with, or transfer in whole or in part of the assets and liabilities of the Trust Fund to another trust fund held under, any other plan of deferred compensation maintained or to be established for the benefit of all or some of the Participants of this Plan, the assets of the Trust Fund applicable to such Participants shall be transferred to the other trust fund only if:

(a) Each Participant would (if either this Plan or the other plan then terminated) receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation or transfer (if this Plan had then terminated);

(b) Resolutions of the Board of Directors of the Employer under this Plan, and of any new or successor employer of the affected Participants, shall authorize such transfer of assets; and, in the case of the new or successor employer of the affected Participants, its resolutions shall include an assumption of liabilities with respect to such Participants' inclusion in the new employer's plan; and

(c) Such other plan and trust are qualified under Sections 401(a) and 501(a) of the Code.

ARTICLE XI

TOP-HEAVY PLAN REQUIREMENTS

11.1 GENERAL RULE: For any Plan Year for which this Plan is a Top-Heavy Plan, as defined in Section 11.8, and despite any other provisions of this Plan to the contrary, this Plan shall be subject to the provisions of this Article XI.

11.2 VESTING PROVISIONS: Each Participant who has completed an Hour of Service after the Plan becomes top-heavy and while the Plan is top-heavy and who has completed the Vesting Service specified in the following table shall be vested in his Account under this Plan at least as rapidly as is provided in the following schedule:

VESTING SERVICE	VESTED PERCENT
Less than 2 years	0%
2 but less than 3 years	20%
3 but less than 4 years	40%
4 but less than 5 years	60%
5 but less than 6 years	80%
6 years or more	100%

If an Account becomes vested by reason of the application of the preceding schedule, it may not therefore be forfeited by reason of re-employment after retirement pursuant to a suspension of benefits provision, by reason of withdrawal of any mandatory employee contributions to which employer contributions were keyed, or for any other reason. If the Plan subsequently ceases to be top-heavy, the preceding schedule shall continue to apply with respect to any Participant who had at least three years of Service (as defined in Treasury Regulation Section 1.411(a)-8T(b)(3)) as of the close of the last year that the Plan was top-heavy. For all other Participants, the non-forfeitable percentage of their Accounts provided in the preceding schedule prior to the date the Plan ceases to be top-heavy shall not be reduced.

11.3 MINIMUM CONTRIBUTION PROVISIONS: Each Participant who (i) is a Non-Key Employee, as defined in Section 11.8 and (ii) is employed on the last day of the Plan Year (regardless of whether or not such Participant has completed 1,000 Hours of Service) will be entitled to have contributions and forfeitures (if applicable) allocated to his Account of not less than 3% (the "Minimum Contribution Percentage") of the Participant's Compensation. This minimum allocation percentage shall be provided without taking Pre-Tax Contributions into account. A Non-Key Employee may not fail to receive a Minimum Contribution Percentage because of a failure to receive a specified minimum amount of Compensation or a failure to make mandatory employee or elective contributions. This Minimum Contribution Percentage will be reduced for any Plan Year to the percentage at which contributions (including forfeitures) are made or are required to be made under the Plan for the Plan Year for the Key Employee for whom such percentage is the highest for such Plan Year. For this purpose, the percentage with respect to a Key Employee will be determined by dividing the contributions (including forfeitures)

made for such Key Employee by his total compensation (as defined in Section 415 of the Code) not in excess of $150,000 for the Plan Year. Such amount will be adjusted in the same manner as the amount set forth in Section 11.4 below.

Contributions considered under the first paragraph of this Section 11.3 will include Employer contributions under this Plan and under all other defined contribution plans required to be included in an Aggregation Group (as defined in Section 11.8 below), but will not include Employer contributions under any plan required to be included in such aggregation group if the plan enables a defined benefit plan required to be included in such group to meet the requirements of the Code prohibiting discrimination as to contributions in favor of employees who are officers, shareholders, or the highly compensated or prescribing the minimum participation standards. If the highest rate allocated to a Key Employee for a year in which the Plan is top-heavy is less than 3%, amounts contributed as a result of a salary reduction agreement must be included in determining contributions made on behalf of Key Employees.

Employer Contributions made on behalf of Non-Key Employees that are taken into account to satisfy the Minimum Contribution Percentage shall not be treated as Employer Matching Contributions for purposes of determining the Actual Contribution Percentage under Article IV and must meet the non-discrimination requirements of Section 401(a)(4) without regard to Section 401(m).

Contributions considered under this Section will not include any contributions under the Social Security Act or any other federal or state law.

11.4 LIMITATION ON COMPENSATION: Each Participant's Compensation taken into account under this Article XI and under Section 1.11 for purposes of computing benefits under this Plan will not exceed $150,000. Such amount will be adjusted automatically for each Plan Year to the amount prescribed by the Secretary of the Treasury or his delegate pursuant to regulations for the calendar year in which such Plan Year commences.

11.5 LIMITATION ON CONTRIBUTIONS: In the event that the Company, other Employer or an Affiliate (herein in this Article collectively referred to as a "Considered Company") also maintains a defined benefit plan providing benefits on behalf of Participants in this Plan, one of the two following provisions will apply:

(a) If for the Plan Year this Plan would not be a Top-Heavy Plan if "90%" were substituted for "60%" in Section 11.8, then the percentage of 3% used in Section 11.3 is changed to 4%.

(b) If for the Plan Year this Plan would continue to be a

Top-Heavy Plan if "90%" were substituted for "60%," in Section 11.8, then the denominator of both the defined contribution plan fraction and the defined benefit plan fraction will be calculated as set forth in Section 5.5 for the limitation year ending in such Plan Year by substituting "1.0" for "1.25" in each place such figure appears. This subsection (b) will not apply for such Plan Year with respect to any individual for

whom there are no (i) Employer contributions, forfeitures or voluntary non-deductible contributions allocated to such individual or (ii) accruals earned under the defined benefit plan. Furthermore, the transitional rule set forth in Section 415(e)(6)(B)(i) of the Code shall be applied by substituting "Forty-One Thousand Five Hundred Dollars ($41,500)" for "Fifty-One Thousand Eight Hundred Seventy-Five Dollars ($51,875)" where it appears therein.

11.6 COORDINATION WITH OTHER PLANS: If another defined contribution or defined benefit plan maintained by a Considered Company provides contributions or benefits on behalf of a Participant in this Plan, the other plan will be treated as part of this Plan pursuant to applicable principles prescribed by U.S. Treasury Regulations or applicable IRS rulings (such as Revenue Ruling 81-202 or any successor ruling) to determine whether this Plan satisfies the requirements of Sections 11.2, 11.3 and 11.4 and to avoid inappropriate omissions or inappropriate duplication of minimum contributions. The determination will be made by the Plan Administrator upon the advice of counsel.

In the event a Participant is covered by a defined benefit plan which is top-heavy pursuant to Section 416 of the Code, a comparability analysis (as prescribed by Revenue Ruling 81-202 or any successor ruling) shall be performed in order to establish that the plans are providing benefits at least equal to the defined benefit minimum.

11.7 DISTRIBUTIONS TO CERTAIN KEY EMPLOYEES: Notwithstanding any other provision of this Plan, the entire interest in this Plan of each Participant who is a Key Employee, by reason of clause (iii) of subparagraph (c) of Section 11.8 in the calendar year in which the Participant attains age 70 1/2, shall commence to be distributed to such Participant not later than the April 1 following such calendar year.

11.8 DETERMINATION OF TOP-HEAVY STATUS: The Plan will be a Top-Heavy Plan for any Plan Year if, as of the Determination Date, the aggregate of the Accounts under the Plan (determined as of the Valuation Date) for Participants (including former Participants) who are Key Employees exceeds 60% of the aggregate of the Accounts of all Participants, excluding former Key Employees, or if this Plan is required to be in an Aggregation Group in any such Plan Year in which such Group is a Top-Heavy Group. In determining Top-Heavy status if an individual has not performed one Hour of Service for any Considered Company at any time during the five-year period ending on the Determination Date, any accrued benefit for such individual and the aggregate Accounts of such individual shall not be taken into account.

For purposes of this Section, the capitalized words have the following meanings:

(a) "Aggregation Group" means the group of plans, if any, that includes both the group of plans required to be aggregated and the group of plans permitted to be aggregated. The group of plans required to be aggregated (the "required aggregation group") includes:

(i) each plan of a Considered Company in which a Key Employee is a participant; and

(ii) each other plan, including collectively bargained plans, of a Considered Company which enables a plan in which a Key Employee is a participant to meet the requirements of Code Section 401(a)(4) or 410.

The group of plans that are permitted to be aggregated (the "permissive aggregation group") includes the required aggregation group plus one or more plans of a Considered Company that is not part of the required aggregation group and that the Considered Company certifies as a plan within the permissive aggregation group. Such plan or plans may be added to the permissive aggregation group only if, after the addition, the aggregation group as a whole continues to satisfy the requirements of Code Sections 401(a)(4) and 410.

(b) "Determination Date" means for any Plan Year the last day of the immediately preceding Plan Year.

(c) "Key Employee" means any Employee or former Employee under this Plan who, at any time during the Plan Year in question or during any of the four preceding Plan Years, is or was one of the following:

(i) An officer of a Considered Company having an annual compensation greater than 50% of the amount in effect under Code Section 415(b)(1)(A) for any such Plan Year. Whether an individual is an officer shall be determined by the Considered Company on the basis of all the facts and circumstances, such as an individual's authority, duties and term of office, not on the mere fact that the individual has the title of an officer. For any such Plan Year, officers considered to be Key Employees will be no more than the fewer of:

(A) 50 employees; or

(B) 10% of the employees or, if greater than 10%, three employees.

For this purpose, the highest paid officers shall be selected.

(ii) One of the ten employees owning (or considered as owning, within the meaning of the constructive ownership rules of Code Section 416(i)(1)(B)) the largest interests in the Considered Company. An employee who has some ownership interest is considered to be one of the top ten owners unless at least ten other

employees own a greater interest than that employee. However, an employee will not be considered a top ten owner for a Plan Year if the employee earns less than the limitation in effect under Code Section 415(c)(1)(A) as in effect for the calendar year in which the Determination Date falls.

(iii) Any person who owns (or is considered as owning, within the meaning of the constructive ownership rules of Code Section 416(i)(1)(B)) more than 5% of the outstanding stock of a Considered Company or stock possessing more than 5% of the combined voting power of all stock of the Considered Company.

(iv) Any person who has an annual compensation from the Considered Company of more than One Hundred Fifty Thousand Dollars ($150,000) and who owns (or is considered as owning, within the meaning of the constructive ownership rules of Code Section 416(i)(1)(B)) more than 1% of the outstanding stock of the Considered Company or stock possessing more than 1% of the outstanding stock of the Considered Company or stock possessing more than 1% of the combined voting power of all stock of the Considered Company. For purposes of this subsection, Annual Compensation includes all items includable as Compensation within the meaning of Section 11.8(k) and further includes the amount otherwise excludable from an employee's gross income by reason of Code Section 125, 402(e)(3) or 402(h)(1)(B).

For purposes of this subsection (c), a Beneficiary of a Key Employee shall be treated as a Key Employee. For purposes of parts (iii) and (iv), each Considered Company is treated separately in determining ownership percentages; but all such Considered Companies shall be considered a single employer in determining the amount of compensation.

(d) "Non-Key Employee" means any employee (and any Beneficiary of an employee) who is not a Key Employee.

(e) "Top-Heavy Group" means the Aggregation Group if, as of the applicable Determination Date, the sum of the present value of the cumulative accrued benefits for Key Employees under all defined benefit plans included in the Aggregation Group plus the aggregate of the accounts of Key Employees under all defined contribution plans included in the Aggregation Group exceeds 60% of the sum of the present value of the cumulative accrued benefits for all employees, excluding former Key Employees as provided in paragraph (i) below, under all such defined benefit plans plus the aggregate accounts for all employees, excluding former Key Employees as provided in paragraph (i) below, under all such defined contribution plans. In determining Top-Heavy status, if an individual

has not performed one Hour of Service for any Considered Company at any time during the five-year period ending on the Determination Date, any accrued benefit for such individual and the aggregate accounts of such individual shall not be taken into account. If the Aggregation Group that is a Top-Heavy Group is a required aggregation group, each plan in the group will be a Top-Heavy Plan. If the Aggregation Group that is a Top-Heavy Group is a permissive aggregation group, only those plans that are part of the required aggregation group will be treated as Top-Heavy Plans. If the Aggregation Group is not a Top-Heavy Group, no plan within such group will be a Top-Heavy Plan.

In determining whether this Plan constitutes a Top-Heavy Plan, the Committee (or its agent) will make the following adjustments:

(f) When more than one plan is aggregated, the Committee shall determine separately for each plan as of each plan's Determination Date the present value of the accrued benefits (for this purpose using the actuarial assumptions set forth in the applicable plan) or account balance. The results shall then be aggregated by adding the results of each plan as of the Determination Dates for such plans that fall within the same calendar year.

(g) In determining the present value of the cumulative accrued benefit or the amount of the account of any employee, such present value or account will include the amount in dollar value of the aggregate distributions made to such employee under the applicable plan during the five-year period ending on the Determination Date unless reflected in the value of the accrued benefit or account balance as of the most recent Valuation Date. The amounts will include distributions to employees representing the entire amount credited to their accounts under the applicable plan.

(h) Further, in making such determination, such present value or such account shall include any rollover contribution (or similar transfer), as follows:

(i) If the rollover contribution (or similar transfer) is initiated by the employee and made to or from a plan maintained by another Considered Company, the plan providing the distribution shall include such distribution in the present value or such account and the plan accepting the distribution shall not include such distribution in the present value or such account unless the plan accepted it before December 31, 1983.

(ii) If the rollover contribution (or similar transfer) is not initiated by the employee or made from a plan maintained by another Considered Company, the plan accepting the distribution shall include such distribution in the present value or such account, whether the plan accepted the distribution before or after

December 31, 1983; the plan making the distribution shall not include the distribution in the present value or such account.

(i) In any case where an individual is a Non-Key Employee with respect to an applicable plan but was a Key Employee with respect to such plan for any prior Plan Year, any accrued benefit and any account of such employee will be altogether disregarded. For this purpose, to the extent that a Key Employee is deemed to be a Key Employee if he or she met the definition of Key Employee within any of the four preceding Plan Years, this provision will apply following the end of such period of time.

(j) "Valuation Date" means for purposes for determining the present value of an accrued benefit as of the Determination Date the date determined as of the most recent valuation date which is within a 12-month period ending on the Determination Date. For the first plan year of a plan, the accrued benefit for a current employee shall be determined either (i) as if the individual terminated service as of the Determination Date or (ii) as if the individual terminated service as of the valuation date, but taking into account the estimated accrued benefit as of the Determination Date. The Valuation Date shall be determined in accordance with the principles set forth in Q&A-T-25 of Treasury Regulations Section 1.416-1.

(k) For purposes of this Section, "Compensation" shall have the meaning given to it in Section 5.5(d)(6) of the Plan.

ARTICLE XII

MISCELLANEOUS PROVISIONS

12.1 TERMS OF EMPLOYMENT: The adoption and maintenance of the provisions of this Plan shall not be deemed to constitute a contract between the Employer and any Employee, or to be a consideration for, or an inducement or condition of, the employment of any person. Nothing herein contained shall be deemed to give to any Employee the right to be retained in the employ of the Employer or to interfere with the right of the Employer to discharge any Employee at any time, nor shall it be deemed to give the Employer the right to require any Employee to remain in its employ, nor shall it interfere with any Employee's right to terminate his employment at any time.

12.2 CONTROLLING LAW: This Plan and the Trust shall be construed, regulated and administered under the laws of the State of Texas, subject, however, to such determinations under the Plan as may be governed by ERISA and related provisions of the Code.

12.3 INVALIDITY OF PARTICULAR PROVISIONS: In the event any provision of this Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions of this Plan but shall be fully severable, and this Plan shall be construed and enforced as if said illegal or invalid provisions had never been inserted herein.

12.4 NON-ALIENABILITY OF RIGHTS OF PARTICIPANTS: No interest, right or claim in or to the part of the Trust Fund attributable to the Pre-Tax Contribution Account, the After-Tax Contribution Account, the Employer Matching Account or the ESOP Account of any Participant, or any distribution of benefits therefrom, shall be assignable, transferable or subject to sale, mortgage, pledge, hypothecation, commutation, anticipation, garnishment, attachment, execution, claim or levy of any kind, voluntary or involuntary (excluding a levy on an Account other than a Pre-Tax Contribution Account for taxes filed upon the Plan by the Internal Revenue Service), including without limitation any claim asserted by a spouse or former spouse of any Participant, and the Trustee shall not recognize any attempt to assign, transfer, sell, mortgage, pledge, hypothecate, commute or anticipate the same. The preceding sentence shall also apply to the creation, assignment or recognition of a right to any benefit payable with respect to a Participant pursuant to a domestic relations order, unless such order is determined to be a qualified domestic relations order, as defined in Section 414(p) of the Code. The Committee shall establish a written procedure to be used to determine the qualified status of such orders and to administer distributions under such orders. Further, to the extent provided under the qualified domestic relations order, a former spouse of a Participant shall be treated as a spouse for all purposes of the Plan. If the Committee receives a qualified domestic relations order with respect to a Participant, the amount assigned to the Participant's former spouse may be immediately

distributed, to the extent permitted by law, from the Participant's Pre-Tax Contribution Account, After-Tax Contribution Account, and the vested portion of his Employer Matching Account and ESOP Account.

12.5 PAYMENTS IN SATISFACTION OF CLAIMS OF PARTICIPANTS: Any distribution to any Participant or his Beneficiary or legal representative, in accordance with the provisions of the Plan, of the interest in the Trust Fund attributable to his Pre-Tax Contribution Account and/or After-Tax Contribution Account, and the vested portion of his Employer Matching Account and ESOP Account, shall be in full satisfaction of all claims under the Plan against the Trust Fund, the Trustee, the Company, and the Employer. The Trustee may require that any distributee execute and deliver to the Trustee a receipt and a full and complete release of the Employer as a condition precedent to any payment or distribution under the Plan.

12.6 PAYMENTS DUE MINORS AND INCOMPETENTS: If the Committee determines that any person to whom a payment is due hereunder is a minor or is incompetent by reason of physical or mental disability, the Committee shall have power to cause the payments becoming due such person to be made to the guardian of the minor or the guardian of the estate of the incompetent, without the Committee or the Trustee being responsible to see to the application of such payment. Payments made pursuant to such power shall operate as a complete discharge of the Committee, the Trustee and the Employer.

12.7 ACCEPTANCE OF TERMS AND CONDITIONS OF PLAN BY PARTICIPANTS: Each Participant, through execution of the application required under the terms of the Plan as a condition of participation herein, for himself, his heirs, executors, administrators, legal representatives and assigns, approves and agrees to be bound by the provisions of this Plan and the Trust Agreement and any subsequent amendments thereto and all actions of the Committee and the Trustee hereunder. In consideration of the adoption of this Plan by the Employer and the Contributions of the Employer to the Trust Fund, each Participant agrees by the execution of his application to participate herein to release and hold harmless to the extent permitted by ERISA the Employer, the Committee and the Trustee from any liability for any act whatsoever, past, present, or future, performed in good faith in such respective capacities pursuant to the provisions of this Plan or the Trust Agreement.

12.8 IMPOSSIBILITY OF DIVERSION OF TRUST FUND: Notwithstanding any provision herein to the contrary, no part of the corpus or the income of the Trust Fund shall ever be used for or diverted to purposes other than for the exclusive benefit of the Participants or their Beneficiaries or for the payment of expenses of the Plan. No part of the Trust Fund shall ever revert to the Employer.

IN WITNESS WHEREOF, the BENEFITS COMMITTEE OF HOUSTON INDUSTRIES INCORPORATED has executed these presents as evidenced by the signatures affixed hereto of its officers hereunto duly authorized, in a number of copies, all of which shall constitute but one and the same instrument, which instrument may be sufficiently evidenced by any such executed copy hereof, this 27th day of April, 1995, effective as of July 1, 1995.

BENEFITS COMMITTEE OF HOUSTON
INDUSTRIES INCORPORATED

By D. D. SYKORA
D. D. Sykora
Chairman

ATTEST: E. P. WEYLANDT
Secretary

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)

	THREE MONTHS ENDED MARCH 31,1995	TWELVE MONTHS ENDED MARCH 31, 1995
Fixed Charges as Defined:		
(1) Interest on Long-Term Debt..........	$ 61,518	$ 246,210
(2) Other Interest......................	3,135	8,732
(3) Amortization of (Premium) Discount..........................	2,122	8,485
(4) Interest Component of Rentals Charged to Operating Expense.........	936	3,813
(5) Total Fixed Charges............	$ 67,711	$ 267,240
Earnings as Defined:		
(6) Net Income..........................	$ 42,894	$ 479,699
Federal Income Taxes:		
(7) Current.............................	14,988	174,567
(8) Deferred (Net)......................	3,817	71,534
(9) Total Federal Income Taxes..........	18,805	246,101
(10) Fixed Charges (line 5)..............	67,711	267,240
(11) Earnings Before Income Taxes and Fixed Charges (line 6 plus line 9 plus line 10).............	$ 129,410	$ 993,040
Ratio of Earnings to Fixed Charges (line 11 divided by line 5)..............	1.91	3.72
Preferred Dividends Requirements:		
(12) Preferred Dividends	$ 8,985	$ 34,295
(13) Less Tax Deduction for Preferred Dividends..............	14	54
(14) Total...........................	8,971	34,241
(15) Ratio of Pre-Tax Income to Net Income (line 6 plus line 9 divided by line 6)...............	1.44	1.51
(16) Line 14 times line 15...............	12,918	51,704
(17) Add Back Tax Deduction (line 13)........................	14	54
(18) Preferred Dividends Factor..........	$ 12,932	$ 51,758
(19) Fixed Charges (line 5)..............	$ 67,711	$ 267,240
(20) Preferred dividends Factor (line 18)........................	12,932	51,758
(21) Total...........................	$ 80,643	$ 318,998
Ratio of Earnings to Fixed Charges and Preferred Dividends (line 11 divided by line 21).............	1.60	3.11

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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.

0000048732
HOUSTON LIGHTING & POWER COMPANY
1000

3-MOS
DEC-31-1995
MAR-31-1995
PER-BOOK
8,934,675
0
405,110
1,367,013
0
10,706,798
1,675,927
0
2,104,768
3,780,695
121,910
351,345
3,066,649
0
0
0
110,143
45,700
8,004
3,614
3,218,738
10,706,798
746,166
19,018
622,582
641,600
104,566
1,176
105,742
62,848
42,894
8,985
33,909
82,250
61,497
48,552
0
0

Total annual interest charges on all bonds for year-to-date 3/31/95.

EXHIBIT 99(a)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE YEARS ENDED DECEMBER 31, 1994

(1)SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(f) DEFERRED PLANT COSTS. The Utility Commission authorized deferred accounting treatment for certain costs related to the South Texas Project Electric Generating Station (South Texas Project) in two contexts. The first was "deferred accounting" where HL&P was permitted to continue to accrue carrying costs in the form of AFUDC and defer and capitalize depreciation and other operating costs on its investment in the South Texas Project until such costs were reflected in rates. The second was the "qualified phase-in plan" where HL&P was permitted to capitalize as deferred charges allowable costs, including return, deferred for future recovery

under the approved plan. The accumulated deferrals for "deferred accounting" and "qualified phase-in plan" are being recovered over the estimated depreciable life of the South Texas Project and within the ten year phase-in period, respectively. The amortization of these deferrals totaled $25.8 million for each of the years 1994, 1993, and 1992 and is included on the Company's Statements of Consolidated Income and HL&P's Statements of Income in depreciation and amortization expense. Under the terms of the settlement agreement regarding the issues raised in Docket Nos. 12065 and 13126 (Proposed Settlement), see Note 3, the South Texas Project deferrals will continue to be amortized using the schedules discussed above.

(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, 1994, HL&P's investments (net of accumulated depreciation and amortization) in the South Texas Project and in nuclear fuel, including AFUDC, were $2.1 billion and $99 million, respectively.

(b) UNITED STATES NUCLEAR REGULATORY COMMISSION (NRC) INSPECTIONS AND OPERATIONS. Both generating units at the South Texas Project were out of service from February 1993 to February 1994, when Unit No. 1 was returned to service. Unit No. 2 was returned to service in May 1994. HL&P removed the units from service in February 1993 when a problem was encountered with certain of the units' auxiliary feedwater pumps.

In February 1995, the NRC removed the South Texas Project from its "watch list" of plants with weaknesses that warranted increased NRC attention. The NRC placed the South Texas Project on the "watch list" in June 1993, following the issuance of a report by an NRC Diagnostic Evaluation Team (DET) which conducted a review of the South Texas Project operations.

Certain current and former employees of HL&P or contractors of HL&P have asserted claims that their employment was terminated or disrupted in retaliation for their having made safety-related complaints to the NRC. Civil proceedings by the complaining personnel and administrative proceedings by the Department of Labor remain pending against HL&P, and the NRC has jurisdiction to take enforcement action against HL&P and/or individual employees with respect to these matters. Based on its own internal investigation, in October 1994 the NRC issued a notice of violation and proposed a $100,000 civil penalty against HL&P in one such case in which HL&P had terminated the site access of a former contractor employee. In that action, the NRC also requested information relating to possible further enforcement action in this matter against two HL&P managers involved in such termination. HL&P strongly disagrees with the NRC's conclusions, and has requested the NRC to give further consideration of its notice. In February 1995, the NRC conducted an enforcement conference with respect to that matter, but no result has been received.

HL&P has provided documents and other assistance to a subcommittee of the U. S. House of Representatives (Subcommittee) that is conducting an inquiry related to the South Texas Project. Although the precise focus and timing of the inquiry has not been identified by the Subcommittee, it is anticipated that the Subcommittee will inquire into matters related to HL&P's handling of employee concerns and to issues related to the NRC's 1993 DET review of the South Texas Project. In connection with that inquiry, HL&P has been advised that the U. S. General Accounting Office (GAO) is conducting a review of the NRC's inspection process as it relates to the South Texas Project and other plants, and HL&P is cooperating with the GAO in its investigation and with the NRC in a similar review it has initiated. While no prediction can

be made at this time as to the ultimate outcome of these matters, the Company and HL&P do not believe that they will have a material adverse

effect on the Company's or HL&P's financial condition or results of operations.

(c) LITIGATION WITH CO-OWNERS OF THE SOUTH TEXAS PROJECT. In February 1994, the City of Austin (Austin), one of the four co-owners of the South Texas Project, filed suit (Austin II Litigation) against HL&P. That suit is pending in the 152nd District Court for Harris County, Texas, which has set a trial date for October 1995. 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 under the terms and conditions of the Operating Licenses and Technical Specifications relating to the South Texas Project. Austin claims that such failures have caused Austin damages of at least $125 million due to the incurrence of increased operating and maintenance costs, the cost of replacement power and lost profits on wholesale transactions that did not occur. 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. San Antonio has not identified the amount of damages it intends to seek from HL&P. HL&P is contesting San Antonio's intervention and has called for arbitration of San Antonio's claim under the arbitration provisions of the Participation Agreement. The trial court has denied HL&P's requests, but review of these decisions is currently pending before the 1st Court of Appeals in Houston.

In a previous lawsuit (Austin I Litigation) filed in 1983 against the Company and HL&P, Austin alleged that it had been fraudulently induced to participate in the South Texas Project and that HL&P had failed to perform properly its duties as project manager. In May 1993, the courts entered a judgement in favor of the Company and HL&P, concluding, among other things, that the Participation Agreement did not impose on HL&P a duty to exercise reasonable skill and care as project manager. During the course of the Austin I Litigation, San Antonio and Central Power and Light Company (CPL), a subsidiary of Central and South West Corporation, two of the co-owners in the South Texas Project, also asserted claims for unspecified damages against HL&P as project manager of the South Texas Project, alleging HL&P breached its duties and obligations. San Antonio and CPL requested arbitration of their claims under the Participation Agreement. In 1992, the Company and HL&P entered into a settlement agreement with CPL (CPL Settlement) providing for CPL's withdrawal of its demand for arbitration. San Antonio's claims for arbitration remain pending. Under the Participation Agreement, San Antonio's arbitration claims will be heard by a panel of five arbitrators consisting of four arbitrators named by each co-owner and a fifth arbitrator selected by the four appointed arbitrators.

Although the CPL Settlement did not directly affect San Antonio's pending demand for arbitration, HL&P and CPL reached certain understandings in such agreement which contemplated that: (i) CPL's previously appointed arbitrator would be replaced by CPL; (ii) arbitrators approved by CPL or HL&P in any future arbitrations would be mutually acceptable to HL&P and CPL; and (iii) HL&P and CPL would resolve any future disputes between them concerning the South Texas Project without resorting to the arbitration provision of the

Participation Agreement. Austin and San Antonio have asserted in the pending Austin II Litigation that such understandings have rendered the arbitration provisions of the Participation Agreement void and that neither Austin nor San Antonio should be required to participate in or be bound by such proceedings.

Although HL&P and the Company do not believe there is merit to either Austin's or San Antonio's claims and have opposed San Antonio's intervention in the Austin II Litigation, there can be no assurance as to the ultimate outcome of these matters.

(d) 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 the maximum amount of property damage insurance currently available through the insurance industry, consisting 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 on March 1, 1995 and under portions of the excess property insurance coverage in effect prior to March 1, 1995, HL&P and the other owners of the South Texas Project are subject to assessments, the maximum aggregate assessment under current policies being $26.9 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 decreased from $9.0 billion to $8.92 billion effective in November 1994. Owners are required under the Act to insure their liability for nuclear incidents and protective evacuations by maintaining the maximum amount of financial protection available from private sources and by maintaining secondary financial protection through an industry retrospective rating plan. The assessment of

deferred premiums provided by the plan 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.

(e) NUCLEAR DECOMMISSIONING. HL&P and the other co-owners of the South Texas Project are required by the NRC to meet minimum decommissioning funding requirements to pay the costs of decommissioning the South Texas Project. Pursuant to the terms of the order of the Utility Commission in Docket No. 9850, HL&P is currently funding decommissioning costs for the South Texas Project with an independent trustee at an annual amount of $6 million, which is recorded in depreciation and amortization expense. HL&P's funding level is estimated to provide approximately $146 million, in 1989 dollars, an amount which exceeds the current NRC minimum.

The Company adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," effective January 1, 1994. At December 31, 1994, the securities held in the Company's nuclear decommissioning trust totaling $25.1 million (reflected on the Company's Consolidated and HL&P's Balance Sheets in deferred debits and deferred credits) are classified as available for sale. Such securities are reported on the balance sheets at fair value, which at December 31, 1994 approximates cost, and any unrealized gains or losses will be reported as a separate component of common stock equity. Earnings, net of taxes and administrative costs, are reinvested in the funds.

In May 1994, an outside consultant estimated HL&P's portion of decommissioning costs to be approximately $318 million, in 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. Under the terms of the Proposed Settlement, HL&P would increase funding of decommissioning costs to an annual amount of approximately $14.8 million consistent with such study. 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 or the assumptions used in estimating decommissioning costs will ultimately prove to be correct.

(3) RATE REVIEW, FUEL RECONCILIATION AND OTHER PROCEEDINGS

In February 1994, the Utility Commission initiated a proceeding (Docket No. 12065) to determine whether HL&P's existing rates are just and reasonable. Subsequently, the scope of the docket was expanded to include reconciliation of HL&P's fuel costs from April 1, 1990 to July 31, 1994. The Utility Commission also initiated a separate proceeding (Docket No. 13126) to review issues regarding the prudence of operation of the South Texas Project from the date of commercial operation through the present. That review would encompass the outage at the South Texas Project during 1993 through 1994.

Hearings began in Docket No. 12065 in January 1995, and the Utility Commission has retained a consultant to review the South Texas Project for the purpose of providing testimony in Docket No. 13126 regarding the prudence of HL&P's management of operation of the South Texas Project. In February 1995, all major parties to these proceedings signed the Proposed Settlement resolving the issues with respect to HL&P, including the prudence issues related to operation of the South Texas Project. Approval of the Proposed Settlement by the Utility Commission will be required. To that end, the parties have established procedural dates for a hearing on issues raised by the parties who are opposed to the Proposed Settlement. A decision by the Utility Commission on the Proposed Settlement is not anticipated before early summer.

Under the Proposed Settlement, HL&P's base rates would be reduced by approximately $62 million per year, effective retroactively to January 1, 1995, and rates would be frozen for three years, subject to certain conditions. Under the Proposed Settlement, HL&P would amortize its remaining investment of $218 million in the cancelled Malakoff plant over a period not to exceed

seven years. HL&P also would increase its decommissioning expense for the South Texas Project by $9 million per year.

Under the Proposed Settlement, approximately $70 million of fuel expenditures and related interest incurred by HL&P during the fuel reconciliation period would not be recoverable from ratepayers. This $70 million was recorded as a one-time, pre-tax charge to reconcilable fuel revenues to reflect the anticipation of approval of the Proposed Settlement. HL&P also would establish a new fuel factor approximately 17 percent below that currently in effect and would refund to customers the balance in its fuel over-recovery account, estimated to

be approximately $180 million after giving effect to the amounts not recoverable from ratepayers.

HL&P recovers fuel costs incurred in electric generation through a fixed fuel factor that is set by the Utility Commission. The difference between fuel revenues billed pursuant to such factor and fuel expense incurred is recorded as an addition to or a reduction of revenue, with a corresponding entry to under- or over-recovered fuel, as appropriate. Amounts collected pursuant to the fixed fuel factor must be reconciled periodically against actual, reasonable costs as determined by the Utility Commission. Currently, HL&P has an over-recovery fuel account balance that will be refunded pursuant to the Proposed Settlement.

In the event that the Proposed Settlement is not approved by the Utility Commission, including issues related to the South Texas Project, Docket No. 12065 will be remanded to an Administrative Law Judge (ALJ) to resume detailed hearings in this docket. Prior to reaching agreement on the terms of the Proposed Settlement, HL&P argued that its existing rates were just and reasonable and should not be reduced. Other parties argued that rate decreases in annual amounts ranging from $26 million to $173 million were required and that additional decreases might be justified following an examination of the prudence of the management of the South Texas Project and the costs incurred in connection with the outages at the South Texas Project. Testimony filed by the Utility Commission staff included a recommendation to remove from rate base $515 million of HL&P's investment in the South Texas Project to reflect the staff's view that such investment was not fully "used and useful" in providing service, a position HL&P vigorously disputes.

In the event the Proposed Settlement is not approved by the Utility Commission, the fuel reconciliation issues in Docket Nos. 12065 and 13126 would be remanded to an ALJ for additional proceedings. A major issue in Docket No. 13126 will be whether the incremental fuel costs incurred as a result of outages at the South Texas Project represent reasonable costs. HL&P filed testimony in Docket No. 13126, which testimony concluded that the outages at the South Texas Project did not result from imprudent management. HL&P also filed testimony analyzing the extent to which regulatory issues extended the outages. In that testimony an outside consultant retained by HL&P concluded that the duration of the outages was controlled by both the resolution of NRC regulatory issues as well as necessary equipment repairs unrelated to NRC regulatory issues and that the incremental effect of NRC regulatory issues on the duration of the outages was only 39 days per unit. Estimates as to the cost of replacement power may vary significantly based on a number of factors, including the capacity factor at which the South Texas Project might be assumed to have operated had it not been out of service due to the outages. However, HL&P believes that applying a reasonable range

of assumptions would result in replacement fuel costs of less than $10 million for the 39 day periods identified by HL&P's consultant and less than $100 million for the entire length of the outages. Any fuel costs determined to have been unreasonably incurred would not be recoverable from customers and would be charged against the Company's earnings.

Although the Company and HL&P believe that the Proposed Settlement is in the best interest of HL&P, its ratepayers, and the Company and its shareholders, no assurance can be given that (i) the Utility Commission ultimately will approve the terms of the Proposed Settlement or (ii) in the event the Proposed Settlement is not approved and proceedings against HL&P resumed, that the outcome of such proceedings would be favorable to HL&P.

(4) APPEALS OF PRIOR UTILITY COMMISSION RATE ORDERS

Pursuant to a series of applications filed by HL&P in recent years, the Utility Commission has granted HL&P rate increases to reflect in electric rates HL&P's substantial investment in new plant construction, including the South Texas Project. Although Utility Commission action on those applications has been completed, judicial review of a number of the Utility Commission orders is pending. In Texas, Utility Commission orders may be appealed to a District Court in Travis County, and from that Court's decision an appeal may be taken to the Court of Appeals for the 3rd District at Austin (Austin Court of Appeals). Discretionary review by the Supreme Court of Texas may be sought from decisions of the Austin Court of Appeals. The pending appeals from the Utility Commission orders are in various stages. In the event the courts ultimately reverse actions of the Utility Commission in any of these proceedings, such matters would be remanded to the Utility Commission for action in light of the courts' orders. Because of the number of variables which can affect the ultimate resolution of such matters on remand, the Company and HL&P generally are not in a position at this time to predict the outcome of the matters on appeal or the ultimate effect that adverse action by the courts could have on the Company and HL&P. On remand, the Utility Commission's action could range from granting rate relief substantially equal to the rates previously approved to a reduction in the revenues to which HL&P was entitled during the time the applicable rates were in effect, which could require a refund to customers of amounts collected pursuant to such rates. Judicial review has been concluded or currently is pending on the final orders of the Utility Commission described below.

(a) 1991 RATE CASE. In HL&P's 1991 rate case (Docket No. 9850), the Utility Commission approved a non-unanimous settlement agreement providing for a $313 million increase in HL&P's base rates, termination of deferrals granted with respect to Unit No. 2 of the South Texas Project and of the qualified phase-in plan deferrals granted with respect to Unit No. 1 of the South Texas Project, and recovery of deferred plant costs. The settlement authorized a 12.55 percent return on common equity for HL&P. Rates contemplated by the settlement agreement were implemented in May 1991 and remain in effect (subject to the outcome of the current rate proceeding described in Note 3).

The Utility Commission's order in Docket No. 9850 was affirmed on review by a District Court, and the Austin Court of Appeals affirmed that decision on procedural grounds due to the failure of the appellant to file the record with the court in a timely manner. On review, the Texas

Supreme Court has remanded the case to the Austin Court of Appeals for consideration of the appellant's challenges to the Utility Commission's order, which include issues regarding deferred accounting, the treatment of federal income tax expense and certain other matters. As to federal tax issues, a recent decision of the Austin Court of Appeals, in an appeal involving GTE-SW (and to which HL&P was not a party), held that when a utility pays federal income taxes as part of a consolidated group, the utility's ratepayers are entitled to a fair share of the tax savings actually realized, which can include savings resulting from unregulated activities. The Texas Supreme Court has agreed to hear an appeal of that decision, but on points not involving the federal income tax issues, though tax issues could be decided in such opinion.

Because the Utility Commission's order in Docket No. 9850 found that HL&P would have been entitled to rate relief greater than the $313 million agreed to in the settlement, HL&P believes that any disallowance that might be required if the court's ruling in the GTE decision were applied in Docket No. 9850 would be offset by that greater amount. However, that amount may not be sufficient if the Austin Court of Appeals also concludes that the Utility Commission's inclusion of deferred accounting costs in the settlement was improper. For a discussion of the Texas Supreme Court's decision on deferred accounting treatment, see Note 4(c). Although HL&P believes that it could demonstrate entitlement to rate relief equal to that agreed to in the stipulation in Docket No. 9850, HL&P cannot rule out the possibility that a remand and reopening of that settlement would be required if decisions unfavorable to HL&P are rendered on both the deferred accounting treatment and the calculation of tax expense for rate making purposes.

The parties to the Proposed Settlement have agreed to withdraw their appeals of the Utility Commission's orders in such docket, subject to HL&P's dismissing its appeal in Docket No. 6668.

(b) 1988 RATE CASE. In HL&P's 1988 rate case (Docket No. 8425), the Utility Commission granted HL&P a $227 million increase in base revenues, allowed a 12.92 percent return on common equity, authorized a qualified phase-in plan for Unit No. 1 of the South Texas Project (including approximately 72 percent of HL&P's investment in Unit No. 1 of the South Texas Project in rate base) and authorized HL&P to use deferred accounting for Unit No. 2 of the South Texas Project. Rates substantially corresponding to the increase granted were implemented by HL&P in June 1989 and remained in effect until May 1991.

In August 1994, the Austin Court of Appeals affirmed the Utility Commission's order in Docket No. 8425 on all matters other than the Utility Commission's treatment of tax savings associated with deductions taken for expenses disallowed in cost of service. The court held that the Utility Commission had failed to require that such tax savings be passed on to ratepayers, and ordered that the case be remanded to the Utility Commission with instructions to adjust HL&P's cost of service accordingly. Discretionary review is being sought from the Texas Supreme Court by all parties to the proceeding.

The parties to the Proposed Settlement have agreed to dismiss their respective appeals of Docket No. 8425, subject to HL&P's dismissing its appeal in Docket No. 6668. A separate party to this appeal, however, has not agreed to dismiss its appeal.

(c) DEFERRED ACCOUNTING. Deferred accounting treatment for certain costs associated with Unit No. 1 of the South Texas Project was authorized by the Utility Commission in Docket No. 8230 and was extended in Docket No. 9010. Similar deferred accounting treatment with respect to Unit No. 2 of the South Texas Project was authorized in Docket No. 8425. For a discussion of the deferred accounting treatment granted, see Note 1(f).

In June 1994, the Texas Supreme Court decided the appeal of Docket Nos. 8230 and 9010, as well as all other pending deferred accounting cases involving other utilities, upholding deferred accounting treatment for both carrying costs and operation and maintenance expenses as within the Utility Commission's statutory authority and reversed the Austin Court of Appeals decision to the extent that the Austin Court of Appeals had rejected deferred accounting treatment for carrying charges. Because the lower appellate court had upheld deferred accounting only as to operation and maintenance expenses, the

Texas Supreme Court remanded Docket Nos. 8230 and 9010 to the Austin Court of Appeals to consider the points of error challenging the granting of deferred accounting for carrying costs which it had not reached in its earlier consideration of the case. The Texas Supreme Court opinion did state, however, that when deferred costs are considered for addition to the utility's rate base in an ensuing rate case, the Utility Commission must then determine to what extent inclusion of the deferred costs is necessary to preserve the utility's financial integrity. Under the terms of the Proposed Settlement, South Texas Project deferrals will continue to be amortized under the schedule previously established.

The Office of the Public Utility Counsel (OPUC) has agreed, pursuant to the Proposed Settlement, to withdraw and dismiss its appeal if the Proposed Settlement becomes effective and on the condition that HL&P dismisses its appeal in Docket No. 6668. However, the appeal of the State of Texas remains pending.

(d) PRUDENCE REVIEW OF THE CONSTRUCTION OF THE SOUTH TEXAS PROJECT. In June 1990, the Utility Commission ruled in a separate docket (Docket No. 6668) that had been created to review the prudence of HL&P's planning and construction of the South Texas Project that $375.5 million out of HL&P's $2.8 billion investment in the two units of the South Texas Project had been imprudently incurred. That ruling was incorporated into HL&P's 1988 and 1991 rate cases and resulted in HL&P's recording an after-tax charge of $15 million in 1990. Several parties appealed the Utility Commission's decision, but a District Court dismissed these appeals on procedural grounds. The Austin Court of Appeals reversed and directed consideration of the appeals, and the Texas Supreme Court denied discretionary review in 1994. At this time, no action has been taken by the appellants to proceed with the appeals. Unless the order in Docket No. 6668 is modified or reversed on appeal, the amount found imprudent by the Utility Commission will be sustained.

Under the Proposed Settlement, OPUC, HL&P and the City of Houston each has agreed to dismiss its respective appeals of Docket No. 6668. A separate party to this appeal, however, has not agreed to dismiss its appeal. If this party does not elect to dismiss its appeal, HL&P may elect to maintain its appeal, whereupon OPUC and City of Houston shall also be entitled to maintain their appeals.

(5) MALAKOFF

The scheduled in-service dates for the Malakoff units were postponed during the 1980's as expectations of continued strong load growth were tempered. In 1987, all developmental work was stopped and AFUDC accruals ceased. These units have been cancelled due to the availability of other cost effective resource options.

In Docket No. 8425, the Utility Commission allowed recovery of certain costs associated with the cancelled Malakoff units by amortizing those costs over ten years for rate making purposes. Such recoverable costs were not included in rate base and, as a result, no return on investment is being earned during the recovery period. The remaining balance at December 31, 1994 is $34 million with a recovery period of 66 months.

Also as a result of the final order in Docket No. 8425, the costs associated with the engineering design work for the Malakoff units were included in rate base and are earning a return. Subsequently, in December 1992, HL&P determined that such costs would have no future value and reclassified $84.1 million from plant held for future use to recoverable project costs. In 1993, an additional $7 million was reclassified to recoverable project costs. Amortization of these amounts began in 1993. The balance at December 31, 1994 was $65 million with a remaining recovery period of 60 months. The amortization amount is approximately equal to the amount currently earning a cash return in rates. The Utility Commission's decision to allow treatment of these costs as plant held for future use has been challenged in the pending appeal of the Docket No. 8425 final order. See Note 4(b) for a discussion of this proceeding.

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

HL&P's remaining investment in Malakoff lignite reserves as of December 31, 1994 of $153 million is included on the Company's Consolidated and HL&P's Balance Sheets in plant held for future use. HL&P anticipates that an additional $8 million of expenditures relating to lignite reserves will be incurred in 1995 and 1996.

In Docket No. 12065, HL&P filed testimony in support of the amortization of substantially all of its remaining investment in Malakoff, including the portion of the engineering design costs for which amortization had not previously been authorized and the amount attributable to related lignite reserves which had not previously been

addressed by the Utility Commission. Under the Proposed Settlement of Docket No. 12065, HL&P would amortize its investment in Malakoff over a period not to exceed seven years such that the entire investment will be written off no later than December 31, 2002. See Note 3. In the event that the Utility Commission does not

approve the Proposed Settlement, and if appropriate rate treatment of these amounts is not ultimately received, HL&P could be required to write off any unrecoverable portions of its Malakoff investment.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE YEARS ENDED DECEMBER 31, 1994

(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, 1994, HL&P's investments (net of accumulated depreciation and amortization) in the South Texas Project and in nuclear fuel, including AFUDC, were $2.1 billion and $99 million, respectively.

(b) UNITED STATES NUCLEAR REGULATORY COMMISSION (NRC) INSPECTIONS AND OPERATIONS. Both generating units at the South Texas Project were out of service from February 1993 to February 1994, when Unit No. 1 was returned to service. Unit No. 2 was returned to service in May 1994. HL&P removed the units from service in February 1993 when a problem was encountered with certain of the units' auxiliary feedwater pumps.

In February 1995, the NRC removed the South Texas Project from its "watch list" of plants with weaknesses that warranted increased NRC attention. The NRC placed the South Texas Project on the "watch list" in June 1993, following the issuance of a report by an NRC Diagnostic Evaluation Team (DET) which conducted a review of the South Texas Project operations.

Certain current and former employees of HL&P or contractors of HL&P have asserted claims that their employment was terminated or disrupted in retaliation for their having made safety-related complaints to the NRC. Civil proceedings by the complaining personnel and administrative proceedings by the Department of Labor remain pending against HL&P, and the NRC has jurisdiction to take enforcement action against HL&P and/or individual employees with respect to these matters. Based on its own internal investigation, in October 1994 the NRC issued a notice of violation and proposed a $100,000 civil penalty against HL&P in one such case in which HL&P had terminated the site access of a former contractor employee. In that action, the NRC also requested information relating to possible further enforcement action in this matter against two HL&P managers involved in such termination. HL&P strongly disagrees with the NRC's conclusions, and has requested the NRC to give further consideration of its notice. In February 1995, the NRC conducted an enforcement conference with respect to that matter, but no result has been received.

HL&P has provided documents and other assistance to a subcommittee of the U. S. House of Representatives (Subcommittee) that is conducting an inquiry related to the South Texas Project. Although the precise focus and timing of the inquiry has not been identified by the Subcommittee, it is anticipated that the Subcommittee will inquire into matters related to HL&P's handling of employee concerns and to issues related to the NRC's 1993 DET review of the South Texas Project. In connection with that inquiry, HL&P has been advised that the U. S. General Accounting Office (GAO) is conducting a review of the NRC's inspection process as it relates to the South Texas Project and other plants, and HL&P is cooperating with the GAO in its investigation and with the NRC in a similar review it has initiated. While no prediction can be made at this time as to the ultimate outcome of these matters, the Company and HL&P do not believe that they will have a material adverse effect on the Company's or HL&P's financial condition or results of operations.

(c) LITIGATION WITH CO-OWNERS OF THE SOUTH TEXAS PROJECT. In February 1994, the City of Austin (Austin), one of the four co-owners of the South Texas Project, filed suit (Austin II Litigation) against HL&P. That suit is pending in the 152nd District Court for Harris County, Texas, which has set a trial date for October 1995. 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 under the terms and conditions of the Operating Licenses and Technical Specifications relating to the South Texas Project. Austin claims that such failures have caused Austin damages of at least $125 million due to the incurrence of increased operating and maintenance costs, the cost of replacement power and lost profits on wholesale transactions that did not occur. 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. San Antonio has not identified the amount of damages it intends to seek from HL&P. HL&P is contesting San Antonio's intervention and has called for arbitration of San Antonio's claim under the arbitration provisions of the Participation Agreement. The trial court has denied HL&P's requests, but review of these decisions is currently pending before the 1st Court of Appeals in Houston.

In a previous lawsuit (Austin I Litigation) filed in 1983 against the Company and HL&P, Austin alleged that it had been fraudulently induced to participate in the South Texas Project and that HL&P had failed to perform properly its duties as project manager. In May 1993, the courts entered a judgement in favor of the Company and HL&P, concluding, among other things, that the Participation Agreement did not impose on HL&P a duty to exercise reasonable skill and care as project manager. During the course of the Austin I Litigation, San Antonio and Central Power and Light Company (CPL), a subsidiary of Central and South West Corporation, two of the co-owners in the South Texas Project, also asserted claims for unspecified damages against HL&P as project manager of the South Texas Project, alleging HL&P breached its duties and obligations. San Antonio and CPL requested arbitration of their claims under the Participation Agreement. In 1992, the Company and HL&P entered into a settlement agreement with CPL (CPL Settlement) providing for CPL's withdrawal of its demand for arbitration. San Antonio's claims for arbitration remain pending. Under the Participation Agreement, San Antonio's arbitration claims will be heard by a panel of five arbitrators consisting of four arbitrators named by each co-owner and a fifth arbitrator selected by the four appointed arbitrators.

Although the CPL Settlement did not directly affect San Antonio's pending demand for arbitration, HL&P and CPL reached certain understandings in such agreement which contemplated that: (i) CPL's previously appointed arbitrator would be replaced by CPL; (ii) arbitrators approved by CPL or HL&P in any future arbitrations would be mutually acceptable to HL&P and CPL; and (iii) HL&P and CPL would resolve any future disputes between them concerning the South Texas Project without resorting to the arbitration provision of the Participation Agreement. Austin and San Antonio have asserted in the pending Austin II Litigation that such understandings have rendered the arbitration provisions of the Participation Agreement void and that neither Austin nor San Antonio should be required to participate in or be bound by such proceedings.

Although HL&P and the Company do not believe there is merit to either Austin's or San Antonio's claims and have opposed San Antonio's intervention in the Austin II Litigation, there can be no assurance as to the ultimate outcome of these matters.

(d) 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 the maximum amount of property damage insurance currently available through the insurance industry, consisting 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 on March 1, 1995 and under portions of the excess property insurance coverage in effect prior to March 1, 1995, HL&P and the other owners of the South Texas Project are subject to assessments, the maximum aggregate assessment under current policies being $26.9 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 decreased from $9.0 billion to $8.92 billion effective in November 1994. Owners are required under the Act to insure their liability for nuclear incidents and protective evacuations by maintaining the maximum amount of financial protection available from private sources and by maintaining secondary financial protection through an industry retrospective rating plan. The assessment of deferred premiums provided by the plan 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.

(e) NUCLEAR DECOMMISSIONING. HL&P and the other co-owners of the South Texas Project are required by the NRC to meet minimum decommissioning funding requirements to pay the costs of decommissioning the South Texas Project. Pursuant to the terms of the order of the Utility Commission in Docket No. 9850, HL&P is currently funding decommissioning costs for the South Texas Project with an independent trustee at an annual amount of $6 million, which is recorded in depreciation and amortization expense. HL&P's funding level is estimated to provide approximately $146 million, in 1989 dollars, an amount which exceeds the current NRC minimum.

The Company adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," effective January 1, 1994. At December 31, 1994, the securities held in the Company's nuclear decommissioning trust totaling $25.1 million (reflected on the Company's Consolidated and HL&P's Balance Sheets in deferred debits and deferred credits) are classified as available for sale. Such securities are reported on the balance sheets at fair value, which at December 31, 1994 approximates cost, and any unrealized gains or losses will be reported as a separate

component of common stock equity. Earnings, net of taxes and administrative costs, are reinvested in the funds.

In May 1994, an outside consultant estimated HL&P's portion of decommissioning costs to be approximately $318 million, in 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. Under the terms of the Proposed Settlement, HL&P would increase funding of decommissioning costs to an annual amount of approximately $14.8 million consistent with such study. 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 or the assumptions used in estimating decommissioning costs will ultimately prove to be correct.

(3) RATE REVIEW, FUEL RECONCILIATION AND OTHER PROCEEDINGS

In February 1994, the Utility Commission initiated a proceeding (Docket No. 12065) to determine whether HL&P's existing rates are just and reasonable. Subsequently, the scope of the docket was expanded to include reconciliation of HL&P's fuel costs from April 1, 1990 to July 31, 1994. The Utility Commission also initiated a separate proceeding (Docket No. 13126) to review issues regarding the prudence of operation of the South Texas Project from the date of commercial operation through the present. That review would encompass the outage at the South Texas Project during 1993 through 1994.

Hearings began in Docket No. 12065 in January 1995, and the Utility Commission has retained a consultant to review the South Texas Project for the purpose of providing testimony in Docket No. 13126 regarding the prudence of HL&P's management of operation of the South Texas Project. In February 1995, all major parties to these proceedings signed the Proposed Settlement resolving the issues with respect to HL&P, including the prudence issues related to operation of the South Texas Project. Approval of the Proposed Settlement by the Utility Commission will be required. To that end, the parties have established procedural dates for a hearing on issues raised by the parties who are opposed to the Proposed Settlement. A decision by the Utility Commission on the Proposed Settlement is not anticipated before early summer.

Under the Proposed Settlement, HL&P's base rates would be reduced by approximately $62 million per year, effective retroactively to January 1, 1995, and rates would be frozen for three years, subject to certain conditions. Under the Proposed Settlement, HL&P would amortize its remaining investment of $218 million in the cancelled Malakoff plant over a period not to exceed seven years. HL&P also would increase its decommissioning expense for the South Texas Project by $9 million per year.

Under the Proposed Settlement, approximately $70 million of fuel expenditures and related interest incurred by HL&P during the fuel reconciliation period would not be recoverable from ratepayers. This $70 million was recorded as a one-time, pre-tax charge to reconcilable fuel revenues to reflect the anticipation of approval of the Proposed Settlement. HL&P also would establish a new fuel factor approximately 17 percent below that currently in effect and would

refund to customers the balance in its fuel over-recovery account, estimated to be approximately $180 million after giving effect to the amounts not recoverable from ratepayers.

HL&P recovers fuel costs incurred in electric generation through a fixed fuel factor that is set by the Utility Commission. The difference between fuel revenues billed pursuant to such factor and fuel expense incurred is recorded as an addition to or a reduction of revenue, with a corresponding entry to under- or over-recovered fuel, as appropriate. Amounts collected pursuant to the fixed fuel factor must be reconciled periodically against actual, reasonable costs as determined by the Utility Commission. Currently, HL&P has an over-recovery fuel account balance that will be refunded pursuant to the Proposed Settlement.

In the event that the Proposed Settlement is not approved by the Utility Commission, including issues related to the South Texas Project, Docket No. 12065 will be remanded to an Administrative Law Judge (ALJ) to resume detailed hearings in this docket. Prior to reaching agreement on the terms of the Proposed Settlement, HL&P argued that its existing rates were just and reasonable and should not be reduced. Other parties argued that rate decreases in annual amounts ranging from $26 million to $173 million were required and that additional decreases might be justified following an examination of the prudence of the management of the South Texas Project and the costs incurred in connection with the outages at the South Texas Project. Testimony filed by the Utility Commission staff included a recommendation to remove from rate base $515 million of HL&P's investment in the South Texas Project to reflect the staff's view that such investment was not fully "used and useful" in providing service, a position HL&P vigorously disputes.

In the event the Proposed Settlement is not approved by the Utility Commission, the fuel reconciliation issues in Docket Nos. 12065 and 13126 would be remanded to an ALJ for additional proceedings. A major issue in Docket No. 13126 will be whether the incremental fuel costs

incurred as a result of outages at the South Texas Project represent reasonable costs. HL&P filed testimony in Docket No. 13126, which testimony concluded that the outages at the South Texas Project did not result from imprudent management. HL&P also filed testimony analyzing the extent to which regulatory issues extended the outages. In that testimony an outside consultant retained by HL&P concluded that the duration of the outages was controlled by both the resolution of NRC regulatory issues as well as necessary equipment repairs unrelated to NRC regulatory issues and that the incremental effect of NRC regulatory issues on the duration of the outages was only 39 days per unit. Estimates as to the cost of replacement power may vary significantly based on a number of factors, including the capacity factor at which the South Texas Project might be assumed to have operated had it not been out of service due to the outages. However, HL&P believes that applying a reasonable range of assumptions would result in replacement fuel costs of less than $10 million for the 39 day periods identified by HL&P's consultant and less than $100 million for the entire length of the outages. Any fuel costs determined to have been unreasonably incurred would not be recoverable from customers and would be charged against the Company's earnings.

Although the Company and HL&P believe that the Proposed Settlement is in the best interest of HL&P, its ratepayers, and the Company and its shareholders, no assurance can be given that (i) the Utility Commission ultimately will approve the terms of the Proposed Settlement or

(ii) in the event the Proposed Settlement is not approved and proceedings against HL&P resumed, that the outcome of such proceedings would be favorable to HL&P.

(4) APPEALS OF PRIOR UTILITY COMMISSION RATE ORDERS

Pursuant to a series of applications filed by HL&P in recent years, the Utility Commission has granted HL&P rate increases to reflect in electric rates HL&P's substantial investment in new plant construction, including the South Texas Project. Although Utility Commission action on those applications has been completed, judicial review of a number of the Utility Commission orders is pending. In Texas, Utility Commission orders may be appealed to a District Court in Travis County, and from that Court's decision an appeal may be taken to the Court of Appeals for the 3rd District at Austin (Austin Court of Appeals). Discretionary review by the Supreme Court of Texas may be sought from decisions of the Austin Court of Appeals. The pending appeals from the Utility Commission orders are in various stages. In the event the courts ultimately reverse actions of the Utility Commission in any of these proceedings, such matters would be remanded to the Utility Commission for action in light of the courts' orders. Because of the number of variables which can affect the ultimate resolution of such matters on remand, the Company and HL&P generally are not in a position at this time to predict the outcome of the matters on appeal or the ultimate effect that adverse action by the courts could have on the Company and HL&P. On remand, the Utility Commission's action could range from granting rate relief substantially equal to the rates previously approved to a reduction in the revenues to which HL&P was entitled during the time the applicable rates were in effect, which could require a refund to customers of amounts collected pursuant to such rates. Judicial review has been concluded or currently is pending on the final orders of the Utility Commission described below.

(a) 1991 RATE CASE. In HL&P's 1991 rate case (Docket No. 9850), the Utility Commission approved a non-unanimous settlement agreement providing for a $313 million increase in HL&P's base rates, termination of deferrals granted with respect to Unit No. 2 of the South Texas Project and of the qualified phase-in plan deferrals granted with respect to Unit No. 1 of the South Texas Project, and recovery of deferred plant costs. The settlement authorized a 12.55 percent return on common equity for HL&P. Rates contemplated by the settlement agreement were implemented in May 1991 and remain in effect (subject to the outcome of the current rate proceeding described in Note 3).

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Texas Supreme Court has agreed to hear an appeal of that decision, but on points not involving the federal income tax issues, though tax issues could be decided in such opinion.

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Appeals also concludes that the Utility Commission's inclusion of deferred accounting costs in the settlement was improper. For a discussion of the Texas Supreme Court's decision on deferred accounting treatment, see Note 4(c). Although HL&P believes that it could demonstrate entitlement to rate relief equal to that agreed to in the stipulation in Docket No. 9850, HL&P cannot rule out the possibility that a remand and reopening of that settlement would be required if decisions unfavorable to HL&P are rendered on both the deferred accounting treatment and the calculation of tax expense for rate making purposes.

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The parties to the Proposed Settlement have agreed to dismiss their respective appeals of Docket No. 8425, subject to HL&P's dismissing its appeal in Docket No. 6668. A separate party to this appeal, however, has not agreed to dismiss its appeal.

(c) DEFERRED ACCOUNTING. Deferred accounting treatment for certain costs associated with Unit No. 1 of the South Texas Project was authorized by the Utility Commission in Docket No. 8230 and was extended in Docket No. 9010. Similar deferred accounting treatment with respect to Unit No. 2 of the South Texas Project was authorized in Docket No. 8425. For a discussion of the deferred accounting treatment granted, see Note 1(f).

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

The Office of the Public Utility Counsel (OPUC) has agreed, pursuant to the Proposed Settlement, to withdraw and dismiss its appeal if the Proposed Settlement becomes effective and on the condition that HL&P dismisses its appeal in Docket No. 6668. However, the appeal of the State of Texas remains pending.

(d) PRUDENCE REVIEW OF THE CONSTRUCTION OF THE SOUTH TEXAS PROJECT. In June 1990, the Utility Commission ruled in a separate docket (Docket No. 6668) that had been created to review the prudence of HL&P's planning and construction of the South Texas Project that $375.5 million out of HL&P's $2.8 billion investment in the two units of the South Texas Project had been imprudently incurred. That ruling was incorporated into HL&P's 1988 and 1991 rate cases and resulted in HL&P's recording an after-tax charge of $15 million in 1990. Several parties appealed the Utility Commission's decision, but a District Court dismissed these appeals on procedural grounds. The Austin Court of Appeals reversed and directed consideration of the appeals, and the Texas Supreme Court denied discretionary review in 1994. At this time, no action has been taken by the appellants to proceed with the appeals. Unless the order in Docket No. 6668 is modified or reversed on appeal, the amount found imprudent by the Utility Commission will be sustained.

Under the Proposed Settlement, OPUC, HL&P and the City of Houston each has agreed to dismiss its respective appeals of Docket No. 6668. A separate party to this appeal, however, has not agreed to dismiss its appeal. If this party does not elect to dismiss its appeal, HL&P may elect to maintain its appeal, whereupon OPUC and City of Houston shall also be entitled to maintain their appeals.