FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
SEC Accession No. 0000890566-94-000219

(HTML Version on secdatabase.com)

FILER

HOUSTON INDUSTRIES INC
CIK:**202131**| IRS No.: **741885573** | State of Incorp.:**TX** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-07629** | Film No.: **94528400**
SIC: **4911** Electric services

Mailing Address
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HOUSTON TX 77210

Business Address
4400 POST OAK PKWY
5 POST OAK PK
HOUSTON TX 77027
7136293000

HOUSTON LIGHTING & POWER CO
CIK:**48732**| IRS No.: **740694415** | State of Incorp.:**TX** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-03187** | Film No.: **94528401**
SIC: **4911** Electric services

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611 WALKER
HOUSTON TX 77002

Business Address
611 WALKER AVE
HOUSTON TX 77002
7132289211

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, 1994.

OR

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

For the transition period from _____ to _____

Commission file number 1-7629

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

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

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

Commission file number 1-3187

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

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

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

_____

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

As of April 30, 1994, Houston Industries Incorporated had 130,708,985 shares of common stock outstanding. As of April 30, 1994, all 1,000 authorized and outstanding shares of Houston Lighting & Power Company's Class A voting common stock, without par value, were held by Houston Industries Incorporated and all 100 authorized and outstanding shares of Houston Lighting & Power Company's Class B non-voting common stock were held by Houston Industries (Delaware) Incorporated.

HOUSTON INDUSTRIES INCORPORATED AND HOUSTON LIGHTING & POWER COMPANY
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 1994

This combined Form 10-Q is separately filed by Houston Industries Incorporated and Houston Lighting & Power Company. Information contained herein relating to Houston Lighting & Power Company is filed by Houston Industries Incorporated and separately by Houston Lighting

& Power Company on its own behalf. Houston Lighting & Power Company makes no representation as to information relating to Houston Industries Incorporated (except as it may relate to Houston Lighting & Power Company) or to any other affiliate or subsidiary of Houston Industries Incorporated.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	PAGE NO.
Item 1. Financial Statements	
Houston Industries Incorporated and Subsidiaries	
Statements of Consolidated Income Three Months Ended March 31, 1994 and 1993	3
Consolidated Balance Sheets March 31, 1994 and December 31, 1993	5
Statements of Consolidated Cash Flows Three Months Ended March 31, 1994 and 1993	7
Statements of Consolidated Retained Earnings Three Months Ended March 31, 1994 and 1993	9
Notes to Consolidated Financial Statements	16
Houston Lighting & Power Company	
Statements of Income Three Months Ended March 31, 1994 and 1993	10
Balance Sheets March 31, 1994 and December 31, 1993	11
Statements of Cash Flows Three Months Ended March 31, 1994 and 1993	13
Statements of Retained Earnings Three Months Ended March 31, 1994 and 1993	15
Notes to Financial Statements	16
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	24
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	31
Item 5. Other Information	32
Item 6. Exhibits and Reports on Form 8-K	35
Signatures	37

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
(Thousands of Dollars)

	Three Months Ended March 31, 1994	1993
REVENUES:		
Electric	$ 821,581	$ 805,685
Cable television	60,520	60,274
Total	882,101	865,959
EXPENSES:		
Electric:		
Fuel	217,188	198,563
Purchased power	98,549	129,699
Operation and maintenance	193,851	195,236
Taxes other than income taxes	63,112	61,864

Cable television operating expenses	39,227	36,841
Depreciation and amortization	119,501	115,775
Total	731,428	737,978
OPERATING INCOME	150,673	127,981
OTHER INCOME (EXPENSE):		
Allowance for other funds used during construction	1,316	708
Interest income	8,418	8,140
Equity in income of cable television partnerships	7,910	7,022
Other - net	(8,329)	1,932
Total	9,315	17,802
INTEREST AND OTHER FIXED CHARGES:		
Interest on long-term debt	87,013	97,076
Other interest	5,726	3,789
Allowance for borrowed funds used during construction	(1,688)	(744)
Preferred dividends of subsidiary	8,273	9,145
Total	99,324	109,266
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS	60,664	36,517
INCOME TAXES	22,289	9,462
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS	38,375	27,055
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS (NET OF INCOME TAXES OF $4,415)	(8,200)	
NET INCOME	$ 30,175	$ 27,055

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
(Thousands of Dollars)
(continued)

	Three Months Ended March 31,	
	1994	1993
EARNINGS PER COMMON SHARE:		
EARNINGS PER COMMON SHARE BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS	$ .29	$ .21
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS	(.06)	
EARNINGS PER COMMON SHARE	$ .23	$ .21
DIVIDENDS DECLARED PER COMMON SHARE	$ .75	$ .75
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (000)	130,707	129,600

See Notes to Consolidated Financial Statements.

<TABLE>

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

<CAPTION>

ASSETS

	March 31, 1994	December 31, 1993
<S>	<C>	<C>
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric plant:		
Plant in service	$ 11,616,776	$ 11,480,244
Construction work in progress	178,123	242,661

Nuclear fuel	211,794	211,785
Plant held for future use	197,607	196,330
Electric plant acquisition adjustments	3,166	3,166
Cable television property	378,165	372,178
Other property	50,377	47,494
Total	12,636,008	12,553,858
Less accumulated depreciation and amortization	3,434,546	3,355,616
Property, plant and equipment - net	9,201,462	9,198,242
CURRENT ASSETS:		
Cash and cash equivalents	19,078	14,884
Special deposits	6,811	11,834
Accounts receivable:		
Customers - net	7,916	4,985
Others	21,736	11,153
Accrued unbilled revenues	24,881	29,322
Fuel stock, at lifo cost	58,531	58,585
Materials and supplies, at average cost	163,388	166,477
Prepayments	13,552	20,432
Total current assets	315,893	317,672
OTHER ASSETS:		
Cable television franchises and intangible assets - net	971,495	984,032
Deferred plant costs	658,254	664,699
Deferred debits	370,661	371,773
Unamortized debt expense and premium on reacquired debt	169,101	169,465
Equity investment in cable television partnerships	134,341	122,531
Equity investment in foreign electric utility	36,065	36,984
Regulatory asset - net	244,869	246,763
Recoverable project costs	112,931	118,016
Total other assets	2,697,717	2,714,263
Total	$ 12,215,072	$ 12,230,177

</TABLE>
See Notes to Consolidated Financial Statements.

<TABLE>

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

CAPITALIZATION AND LIABILITIES

<CAPTION>

	March 31, 1994	December 31, 1993
<S>	<C>	<C>
CAPITALIZATION:		
Common Stock Equity:		
Common stock, no par value	$ 2,418,551	$ 2,415,256
Note receivable from ESOP	(332,489)	(332,489)
Retained earnings	1,125,167	1,191,230
Total common stock equity	3,211,229	3,273,997
Preference Stock, no par value, authorized 10,000,000 shares; none outstanding		
Cumulative Preferred Stock of Subsidiary, no par value:		
Not subject to mandatory redemption	351,345	351,354
Subject to mandatory redemption	167,236	167,236
Total cumulative preferred stock	518,581	518,590
Long-Term Debt:		
Debentures	548,590	548,544
Long-term debt of subsidiaries:		
Electric:		
First mortgage bonds	3,019,982	3,019,843
Pollution control revenue bonds	155,225	155,218
Cable television:		
Senior bank debt	364,000	364,000
Senior and subordinated notes	124,783	140,580
Other	13,935	15,010
Total long-term debt	4,226,515	4,243,195

Total capitalization	7,956,325	8,035,782
CURRENT LIABILITIES:		
Notes payable	813,316	591,385
Accounts payable	183,413	239,814
Taxes accrued	77,675	187,503
Interest accrued	82,116	84,178
Dividends accrued	105,170	105,207
Accrued liabilities to municipalities	18,677	22,589
Customer deposits	65,546	65,604
Current portion of long-term debt and preferred stock	41,822	55,109
Other	70,724	62,688
Total current liabilities	1,458,459	1,414,077
DEFERRED CREDITS:		
Accumulated deferred income taxes	1,988,962	1,987,336
Unamortized investment tax credit	429,659	434,597
Other	381,667	358,385
Total deferred credits	2,800,288	2,780,318
COMMITMENTS AND CONTINGENCIES		
Total	$ 12,215,072	$ 12,230,177

</TABLE>

See Notes to Consolidated Financial Statements.

<TABLE>

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, 1994	1993
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 30,175	$ 27,055
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	119,501	115,775
Amortization of nuclear fuel	257	2,101
Deferred income taxes	6,041	8,750
Investment tax credits	(4,938)	(5,072)
Allowance for other funds used during construction	(1,316)	(708)
Fuel cost (refund) and over/(under) recovery - net	16,008	(2,739)
Equity in income of cable television partnerships	(7,910)	(7,022)
Cumulative effect of change in accounting for postemployment benefits	8,200	
Changes in other assets and liabilities:		
Accounts receivable and accrued unbilled revenues	(9,073)	289,489
Inventory	3,143	2,806
Other current assets	11,903	6,137
Accounts payable	(56,401)	(57,716)
Interest and taxes accrued	(108,890)	(120,235)
Other current liabilities	3,991	(19,063)
Other - net	4,357	15,385
Net cash provided by operating activities	15,048	254,943
CASH FLOWS FROM INVESTING ACTIVITIES:		
Electric capital expenditures (including allowance for borrowed funds used during construction)	(88,038)	(65,884)
Cable television additions	(12,127)	(7,496)

Other - net	(8,380)	(3,188)
Net cash used in investing activities	(108,545)	(76,568)

</TABLE>

<TABLE>

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

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

<CAPTION>

	Three Months Ended March 31, 1994	1993
<S>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from common stock		$ 9,455
Proceeds from first mortgage bonds		396,798
Proceeds from senior bank debt		20,000
Payment of matured bonds	$ (19,500)	(136,000)
Payment of senior bank debt	(167,349)	
Payment of senior and subordinated notes	(10,384)	(6,372)
Payment of common stock dividends	(98,032)	(97,190)
Increase in notes payable - net	221,931	851
Other - net	3,676	(1,014)
Net cash provided by financing activities	97,691	19,179
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,194	197,554
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,884	69,317
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 19,078	$ 266,871
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest (net of amounts capitalized)	$ 96,835	$ 97,354
Income taxes	23,365	33,715

</TABLE>

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31, 1994	1993
Balance at Beginning of Period	$ 1,191,230	$ 1,254,584
Net Income for the Period	30,175	27,055
Total	1,221,405	1,281,639
Common Stock Dividends	(98,070)	(97,190)
Tax Benefit of ESOP Dividends	1,832	1,563
Balance at End of Period	$ 1,125,167	$ 1,186,012

See Notes to Consolidated Financial Statements.

HOUSTON LIGHTING & POWER COMPANY
STATEMENTS OF INCOME
(Thousands of Dollars)

	Three Months Ended March 31, 1994	1993
OPERATING REVENUES	$ 821,581	$ 805,685

OPERATING EXPENSES:		
Fuel	217,188	198,563
Purchased power	98,549	129,699
Operation	132,967	140,607
Maintenance	60,884	54,629
Depreciation and amortization	98,929	96,216
Income taxes	27,073	10,947
Other taxes	63,112	61,864
Total	698,702	692,525
OPERATING INCOME	122,879	113,160
OTHER INCOME (EXPENSE):		
Allowance for other funds used during construction	1,316	708
Other - net	(2,986)	367
Total	(1,670)	1,075
INCOME BEFORE INTEREST CHARGES	121,209	114,235
INTEREST CHARGES:		
Interest on long-term debt	61,842	69,605
Other interest	2,896	4,655
Allowance for borrowed funds used during construction	(1,688)	(744)
Total	63,050	73,516
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS	58,159	40,719
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS (NET OF INCOME TAXES OF $4,415)	(8,200)	
NET INCOME	49,959	40,719
DIVIDENDS ON PREFERRED STOCK	8,273	9,145
INCOME AFTER PREFERRED DIVIDENDS	$ 41,686	$ 31,574

See Notes to Financial Statements.

<TABLE>

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

<CAPTION>

ASSETS

	March 31, 1994	December 31, 1993
<S>	<C>	<C>
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric plant in service	$ 11,616,776	$ 11,480,244
Construction work in progress	178,123	242,661
Plant held for future use	197,607	196,330
Nuclear fuel	211,794	211,785
Electric plant acquisition adjustments	3,166	3,166
Total	12,207,466	12,134,186
Less accumulated depreciation and amortization	3,268,419	3,194,127
Property, plant and equipment - net	8,939,047	8,940,059
CURRENT ASSETS:		
Cash and cash equivalents	8,594	12,413
Special deposits	6,811	11,834
Accounts receivable:		
Affiliated companies	903	1,792
Others	14,753	2,540
Accrued unbilled revenues	24,881	29,322
Inventory:		
Fuel stock, at lifo cost	58,531	58,585
Materials and supplies, at average cost	157,219	160,371

Prepayments	4,606	9,234
Total current assets	276,298	286,091
OTHER ASSETS:		
Deferred plant costs	658,254	664,699
Deferred debits	319,414	333,620
Unamortized debt expense and premium on reacquired debt	164,222	164,368
Regulatory asset - net	244,869	246,763
Recoverable project costs	112,931	118,016
Total other assets	1,499,690	1,527,466
Total	$ 10,715,035	$ 10,753,616

See Notes to Financial Statements.

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

CAPITALIZATION AND LIABILITIES

	March 31, 1994	December 31, 1993
CAPITALIZATION:		
Common Stock Equity:		
Common stock, class A; no par value	$ 1,524,949	$ 1,524,949
Common stock, class B; no par value	150,978	150,978
Retained earnings	1,990,614	2,028,924
Total common stock equity	3,666,541	3,704,851
Cumulative Preferred Stock:		
Not subject to mandatory redemption	351,345	351,354
Subject to mandatory redemption	167,236	167,236
Total cumulative preferred stock	518,581	518,590
Long-Term Debt:		
First mortgage bonds	3,019,982	3,019,843
Pollution control revenue bonds	155,225	155,218
Other	13,935	15,010
Total long-term debt	3,189,142	3,190,071
Total capitalization	7,374,264	7,413,512
CURRENT LIABILITIES:		
Notes payable	335,830	171,100
Accounts payable	120,577	190,583
Accounts payable to affiliated companies	8,425	8,449
Taxes accrued	95,180	187,517
Interest and dividends accrued	57,458	65,238
Accrued liabilities to municipalities	18,677	22,589
Customer deposits	65,546	65,604
Current portion of long-term debt and preferred stock	26,025	44,725
Other	71,994	63,607
Total current liabilities	799,712	819,412
DEFERRED CREDITS:		
Accumulated deferred federal income taxes	1,803,483	1,798,976
Unamortized investment tax credit	426,156	430,996
Other	311,420	290,720
Total deferred credits	2,541,059	2,520,692
COMMITMENTS AND CONTINGENCIES		
Total	$ 10,715,035	$ 10,753,616

See Notes to Financial Statements.

<TABLE>

HOUSTON LIGHTING & POWER COMPANY
STATEMENTS OF CASH FLOWS

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

<CAPTION>

	Three Months Ended March 31, 1994	1993
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 49,959	$ 40,719
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	98,929	96,216
Amortization of nuclear fuel	257	2,101
Deferred income taxes	8,922	7,526
Investment tax credits	(4,840)	(4,973)
Allowance for other funds used during construction	(1,316)	(708)
Fuel cost (refund) and over (under) recovery - net	16,008	(2,739)
Cumulative effect of change in accounting for postemployment benefits	8,200	
Accounts receivable - net	(6,883)	160,329
Material and supplies	3,152	2,490
Fuel stock	54	1,021
Accounts payable	(70,030)	(49,933)
Interest and taxes accrued	(100,117)	(117,196)
Changes in other assets and liabilities:		
Other current liabilities	5,180	447
Other - net	22,262	17,201
Net cash provided by operating activities	29,737	152,501
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and nuclear fuel expenditures (including allowance for borrowed funds used during construction)	(88,038)	(65,884)
Other - net	(2,556)	(3,125)
Net cash used in investing activities	(90,594)	(69,009)

</TABLE>

<TABLE>

HOUSTON LIGHTING & POWER COMPANY
STATEMENTS OF CASH FLOWS

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

(CONTINUED)

<CAPTION>

	Three Months Ended March 31, 1994	1993
<S>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from first mortgage bonds		$ 396,798
Payment of matured bonds	$ (19,500)	(136,000)
Payment of dividends	(88,233)	(112,510)
Increase in notes payable	164,730	28,560
Decrease in notes payable to affiliated company		(19,000)
Other - net	41	18,310
Net cash provided by financing activities	57,038	176,158
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,819)	259,650
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,413	4,253

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 8,594	$ 263,903
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest (net of amounts capitalized or deferred)	$ 72,111	$ 78,669
Income taxes	14,821	30,999

</TABLE>

See Notes to Financial Statements.

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

	Three Months Ended March 31, 1994	1993
Balance at Beginning of Period .	$ 2,028,924	$ 1,922,558
Net Income for the Period	49,959	40,719
Total	2,078,883	1,963,277
Deduct - Cash Dividends:		
Preferred	8,273	9,145
Common	79,996	102,996
Total	88,269	112,141
Balance at End of Period	$ 1,990,614	$ 1,851,136

See Notes to Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AND

HOUSTON LIGHTING & POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

(1) REGULATORY PROCEEDINGS AND LITIGATION REFERENCE

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

(2) COMMON STOCK

COMPANY. At March 31, 1994, and December 31, 1993, the Company had authorized 400,000,000 shares of common stock, of which 130,708,985 and 130,658,755 shares, respectively, were outstanding.

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

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

(3) HL&P PREFERRED STOCK

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

(4) EARNINGS PER COMMON SHARE

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

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

(5) LONG-TERM DEBT

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

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

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

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

The Company and HL&P adopted Statement of Financial Accounting Standards (SFAS) No. 112, "Employer's Accounting for Postemployment Benefits", effective January 1, 1994. SFAS No. 112 requires 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.

(7) ENVIRONMENTAL AND CABLE REGULATIONS

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

(b) IMPACT OF THE CABLE TELEVISION CONSUMER PROTECTION AND COMPETITION ACT OF 1992 ON KBLCOM INCORPORATED (KBLCOM). In March 1994, the Federal Communications Commission (FCC) issued its revised benchmark rules (Rate Rule II) as well as its interim cost-of-service rule (Interim COS Rule). Each of these rules will become effective on May 15, 1994. Rate Rule II revises the "benchmark formulas" established by the FCC in May 1993. Under Rate Rule II (which will be applied prospectively), cable operators must reduce their existing rates to the higher of (i) the rates calculated using the revised benchmark formulas (Revised Benchmarks) or (ii) a level 17% below such cable operators' rates as of September

30, 1992, adjusted for inflation. Cable operators which cannot or do not wish to comply with the Revised Benchmarks may choose to justify their existing rates under the Interim COS Rule. The Interim COS Rule establishes a cost-of-service rate system similar to that used in the telephone industry. KBLCOM expects that it will sustain higher operating costs and increased administrative burdens under these new rules, and that the Revised Benchmarks will impose some additional reductions in KBLCOM's rates for regulated services. In light of the lengthy and complex nature of these rules, it is impossible at this time to assess the detailed impact of Rate Rule II or the Interim COS Rule on KBLCOM's financial position and results of operations.

(8) JOINTLY-OWNED NUCLEAR PLANT

(A) HL&P INVESTMENT. HL&P is project manager and one of four co-owners in the South Texas Project Electric Generating Station (South Texas Project), which consists of two 1,250 megawatt nuclear generating units. Each co-owner funds its own share of capital and operating costs associated with the plant, with HL&P's interest in the project being 30.8%. HL&P's share of the operation and maintenance expenses is included in electric operation and maintenance expenses on the Company's Statements of Consolidated Income and in the corresponding operating expense amounts on HL&P's Statements of Income. As of March 31, 1994, HL&P's investments (net of accumulated depreciation and amortization) in the South Texas Project and in nuclear fuel, including Allowance for Funds Used During Construction, were $2.1 billion and $119 million, respectively.

(B) CITY OF AUSTIN LITIGATION. In February 1994, the City of Austin (Austin), one of the other owners of the South Texas Project, filed suit against HL&P in the 164th District Court for Harris County, Texas. Austin alleges that the outages at the South Texas Project since February 1993 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 contractual obligations allegedly owed to Austin 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, which are continuing, due to the incurrence of increased operating and maintenance costs, the cost of replacement power and lost profits on wholesale transactions that did not occur.

As it did in litigation filed against HL&P in 1983, Austin asserts that HL&P breached obligations HL&P owed under the Participation Agreement to Austin, and Austin seeks a declaration that HL&P had a duty to exercise reasonable care in the operation and maintenance of the South Texas Project. In that earlier litigation (which was won by HL&P at trial, affirmed on appeal and became final in 1993), however, the courts concluded that the Participation Agreement did not impose on HL&P a duty to exercise reasonable skill and care as project manager.

Austin also asserts in its current suit that certain terms of a settlement reached in 1992 among HL&P and Central and South West Corporation (CSW) and its subsidiary, Central Power and Light Company (CPL), another co-owner of the South Texas Project, are invalid and void. The Participation Agreement permits arbitration of certain disputes among the owners, and the challenged settlement terms provide that in any future arbitration, HL&P and CPL would each appoint an arbitrator acceptable to the other. Austin asserts that, as a result of this agreement, the arbitration provisions of the Participation Agreement are void and Austin should not be required to participate in or be bound by arbitration proceedings. Alternatively, Austin asserts that HL&P's rights with respect to CPL's appointment of an arbitrator should be shared with all the owners or cancelled, and Austin seeks injunctive relief against arbitration of its dispute with HL&P.

HL&P and the Company do not believe there is merit to Austin's claims, and they intend to defend vigorously against them.

However, there can be no assurance as to the ultimate outcome of this matter.

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

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

(D) NUCLEAR INSURANCE. HL&P and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverages as required by law and periodically review available limits and coverage for additional protection. 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 9(d) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K, which Note is incorporated herein by reference.

(E) NUCLEAR DECOMMISSIONING. For information regarding the nuclear decommissioning costs of the South Texas Project and the current review of such costs by HL&P, see Note 9(e) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K, which Note is incorporated herein by reference.

(F) 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 is currently scheduled to resume operation after completion of regulatory reviews in late spring of 1994. HL&P removed the units from service in February 1993 when a problem was encountered with certain of the units' auxiliary feedwater pumps. At that time, HL&P concluded, and the NRC confirmed, that the units should not resume operation until HL&P had determined the root cause of the failure, had briefed the NRC and had taken corrective action.

The South Texas Project is currently listed on the NRC's "watch list" of plants with "weaknesses that warrant NRC attention." The decision to place the South Texas Project on the "watch list" followed the June 1993 issuance of a report by a Diagnostic Evaluation Team (DET) which conducted a review of the South Texas Project and identified a number of areas requiring improvement at the South Texas Project. Plants in this category are authorized to operate but are subject to close monitoring by the NRC. The NRC reviews the status of plants on this list semi-annually. HL&P, however, does not anticipate that the South Texas Project will be removed from the list until there has been a period of operation for both units, and the NRC concludes that the concerns which led the NRC in June 1993 to place the South Texas Project on the list have been satisfactorily addressed.

In 1993, it was reported that the NRC had referred to the Department of Justice allegations that the employment of three former employees

and an employee of a contractor to HL&P had been terminated or disrupted in retaliation for their having made safety related complaints to the NRC. HL&P understands that these matters are no longer under consideration by the Department of

Justice. Civil proceedings by the complaining employees and administrative proceedings before the Department of Labor remain pending against HL&P, and the NRC could take enforcement action against HL&P and/or individual employees with respect to these matters. Also, a subcommittee of the U.S. House of Representatives has notified the Company that it is conducting an inquiry regarding the South Texas Project that will address whistleblower matters.

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

(9) UTILITY COMMISSION PROCEEDINGS

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

Judicial review is pending on the final orders of the Utility Commission described below.

(a) DOCKET NO. 8425. For information concerning HL&P's application for rate increase in Docket No. 8425 (1988 rate case) and the status of appeals relating thereto, see Note 10(b) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K, which Note is incorporated herein by reference.

(b) DOCKET NO. 9850. For a discussion of HL&P's 1991 rate case (Docket No. 9850), the settlement agreement approved by the Utility Commission, and the status of appeals relating thereto, see Note 10(c) of the Notes to

the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K, which Note is incorporated herein by reference.

(c) DOCKET NO. 6668. For a discussion of Docket No. 6668, the Utility Commission's inquiry into the prudence of the

planning, management and construction of the South Texas Project, see Note 10(d) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K, which Note is incorporated herein by reference.

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

(d) DOCKET NOS. 8230 AND 9010. For a description of the Utility Commission's authorization of deferred accounting for the South Texas Project (Docket Nos. 8230 and 9010), which dockets are in various stages of appeal, see Note 10(e) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K, which Note is incorporated herein by reference.

(e) DOCKET NO. 12065. In February 1994, an administrative law judge (ALJ) of the Utility Commission ruled that a proceeding should be conducted pursuant to Section 42 of PURA in order to inquire into HL&P's existing rates. Efforts by HL&P to secure reversal or reconsideration of that decision, which the ALJ acknowledged to be a close one, were unsuccessful, and HL&P is scheduled to file material in support of its existing rates on July 13, 1994. A final decision by the Utility Commission is not expected before the summer of 1995. In ordering that a proceeding be held under Section 42, the ALJ also found that there could be a link between the outage at the South Texas Project, the NRC's actions with respect to the South Texas Project and possible mismanagement by HL&P, which could be taken into account in the review of HL&P's authorized rate of return. Although HL&P and the Company believe that the Section 42 inquiry into HL&P's rates is unwarranted and that the South Texas Project has not been imprudently managed, there can be no assurance as to the outcome of this proceeding, and HL&P's rates could be reduced following a hearing. HL&P believes that any reduction in base rates as a result of a Section 42 inquiry would take effect prospectively.

(f) FUEL RECONCILIATION. At March 31,1994, HL&P had recovered through the fuel factor included in its rates approximately $100 million (including interest) less than the amounts expended for fuel, a significant portion of which underrecovery occurred in 1993 during the outage of the South Texas Project. For additional information regarding HL&P's recovery of fuel costs incurred in electric generation (including possible assertions that a portion of such costs should be disallowed as unreasonable), see Note 10(g) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K, which Note is incorporated herein by reference.

(10) DEFERRED PLANT COSTS

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

orders granting deferred accounting has been appealed and such orders are in various stages of judicial review.

In May 1991, HL&P implemented under bond, in Docket No. 9850, a $313 million base rate increase. At that time, HL&P ceased all cost deferrals related to the South Texas Project and began the recovery of such amounts. These deferrals are being amortized on a straight-line basis as allowed by the final order in Docket No. 9850. The amortization of these deferrals totaled $6.4 million for each of the three months ended March 31, 1994 and March 31, 1993 and is recorded on the Company's Statements of Consolidated Income and HL&P's Statements of Income in depreciation and amortization expense.

The following table shows the original balance of the deferrals and the unamortized balance at March 31, 1994.

	Original BALANCE	Balance at March 31, 1994
	(Thousands of Dollars)	
Deferred Accounting: (a)		
Deferred Expenses	$ 250,151	$ 231,740
Deferred Carrying Costs on Plant Investment	399,972	370,534
Total	650,123	602,274
Qualified Phase-In Plan: (b)	82,254	55,980
Total Deferred Plant Costs	$ 732,377	$ 658,254

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

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

As of March 31, 1994, HL&P has recorded deferred income taxes of $199.6 million with respect to deferred accounting and $14.0 million with respect to the deferrals associated with the qualified phase-in plan.

The accounting for deferred plant costs is described in greater detail in Notes 10(e) and 11 of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K, which Notes are incorporated herein by reference.

(11) MALAKOFF ELECTRIC GENERATING STATION

For a discussion of the current rate treatment of HL&P's investment in the Malakoff Electric Generating Station and related matters, see Note 12 of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K, which Note is incorporated herein by reference.

(12) CABLE TELEVISION ACQUISITION

On February 17, 1994, KBLCOM entered into an agreement to acquire three cable companies serving approximately 47,000 customers in the Minneapolis area. KBLCOM will acquire the stock of the companies in

exchange for the issuance of common stock of the Company. The amount of common stock of the Company to be issued, currently estimated to be approximately $24 million, is dependent on the amount of liabilities assumed, currently estimated to be approximately $63 million.

Approximately 40,000 of the cable customers served by the properties to be acquired are in the Minneapolis metropolitan area. The remaining 7,000 customers are located in small communities south and west of the metropolitan area. Closing of the transaction, which is anticipated to occur in the summer of 1994, is subject to the satisfaction of certain conditions.

(13) INTERIM PERIOD RESULTS: RECLASSIFICATIONS

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

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

RESULTS OF OPERATIONS

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

	Three Months Ended MARCH 31,		
	1994	1993	Percent CHANGE
	(Thousands of Dollars)		
Revenues	$ 882,101	$ 865,959	2
Operating Expenses	731,428	737,978	(1)
Operating Income	150,673	127,981	18
Other Income	9,315	17,802	(48)
Interest and Other Charges	99,324	109,266	(9)
Income Taxes	22,289	9,462	136
Net Income	30,175	27,055	12

The Company had consolidated earnings per share of $.23 for the first quarter of 1994, compared to consolidated earnings per share of $.21 for the first quarter of 1993.

Electric Utility Operations:

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

	Three Months Ended March 31,		
	1994	1993	Percent Change
	(Thousands of Dollars)		
Revenues	$ 821,581	$ 805,685	2
Operating Expenses	698,702	692,525	1
Operating Income	122,879	113,160	9
Other Income (Expense)	(1,670)	1,075	-
Interest Charges	63,050	73,516	(14)
Income After Preferred Dividends	41,686	31,574	32

The increase in HL&P's first quarter earnings resulted primarily from increased energy sales and reduced interest expense resulting from refinancing activities and reduction of long-term debt levels, partially offset by increased operating expenses which included the recognition of postemployment benefit costs as required by the adoption, beginning in January 1994, of Statement of Financial Accounting Standards No. 112, "Employer's Accounting for Postemployment Benefits."

OPERATING REVENUES AND SALES. Electric operating revenue for the quarter ended March 31, 1994, increased $15.9 million over the same period in 1993 due to increased kilowatt-hour (KWH) sales in all three major customer categories, excluding sales of interruptible power. Residential

and commercial KWH sales for the first quarter of 1994 increased 5% and 3%, respectively, due, in large part, to the unusually mild winter weather experienced in the first quarter of 1993 and a 1.7% increase in the number of customers compared to the first quarter of 1993. Firm industrial KWH sales increased 3% for the same period. Base revenues for the quarter ended March 31, 1994 increased $27.9 million compared to the same period in 1993.

FUEL AND PURCHASED POWER EXPENSES. Fuel expenses increased $18.6 million for the first quarter of 1994 compared to the same period of the previous year. The 9% increase in the first quarter of 1994 was primarily due to increases in the utilization of coal and the unit cost of gas, partially offset by decreases in the unit cost of oil, coal, and lignite. Fuel costs in the first quarter of 1994 reflect, in part, the use of non-nuclear sources of fuel during the outage of

Unit Nos. 1 and 2 of the South Texas Project Electric Generating Station (South Texas Project). For additional information regarding the South Texas Project, see Notes 8(f) and 9(f) to the Company's Consolidated and HL&P's Financial Statements in Item 1 of this Report. Purchased power expense decreased $31.2 million for the first quarter of 1994 compared to the first quarter of 1993 due to the expiration of a purchase power contract. The average cost of fuel for the first quarter of 1994 was $1.81 per million British Thermal Units (MMBtu) compared to $1.78 per MMBtu for the same period in 1993. The combined costs of fuel used by HL&P and the fuel portion of purchased power was 1.92 cents per KWH for the first quarter of both 1994 and 1993.

OPERATION AND MAINTENANCE, DEPRECIATION AND AMORTIZATION, AND INTEREST EXPENSES. Electric operation and maintenance expense for the first quarter of 1994 decreased $1.4 million compared to the same period in 1993. Depreciation and amortization expense for the first quarter of 1994 increased $2.7 million compared to the same period in 1993, primarily due to an increase in depreciable property and the amortization, beginning in January 1994, of Demand Side Management expenditures. Interest expense for the first quarter of 1994 decreased $9.5 million compared to the same period in 1993, primarily due to refinancing activities and reduction of long-term debt levels.

RATE PROCEEDINGS. In February 1994, an administrative law judge (ALJ) of the Public Utility Commission of Texas (Utility Commission) ruled that a proceeding should be conducted pursuant to Section 42 of the Texas Public Utility Regulatory Act of 1975, as amended, in order to inquire into HL&P's existing rates. Efforts by HL&P to secure reversal or reconsideration of that decision, which the ALJ acknowledged to be a close one, were unsuccessful, and HL&P is scheduled to file material in support of its existing rates on July 13, 1994. A final decision by the Utility Commission is not expected before the summer of 1995. In ordering that a proceeding be held under Section 42, the ALJ also found that there could be a link between the outage at the South Texas Project, the NRC's actions with respect to the South Texas Project and possible mismanagement by HL&P, which could be taken into account in the review of HL&P's authorized rate of return. Although HL&P and the Company believe that the Section 42 inquiry into HL&P's rates is unwarranted and that the South Texas Project has not been imprudently managed, there can be no assurance as to the outcome of this proceeding, and HL&P's rates could be reduced following a hearing. HL&P believes that any reduction in base rates as a result of a Section 42 inquiry would take effect prospectively.

UNITED STATES NUCLEAR REGULATORY COMMISSION (NRC) DIAGNOSTIC EVALUATION OF THE SOUTH TEXAS PROJECT. In June 1993, the NRC announced that the South Texas Project had been placed on its "watch list" of plants with "weaknesses that warrant increased NRC attention." The announcement was made following the issuance of a report on the South Texas Project by the NRC's Diagnostic Evaluation Team which had been sent to review the South Texas Project in the spring of 1993. For a further discussion of the NRC diagnostic evaluation of the South Texas Project, see Note 8(f) to the Company's Consolidated and HL&P's Financial Statements in Item 1 of this Report and Note 9(f) of the Notes to the Company's Consolidated and HL&P's Financial Statements included in the 1993 Combined Form 10-K.

Cable Television Operations:

KBLCOM. KBLCOM Incorporated (KBLCOM), the Company's cable television subsidiary, experienced a loss, before long-term financing cost with parent, of $3.2 million in the first quarter of 1994 compared to a loss of $4.1 million for the same period in 1993.

KBLCOM's 1994 first quarter results improved from the same period in 1993 due primarily to reduced interest expense and increased profits from its jointly-owned cable television partnership, Paragon Communications (Paragon).

REVENUES AND EXPENSES. First quarter revenues were unchanged from the same period in the prior year while operating expenses increased 6.5%. Operating margin (revenue less operating expenses exclusive of depreciation and amortization) percentages were 35.2% and 38.9%, respectively, for the quarters ended March 31, 1994 and 1993. Interest expense decreased $3.5 million or 22.2% due to lower interest rates and a reduction of long-term debt levels. KBLCOM's equity interest in the first quarter pre-tax earnings of Paragon was $7.9

million, an increase of $1.0 million or 13.8% compared to the first quarter of 1993.

Basic service revenues for the first quarter of 1994 decreased $1.9 million or 4.6% over the same period last year due to the regulation of basic service rates. This was partially offset by the addition of approximately 32,000 customers from the first quarter of 1993. At March 31, 1994 and 1993, KBLCOM operated systems serving approximately 613,000 and 581,000 basic subscribers, respectively.

Premium service revenues increased $.4 million in the first quarter or 3.6% compared to the same period in the prior year due primarily to increased sales of premium products.

Ancillary revenues including advertising, pay-per-view and installation fees increased $1.8 million or 19.8% over the same period last year.

CABLE TELEVISION CONSUMER PROTECTION AND COMPETITION ACT OF 1992 (1992 CABLE ACT). In October 1992, the 1992 Cable Act became law. The 1992 Cable Act significantly revised various provisions of the Cable Communications Policy Act of 1984. The 1992 Cable Act provides that the Federal Communications Commission (FCC) will set guidelines for retail prices on basic cable service, which includes network broadcast stations and educational, public and governmental access channels. Local governments will regulate retail prices for basic service based on the FCC's guidelines. The 1992 Cable Act also requires that the FCC, upon complaint from a franchising authority or a cable subscriber, review the

reasonableness of rates for additional tiers consisting of cable programming services. Only rates for premium pay channels, single event pay-per-view services and a la carte (pay-per-channel) services are excluded entirely from rate regulation. Prior to the release of its rate regulation rules (Rate Rule), the FCC entered an order, effective April 5, 1993, freezing rates for all cable television services, other than premium and pay-per-view services which was subsequently extended by the FCC through May 15, 1994. The 1992 Cable Act also requires cable programmers to license their services on a fair basis to cable competitors, such as direct broadcast satellite and wireless distribution systems. In addition, at the option of the broadcasters, cable operators will be required to obtain the permission of, and potentially pay a charge to, local broadcast television affiliates to retransmit their programming to cable customers. For a further discussion regarding the 1992 Cable Act, see "Business-Business of KBLCOM - Regulation" in Item 1 of the 1993 Combined Form 10-K filed by the Company and HL&P.

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

Rate Rule II and the Interim COS Rule are lengthy and complex. For a more detailed description of Rate Rule II and the Interim COS Rule, see "Other Information" in Item 5 of this Report. Although KBLCOM expects that it will sustain higher operating costs and increased administrative burdens under these new rules, as well as additional reductions in KBLCOM's rates for regulated services, it is impossible at this time to assess the detailed impact of Rate Rule II or the Interim COS Rule on KBLCOM or Paragon. In connection with its analysis of the new rules, KBLCOM is considering whether to use the Interim COS Rule as an alternative procedure to the Revised Benchmarks to justify the rates in at least some of its cable systems. Where rates are found to exceed the permitted levels, either under the

Revised Benchmarks or the Interim COS Rule, KBLCOM may be subject to refund obligations and other penalties. The extent of the anticipated decline in revenues and of potential refunds and penalties cannot be determined at this time, but will have an adverse impact on KBLCOM's financial position and results of operations.

LIQUIDITY AND CAPITAL RESOURCES

The Company:

GENERAL. The Company's cash requirements stem primarily from operating expenses, capital expenditures, payment of common stock dividends, payment of preferred stock dividends and interest and principal payments on debt. Net cash provided by operating activities totaled $15.0 million for the three months ended March 31, 1994.

Net cash used in investing activities for the three months ended March 31, 1994, totaled $108.5 million, primarily due to electric capital expenditures of $88.0 million and cable television additions of $12.1 million.

Financing activities for the first three months of 1994 resulted in a net cash inflow of $97.7 million. The Company's primary financing activities were the increase in short-term borrowings offset by the payment of dividends and the repayment of matured long-term debt. For further information with respect to these matters, reference is made to Note 5 to the Company's Consolidated and HL&P's Financial Statements in Item 1 of this report.

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

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

The Company's outstanding commercial paper at March 31, 1994 was approximately $477.5 million, which is supported by a $600 million bank credit facility.

RATIOS OF EARNINGS TO FIXED CHARGES. The Company's ratios of earnings to fixed charges for the three and twelve months ended March 31, 1994 were 1.57 and 2.52, 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.

Electric Utility:

HL&P. GENERAL. HL&P's cash requirements stem primarily from operating expenses, capital expenditures, payment of dividends and interest and principal payments on debt. HL&P's net cash provided by operating activities for the first three months of 1994 totaled $29.7 million.

Net cash used in HL&P's investing activities for the first three months of 1994 totaled $90.6 million. HL&P's construction and nuclear fuel expenditures (excluding Allowance for Funds Used During Construction) for the first three months of 1994 totaled $88.0 million out of the $478 million annual budget. HL&P expects to finance substantially all of its 1994 capital expenditures through funds generated internally from operations.

HL&P's financing activities for the first three months of 1994 resulted in a net cash inflow of approximately $57.0 million. Included in these activities were the increase in short-term borrowings offset by the payment of dividends and the repayment of matured long-term debt. For further information with respect to these matters, reference is made to Note 5 to the Company's Consolidated and

HL&P's Financial Statements in Item 1 of this Report.

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

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

HL&P's outstanding commercial paper at March 31, 1994 was approximately $335.8 million, which is supported by a $400 million bank credit facility.

RATIOS OF EARNINGS TO FIXED CHARGES. HL&P's ratios of earnings to fixed charges for the three and twelve months ended March 31, 1994, were 2.25 and 3.59, respectively. HL&P's ratios of earnings to fixed charges and preferred dividends for the three and twelve months ended March 31, 1994, were 1.91 and 3.06, 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.

Cable Television:

KBLCOM. GENERAL. KBLCOM's cash requirements stem primarily from operating expenses, capital expenditures, and interest and principal payments on debt. KBLCOM's net cash provided by operating activities was $3.5 million for the three months ended March 31, 1994.

Net cash used in KBLCOM's investing activities for the three months ended March 31, 1994 totaled $15.6 million, primarily due to cable television additions of $12.1 million. These amounts were financed principally through internally generated funds and intercompany borrowings.

KBLCOM's financing activities for the three months ended March 31,1994 resulted in a net cash inflow of $12.1 million. Included in these activities were the reduction of third party debt, proceeds from additional paid-in capital and an increase in borrowings from the Company.

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

On February 17, 1994, KBLCOM entered into an agreement to acquire three cable companies serving approximately 47,000 customers in the Minneapolis area. KBLCOM will acquire the stock of the companies in exchange for the issuance of common stock of the Company. The amount of common stock of the Company to be issued, currently estimated to be approximately $24 million, is dependent on the amount of liabilities assumed, currently estimated to be approximately $63 million.

Approximately 40,000 of the cable customers served by the properties to be acquired are in the Minneapolis metropolitan area. The remaining 7,000 customers are located in small communities south and west of the metropolitan area. Closing of the transaction, which is anticipated to occur in the summer of 1994, is subject to the satisfaction of certain conditions.

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

primarily through intercompany borrowings.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

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

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

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

be filed, the Company and HL&P believe that the resolution of these claims will not have a material adverse effect on the Company's or HL&P's results of operations.

ITEM 5. OTHER INFORMATION.

RECENT DEVELOPMENTS IN RATE REGULATION. On March 30, 1994, the Federal Communications Commission (FCC) issued its lengthy new benchmark rate rules (Rate Rule II), as well as its interim cost-of service rule (Interim COS Rule) which it had previously announced in February 1994 in several Executive Summaries. Both Rate Rule II and the Interim COS Rule become effective on May 15, 1994.

REVISED BENCHMARKS. Rate Rule II contains revised benchmark formulas (Revised Benchmarks) which are based upon (1) the number of subscribers a particular system has; (2) the average total number of channels the system carries; (3) the number of non-broadcast channels the system carries; (4) the average subscriber revenue of the system; (5) the penetration of discretionary services, such as additional outlets, remote control devices and satellite tiers; (6) the size of the multiple system operator with which the system is affiliated, if any; and (7) the median household income of the community the system serves. Under Rate Rule II, cable operators must reduce their existing rates to the higher of the recalculated benchmark (Revised Benchmark Rate), or to a level 17% below their September 30, 1992 rate, adjusted for inflation (Full Reduction Rate). Using these complex new formulas, the cable operator must complete and submit newly issued forms to each franchising authority which has been certified to regulate basic rates of the applicable cable systems, and to the FCC upon the filing of a complaint by a franchising authority or a subscriber regarding the operator's cable programming services tier rates. The FCC believes that most cable operators which apply the Revised Benchmarks will have to reduce a system's rates to approximately 17% below the level of those rates as of September 1992. As with the original rate rule, under Rate Rule II, equipment must be priced at cost and unbundled from the rate for regulated services permitted under the Revised Benchmarks.

The FCC has made Rate Rule II prospective only. Hence, existing disputes with franchising authorities about basic rates, and disputes before the FCC regarding cable programming service rates, must be resolved using the Rate Rule and the already filed Form 393. To the extent that any refunds may be due, refunds under rates applicable from September 1, 1993 to May 15, 1994, shall be calculated under the Rate Rule; refunds under rates effective from May 15, 1994 shall be calculated under the Revised Benchmarks.

Because Rate Rule II takes effect on May 15, 1994, cable operators who wish to restructure their services and rates to meet the Revised Benchmarks by that date must provide notice of such changes to franchising authorities and subscribers by April 15, 1994. In the alternative, Rate Rule II provides that cable operators which make no changes in their regulated services or rates may provide notice to their franchising authorities and subscribers by June 14, 1994 of the changes

they plan to make to comply with the Revised Benchmarks and implement such changes by July 14, 1994, without incurring additional refund liability for the May 15 to July 14 period.

INTERIM COS RULE. Cable operators which cannot or do not wish to comply with the Revised Benchmarks may choose to justify their existing rates under the Interim COS Rule, issued at the same time as the Revised Benchmarks. As indicated in its Executive Summary issued in February 1994, the Interim COS Rule establishes a cost-of-service rate system very similar to that applied by the FCC to the telephone industry. Cable operators choosing the cost-of-service approach must base their showings on the applicable cable system's most recent fiscal year (Test Year). The rate base is the original book cost of plant. Expenses which can be included are ongoing operating expenses, depreciation, amortization, and an allowance for taxes. Plant which is not in service during the Test Year, but which will be in service by the end of the year following the Test Year, may be included in the rate base, thereby allowing inclusion of certain rebuild costs.

The Interim COS Rule presumptively disallows including intangibles in the rate base, other than the value of customer lists, the costs of establishing the legal entity that obtained the franchise and the costs of obtaining the franchise itself. In particular, as it had indicated

previously in the Executive Summary issued in February 1994, the FCC excluded acquisition costs above book value from the rate base because it concluded that such "excess acquisition costs" represent the value of the monopoly rents the acquirer expected to earn during the period when an acquired cable system was effectively an unregulated monopoly. A cable operator may make a showing that certain presumptively excluded intangibles should be included because they result in significant benefits to cable subscribers. Finally, the FCC adopted an after-tax return of 11.25% on overall capital.

Under the Interim COS Rule, cable operators which opt for the cost-of-service approach may make such filings only once every two years. Quarterly inflation adjustments and external cost pass-throughs allowed under the Revised Benchmarks may also be permitted under the Interim COS Rule.

A LA CARTE CARRIAGE. Under the Rate Rule, the FCC appeared to allow cable operators to create per channel offerings (A La Carte Channels). In Rate Rule II, the FCC addressed the creation of A La Carte Channels by enumerating both favorable and unfavorable criteria to which the FCC and franchising authorities would look in determining whether an A La Carte Channel evades the regulatory purposes of the Cable Television Consumer Protection and Competition Act of 1992. Unfavorable factors identified by the FCC as indicating that an A La Carte Channel is illegal are: (1) whether a package of A La Carte Channels "avoids" rate regulation; (2) whether an entire regulated tier of channels was converted into a package of A La Carte Channels; (3) how deep a price discount is offered with a package of A La Carte Channels in comparison to single offerings of such channels; (4) whether the operator imposes a significant equipment charge in order to take a

single A La Carte Channel; (5) whether the A La Carte Channels were removed from a regulated tier of service; (6) whether the A La Carte Channel has been traditionally offered on an a la carte basis; (7) whether customers were automatically enrolled in A La Carte Channel packages; and (8) whether the programmers object to a la carte distribution of the A La Carte Channel. Among the favorable factors identified by the FCC as indicating that an A La Carte Channel is legal are: (1) whether the subscriber can choose which channels make up a package of A La Carte Channels and (2) whether the cable operator considered or implemented A La Carte Channels prior to rate regulation. The FCC will decide challenges to A La Carte Channel carriage on a case-by-case basis and has delegated enforcement of these new criteria to the franchising authorities in the first instance. A La Carte Channels which are found to evade rate regulation rather than enhance subscriber choice will be treated as regulated tiers, and operators found to have engaged in such evasions may be subject to refunds and other sanctions.

CHANNEL ADDITION AND DELETION. Under Rate Rule II, a cable operator which adds channels to regulated service levels must recalculate its per channel regulated rate multiplied by the new number of channels to reflect an increase in the rate for that level of service, and then add new programming costs as an "external" cost pass-through. The FCC indicates that the operator may also add a 7.5% mark-up to the cost for the new programming added via the newly added channels. Conversely, if an operator removes channels from a regulated service level, it must reduce its regulated rate to reflect reduced programming costs, plus a 7.5% mark-down, and recalculate its regulated rate to reflect the decrease in the number of channels.

INFLATION RATE ADJUSTMENTS. While the FCC affirmed its ruling in the Rate Rule that cable operators may seek rate increases based upon the increase in inflation as measured by the GNP-PI index on a quarterly basis, the FCC proposed in Rate Rule II that such adjustments be reduced by a 2% annual productivity offset. The FCC also ruled in Rate Rule

II that inflation-based rate increases in the basic level of service can be taken by the cable operator only after application to and approval by the regulating franchise authority. Cable operators whose Revised Benchmark Rate is above the Full Reduction Rate cannot take inflation adjustments until the Full Reduction Rate equals the Revised Benchmark Rate.

EXTERNAL COST PASS-THROUGHS. Under Rate Rule II, certain external costs which are beyond the cable operator's control may be passed-through to the subscriber in addition to the regulated rate. The external costs include: (1) all changes in franchise fees; (2) all changes in the costs of satisfying franchise mandated requirements, such as public, educational and governmental access channels; (3) all changes in cable-specific taxes; (4) all changes in programming costs and copyright fees, plus a "margin" of 7.5%; and (5) all changes in retransmission consent fees beyond the initial amounts paid by the cable operator from October 5, 1993 through October 5, 1994. Regarding the pass-through of programming cost changes, all increases and decreases for

programming in a particular regulated level of service must ultimately be aggregated, and all payments, such as marketing support payments, received by the cable operator from the programmer must be netted out against such increases on a channel-by-channel basis before any amount can be passed-through. Pass-throughs may be implemented generally beginning on February 28, 1994.

FINANCIAL IMPACT ON KBLCOM. In view of the continuing changes, as well as the length and complexity of the recently published Rate Rule II and Interim COS Rule, KBLCOM cannot currently assess the full impact upon its future financial results. KBLCOM expects that it will sustain higher operating costs and increased administrative burdens under these new rules, and that the Revised Benchmarks will impose some additional reductions in KBLCOM's rates for regulated services. KBLCOM is considering whether to use the Interim COS Rule as an alternative procedure to Rate Rule II to justify the rates in at least some of its cable systems. Where rates are found to exceed the permitted levels, either under Rate Rule II or the Interim COS Rule, KBLCOM may be subject to refund obligations and other penalties. The extent of the anticipated decline in revenues and of potential refunds and penalties cannot be determined at this time, but will have an adverse impact on KBLCOM's financial position and results of operations.

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

(a) Exhibits.

HOUSTON INDUSTRIES INCORPORATED:

Exhibit 10 -	The Company's Master Savings Trust, as Amended and Restated Effective as of January 1, 1994, between the Company and Texas Commerce Bank National Association.
Exhibit 11 -	Computation of Earnings per Common Share and Common Equivalent Share.
Exhibit 12 -	Computation of Ratios of Earnings to Fixed Charges.
Exhibit 99(a) -	Notes 8(a), 9, 10, 11 and 12 of the Notes to the Consolidated Financial Statements included on pages 83 through 97 of the Company's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7629).
Exhibit 99(b) -	Part I, Item 1 - Business of HL&P - Fuel - Recovery of Fuel Costs included on pages 13 and 14 of the Company's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7629).

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

Exhibit 99(d) - First Amendment to Houston Industries Incorporated Savings Plan, as Amended and Restated Effective January 1, 1994 effective as of April 6, 1994.

HOUSTON LIGHTING & POWER COMPANY:

Exhibit 10 - The Company's Master Savings Trust, as Amended and Restated Effective as of January 1, 1994, between the Company and Texas Commerce Bank National Association (incorporated by reference to Exhibit 10 to the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 1994, File No. 1-7629).

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

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

Exhibit 99(b) - Part I, Item 1 - Fuel - Recovery of Fuel Costs included on pages 13 and 14 of HL&P's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-3187) (incorporated by reference to Exhibit 99(b) to the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 1994, File No. 1-7629).

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

(b) Reports on Form 8-K.

HOUSTON INDUSTRIES INCORPORATED AND HOUSTON LIGHTING & POWER COMPANY:

Current Report on Form 8-K dated February 22, 1994 (Item 5. Other Events).

HOUSTON LIGHTING & POWER COMPANY:

Current Report on Form 8-K dated January 3, 1994 (Item 5. Other Events, Item 7. Financial Statements and Exhibits).

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 13, 1994

SIGNATURE

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

HOUSTON LIGHTING & POWER COMPANY
(Registrant)

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

Date: May 13, 1994

EXHIBIT 10

HOUSTON INDUSTRIES INCORPORATED
MASTER SAVINGS TRUST

(As Amended and Restated Effective January 1, 1994)

HOUSTON INDUSTRIES INCORPORATED
MASTER SAVINGS TRUST

(As Amended and Restated Effective January 1, 1994)

I N D E X

		PAGE
ARTICLE I	DEFINITIONS AND CONSTRUCTION	3
Section:		
1.1	Definitions	3
	Affiliated Corporation	3
	Code	3
	Committee	3
	Company	3
	Company Stock	3
	ERISA	3
	ESOP Trust	3
	ESOP Trust Agreement	3
	Exchange Act	3
	Group Trust(s)	3
	Insurance Contracts	4
	Investment Fund or Fund	4
	Investment Manager	4
	KBLCOM Plan	4
	Master Trust	4
	Master Trust Fund	4
	Participant	4
	Participating Plan	4
	Plan	4
	Plan Administrator	4
	Prior Plan	4
	Prior Trust Agreement	5
	Trustee	5
	Valuation Date	5
1.2	Construction	5
ARTICLE II	MASTER TRUST; PARTICIPATING PLANS	6
Section:		
2.1	Continuation of Master Trust	6
2.2	Participating Plans	6

ARTICLE III GENERAL DUTIES OF THE PARTIES 8
Section:
3.1 General Duties of the Company 8
3.2 Investment Guidelines; Contributions; Employee Records
3.3 General Duties of Trustee 9

ARTICLE IV ACCOUNTS OF PARTICIPATING PLANS;
AUTHORITY OF COMPANY AND COMMITTEE 10
Section:
4.1 Accounts of Participating Plans; Valuation 10
4.2 Exclusive Benefit of Employees Under Participating Plans
4.3 Authority of Company and Committee 11

ARTICLE V INVESTMENT, ADMINISTRATION AND
DISBURSEMENT OF MASTER TRUST FUND 12
Section:
5.1 Division of the Master Trust Fund 12
5.2 Investment of the Master Trust Fund 12
5.3 Direction of Investment 16
5.4 Insurance or Annuity Contracts 18
5.5 Voting of Securities Other than Company Stock . . . 20
5.6 Voting and Tendering of Company Stock 21
5.7 Powers of Trustee 22
5.8 Payments and Distributions from Master Trust Fund . 25
5.9 Trustee's Dealings with Third Parties 26
5.10 Ancillary Trustee 26

ARTICLE VI FOR THE PROTECTION OF THE TRUSTEE 27
Section:
6.1 Composition of Committee and Plan Administrators . 27
6.2 Evidence of Action by Company or Committee 27
6.3 Communications 28
6.4 Advice of Counsel or Plan Administrator 28
6.5 Miscellaneous 28
6.6 Fiduciary Responsibilities 29

ARTICLE VII TAXES, EXPENSES AND COMPENSATION OF TRUSTEE 31
Section:
7.1 Taxes and Expenses 31
7.2 Compensation of the Trustee 31

ARTICLE VIII SETTLEMENT OF ACCOUNTS;
DETERMINATION OF INTERESTS UNDER MASTER TRUST . . . 32
Section:
8.1 Settlement of Accounts of Trustee 32
8.2 Determination of Rights and Benefits of Persons
Claiming an Interest in the Master Trust Fund;

Enforcement of Master Trust Fund 33

ARTICLE IX RESIGNATION, REMOVAL AND SUBSTITUTION OF THE TRUSTEE 34
Section:
9.1 Resignation of Trustee 34
9.2 Removal of Trustee 34
9.3 Appointment of Successor Trustee 34
9.4 Transfer of Master Trust Fund to Successor 34

ARTICLE X DURATION AND TERMINATION OF MASTER TRUST; AMENDMENT 35
Section:
10.1 Duration and Termination 35
10.2 Distribution Upon Termination 35
10.3 Loss of Qualification of a Participating Plan; Certain Withdrawals 35
10.4 Amendment 36
10.5 Acceptance or Rejection of Amendment by Affiliated Corporations 36

ARTICLE XI MISCELLANEOUS 37
Section:
11.1 Governing Law; No Bond Required of Trustee 37
11.2 Interest in Master Trust Fund; Assignment 37
11.3 Invalid Provisions 37
11.4 Prohibition of Diversion 37
11.5 Headings for Convenience Only 37
11.6 Successors and Assigns 37

HOUSTON INDUSTRIES INCORPORATED
MASTER SAVINGS TRUST
(As Amended and Restated Effective January 1, 1994)

THIS TRUST AGREEMENT made and entered into as of the 1st day of January, 1994, by and between HOUSTON INDUSTRIES INCORPORATED, a Texas corporation, and TEXAS COMMERCE BANK NATIONAL ASSOCIATION, a national banking association having its principal place of business in Houston, Harris County, Texas, as trustee;

W I T N E S S E T H:

WHEREAS, by Agreement (the "Prior Trust Agreement") dated June 21, 1989 but effective as of July 1, 1989, between the Company and Trustee, the Company amended, restated and continued a trust established in connection with the Savings Plan of Houston Industries Incorporated, as amended and restated effective January 1, 1976, and as thereafter amended (said Plan as it existed in the form of the Savings Plan of Houston Industries Incorporated, as amended and

restated effective October 5, 1990, and thereafter amended prior to January 1, 1994, being hereinafter referred to as the "Prior Plan"); and

WHEREAS, the Prior Trust Agreement was adopted effective as of July 1, 1989, as the funding medium for the KBLCOM Incorporated Savings Plan, as established effective July 1, 1989 (said Plan, as it existed immediately prior to January 1, 1994 being hereinafter referred to as the "KBLCOM Plan"); and

WHEREAS, the Company has authorized the amendment, restatement and continuation of the KBLCOM Plan in the form of and by the adoption of and merger into and with the Savings Plan of Houston Industries Incorporated, as amended and restated effective January 1, 1994 (said Plan as is presently exists being incorporated herein by reference as fully as if set out in full herein, and together with any amendments thereto hereafter made being hereinafter referred to as the "Plan"); and

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

WHEREAS, the Company deems it advisable at this time to amend, restate and continue the Prior Trust Agreement and the Trust Fund created thereby in the form of this Master Trust to the extent hereinafter set forth to accommodate the merger of the KBLCOM Plan into the Plan and to make certain other changes therein;

NOW, THEREFORE, the Company and the Trustee hereby agree that the Prior Trust Agreement shall be amended and restated in its entirety, to read and continue in full force and effect as follows:

ARTICLE I

DEFINITIONS AND CONSTRUCTION

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

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

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

COMMITTEE: The Compensation and Benefits Committee appointed by the Board of Directors of the Company, which shall serve as a "named fiduciary" hereunder and assist in the administration of the Master Trust Fund and whose duties also include the administration of the Plan.

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

COMPANY STOCK: The common stock of the Company.

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

ESOP TRUST: The assets attributable to the employee stock ownership plan component of the Plan which are held in trust pursuant to the ESOP Trust Agreement.

ESOP TRUST AGREEMENT: The Savings Plan of Houston Industries Incorporated ESOP Trust Agreement, established effective October 5, 1990, between the Company and State Street Bank and Trust Company or any successor trustee thereto.

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

GROUP TRUST(S): The Dietche & Field Investment Trust A, the Sarofim Trust Co. Employee Benefit Investment Trust, the Oechsle International Group Trust Fund for Employee Benefit Trusts, The Beutel Trust and The Accel Fund, or any other common, collective, group or commingled trust selected by the Committee which is qualified under Code Section 401(a) and exempt from tax under Code Section 501(a).

INSURANCE CONTRACTS: The insurance and annuity contracts as provided in Section 5.4 hereof.

INVESTMENT FUND OR FUND: Any of the investment funds comprising the Master Trust Fund, as described in Article V.

INVESTMENT MANAGER: The fiduciary or fiduciaries, if any, appointed hereunder by the Committee and meeting the

definition set forth in Section 3(38) of ERISA.

KBLCOM PLAN: The KBLCOM Incorporated Savings Plan, as established effective July 1, 1989, as thereafter amended and in effect on December 31, 1993.

MASTER TRUST: The Houston Industries Incorporated Master Savings Trust, as amended and restated effective January 1, 1994, and as the same may hereafter be amended from time to time.

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

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

PARTICIPATING PLAN: An employee benefit plan which is maintained by the Company or an Affiliated Corporation and which participates hereunder pursuant to Section 2.2 and as listed in Exhibit A attached hereto.

PLAN: The Houston Industries Incorporated Savings Plan, as amended and restated effective January 1, 1994, and as the same may hereafter be amended from time to time.

PLAN ADMINISTRATOR: The person or persons, or committee whose duties include service as a "named fiduciary" hereunder and the authority to control and manage the operation and administration of each applicable Participating Plan.

PRIOR PLAN: The Savings Plan of Houston Industries Incorporated, as amended and restated effective October 5, 1990, as thereafter amended, and as in effect on December 31, 1993.

PRIOR TRUST AGREEMENT: The trust agreement dated June 21, 1989 but effective as of July 1, 1989, as amended, between the Company and Trustee.

TRUSTEE: Texas Commerce Bank National Association, a national banking association having its principal place of business in Houston, Harris County, Texas, its successor or successors.

VALUATION DATE: The close of business on the last business day of each calendar month and any such other date or dates as the Committee may deem appropriate; provided, however, that any such interim valuation shall be exercised on a uniform and non-discriminatory basis.

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

ARTICLE II

MASTER TRUST; PARTICIPATING PLANS

2.1 CONTINUATION OF MASTER TRUST: The Company hereby continues with the Trustee a Master Trust for the exclusive purposes of providing benefits to employees of the Company and the Affiliated Corporations, and to the beneficiaries of such employees, under each Participating Plan and defraying reasonable expenses of administering such Participating Plans. Each such Participating Plan, and each such Affiliated Corporation, as of the date hereof, is listed in Exhibit A attached hereto. The Master Trust shall consist of (a) such cash and other property held in trust by the Trustee under the Prior Trust Agreement at the close of business on December 31, 1993, (b) such assets as may hereafter be transferred to the Trustee from any separate trust or other funding medium established under any Participating Plan and (c) such sums of money and such property acceptable to the Trustee as shall from time to time be paid or delivered to the Trustee as a contribution in respect of any Participating Plan, together with the income and gains therefrom. The Master Trust shall be maintained at all times as a domestic trust in the United States.

2.2 PARTICIPATING PLANS: An employee benefit plan which is not already a Participating Plan hereunder (as listed in Exhibit A attached hereto) may become a Participating Plan hereunder only if all of the following requirements are met:

(a) The Company, any Affiliated Corporation or any

combination thereof, has established the plan;

(b) The plan is a "defined contribution plan" as defined in Section 3(34) of ERISA;

(c) The plan (and any other trust all or a part of whose assets are to be transferred to the Master Trust) is qualified under Code Section 401(a);

(d) The Master Trust is exempt from taxation under Code Section 501(a);

(e) The Master Trust has been adopted as a trust under the plan and as part of the plan by due corporate action of the Company or an Affiliated Corporation which maintains the plan, and the Committee has consented thereto and an instrument in the form attached hereto as Exhibit B has been executed by the Company or such Affiliated Corporation and the Committee and delivered to the Trustee; and

(f) The Committee has notified the Trustee in writing of the adoption of the Master Trust as a trust under such plan and the Trustee has consented thereto by execution of such instrument.

With respect to the Plan, certain assets attributable to the employee stock ownership plan component of the Plan shall be held in the ESOP Trust pursuant to the ESOP Trust Agreement.

The KBLCOM Plan was a separate Participating Plan under the Prior Trust Agreement; however, as of January 1, 1994, the KBLCOM Plan was merged into and consolidated with the Plan.

ARTICLE III

GENERAL DUTIES OF THE PARTIES

3.1 GENERAL DUTIES OF THE COMPANY:

A. The Company shall provide the Trustee with a certified copy of each Participating Plan (including any agreement establishing any other trust or other funding medium all or a part of whose assets are to be transferred to the Master Trust), and with evidence acceptable to the Trustee that such Plan (and any such other trust) has been duly adopted by the Company or Affiliated Corporation and has been determined to be qualified under Code Section 401(a). True and correct copies of all amendments to any Participating Plan shall be delivered to the Trustee by the Company promptly following their

adoption. In addition, the Company shall provide the Trustee with a true and correct copy of the ESOP Trust Agreement and any amendments thereto promptly following their adoption.

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

C. The Company shall from time to time certify to the Trustee the name(s) and specimen signature(s) of the Plan Administrator.

3.2 INVESTMENT GUIDELINES; CONTRIBUTIONS; EMPLOYEE RECORDS: From time to time the Committee shall communicate in writing to any Investment Manager who may be acting pursuant to Section 5.3 (and to the Trustee, if it is managing the investment of any of the assets of the Master Trust pursuant to such Section) the investment guidelines governing the portion of the assets of the Master Trust managed by such Investment Manager. The Company shall make, and shall cause the Affiliated Corporations to make, contributions to the Participating Plans as the same may be determined in accordance with the applicable Participating Plan and shall specify in writing to the Trustee the amount of such contributions allocable to each Participating Plan. The Company shall keep and shall cause the Affiliated Corporations to keep accurate books and records with respect to their respective employees, including, without limitation, records as to the periods of employment, compensation and ages of such employees.

3.3 GENERAL DUTIES OF TRUSTEE: The Trustee shall hold all property received by it hereunder, which, together with the income and gains therefrom and additions thereto, and less payments and other distributions therefrom, shall constitute the Master Trust Fund. Except as otherwise hereinafter provided, the Trustee shall manage, invest and reinvest the Master Trust Fund, collect the income thereof,

and make payments therefrom, all in accordance with the terms of this Agreement. The Trustee shall be responsible only for the property actually received by it hereunder. It shall have no duty or authority to compute any amount to be paid to it by the Company, by any Affiliated Corporation or by any participant in any Participating Plan, or to bring any action or proceeding to enforce the collection from any such person of any contribution to the Master Trust in respect of any Participating Plan. The assets of the ESOP Trust shall not constitute a portion of the Master Trust Fund, and the Trustee, in its capacity as trustee of the Master Trust Fund shall have no responsibility with respect to the ESOP Trust, except as otherwise specifically agreed by the Trustee.

ARTICLE IV

ACCOUNTS OF PARTICIPATING PLANS; AUTHORITY OF COMPANY AND COMMITTEE

4.1 ACCOUNTS OF PARTICIPATING PLANS; VALUATION: The Trustee shall maintain separate accounts reflecting the equitable share in the Master Trust Fund of each Participating Plan and, where appropriate, of each corporation which has adopted a Participating Plan. The Trustee shall determine the value of the assets of the Master Trust Fund as of each Valuation Date. Each such valuation shall be made as promptly as practicable after the Valuation Date as of which it is made. Each contribution to and payment and distribution from the Master Trust Fund shall be made as of the Valuation Date next preceding the date on which, as applicable, the Trustee receives such contribution or receives notice from the Company, the Committee or the appropriate Plan Administrator that such payment or distribution is to be made, on the basis of the valuation of the Master Trust Fund and of the equitable share of each Participating Plan in the Master Trust Fund as of such Valuation Date (taking into account the liabilities of the Master Trust Fund as of such Date). The assets in the Master Trust Fund shall be allocated on a pro rata basis among the equitable shares in the Master Trust Fund of each Participating Plan unless the Committee shall direct in writing that a separate account or accounts are to be created within the Master Trust Fund to hold assets allocable solely to a particular Participating Plan or Plans. If such an account is created, income, distributions and gains and losses with respect to the assets or group of assets held therein shall be attributable solely to the equitable share of such Participating Plan or Plans.

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, in accordance with methods consistently followed and uniformly applied. Notwithstanding any other provision of this Section, the Committee or

its agent, in determining the equitable share in the Master Trust Fund of any Participating Plan, may rely upon the determination of the issuer of any insurance contract held as part of the Master Trust Fund with respect to the value of such contract and may rely upon the determination of any Investment Manager with respect to the value of any interest of the Master Trust in any common, collective, commingled or group trust fund maintained by such Investment Manager in which assets of the Master Trust are permitted to be invested by Section 5.2(f) of this Agreement.

Any Investment Manager who may be acting pursuant to Section 5.3 (and the Trustee, if it is managing the investment of any assets of the Master Trust pursuant to such Section) may in its discretion transfer or direct the transfer to a liquidating account of any investment of the portion of the Master Trust under its management which it determines should be liquidated for the benefit of those Participating Plans whose assets are commingled in the Master Trust on the date of determination and whose equitable share in the Master Trust Fund on such date includes such investment. Any investment that has been transferred to a liquidating account shall be segregated and administered or realized upon solely for the benefit ratably of such Participating Plans and shall be excluded in determining the equitable share in the Master Trust Fund of any Participating Plan thereafter.

The Committee or its agent shall maintain for each of the Participants under the Participating Plans an accurate account reflecting the interest in the Master Trust Fund and in its component Investment Funds of each such Participant. The Committee shall furnish to the appropriate Plan Administrator for distribution to each individual Participant a report of his account, at such times as the appropriate Plan Administrator shall direct; provided, however, that such reports to Participants must be furnished at least annually.

4.2 EXCLUSIVE BENEFIT OF EMPLOYEES UNDER PARTICIPATING PLANS: At no time prior to the satisfaction of all liabilities with respect to employees and their beneficiaries under any Participating Plan shall any part of the equitable share of such Participating Plan in the Master Trust Fund be used for, or diverted to, any purposes other than for the exclusive benefit of such employees and their beneficiaries or the payment of Participating Plan or Master Trust administrative expenses.

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 and the Committee under this Agreement and the Trustee shall be indemnified by the Company and such Affiliated Corporation in relying upon such decisions, instructions, actions and directions. The Trustee shall not be required to give notice to or obtain the consent of any such Affiliated Corporation

with respect to any action which is taken by the Trustee pursuant to this Agreement.

ARTICLE V

INVESTMENT, ADMINISTRATION AND DISBURSEMENT OF MASTER TRUST FUND

5.1 DIVISION OF THE MASTER TRUST FUND: Except as otherwise provided in Sections 4.1 and 5.4 hereof, the Master Trust Fund shall be divided into four Investment Funds to be designated as follows:

(a) Fund A

(b) Fund B

(c) Fund C

(d) Fund D

The Trustee, upon receipt of direction from the Committee, shall transfer to Fund A, Fund B, Fund C and Fund D, respectively, all such cash and other property as the Trustee held in the respective Investment Funds under the Prior Trust Agreement at the close of business on December 31, 1993. Each such Fund shall be invested in accordance with the provisions of Section 5.2 in the kinds of property specified for such Fund therein. Upon each contribution to the Master Trust Fund, the Committee shall advise the Trustee in writing as to the amount of such contribution which shall be allocated to each of said Funds, and the Trustee shall hold the amount so specified as a part of the Investment Fund to which it shall have been allocated.

5.2 INVESTMENT OF THE MASTER TRUST FUND: The cash and other properties held by the Trustee under the Prior Trust Agreement at the close of business on December 31, 1993 which have been allocated to each of the Investment Funds named in Section 5.1 as of January 1, 1994, and the contributions hereafter allocated to each of said Funds, and all proceeds, interest, income or other payments in respect of each such Fund shall be invested and reinvested in the manner described below:

(a) FUND A: Except as hereinafter provided, all amounts allocated to Fund A shall be invested and reinvested in the shares of Company Stock (which the Trustee shall purchase as soon as practicable when and as it holds funds available for that purpose, either (i) in the open market, (ii) from the ESOP Trust for adequate consideration and in the sole discretion of the Trustee and State Street Bank and Trust Company as ESOP Trustee (or any successor trustee thereto), or (iii) privately

from the Company at a price per share equal to the closing price of said share on the New York Stock Exchange on the day of the purchase, it being understood that shares purchased from the Company may either be treasury shares or authorized but unissued shares, if the Company shall make such shares available for the purpose, and that the Trustee in its discretion may refrain from making purchases of shares of Company Stock whenever it deems such refraining to be in the best interest of the participants in the Participating Plans). 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 Exchange Act or (ii) make such open market purchases in accordance with the provisions, and subject to the restrictions, of Rule 10(b)(18) of the Exchange Act. Except in the case of fractional shares received in any stock dividend, stock split or other recapitalization, or as necessary to make any distribution or payment from the Trust Fund, the Trustee shall have no power or duty to sell or otherwise dispose of any stock acquired for Fund A.

(b) FUND B: Except as hereinafter provided, all amounts allocated to Fund B shall be invested and reinvested (in the discretion of the person who is directing the investment of a portion or all of Fund B under the provisions of Section 5.3) in, directly or indirectly through collective investment media including but not limited to mutual funds and any common, collective, group or commingled trust fund that invests primarily in (i) common stock and preferred stock issued by corporations and limited partnership interests issued by limited partnerships, (ii) leaseholds, fees and other interests in realty, (iii) income producing debt securities, or (iv) contracts, conditional sale agreements, choses in action, trust and participation certificates, or other evidences of ownership, part ownership or interest or part interest in any property real, personal or mixed, all exclusive of direct investment in securities of the Company. It is intended that the assets of Fund B be predominantly invested in equity securities and/or real estate. Investment practices and techniques that may be utilized in Fund B include but are not limited to (i) securities lending, (ii) investments in futures contracts, forwards contracts and options, (iii) swap agreements and (iv) indexed securities in which value is linked to currencies, interest rates, commodities indices or other financial indicators.

(c) FUND C: Except as hereinafter provided, all amounts allocated to Fund C shall be invested and reinvested (in the discretion of the person who is directing the investment of a portion or all of Fund C under the provisions of Section 5.3) in, directly or indirectly through collective investment media including but not limited to mutual funds and any common, collective, group or commingled trust fund that invests primarily in, income-producing debt securities, including but not limited to (i) obligations issued or fully guaranteed by the United States of America or any agency thereof, (ii) debt securities issued by corporations, partnerships, transnational organizations or other entities, (iii) interests in notes secured by mortgages on real estate and equity interests in real estate, (iv) asset-backed securities, (v) debt securities issued by foreign governments or any agency thereof, or (vi) demand or time deposits, repurchase agreements or commercial paper. Investment practices and techniques that may be utilized in Fund C include but are not limited to (i) securities lending, (ii) investments in futures contracts, forwards contracts and options, (iii) swap

agreements and (iv) indexed securities in which value is linked to currencies, interest rates, commodities indices or other financial indicators.

(d) FUND D: Except as hereinafter provided and except as provided in Section 5.3 or 5.4, all amounts allocated to Fund D shall be invested and reinvested (in the discretion of the person who is directing the investment of a portion or all of Fund D under the provisions of Section 5.3) in, directly or indirectly through collective investment media including but not limited to mutual funds and any common, collective, group or commingled trust fund that invests primarily in, (i) money market or short-term investments (including but not limited to repurchase agreements, bankers acceptances, certificates of deposit, commercial paper, demand or time deposits, obligations issued or fully guaranteed by the United States of America or any agency thereof, securities with an interest rate or dividend rate that resets to a market-based rate within one (1) year from the date of issuance or the most recent date on which interest rates or dividend rates were set, medium to long-term securities which at time of purchase have less than one (1) year to maturity and other securities which at time of purchase have less than one (1) year to

maturity) or (ii) annuity or investment contracts with life insurance companies or other financial institutions under which certain guaranteed interest is provided and a repayment of the principal amount is guaranteed, such contract to be owned and held by the Trustee for the benefit of Participants holding accounts in Fund D. As owner of any such investment contract, the Trustee shall have authority to exercise any and all rights, options or privileges which belong to the owner of the contract but shall have no duty to exercise any such powers unless and until it shall have received instructions concerning such exercise from the Committee.

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

(f) In the discretion of the person who is directing the investment of a portion or all of any of Fund B, Fund C or Fund D under the provisions of Section 5.3, all or any part of amounts allocated to Fund B, Fund C or Fund D may be invested in such assets as are appropriate to the Fund in question collectively with funds of other pension and profit-sharing trusts exempt from tax under Code Section 501(a) by reason of qualifying under Code Section 401(a) through the medium of any common, collective or group trust fund which has been or hereafter may be established by the Trustee or by any other bank or trust company in the United States, the instrument or instruments establishing such trust fund or funds, as amended

from time to time, being made a part of this Agreement so long as any portion of the Master Trust Fund shall be invested through the medium thereof.

The investments of Fund B, Fund C and Fund D, respectively, shall be so diversified as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so, in the sole judgment of the person who is directing the investment of such Funds under the provisions of Section 5.3. Any property at any time received by the Trustee may be retained in the Master Trust Fund. To

the extent that the Trustee is managing the Master Trust Fund under the provisions of Section 5.3, the Trustee may temporarily invest and reinvest all or any portion of the amounts allocated to any Investment Fund either in short term investments selected by it or collectively with funds of other pension and profit-sharing trusts exempt from tax under Code Section 501(a) by reason of qualifying under Code Section 401(a) through the medium of any common, collective, commingled or group trust fund which has been or hereafter may be established by the Trustee or by any other bank or trust company in the United States, the instrument or instruments establishing such trust fund or funds, as amended from time to time, being made a part of this Agreement so long as any portion of the Master Trust Fund shall be invested through the medium thereof. With respect to any portion of the Master Trust Fund which is under the management of an Investment Manager as provided in Section 5.3, such Investment Manager may by written authorization delegate to the Trustee authority to invest temporarily any specified portion thereof, in the Trustee's sole discretion, 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. Any such collective investment shall be managed by the Trustee in its sole discretion, provided that Trustee shall have no responsibility to make any such separate or collective investment in the absence of a written notice from the appropriate Investment Manager specifying that a portion of that part of the Master Trust Fund which is under the management of such Manager is to be invested by the Trustee pursuant to the provisions of the preceding sentence.

At any time and from time to time, the Committee may direct the Trustee to transfer a specified portion or all of Fund B of the Master Trust Fund as it shall deem advisable to the trustees of the Dietche & Field Investment Trust A, the Sarofim Trust Co. Employee Benefit Investment Trust, the Oechsle International Group Trust Fund for Employee Benefit Trusts, The Beutel Trust and The Accel Fund or a specified portion or all of Fund B, Fund C or Fund D of the Master Trust Fund as it shall deem advisable to the trustees of any other common, collective, group or commingled trust (hereinafter collectively the "Group Trusts"), if and only if a Group Trust is qualified under Code Section 401(a) and exempt from tax under Code Section 501(a) and is maintained as a medium for the commingled, collective and common investment of assets of eligible participating trusts; and the Committee may direct the Trustee to withdraw all or any part of the Master Trust Fund so transferred. The terms and provisions of the agreements of trust establishing the Dietche & Field

Sarofim Trust Co. Employee Benefit Investment Trust, the Oechsle International Group Trust Fund for Employee Benefit Trusts, The Beutel Trust and The Accel Fund or any other Group Trust and the provisions of any amendments thereto are hereby incorporated herein by reference and shall be deemed a part of this Trust Agreement so long as any portion of the Master Trust Fund shall be invested through the medium thereof. The Trustee shall make any such transfer or withdrawal of all or any part of the Master Trust Fund only upon the expressed direction of the Committee. The Trustee shall be under no duty or obligation to review any investment acquired, held or disposed of by the trustees of the Group Trusts pursuant to the provisions thereof, and the trustees of the Group Trusts shall have all fiduciary powers, responsibilities and liabilities arising under this Trust Agreement with respect to the portion of the Master Trust Fund transferred to them pursuant to directions of the Committee to be held under the terms and provisions of the Group Trusts. The Company shall indemnify and hold harmless the Trustee from any and all claims, losses, damages, expenses (including counsel fees approved by the Trustee), and liabilities (including any amount paid in settlement with the Trustee's approval but excluding any excise tax assessed against the Trustee pursuant to the provisions of Code Section 4975) arising from any act or omission of the trustees of the Group Trusts in connection with their duties and responsibilities under this Trust Agreement with respect to the portion of the Master Trust Fund transferred to them, except to any extent prohibited under ERISA.

5.3 DIRECTION OF INVESTMENT: The investment of Fund A shall be managed solely by the Trustee in the manner provided in Section 5.2. The Committee shall from time to time specify by written notice to the Trustee whether the investment of Fund B, Fund C and Fund D (other than the portion or portions thereof consisting of Insurance Contracts), in the manner provided in Section 5.2, shall be managed solely by the Trustee, or shall be directed by one or more Investment Managers, or whether both the Trustee and one or more Investment Managers are to participate in investment management and if so how the investment responsibility is to be divided with respect to assets. The assets, classes of assets, separate investment funds or sub-funds so specified and defined shall be allocated by the Trustee on a pro rata basis among the equitable shares in Fund A, Fund B, Fund C and Fund D, respectively, of each Participating Plan, unless the Committee shall specify in such notice that a different allocation be made with respect to any such assets, classes of assets, separate investment funds or sub-funds. In the event that the Committee shall fail to specify pursuant to this Section the person or persons who are to manage the investment of Fund B, Fund C and/or Fund D or any portion or portions thereof (other than the portion or portions consisting of Insurance Contracts), the Trustee shall promptly give notice of this fact to the Committee and shall manage the investment of Fund B,

Fund C and/or Fund D or such portion or portions in the manner described in Section 5.2, until the Committee shall specify such person or persons as provided herein.

Any Investment Manager appointed to manage the investment of a part (or all) of Fund B, Fund C and/or Fund D hereunder (other than the portion or portions thereof consisting of Insurance Contracts) shall either (i) be registered as an investment adviser under the Investment Advisers Act of 1940, (ii) be a bank, as defined in that Act, or (iii) be an insurance company qualified to perform investment management services under the laws of more than one State. If investment of Fund B, Fund C and/or Fund D (other than the portion or portions thereof consisting of Insurance Contracts) is to be directed in whole or in part by

an Investment Manager, the Trustee shall be given copies of the instruments appointing the Investment Manager and evidencing his acceptance of such appointment and acknowledgment that he is a fiduciary of each Participating Plan, and a certificate evidencing the Investment Manager's registration under said Act or status as a bank or insurance company described in the next preceding sentence. The Trustee may continue to rely upon such instruments and certificate until otherwise notified in writing by the Committee.

The Trustee shall follow the directions of the Investment Manager regarding the investment and reinvestment of the portion or portions of Fund B, Fund C and/or Fund D as shall be under management by the Investment Manager, and shall be under no duty or obligation to review any investment to be acquired, held or disposed of pursuant to such directions nor to make any recommendations with respect to the disposition or continued retention of any such investment. The Trustee shall have no liability or responsibility for acting without question on the direction of, or failing to act in the absence of any direction from, the Investment Manager, unless the Trustee knows that by such action or failure to act it will be participating in a breach of fiduciary duty by the Investment Manager.

The Investment Manager at any time and from time to time may issue orders for the purchase or sale of securities directly to a broker, and in order to facilitate such transaction the Trustee upon request shall execute and deliver appropriate trading authorizations. Written notification of the issuance of each such order shall be given promptly to the Trustee by the Investment Manager, and the execution of each such order shall be confirmed to the Trustee by the broker. Such notification shall be authority for the Trustee to pay for securities purchased against receipt thereof and to deliver securities sold against payment therefor, as the case may be. All notifications concerning investments made by the Investment Manager shall be signed by such person or persons, acting on behalf of the Investment Manager as may be duly authorized in writing; provided, however, that the

transmission to the Trustee of such notifications by photostatic teletransmission with duplicate or facsimile signature or signatures shall be considered a delivery in writing of the aforesaid notifications until the Trustee is notified in writing by the Investment Manager that the use of such devices with duplicate or facsimile signatures is no longer authorized. The Trustee shall be entitled to rely upon such directions which it receives by such means if so authorized by the Investment Manager and shall in no way be responsible for the consequences of any unauthorized use of such device which was not, in fact, known by the Trustee at the time to be unauthorized. The Trustee shall, as promptly as possible, comply with any written directions given by the Investment Manager hereunder, and, where such directions are given by photostatic teletransmission with facsimile signature or signatures, the Trustee shall be entitled to presume any directions so given are fully authorized.

In the event that an Investment Manager should resign or be removed by the Committee, the Trustee shall, upon receiving written notice of such resignation or removal, manage, pursuant to Section 5.2, the investment of the portion or portions of Fund B, Fund C and/or Fund D under management by such Investment Manager at the time of its resignation or removal, unless and until it shall be notified of the appointment of another Investment Manager as provided in this Section 5.3, for such portion or portions of such Fund B, Fund C and/or Fund D.

5.4 INSURANCE OR ANNUITY CONTRACTS: With respect to the investment of the Master Trust Fund in Insurance Contracts as hereinafter provided in this Section 5.4, the Committee shall direct the Trustee in the exercise of the powers set forth in Section 5.2 and the Trustee shall exercise such powers in the manner directed in writing by the Committee. It shall be the duty of the Trustee to act strictly in accordance with each direction of the Committee relating to the investment of the Master Trust Fund in Insurance Contracts and the Trustee shall not have any duty to question any such direction. The Trustee shall not have any duty to review any such Insurance Contracts held in the Master Trust Fund pursuant to such direction, or to make suggestions to the Committee with respect to the exercise or non-exercise of any of the said powers. The Trustee shall be under no liability for any loss of any kind which may result by reason of any action taken by it in accordance with any direction of the Committee or by reason of its failure to exercise any of the said powers in respect of such Insurance Contracts because of the failure of the Committee to give such direction, unless the Trustee knows that by such action or failure to act it will be participating in a breach of fiduciary duty by the Committee.

(a) The Trustee, upon written direction of the Committee, shall pay from the Master Trust Fund such sums to such insurance company or companies or other financial

institutions (hereinafter collectively referred to as an "insurance company") as the Committee or the appropriate Plan Administrator may direct for the purpose of procuring individual or group annuity contracts and/or policies or contracts of life insurance (hereinafter in this Section 5.4 referred to as "Contracts"). The Committee shall prepare, or cause to be prepared in such form as it shall prescribe, the application for any Contract to be applied for under any or all of the Participating Plans and this Master Trust and the Trustee shall execute such application. The Trustee shall receive and hold in the Master Trust Fund, subject to the provisions hereinafter set forth in this Section, all Contracts obtained pursuant to the Participating Plans.

(b) The Trustee shall be the complete and absolute owner of Contracts held in the Master Trust Fund and, upon written direction of the Committee, shall have power, without the consent of any other person, to collect and receive all dividends or other payments of any kind payable with respect to any Contract held in the Master Trust Fund or to leave the same with the issuing insurance company; to convert from one form to another any Contract held in the Master Trust Fund; to change the person or persons designated in any Contract to receive the proceeds; to designate any mode of settlement of the proceeds of any Contract held in the Master Trust Fund; to sell or assign any Contract held in the Master Trust Fund; to surrender for cash any Contract held in the Master Trust Fund; to borrow sums of money from the issuing insurance company upon any Contract or Contracts issued by it and held in the Master Trust Fund, provided that the Trustee shall borrow such sums only in respect of all Contracts for the time being held in the Master Trust Fund and upon a uniform basis; to agree with the insurance company issuing any Contract to any release, reduction, modification or amendment thereof; and, without limitation of any of the foregoing, to

exercise any and all of the rights, options or privileges that belong to the absolute owner of any Contract held in the Master Trust Fund or that are granted by the terms of any such Contract or by the terms of this Agreement. The Trustee shall have no discretion with respect to the exercise of any of the foregoing powers or to take any other action permitted by any Contract held in the Master Trust Fund, but shall exercise such powers or take such action only upon the written direction of the Committee; the Trustee shall have no duty to exercise any of such powers or to take any such action unless and until it shall have received such direction. The Trustee, upon the

written direction of the Committee, shall deliver any Contract held in the Master Trust Fund to such person or persons as may be specified in the direction.

(c) The Trustee shall hold in the Master Trust Fund the proceeds of any sale, assignment or surrender of any Contract held in the Master Trust Fund and any and all dividends and other payments of any kind received in respect to any Contract held in the Master Trust Fund, and shall distribute and/or allocate such proceeds in accordance with the directions of the Committee.

(d) If the Trustee shall have borrowed any sums of money upon any Contract held in the Master Trust Fund, it shall have no duty to repay any part of the money so borrowed, notwithstanding the fact that thereafter it may have sufficient funds to make such repayment, unless and until it shall have received written direction from the Committee to make the repayment.

(e) Upon the written direction of the Committee, the Trustee shall pay from the Master Trust Fund premiums, assessments, dues, charges and interest, if any, upon any Contract held in the Master Trust Fund. The Trustee shall have no duty to make any such payment unless and until it shall have received such direction. The written direction of the Committee to pay the premiums becoming due on any Contract specified in the direction shall be sufficient authority for the Trustee to pay any and all bills presented to it for premiums or the amount specified in any premium notice received from the insurance company issuing the Contract, and for such purposes the Trustee may use any money held by it as part of the Master Trust Fund at the time the payment is due, unless the Committee shall have directed that such money shall not be used for such purpose. If the moneys held by the Trustee in the Master Trust Fund at any time and available for the payment of premiums are not sufficient to pay all sums then due on all Contracts held in the Master Trust Fund, the Trustee immediately shall notify the Committee of the amount of the deficiency, and the Committee shall call upon the Company to make payment of the sum before the expiration of the last day of grace for such payment; and the Trustee shall be under no duty or obligation to pay any such amount if the Trustee shall have given such notice, unless (i) the Committee shall direct the Trustee to pay from the funds available a specified sum or sums upon a specified Contract or

Contracts or (ii) the Company shall pay the amount of the

deficiency to the Trustee at least five (5) days before the date of expiration of the grace period, and in either event, the Trustee immediately shall pay over the same to the issuing insurance company or companies.

(f) Upon the direction of the Committee, the Trustee shall have power to execute all necessary receipts and releases to any insurance company issuing any Contract or Contracts held in the Master Trust Fund, and, upon written advice from the Committee that the proceeds of any Contract held in the Master Trust Fund have become payable, shall make reasonable efforts to collect such sums as may appear to be due; but the Trustee shall have no duty to begin or maintain any action, suit or legal proceeding to collect the proceeds of any Contract unless it is in possession of funds sufficient for the purpose or unless it has been indemnified to its satisfaction for its counsel fees, costs, disbursements and all other expenses and liabilities to which it in its judgment may be subjected by beginning or maintaining the action, suit or other legal proceeding. The Trustee may use the proceeds of any Contract held in the Master Trust Fund to defray the expenses incurred in connection with enforcing payment of that Contract. The Trustee shall have power, with the written approval of the Committee, to compromise and adjust claims arising out of any Contract held in the Master Trust Fund upon such terms and conditions as it may deem just, and the discretion of the Trustee shall be binding and conclusive upon all persons interested in the Master Trust Fund.

(g) Any insurance company may deal with the Trustee as sole owner of any Contract issued by it and held in the Master Trust Fund, without inquiry as to the authority of the Trustee to act, and may accept and rely upon any written notice, instruction, direction, certificate or other communication from the Trustee believed by it to be genuine and to be signed by an officer of the Trustee. No insurance company shall be required to look into the terms of this Agreement, or to question any action of the Trustee or to see that any action of the Trustee is authorized by the terms of this Agreement.

(h) The Trustee shall follow directions of the Committee concerning the exercise or non-exercise of any powers or options concerning any Contract held in the Master Trust Fund. Notwithstanding any other provision of this Agreement to the contrary, the Company hereby agrees to indemnify the Trustee and hold it harmless from and against any claim or liability which may be asserted

against the Trustee by reason of its acting on any direction from the Committee or failing to act in the absence of any such direction with respect to any Contract or the acquisition of any Contract or exercise of any right of option thereunder.

5.5 VOTING OF SECURITIES OTHER THAN COMPANY STOCK: The Trustee shall have power in its discretion to exercise all voting rights with respect to any investment held in Fund B,

Fund C and Fund D and to grant proxies, discretionary or otherwise, with respect thereto, except that (a) at any time when an Investment Manager shall be acting with respect to Fund B, Fund C and Fund D as provided in Section 5.3, the Trustee shall not exercise its discretion with respect to voting any securities under management of such Investment Manager but shall itself vote such securities only upon and in the manner directed by the Investment Manager or shall send such Investment Manager all proxies and proxy materials relating to such securities, signed by the Trustee without indication of voting preference, and the Investment Manager shall exercise all voting rights with respect thereto or (b) at any time when securities are loaned as provided in Section 5.2, the Trustee shall not have such power. All shares of Company Stock held in Fund A shall be voted as provided below in Section 5.6.

5.6 VOTING AND TENDERING OF COMPANY STOCK:

A. The Trustee shall not vote the shares of Company Stock held in Fund A at any meeting of stockholders except as it shall receive voting instructions from employees participating in Fund A as provided below. Each employee, former employee or beneficiary of a deceased employee participating in Fund A (hereinafter in this Section referred to as "Fund A Participant") is, for purposes of this Section 5.6(A), hereby designated as a "named fiduciary" (within the meaning of Section 403(a)(1) of ERISA) with respect to the shares of Company Stock attributable to his account and shall have the right to direct the Trustee with respect to the vote of the shares of Company Stock attributable to his account, on each matter brought before any meeting of the stockholders of the Company. Before each such meeting of stockholders, the Company shall cause to be furnished to each Fund A Participant a copy of the proxy solicitation material, together with a form requesting confidential directions to the Trustee on how such shares of Company Stock attributable to such Fund A Participant's account shall be voted on each such matter. Upon timely receipt of such directions, the Trustee shall on each such matter vote as directed the number of shares (including fractional shares) of Company Stock attributable to such Fund A Participant's account, giving effect to all affirmative directions by Fund A Participants, including directions to vote for or against, to abstain or to withhold the vote, and the Trustee shall have no discretion in such matter. The Trustee

shall vote shares of Company Stock for which it has not received direction in the same proportion as directed shares attributable to Fund A Participants' accounts in the Plan are voted, and the Trustee shall have no discretion in such matter. The instructions received by the Trustee from Fund A Participants shall be held by the Trustee in confidence and shall not be divulged or released to any person, including the Committee, officers or employees of the Company or Affiliated Corporations. The Trustee shall be authorized to coordinate the voting of Company Stock pursuant to this Section 5.6(A) with the voting provisions of the ESOP Trust Agreement so as to fully effectuate and carry out the purposes and intent thereof.

B. The provisions of this Section 5.6(B) shall apply in the event a tender or exchange offer including but not limited to a tender offer or exchange offer within the meaning of the Exchange Act (a "tender offer"), for Company Stock is commenced by a person or persons.

In the event a tender offer for Company Stock is commenced, the Committee, promptly after receiving notice of the commencement of any such tender offer, shall transfer certain of the Committee's record keeping functions to an independent record keeper (which,

if the Trustee consents in writing, may be the Trustee). The functions so transferred shall be those necessary to preserve the confidentiality of any directions given by the Fund A Participants in connection with the tender offer. The Trustee shall have no discretion or authority to sell, exchange or transfer any of such shares pursuant to such tender offer except to the extent, and only to the extent, as provided in this Trust Agreement.

Each Fund A Participant is, for purposes of this Section 5.6(B), hereby designated as a "named fiduciary" (within the meaning of Section 403(a)(1) of ERISA) with respect to the shares of Company Stock attributable to his account and shall have the right, to the extent of the number of whole shares of Company Stock attributable to his account, to direct the Trustee in writing as to the manner in which to respond to a tender offer with respect to shares of Company Stock. The Company shall use its best efforts to timely distribute or cause to be distributed to each Fund A Participant such information as will be distributed to stockholders of the Company in connection with any such tender offer. Upon timely receipt of such instructions, the Trustee shall respond as instructed with respect to such shares of Company Stock. The instructions received by the Trustee from Fund A Participants shall be held by the Trustee in confidence and shall not be divulged or released to any person, including the Committee or officers or employees of the Company or Affiliated Corporations. If the Trustee shall not receive timely instruction from a Fund 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 Fund A Participant has the right to direction, and the Trustee shall have no discretion in such matter. Fractional shares of Company Stock attributable to Fund A Participants' accounts shall be tendered or exchanged by the Trustee in the same proportion as shares of Company Stock attributable to Fund A Participants' accounts in the Plan are tendered or exchanged, and the Trustee shall have no discretion in such matter. In determining such proportion, the Trustee shall under all circumstances include in its calculation the direction of Fund A Participants on all shares of Company Stock attributable to Fund A Participants' Plan accounts. The Trustee shall be authorized to coordinate the tendering of Company Stock pursuant to this Section 5.6(B) with the tendering provisions of the ESOP Trust Agreement so as to fully effectuate and carry out the purposes and intent thereof.

The independent record keeper shall solicit confidentially from each Fund A Participant the directions described in this Section 5.6(B) as to whether shares are to be tendered. The independent record keeper, if different from the Trustee, shall instruct the Trustee as to the amount of shares to be tendered, in accordance with the above provisions.

5.7 POWERS OF TRUSTEE: When so directed in accordance with the provisions of Section 5.3, or in the discretion of the Trustee if it is managing the Master Trust Fund under such provisions, the Trustee shall have, subject to the provisions of Sections 5.1 and 5.2, the power:

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

manner, for such considerations and on such terms and conditions as the Trustee decides;

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

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

property so deposited;

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

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

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

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

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

(i) For the purposes of the Trust and 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; provided, however, that the amount or amounts of such loans shall not exceed in the aggregate 10% of the market value of the Master Trust Fund as of the date of the borrowing, and further provided that no such loan or advance shall be made by the Trustee hereunder other than

temporary advances to the Master Trust Fund, on a cash or overdraft basis, on which no interest is payable;

(j) If an Investment Manager directing investment under Section 5.3 is a bank, as defined in the Investment Advisers Act of 1940, to transfer to such Investment Manager all or any specified assets in that part of the

Master Trust Fund which is subject to such Investment Manager's direction, for investment by such Investment Manager through the medium of any common, collective, commingled or group trust fund maintained by it which consists solely of assets of trusts qualified under Code Section 401(a) and which is exempt from tax under Code Section 501(a), whereupon the instrument establishing such common, collective, commingled or group trust fund, as amended from time to time, shall constitute a part of each Participating Plan the assets of which are included in such part of the trust fund as long as any portion of such assets shall be invested through the medium of such common, collective, commingled or group trust fund; and

(k) Notwithstanding any provision of this Article V to the contrary, the Committee may authorize the Trustee to exercise in its sole discretion the powers relating to the lending of securities (and such other powers as may be incidental thereto) with respect to securities or other property held in the Master Trust Fund and designated to be subject to the discretion of the Trustee or an Investment Manager as otherwise provided hereunder ("Subject Account"). If the Subject Account is otherwise subject to the discretion of an Investment Manager, such Investment Manager shall retain investment authority over such account other than the exercise or direction of the powers relating to the lending of securities vested in the Trustee, and, subject to the requirements of ERISA, shall not be responsible for any act or omission of the Trustee.

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

(i) To cause any investment to be registered and held in its own name, in the name of a nominee, in the name of a nominee of any system for the centralized handling of securities, or in book-entry or bearer form (provided, however, that the Trustee's books and records shall at all times show that all such investments are a part of the Master Trust Fund);

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

(iii) To settle, compromise or submit to arbitration any claims, debts or damages due or owing to or from the Master Trust; to commence or defend suits or legal proceedings to protect any

Master Trust in all suits or legal proceedings in any court or before any other body or tribunal;

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

(v) To manage, operate, repair, improve, develop, preserve, mortgage or lease for any period any real property or any oil, mineral or gas properties, royalties, interests or rights held by it directly or through any corporation, either alone or by joining with others, using other Trust assets for any of such purposes; to modify, extend, renew, waive or otherwise adjust any or all of the provisions of any such mortgage or lease; and to make provision for amortization of the investment in or depreciation of the value of such property;

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

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

5.8 PAYMENTS AND DISTRIBUTIONS FROM MASTER TRUST FUND: The Trustee shall make such payments and distributions from the Master Trust Fund at such time or times and to such person or persons, including a paying agent or agents designated by the Committee or by a Plan Administrator as paying agent, as the Committee shall direct in writing (or as a Plan Administrator of a Participating Plan shall direct, with respect to the equitable share of such Plan in the Master Trust Fund), provided, however, (i) that disbursements for ordinary expenses incurred in the administration of the Master Trust Fund and disbursements to Participants need not be authorized by the Committee

and (ii) that no payment or distribution in respect of a Participating Plan shall exceed the equitable share in the Master Trust Fund of such Participating Plan on the date such payment or distribution is made. Any cash or property so paid or delivered to any such paying agent shall be held in trust by such payee until disbursed in accordance with the Participating Plan with respect to which the payment or distribution is made. Upon written direction by the Committee, the Trustee shall transfer and deliver such part of the equitable share of a Participating Plan or Plans in the Master Trust Fund as may be specified in such direction to any other trust established for the purpose of funding benefits

under such Participating Plan or Plans or under any other plan, qualifying under Code Section 401 established for the benefit of participants in such Participating Plan or Plans or their beneficiaries by the Company, any Affiliated Corporation or any successor or transferee of the Company or such Affiliated Corporation; provided such transfer shall be in conformity with the requirements of Federal law. Any written direction of the Committee or of a Plan Administrator shall constitute a certification that the distribution or payment so directed is one which the Committee or Plan Administrator, as the case may be, is authorized to direct and the Trustee shall not be responsible for the adequacy of the equitable share of any Participating Plan to meet and discharge such distribution or payment.

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

5.9 TRUSTEE'S DEALINGS WITH THIRD PARTIES: Any corporation, transfer agent or other third party dealing with the Trustee shall not make, nor be required by any person to make, any inquiry whether the Trustee has authority to take or omit any action under this Trust Agreement or whether the Committee or a Plan Administrator has instructed the Trustee to take or omit any such action, but shall be fully protected in relying upon the certificate of the Trustee that it has authority to take or omit such proposed action. The seal of the Trustee affixed to any instrument executed by it shall constitute the Trustee's certificate that it is authorized as Trustee hereunder to

execute such instrument and proceed as may be provided for therein. No third party shall be required to follow the application by the Trustee of any money or property which may be paid or transferred to it.

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

ARTICLE VI

FOR THE PROTECTION OF THE TRUSTEE

6.1 COMPOSITION OF COMMITTEE AND PLAN ADMINISTRATORS: The Plan and each Participating Plan, if any, shall be administered by the applicable Plan Administrator, and the Trustee shall not be responsible in any respect for such administration. The members of the Committee and each Plan Administrator shall serve pursuant to the provisions of the Plan, and the Company shall certify to the Trustee the names of the members of the Committee and each Plan Administrator acting from time to time and furnish to the Trustee specimens of the signatures of such persons. The Company shall indemnify and hold harmless each member of the Committee, or, in the case of a Participating Plan, any Plan Administrator, from any and all claims, losses, damages, expenses (including counsel fees approved by the Committee), and liabilities (including any amounts paid in settlement with the Committee's approval but excluding any excise tax assessed against any member or members of the Committee pursuant to the provisions of Code Section 4975) arising from any act or omission of such member in connection with his duties and responsibilities under this Trust Agreement, except when the same is judicially determined to be due to the gross negligence and willful misconduct of such member. The foregoing right of indemnification shall be in addition to any rights to which any member of the Committee, or, in the case of a Participating Plan, any Plan Administrator, may otherwise be entitled as a matter of law. When any member of the Committee, or, in the case of a Participating Plan, any Plan Administrator, shall cease to act, the Company shall promptly give written notice to that effect to the Trustee, but until such notice is received by the Trustee it shall be fully protected in continuing to rely upon the authority of such persons. If the full number of members of the Committee, as provided under the Plan, or the full number of members of a Plan Administrator provided for in a Participating Plan shall not at any time have been

designated, the remaining member or members acting at such time shall be deemed to have all of the powers and duties of the Committee or such Plan Administrator; or, if at any time there is no member of the Committee or of a Plan Administrator, the Board of Directors of the Company or of such Affiliated Corporation shall be deemed to be the Committee or such Plan Administrator, as applicable.

6.2 EVIDENCE OF ACTION BY COMPANY OR COMMITTEE: The Committee and each Plan Administrator, respectively, shall certify to the Trustee the name or names of any person or persons authorized to act for the Committee or for such Plan Administrator. Until the Committee or the appropriate Plan Administrator notifies the Trustee that any such person is no longer authorized to act for the Committee or for such Plan Administrator, the Trustee may continue to rely on the authority of such person. The Trustee may rely upon any certificate, notice or direction purporting to have been signed on behalf of the Committee or on behalf of a Plan Administrator which the Trustee believes to have been signed by the Committee or by a Plan Administrator or the person or persons authorized to act for the Committee or for a Plan Administrator.

Any action required by any provision of this Agreement to be taken by the Board of Directors of the Company or of an Affiliated Corporation shall be evidenced by a resolution of its Board of Directors, certified to the Trustee over the signature of its Secretary or Assistant Secretary, and the Trustee may rely upon, and shall be fully protected in acting in accordance

with, such resolution so certified to it. Unless other evidence with respect thereto has been expressly prescribed in this Agreement, any other action of the Company or of an Affiliated Corporation under any provision of this Agreement, including any approval of, or exceptions to the Trustee's accounts, shall be evidenced by a certificate signed by an officer of the Company or of an Affiliated Corporation, as the case may be, and the Trustee shall be fully protected in relying upon such certificate.

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

6.3 COMMUNICATIONS: Communications to the Trustee shall be addressed to it at 600 Travis, 5th Floor, Houston, Texas 77002. Communications to the Committee, each Plan Administrator, the Company or any Affiliated Corporation shall be addressed to it at 5 Post Oak

Park, 4400 Post Oak Parkway, 27th Floor, Houston, Texas 77027, with a copy to the Compensation and Benefits Committee, attention: Secretary, P.O. Box 61867, Houston, Texas 77208, unless the Trustee, the Committee, the appropriate Plan Administrator, the Company or any Affiliated Corporation, respectively, shall request that communications be sent to another address. No communication shall be binding upon the Master Trust Fund or the Trustee, or upon the Committee, any Plan Administrator, the Company or any Affiliated Corporation until it is received by the Trustee, the Committee, the appropriate Plan Administrator, the Company or the appropriate Affiliated Corporation, as the case may be.

6.4 ADVICE OF COUNSEL OR PLAN ADMINISTRATOR: The Trustee may consult with any legal counsel, including counsel to the Company, the Committee or a Plan Administrator, with respect to the construction of this Trust Agreement, its duties hereunder, or any act which it proposes to take or omit.

6.5 MISCELLANEOUS: The Trustee shall discharge its duties hereunder with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Trustee shall not be liable for any loss sustained by the Master Trust Fund by reason of the purchase, retention, sale or exchange of any investment in good faith and in accordance with the provisions of this Trust Agreement and of any applicable Federal law.

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

The Company, any Affiliated Corporation, the Committee or any Plan Administrator, or all of them, at any time may employ as agent (to perform any act, keep any records or accounts, or make any computations required of the Company, an Affiliated Corporation, the Committee or any Plan Administrator by this Trust Agreement or any

Participating Plan) the corporation serving as Trustee hereunder. Nothing done by said corporation as such agent shall affect its responsibility or liability as Trustee hereunder.

6.6 FIDUCIARY RESPONSIBILITIES:

A. The Trustee, the Investment Managers, if any, the members of the Committee and each Plan Administrator shall discharge their duties with respect to the Master Trust solely in the interest of the participants in the respective Participating Plans and their beneficiaries and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like

capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

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

(i) such fiduciary participated knowingly in, or knowingly undertook to conceal, an act or omission of such other person, knowing such act or omission to be a breach of fiduciary responsibility;

(ii) such fiduciary, by his failure to comply with Section 404(a)(1) of ERISA (or any successor statutory provision) in the administration of his specific responsibilities which give rise to his status as a fiduciary, has enabled such other person to commit a breach of fiduciary responsibility;

(iii) such fiduciary has knowledge of a breach of fiduciary responsibility by such other person, unless he makes reasonable efforts under the circumstances to remedy the breach; or

(iv) such fiduciary is a "named fiduciary" (as such term is defined in Section 402(a)(2) of ERISA, or any successor statutory provision) and has violated his duties under Section 404(a)(1) of ERISA (or any successor statutory provision):

(a) with respect to the allocation of fiduciary responsibilities among named fiduciaries or the designation of persons other than named fiduciaries to carry out fiduciary responsibilities under this Trust Agreement;

(b) with respect to the establishment or implementation of procedures for allocating fiduciary responsibilities among named fiduciaries or for designating persons other than named fiduciaries to carry out fiduciary responsibilities under this Trust Agreement; or

(c) in continuing the allocation of fiduciary responsibilities among named fiduciaries or the designation of persons other than named

fiduciaries to carry out fiduciary responsibilities under this Trust Agreement.

ARTICLE VII

TAXES, EXPENSES AND COMPENSATION OF TRUSTEE

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

Any amount paid from the Master Trust Fund which is specifically allocable to a particular Participating Plan or Plans shall be charged against the equitable share of such Participating Plan or Plans; any amount paid from the Master Trust Fund which is allocable to all of the Participating Plans shall be allocated to such Participating Plans in an equitable manner.

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

ARTICLE VIII

SETTLEMENT OF ACCOUNTS; DETERMINATION OF INTERESTS UNDER MASTER TRUST

8.1 SETTLEMENT OF ACCOUNTS OF TRUSTEE: The Trustee shall keep

accurate and detailed accounts of all of its receipts, investments and disbursements under this Agreement on a modified cash basis, accounting separately for each Investment Fund and for each insurance or annuity contract purchased pursuant to the provisions of Section 5.4 and which is not allocable to any Investment Fund. The financial statements, books and records of the Trustee with respect to the Master Trust shall be open to inspection during all business hours of the Trustee by the Company or the Committee or their representatives, including, without limitation, independent certified public accountants engaged by the Company or the Committee, on behalf of all participants in the Participating Plans, to permit compliance with the reporting and disclosure requirements of ERISA. However, such financial statements, books and records may not be audited more frequently than twice in each fiscal year. If an examination of the financial statements of the Participating Plans requires a review of the underlying transactions affecting such financial statements, such independent certified public accountants shall rely on the report of the independent certified public accountants engaged by the Trustee to review its procedures and controls, to the extent such reliance is permitted by generally accepted auditing standards.

Within 90 days after the close of each calendar year, or any termination of the duties of the Trustee, the Trustee shall prepare, sign and mail in duplicate to the Company and the Committee an account of its acts and transactions as Trustee hereunder. Such account shall include a statement of the equitable share in the Master Trust Fund and in its component Investment Funds of each Participating Plan (and where appropriate of each Affiliated Corporation which has adopted a Participating Plan) as of the last day of such year or other period and a statement of the portion of the Master Trust Fund under management by any Investment Manager as of the same date. If the Company finds the account to be correct, the Company shall sign the instrument of settlement annexed to one counterpart of the account and return such counterpart to the Trustee, whereupon the account shall become an account stated. If within 90 days after receipt of the account or any amended account the Company has not signed and returned a counterpart to the Trustee, nor filed with the Trustee notice of any objection to any act or transaction of the Trustee, the account or amended account shall become an account stated. If any objection has been filed, and if the Company is satisfied that it should be withdrawn or if the account is adjusted to its satisfaction, the Company shall in writing filed with the Trustee signify its approval of the account and it shall become an account stated. In each case in which an account becomes an account stated, the account shall be an account stated between the Trustee and the Company and any Affiliated Corporation which had adopted a Participating Plan.

When an account becomes an account stated, such account shall be finally settled, and the Trustee shall be completely discharged and released, as if such account had been settled and allowed by a judgment or decree of a court of competent jurisdiction

in an action or proceeding in which the Trustee, the Company and any Affiliated Corporation which has adopted a Participating Plan were parties.

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

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

8.2 DETERMINATION OF RIGHTS AND BENEFITS OF PERSONS CLAIMING AN INTEREST IN THE MASTER TRUST FUND; ENFORCEMENT OF MASTER TRUST FUND: The Committee shall have authority to determine the existence, non-existence, nature and amount of the rights and interests of all persons under the Participating Plan and in or to the Master Trust Fund, and the Trustee shall have no power, authority, or duty in respect of such matters, or to question or examine any determination made by the Committee, or any direction given by the Committee to the Trustee. The Company, other Employers and the Committee shall have authority, either jointly or severally, to enforce this Trust Agreement on behalf of any and all persons having or claiming any interest in the Master Trust Fund or under this Trust Agreement or the Participating Plans. The assets of the ESOP Trust shall not constitute a portion of the Master Trust Fund, and the Trustee, in its capacity as trustee of the Master Trust Fund, shall have no responsibility with respect to the ESOP Trust, except as otherwise specifically agreed by the Trustee.

ARTICLE IX

RESIGNATION, REMOVAL AND SUBSTITUTION OF THE TRUSTEE

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

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

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

9.4 TRANSFER OF 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 successor Trustee and from the Company and each Affiliated Corporation which has a Participating Plan, who shall be jointly and severally liable therefor.

ARTICLE X

DURATION AND TERMINATION OF MASTER TRUST; AMENDMENT

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

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

10.3 LOSS OF QUALIFICATION OF A PARTICIPATING PLAN; CERTAIN WITHDRAWALS: The equitable share of any Participating Plan shall be immediately segregated and withdrawn from the Master Trust Fund if the Plan ceases to be qualified under Code Section 401(a) and the Company shall promptly notify the Trustee of any determination by the Internal Revenue Service that any Participating Plan has ceased to be so qualified. Each Affiliated Corporation which has adopted the Master Trust shall have the right to withdraw from this Master Trust upon six months' written notice to the Trustee and the Committee, which written notice may be waived by the Trustee and the Committee. In the event that any Affiliated Corporation which has adopted the Master Trust shall cease to be an Affiliated Corporation of the Company, such corporation shall withdraw from this Master Trust as soon as arrangements may be reasonably made therefor, but in any event such withdrawal shall be made not more than six months after the date such corporation ceases to be an Affiliated Corporation. Upon such

withdrawal, the Committee shall certify to the Trustee the interest in the Master Trust Fund of the participants of such withdrawing corporation and the Trustee shall thereupon separate such interest from the Master Trust Fund as provided below in this Section. The Committee may at any time direct the Trustee to segregate and withdraw the equitable share of any Participating Plan or that portion of such equitable share as may be certified to the Trustee by the Committee as allocable to any specified group or groups of employees or beneficiaries. Whenever

segregation is required, the Trustee shall withdraw from the Master Trust Fund such assets as it shall in its absolute discretion deem to be equal in value to the equitable share to be segregated. Such withdrawal from the Master Trust Fund shall be in cash or in any property held in such Fund, or in a combination of both, in the absolute discretion of the Trustee. The Trustee shall thereafter hold the assets so withdrawn as a separate trust fund in accordance with the provisions either of this Agreement (which shall be construed in respect of such assets as if the employer maintaining such Participating Plan (determined without regard to whether any subsidiaries or affiliates of such employer have joined in such Participating Plan) had been named as the Company hereunder and as if the Plan Administrator for such Plan had been named as the Plan Administrator hereunder) or of a separate trust agreement. Such segregation shall not preclude later readmission to the Master Trust.

10.4 AMENDMENT: By an instrument in writing delivered to the Trustee executed pursuant to the order of the Company's Board of Directors and acknowledged in the same form as this Agreement, the Company shall have the right at any time and from time to time to amend this Agreement in whole or in part except that the duties and responsibilities of the Trustee shall not be increased without the Trustee's written consent; provided, however, that no such amendment shall authorize or permit, at any time prior to the satisfaction of all liabilities with respect to employees and their beneficiaries under any Participating Plan, any part of the equitable share of such Participating Plan in the Master Trust Fund to be used for, or diverted to, any purposes other than for the exclusive benefit of such employees and their beneficiaries. Notwithstanding the foregoing, the Committee may authorize any amendment or modification to Article V of this Agreement regarding the selection of investments or Investment Funds in which the Master Trust Fund may be invested including, without limitation, the Group Trusts.

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

consent is required.

10.5 ACCEPTANCE OR REJECTION OF AMENDMENT BY AFFILIATED CORPORATIONS: Each Affiliated Corporation which has a Participating Plan shall be presumed to have consented to any amendment hereof made by the Company unless it shall object thereto in writing within 30 days after receiving written notice of such amendment. Any Affiliated Corporation not consenting to any amendment may obtain a separation of its interest in the Master Trust Fund in accordance with the provisions of Section 10.3 hereof, any time after 30 days after receipt of written notice of such amendment, to which such Affiliated Corporation shall not so consent.

ARTICLE XI

MISCELLANEOUS

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

11.2 INTEREST IN MASTER TRUST FUND; ASSIGNMENT: No document shall be issued evidencing any interest in the Master Trust or in the Master Trust Fund, and no Participating Plan shall have the power to assign all or any part of its equitable share of the Master Trust Fund or of its interest therein.

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

11.4 PROHIBITION OF DIVERSION: Except as provided in Article VII hereof, it shall be impossible under this Trust Agreement for any part of the corpus or income of the Master Trust Fund to be used for, or diverted to, purposes other than for the exclusive benefit of employees of the Company and Affiliated Corporations which have a Participating Plan and the beneficiaries of such employees. It shall also be impossible under this Trust Agreement for any part of the Master Trust Fund to revert directly or indirectly to the Company or any Affiliated Corporation which has a Participating Plan, except to the extent such reversions are specifically authorized under Section 403(c)(2) of ERISA.

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

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

IN WITNESS WHEREOF, the Company and Trustee have caused these presents to be executed by their duly authorized officers, in a number of copies all of which shall constitute one and the same instrument which may be sufficiently evidenced by any executed copy hereof, this 7th day of April, 1994, but effective as of January 1, 1994.

HOUSTON INDUSTRIES INCORPORATED

By Don D. Sykora
President and Chief Operating Officer

ATTEST:

Rufus S. Scott
Assistant Corporate Secretary

TEXAS COMMERCE BANK NATIONAL ASSOCIATION, Trustee

By Jane E. Whitte
Vice President & Trust Officer

ATTEST:
Tom Abercrombie

EXHIBIT A

Participating Plans in the
Houston Industries Incorporated
Master Savings Trust, under a Trust Agreement
with Texas Commerce Bank National Association,
Dated as of January 1, 1994

NAME OF PLAN	PLAN NUMBER

EXHIBIT B

To TEXAS COMMERCE BANK NATIONAL ASSOCIATION, as Trustee:

The undersigned have duly adopted and hereby signify their intention to join in and become a party to the Houston Industries Incorporated Master Savings Trust, dated as of January 1, 1994, between you and Houston Industries Incorporated so that the defined contribution plans maintained for employees of the undersigned may participate in the Master Trust established under such Trust Agreement.

IN WITNESS WHEREOF, the undersigned have caused these presents to be executed by their duly authorized officers and their seals to be hereto affixed this _____ day of _____, 199___, but effective as of _____, 199___.

[AFFILIATED CORPORATION]

By

ATTEST:

CONSENT BY COMPENSATION AND BENEFITS COMMITTEE AND TRUSTEE

The undersigned, being respectively the Compensation and Benefits Committee and the Trustee described in the above-mentioned Trust Agreement, hereby consent to the above-mentioned Affiliated Corporations joining in and becoming a party to such Trust Agreement. The Compensation and Benefits Committee hereby certifies to the Trustee that a copy of this instrument has been received by each member of the Compensation and Benefits Committee referred to in such Trust Agreement.

COMPENSATION AND BENEFITS COMMITTEE
OF HOUSTON INDUSTRIES INCORPORATED

By
Chairman

ATTEST:

Secretary

TEXAS COMMERCE BANK NATIONAL
ASSOCIATION, Trustee

By

ATTEST:

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, 1994	1993
Primary Earnings Per Share:		
(1) Weighted average shares of common stock outstanding	130,706,753	129,600,283
(2) Effect of issuance of shares from assumed exercise of stock options (treasury stock method)	(23,017)	5,593
(3) Weighted average shares	130,683,736	129,605,876
(4) Net income	$ 30,175	$ 27,055
(5) Primary earnings per share (line 4 divided by line 3)	$ .23	$ .21
Fully Diluted Earnings Per Share:		
(6) Weighted average shares per computation (line 3)	130,683,736	129,605,876
(7) Shares applicable to options included (line 2)	23,017	(5,593)
(8) Dilutive effect of stock options based on the average price for the quarter or quarter-end price, whichever is higher, of $40.50 and $46.88 for 1994 and 1993, respectively (treasury stock method)	(23,017)	5,593
(9) Weighted average shares	130,683,736	129,605,876
(10) Net income	$ 30,175	$ 27,055
(11) Fully diluted earnings per share (line 10 divided by line 9)	$ .23	$ .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, 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, 1994	Twelve Months Ended March 31, 1994
Fixed Charges as Defined:		
(1) Interest on Long-Term Debt .	$ 87,013	$ 370,025
(2) Other Interest	5,726	14,302
(3) Preferred Dividends Factor of Subsidiary	13,071	52,752
(4) Interest Component of Rentals Charged to Operating Expense	1,074	4,383
(5) Total Fixed Charges	$ 106,884	$ 441,462
Earnings as Defined:		
(6) Income Before Cumulative Effect of Change in Accounting for Postemployment Benefits .	$ 38,375	$ 427,388
(7) Income Taxes	22,289	243,945
(8) Fixed Charges (line 5) . . .	106,884	441,462
(9) Earnings Before Income Taxes and Fixed Charges	$ 167,548	$1,112,795
Preferred Dividends Factor of Subsidiary:		
(10) Preferred Stock Dividends of Subsidiary	$ 8,273	$ 33,600
(11) Ratio of Pre-Tax Income to Net Income (line 6 plus line 7 divided by line 6)	1.58	1.57
(12) Preferred Dividends Factor of Subsidiary (line 10 times line 11)	$ 13,071	$ 52,752
Ratio of Earnings to Fixed Charges (line 9 divided by line 5) . . .	1.57	2.52

(8) COMMITMENTS AND CONTINGENCIES

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

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

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

HL&P has commitments to purchase firm capacity from cogenerators of approximately $145 million in 1994, $32 million in 1995 and $22 million in 1996. The Utility Commission's rules allow recovery of these costs through HL&P's base rates for electric service and additionally authorize HL&P to charge or credit customers for any variation in actual purchased power cost from the cost utilized to determine its base rates. In the event that the Utility Commission, at some future date, does not allow

recovery through rates of any amount of purchased power payments, the three principal firm capacity contracts contain provisions allowing HL&P to suspend or reduce payments and seek repayment for amounts disallowed.

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

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

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

(9) JOINTLY-OWNED NUCLEAR PLANT

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

Consolidated Income and in the corresponding operating expense amounts on HL&P's Statements of Income.

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

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

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

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

Austin also asserts in its new suit that certain terms of a settlement reached in 1992 among HL&P and Central and South West Corporation (CSW) and its subsidiary, Central Power and Light Company (CPL), are invalid and void. The Participation Agreement permits arbitration of certain disputes among the owners, and the challenged settlement terms provide that in any future arbitration, HL&P and CPL would each appoint an arbitrator acceptable to the other. Austin asserts that, as a result of this agreement, the arbitration provisions of the Participation

Agreement are void and Austin should not be required to participate in or be bound by arbitration proceedings; alternatively, Austin asserts that HL&P's rights with respect to CPL's appointment of an arbitrator should be shared with all the owners or canceled, and Austin seeks injunctive relief against arbitration of its dispute with HL&P. For a further discussion of the settlement among HL&P, CSW and CPL, see Note 9(c) below.

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

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

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

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

Although settlement with CPL does not directly affect San Antonio's pending demand for arbitration, HL&P and CPL have reached certain other understandings which contemplate that: (i) CPL's arbitrator previously appointed for that proceeding would be replaced by CPL; (ii) arbitrators approved by CPL and HL&P

for any future arbitrations will be mutually acceptable to HL&P and CPL; and (iii) HL&P and CPL will resolve any future disputes between them concerning the South Texas Project without resorting to the arbitration provision of the Participation Agreement. The settlement with CPL did not have a material adverse effect on the Company's or HL&P's financial position and results of operations.

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

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

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

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

year. The application of the proceeds of such property insurance is subject to the priorities established by the United States Nuclear Regulatory Commission (NRC) regulations relating to the safety of licensed reactors and decontamination operations.

Pursuant to the Price Anderson Act, the maximum liability to the public for owners of nuclear power plants, such as the South Texas Project, was increased from $7.9 billion to $9.3 billion effective February 18, 1994. Owners are required under the Act to insure their liability for nuclear incidents and protective evacuations by maintaining the maximum amount of financial protection available from private sources and by maintaining secondary financial protection through an industry retrospective rating plan. Effective August 20, 1993, the assessment of deferred premiums provided by the plan for each nuclear incident has increased from $63 million to up to $75.5 million per reactor subject to indexing for inflation, a possible 5% surcharge (but no more than $10 million per reactor per incident in any one year) and a 3% state premium tax. HL&P and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan.

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

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

As of December 31, 1993, the trustee held approximately $18.7 million for decommissioning, for which the asset and liability are reflected on the Company's Consolidated and HL&P's Balance Sheets in deferred debits and deferred credits, respectively. HL&P's funding level is estimated to provide approximately $146 million in 1989 dollars, an amount which currently exceeds the NRC minimum. However, the South Texas Project co-owners have engaged an outside consultant to review the estimated decommissioning costs of the South Texas Project which review should be completed by the end of 1994. While changes to present funding levels, if any, cannot be estimated at this time, a substantial increase in funding may be necessary. No assurance can be given that the amounts held in trust will be adequate to

cover the decommissioning costs.

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

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

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

The DET report found, among other things, weaknesses in maintenance and testing, deficiencies in training and in the material condition of some equipment, strained staffing levels in

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

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

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

regulatory treatment related to the outage, see Notes 10(f) and 10(g).

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

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

(10) UTILITY COMMISSION PROCEEDINGS

Pursuant to a series of applications filed by HL&P in recent years, the Utility Commission has granted HL&P rate increases to reflect in electric rates HL&P's substantial investment in new plant construction, including the South Texas Project. Although Utility Commission action on those applications has been completed, judicial review of a number of the Utility Commission orders is pending. In Texas, Utility Commission orders may be appealed to a District Court in Travis County, and from that Court's decision an appeal may be taken to the Court of Appeals for the 3rd District at Austin (Austin Court of Appeals).

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

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

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

(b) DOCKET NO. 8425. In October 1992, a District Court in Travis County, Texas affirmed the Utility Commission's order in HL&P's 1988 rate case (Docket No. 8425). An appeal to the Austin Court of Appeals is pending. In its final order in that docket, the Utility Commission granted HL&P a $227 million increase in base revenues, allowed a 12.92% return on common equity, authorized a qualified phase-in plan for Unit No. 1 of the South Texas Project (including approximately 72% of HL&P's investment in Unit No. 1 of the South Texas Project in rate base) and authorized HL&P to use deferred accounting for Unit No. 2 of the South Texas Project. Rates substantially corresponding to the increase granted were implemented by HL&P in June 1989 and remained in effect until May 1991.

In the appeal of the Utility Commission's order, certain parties have challenged the Utility Commission's decision regarding deferred accounting, treatment of federal income tax expense and certain other matters. A recent decision of the Austin Court of Appeals, in an appeal involving another utility (and to which

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

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

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

(c) DOCKET NO. 9850. In August 1992, a district court in Travis County affirmed the Utility Commission's final order in HL&P's 1991 rate case (Docket No. 9850). That decision was appealed by certain parties to the Austin Court of Appeals, raising issues concerning the Utility Commission's approval of a non-unanimous settlement in that docket, the Utility Commission's calculation of federal income tax expense and the allowance of deferred accounting reflected in the settlement. In August 1993, the Austin Court of Appeals affirmed on procedural grounds the ruling by the Travis County District Court, and applications for writ of error were filed with the Supreme Court of Texas by one of the other parties to the proceeding. The Supreme Court has not yet ruled on these applications. In Docket No. 9850, the Utility

Commission approved a settlement agreement reached with most parties. That settlement agreement provided for a $313 million increase in HL&P's base rates, termination of deferrals granted with respect to Unit No. 2 of the South Texas Project and of the qualified phase-in plan deferrals granted with respect to Unit No. 1 of the South Texas Project, and recovery of deferred plant costs. The settlement authorized a 12.55% return on common equity for HL&P, and HL&P agreed not to request additional increases in base rates that would be implemented prior to May 1, 1993. Rates contemplated by that settlement agreement were implemented in May 1991 and remain in effect.

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

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

The Utility Commission's findings did not reflect $207 million in benefits received in a settlement of litigation with the former architect-engineer of the South Texas Project or the effects of federal income taxes, investment tax credits or certain

deferrals. In addition, accounting standards require that the equity portion of AFUDC accrued for regulatory purposes under deferred accounting orders be utilized to determine the cost disallowance for financial reporting purposes. After taking all of these items into account, HL&P recorded an after-tax charge of $15 million in 1990 and continued to reduce such loss with the equity portion of deferrals in 1991 related to Unit No. 2 of the South Texas Project. The findings in Docket No. 6668 represent the Utility Commission's final determination regarding the prudence of expenditures associated with the planning and construction of the South Texas Project. Unless the order is modified or reversed on appeal, HL&P will be precluded from recovering in rate proceedings the amount found imprudent by the Utility Commission.

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

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

rate base, though the court observed that the Utility Commission could allow amortization of such costs.

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

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

On February 23, 1994, the ALJ concluded that a Section 42 proceeding should be conducted and that HL&P should file full information, testimony and schedules justifying its rates. The ALJ acknowledged that the decision was a close one, and is subject to review by the Utility Commission. However, he concluded that information concerning HL&P's financial results as of December 1992 indicated that HL&P's adjusted revenues could be approximately $62 million (or 2.33% of its adjusted base revenues) more than might be authorized in a current rate proceeding. The ALJ's conclusion was based on various accounting considerations, including use of a different treatment of federal income tax expense than the method utilized in HL&P's last rate case. The ALJ also found that there could be a link between the 1993 outage at the South Texas Project, the NRC's actions with respect to the South Texas Project and possible mismanagement by HL&P, which in turn could result in a reduction of HL&P's authorized rate of return as a penalty for imprudent management.

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

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

rates as a result of a Section 42 inquiry would take effect prospectively.

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

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

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

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

Through the end of 1993, HL&P had recovered through the fuel factor approximately $115 million (including interest) less than the amounts expended for fuel, a significant portion of which under recovery occurred in 1993 during the outage at the South Texas Project. In any review of costs incurred during the period of the 1993 outage at the South Texas Project, it is anticipated that other parties will contend that a portion of fuel costs incurred should be attributed to imprudence on the part of HL&P and thus should be disallowed as unreasonable, with recovery from ratepayers denied. Those amounts could be substantial. HL&P intends to defend vigorously against any allegation that its actions have been imprudent or that any portion of its costs incurred should be judged to be unreasonable, but no prediction can be made as to the ultimate outcome of such a proceeding.

(11) DEFERRED PLANT COSTS

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

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

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

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

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

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

	Original Balance	Balance at December 31, 1993
	(Thousands of Dollars)	
Deferred Accounting: (a)		
Deferred Expenses	$ 250,151	$ 233,341
Deferred Carrying Costs on Plant Investment	399,972	373,094
Total	650,123	606,435

Qualified Phase-In Plan: (b)	82,254	58,264
Total Deferred Plant Cost	$ 732,377	$ 664,699

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

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

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

(12) MALAKOFF ELECTRIC GENERATING STATION

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

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

In June 1990, HL&P purchased from its then fuel supply affiliate, Utility Fuels, all of Utility Fuels' interest in the lignite reserves and lignite handling facilities for Malakoff. The purchase price was $138.2 million, which represented the net book value of Utility Fuels' investment in

such reserves and facilities. As part of the June 1990 rate order (Docket No. 8425), the Utility Commission ordered that issues related to the prudence of the amounts invested in the lignite reserves be considered in HL&P's next general rate case which was filed in November 1990 (Docket No. 9850). However, under the October 1991 Utility Commission order in Docket No. 9850, this determination was postponed to a subsequent docket.

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

FUEL

RECOVERY OF FUEL COSTS. For information relating to the cost of fuel over the last three years, see "Operating Statistics of HL&P" below and "Results of Operations - HL&P - Fuel and Purchased Power Expense" in Item 7 of this Report. Utility Commission rules provide for the recovery of certain fuel and purchased power costs through an energy component of electric rates (fixed fuel factor). The fixed fuel factor is established during either a utility's general rate proceeding or an interim fuel proceeding and is to be generally effective for a minimum of six months, unless a substantial change in a utility's cost of fuel occurs. In that event, a utility may be authorized to revise the fixed fuel factor in its rates appropriately. In any event, a fuel reconciliation is required every three years.

In October 1991, the Utility Commission approved HL&P's fixed fuel factor as contemplated in the settlement agreement reached in February 1991 by HL&P and most other parties to Docket No. 9850. See Note 10(c) to the Company's Consolidated and HL&P's Financial Statements in Item 8 of this Report. In November 1993, the Utility Commission authorized HL&P to implement a higher fuel factor under Docket No. 12370. The Company can request a revision to its fuel factor in April and October each year.

Reconciliation of fuel costs after March 1990 is required in 1994, and under Utility Commission rules, HL&P has anticipated that a filing would be required in May 1994. However, the Utility Commission staff has requested that such filing be delayed to the fourth quarter of 1994. If that request is granted by the Utility Commission, HL&P anticipates that fuel costs through some time in 1994 will be submitted for reconciliation at that time. No hearing would be anticipated in that reconciliation proceeding before 1995, and the schedule for reconciliation of those costs could be affected by the institution of a rate proceeding by the Utility Commission and/or a prudence inquiry concerning the outage at the South Texas Project. For a discussion of that outage and the possibility that a rate proceeding may be instituted, see Notes 9(f), 10(f) and 10(g), respectively, to the Company's Consolidated and HL&P's Financial Statements in Item 8 of this Report, which notes are incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS.

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

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

From time to time, HL&P sells equipment and material it no longer requires for its business. In the past, some purchasers may have improperly handled the material, principally through improper disposal of oils containing PCBs used in older transformers. Claims have been asserted against HL&P for clean-up of environmental contamination as well as for personal injury and property damages resulting from the purchasers' alleged improper activities. Although HL&P has disputed its responsibility for the actions of such purchasers, HL&P has, in some cases, participated in or contributed to the remediation of those sites. Such undertakings in the past have not required material expenditures by HL&P. In 1990, HL&P, together with other companies, participated in the clean-up of one such site. Three suits have been brought against HL&P and a number of other parties for personal injury and property damages in connection with that site and its cleanup. In two of the cases, Dumes, et al. vs. Houston Lighting & Power Company, et al., pending in the United States District Court for the Southern District of Texas, Corpus Christi Division, and Trevino, et al. vs. Houston Lighting & Power Company, et al., pending before the 117th District Court of Nueces County, Texas, landowners near the site are seeking damages primarily for lead contamination to their property. A third lawsuit, Holland vs. Central Power and Light Company, et al., involving an allegation of exposure to PCBs disposed of at the site, was dismissed pursuant to a settlement agreement entered into by the parties in July 1993. The terms of the settlement were not material. In all these cases, HL&P has disputed its responsibility for the actions of the disposal site operator and whether injuries or damages occurred. In addition, Gulf States has filed suit in the United States District Court for the Southern District of Texas, Houston Division, against HL&P and two other utilities concerning another site

in Houston, Texas, which allegedly has been contaminated by PCBs and which Gulf States has undertaken to remediate pursuant to an EPA order. Gulf States seeks contribution from HL&P and the other utilities for Gulf States' remediation costs. HL&P does not currently believe that it has any responsibility for that site, and HL&P has not been determined by the EPA to be a responsible party for that site. Discovery is underway in all these pending cases and, although their ultimate outcomes cannot be predicted at this time, HL&P and the Company believe, based on information currently available, that none of these cases will result in a material adverse effect on the Company's or HL&P's financial condition or results of operations.

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

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

HOUSTON INDUSTRIES INCORPORATED
SAVINGS PLAN

(As Amended and Restated Effective January 1, 1994)

First Amendment

Houston Industries Incorporated, a Texas corporation (the "Company"), having established the Houston Industries Incorporated Savings Plan, as amended and restated effective January 1, 1994 (the "Plan"), and having reserved the right to amend the Plan under Section 10.3 thereof, does hereby amend the Plan as follows, effective April 6, 1994:

1. Paragraph (f) of Section 4.18 is hereby amended to read as follows:

> "An Employee's rollover account shall be subject to the same rules as the Employee's Pre-Tax Contribution Account for all purposes of the Plan, including, but not by way of limitation, rules regarding investments, withdrawals, distributions and loans under the Plan."

2. The second full paragraph of Section 8.1 is hereby amended to read as follows:

> "The Participant shall have the right to direct the Committee to instruct the Trustee to invest his Pre-Tax Contributions and After-Tax Contributions, and the earnings and accretions thereon, in any combination of ten percent (10%) increments between the Investment Funds."

3. The second sentence of the third full paragraph of Section 8.1 of the Plan is hereby amended to read as follows:

> "The Participant, effective on any succeeding monthly Valuation Date, by prior written notice to the Committee given in such manner and at such time as may be prescribed from time to time by the Committee, may (i) change his instructions with respect to the investment of his future Pre-Tax and After-Tax Contributions in the Trust Fund and/or (ii) change his instructions with respect to the investment of the current values in his Pre-Tax Contribution Account and After-Tax Contribution Account in such manner as he may determine between the investment accounts."

4. The first sentence of Section 10.3 is hereby amended by adding the following language to the end thereof:

> "and the Committee shall have the right to amend or modify this Plan and the Trust Agreement to change the Investment Funds at any time and from time to any extent that it may deem advisable."

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 7th day of April, 1994, but effective April 6, 1994.

HOUSTON INDUSTRIES INCORPORATED
By: D. D. Sykora
D. D. Sykora,
President and Chief Operating Officer

ATTEST:

Rufus S. Scott
Assistant Corporate 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, 1994	Twelve Months Ended March 31,1994
Fixed Charges as Defined:			
(1)	Interest on Long-Term Debt	$ 61,842	$ 268,287
(2)	Other Interest	2,896	10,557
(3)	Amortization of (Premium) Discount	2,121	7,760
(4)	Interest Component of Rentals Charged to Operating Expense	1,074	4,383
(5)	Total Fixed Charges . .	$ 67,933	$ 290,987
Earnings as Defined:			
(6)	Net Income	$ 49,959	$ 493,462
(7)	Cumulative Effect of Change in Accounting for Postemployment Benefits	8,200	8,200
(8)	Income Before Cumulative Effect of Change in Accounting for Postemployment Benefits .	58,159	501,662
Federal Income Taxes:			
(9)	Current	21,530	123,191
(10)	Deferred (Net)	915	125,035
(11)	Cumulative Effect of Change in Accounting for Postemployment Benefits	4,415	4,415
(12)	Total Federal Income Taxes Before Cumulative Effect of Change in Accounting for Postemployment Benefits .	26,860	252,641
(13)	Fixed Charges (line 5) . .	67,933	290,987

(14)	Earnings Before Income Taxes and Fixed Charges (line 8 plus line 12 plus line 13)	$ 152,952	$ 1,045,290
	Ratio of Earnings to Fixed Charges (line 14 divided by line 5) . .	2.25	3.59
	Preferred Dividends Requirements:		
(15)	Preferred Dividends . . .	$ 8,273	$ 33,600
(16)	Less Tax Deduction for Preferred Dividends . . .	14	54
(17)	Total	8,259	33,546
(18)	Ratio of Pre-Tax Income to Net Income (line 8 plus line 12 divided by line 8)	1.46	1.50
(19)	Line 17 times line 18 . .	12,058	50,319
(20)	Add Back Tax Deduction (line 16)	14	54
(21)	Preferred Dividends Factor	$ 12,072	$ 50,373
(22)	Fixed Charges (line 5) . .	$ 67,933	$ 290,987
(23)	Preferred Dividends Factor (line 21)	12,072	50,373
(24)	Total	$ 80,005	$ 341,360
	Ratio of Earnings to Fixed Charges and Preferred Dividends (line 14 divided by line 24) . .	1.91	3.06