

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

(Mark One)

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

For the quarterly period ended September 30, 1994.

OR

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

For the transition period from _____ to _____

Commission file number 1-7629

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

Texas 74-1885573
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

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 (I.R.S. Employer Identification No.)
incorporation or organization)

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 October 31, 1994, Houston Industries Incorporated had 131,296,631 shares
of common stock outstanding, including 7,895,308 shares not outstanding for
financial statement purposes. See Note 2 to the financial statements in Item 1
of this Report. As of October 31, 1994, all 1,000 authorized and outstanding
shares of Houston Lighting & Power Company's Class A voting common stock,
without par value, were held by Houston Industries Incorporated and all 100
authorized and outstanding shares of Houston Lighting & Power Company's Class B
non-voting common stock were held by Houston Industries (Delaware) Incorporated.

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1994	1993	1994	1993
REVENUES:				
Electric.....	\$1,150,946	\$1,355,339	\$2,977,433	\$3,166,173
Cable television.....	65,034	60,993	187,308	183,871
Total	1,215,980	1,416,332	3,164,741	3,350,044
EXPENSES:				
Electric:				
Fuel.....	211,235	345,580	663,937	806,746
Purchased power.....	102,225	127,705	304,680	386,628

Operation and maintenance.....	212,507	225,525	610,447	633,627
Taxes other than income taxes.....	65,184	51,021	191,255	175,353
Cable television operating expenses....	39,942	36,562	118,092	110,353
Depreciation and amortization.....	120,849	116,079	360,822	347,810
	-----	-----	-----	-----
Total	751,942	902,472	2,249,233	2,460,517
	-----	-----	-----	-----
OPERATING INCOME.....	464,038	513,860	915,508	889,527
	-----	-----	-----	-----
OTHER INCOME (EXPENSE):				
Allowance for other funds used				
during construction.....	1,170	981	2,579	2,769
Interest income.....	1,174	8,355	1,591	25,093
Equity in income of cable television				
partnerships.....	8,125	8,554	23,825	23,563
Other - net.....	(8,425)	(5,741)	(21,758)	(9,699)
	-----	-----	-----	-----
Total.....	2,044	12,149	6,237	41,726
	-----	-----	-----	-----
INTEREST AND OTHER CHARGES:				
Interest on long-term debt.....	62,851	96,826	236,313	290,449
Other interest.....	28,950	871	40,607	9,165
Allowance for borrowed funds used				
during construction.....	(1,616)	(1,062)	(3,433)	(2,976)
Preferred dividends of subsidiary.....	8,305	8,238	24,981	26,172
	-----	-----	-----	-----
Total.....	98,490	104,873	298,468	322,810
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES AND CUMULATIVE				
EFFECT OF CHANGE IN ACCOUNTING FOR				
POSTEMPLOYMENT BENEFITS.....	367,592	421,136	623,277	608,443
	-----	-----	-----	-----
INCOME TAXES.....	131,624	160,727	226,486	220,770
	-----	-----	-----	-----
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE				
IN ACCOUNTING FOR POSTEMPLOYMENT				
BENEFITS.....	235,968	260,409	396,791	387,673
	-----	-----	-----	-----
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING				
FOR POSTEMPLOYMENT BENEFITS (NET OF				
INCOME TAXES OF \$4,415).....			(8,200)	
	-----	-----	-----	-----
NET INCOME.....	\$ 235,968	\$ 260,409	\$ 388,591	\$ 387,673
	=====	=====	=====	=====

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EARNINGS PER COMMON SHARE:

EARNINGS PER COMMON SHARE BEFORE				
CUMULATIVE EFFECT OF CHANGE IN				
ACCOUNTING FOR POSTEMPLOYMENT				
BENEFITS.....	\$ 1.92	\$ 2.00	\$ 3.23	\$ 2.99
	-----	-----	-----	-----
CUMULATIVE EFFECT OF CHANGE IN				
ACCOUNTING FOR POSTEMPLOYMENT				
BENEFITS.....			(.06)	
	-----	-----	-----	-----
EARNINGS PER COMMON SHARE.....	\$ 1.92	\$ 2.00	\$ 3.17	\$ 2.99
	=====	=====	=====	=====
DIVIDENDS DECLARED PER COMMON				
SHARE.....	\$.75	\$ 1.50	\$ 2.25	\$ 3.00
	-----	-----	-----	-----
WEIGHTED AVERAGE COMMON SHARES				
OUTSTANDING (000).....	123,060	130,114	122,665	129,856

See Notes to Consolidated Financial Statements.

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

ASSETS

	September 30, 1994	December 31, 1993
	-----	-----
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric plant:		
Plant in service.....	\$ 11,677,330	\$ 11,480,244
Construction work in progress.....	298,405	242,661
Nuclear fuel.....	212,195	211,785
Plant held for future use.....	197,710	196,330
Electric plant acquisition adjustments.....	3,166	3,166
Cable television property.....	433,639	372,178
Other property.....	61,081	47,494
	-----	-----
Total.....	12,883,526	12,553,858
Less accumulated depreciation and amortization.....	3,617,257	3,355,616
	-----	-----
Property, plant and equipment - net.....	9,266,269	9,198,242
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents.....	7,878	14,884
Special deposits.....	13	11,834
Accounts receivable:		
Customers - net.....	16,475	4,985
Others.....	31,651	11,153
Accrued unbilled revenues.....	19,823	29,322
Fuel stock, at lifo cost.....	56,972	58,585
Materials and supplies, at average cost.....	165,355	166,477
Prepayments.....	17,751	20,432
	-----	-----
Total current assets.....	315,918	317,672
	-----	-----
OTHER ASSETS:		
Cable television franchises and intangible assets - net.....	1,042,159	984,032
Deferred plant costs.....	645,362	664,699
Deferred debits.....	286,609	371,773
Unamortized debt expense and premium on reacquired debt.....	164,057	169,465
Equity investment in cable television partnerships.....	150,876	122,531
Equity investment in foreign electric utility.....	35,473	36,984
Regulatory asset - net.....	238,556	246,763
Recoverable project costs.....	103,519	118,016
	-----	-----
Total other assets.....	2,666,611	2,714,263
	-----	-----
Total.....	\$ 12,248,798	\$ 12,230,177
	=====	=====

See Notes to Consolidated Financial Statements.

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

CAPITALIZATION AND LIABILITIES

	September 30, 1994	December 31, 1993
	-----	-----
CAPITALIZATION:		
Common Stock Equity:		
Common stock, no par value	\$ 2,438,107	\$ 2,415,256
Note receivable from ESOP		(332,489)
Unearned ESOP shares	(295,973)	
Retained earnings	1,303,139	1,191,230
	-----	-----
Total common stock equity	3,445,273	3,273,997
	-----	-----
Preference Stock, no par value, authorized 10,000,000 shares; none outstanding		
Cumulative Preferred Stock of Subsidiary, no par value:		
Not subject to mandatory redemption	351,345	351,354
Subject to mandatory redemption	121,910	167,236
	-----	-----
Total cumulative preferred stock ..	473,255	518,590
	-----	-----
Long-Term Debt:		
Debtentures	548,682	548,544
Long-term debt of subsidiaries:		
Electric:		
First mortgage bonds	3,020,261	3,019,843
Pollution control revenue bonds	155,240	155,218
Other	11,944	15,010
Cable television:		
Senior bank debt	364,000	364,000
Senior and subordinated notes	124,783	140,580
	-----	-----
Total long-term debt	4,224,910	4,243,195
	-----	-----
Total capitalization	8,143,438	8,035,782
	-----	-----
CURRENT LIABILITIES:		
Notes payable	378,600	591,385
Accounts payable	173,892	239,814
Taxes accrued	181,318	187,503
Interest accrued	96,426	84,178
Dividends accrued	105,095	105,207
Accrued liabilities to municipalities	31,124	22,589
Customer deposits	65,515	65,604
Current portion of long-term debt and preferred stock	83,391	55,109
Other	68,601	62,688
	-----	-----
Total current liabilities	1,183,962	1,414,077
	-----	-----
DEFERRED CREDITS:		
Accumulated deferred income taxes	2,081,460	1,987,336
Unamortized investment tax credit	419,742	434,597
Other	420,196	358,385
	-----	-----
Total deferred credits	2,921,398	2,780,318
	-----	-----
COMMITMENTS AND CONTINGENCIES		
Total	\$ 12,248,798	\$ 12,230,177
	=====	=====

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

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

	Nine Months Ended September 30,	
	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 388,591	\$ 387,673
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	360,822	347,810
Amortization of nuclear fuel	13,352	2,101
Deferred income taxes	64,702	204,657
Investment tax credits	(14,855)	(15,209)
Allowance for other funds used during construction	(2,579)	(2,769)
Fuel cost (refund) and over/(under) recovery - net	152,130	(81,540)
Equity in income of cable television partnerships	(23,825)	(23,563)
Regulatory asset - net	8,207	(72,602)
Cumulative effect of change in accounting for postemployment benefits	8,200	
Changes in other assets and liabilities:		
Accounts receivable and accrued unbilled revenues	(22,489)	250,224
Inventory	2,735	15,079
Other current assets	14,502	263
Accounts payable	(65,922)	(33,947)
Interest and taxes accrued	10,063	5,960
Other current liabilities	13,767	11,471
Other - net	47,537	53,078
Net cash provided by operating activities	954,938	1,048,686
CASH FLOWS FROM INVESTING ACTIVITIES:		
Electric capital and nuclear fuel expenditures (including allowance for borrowed funds used during construction)	(297,861)	(216,177)
Cable television additions	(92,706)	(36,328)
Other capital expenditures	(22,558)	
Other - net	(12,678)	(10,201)
Net cash used in investing activities	(425,803)	(262,706)
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CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from common stock		\$ 32,796
Proceeds from first mortgage bonds		743,284
Proceeds from senior bank debt		20,000
Extinguishment of long-term debt		(477,433)
Payment of matured bonds	\$ (19,500)	(136,000)
Payment of senior bank debt		(238,349)
Payment of senior and subordinated notes	(10,384)	(6,390)
Payment of common stock dividends	(276,202)	(292,122)
Decrease in notes payable - net	(212,785)	(463,749)
Redemption of preferred stock	(20,000)	(40,000)
Other - net	2,730	23,776
Net cash used in financing activities	(536,141)	(834,187)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,006)	(48,207)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,884	69,317
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 7,878	\$ 21,110
=====		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		

Interest (net of amounts capitalized)	\$ 262,570	\$ 294,412
Income taxes	136,933	85,375

See Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1994	1993	1994	1993
Balance at Beginning of Period.....	\$1,160,081	\$1,190,903	\$1,191,230	\$1,254,584
Net Income for the Period.....	235,968	260,409	388,591	387,673
Total.....	1,396,049	1,451,312	1,579,821	1,642,257
Common Stock Dividends.....	(92,910)	(195,245)	(276,682)	(389,800)
Tax Benefit of ESOP Dividends.....		2,124		6,136
Redemption of HL&P Preferred Stock.....				(402)
Balance at End of Period.....	<u>\$1,303,139</u>	<u>\$1,258,191</u>	<u>\$1,303,139</u>	<u>\$1,258,191</u>

See Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1994	1993	1994	1993
OPERATING REVENUES.....	\$1,150,946	\$1,355,339	\$2,977,433	\$3,166,173
OPERATING EXPENSES:				
Fuel.....	211,235	345,580	663,937	806,746
Purchased power.....	102,225	127,705	304,680	386,628
Operation.....	156,809	161,018	431,611	445,523
Maintenance.....	55,698	64,507	178,836	188,104
Depreciation and amortization.....	99,571	96,500	298,175	288,932
Income taxes.....	139,365	153,787	248,359	217,440
Other taxes.....	65,184	51,021	191,255	175,353
Total.....	830,087	1,000,118	2,316,853	2,508,726
OPERATING INCOME.....	320,859	355,221	660,580	657,447
OTHER INCOME (EXPENSE):				
Allowance for other funds used during construction.....	1,170	981	2,579	2,769
Other - net.....	(1,494)	(3,554)	(7,253)	(4,730)
Total.....	(324)	(2,573)	(4,674)	(1,961)
INCOME BEFORE INTEREST CHARGES.....	320,535	352,648	655,906	655,486
INTEREST CHARGES:				
Interest on long-term debt.....	61,565	71,352	184,964	211,810
Other interest.....	1,189	2,526	5,938	11,547
Allowance for borrowed funds used during construction.....	(1,616)	(1,062)	(3,433)	(2,976)
Total.....	61,138	72,816	187,469	220,381
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS.....	259,397	279,832	468,437	435,105
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POSTEMPLOYMENT BENEFITS (NET OF INCOME TAXES OF \$4,415).....			(8,200)	
NET INCOME.....	259,397	279,832	460,237	435,105
DIVIDENDS ON PREFERRED STOCK.....	8,305	8,238	24,981	26,172
INCOME AFTER PREFERRED DIVIDENDS.....	\$ 251,092	\$ 271,594	\$ 435,256	\$ 408,933

See Notes to Financial Statements.

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

ASSETS	September 30, 1994	December 31, 1993
	-----	-----
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric plant	\$11,677,330	\$11,480,244
Construction work in progress	298,405	242,661
Plant held for future use	197,710	196,330
Nuclear fuel	212,195	211,785
Electric plant acquisition adjustments	3,166	3,166
	-----	-----
Total	12,388,806	12,134,186
Less accumulated depreciation and amortization	3,433,716	3,194,127
	-----	-----
Property, plant and equipment - net	8,955,090	8,940,059
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	229,087	12,413
Special deposits	13	11,834
Accounts receivable:		
Affiliated companies	2,925	1,792
Others	23,856	2,540
Accrued unbilled revenues	19,823	29,322
Inventory:		
Fuel stock, at lifo cost	56,972	58,585
Materials and supplies, at average cost	155,051	160,371
Prepayments	11,715	9,234
	-----	-----
Total current assets	499,442	286,091
	-----	-----
OTHER ASSETS:		
Deferred plant costs	645,362	664,699
Deferred debits	234,057	333,620
Unamortized debt expense and premium on reacquired debt	160,326	164,368
Regulatory asset - net	238,556	246,763
Recoverable project costs	103,519	118,016
	-----	-----
Total other assets	1,381,820	1,527,466
	-----	-----
Total	\$10,836,352	\$10,753,616
	=====	=====

See Notes to Financial Statements.

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

CAPITALIZATION AND LIABILITIES

	September 30, 1994	December 31, 1993
	-----	-----
CAPITALIZATION:		
Common Stock Equity:		
Common stock, class A; no par value	\$ 1,524,949	\$ 1,524,949
Common stock, class B; no par value	150,978	150,978
Retained earnings	2,217,434	2,028,924
	-----	-----
Total common stock equity	3,893,361	3,704,851
	-----	-----
Cumulative Preferred Stock:		
Not subject to mandatory redemption	351,345	351,354
Subject to mandatory redemption	121,910	167,236
	-----	-----
Total cumulative preferred stock	473,255	518,590
	-----	-----
Long-Term Debt:		
First mortgage bonds	3,020,261	3,019,843
Pollution control revenue bonds	155,240	155,218
Other	11,944	15,010
	-----	-----
Total long-term debt	3,187,445	3,190,071
	-----	-----
Total capitalization	7,554,061	7,413,512
	-----	-----
CURRENT LIABILITIES:		
Notes payable		171,100
Accounts payable	127,277	190,583
Accounts payable to affiliated companies	12,934	8,449
Taxes accrued	197,487	187,517
Interest and dividends accrued	67,709	65,238
Accrued liabilities to municipalities	31,124	22,589
Customer deposits	65,515	65,604
Current portion of long-term debt and preferred stock	51,553	44,725
Other	68,642	63,607
	-----	-----
Total current liabilities	622,241	819,412
	-----	-----
DEFERRED CREDITS:		
Accumulated deferred federal income taxes	1,877,648	1,798,976
Unamortized investment tax credit	416,436	430,996
Other	365,966	290,720
	-----	-----
Total deferred credits	2,660,050	2,520,692
	-----	-----
COMMITMENTS AND CONTINGENCIES		
Total	\$10,836,352	\$10,753,616
	=====	=====

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY
STATEMENTS OF CASH FLOWS

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

	Nine Months Ended September 30,	
	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 460,237	\$ 435,105
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	298,175	288,932
Amortization of nuclear fuel	13,352	2,101
Deferred income taxes	83,088	200,862
Investment tax credits	(14,560)	(14,919)
Allowance for other funds used during construction	(2,579)	(2,769)
Fuel cost (refund) and over/(under) recovery - net	152,130	(81,540)
Regulatory asset - net	8,207	(72,602)
Cumulative effect net of change in accounting for postemployment benefits	8,200	
Changes in other assets and liabilities:		
Accounts receivable - net	(12,950)	116,399
Material and supplies	5,320	3,285
Fuel stock	1,612	14,391
Accounts payable	(58,821)	(26,197)
Interest and taxes accrued	12,441	12,940
Other current liabilities	14,537	38,567
Other - net	34,902	58,506
Net cash provided by operating activities	1,003,291	973,061
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital and nuclear fuel expenditures (including allowance for borrowed funds used during construction)	(297,861)	(216,177)
Other - net	(9,808)	(8,930)
Net cash used in investing activities	(307,669)	(225,107)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from first mortgage bonds		\$ 743,284
Payment of matured bonds	\$ (19,500)	(136,000)
Payment of dividends	(272,259)	(290,376)
Decrease in notes payable	(171,100)	(139,440)
Decrease in notes payable to affiliated company		(19,000)
Redemption of preferred stock	(20,000)	(40,000)
Extinguishment of long-term debt		(477,433)
Other - net	3,911	6,205
	-----	-----
Net cash used in financing activities	(478,948)	(352,760)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	216,674	395,194
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,413	4,254
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 229,087	\$ 399,448
	=====	=====

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash Payments:

Interest (net of amounts capitalized)	\$ 186,778	\$ 226,488
Income taxes	136,889	82,142

See Notes to Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1994	1993	1994	1993
Balance at Beginning of Period	\$ 2,048,593	\$ 1,876,504	\$ 2,028,924	\$ 1,922,558
Net Income for the Period .	259,397	279,832	460,237	435,105
Redemption of Preferred Stock				(402)
Total	2,307,990	2,156,336	2,489,161	2,357,261
Deductions - Cash Dividends:				
Preferred	8,305	8,238	24,981	26,172
Common	82,251	79,995	246,746	262,986
Total	90,556	88,233	271,727	289,158
Balance at End of Period ..	\$ 2,217,434	\$ 2,068,103	\$ 2,217,434	\$ 2,068,103

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 financial statements included in Item 8 thereof. Notes 9, 10 and 11 of the notes to the financial statements included in the 1993 Combined Form 10-K, as updated by the description of developments in the regulatory and litigation matters contained in Notes 8, 9 and 10 to these financial statements, are incorporated herein by reference as they relate to the Company and HL&P, respectively.

(2) COMMON STOCK

COMPANY. At September 30, 1994, and December 31, 1993, the Company had authorized 400,000,000 shares of common stock, of which 123,360,067 and 130,658,755 shares, respectively, were outstanding. The decrease in shares outstanding at September 30, 1994 reflects a change in accounting related to the employee stock ownership plan (ESOP) component of the Company's savings plan, as discussed below. For a discussion of additional shares issued by the Company in July 1994, see Note 12 to these financial statements.

In October 1990, the Company amended its savings plan to add a leveraged ESOP component. The Company may use ESOP shares to satisfy its obligation to make matching contributions under the savings plan. For information regarding the formation of the ESOP (including the ESOP loan), see Note 7(b) of the notes to the financial statements included in the 1993 Combined Form 10-K. Debt service on the ESOP loan is paid using all dividends on shares in the ESOP, interest earnings on funds held in the ESOP and cash contributions by the Company. Shares of the Company's common stock are released from encumbrance of the ESOP loan based on the proportion of debt service paid during the period.

In the third quarter of 1994, the Company adopted the American Institute of Certified Public Accountants Statement of Position 93-6 (SOP 93-6), "Employers' Accounting for Employee

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Stock Ownership Plans" effective January 1, 1994. SOP 93-6 requires that the Company recognize benefit expense for the ESOP equal to fair value of the ESOP shares committed to be released. Following the adoption of SOP 93-6, the Company no longer reports the ESOP loan as a note receivable from the ESOP or recognizes interest income on such receivable. The Company is instead required to establish a new contra-equity account (unearned ESOP shares) which reflects shares not yet committed for release at their original purchase price. As shares are committed to be released, they are credited to the unearned ESOP shares account based on the original purchase price of the shares. The difference between the fair value of the shares at the time such shares are committed for release and the original purchase price is charged or credited to common stock. Dividends on allocated ESOP shares are recorded as a reduction to retained earnings; dividends on unallocated ESOP shares are recorded as a reduction of debt or accrued interest on the ESOP loan. SOP 93-6 is effective only with respect to financial statements for periods after January 1, 1994 and no restatements have been made for prior periods. Earnings for the three and nine months ended September 30, 1994 were reduced by \$.4 million and \$11.8 million, respectively, as a result of the adoption of SOP 93-6. For a discussion of the impact of SOP 93-6 on the earnings per common share calculation, see Notes 4 and 14 to these financial statements.

As computed under SOP 93-6, the Company's benefit expenses for the ESOP for the three and nine months ended September 30, 1994 are approximately \$4.6 million and \$13.6 million, respectively. The ESOP shares as of September 30, 1994 and December 31, 1993 were as follows:

	September 30, 1994	December 31, 1993
Allocated Shares	1,410,211	1,031,187
Unallocated Shares	7,936,564	8,317,649
	-----	-----
Total ESOP Shares	9,346,775	9,348,836
	=====	=====
Fair value of unallocated ESOP shares.....	\$279,763,881	\$396,128,034

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

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

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(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.

Pursuant to the adoption of SOP 93-6, the number of weighted average common shares outstanding for the three and nine months ended September 30, 1994 reflects a reduction for ESOP shares not yet committed for release to savings plan participants. In accordance with SOP 93-6, earnings per common share for periods prior to January 1, 1994 have not been restated. The unallocated shares as of September 30, 1994 and 1993 were 7,936,564 and 8,410,108, respectively. See also Notes 2 and 14 to these financial statements.

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 principal repayment of \$10.4 million of its senior notes and senior subordinated notes.

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

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

For a description of the Company's and HL&P's adoption, effective January 1, 1994, of Statement of Financial Accounting Standards No. 112, "Employer's Accounting for Postemployment Benefits" and the recording of a one-time, after-tax charge to income of \$8.2 million in the first quarter of 1994, see Note 6 of the notes to the financial statements included in the Combined Form 10-Q (Combined Form 10-Q) for the quarter ended June 30, 1994, which Note is incorporated herein by reference.

(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) of the notes to the financial statements included in the 1993 Combined Form 10-K, which paragraph is incorporated herein by reference.

- (b) IMPACT OF THE CABLE TELEVISION CONSUMER PROTECTION AND COMPETITION ACT OF 1992 ON KBLCOM INCORPORATED (KBLCOM). For a description of the 1992 Cable Act's benchmark rate rules and interim cost of service rules, as revised in March 1994 (each of which became effective in May of 1994), see Note 7(b) of the notes to the financial statements included in the Combined Form 10-Q for the quarter ended June 30, 1994, which Note, as updated by this Note, is incorporated herein by reference.

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KBLCOM incurred increased administrative burdens under these new rules, and the revised benchmark rate rules resulted in some additional reductions in KBLCOM's rates for regulated services. The decline in revenue due to such rules is not expected to have a material adverse effect on KBLCOM's financial position or results of operations.

(8) JOINTLY-OWNED NUCLEAR PLANT

- (a) HL&P INVESTMENT. As of September 30, 1994, HL&P's 30.8% interest in the South Texas Project Electric Generating Station (South Texas Project) and in nuclear fuel, including Allowance for Funds Used During Construction, were \$2.1 billion and \$106.5 million, respectively. For a further discussion regarding the South Texas Project, see Note 9(a) of the notes to the financial statements included in the 1993 Combined Form 10-K.
- (b) CITY OF AUSTIN LITIGATION. In February 1994, the City of Austin (Austin), one of the other owners of the South Texas Project, filed suit against HL&P. That suit remains pending in the 152nd District Court for Harris County, Texas. Austin alleges that the outages at the South Texas Project from early 1993 to early 1994 were due to HL&P's failure to perform obligations it owed to Austin under the Participation Agreement among the four co-owners of the South Texas Project (Participation Agreement). Austin also asserts that HL&P breached certain undertakings voluntarily assumed by HL&P under the terms and conditions of the Operating Licenses and Technical Specifications relating to the South Texas Project. Austin claims that such failures have caused Austin damages of at least \$125 million due to the incurrence of increased operating and maintenance costs, the cost of replacement power and lost profits on wholesale transactions that did not occur.

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), the courts concluded that the Participation Agreement did not impose on HL&P a duty to exercise reasonable skill and care as project manager. In April 1994, HL&P filed a motion for partial summary judgment on the grounds that Austin's negligence claims are barred by RES JUDICATA and collateral estoppel. Following a hearing, that motion for summary judgment was denied, and trial has been set for October 1995.

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

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permitted by the Participation Agreement, but to proceed to trial in the Harris County district court.

In May 1994, the City of San Antonio (San Antonio), another co-owner of the South Texas Project, intervened in the litigation filed by Austin against HL&P and asserted claims similar to those asserted by Austin, though San Antonio has not identified the amount of damages it

seeks from HL&P. In its petition, San Antonio has also adopted arguments similar to those of Austin regarding the effect of HL&P's settlement with CPL on the arbitration provisions of the Participation Agreement. HL&P has opposed San Antonio's intervention on the grounds that San Antonio has already elected to arbitrate its claims against HL&P regarding HL&P's management of the South Texas Project in the arbitration proceeding currently pending among HL&P, San Antonio, Austin and CPL, and to that end, HL&P has asserted its own demand for arbitration of San Antonio's 1993-94 outage claims pursuant to the terms of the Participation Agreement (see Note 8(c) to these financial statements). However, in September 1994, the Harris County district court ruled that San Antonio may participate in the Austin litigation. HL&P is seeking appellate review of the district court's decision.

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

For more detailed information regarding the outage of the South Texas Project, the previous litigation filed by Austin and the settlement with CSW and CPL referred to above, see Notes 9(b), 9(c) and 9(f) of the notes to the financial statements included in the 1993 Combined Form 10-K. Also, see Note 8(f) to these financial statements.

- (c) **ARBITRATION WITH CO-OWNERS.** For a discussion of the arbitration requested by San Antonio for its claim under the Participation Agreement, see Note 8(b) to these financial statements and Note 9(c) of the notes to the financial statements included in the 1993 Combined Form 10-K.

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

- (d) **NUCLEAR INSURANCE.** For information regarding the nuclear property and liability insurance maintained in connection with the South Texas Project and potential assessments connected therewith, see Note 8(d) of the notes to the financial statements included in the Combined Form 10-Q for the quarter ended June 30, 1994, which Note is incorporated herein by reference.

Pursuant to the Price Anderson Act, the maximum liability to the public for owners of nuclear power plants, such as the South Texas Project, was decreased from \$9.2 billion to \$9.0 billion effective August 29, 1994.

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- (e) **NUCLEAR DECOMMISSIONING.** For information regarding the nuclear decommissioning costs of the South Texas Project, the estimate of such costs as recently calculated by an outside consultant and the effect of HL&P's pending rate proceeding on the determination of the funding requirements for such decommissioning costs, see Note 8(e) of the notes to the financial statements included in the Combined Form 10-Q for the quarter ended June 30, 1994, which Note is incorporated herein by reference, and Note 9(a) to these financial statements.

- (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 was returned to service in May 1994. HL&P removed the units from service in February 1993 when a problem was encountered with certain of the units' auxiliary feedwater pumps. At that time HL&P concluded, and the NRC confirmed, that the units should not resume operation until HL&P had determined the root cause of the failure, had briefed the NRC, and had taken corrective action.

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

Other proceedings concerning the South Texas Project also remain pending. As previously reported, certain former employees and an employee of a contractor have asserted claims that their employment was terminated or disrupted in retaliation for their having made safety related complaints to the NRC. In 1993, it was reported that the NRC had referred these claims to the Department of Justice. HL&P understands that these matters are no longer under consideration by the Department of Justice. However, civil proceedings by the complaining personnel and administrative proceedings by the Department of Labor remain pending against HL&P, and the NRC has jurisdiction to take enforcement action against HL&P and/or individual employees with respect to these matters. Based on its own internal investigation, in October 1994 the NRC issued a notice of violation and proposed a \$100,000 civil penalty against HL&P in connection with HL&P's termination of the site access of a former contractor employee and requested information relating to possible further enforcement action in this matter against two HL&P managers involved in such termination. HL&P strongly disagrees with the NRC's conclusions, but HL&P is not required to respond to the NRC's proposed enforcement action until after completion of currently pending proceedings before the Department of Labor.

A subcommittee of the U.S. House of Representatives (Subcommittee) has notified HL&P that the Subcommittee is conducting an inquiry related to the South Texas Project, and HL&P has provided documents and other assistance to the Subcommittee's staff in connection with that

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inquiry. Although the precise focus and timing of the inquiry has not been identified by the Subcommittee, it is anticipated that the Subcommittee will inquire into matters related to HL&P's handling of employee concerns and to issues related to the NRC's DET review of the South Texas Project. In connection with that inquiry, HL&P has been advised that the U. S. General Accounting Office (GAO) has begun a review of the NRC's inspection process as it relates to the South Texas Project and other plants, and HL&P is cooperating with the GAO in its investigation and with the NRC in a similar review it has initiated.

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

- (g) **LOW-LEVEL RADIOACTIVE WASTE.** For information regarding the federal Low-Level Radioactive Waste Policy Act of 1980 and the closing of the low-level waste disposal facility at Barnwell, South Carolina, to certain generators of nuclear waste and the utilization of a temporary Low-Level Radioactive waste disposal facility at the South Texas Project, see Note 8(g) of the notes to the financial statements included in the Combined Form 10-Q for the quarter ended June 30, 1994, which Note is incorporated herein by reference.

(9) **PUBLIC UTILITY COMMISSION OF TEXAS (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 Texas Supreme Court 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.

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

- (a) DOCKET NOS. 12065 AND 13126. In February 1994, an administrative law judge (ALJ) of the Utility Commission ruled that a proceeding should be conducted pursuant to Section 42 of PURA in order to inquire into HL&P's existing rates. That order subsequently was affirmed by the Utility Commission, and in July 1994, HL&P filed data in support of its existing rates, as required by the ALJ. In that material, HL&P asserts that its existing rates continue to be just and reasonable and should not be reduced by the Utility Commission. HL&P further asserts that it can demonstrate an entitlement to an increase in rates if it were to file for a rate increase. No such increase is currently being sought.

In connection with the review of HL&P's current rates, the Utility Commission will also reconcile the amounts incurred by HL&P for fuel during the period from April 1, 1990 through July 31, 1994. A major issue in the fuel reconciliation phase of Docket No. 12065 will be whether the incremental fuel costs incurred as a result of outages at the South Texas Project represent reasonable costs. A separate inquiry (Docket No. 13126) will be conducted by the Utility Commission into the prudence of the management of the South Texas Project. The results of this separate inquiry will be utilized in Docket No. 12065. In July 1994, the Utility Commission approved the hiring of a consultant to conduct the review of the prudence in the management of the South Texas Project in order to assist the Utility Commission staff in preparing testimony for the prudence inquiry. Hearings regarding the matters to be considered in connection with Docket No. 12065 are expected to begin in January 1995. No final decision by the Utility Commission on these matters is expected before the summer of 1995.

HL&P has filed testimony in Docket No. 13126, which testimony concludes that the outages at the South Texas Project had not resulted from imprudent management. HL&P has also prepared testimony analyzing (i) the prudence of the management of the South Texas Project during the outages and (ii) the extent to which regulatory issues, such as those raised in the DET report, extended the outages. In that testimony, an outside consultant retained by HL&P concludes that the duration of the outages was controlled by both the resolution of NRC regulatory issues as well as necessary equipment repairs unrelated to NRC regulatory issues and that the incremental effect of NRC regulatory issues on the duration of the outages was only 39 days per unit. Estimates as to the cost of replacement power may vary significantly based on a number of factors, including the capacity factor at which the South Texas Project might be assumed to have operated had it not been out of service due to the outages. However, HL&P believes that applying a reasonable range of assumptions will result in replacement fuel costs of less than \$10 million for the 39 day periods identified by HL&P's consultant and less than \$100 million for the entire length of the outages.

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. Any fuel costs that are determined to have been

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unreasonably incurred would not be recoverable from customers and would be charged against the Company's earnings.

For additional information regarding Docket No. 12065 and the fuel reconciliation, see Notes 10(f) and 10(g) of the notes to the financial statements included in the 1993 Combined Form 10-K.

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

In August 1994, the Austin Court of Appeals affirmed the Utility Commission's order in Docket No. 8425 with respect to (i) the inclusion of certain upgrades at the W. A. Parish Electric Generating Station in HL&P's rate base, (ii) the inclusion of a portion of the costs of HL&P's Malakoff Electric Generating Station (Malakoff) Project, then designated as plant held for future use, in HL&P's rate base and (iii) the application of deferred accounting of certain costs associated with Unit No. 2 of the South Texas Project. The Austin Court of Appeals held that the Utility Commission had failed to require that tax savings associated with deductions taken for expenses disallowed in cost of service be passed on to ratepayers, and ordered that the case be remanded to the Utility Commission with instructions to adjust HL&P's cost of service consistent with the ruling on the tax issue. Discretionary review is being sought from the Texas Supreme Court.

- (c) DOCKET NO. 9850. For a discussion of Docket No. 9850 (1991 rate case), the settlement agreement approved by the Utility Commission, and the status of appeals relating thereto, see Note 10(c) of the notes to the financial statements included in the 1993 Combined Form 10-K.

In August 1992, a district court in Travis County affirmed the Utility Commission's final order in 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. (See Note 9(e) to these financial statements.) In August 1993, the Austin Court of Appeals affirmed the ruling by the Travis County District Court on the procedural ground that the appellant had not filed a statement of facts in the time allowed.

On review of that decision in June 1994, the Texas Supreme Court reversed the decision of the Austin Court of Appeals insofar as it refused to consider all assertions of error by the appellant. The Texas Supreme Court held that, even in the absence of a timely filed statement of facts, the Austin Court of Appeals could take judicial notice of the Utility Commission's published order and consider errors of law that may be evident from the face of the order and do not require reference to the administrative record. Accordingly, it remanded the case for limited reconsideration by the Austin Court of Appeals. For a discussion of certain other judicial decisions which may affect the Utility Commission's

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calculation of federal income tax expense in Docket No. 9850, see Note 10(b) of the notes to the financial statements included in the 1993 Combined Form 10-K.

- (d) 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 financial statements included in the 1993 Combined Form 10-K.

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

- (e) DOCKET NOS. 8230 AND 9010. For a description of the Utility Commission's authorization of deferred accounting for the South Texas Project (Docket Nos. 8230 and 9010) and appeals thereof, see Note 10(e) of the notes to the financial statements included in the 1993 Combined Form 10-K.

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

rejected deferred accounting treatment for carrying charges. Because the lower appellate court had upheld deferred accounting only as to operating and maintenance expenses, the Texas Supreme Court remanded Docket Nos. 8230 and 9010 to the Austin Court of Appeals to consider the points of error challenging the granting of deferred accounting for carrying costs which it had not reached in its earlier consideration of the case. The Texas Supreme Court opinion did state, however, that when deferred costs are considered for addition to the utility's rate base in an ensuing rate case, the Utility Commission must then determine to what extent inclusion of the deferred costs is necessary to preserve the utility's financial integrity.

(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). For a discussion of the status of the judicial review of Docket No. 8425 and Docket Nos. 8230 and 9010, see Notes 9(b) and 9(e) to these financial statements.

In May 1991, HL&P implemented under bond, in Docket No. 9850, a \$313 million base rate increase. At that time, HL&P ceased all cost deferrals related to the South Texas Project and began the recovery of such amounts. These deferrals are being amortized on a straight-line basis as allowed by the final order in Docket No. 9850. The amortization of these deferrals totaled \$6.4 million and \$19.3 million for the three months and nine months ended September 30, 1994, respectively, and is recorded on the Company's Statements of Consolidated Income and HL&P's Statements of Income in depreciation and amortization expense.

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

	Original Balance	Balance at September 30, 1994
----- (Thousands of Dollars) -----		
Deferred Accounting: (a)		
Deferred Expenses.....	\$ 250,151	\$ 228,538
Deferred Carrying Costs on Plant Investment.....	399,972	365,414
	-----	-----
Total.....	650,123	593,952
Qualified Phase-In Plan: (b)..	82,254	51,410
	-----	-----
Total Deferred Plant Costs....	\$ 732,377	\$ 645,362
	=====	=====

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

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

As of September 30, 1994, HL&P has recorded deferred income taxes of \$196.9 million with respect to deferred accounting and \$12.8 million with respect to the deferrals associated with the qualified phase-in plan.

The accounting for deferred plant costs is described in greater detail in Note 11 of the notes to the financial statements included in the 1993 Combined Form 10-K.

(11) MALAKOFF

As previously disclosed, HL&P ceased all development work on Malakoff in 1987. HL&P is no longer considering construction of the power generating units due to the availability of other cost effective options. Previously, the Utility Commission has addressed portions of HL&P's investment in Malakoff and has accorded various rate treatments for those costs, including amortization of portions of those costs. For a further discussion of the accounting treatment of costs related to Malakoff and the Utility Commission's previous treatment of those costs, see Note 12 of the notes to the financial statements included in the 1993 Combined Form 10-K, which Note is incorporated herein by reference and Note 9(b) to these financial statements.

In Docket No. 12065 (described in Note 9(a) to these financial statements), HL&P has filed testimony in support of the amortization of substantially all of its remaining investment in Malakoff, including \$78.2 million attributable to

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the portion of the engineering design costs for which amortization had not previously been authorized and \$147.6 million attributable to related lignite reserves which had not previously been addressed by the Utility Commission. If appropriate rate treatment of these amounts is not ultimately received, HL&P could be required to write off any unrecoverable portions of its Malakoff investment.

(12) CABLE TELEVISION ACQUISITION

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

(13) RAILROAD SETTLEMENT PAYMENTS

In July 1994, HL&P contributed as equity its rights to receive certain railroad settlement payments to HL&P Receivables, Inc. (HLPR), a wholly-owned subsidiary of HL&P. HLPR transferred the receivables to a trust. A bank purchased certificates evidencing a senior interest in the trust and HLPR holds a certificate evidencing a subordinate interest in the trust. HL&P received as a dividend on its equity investment in HLPR approximately \$66.1 million, an amount equal to

HLPR's proceeds from the sale. Consistent with the manner in which HL&P recorded receipts of the settlement payments, HL&P recorded the transaction as a \$66.1 million reduction to reconcilable fuel expense in July 1994. The reduction to reconcilable fuel expense had no effect on earnings.

(14) 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.

As a result of the third quarter 1994 adoption of SOP 93-6 effective January 1, 1994, quarterly net income and earnings per common share amounts for the first and second quarter of 1994 required restatement as follows:

Quarter Ended	Revenues	Operating Income	Net Income	Earnings per Share(a)
-----	-----	-----	-----	-----
1994		(Thousands of Dollars)		

March 31.....	\$ 882,101	\$150,673	\$ 30,175	\$ 0.23
Adjustment 1(b).....			(4,277)	(0.03)
Adjustment 2(c).....				0.01
March 31 Restated....	<u>\$ 882,101</u>	<u>\$150,673</u>	<u>\$ 25,898</u>	<u>\$ 0.21</u>
June 30.....	\$1,066,660	\$300,797	\$133,828	\$ 1.02
Adjustment 1(b).....			(7,103)	(0.06)
Adjustment 2(c).....				0.07
June 30 Restated....	<u>\$1,066,660</u>	<u>\$300,797</u>	<u>\$126,725</u>	<u>\$ 1.03</u>

- (a) Quarterly earnings per share are based on the weighted average number of shares outstanding during the quarter.
- (b) Adjustment to reflect the adoption of SOP 93-6. See Note 2 to these financial statements.
- (c) Adjustment to reflect the restatement of weighted average shares outstanding. Pursuant to the adoption of SOP 93-6, weighted average shares outstanding were reduced by the shares in the ESOP not yet committed to be released to savings plan participants. Adjusted weighted average shares outstanding for the three months ended March 31, 1994 and June 30, 1994 were 122,421,159 and 122,507,671, respectively. See Note 4 to these financial statements.

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 September 30,		Percent Change
	1994	1993	
	----- (Thousands of Dollars)		-----
Revenues	\$1,215,980	\$1,416,332	(14)
Operating Expenses	751,942	902,472	(17)
Operating Income	464,038	513,860	(10)
Other Income	2,044	12,149	(83)
Interest and Other Charges ..	98,490	104,873	(6)
Income Taxes	131,624	160,727	(18)
Net Income	235,968	260,409	(9)

	Nine Months Ended September 30,		Percent Change
	1994	1993	
	----- (Thousands of Dollars)		-----
Revenues	\$3,164,741	\$3,350,044	(6)
Operating Expenses	2,249,233	2,460,517	(9)
Operating Income	915,508	889,527	3
Other Income	6,237	41,726	(85)
Interest and Other Charges ..	298,468	322,810	(8)
Income Taxes	226,486	220,770	3
Net Income	388,591	387,673	--

The Company had consolidated earnings per share of \$1.92 for the third quarter of 1994, compared to consolidated earnings per share of \$2.00 for the third quarter of 1993. Consolidated earnings per share for the nine months ended September 30, 1994 was \$3.17, compared to \$2.99 per share for the same period in 1993. Earnings per share for the third quarter of 1994 compared to the same period in 1993 decreased primarily due to the decline in earnings at Houston Lighting & Power (HL&P) partially offset by the effects of the adoption of Statement of Position 93-6 (SOP 93-6), both discussed below. Earnings per share for the first nine months of 1994 were positively affected by both increased earnings at HL&P and the adoption of SOP 93-6 when compared to the same period in 1993.

In the third quarter of 1994, the Company adopted the American Institute of Certified Public Accountants SOP 93-6, "Employers' Accounting for Employee Stock Ownership Plans" effective January 1, 1994, which reduced net income but increased earnings per share. Earnings for the three and nine months ended September 30, 1994 were reduced by \$.4 million and \$11.8 million, respectively, as a result of the adoption of SOP 93-6. SOP 93-6 required that weighted average common shares outstanding be reduced by the shares in the Employee Stock Ownership Plan not yet allocated to savings plan participants (7,936,564 shares at September 30, 1994). The net effect was an increase in consolidated earnings per share for the third quarter and first nine months of 1994. Without the effects of the SOP 93-6 adoption, the Company's consolidated earnings per share for the three and nine months ended September 30, 1994 would have been \$1.80 and \$3.06, respectively. For a further discussion of the effects of adoption of SOP 93-6, see Notes 2, 4 and 14 to the financial statements in Item 1 of this Report.

The Company recorded in the first quarter of 1994 a one-time, after-tax charge to income of \$8.2 million in connection with the adoption of Statement of Financial Accounting Standards (SFAS) No.112, "Employer's Accounting for Postemployment Benefits". The ongoing 1994 charges to income related to SFAS No. 112 are not expected to be material.

Electric Utility Operations:

HL&P. GENERAL. Selected financial data for HL&P is set forth below:

	Three Months Ended September 30,		Percent Change
	1994	1993	
	----- ----- (Thousands of Dollars)		-----
Revenues	\$1,150,946	\$1,355,339	(15)
Operating Expenses	830,087	1,000,118	(17)
Operating Income	320,859	355,221	(10)
Interest Charges	61,138	72,816	(16)
Income After Preferred Dividends ..	251,092	271,594	(8)

	Nine Months Ended September 30,		Percent Change
	1994	1993	
	----- ----- (Thousands of Dollars)		-----
Revenues	\$2,977,433	\$3,166,173	(6)
Operating Expenses	2,316,853	2,508,726	(8)
Operating Income	660,580	657,447	--
Interest Charges	187,469	220,381	(15)
Income After Preferred Dividends ..	435,256	408,933	6

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The decrease in HL&P's earnings for the third quarter of 1994 as compared to the same period in 1993 resulted primarily from lower residential kilowatt hour (KWH) sales due to relatively mild weather in August and September of 1994 as compared to the hotter-than-normal weather in the third quarter of 1993, partially offset by increased commercial sales. Additionally, a \$13.0 million franchise tax refund received in the third quarter of 1993 and reduced interest expense resulting from previous refinancing activities contributed to the change in earnings. HL&P's earnings for the nine month period of 1994 increased in comparison to earnings for the nine month period of 1993 primarily due to improved sales and reduced interest expense in 1994. The reduced interest expense reflects the continuing effects of previous refinancing activities. Additionally, the change in earnings between the first nine months of 1994 and 1993 was affected by the franchise tax refund received in the third quarter of 1993.

OPERATING REVENUES AND SALES. Electric operating revenues decreased \$204.4 million for the third quarter and \$188.7 million for the first nine months of 1994, compared to the same periods in 1993. The decrease in the third quarter of 1994 was primarily due to a 3% decrease in residential KWH sales and a decrease in reconcilable fuel revenues, partially offset by a 2% increase in commercial KWH sales. The decrease for the first nine months of 1994 was primarily due to a decrease in reconcilable fuel revenues, partially offset by increases in residential and commercial KWH sales of 2% and 4%, respectively. Base revenues for the third quarter of 1994 decreased \$40.1 million compared to 1993 due mainly to differences in weather conditions between the two periods,

partially offset by a 1.7% increase in the number of customers in 1994. The increase in base revenues of \$40.1 million for the first nine months of 1994 when compared to 1993 resulted primarily from improved sales in the service area.

FUEL AND PURCHASED POWER EXPENSES. Fuel expenses decreased \$134.3 million and \$142.8 million for the third quarter and first nine months of 1994, respectively, compared to the same periods of the previous year. These decreases were primarily due to decreases in the unit cost of all fuels, a reduction to reconcilable fuel expense resulting from payments HL&P received upon the transfer of its rights to receive certain railroad settlement payments, and the resumption of the use of nuclear fuel coinciding with the start up of Unit Nos. 1 and 2 of the South Texas Project Electric Generating Station (South Texas Project). For information regarding the railroad settlement payments, see Note 13 to the financial statements in Item 1 of this Report. Purchased power expense decreased \$25.5 million for the third quarter and \$81.9 million for the first nine months of 1994 when compared to the same period in 1993 due to the expiration of a purchase power contract. For information regarding reconcilable fuel revenues and HL&P's fuel reconciliation proceeding, see Note 9(a) to the financial statements in Item 1 of this Report and 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.

OPERATION AND MAINTENANCE, DEPRECIATION AND AMORTIZATION, AND INTEREST EXPENSES. Electric operation and maintenance expense for the third quarter and first nine months of 1994 decreased \$13.0 million and \$23.2 million, respectively, compared to the same periods in 1993. Depreciation and amortization expense for the third quarter and first nine months of 1994 increased \$3.1 million and \$9.2 million, respectively, compared to the same periods in 1993, primarily due to an increase in depreciable property and the amortization, beginning in January 1994, of Demand Side

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Management expenditures. Interest expense for the third quarter and first nine months of 1994 decreased \$11.1 million and \$32.5 million, respectively, compared to the same periods in 1993, primarily due to previous refinancing activities.

RATE PROCEEDINGS, SOUTH TEXAS PROJECT AND RELATED MATTERS. HL&P is a party to a proceeding (Docket No. 12065) pursuant to Section 42 of the Texas Public Utility Regulatory Act of 1975, as amended (PURA), to determine whether its existing rates are just and reasonable. Other issues to be addressed in this and related proceedings before the Public Utility Commission of Texas (Utility Commission) include (i) whether additional fuel-related expenses incurred during the 1993-1994 outages at the South Texas Project should be deemed unreasonable and not recoverable by HL&P; (ii) an inquiry into the prudence of HL&P's operation of the South Texas Project; and (iii) whether any mismanagement of the South Texas Project should be taken into account in considering HL&P's appropriate rate of return in the pending Section 42 rate proceeding. No final decisions by the Utility Commission are expected before the summer of 1995.

In a Section 42 rate proceeding involving Central Power & Light Company (CPL), one of the South Texas Project's other owners, a staff member of the Utility Commission recommended removal from CPL's rate base of an aggregate amount equal to 19% of CPL's investment in the South Texas Project Unit No. 1, 16% of CPL's investment in the South Texas Project Unit No. 2, and 17.5% of CPL's investment in the South Texas Project's common facilities. The staff member's recommendation is based on his conclusion that these portions of the South Texas Project are not "used and useful." The staff member contends that because the South Texas Project has not operated at a capacity in accordance with alleged preconstruction projections of operating capacity, the percentage difference between those alleged projections and the units' actual performance represents capacity not used and useful in providing service. The staff member who made the recommendations in CPL's Section 42 proceeding is expected to testify in HL&P's Section 42 proceeding (Docket No. 12065). HL&P intends to vigorously oppose the adoption of such a recommendation by the Utility Commission in HL&P's proceeding.

Although the Company and HL&P believe that the Section 42 inquiry into HL&P's rates is unwarranted and that the South Texas Project has been prudently managed, there can be no assurance as to the outcome of this proceeding, and HL&P's rates could be reduced following such a hearing. HL&P believes, however, that any reduction in base rates as a result of a Section 42 inquiry would take effect prospectively.

For additional information concerning these and other related matters (including the United States Nuclear Regulatory Commission (NRC) diagnostic evaluation of the South Texas Project and the NRC's listing of the South Texas Project on the "watch list" as well as litigation on administrative proceedings involving the South Texas Project), see Notes 8, 9(a), and 11 to the financial statements in Item 1 of this Report.

Cable Television Operations:

KBLCOM. KBLCOM Incorporated (KBLCOM), the Company's cable television subsidiary, experienced a loss, before long-term financing cost with parent, of \$2.5 million in the third quarter of 1994 compared to a loss of \$7.2 million for the same period in 1993. For the nine months ended September 30, 1994, KBLCOM experienced a loss of \$8.6 million compared to \$11.4 million for the same period in the prior year.

KBLCOM's results of operations for the third quarter of 1994 improved from the third quarter of 1993 due to higher revenues resulting from the addition of approximately 86,000 customers, including 48,000 from the July 1994 cable television acquisition. For a discussion of the cable television acquisition, see Note 12 to the financial statements in Item 1 of this Report. This growth was partially offset by the introduction of lower rates for basic service mandated by the Cable Television Consumer Protection and Competition Act of 1992 (1992 Cable Act). KBLCOM's results of operations for the first nine months of 1994 improved, when compared to the same period of 1993, due to a one-time charge in 1993 of \$6.9 million resulting from a 1% increase in the corporate tax rate. This increase was partially offset by the effects of the mandatory rate reduction noted above, as well as, higher operating expenses and higher depreciation and amortization costs.

REVENUES AND EXPENSES. Revenues for the third quarter and first nine months of 1994 increased \$4.0 million or 6.6% and \$3.4 million or 1.9%, respectively, compared to the same periods in 1993. Operating expenses for the third quarter and first nine months of 1994 increased \$3.4 million or 9.2% and \$7.7 million or 7.0%, respectively, compared to the same periods in 1993. Operating margins (revenue less operating expenses exclusive of depreciation and amortization) decreased from 40% to 39% for the third quarter of 1993 and 1994, respectively, and from 40% to 37% for the nine months ended September 30, 1993 and 1994, respectively. Depreciation and amortization expense for the third quarter and nine months ended September 30, 1994 increased \$1.7 million or 8.8% and \$3.8 million or 6.5%, respectively, compared to the same periods in 1993. KBLCOM's equity interest in the pre-tax earnings of its jointly-owned cable television partnership, Paragon Communications (Paragon), for the third quarter of 1994 was \$8.2 million, a decrease of \$.3 million or 3.7% from the third quarter of 1993. KBLCOM's share of Paragon's earnings for the nine months ended September 30, 1994 was \$23.9 million, an increase of \$.1 million or .5% over the same periods of the previous year.

Basic service revenues for the third quarter of 1994 increased \$1.5 million or 3.7% while they decreased \$3.4 million or 2.7% for the nine months ended September 30, 1994 compared to the same periods of the previous year. The decline was due to the regulation (commencing in the third quarter of 1993) of basic service rates under the 1992 Cable Act. This decrease was partially offset by the addition of approximately 86,000 customers (including 48,000 acquired in the cable television acquisition) from the third quarter of 1993. At September 30, 1994 and 1993, KBLCOM operated systems serving approximately 678,000 and 592,000 basic subscribers, respectively.

Premium service revenues for the quarter and nine months ended September 30, 1994 increased \$1.1 million or 11.4% and \$2.1 million or 7.1%, respectively, compared to the same periods in the previous year due primarily to the additional revenue derived from the cable television acquisition and increased sales of premium products.

Pay-per-view revenues for the third quarter of 1994 were unchanged from the same period of the prior year. For the nine months ended September 30, 1994, pay-per-view revenues decreased \$.3 million or 3.4% compared to the same period of the previous year.

Ancillary revenues including advertising and installation fees for the quarter and nine months ended September 30, 1994 increased \$1.4 million or 18.1% and \$5.0 million or 23.2%, respectively, compared to the same periods of the previous year.

1992 CABLE ACT. In October 1992, the 1992 Cable Act became law. The 1992 Cable Act significantly revised various provisions of the Cable Communications Policy Act of 1984. For a further discussion regarding the 1992 Cable Act, see "Business-Business of KBLCOM - Regulation" in Item 1 of the 1993 Combined Form 10-K, Item 5 of Part II of the Combined Form 10-Q filed for the quarter ended March 31, 1994 and Note 7(b) to the financial statements in Item 1 of this Report.

Regulations issued under the 1992 Cable Act are lengthy and complex. KBLCOM has adjusted its rates for regulated services in accordance with these rules. Due to continuing ambiguity and uncertainty in the enforcement of the 1992 Cable Act, KBLCOM's basic, tier, equipment and installation rates may be

further reduced. The decline in revenue due to such rules is not expected to have a material adverse effect on KBLCOM's financial position or 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 of subsidiary and interest and principal payments on debt. Net cash provided by operating activities totaled \$954.9 million for the nine months ended September 30, 1994.

Net cash used in investing activities for the nine months ended September 30, 1994, totaled \$425.8 million, primarily due to electric capital and nuclear fuel expenditures of \$297.9 million, cable television additions of \$92.7 million and other capital expenditures of \$22.6 million.

Financing activities for the nine months of 1994 resulted in a net cash outflow of \$536.1 million. The Company's primary financing activities include the repayment of short-term borrowings, the redemption of preferred stock, the payment of dividends and the repayment of matured long-term debt. For further information with respect to these matters, reference is made to Notes 3 and 5 to the financial statements in Item 1 of this Report.

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

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The Company also has registered with the SEC five million shares of its common stock. Proceeds from the sale of these securities could 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 September 30, 1994, was approximately \$378.6 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 nine and twelve months ended September 30, 1994 were 2.95 and 2.56, respectively. The Company believes that the ratio for the nine-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 nine months of 1994 totaled \$1.0 billion. In July 1994, HL&P contributed as equity its rights to receive certain railroad settlement payments to HL&P Receivables, Inc., a wholly-owned subsidiary of HL&P. Following the transfer of such receivables to a trust, HL&P received \$66.1 million, which was recorded as a reduction to its reconcilable fuel expense in July 1994. The reduction to reconcilable fuel expense had no effect on earnings. For a further discussion of this transaction, see Note 13 to the financial statements in Item 1 of this Report.

Net cash used in HL&P's investing activities for the first nine months of 1994 totaled \$307.7 million. HL&P's capital and nuclear fuel expenditures (excluding Allowance for Funds Used During Construction) for the first nine months of 1994 totaled \$297.9 million out of the \$478 million annual budget. HL&P expects to finance its remaining 1994 capital expenditures through funds generated internally from operations.

HL&P's financing activities for the first nine months of 1994 resulted in a net cash outflow of approximately \$478.9 million. Included in these activities were the payment of dividends, repayment of short-term borrowings, the redemption of preferred stock, and the repayment of matured long-term debt. For further information with respect to these matters, reference is made to Notes 3 and 5 to the financial statements in Item 1 of this Report.

SOURCES OF CAPITAL RESOURCES AND LIQUIDITY. HL&P has registered with the SEC \$230 million aggregate liquidation value of preferred stock and \$580 million

aggregate principal amount of debt securities that may be issued as first mortgage bonds and/or as debt securities collateralized by first mortgage bonds. Proceeds from any sales of these securities could 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 HL&P's outstanding indebtedness or preferred stock.

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At September 30, 1994, HL&P had approximately \$229 million in cash and cash equivalents invested in short-term investments. In addition, HL&P has a commercial paper program supported by a bank line of credit of \$400 million. HL&P had no commercial paper outstanding at September 30, 1994.

RATIOS OF EARNINGS TO FIXED CHARGES. HL&P's ratios of earnings to fixed charges for the nine and twelve months ended September 30, 1994, were 4.58 and 3.91, respectively. HL&P's ratios of earnings to fixed charges and preferred dividends for the nine and twelve months ended September 30, 1994, were 3.84 and 3.30, respectively. HL&P believes that the ratios for the nine-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 \$35.5 million for the nine months ended September 30, 1994.

Net cash used in KBLCOM's investing activities for the nine months ended September 30, 1994 totaled \$57.6 million, primarily due to cable television additions of \$51.0 million. These amounts were financed principally through internally generated funds and intercompany borrowings.

KBLCOM's financing activities for the nine months ended September 30, 1994 resulted in a net cash inflow of \$22.1 million. Included in these activities were the reduction of third party debt, and an increase in borrowings from the Company.

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

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

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

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For a description of legal proceedings affecting the Company and its subsidiaries, including HL&P, reference is made to the information set forth in Item 1 of Part II of the Combined Form 10-Q for the quarters ended March 31, 1994 and June 30, 1994, and Item 3 of the 1993 Combined Form 10-K and Notes 9, 10 and 11 to the Company's financial statements in Item 8 of the 1993 Combined Form 10-K, as updated by the description of developments in regulatory and litigation matters contained in Notes 8, 9 and 10 of the Notes in Part 1 to the financial statements of this Report, all of which are incorporated herein by reference.

In October 1994, the United States Court of Appeals for the Fifth Circuit affirmed a district court's decision granting summary judgment in favor of the Company and HL&P and dismissing a lawsuit filed by former HL&P employees who claimed their employment had been terminated in violation of the WORKER ADJUSTMENT AND RETRAINING NOTIFICATION ACT.

(a) Exhibits.

HOUSTON INDUSTRIES INCORPORATED:

- Exhibit 11 - Computation of Earnings per Common Share and Common Equivalent Share.
- Exhibit 12 - Computation of Ratios of Earnings to Fixed Charges.
- Exhibit 27 - Financial Data Schedule.
- Exhibit 99(a) - Notes 8(a), 9, 10, 11 and 12 of the Notes to the Consolidated Financial Statements included on pages 83 through 97 of the Company's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7629).
- Exhibit 99(b) - Part I, Item 3 - Legal Proceedings included on pages 37 and 38 of the Company's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7629).
- Exhibit 99(c) - Part II, Item 1 - Legal Proceedings included on pages 31 and 32 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994 (File No. 1-7629).
- Exhibit 99(d) - Part II, Item 1 - Legal Proceedings included on page 35 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 (File No. 1-7629).
- Exhibit 99(e) - Notes 6, 7(b), 8(d), 8(e) and 8(g) of the Notes to the Consolidated Financial Statements included on pages 17 through 20 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 (File No. 1-7629).
- Exhibit 99(f) - Second Amendment to Houston Industries Incorporated Savings Plan as Amended and Restated effective January 1, 1994, effective as of January 1, 1994.

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HOUSTON LIGHTING & POWER COMPANY:

- Exhibit 12 - Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Fixed Charges and Preferred Dividends.
- Exhibit 27 - Financial Data Schedule.
- Exhibit 99(a) - Notes 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 September 30, 1994 (File No. 1-7269).)
- Exhibit 99(b) - Part I, Item 3 - Legal Proceedings included on pages 37 and 38 of HL&P's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-3187) (incorporated by reference to Exhibit 99(b) to the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 1994 (File No. 1-7269).)
- Exhibit 99(c) - Part II, Item 1 - Legal Proceedings included on pages 31 and 32 of HL&P's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994 (File No. 1-3187) (incorporated by reference to Exhibit 99(c) to the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 1994 (File No. 1-7269).)
- Exhibit 99(d) - Part II, Item 1 - Legal Proceedings included on page 35 of HL&P's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 (File No. 1-7629) (incorporated by reference to Exhibit 99(d) to the Quarterly Report on Form 10-Q of the Company for the

quarter ended September 30, 1994 (File No. 1-7269).)

Exhibit 99(e) - Notes 6, 7(b), 8(d), 8(e) and 8(g) of the Notes to the Financial Statements included on pages 17 through 20 of HL&P's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 (File No. 1-7629) (incorporated by reference to Exhibit 99(e) to the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 1994 (File No. 1-7269).)

(b) Reports on Form 8-K.

None.

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SIGNATURE

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

HOUSTON INDUSTRIES INCORPORATED
(Registrant)

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

Date: November 11, 1994

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SIGNATURE

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

HOUSTON LIGHTING & POWER COMPANY
(Registrant)

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

Date: November 11, 1994

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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 September 30,		Nine Months Ended September 30,	
	1994	1993	1994	1993
Primary Earnings Per Share:				
(1) Weighted average shares of common stock outstanding.....	123,060,083	130,114,095	122,665,312	129,856,442
(2) Effect of issuance of shares from assumed exercise of stock options (treasury stock method).....	(51,776)	4,738	(43,374)	3,294
(3) Weighted average shares.....	<u>123,008,307</u>	<u>130,118,833</u>	<u>122,621,938</u>	<u>129,859,736</u>
(4) Net income.....	\$ 235,968	\$ 260,409	\$ 388,591	\$ 387,673
(5) Primary earnings per share (line 4/line 3).....	\$ 1.92	\$ 2.00	\$ 3.17	\$ 2.99
Fully Diluted Earnings Per Share:				
(6) Weighted average shares per computation on line 3 above....	123,008,307	130,118,833	122,621,938	129,859,736
(7) Shares applicable to options included on line 2 above.....	51,776	(4,738)	43,374	(3,294)
(8) Dilutive effect of stock options based on the average price for the period or period-end price, whichever is higher, of \$35.25 and \$46.63 for the third quarter of 1994 and 1993, respectively, and \$36.39 and \$46.63 for the first nine months of 1994 and 1993, respectively (treasury stock method).....	(50,426)	4,870	(43,374)	4,870
(9) Weighted average shares.....	<u>123,009,657</u>	<u>130,118,965</u>	<u>122,621,938</u>	<u>129,861,312</u>
(10) Net income.....	\$ 235,968	\$ 260,409	\$ 388,591	\$ 387,673
(11) Fully diluted earnings per share (line 10/line 9).....	\$ 1.92	\$ 2.00	\$ 3.17	\$ 2.99

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 and nine months ended September 30, 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.

Three and nine months ended September 30, 1994 reflect the reduction of weighted average common shares outstanding resulting from the adoption of Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans" effective January 1, 1994.

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

	Nine Months Ended September 30, 1994	Twelve Months Ended September 30, 1994
	-----	-----
Fixed Charges as Defined:		
(1) Interest on Long-Term Debt	\$ 236,313	\$ 325,954
(2) Other Interest	40,607	43,806
(3) Preferred Dividends Factor of Subsidiary (line 12)	39,220	51,920
(4) Interest Component of Rentals Charged to Operating Expense	2,947	4,021
	-----	-----
(5) Total Fixed Charges	\$ 319,087	\$ 425,701
	=====	=====
Earnings as Defined:		
(6) Income Before Cumulative Effect of Change in Accounting for Postemployment Benefits	\$ 396,791	\$ 425,208
(7) Income Taxes	226,486	236,805
(8) Fixed Charges (line 5)	319,087	425,701
	-----	-----
(9) Earnings Before Income Taxes and Fixed Charges	\$ 942,364	\$ 1,087,714
	=====	=====
Preferred Dividends Factor of Subsidiary:		
(10) Preferred Stock Dividends of Subsidiary	\$ 24,981	\$ 33,282
(11) Ratio of Pre-Tax Income to Net Income (line 6 plus line 7 divided by line 6) ..	1.57	1.56
	-----	-----
(12) Preferred Dividends Factor of Subsidiary (line 10 times line 11)	\$ 39,220	\$ 51,920
	=====	=====
Ratio of Earnings to Fixed Charges (line 9 divided by line 5)	2.95	2.56

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

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HOUSTON INDUSTRIES INC

		1,000
		9-MOS
	DEC-31-1994	
	SEP-30-1994	
	PER-BOOK	
8,955,090		
497,528		
315,918		
931,971		
	1,548,291	
	12,248,798	
		2,142,134
	0	
	1,303,139	
3,445,273		
	121,910	
		351,345
	4,213,921	
		0
	0	
378,600		
33,641		
45,700		
10,989		
		4,050
3,643,369		
12,248,798		
	3,164,741	
		226,486
	2,249,233	
	2,249,233	
	915,508	
		6,237
921,745		
	273,487	
		413,572
	24,981	
388,591		
	276,682	
	184,964	
	954,938	
		3.17
		3.17

Includes cumulative effect of change in accounting for postemployment benefits of \$8,200.

Total annual interest charges on HL&P bonds for year-to-date 9/30/94.

Reflects the reduction of weighted average common shares outstanding resulting from the adoption of Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans" effective January 1, 1994.

(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.

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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

(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

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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%

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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.

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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.

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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

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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

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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.

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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 Dockets 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

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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

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

(11) DEFERRED PLANT COSTS

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

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

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

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

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

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

	Original Balance	Balance at December 31, 1993
	-----	-----
	(Thousands of Dollars)	
Deferred Accounting: (a)		
Deferred Expenses	\$ 250,151	\$ 233,341

Deferred Carrying Costs on		
Plant Investment . . .	399,972	373,094
	-----	-----
Total	650,123	606,435
Qualified Phase-In Plan: (b) .	82,254	58,264
	-----	-----
Total Deferred Plant Cost . . .	\$ 732,377	\$ 664,699
	=====	=====

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

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

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

(12) MALAKOFF ELECTRIC GENERATING STATION

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

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

Commission's final order in Docket No. 8425. Also, recovery of such Malakoff costs may be addressed if rate proceedings are initiated such as that proposed under Section 42 of PURA. See Notes 10(b) and 10(f) for a discussion of these respective proceedings.

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

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

ITEM 3. LEGAL PROCEEDINGS.

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

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

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

For information with respect to the EPA's identification of HL&P as a "potentially responsible party" for remediation of a CERCLA site

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adjacent to one of HL&P's transmission lines in Harris County, see "Liquidity and Capital Resources - HL&P - Environmental Expenditures" in Item 7 of this Report, which information is incorporated herein by reference.

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

prediction can be made as to the ultimate outcome of that litigation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

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

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

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

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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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For a description of legal proceedings affecting the Company and its subsidiaries, including HL&P, reference is made to the information set forth in Item 1 of Part II of the Combined Form 10-Q for the quarter ended March 31, 1994, and Item 3 of the 1993 Combined Form 10-K and Notes 9, 10 and 11 to the Company's Consolidated and HL&P's Financial Statements in Item 8 of the 1993 Combined Form 10-K, as updated by the description of developments in regulatory and litigation matters contained in Notes 8, 9 and 10 of the Notes to the Company's Consolidated and HL&P's Financial Statements included in Part I of this Form 10-Q, all of which are incorporated herein by reference.

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

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

The Company and HL&P adopted Statement of Financial Accounting Standards (SFAS) No. 112, "Employer's Accounting for Postemployment Benefits", effective January 1, 1994. SFAS No. 112 requires the recognition of a liability for benefits, not previously accounted for on the accrual basis, provided to former or inactive employees, their beneficiaries and covered dependents, after employment but before retirement. In the Company's and HL&P's case, this liability is principally health care and life insurance benefits for participants in the long-term disability plan. As required by SFAS No. 112, the Company and HL&P expensed the transition obligation (liability from prior years) upon adoption, and recorded a one-time, after-tax charge to income of \$8.2 million in the first quarter of 1994. Ongoing 1994 charges to income are expected to be immaterial.

(7) ENVIRONMENTAL AND CABLE REGULATIONS

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

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(8) JOINTLY-OWNED NUCLEAR PLANT

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

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

Pursuant to the Price Anderson Act, the maximum liability to the public for owners of nuclear power plants, such as the South Texas Project, was decreased from \$9.3 billion to \$9.2 billion effective June 3, 1994. Owners are required under the Act to insure their liability for nuclear incidents and protective evacuations by maintaining the maximum amount of financial protection available from private sources and by maintaining secondary financial protection through an industry retrospective

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

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

- (e) NUCLEAR DECOMMISSIONING. HL&P and the other co-owners of the South Texas Project are required by the NRC to meet minimum decommissioning funding requirements to pay the costs of decommissioning the South Texas Project. Pursuant to the terms of the order of the Public Utility Commission of Texas (Utility Commission) in Docket No. 9850, HL&P is currently funding decommissioning costs with an independent trustee at an annual amount of \$6 million. This funding level was estimated to provide approximately \$146 million in 1989 dollars at the time of scheduled decommissioning. In May 1994, an outside consultant estimated HL&P's portion of decommissioning costs to be approximately \$318 million in 1994 dollars with a corresponding funding level of \$16 million per year. The consultant's calculation of decommissioning costs for financial planning purposes used the DECON methodology (prompt removal/dismantling), one of three alternatives acceptable to the NRC, and assumed deactivation of Unit No. 1 and Unit No. 2 upon expiration of their 40 year operating licenses. HL&P is currently in a rate proceeding, see Note 9(e) of the Notes to the Company's Consolidated and HL&P's Financial Statements in this Report. Until the issuance of an order in the pending rate proceeding, the exact funding level in excess of the minimum NRC requirements cannot be determined. While the current funding levels exceed minimum NRC requirements, no assurance can be given that (i) the amount held in the trust will be adequate to cover the actual decommissioning costs of the South Texas Project or (ii) the assumptions used in estimating decommissioning costs will ultimately prove to be correct.

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- (g) LOW-LEVEL RADIOACTIVE WASTE. In response to the federal Low-Level Radioactive Waste Policy Act of 1980 which assigns responsibility for low-level waste disposal to the states, Texas has created the Texas Low-Level Radioactive Waste Disposal Authority (Waste Disposal Authority) to build and operate a low-level waste disposal facility. HL&P's portion of the State of Texas assessment for the development work on this facility was approximately \$0.7 million in 1994 and will be approximately \$1.3 million for 1995. Nuclear facilities in Texas formerly had access to the low-level waste disposal facility at Barnwell, South Carolina which was closed in June 1994 to generators

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

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

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HOUSTON INDUSTRIES INCORPORATED
SAVINGS PLAN

(As Amended and Restated Effective January 1, 1994)

SECOND 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 and amended on April 7, 1994 (the "Plan"), and having reserved the right to amend the Plan under Section 10.3 thereof, does hereby amend the Plan, effective January 1, 1994, except as otherwise specified herein, as follows:

1. Section 1.8 of the Plan is amended, effective June 1, 1994, to read as follows:

"1.8 COMMITTEE: The Benefits Committee as described in Article II."

2. The first sentence of Section 1.11 of the Plan is hereby amended to read as follows:

"The total cash compensation actually paid for personal services to the respective Participant by the Employer during the applicable payroll period plus any amounts contributed by an Employer pursuant to a salary reduction agreement and which is not includable in gross income of the Participant under Code Section 125."

3. The third sentence of Section 1.11 of the Plan is hereby amended to read as follows:

"Compensation specifically excludes expense allowances, benefits received under the Long Term Disability Plan of an Employer and contributions of the Employer to or benefits under this Plan or any other welfare or deferred compensation plan not expressly included above."

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4. Section 1.15 of the Plan is hereby amended to read as follows:

"1.15 EMPLOYEE: Any person regularly and principally employed by an Employer, and including (i) any disabled individual on 'Initial LTD Status' or inactive status under the Long Term Disability Plan of an Employer and (ii) any 'leased employee' (as defined in Section 414 of the Code, subject to Section 414(n)(5)) performing services for an Employer. In addition to the above, the term 'Employee' shall include any person receiving remuneration for personal services (or would be receiving such remuneration except for an authorized leave of absence) rendered as an employee of a foreign affiliate (as defined in Code Section 3121(l)(6)) of an Employer to which an agreement extending coverage under the Federal Social Security Act entered into by an Employer under Section 3121(l) of said Code applies, provided that such person is a citizen or resident of the United States."

5. Section 1.20 of the Plan is hereby amended, effective October 1, 1994, to read as follows:

"1.20 ENTRY DATE: January 1, April 1, July 1 and October 1 of each Plan Year."

6. Section 1.33 of the Plan is hereby amended to read as follows:

"1.33 PARTICIPANT: A current or former eligible Employee who, pursuant to provisions of Article III hereof, has elected to participate in the Plan, and who at any relevant time is either making, or has made, Pre-Tax Basic Contributions and/or After-Tax Basic Contributions to the Plan, and for whom contribution accounts continue to be held under the Plan. A former Employee shall be deemed a Participant under the Plan as long as he has an Account in the Trust Fund which has not been forfeited under Section 6.1 hereof and thus will be entitled to exercise all the rights and privileges granted active Employees who are Participants except as otherwise specifically provided in the case of Participant loans under Section 8.1 hereof."

7. The first sentence of the second paragraph of Section 2.15 of the Plan is hereby amended to read as follows:

"The Committee shall notify the applicant of the benefits determination within a reasonable time after receipt of the claim, such time not to exceed 90 days unless special circumstances require an extension of time for processing the application."

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8. Section 2.15 is hereby amended to add the following sentence to the end thereof:

"Participants shall be given timely written notice of the time limits set forth herein for determination on claims, appeal of claim denial and decisions on appeal."

9. The third sentence of Section 2.16 is hereby amended to read as follows:

"The Committee shall reconsider the application in light of such additional information and comments as the applicant may have presented and, if the applicant shall have so requested, may grant the applicant a formal hearing before the Committee in its discretion."

10. The fifth sentence of Section 2.16 is hereby amended to read as follows:

"The Committee shall render a decision no later than the date of the Committee meeting next following receipt of the request for review, except that (i) a decision may be rendered no later than the second following Committee meeting if the request is received within 30 days of the first meeting and (ii) under special circumstances which require an extension of time for rendering a decision (including but not limited to the need to hold a hearing), the decision may be rendered not later than the date of the third Committee meeting following the receipt of the request for review."

11. Section 3.1 of the Plan is hereby amended, effective October 1, 1994, by deleting the last sentence and inserting the following in lieu thereof:

"Each Employee who is eligible, who is not a Participant and who began Service with an Employer after October 1, 1993 but prior to October 1, 1994 shall be initially eligible to participate in the Plan as of October 1, 1994. Each Employee who is eligible and who began Service with an Employer on or after October 1, 1994 shall be initially eligible to participate in the Plan as of the first Entry Date next following the date he first begins Service."

12. The fourth sentence of Section 4.2 of the Plan is hereby amended to read as follows:

"A Participant's Pre-Tax Contributions under this Plan and all other plans, contracts or arrangements of the Employer shall not exceed a maximum contribution of \$9,240 (as adjusted by the Secretary of the Treasury) for each calendar year."

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13. The last paragraph of Section 4.2 of the Plan is hereby amended, effective October 1, 1994, to read as follows:

"Subject to the last sentence of this Paragraph, in addition to the election made during annual enrollment, a Participant may change the rate of his Pre-Tax Basic Contribution and/or Pre-Tax Excess Contribution as of any Entry Date during the Plan Year 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. A Participant may discontinue his Pre-Tax Basic Contribution and/or Pre-Tax Excess Contribution as of any Entry Date during the Plan Year 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. Any Participant who discontinues his Pre-Tax Basic Contribution or Pre-Tax Excess Contribution at any time during the Plan Year except January 1 shall be ineligible to recommence such Contribution prior to the next following January 1. A Participant in the Plan can change or discontinue the amount of his Contributions to the Plan as described above; provided that only one such election to change or discontinue shall be permitted during each Plan Year."

14. The third paragraph of Section 4.3 of the Plan is hereby amended, effective October 1, 1994, to read as follows:

"Subject to the last sentence of this Paragraph, an HII Participant may change the amount of his After-Tax Basic Contribution and/or After-Tax Excess Contribution as of any Entry Date during the Plan Year 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. A Participant may discontinue his After-Tax Basic Contribution and/or After-Tax Excess Contribution as of any Entry Date during the Plan Year 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. Any HII Participant who discontinues his After-Tax Basic Contribution and/or After-Tax Excess Contribution at any time during the Plan Year except January 1 shall be ineligible to recommence such Contribution prior to the next following January 1. Participants in the Plan can change or discontinue the amount of his Contributions to the Plan as described above; provided that only one such election to change or discontinue shall be permitted during each Plan Year."

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

"(f) A rollover account shall be subject to the same rules as a Pre-Tax Contribution Account for all purposes of the Plan, including, but not by way of

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limitation, rules regarding investments, withdrawals, distributions and loans under the Plan."

16. The second paragraph of Section 6.6 of the Plan is hereby amended in its entirety to read as follows:

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

17. The first sentence of Section 7.3 of the Plan is hereby amended to read as follows:

"Each Participant who elects to withdraw all or a portion of his After-Tax Basic Contributions shall be suspended from participation in the Plan from the Valuation Date preceding the distribution of the withdrawal until the first Entry Date coincident with or next following six full months from the date of such withdrawal provided the Committee has received prior to such Entry Date the Participant's written election (in the form and manner prescribed in Section 3.4 hereof) to commence participation after such suspension; provided further, however, that such suspension shall not apply to any Participant who has at least five years of Service."

18. The first two sentences of Section 7.4 of the Plan are hereby amended to read as follows:

"Any Participant who is an Employee (including any such Participant on an Authorized Absence) may make application to the Committee to borrow from his Pre-Tax Contribution Account in the Trust Fund, and the Committee in its sole discretion may permit such a loan. In addition to Participants who are Employees (including any such Participant on an Authorized Absence), loans shall be available to any former Participant or any Beneficiary or "alternate payee" with respect to a former Participant, but, if and only if, such person is a "party in interest" with respect to the Plan within the meaning of ERISA Section 3(14) and who must be eligible to obtain a Plan loan in order for exemptions set forth in 29 C.F.R. 2550.408b-1 to apply to the Plan (herein, together with Participants who are Employees and those on Authorized Absence, collectively referred to as "Borrower")."

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19. The third full paragraph of Section 8.1 of the Plan is hereby amended, effective October 1, 1994, to read as follows:

"Each Participant shall elect an investment option at the time he begins participating in the Plan. 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 in any combination of 10% increments 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 any whole percentage increments as he may determine between the investment accounts."

20. The first two sentences of Section 10.3 of the Plan are hereby amended, effective September 7, 1994, to read as follows:

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

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

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copy hereof, on this 7th day of September, 1994, but effective as of the dates specified herein.

HOUSTON INDUSTRIES INCORPORATED

By D. D. Sykora
President and Chief Operating Officer

ATTEST:

Assistant Corporate Secretary

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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)

	Nine Months Ended September 30, 1994	Twelve Months Ended September 30, 1994
	-----	-----
Fixed Charges as Defined:		
(1) Interest on Long-Term Debt	\$184,964	\$ 249,203
(2) Other Interest	5,938	6,709
(3) Amortization of Premium/Discount-net	6,363	8,448
(4) Interest Component of Rentals Charged to Operating Expense	2,947	4,021
	-----	-----
(5) Total Fixed Charges	\$200,212	\$ 268,381
	=====	=====
Earnings as Defined:		
(6) Net Income	\$460,237	\$ 509,355
(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	468,437	517,555
	-----	-----
Federal Income Taxes:		
(9) Current	171,647	178,252
(10) Deferred (Net)	71,673	81,651
(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	247,735	264,318
	-----	-----
(13) Fixed Charges (line 5)	200,212	268,381
	-----	-----
(14) Earnings Before Income Taxes and Fixed Charges (line 8 plus line 12 plus line 13)	\$916,384	\$1,050,254
	=====	=====
Ratio of Earnings to Fixed Charges (line 14 divided by line 5)	4.58	3.91
Preferred Dividends Requirements:		
(15) Preferred Dividends	\$ 24,981	\$ 33,282
(16) Less Tax Deduction for Preferred Dividends	41	54
	-----	-----
(17) Total	24,940	33,228
(18) Ratio of Pre-Tax Income to Net Income (line 8 plus line 12 divided by line 8)	1.53	1.51
	-----	-----
(19) Line 17 times line 18	38,158	50,174
(20) Add Tax Deduction for Preferred Dividends (line 16)	41	54
	-----	-----
(21) Preferred Dividends Factor	\$ 38,199	\$ 50,228
	=====	=====
(22) Fixed Charges (line 5)	\$200,212	\$ 268,381
(23) Preferred Dividends Factor (line 21)	38,199	50,228
	-----	-----
(24) Total	\$238,411	\$ 318,609
	=====	=====
Ratio of Earnings to Fixed Charges and Preferred Dividends (line 14 divided by line 24)	3.84	3.30

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

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HOUSTON LIGHTING & POWER

		1,000
		9-MOS
	DEC-31-1994	
	SEP-30-1994	
	PER-BOOK	
8,955,090		
0		
499,442		
879,419		
	502,401	
	10,836,352	
		1,675,927
	0	
	2,217,434	
3,893,361		
	121,910	
		351,345
	3,176,456	
		0
	0	
	0	
	1,849	
	45,700	
	10,989	
		4,004
3,230,738		
10,836,352		
	2,977,433	
		248,359
	2,068,494	
	2,316,853	
	660,580	
		(4,674)
655,906		
	187,469	
		460,237
	24,981	
435,256		
	246,746	
	184,964	
	1,003,291	
		0
		0

Includes cumulative effect of change in accounting for postemployment benefits of \$8,200.

Total annual interest charges on all bonds for year-to-date 9/30/94.