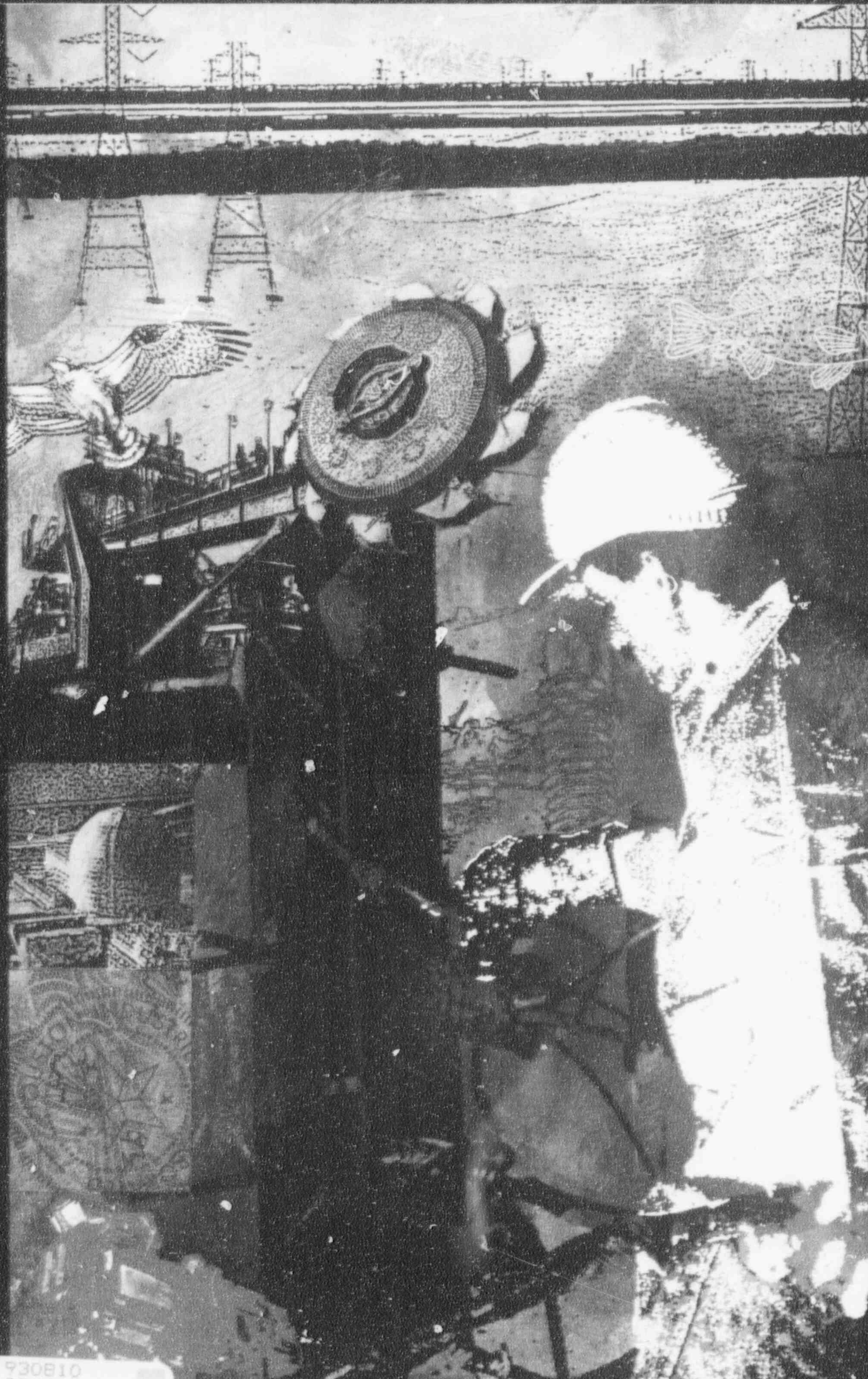
HOUSTON INDUSTRIES INCORPORATED

"A total, long-term commitment to our vision, combined with decisive action, is what we need. We're on the right path with a plan for the '90s and we're going to make it work."

Don D. Jordan

1992 ANNUAL REPORT



Preparing for the future is seldom easy. Choices made today–even thoughtful, forward-looking choices–are often unpopular when judged by today's conventional wisdom. And, in some cases, it may take years for those decisions to prove their merits.

Throughout its history, however, our company has grown and profited by anticipating the shape of things to come and aggressively pursuing its vision. Our actions have not always been popular, but they have prepared us to meet the realities of today's world.

We are not yet finished–nor will we ever be. Tomorrow will bring new complexities, growing competition and rising expectations from customers and investors. We are preparing today for that future by continuing to develop our people, our systems and our services, while making the tough decisions that will lead to tomorrow's success.

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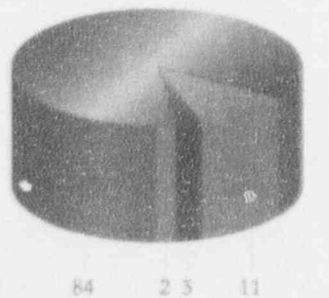
CORPORATE HIGHLIGHTS

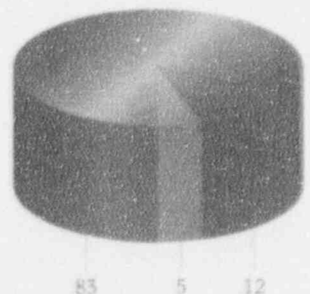
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	1992[2]	1991[1]	1990[1]	% Change (91-92)
(YEAR ENDED DECEMBER 31)				
Operating Revenues	$ 4,596,388	$ 4,443,739	$ 4,178,576	3.4
Operating Expenses	$ 3,653,974	$ 3,417,783	$ 3,231,897	6.9
Income Before Cumulative Effect of Accounting Change	$ 340,487	$ 416,754	$ 342,789	(18.3)
Cumulative Effect of Accounting Change	$ 94,180		$ (219,718)	
Net Income	$ 434,667	$ 416,754	$ 123,071	4.3
Cash Flow from Operations	$ 799,908	$ 869,884	$ 651,807	(8.0)
Return on Average Common Equity	13.4 %	12.7 %	3.6 %	
Earnings Per Share Before Cumulative Effect of Accounting Change	$ 2.63	$ 3.24	$ 2.70	(18.8)
Cumulative Effect of Accounting Change	$ .73		$ (1.73)	
Earnings Per Common Share	$ 3.36	$ 3.24	$ 0.97	3.7
Dividends Per Common Share	$ 2.98	$ 2.96	$ 2.96	0.7
(AT YEAR END)				
Book Value Per Share	$ 25.36	$ 24.96	$ 26.76	1.6
Market Value Per Share	$ 45.88	$ 44.25	$ 36.75	3.7
Market to Book Value	181 %	177 %	137 %	
Price to Earnings Ratio	13.7	13.7	N/M[4]	
Total Assets	$ 12,417,501	$ 12,165,164	$ 12,044,755	2.1
Long-Term Debt[3]	$ 4,756,956	$ 5,074,431	$ 4,746,924	(6.3)
Shareholders' Equity	$ 3,284,713	$ 3,232,217	$ 3,430,374	1.6
Preferred Stock[3]	$ 578,188	$ 459,612	$ 568,320	25.8
Capitalization[3]	$ 8,619,857	$ 8,766,260	$ 8,745,618	(1.7)
Common Shares Outstanding (000)	129,514	129,514	128,171	0.0
Number of Common Shareholders	72,504	72,825	74,943	(0.4)
Number of Employees	11,576	13,289	13,084	(12.9)

[1] The 1991 and 1990 data has been restated to reflect the effects of the adoption in 1992, with restatement to January 1, 1990, of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." The cumulative effect of all years prior to 1990 are reflected in 1990 net income. [2] The 1992 cumulative effect relates to the change in accounting for revenues. [3] Includes current maturities. [4] Not meaningful due to restatement for accounting change

PERCENT OF ASSETS



PERCENT OF REVENUES



- HL&P
- KBLCOM*
- UFI
- Other

*KBLCOM revenues do not include Paragon Communications, a cable television partnership.

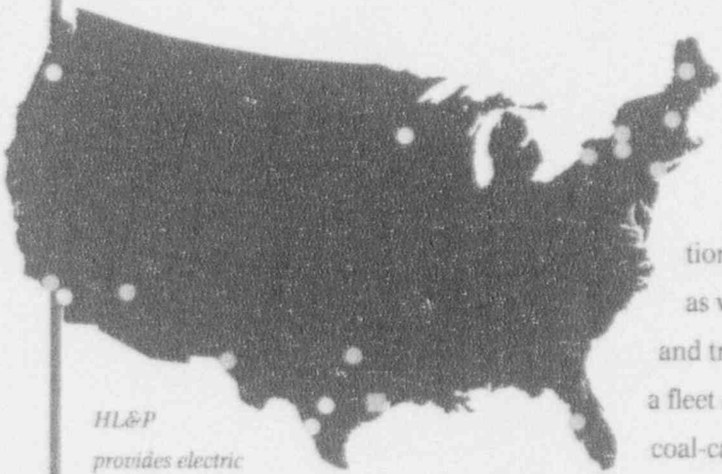
Houston Industries Incorporated is a diversified holding company involved in the electric utility, cable television and utility services industries.

Houston Lighting & Power Company is the nation's eighth largest electric utility in terms of kilowatt-hour sales. HL&P provides electric service to a 5,000 square-mile area including Houston, the nation's fourth largest city.

With more than 1,000,000 customers, KBLCOM Incorporated is one of the nation's 20 largest cable television operators. KBLCOM directly serves approximately 577,000 customers in four states and owns a 50 percent interest in Paragon Communications, a cable television partnership serving about 901,000 customers.

Utility Fuels, Inc. provides coal supply, transportation and handling services for six HL&P generating units as well as full-service railcar leasing, power plant testing and training for nonaffiliated companies. UFI manages a fleet of 3,000 railcars, the second largest private fleet of coal-carrying railcars in the nation.

Through its electric utility and cable television subsidiaries, Houston Industries serves some of the nation's largest metropolitan areas.



HL&P provides electric service to the Houston-Gulf Coast area, while KBLCOM provides cable services in San Antonio and Laredo, Texas; Orange County, California; Portland, Oregon and Minneapolis, Minnesota.

HL&P Service Area
Directly-owned Cable Systems
Partnership Cable Systems

MISSION STATEMENT

The mission of Houston Industries Incorporated is to maximize shareholder value and satisfy its customers' needs, while providing its employees a rewarding and productive work environment and conducting its affairs responsibly in the community.

Houston Industries will accomplish this mission by creating a corporate vision of successful growth, by carefully managing its assets and by integrating its businesses through effective planning and allocation of resources.

Houston Industries took a number of steps in 1992 to further strengthen its long-term performance outlook. These actions ranged from renegotiation of fuel contracts and refinancing of securities to development of new products and services. Some of these efforts

proved to have an immediate benefit in 1992. A program aimed at achieving sustained excellence in HL&P's operating performance helped to counteract the effects of milder than normal weather and sharply rising property taxes. Cost controls at KBLCOM contributed to improving gross margins despite a sluggish economy.

Houston Industries earned $435 million, or $3.36 per share, in 1992, compared to $417 million, or $3.24 per share, in 1991. Cash flow from operating activities declined 8.0 percent to $800 million in 1992. Return on equity was 13.4 percent, compared to 12.7 percent the previous year. The 1992 numbers reflect several nonrecurring items, some negative and some positive. However, the net effect is that reported earnings are somewhat higher than our operating results. These nonrecurring items are fully explained in the financial review section.

Results at KBLCOM were stronger than expected. KBLCOM's net loss fell from $57 million in 1991 to $21 million in 1992. Basic subscriber growth was slightly above 3 percent, and KBLCOM continued to develop nontraditional revenue sources such as advertising sales and digital audio service.

KBLCOM also benefited from reduced interest expense and improved profitability at Paragon Communications, its cable television partnership. KBLCOM's income tax expense was reduced in both years due to the 1992 adoption of an accounting change. However, a change in state franchise taxes largely offset this tax benefit in 1991.

Paragon Communications, which was our original 1986 venture into cable television, became profitable in 1991. We expect KBLCOM to become profitable in 1994 and to be a significant earnings contributor in the years ahead.

I am pleased with our company's progress. We are building a strong competitive advantage in our core businesses through a combination of reliable service, reasonable prices and attention to customer needs. We also have achieved productivity improvements without compromising the reliability and high-quality customer service for which we are known.

HL&P already has a long and successful operating record in one of the nation's most competitive markets for electricity generation. We are prepared for competition in our cable business as well. We've continued to upgrade our cable transmission system. Our systems provide an unequalled combination of service, quality

programming and price. We also believe that the infrastructure we have built is superior to alternative technologies for providing tomorrow's high-quality, high-speed entertainment and communications.

In 1992, Houston Industries also made its first international utility investment, when a consortium including our company was the successful bidder on an electric distribution system in Argentina. We believe we can apply our utility operating expertise to international opportunities to achieve faster growth and higher returns than are currently possible in the domestic utility industry.

Performance improvement and strategic investments are aimed at one central objective–to be a leader in the industries in which we operate. That does not necessarily mean we are striving to be the largest company in those industries, since size alone does not guarantee success or profitability. However, we want to be among the top performers in our industries, both operationally and financially.

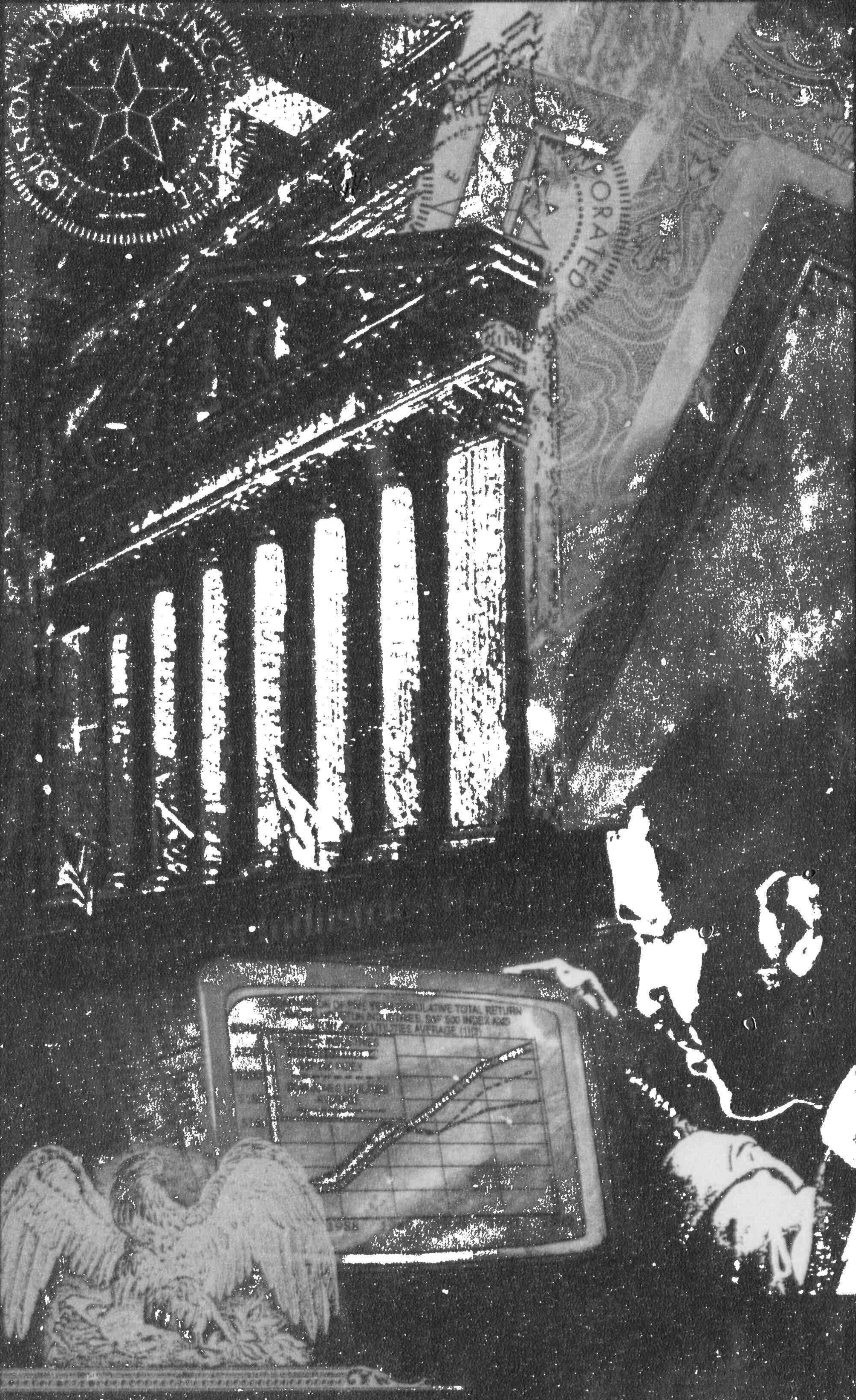
To be successful, it has become critical that we maintain a high-profile, proactive presence in the public policy arenas. Over the past two years, for example, we led a determined fight against an overwhelming force of special interests to defeat portions of the National Energy Policy Act. As originally proposed, several provisions of the legislation threatened both our industry and our customers. The Act became law in October 1992, and due to the combined efforts of Houston Industries, the Edison Electric Institute and the Electric Reliability Coalition, the final version provided a number of consumer protections that otherwise would not have been included.

We will be faced with new issues this year as Congress grapples with such matters as the national debt, health care and energy taxes. At the state level, the Texas legislature will review and possibly revamp the structure of the regulatory system under which Texas electric utilities operate. We will closely monitor progress on these issues and aggressively fight to defeat legislation or regulatory changes which will harm our customers or shareholders.

I remain confident that we will continue to build value for our investors, while meeting the needs of our customers, our employees and the communities we serve. Our past actions have demonstrated that, through vision and hard work, we can both overcome difficult obstacles and capitalize on opportunities. I appreciate the commitment of the people of Houston Industries, who have made our past successes possible, and the support of you, the shareholder. We will continue to strive to merit your confidence in Houston Industries.

Don D. Jordan
Chairman, President and Chief Executive Officer

Houston, Texas
March 1, 1993



Houston Industries was formed in 1976 to provide greater financial and operational flexibility and to allow for selective diversification where opportunities arise.

As growth in the U.S. electric utility industry has slowed, this flexibility and diversity has proven to be a strength for Houston Industries. As a result, HI envisions a future of above-average growth and rising returns.

Houston Industries reported earnings of $434.7 million, or $3.36 per share, in 1992, compared to $416.8 million, or $3.24 per share, in 1991. Results for 1992 reflected several one-time items, which had the combined effect of increasing reported earnings. Cash flow from operations declined $70.0 million to $799.9 million. Return on common equity was 13.4 percent in 1992, compared to 12.7 percent in 1991.

HOUSTON INDUSTRIES ADOPTS ACCOUNTING STANDARD

Financial results for the years 1990 and 1991 have been restated to reflect HI's adoption of Statement of Financial Accounting Standards (SFAS) No. 109, which requires that deferred taxes be recorded to reflect the future tax consequences of differences that exist between the book and tax bases of assets (other than goodwill) and liabilities.

Adoption of SFAS No. 109 resulted in a $219.7 million charge to 1990 earnings and an equivalent decrease in shareholders' equity, but it had no effect on cash flow. Most of the charge stemmed from KBLCOM's 1986 and 1989 acquisitions of cable television systems. Since the related tax liability will already have been recognized, KBLCOM's projected annual earnings per share will be 5 to 6 cents higher than previously anticipated.

NONRECURRING ITEMS IMPACT 1992 EARNINGS

Houston Lighting & Power earned $441.9 million, or $3.41 per share, in 1992, compared to $448.3 million, or $3.48 per share, in 1991. HL&P's 1992 earnings were negatively impacted by a one-time, $57.0 million after-tax charge resulting from the company's restructuring of operations.

However, a change in the way HL&P accounts for electricity sales boosted its 1992 earnings by $94.2 million, more than offsetting the impact of that one-time charge. HL&P now records revenues at the time electricity

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Chairman, President and Chief Executive Officer
Houston Industries

objective of maintaining a consistent dividend policy which balances the needs of shareholders with the corporation's need for financial flexibility.

HI has paid uninterrupted quarterly dividends since 1921. Dividends paid in 1992 totaled $2.98 per share, which provided common shareholders a yield of 6.7 percent, based on the stock price at year-end 1991. This compared to an average yield of 5.9 percent for companies in the Dow Jones Utility Average.

Houston Industries Vice President and Treasurer William A. Cropper awaits the start of trading on the New York Stock Exchange. Houston Industries is listed on the NYSE under the symbol HOU. Dividends paid on common stock in 1992 totaled $2.98 per share, which provided shareholders a yield of 6.7 percent.

HI common stock closed at $45.88 per share on December 31, 1992, compared to $44.25 at year-end 1991. HI's shareholders realized a total return (dividends plus price appreciation) of 10.8 percent during 1992 and an annual compound return of 18.4 percent for the five years ending December 31, 1992. This compares to total returns of 7.6 percent and 15.9 percent for the S&P 500 for the same periods. The Dow Jones Utility Average realized a total return of 4.1 percent in 1992 and a five-year annual compound total return of 12.4 percent. All of these total return numbers assume quarterly reinvestment of dividends.

DIVIDENDS PER COMMON SHARE

Dollars

HOUSTON INDUSTRIES INVESTS IN ARGENTINA

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However, a change in the way HL&P accounts for electricity sales boosted its 1992 earnings by $94.2 million, more than offsetting the impact of that one-time charge. HL&P now records revenues at the time electricity

is consumed rather than at the time the customer is billed. This change, which provides a better matching of revenues with associated expenses, had no effect on cash flow from operations.

Without these one-time items, HL&P's earnings would have been $404.7 million, or $3.13 per share. Weather contributed to HL&P's comparatively lower 1992 operating earnings. HL&P estimates that milder than normal weather reduced its base revenues by nearly $100 million compared to 1991, an abnormally hot year. This was partially offset by the addition of approximately 22,000 customers in 1992.

HL&P's residential kilowatt-hour (KWH) sales decreased 3.6 percent compared to the previous year. Commercial and firm industrial KWH sales were almost unchanged from 1991. However, on a weather-adjusted basis, residential, commercial and firm industrial sales grew 3.0 percent, 2.3 percent and 0.8 percent, respectively.

KBLCOM lost $21.2 million, or $.16 per share, in 1992, compared to $57.4 million, or $.45 per share, in 1991. KBLCOM's results improved due to increased revenues, improved operating margins, reduced interest expense and increased earnings from its cable television partnership, Paragon Communications.

KBLCOM's revenues increased $12.0 million in 1992, while operating expenses remained constant due to continued cost control programs. The gross operating margin increased to 40.1 percent in 1992, compared to 37.6 percent the previous year.

KBLCOM's interest expense decreased $18.1 million, or 20.5 percent, due to lower interest rates and lower debt balances resulting from the conversion, in March 1992, of $117 million of intercompany loans to equity. This conversion, which affected loans from HI to KBLCOM, had no impact on consolidated earnings or capital structure.

Utility Fuels reported earnings of $27.4 million, or $.21 per share, in 1992, compared to $23.9 million, or $.19 per share, in 1991.

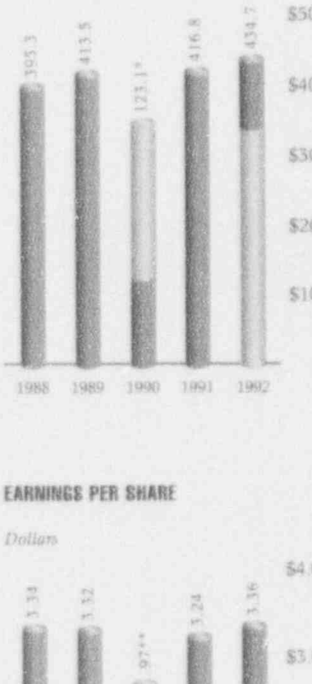
BOARD RAISES DIVIDEND

In July, HI's Board of Directors voted to raise the quarterly dividend on common stock by one cent per share, bringing the effective annual dividend rate to $3.00. The Board reviews the dividend rate annually with the

Results for 1992 reflected several one-time items, which had the combined effect of increasing reported earnings. In addition, 1990 earnings have been restated to reflect the cumulative effect of adopting SFAS No. 109.

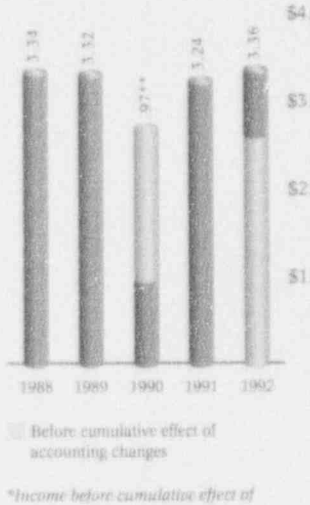
NET INCOME

Millions of dollars



EARNINGS PER SHARE

Dollars



Before cumulative effect of accounting changes

**Income before cumulative effect of accounting change was $342.8 million in 1990 and $340.5 million in 1992.*

***Earnings per share before cumulative effect of accounting change was $2.70 in 1990 and $2.63 in 1992.*

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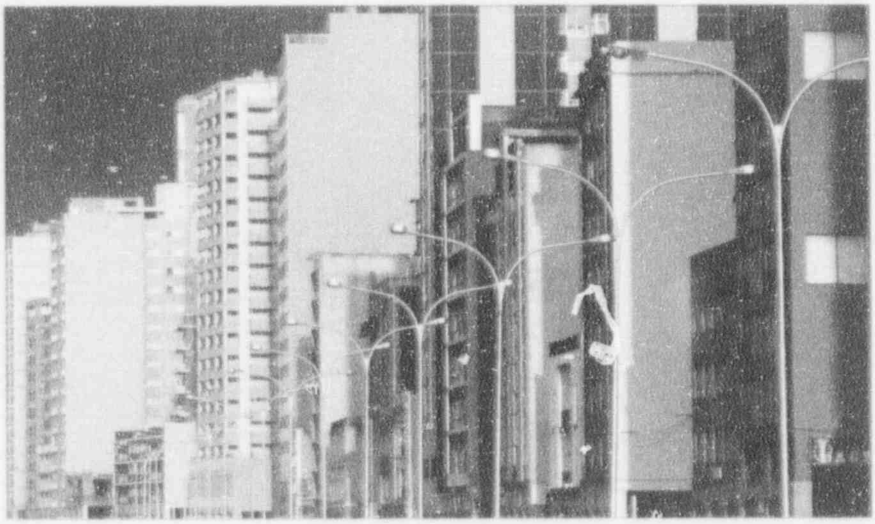
In November, a consortium including HI was the successful bidder on an electric distribution system privatized by the government of Argentina. Located approximately 20 miles south of the city of Buenos Aires, the La Plata system serves a population of 710,000 in a 2,260 square-mile area. HI's



portion of the purchase price was approximately $38 million. HI recognizes that international operations bear certain risks, such as currency fluctuations and potential political instabilities, and has factored those risks into its acquisition analysis.

Houston Industries made its first international utility investment in 1992, when a consortium including HI was the successful bidder on an electric distribution system in Argentina.

HOUSTON INDUSTRIES ACTIVE IN REFINANCING

In 1992, capital expenditures were met through funds generated internally from operations. Excluding AFUDC, refinancings and maturities of long-term debt, capital expenditures for HI and its subsidiaries totaled $382 million in 1992, compared to $403 million in 1991. Projected capital requirements for 1993, 1994 and 1995 are $449 million, $550 million and $528 million, respectively.

Although capital needs were modest by historical standards, HI and HL&P continued to take advantage of low interest rates to reduce their cost of capital. During 1992, HL&P strategically combined tender offers with redemptions to refund existing obligations with lower-cost debt or preferred stock. Refinancing efforts by HI and its subsidiaries during 1992 reduced interest and preferred dividend expense $21.8 million annually. Financing activity for 1992 is fully discussed in the liquidity section of Management's Discussion & Analysis.

EXPLANATION OF TERMS USED IN THIS REPORT

Allowance for funds used during construction (AFUDC):	The cost of financing construction projects. Financing costs are added to direct construction costs for recovery after new facilities are placed in service. During construction, AFUDC increases income but does not increase cash flow.
Capacity factor:	The amount of electricity produced by a generating unit expressed as a percentage of the maximum amount that could be produced if the unit operated continuously at 100 percent power.
Cash flow:	Cash revenues less cash expenses–specifically excluding noncash expenses, such as depreciation.
Deferred accounting:	An accounting treatment which allows a utility to defer operating and depreciation costs associated with new facilities and continue accruing carrying charges while awaiting approval of rates which reflect these costs. Use of deferred accounting provides an opportunity to recover these costs at a later date and prevents a drain on earnings during the regulatory process.
Earnings per common share:	Net income earned for the reporting period divided by the average number of common shares outstanding for the period.
Firm sales:	Electricity sales, excluding spot sales to other utilities (off-system sales) and industrial sales which can be curtailed under certain circumstances (interruptible sales).
Megawatt:	One thousand kilowatts.
Net income or earnings:	Earnings available to common shareholders after all expenses, financing costs and taxes are paid.
Pay-per-view:	Special attractions, such as concerts or sporting events, which are not included in monthly fees for basic or premium cable service but are available for viewers to order.
Peak demand:	The highest hourly demand for electricity in a given time period, excluding demand which is interruptible.
Retained earnings:	The portion of net income which is retained for reinvestment in the business rather than paid to shareholders in dividends.
Return on average common equity:	The rate of return earned on shareholders' equity. It is calculated by dividing net income by average shareholders' equity.
Shareholders' equity:	The book value of common shareholders' investment in a company. It is the amount paid in by shareholders for common shares plus retained earnings.
Total return:	The increase in the value of a shareholder's investment, considering both dividends and changes in the share price.
Yield:	The return provided to shareholders in dividends. It is calculated by dividing the annual dividend per share by the stock price.

Years before the energy crisis of the 1970s disrupted fuel supplies and sent prices soaring, HL&P was planning to diversify its fuel sources. In the years that followed, HL&P's average cost of gas rose rapidly, climbing from 20 cents per million Btu in 1970 to $3.52 per million Btu in 1982. Natural gas prices have fallen considerably since peaking in the early 1980's, but renewed price volatility makes it clear that fuel diversification has been a prudent means to protect customers from overdependence on a single fuel. HL&P remains one of the nation's largest purchasers of natural gas, but the use of alternative fuels helps to shield customers against the shock of rapid swings in natural gas prices.

In late 1991, HL&P launched a program designed to identify ways to improve its long-term operating performance without compromising the company's high customer service standards. The program was based on systematic analysis rather than across-the-board cost reductions. Months of study involving all levels of management and staff produced over 3,400 ideas, which ranged from increasing plant manager responsibility and authority to consolidating the company's bill payment centers. Nearly 3,200 of these ideas were accepted, and most were implemented in 1992.

Undoubtedly, the most difficult aspect of this program was eliminating approximately 1,600 positions. With the company's large-scale power plant construction complete for the foreseeable future, HL&P needed to realign its work force to match its operating requirements. HL&P's management team took great care to make the work force reduction process equitable and provided terminated employees a fair severance package.

Total savings from the ideas implemented in 1992 are estimated at $100 million annually, although a portion of these savings is being offset by increases in other, noncontrollable costs. For example, property taxes have accelerated rapidly as Texas wrestles with ways to best fund its public school system.

One of the primary objectives of HL&P's performance improvement drive is to avoid the need to increase electric rates as taxes and other noncontrollable expenses inevitably increase. The regulatory process associated with rate increases is lengthy, expensive and carries an uncertain outcome. In addition, the company believes its competitive position will be strengthened if it can maintain its current rate structure while the price of alternative power sources continues to rise.

Another key to maintaining competitive rates is the company's ongoing effort to control fuel costs. Fuel is the largest single expense the company incurs to serve its customers. In 1992, HL&P's continued efforts to obtain long-term natural gas contracts resulted in three fixed-price, five-year agreements for a total of 50 billion Btu of gas per day, or approximately 7 percent of HL&P's forecasted gas demand. To enhance the security of supply in the volatile gas market, HL&P obtained an additional five-year contract for gas at market prices, with significant flexibility in delivery rates.

HL&P's average cost of fuel in 1992 was $1.85 per million Btu, a 5.7 percent increase from $1.75 in 1991, but significantly less than the $3.37 paid in 1982.

COMPETITION–AN OLD GAME FOR HL&P

For more than a decade, HL&P has operated in one of the nation's most competitive markets for electricity. HL&P's largest industrial customers are predominantly petroleum refiners and petrochemical producers whose manufacturing processes typically require large amounts of steam. In some cases, the system used to make steam also generates electricity–a process known as cogeneration.

HL&P works aggressively to retain these customers. The company has some of the most attractive industrial rates in the country and its power consultants provide customers with extensive information about the availability and cost of electric service as well as computer modeling software which helps analyze the economics of self-generation. In addition, HL&P can provide information on industrial conservation as well as assistance on energy-efficiency audits.

Many of the ideas generated in HL&P's performance improvement program were aimed at increasing customer service as well as operating efficiency. HL&P consolidated three

payment and service locations into one at its new Personal Service Center. The new center provides more convenient parking and bus access than was available at the other locations, as well as more representatives on hand to assist customers. The building being leased for the new center is approximately 20 years old and was remodeled at very low cost by the company's architecture and facilities management personnel.

"The companies that will succeed in this new order will be those who operate their business as the low-cost producer... who listen to customers... and who respond to the world of competition by viewing it as an opportunity."

Don D. Sykora
President and Chief Operating Officer
Houston Lighting & Power

WEATHER HURTS ELECTRICITY SALES

Firm kilowatt-hour sales of electricity declined 1.3 percent in 1992. Residential sales declined 3.6 percent primarily because temperatures were milder than in 1991. Commercial and firm industrial sales were relatively flat compared to the prior year.

Houston's weather in 1992 included massive flooding early in the year and November storms that spawned tornadoes packing winds in excess of 250 miles per hour. The storms that visited Houston in 1992 snapped power lines and destroyed transmission towers, but overall damage to

HL&P's transmission system was minor. Financially, the company was hurt more severely by the mild temperatures through much of the year, which reduced base revenues by nearly $100 million compared to 1991.

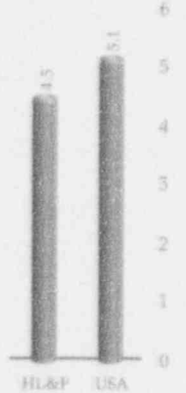
The mild weather also limited the summer's peak demand in 1992. The system peak of 10,783 megawatts was reached on July 30, though the maximum temperature on that day was only 95 degrees. This year's demand was slightly below last year's peak of 10,908 megawatts, and it was well below the 11,150 megawatt record set in 1990 when temperatures reached 104 degrees. Including interruptible demand, the 1992 peak actually served was 11,638 megawatts, slightly higher than the 11,601 megawatts in 1991. HL&P expects annual growth in firm electricity sales and firm peak demand to average about 2.3 percent over the next ten years.

Industrial sales were relatively strong considering the generally sluggish Houston economy. While the oil industry has continued to downsize, petrochemical manufacturers have suffered only slight declines in demand

HL&P Power Consultants Geff Mangum and Bob Wallace meet with Scott Hietpas of Phillips 66 to discuss electricity needs at Phillips' Houston Chemical Complex in Pasadena. After discussing electricity supply options, they were able to present alternatives and data which demonstrated that HL&P remained the best source to meet Phillips' electricity requirements.

TYPICAL INDUSTRIAL COST OF ELECTRICITY*

Cents/KWH



*Source: EEI Winter 1992

A

For HL&P, caring for the environment is a standard business practice that predates many of the environmental regulations that exist today.

The company was one of the first utilities to conduct extensive studies to determine the effects of a generating plant or adjacent bays and estuaries. Its Cedar Bayou plant, built in the early 1970s, incorporated environmental factors into the design of its cooling water system.

When management determined the need to diversify HL&P's fuel sources, it obtained a long-term supply of low-sulfur coal and included scrubbers in the design of its lignite units. Thanks to this foresight, HL&P already complies with the most recently enacted restrictions on sulfur dioxide emissions.

for their products. Local chemical producers have outperformed the industry due to timely plant start-ups and strong market positions. Area petroleum refiners also have increased electricity consumption as they have brought on equipment to produce cleaner-burning gasoline and additives which reduce auto emissions.

RESOURCE PLANNING EXAMINES MANY OPTIONS

HL&P currently has adequate generating capacity to meet the electricity needs of its service area. As growth continues, however, the company will need to develop new sources of electricity and find additional ways to manage the amount of electricity customers need or "demand" so that existing generating resources are better utilized.

Electricity demand can be managed by reducing the amount of electricity consumed through energy-efficient products or by shifting electricity use away from peak periods. HL&P has implemented a broad range of demand-side management programs.

For example, HL&P's "Good Cents" new home program and retrofit programs for existing homes promote the construction of energy-efficient homes and the installation of energy-saving heating and cooling equipment. In October, HL&P launched "Energy Partners," a system-wide program designed to cycle residential air conditioners and heat pumps off for short periods during peak demand hours. The company's commercial efficiency improvement program provides commercial customers with technical assistance and incentives to promote energy-efficient heating, ventilation and air conditioning systems, lighting, structural design and motors. "Commercial Cool Storage" encourages beneficial load shifting through a carefully constructed package of incentives.

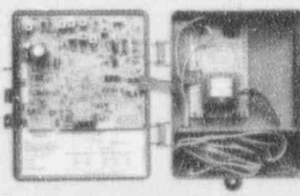
HL&P's demand-side management program should reduce demand by 225 megawatts, or 1.8 percent, in 1995 compared to what otherwise would have been required. Making more energy available through improved energy efficiency helps control long-term energy costs and illustrates HL&P's commitment to meeting demand for electricity in an environmentally responsible way.

On the supply side, purchased power is one of the options HL&P is considering. HL&P is one of the nation's largest purchasers of cogenerated power. The company currently purchases about 17 percent of its electricity

from cogenerators and has four long-term capacity contracts which total 945 megawatts. As part of its continuing efforts to reduce customer costs, HL&P has negotiated increasingly favorable purchased power contracts. A new agreement signed in December, will provide an additional 50 megawatts of power at a contract price of less than 3 cents per kilowatt-hour.

The company's resource plan also includes other supply options such as construction of advanced gas turbine generators. One innovative project, now awaiting approval by the Public Utility Commission of Texas (PUC), would produce steam as well as electricity, using revenue from the sale of steam to reduce electricity production costs.

HL&P's "Energy Partners" program is designed to reduce residential electricity consumption during peak periods. Participating customers permit an HL&P contractor to install a remote-



controlled switch to the outside unit of their air conditioners or heat pumps. In hot summer months, HL&P can transmit a radio signal which cycles the unit off for short periods on weekdays. Energy Partners is the largest program of its type in Texas.

PEAK DEMAND

Megawatts (Excludes interruptible demand)

PLANT PERFORMANCE EXCEPTIONAL

HL&P's existing plants performed well in 1992. In November, Unit 3 of the company's Webster Generating Station completed 626 days of continuous operation, a post-World War II record for a large U.S. fossil-fuel generating station. This outstanding performance proved the effectiveness of technical enhancements which HL&P had made to the unit.

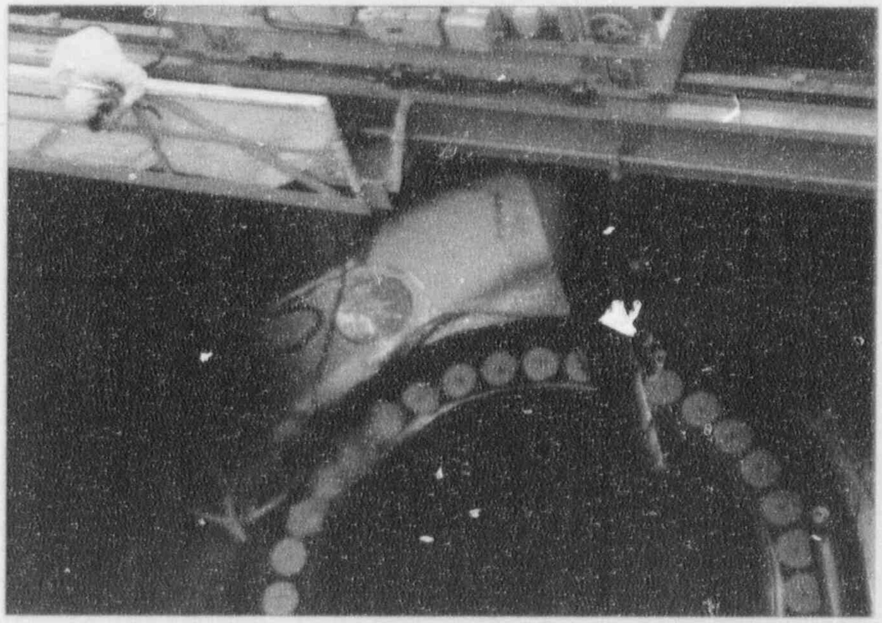
"We want our customers, our regulators and our community leaders to recognize that we are a company committed to energy efficiency. We want them to recognize that we are a company committed to holding down the cost of electricity through efficient management of our resources."

Don D. Sykora
President and Chief Operating Officer
Houston Lighting & Power

Unit 1 of the South Texas Project (STP), which was shut down for refueling in September, also set a performance record. STP Unit 1 generated 14.5 billion kilowatt-hours of electricity during the 533 days between refueling outages, the most energy ever produced by a Westinghouse reactor during a single fuel cycle.

Both STP Units performed well in 1992. Prior to its refueling, STP Unit 1 had achieved a 93 percent capacity factor. For the full year, it achieved a 66.1 percent capacity factor. STP Unit 2 generated 10.3 billion kilowatt-hours of electricity in 1992, making it one of the nation's top producing nuclear generating stations. Unit 2, which was not refueled in 1992, achieved an annual capacity factor of 94.1 percent. The average capacity factor for nuclear plants in 1991, the most recent year for which information is available, was 70.8 percent.

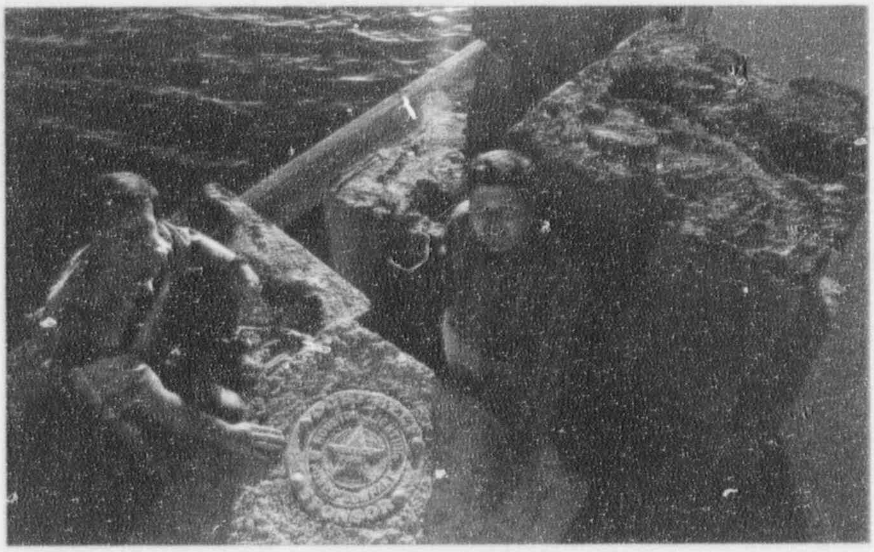
STP also is performing well from a cost standpoint. Its production costs have been declining, and on a cost per kilowatt-hour basis, STP ranks



STP Unit 1 shut down for refueling in September, but not before setting a world record for the most energy ever produced by a Westinghouse reactor during a single fuel cycle. During the 533 days between refueling outages, STP Unit 1 generated 14.5 billion kilowatt-hours of electricity, the energy equivalent of 9 million tons of coal or 25 million barrels of oil.

among the lowest-cost nuclear facilities. STP's 1992 station production costs were 1.41 cents per kilowatt-hour, compared to an industry average of 2.16 cents in 1991, the most recent year for which information is available.

In early 1993, STP experienced technical and procedural problems which led to the shutdown of both units. Although the Nuclear Regulatory Commission has found that overall plant performance has been good, it is concerned about a decline in performance in some areas. As a result, STP has been scheduled for a Diagnostic Evaluation Team inspection during the



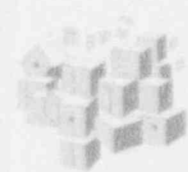
spring of 1993. HL&P will work closely with this team to identify and correct the root cause of those problems.

STP LEGAL ISSUES MOVE FORWARD

HL&P also made significant progress in resolving STP-related legal issues in 1992. In October, after almost two years of consideration, the Dallas Court of Appeals affirmed the 1989 jury verdict and judgment that rejected the City of Austin's claims of STP mismanagement, fraud and deceptive trade practices. Austin had sued HL&P regarding the company's handling of STP in its role as project manager. Austin has appealed to the Texas Supreme Court. Earlier in the year, HL&P reached a settlement that resolved a related dispute with Central Power and Light, another STP owner.

The Austin Court of Appeals also ruled on a PUC order that granted HL&P deferred accounting treatment for certain costs associated with STP Unit 1. Based on a similar case involving another utility, the court upheld the PUC's orders to use deferred accounting treatment for the unit's operating and maintenance costs, taxes and depreciation incurred after it began operations in August of 1988. As in the case involving the other utility, the court reversed the PUC's decision to grant rate-base treatment for deferred carrying costs associated with STP Unit 1 during the same period. However, in the similar case, the court noted the PUC could allow the utility to recover deferred carrying costs over time. The court's decision is subject to appeal. At this time, HL&P cannot predict how the ruling would actually be applied or its financial impact.

HL&P actively supports environmental research on issues ranging from electromagnetic fields to development of clean-coal technologies. Working in conjunction with scientists at Texas A&M University-Galveston, HL&P is researching the use of coal combustion by-products to construct artificial reefs to support marine life.

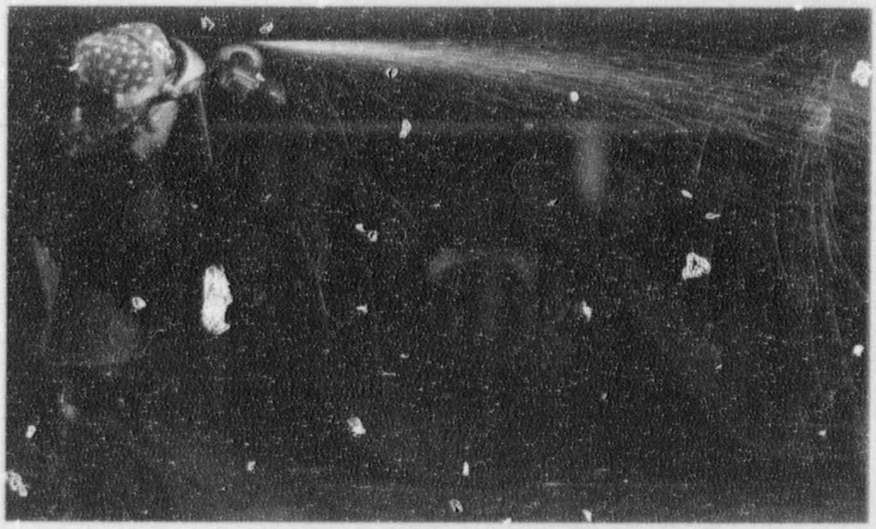


"We are strongly positioned to benefit from increasing demand for low-sulfur Western coal, and are diversifying in other areas that fit our overall expertise and offer significant growth potential."

F. Ken Smith
President and Chief Executive Officer
Utility Fuels

UTILITY FUELS, INC.

Sales of coal and lignite to HL&P totaled 16.6 million tons in 1992, a 2 percent decrease from 1991. Since HL&P has no plans to build new coal-fueled generating plants in the next ten years, growth opportunities related to business with HL&P are limited. UFI's response to this low-growth scenario has focused on reducing costs and enhancing the efficiency of current operations, while pursuing other customers that can provide additional growth and profits.



UFI continues to provide HL&P coal and lignite at competitive prices, but faced with stable demand from HL&P, UFI also is pursuing expanded business with non-affiliated companies. UFI's investment in a railcar maintenance joint-venture, for example, helps the company provide complete and competitively priced leasing services for railcars to carry coal and other bulk commodities.

Like HL&P, Utility Fuels implemented an efficiency-improvement effort in 1992. UFI's program was designed to systematically review its operations and to eliminate activities and services which were not adding value. The program resulted in substantial productivity improvements ranging from the reorganization of departments to the consolidation of payrolls.

The company also is continuing efforts to expand its customer base beyond HL&P. UFI's expertise and growing knowledge of international markets is positioning the company to take advantage of opportunities created by trends toward privatization of national energy industries. UFI began targeting international markets in the late 1980s by offering training and technical services to coal supply and power generation entities in Southeast Asia, Mexico and Central and South America. The company is currently focusing marketing efforts on the nearby Mexican market.

In addition to expertise in mining and materials handling, UFI provides domestic and international customers a variety of power plant services, such as testing and analysis to improve boiler and turbine operations.

B

When Houston Industries acquired its wholly-owned cable television systems in 1989, management recognized that the acquired systems were strongly positioned to tap new revenue sources with substantial growth potential.

Capitalizing on the systems' state-of-the-art technology and metropolitan locations, KBLCOM has established itself as an industry leader in pay-per-view and advertising revenue and has begun to tap the commercial market for cable.

As anticipated, these nontraditional uses of cable technology have proven to be some of KBLCOM's most profitable and rapidly growing activities.

Despite a weak economy that slowed growth in basic subscribers, KBLCOM continued to strengthen its financial and operating performance in 1992. Falling interest rates and ongoing efforts to control costs contributed to this improvement, and KBLCOM continued to build revenues from new services.

At year-end 1992, KBLCOM directly served approximately 577,000 customers in San Antonio and Laredo, Texas; Orange County, California; Portland, Oregon and Minneapolis, Minnesota. The cable business has proven to be less recession proof than once believed. Annual growth in KBLCOM's basic subscribers, which averaged nearly 5 percent in 1990, has averaged less than 3 percent over the last two years. KBLCOM adapted to the slower-growth environment by implementing programs aimed at improving the perceived value of its services, while carefully controlling costs.

KBLCOM's operating expenses remained relatively constant in 1992 due to a number of cost control measures. These actions included some staff cuts, an emphasis on reducing bad debt expense, improved operating efficiencies through quality improvements and less frequent use of outside contractors. The company also discontinued promotions which provided free installations. This strategy has significantly reduced expenses related to churn, or frequent service connections followed quickly by disconnections.

Price-value perceptions vary widely among consumers. While some customers see exceptional value in an entertainment package that includes a broad range of services, other customers want a more limited cable service that is lower priced. KBLCOM has addressed these differences by developing an expanded range of service and pricing options.

Efforts to improve customer satisfaction also included continued technical enhancements and commitments to meet the service standards developed by the National Cable Television Association. These goals establish response times for answering telephones, installing new services and restoring interrupted service.

In 1992, KBLCOM added over 200 miles of fiber optic cable to its distribution system. By linking fiber optics to its existing coaxial cable, KBLCOM is able to improve both the quality and reliability of its signal transmissions, while expanding capacity to carry additional services.

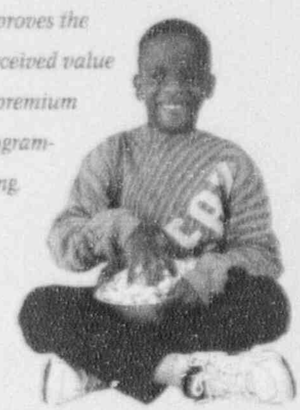
PREMIUM AND PAY-PER-VIEW REVENUES DECLINE

To revitalize premium services such as HBO and Showtime, KBLCOM began multiplexing in some markets. Multiplexing offers HBO and Showtime on more than one channel, with programming staggered to provide an additional viewing option at any given time. The customer receives the additional screens of Showtime or HBO at no extra charge. Early results

show a strong positive impact. And, while revenue from premium services continued to decline in 1992, KBLCOM experienced growth in the number of premium subscriptions throughout the second half of the year.

Pay-per-view services, which had previously been one of KBLCOM's fastest-growing revenue sources, also declined in 1992, primarily due to a lack of special event programming. A revitalized heavy-weight boxing division should boost pay-per-view revenues in 1993. KBLCOM remains an industry leader in pay-per-view sales. Its monthly revenue totaled $3.34 for each pay-per-view capable home in 1992–twice the industry average.

In several of its franchise areas, KBLCOM offers Showtime or HBO on more than one channel, with programming staggered to give customers an additional viewing option at any given time. The customer essentially receives two screens of Showtime or HBO at no extra charge. Multiplexing, as the strategy is called, improves the perceived value of premium programming.



AD SALES CONTINUE TO GROW

KBLCOM is one of the nation's few cable television operators with an independent advertising sales subsidiary. Known as KBL-TV, this separate entity manages advertising sales for other cable operators as well as KBLCOM's wholly-owned systems. A number of other cable operators

"KBLCOM is much more technologically advanced than the average cable operator. The use of high technology throughout our systems is increasing the value of our businesses and putting our company in a stronger position for future growth."

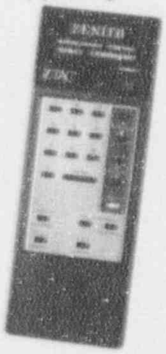
Gary G. Weik
President and Chief Operating Officer
KBLCOM

rely on KBL-TV for this service because of its established advertising sales expertise.

Advertising sales revenues continued to grow rapidly under KBL-TV's direction, rising 28.3 percent in 1992. KBL-TV competes aggressively with network broadcasters for advertising dollars, combining attractive pricing with significant audience reach.

AUDIO SERVICE DRAWS LISTENERS

KBLCOM also was one of the first cable operators in the nation to offer a premium audio service. Digital Music Express™ (DMX) uses cable to transmit about 30 channels of compact disc-quality music directly into a customer's home stereo for a monthly fee of about $10.

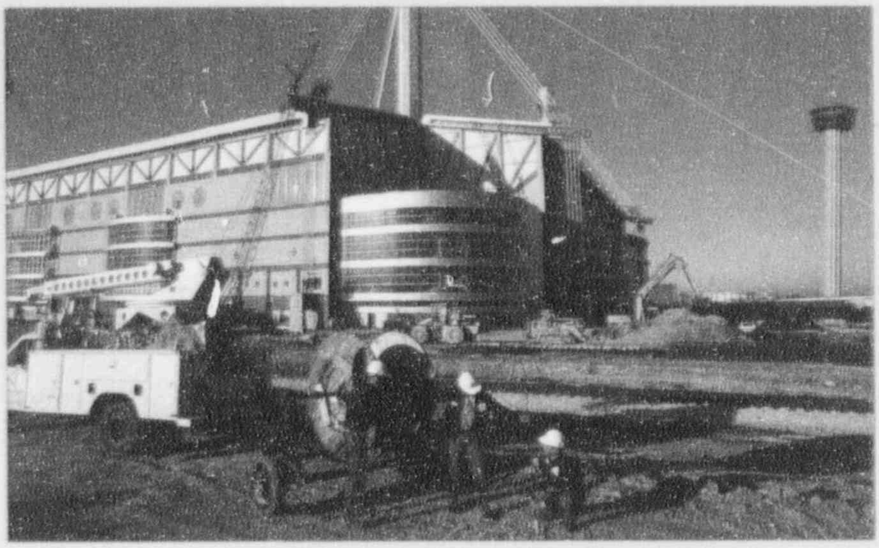


Star Response, an interactive advertising service recently introduced by KBLCOM, enables viewers to respond to televised offers by pushing buttons on their television's remote control. When the service was used to advertise Digital Music Express, KBLCOM's cable audio service, it generated twice the response of a toll-free number that appeared in the same commercial.

Initial response to DMX has been encouraging. Even though DMX was not introduced in KBLCOM's largest system until March, the service already has more than 11,000 subscribers company wide. Customers who subscribe to DMX indicate they are extremely satisfied with the service. The service also is being marketed to restaurants, hotels and other businesses as an alternative to Muzak, the traditional supplier of background music for retail and commercial establishments.

KBLCOM ENTERS COMMERCIAL TELECOMMUNICATIONS

FIBRCOM, KBLCOM's newest division, was created in January 1992 to market the video and data transfer capabilities of KBLCOM's fiber optic lines. KBLCOM has almost 300 miles of fiber optic cable which it uses



to transmit cable television signals. Additional capacity on those lines can be used to provide high-quality, digital communications for businesses in KBLCOM's service areas.

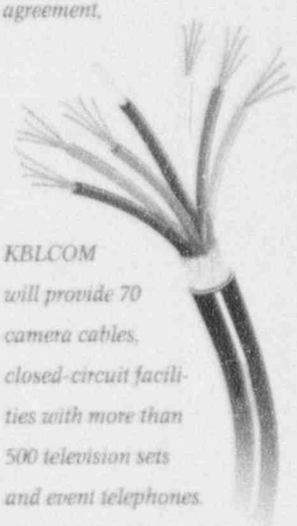
Through its Paragon Business Systems division, KBLCOM also markets cable video, commercial audio and data transfer services to retail and other business establishments. Over 60 percent of KBLCOM's commercial customers sign contracts of three years or longer, and commercial customers generate higher monthly revenues than residential customers.

PARAGON COMMUNICATIONS

In addition to its wholly-owned systems, KBLCOM owns 50 percent of Paragon Communications, a partnership with Time Warner Cable. The partnership serves approximately 901,000 customers in the Tampa Bay area of Florida; the Northeastern U.S., including Upper Manhattan in New York City; Texas and Arizona.

Paragon's revenues grew 11 percent in 1992, while basic subscribers grew 4 percent. Improving profit margins and reduced interest expense resulted in higher earnings for the partnership in 1992. KBLCOM's interest in the pre-tax earnings of Paragon was $24.9 million in 1992, compared to $10.3 million in 1991.

KBLCOM recently reached an agreement to provide complete communications services for the San Antonio Alamodome. Under the agreement,



KBLCOM will provide 70 camera cables, closed-circuit facilities with more than 500 television sets and event telephones. The project will be one of the first major applications of digital telephone service offered over cable television lines.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

ELEVEN-YEAR COMPARISON OF SELECTED DATA

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

The following table sets forth selected financial data with respect to the Company's consolidated financial condition and consolidated results of operations and should be read in conjunction with the Consolidated Financial Statements and the related notes included elsewhere herein.

(THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS)		1992[1]	1991[2]	1990[2]
	Revenues	$ 4,596,388	$ 4,443,739	$ 4,178,576
	Income before cumulative effect of accounting change	$ 340,487	$ 416,754	$ 342,789
	Cumulative effect of accounting change	94,180		(219,718)
	Net income	$ 434,667	$ 416,754	$ 123,071
	Earnings per share before cumulative effect of accounting change	$ 2.63	$ 3.24	$ 2.70
	Cumulative effect of accounting change	.73		(1.73)
	Earnings per share	$ 3.36	$ 3.24	$ .97
	Cash dividends declared per common share	$ 2.98	$ 2.96	$ 2.96
	Return on average common equity	13.4%	12.7%	3.6%
	Ratio of earnings to fixed charges[3]:			
	Including AFUDC[4]	2.06	2.14	1.91
	Excluding AFUDC[4]	2.03	1.99	1.66
AT YEAR END:	Book value per common share	$ 25.36	$ 24.96	$ 26.76
	Market price per common share	$ 45.88	$ 44.25	36.75
	Market price as a percent of book value	181%	177%	137%
AT YEAR END:	Total assets	$12,417,501	$12,165,164	$12,044,755
	Long-term obligations (including current maturities)[5]	$ 4,983,790	$ 5,301,063	$ 4,973,925
	Capitalization:			
	Common stock equity	38%	37%	39%
	Cumulative preferred stock of HL&P (including current maturities)	7%	5%	7%
	Long-term debt (including current maturities)	55%	58%	54%
CAPITAL EXPENDITURES:	Construction and nuclear fuel expenditures (excluding AFUDC)	$ 336,035	$ 375,520	$ 358,455
	Cable television investment	$ 44,306	$ 26,624	$ 31,186
HL&P SELECTED DATA:	Percent of construction expenditures financed internally from operations	139%	130%	84%
	Ratio of earnings to fixed charges[3]:			
	Including AFUDC[4]	2.68	2.95	2.80
	Excluding AFUDC[4]	2.64	2.71	2.40
	Ratio of earnings to fixed charges and preferred dividend requirements[3]	2.29	2.50	2.34
	AFUDC as a percent of net income[3][4]	3%	14%	25%

[1] The 1992 cumulative effect relates to the change in accounting for revenues. See also Note 19 to the Consolidated Financial Statements.

[2] The 1991 and 1990 data has been restated to reflect the effects of the adoption in 1992, with restatement to January 1, 1990, of SFAS No. 109, "Accounting for Income Taxes." The cumulative effect of all years prior to 1990 are reflected in 1990 net income. See also Note 14 to the Consolidated Financial Statements.

[3] Before cumulative effect of accounting change.

[4] AFUDC includes HL&P's deferred carrying costs and deferred return in 1991, 1990 and 1989.

[5] Includes Cumulative Preferred Stock subject to mandatory redemption.

YEAR ENDED DECEMBER 31,

1989	1988	1987	1986	1985	1984	1983	1982
$ 3,789,780	$ 3,540,918	$3,514,226	$3,430,592	$3,951,427	$4,110,974	$3,920,557	$3,784,860
$ 413,452	$ 395,254	$ 434,958	$ 424,935	$ 434,126	$ 351,146	$ 299,857	$ 116,629
$ 413,452	$ 395,254	$ 434,958	$ 424,935	$ 434,126	$ 351,146	$ 299,857	$ 116,629
$ 3.32	$ 3.34	$ 3.74	$ 3.81	$ 4.13	$ 3.69	$ 3.50	$ 1.50
$ 3.32	$ 3.34	$ 3.74	$ 3.81	$ 4.13	$ 3.69	$ 3.50	$ 1.50
$ 2.96	$ 2.94	$ 2.86	$ 2.76	$ 2.60	$ 2.44	$ 2.28	$ 2.16
11.7%	11.8%	13.6%	14.5%	16.7%	15.7%	15.6%	6.4%
2.19	2.36	2.78	2.69	2.88	2.77	2.90	1.79
1.81	1.82	2.09	1.96	2.18	2.33	2.68	1.47
$ 29.05	$ 28.75	$ 28.33	$ 27.19	$ 25.88	$ 24.31	$ 23.27	$ 22.23
$ 35.00	$ 28.00	$ 30.00	$ 34.75	$ 28.00	$ 22.50	$ 19.38	$ 20.00
120%	97%	106%	128%	108%	93%	83%	90%
$11,681,925	$10,186,752	$9,704,164	$9,005,258	$8,590,780	$7,486,153	$6,543,716	$5,662,498
$ 4,987,801	$ 3,597,253	$3,234,094	$3,208,938	$2,954,383	$2,684,911	$2,275,942	$2,058,299
41%	46%	48%	47%	46%	45%	46%	44%
6%	6%	6%	5%	6%	5%	5%	6%
53%	48%	46%	48%	48%	50%	49%	50%
$ 388,653	$ 543,862	$ 662,055	$ 755,273	$ 893,053	$ 997,982	$ 913,825	$ 754,965
$ 1,339,680	$ 1,130	$ 49,701	$ 26,249				
76%	37%	29%	35%	39%	37%	42%	55%
3.11	2.76	3.35	3.36	3.76	3.55	3.50	2.29
2.49	2.06	2.41	2.42	2.84	2.99	3.24	1.95
2.60	2.39	2.87	2.95	3.26	3.05	3.01	1.94
32%	49%	51%	52%	45%	31%	17%	52%

RESULTS OF OPERATIONS

Overview

Consolidated net income of Houston Industries Incorporated (Company) for 1992 was $434.7 million, as compared to $416.8 million and $123.1 million for 1991 and 1990, respectively. Consolidated earnings per share were $3.36 for 1992 as compared to $3.24 per share in 1991 and $.97 per share in 1990.

Houston Lighting & Power Company (HL&P), the Company's electric utility subsidiary, contributed $3.41 to the 1992 consolidated earnings per share on income of $441.9 million after preferred dividends. Utility Fuels, Inc. (Utility Fuels), the Company's coal supply subsidiary, contributed $.21 per share on earnings of $27.4 million. KBLCOM Incorporated (KBLCOM), the Company's cable television subsidiary, posted a loss of $21.2 million or $.16 per share. The Company and its other subsidiaries posted a combined loss of $.10 per share.

The increase in the Company's earnings in 1992 compared to 1991 was principally due to improved results at KBLCOM, partially offset by a slight decrease in earnings at HL&P, in each case for the reasons described below.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes" in the fourth quarter of 1992, with restatement to January 1, 1990. The new standard requires that deferred taxes be recorded to reflect the future tax consequences of differences that exist between the book and tax bases of assets other than goodwill. The cumulative effect of SFAS No. 109 adoption, as of January 1, 1990, was a charge to earnings of $219.7 million in 1990, stemming primarily from acquisitions of cable television systems by KBLCOM. The primary impact was on 1990 earnings which, along with 1991 earnings, have been restated. The effects on 1991 and 1992 results were not material.

HL&P

General. HL&P had income after preferred dividends of $441.9 million for 1992, a decrease of $6.4 million from 1991 and an increase of $50.5 million over 1990. HL&P's 1992 net income was positively impacted by $94.2 million associated with the adoption, in the fourth quarter of 1992, of a change in accounting principle which reflects a change in the timing of recognition of revenue from electricity sales (unbilled revenues) effective January 1, 1992. Unbilled revenues represent the estimated amount customers will be charged for service received, but not yet billed, as of the end of each month. The accrual of unbilled revenues results in a better matching of revenues and expenses. The change in the method of recording electricity sales from cycle billing to a full accrual method impacts the pattern of revenue recognition, which has the effect of increasing revenues and earnings in the second and third quarters (periods of higher usage) and decreasing revenues and earnings in the first and fourth quarters (periods of lower usage). Earnings were negatively impacted by an $86 million one-time pre-tax charge in the first quarter of 1992 related to the restructuring of operations as a result of the implementation of the Success Through Excellence in Performance (STEP) program discussed below.

Earnings were also negatively impacted by a decrease in kilowatt-hour (KWH) sales, due to substantially milder weather than in 1991. This weather impact was partially offset by the addition of approximately 22,000 customers during 1992. The increase in income for 1991 when compared to 1990 was due to higher KWH sales in 1991 and a $313 million increase in base rates implemented in May 1991, while 1990 earnings were decreased by a write-off of disallowed costs of approximately $29 million.

During the years 1990 to 1992, HL&P's results of operations were significantly affected by decisions of the Public Utility Commission of Texas (Utility Commission) in connection with rate increase applications filed by HL&P relating to, among other things, the commercial operation for the South Texas Project Electric Generating Station (South Texas Project). These decisions are discussed in Notes 10 and 11 to the Consolidated Financial Statements, which are incorporated herein by reference.

Operating Revenue and Sales. Electric operating revenue for 1992 increased 4.1% over 1991 due to a rate increase effective May 1991, which reflected recovery of costs previously deferred, partially offset by a decrease in fuel revenue and lower KWH sales. Electric operating revenue for 1991 increased 5.9% over 1990 due to the May 1991 rate increase, higher KWH sales, and an increase in fuel revenue. Residential KWH sales in 1992 decreased approximately 3.6% from 1991 due to substantially milder weather, while 1991 KWH sales increased 1.7% over 1990 due to a 1.7% increase in the number of customers. Commercial and firm industrial sales in 1992 were almost unchanged compared to 1991, while 1991 commercial and firm industrial sales increased 2.6% and 1.8%, respectfully, compared to 1990. The mild weather in 1992, following a warm 1991, resulted in 1992 base revenue being approximately $100 million lower than in 1991.

HL&P expects compound annual growth in firm electricity sales to average 2.3% over the next 10 years. Despite the loss of some industrial sales to self-generation, HL&P expects to gain new customers as a result of industrial expansion in the area.

Fuel and Purchased Power Expense. Fuel expense for 1992 increased $27.8 million over the prior year, primarily due to the higher unit cost of fuel resulting from higher natural gas prices, which was partially offset by the lower unit cost of coal and increased generation from nuclear and coal units. Fuel expense for 1991 decreased $27.1 million from 1990 primarily due to a lower unit cost of fuel resulting from lower natural gas prices which was partially offset by the higher unit cost of coal and lignite. The average cost of fuel used by HL&P during 1992 was $1.85 per million Btu, compared to $1.75 and $1.79 per million Btu in 1991 and 1990, respectively. The combined cost of fuel used by HL&P and the fuel portion of purchased power was 1.95 cents per KWH in 1992, up from 1.86 cents per KWH in 1991 and 1.92 cents per KWH in 1990. Purchased power expense increased $42.4 million and $10.2 million in 1992 and 1991, respectively, due to increased usage and escalating capacity charges paid to cogenerators.

STEP Program. In October 1991, HL&P launched its STEP program, an internal effort to identify performance improvement opportunities that could be made while maintaining the high level of customer satisfaction that HL&P has achieved in the past. Now that HL&P's major construction program has been completed and growth in the service area has become more stable, the STEP program intensified HL&P's focus on meeting customer requirements at the lowest possible cost in order to maintain the current level of base electric rates for an extended period of time. In January 1992, HL&P offered certain employees a voluntary early retirement plan and announced a severance plan for those employees affected by recommended changes to HL&P's workforce. Approximately 500 employees accepted the early retirement offer, and an additional 1,100 positions were eliminated. Affected employees were released and offered the severance package. HL&P recorded a one-time, pre-tax charge of $86 million in the first quarter of 1992 to reflect the restructuring of its operations. As a result of the STEP program, HL&P operations and maintenance expenses for 1992 were substantially below the amounts originally budgeted for the year.

Various legal proceedings, which the Company and HL&P believe to be immaterial and without merit, have been filed by some former employees of HL&P under federal and state laws seeking damages alleged to have been caused by the STEP program. There can be no assurance that additional proceedings asserting labor related claims will not be filed. The Company and HL&P believe that the resolution of such proceedings will not have a material adverse impact on the Company's or HL&P's financial position.

Operation and Maintenance Expenses, Depreciation and Amortization, Other Taxes and Interest. Electric operation expenses in 1992 decreased $28.8 million from 1991 primarily due to savings resulting from the restructuring of operations discussed above, while maintenance expenses increased $25.4 million primarily due to increases in production, transmission and distribution maintenance expenses. In 1991, operation and maintenance expenses increased $45.6 million over 1990 primarily due to increases in administrative and general, production maintenance and distribution maintenance expenses. The increase in administrative and general expense was primarily attributable to a $9.4 million increase in employee benefits expense related to higher medical and pension expenses. In addition, worker's compensation increased $6.6 million over 1990 as a result of higher premiums and a one-time adjustment to recognize these costs on an accrual basis.

Depreciation and amortization expenses increased $21.9 million in 1992 over 1991, while such expenses in 1991 were $23.7 million higher than in 1990. The 1992 increase is primarily attributable to the increase in depreciable property and to the amortization of deferred plant costs related to the South Texas Project which commenced when new rates were implemented in May 1991, while the 1991 increase is primarily attributable to the amortization of the South Texas Project deferred plant costs. Other taxes increased $37.7 million in 1992 which reflects an increase in state franchise tax due to a new required method of calculating franchise taxes, the positive effects of a state franchise tax refund in 1991 and higher property taxes in 1992 due to increased rates and assessments. Other taxes increased $2.5 million in 1991, reflecting the effects of a state franchise tax refund of $10.5 million in 1991 and a change in the franchise tax calculation methodology, offset by a change in the franchise tax privilege period and by higher property taxes due to new tax rates.

Interest income in 1992 decreased $11.1 million largely because interest was received in 1991 on a refund of prior years' income taxes. Interest on long-term debt in 1992 decreased $14.5 million, primarily due to refinancing activities and reduction of debt. Other interest expense decreased $19.2 million due to the reduction of interest on commercial paper and on fuel cost over-recoveries in 1992, and because interest was paid in 1991 on a payment of prior years' income taxes.

United States Nuclear Regulatory Commission (NRC) Diagnostic Evaluation of the South Texas Project. In February 1993, the NRC advised HL&P that the NRC will conduct a diagnostic evaluation of the South Texas Project in the spring of 1993. The NRC's report on its diagnostic evaluation is not expected until the summer of 1993. For further discussion of the NRC diagnostic evaluation of the South Texas Project, see Note 9(f) to the Consolidated Financial Statements, which is incorporated herein by reference.

Utility Fuels
Utility Fuels had earnings of $27.4 million, $23.9 million and $51.4 million in 1992, 1991 and 1990, respectively. The increase in 1992 earnings when compared to 1991 was primarily the result of the recording, in 1991, of deferred taxes associated with the enactment of a Texas corporate franchise tax, which is partially based on taxable income, and lower interest costs, partially offset by decreased returns on assets under contract with HL&P. The decrease in 1991 earnings when compared to 1990 was primarily due to the recording in 1990 of the cumulative tax benefit resulting from the adoption of SFAS No. 109.

KBLCOM
General. KBLCOM experienced a net loss of $21.2 million in 1992 compared to net losses of $57.4 million in 1991 and $303.0 million in 1990. Cable television systems owned by KBL Cable, Inc. (KBL Cable), which are located in four states, served approximately 57[illegible],000, 559,000 and 550,000 basic subscribers at December 31, 1992, 1991 and 1990, respectively. For business segment information, reference is made to Note 16 to the Consolidated Financial Statements, which is incorporated herein by reference.

KBLCOM's financial results for the years ended December 31, 1991 and 1990 have been restated to reflect the adoption of SFAS No. 109 retroactive to January 1, 1990. The cumulative effect of the adoption of SFAS No. 109 increased 1990's net loss by $241.1 million. In addition, this accounting change had the following effects on KBLCOM's 1992, 1991 and 1990 depreciation expense, income tax expense and net loss:

(THOUSANDS OF DOLLARS)	YEAR ENDED DECEMBER 31		
	1992	1991	1990
Depreciation Expense	$ 3,851	$ 3,851	$ 3,851
Income Tax Expense	(10,889)	(1,694)	(13,839)
Increase (Reduction) to Net Loss	$ (7,038)	$ 2,157	$ (9,988)

The positive impact of SFAS No. 109 on tax expense in 1991 was offset by recording cumulative deferred taxes associated with the enactment of a Texas corporate franchise tax which is partially based on taxable income. The effect of such change under SFAS No. 109 was to increase 1991 income tax expense by $10.3 million. For information regarding the effect of the adoption of SFAS No. 109, see Note 14 to the Consolidated Financial Statements, which is incorporated herein by reference.

KBLCOM's future earnings outlook is dependent, to a large degree, on the success of its marketing programs to increase basic subscribers and premium programming services, its success in marketing other services such as advertising and pay-per-view, and the general economic conditions in the areas it serves. In addition, the cable television industry in general, including KBLCOM, is faced with various uncertainties including the impact of recent reregulation of basic service rates by municipalities, the potential entry of telephone companies into the cable business and increased competition from other entities. Recent changes to the legislative and regulatory environment in which the cable television industry operates could limit KBLCOM's ability to increase prices charged for cable television services in the future.

In October 1992, the Cable Television Consumer Protection and Competition Act of 1992 (1992 Cable Act) became law. The 1992 Cable Act significantly revised various provisions of the Cable Communications Policy Act of 1984. The 1992 Cable Act provides that the Federal Communications Commission (FCC) will set guidelines for retail prices on basic cable service, which includes network broadcast stations and educational, public and governmental access channels. Local governments will regulate retail prices for basic service based on the FCC's guidelines. The FCC is required to issue new rules and regulations in 1993. The 1992 Cable Act also requires cable programmers to license their services on a fair basis to cable competitors, such as direct broadcast satellite and wireless distribution system. In addition, at the option of the broadcasters, cable operators will be required to obtain the permission of, and potentially pay a charge to, local broadcast television affiliates to retransmit their programming to cable customers. The full impact of the 1992 Cable Act cannot be determined at this time.

Because the Paragon Communications (Paragon) partnership is accounted for under the equity method of accounting, the following discussion of operating revenues and sales, and depreciation and interest expense relates only to KBL Cable and its wholly-owned subsidiaries.

Operating Revenues and Sales. In 1992, revenues were $236.8 million, an increase of 5.4% over 1991. Revenues increased 12.4% in 1991 as compared to 1990. Gross operating margin (revenues less operating expenses, exclusive of depreciation and amortization) grew to $95 million in 1992, an increase of 12.4% over 1991. Gross operating margin increased 15.6% in 1991 over the prior year. Operating margins were 40.1% for 1992, compared to 37.6% for 1991 and 36.6% for 1990. Cable television revenues were favorably impacted by the addition of approximately 18,000 basic subscribers in 1992, an increase of 3.2%, and by the addition of approximately 9,000 basic subscribers in 1991, an increase of approximately 1.6%.

Basic service revenues increased $10.6 million or 7.2% and $17.9 million or 13.8% in 1992 and 1991, respectively, as compared to the prior years. Basic service revenue increases are due primarily to additional customers and increased rates.

Ancillary service revenues increased significantly in 1992 and 1991. Advertising revenues and installation fees increased $6.2 million or 27% in 1992 from the prior year. In 1991, these same revenue categories increased $7.1 million or 45.3% over the previous year. The increases in both years are due primarily to increased advertising sales and higher installation and other related transaction fees. Pay-per-view revenues declined in 1992 by $1.2 million or 10.5%. This decrease was primarily due to the lack of major pay-per-view sporting events. In 1991, pay-per-view revenues increased by $3.0 million or 34.8% from the prior year. This increase was due to increased prices, sales and an increased number of major pay-per-view sporting events.

Following a trend in the cable television industry, premium service revenues for 1992 were down $3.5 million or 8.3% compared to 1991 due to a decline in unit prices. Premium service revenues in 1991 decreased $3.1 million or 6.9% from 1990 due to a decline in both the number of premium units and unit prices.

Depreciation and Interest Expense. Depreciation and amortization increased $5.1 million or 7.3% in 1992 over 1991 and $2.8 million or 4.1% in 1991 over 1990. The increases in both years were due primarily to asset additions. Interest expense decreased $18.1 million or 20.5% in 1992 when compared to the prior year due to lower interest rates and lower debt balances resulting from the conversion, in March 1992, of $117 million of intercompany loans to common stock equity. This debt conversion, which accounted for $5.4 million of the decrease in interest expense, does not affect consolidated earnings. Interest expense decreased $6.6 million or 6.9% in 1991 when compared to 1990, primarily due to lower interest rates.

The Company intends to recapitalize KBLCOM to reduce the amount of debt in its capital structure. As part of this restructuring, the Company plans to contribute to KBLCOM $167 million of equity which will be used to reduce KBLCOM's indebtedness. This restructuring will increase KBLCOM's equity capitalization, reduce the financial risks associated with indebtedness of KBLCOM and increase KBLCOM's financial flexibility.

Paragon Partnership. A subsidiary of KBLCOM owns a 50% interest in Paragon, a Colorado partnership, which, in turn, owns cable television systems that served approximately 901,000, 865,000 and 829,000 basic cable customers in seven states as of December 31, 1992, 1991 and 1990, respectively. Paragon's revenues were favorably impacted in 1992 and 1991 by the addition of approximately 36,000 basic subscribers each year. This represents an increase in subscribers of 4.2% and 4.3% for 1992 and 1991, respectively. KBLCOM's 1992 equity interest in the pre-tax earnings of Paragon was $24.9 million compared to $10.3 million for the year 1991 and a loss of $.7 million for the year 1990. The increase in both of these years was due to increased revenue, improved operating margins and reduced interest expense at Paragon.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company's cash requirements stem primarily from operating expenses, capital expenditures, payment of common stock dividends, payment of preferred stock dividends, and interest and principal payments on debt. Net cash provided by operating activities totaled $799.9 million in 1992.

Net cash used in investing activities in 1992 totaled $397.9 million primarily due to electric and coal handling capital expenditures of $342.2 million and cable television additions of $44.3 million.

Financing activities for 1992 resulted in a net cash outflow of $360.4 million. The Company's primary financing activities were the payment and extinguishment of long-term debt and payment of dividends partially offset by the issuance of long-term debt and preferred stock.

The liquidity and capital requirements of the Company and its subsidiaries are affected primarily by capital programs and debt service requirements. The capital requirements for 1992, and as estimated for 1993 through 1995, are as follows:

	MILLIONS OF DOLLARS			
	1992	1993	1994	1995
Utility construction and nuclear fuel (excluding Allowance for Funds Used During Construction (AFUDC))[1]	$331	$344	$498	$462
Coal handling facilities and lignite mining and handling facilities	5	11	12	12
Cable television additions	44	46	40	54
Other cable related investments		12		
Investment in foreign electric utility	2	36		
Maturities of long-term debt, preferred stock and minimum capital lease payments	208	336	55	66
Total	$590	$785	$605	$594

[1] These amounts do not include expenditures on projects for which HL&P expects to be reimbursed by customers or other parties.

For a discussion of the Company's commitments for capital expenditures, see Note 8 to the Consolidated Financial Statements, which is incorporated herein by reference.

The Company

General. The Company has consolidated its [illegible] ies in order to provide a coordinated, cost-effective method of meeting short and long-term capital requirements. As p[illegible] nsolidated financing program, the Company has established a "money fund" through which its subsidiaries can borrow or [illegible] on a short-term basis. The funding requirements of individual subsidiaries are aggregated and borrowing or investing is condu[illegible] by the Company based on the net cash position. Net funding requirements are met with borrowings under the Company's commercial paper program except that HL&P's borrowing requirements are generally met with HL&P's commercial paper program. As of December 31, 1992, the Company maintained bank lines aggregating $500 million (exclusive of bank lines maintained by subsidiaries of the Company) which are used to support its commercial paper program. At December 31, 1992, the Company had approximately $285 million of commercial paper outstanding. Rates paid by the Company on its short-term borrowings are generally lower than the prime rate.

ESOP. In October 1990, the Company amended its existing Savings Plan (Plan) to add an Employee Stock Ownership Plan (ESOP) component to the Plan. The ESOP component of the Plan allows the Company to satisfy a portion of its obligations to make matching contributions under the Plan. The ESOP trustee purchased shares of the Company's common stock in open market transactions with funds provided by loans from the Company and completed the purchase of stock under the ESOP in December 1991 after purchasing 9,381,092 shares at a cost of $350 million. As the ESOP loans are repaid by the ESOP trustee over a period of up to 20 years, the common stock purchased for the Plan will be allocated to the participants' accounts. The loans will be repaid from dividends on the common stock in, and Company contributions to, the Plan. The loans to the Plan were funded initially by the Company from short-term borrowings which have been refinanced with long-term debt. At December 31, 1992, the balance of the ESOP loans was approximately $332 million.

Financing Activities. In July 1992, the Company issued $100 million aggregate principal amount of its debentures, 7¾% series due 2002. Proceeds were used to repay a portion of the Company's short-term indebtedness, including amounts incurred in connection with loans to the Company's ESOP. The Company has registered with the Securities and Exchange Commission (SEC) $150 million principal amount of debt securities which remain unissued. Proceeds from the sale of these debt securities are expected to be used for general corporate purposes including investments in and loans to subsidiaries.

In February 1992 and December 1992, the Company purchased from third parties $19 million and $9.9 million principal amount, respectively, of KBL Cable's 10.95% Senior Notes due 1999 and $23.75 million and $12.3 million principal amount, respectively, of KBL Cable's 11.30% Senior Subordinated Notes due 1999. The notes were purchased at a weighted average price of approximately 109% and 112% of their principal amount in February 1992 and December 1992, respectively. The purchases were made to reduce interest expense on a consolidated basis. The notes are being held by the Company.

In December 1992, the Company established a new bank facility which replaced the Company's existing facilities and increased the Company's bank lines supporting its commercial paper program from $400 million to $500 million. The Company intends to sell commercial paper supported by the facility in order to contribute funds to KBLCOM as equity for the prepayment of approximately $167 million of KBLCOM's borrowings under its Senior Bank Facility during the first quarter of 1993.

Houston Argentina. Houston Argentina S. A. (Houston Argentina), a subsidiary of the Company, owns a 32.5% interest in an Argentine holding company which acquired, in December 1992, a 51% interest in Edelap S. A., an electric utility company operating in La Plata, Argentina and surrounding regions. Houston Argentina's share of the purchase price was approximately $37.6 million, of which $1.6 million was paid in December 1992 with the remainder to be paid in March 1993.

HL&P and Utility Fuels

General. Utility construction and nuclear fuel expenditures for the 1993-1995 period represent estimated costs of HL&P's construction program. The estimated expenditures for coal handling facilities and lignite mining and handling facilities are expected to be incurred by HL&P and Utility Fuels primarily in connection with HL&P's existing plants. Utility Fuels expects to finance its capital program primarily through internally generated funds.

HL&P's cash requirements stem primarily from operating expenses, capital expenditures, payment of common stock dividends, payment of preferred stock dividends, and interest and principal payments on debt. HL&P's net cash provided by operating activities for the year ended December 31, 1992 totaled approximately $817.7 million.

Net cash used in HL&P's investing activities for the twelve months ended December 31, 1992 totaled $348.0 million.

HL&P's financing activities for the twelve months ended December 31, 1992 resulted in a net cash outflow of approximately $476.9 million. Included in these activities were the payment of dividends and the payment and extinguishment of long-term debt, partially offset by the issuance of long-term debt and preferred stock. For information with respect to these matters, reference is made to Notes 3 and 4 to the Consolidated Financial Statements, which Notes are incorporated herein by reference.

Capital Program. HL&P's construction and nuclear fuel expenditures (excluding AFUDC) for 1992 totaled $331 million which was below the authorized budgeted level of $395 million. Estimated expenditures for 1993, 1994 and 1995 are $344 million, $498 million and $462 million, respectively. These amounts do not include expenditures on projects for which HL&P expects to be reimbursed by customers or other parties. Maturities of long-term debt and preferred stock with mandatory redemption provisions for this same period include $159 million in 1993, $41 million in 1994 and $46 million in 1995.

While over half of HL&P's construction program for the next three years is expected to relate to costs for transmission, distribution, and general plant, HL&P expects to begin construction of the E.I. du Pont de Nemours Company (Du Pont) project in 1993 in order to provide generating capacity in 1995. The Du Pont project is based on a contractual agreement between HL&P and Du Pont, whereby HL&P will construct, own, and operate two 80 megawatt gas turbine units to be located at Du Pont's chemical plant. The project will supply Du Pont with process steam while all electrical energy will be used in the HL&P system. Expenditures for additional generating capacity are planned to begin in 1994. HL&P's capital program is subject to periodic review and portions may be revised from time to time due to changes in load forecasts, changing regulatory and environmental standards and other factors.

Financing Activities. In January 1992, HL&P repaid at maturity $132 million aggregate principal amount of its 9⅜% first mortgage bonds.

In February 1992, HL&P issued $100 million aggregate liquidation value of variable term perpetual preferred stock. Proceeds from the sale were used to reduce short-term indebtedness, including indebtedness from the preferred stock redemptions that occurred in November 1991.

In March 1992, HL&P issued $100 million principal amount of 8.15% medium-term notes due 2002. In March 1992, HL&P also issued $150 million principal amount of 7⅞% first mortgage bonds due 1997 and $100 million principal amount of 8¾% first mortgage bonds due 2022. Proceeds were used to provide funds for the purchases and redemptions of HL&P's first mortgage bonds described in the following paragraph and for general corporate purposes, including the repayment of short-term indebtedness of HL&P.

In April 1992, HL&P purchased, at 101% of their principal amount, $56,633,000 aggregate principal amount of its 9¼% first mortgage bonds due 2008, pursuant to its tender offer for any and all bonds of such series. In May 1992, HL&P redeemed all of the remaining $43,367,000 aggregate principal amount of its 9¼% first mortgage bonds at 100% of their principal amount, all $125 million aggregate principal amount of its 8⅝% first mortgage bonds due 2008 at 100% of their principal amount and $82,753,000 aggregate principal amount of its 8¼% first mortgage bonds due 2005 at 100.64% of their principal amount.

In April 1992, HL&P purchased, at a premium over the principal amount, portions of seven series of pollution control revenue bonds issued on behalf of HL&P by the Brazos River Authority (BRA) and the Matagorda County Navigation District Number One (MCND). Funds were obtained from the April 1992 issuance of $99,915,000 of 6.7% revenue refunding bonds collateralized by HL&P's first mortgage bonds. Of this amount, $56,095,000 principal amount of bonds were issued on behalf of HL&P by the MCND and mature 2027. The remainder mature in 2017 and were issued on behalf of HL&P by the BRA. The refunded bonds bore interest at rates ranging from 9¼% to 10⅝%. Premiums aggregating $16.9 million were paid in connection with the purchases of the refunded bonds.

In August 1992, HL&P repaid at maturity $25 million aggregate principal amount of its 4½% first mortgage bonds.

In October 1992, HL&P purchased at 109.125% of their principal amount, $212,533,000 aggregate principal amount of its 10⅛% first mortgage bonds due 2019 pursuant to a tender offer for any and all bonds of such series.

In October 1992, the BRA and the Gulf Coast Waste Disposal Authority (GCWDA) issued on behalf of HL&P $45.6 million aggregate principal amount of 6⅞% revenue refunding bonds collateralized by HL&P's first mortgage bonds due 2012. Proceeds were used to redeem, at 103% of their aggregate principal amount, $45.6 million principal amount of three series of pollution control revenue bonds previously issued on behalf of HL&P by the BRA and GCWDA.

In October 1992, HL&P issued $120 million aggregate liquidation value of variable term perpetual preferred stock. Proceeds from the sale were used (i) to redeem all shares of HL&P's adjustable rate cumulative preferred stock, series A and series B, having an aggregate liquidation value of $100 million at a redemption price of $103 per share; (ii) to redeem $12,467,000 aggregate principal amount of 10⅛% first mortgage bonds due 2019 at 108.47% of their principal amount; and (iii) for general corporate purposes.

In January 1993, HL&P repaid at maturity $136 million aggregate principal amount of its 9⅝% first mortgage bonds.

Sources of Capital Resources and Liquidity. HL&P expects to finance its capital program for the period 1993-1995 with funds generated internally from operations.

HL&P has registered with the SEC $230 million aggregate liquidation value of preferred stock and $250 million aggregate principal amount of first mortgage bonds. In addition, HL&P has registered $800 million aggregate principal amount of debt securities that may be issued as first mortgage bonds and/or as securities collateralized by first mortgage bonds. Proceeds from the sale of these securities are expected to be used for general corporate purposes including the purchase, redemption (to the extent permitted by the terms of the outstanding securities), repayment or retirement of outstanding indebtedness or preferred stock of HL&P.

HL&P's interim financing requirements are met through the issuance of short-term debt, primarily commercial paper, supported by a bank line of credit. At December 31, 1992, a $250 million line was maintained. Commercial paper outstanding at December 31, 1992 was $139 million.

HL&P's capitalization ratios at December 31, 1992 consisted of 46% long-term debt, 8% preferred stock and 46% common equity.

Environmental Expenditures. In November 1990, the Clean Air Act was extensively am .ded by Congress. HL&P has already made a substantial 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 require establishing new emission limitations for nitrogen oxides (NO_x) from existing sources. These limitations are expected to be finalized in mid-1993. The cost of modifications necessary to reduce NO_x emissions from existing sources has been estimated, based upon anticipated regulations, at $62 million in 1994 and $18 million in 1995. The necessary modifications may cause secondary impacts to generating unit capacity ratings, and cost estimates could change substantially upon analysis of the impact of the final rules. In addition, continuous emission monitoring regulations are anticipated to require expenditures of $12 million in 1993 and $14 million in 1994. Capital expenditures are estimated to total $140 million for the years 1993 through 1995.

The United States Environmental Protection Agency (EPA) has identified HL&P as a "potentially responsible party" for the costs of remediation of a Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) site located adjacent to one of HL&P's transmission lines in Harris Count . Although HL&P did not contribute waste to or operate the site, the party primarily responsible for contributing waste to the sit and possibly other potentially responsible parties have alleged that waste disposal pits dug by the site operator encroach onto HL&P's property and therefore HL&P is responsible as a site owner. HL&P denies that it ever owned the strip of land containing the pits but admits that it owns the adjacent strip of land onto which substances from the site appear to have migrated. In October 1992, the EPA issued an Administrative Order to HL&P and several other companies purporting to require those parties to implement the management of migration remediation at the site. A related Administrative Order had been issued in June 1990. HL&P, if necessary, will remove substances which have migrated onto its property, but HL&P denies that it has other responsibility for the remediation activities. HL&P understands that the other respondents to the Administrative Orders, through the MOTCO Trust Group, have complied with the first order, and that they ultimately will assume responsibility for completion of the management of migration remediation. HL&P is not a member of the MOTCO Trust Group. Neither the EPA nor any other responsible party has presented HL&P with a claim for a share of costs for the management of the migration remediation design or operation. However, in the event HL&P were ultimately held to be a responsible party for the remediation of this site and if other responsible parties do not complete the management of migration remediation, CERCLA provides for substantial remedies that could be pursued by the United States, including substantial fines, punitive damages and treble damages for costs incurred by the United States in completing such remediation. The aggregate potential clean-up costs for the entire site are presently estimated to be approximately $80 million. Although no prediction can be made at this time as to the ultimate outcome of this matter, in light of all the circumstances, the Company and HL&P do not believe that any costs that HL&P incurs in this matter will have a material adverse effect on the Company or HL&P.

KBLCOM

KBLCOM's net cash provided by operating activities was $40 million and $1.1 million in 1992 and 1991, respectively, compared to net cash used in operating activities of $5.7 million in 1990. The improvements in 1992 and 1991 over the prior years were primarily attributable to increased revenues, improved operating margins and reduced interest expense.

During 1992, KBLCOM's primary financing or investing activities were a $5 million reduction in outstanding bank indebtedness, principal payments on other third party indebtedness of $2.7 million, capital expenditures of approximately $44.3 million for cable television additions, which includes the acquisition of a small cable system for $3.7 million. These amounts were financed principally through internally generated funds and intercompany advances. A substantial portion of KBLCOM's 1993-1995 capital requirements is expected to be met through internally generated funds. It is expected that any shortfall will be met through intercompany borrowings. The net cash used in investing activities decreased approximately $5.8 million in 1991 as compared to 1990 primarily due to reductions in construction expenditures and equipment purchases.

KBLCOM's net cash provided by financing activities decreased $13 million for 1991, as compared to 1990, primarily due to less borrowing from the Company and reductions in long-term debt. In the first quarter of 1991, the Company advanced KBLCOM $24 million, and additional funds were drawn by KBLCOM under its bank facility to repay a portion of the outstanding bank indebtedness of KBL Cable and to make interest payments.

KBLCOM expects to satisfy its cash requirements for 1993 through internally generated funds, intercompany borrowings and contributions, and borrowings under KBL Cable's bank facility. KBL Cable's ability to borrow additional funds under its bank facility is currently limited by certain financial covenants which require KBL Cable to maintain and satisfy certain debt to cash flow ratios and other financial tests. KBL Cable is in compliance with all financial covenants contained in its bank facility.

Houston Industries Finance

During 1992, Houston Industries Finance, Inc. (Houston Industries Finance) purchased accounts receivable of HL&P and of certain KBLCOM subsidiaries. As of January 12, 1993, Houston Industries Finance ceased operations and the $300 million bank revolving credit facility and related commercial paper program were terminated. At December 31, 1992, Houston Industries Finance had $139.9 million of commercial paper outstanding.

NEW ACCOUNTING PRONOUNCEMENTS

In December 1990, the Financial Accounting Standards Board issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". This accounting standard, effective for fiscal years beginning after December 15, 1992, requires companies to recognize the liability for postretirement benefit plans other than pensions, primarily medical and dental benefits. The Company will adopt SFAS No. 106 in 1993. The transition obligation, or accumulated postretirement benefit obligation, of approximately $213 million will be amortized over approximately 22 years as permitted by SFAS No. 106. The Company estimates that adoption will increase benefit costs by approximately $24 million over the expected "pay-as-you-go" amount in 1993. The Utility Commission has published a proposed rule which, if adopted, would govern the ratemaking treatment for postretirement benefits other than pensions. This rule (i) will allow for recovery of the current postretirement benefits expense on an accrual basis provided that all amounts recovered in rates are placed in an external trust fund, and (ii) will not allow recovery of the transition obligation. HL&P is opposing the portion of the rule which would preclude it from recovering the transition obligation in rates.

STATEMENTS OF CONSOLIDATED INCOME

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

(THOUSANDS OF DOLLARS)		YEAR ENDED DECEMBER 31,		
		1992	1991	1990
			(RESTATED)	(RESTATED)
REVENUES:	Electric	$3,826,841	$3,674,543	$3,468,682
	Coal and lignite	532,787	544,468	510,001
	Cable television	236,760	224,728	199,893
	Total	4,596,388	4,443,739	4,178,576
EXPENSES:	Electric:			
	Fuel	987,918	960,091	987,168
	Purchased power	486,414	444,040	433,862
	Operation and maintenance	802,194	805,564	759,933
	Taxes other than income taxes	228,238	190,526	187,987
	Deferred expenses		(22,973)	(101,187)
	Restructuring	86,431		
	Cost of coal and lignite sold	455,954	461,444	426,030
	Cable television operating expenses	141,744	140,223	126,764
	Depreciation and amortization	465,081	438,868	411,340
	Total	3,653,974	3,417,783	3,231,897
OPERATING INCOME		942,414	1,025,956	946,679
OTHER INCOME (EXPENSE):	Allowance for other funds used during construction	6,169	5,749	3,841
	Deferred return under phase-in plan		38,758	35,269
	Disallowed plant costs and regulatory adjustment		14,483	(35,573)
	Equity in income (loss) of cable television partnerships	24,871	10,672	(214)
	Interest income	1,745	21,144	2,488
	Other–net	(20,687)	(13,515)	(13,001)
	Total	12,098	77,291	(7,190)
FIXED CHARGES:	Interest on long-term debt	396,323	429,900	435,748
	Other interest	19,957	42,970	48,872
	Allowance for borrowed funds used during construction	(6,191)	(10,049)	(9,465)
	Deferred carrying costs		(30,695)	(91,152)
	Preferred dividends of subsidiary	39,327	46,187	47,753
	Total	449,416	478,313	431,756
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE		505,096	624,934	507,733
INCOME TAXES		164,609	208,180	164,944
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE		340,487	416,754	342,789
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR INCOME TAXES				(219,718)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR REVENUES (NET OF INCOME TAXES OF $48,517)		94,180		
NET INCOME		$ 434,667	$ 416,754	$ 123,071
EARNINGS PER COMMON SHARE BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE		$ 2.63	$ 3.24	$ 2.70
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR INCOME TAXES				(1.73)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR REVENUES		.73		
EARNINGS PER COMMON SHARE		$ 3.36	$ 3.24	$ .97
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (000)		129,514	128,802	127,254

See Notes to Consolidated Financial Statements.

STATEMENTS OF CONSOLIDATED RETAINED EARNINGS

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

(THOUSANDS OF DOLLARS)	YEAR ENDED DECEMBER 31		
	1992	1991	1990
		(RESTATED)	(RESTATED)
Balance at Beginning of Year	$1,202,125	$1,165,786	$1,419,248
Add – Net Income	434,667	416,754	123,071
Total	1,636,792	1,582,540	1,542,319
Common Stock Dividends: 1992, $2.98; 1991, $2.96, 1990, $2.96; (per share)	(385,952)	(381,117)	(376,533)
Tax Benefit of ESOP Dividends	8,944	4,862	
Redemption of HL&P Preferred Stock	(5,200)	(4,160)	
Balance at End of Year	$1,254,584	$1,202,125	$1,165,786

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

(THOUSANDS OF DOLLARS)		DECEMBER 31,	
	ASSETS	1992	1991
			(RESTATED)
PROPERTY, PLANT AND EQUIPMENT – AT COST:	Electric plant:		
	Production	$6,853,[illegible]63	$6,724,735
	Transmission	818,584	801,049
	Distribution	2,394,226	2,302,657
	General	737,675	690,246
	Construction work in progress	201,165	239,159
	Nuclear fuel	202,013	181,853
	Plant held for future use	200,865	275,719
	Electric plant acquisition adjustments	3,166	3,166
	Coal handling equipment and mining property	537,772	536,728
	Cable television property	320,661	278,052
	Other property	12,197	12,159
	Total	12,281,587	12,045,523
	Less accumulated depreciation and amortization	3,091,1[illegible]2	2,746,451
	Property, plant and equipment–net	9,190,455	9,299,072
CURRENT ASSETS:	Cash and cash equivalents	69,317	27,669
	Special deposits	2,071	1,417
	Accounts receivable:		
	Customers (less allowance for doubtful accounts of $10,439 and $12,585 at December 31, 1992 and 1991, respectively)	135,072	130,666
	Others	19,611	36,274
	Accrued unbilled revenues	190,897	
	Fuel stock, at lifo cost:		
	Oil and gas	23,703	25,443
	Coal and lignite	44,861	41,611
	Materials and supplies, at average cost	167,438	178,298
	Prepayments	14,765	18,304
	Total current assets	667,735	459,682
OTHER ASSETS:	Cable television franchises and intangible assets (less accumulated amortization of $145,856 and $107,681 at December 31, 1992 and 1991, respectively)	1,021,934	1,058,57[illegible]
	Deferred plant costs	690,482	716,264
	Deferred debits	273,750	247,852
	Unamortized debt expense and premium on reacquired debt	137,395	93,665
	Equity investment in cable television partnerships	90,220	65,025
	Equity investment in foreign electric utility	37,[illegible]	
	Regulatory asset – net	177,426	165,246
	Recoverable project costs	130,550	59,782
	Total other assets	2,559,311	2,406,410
	Total	$12,417,501	$12,165,164

See Notes to Consolidated Financial Statements.

(THOUSANDS OF DOLLARS)		December 31	
	CAPITALIZATION AND LIABILITIES	1992	1991 (Restated)
CAPITALIZATION (STATEMENTS ON FOLLOWING PAGES):	Common Stock Equity	$ 3,284,713	$ 3,232,217
	Preference Stock, no par; authorized 10,000,000 shares; none outstanding		
	Cumulative Preferred Stock of Subsidiary:		
	Not subject to mandatory redemption	351,354	232,980
	Subject to mandatory redemption	206,834	226,632
	Total cumulative preferred stock	558,188	459,612
	Long-Term Debt	4,441,205	4,866,923
	Total capitalization	8,284,106	8,558,752
CURRENT LIABILITIES:	Notes payable	564,249	330,294
	Accounts payable	249,397	238,407
	Taxes accrued	187,484	190,675
	Interest accrued	101,054	116,826
	Accrued liabilities to municipalities	20,947	21,510
	Customer deposits	69,940	65,224
	Current portion of long-term debt and preferred stock	335,751	207,508
	Fuel refund, including interest		62,993
	Other	75,485	49,454
	Total current liabilities	1,604,307	1,282,891
DEFERRED CREDITS:	Accumulated deferred income taxes	1,789,820	1,703,468
	Unamortized investment tax credit	454,782	474,732
	Other	284,486	145,321
	Total deferred credits	2,529,088	2,323,521
COMMITMENTS AND CONTINGENCIES			
	Total	$12,417,501	$12,165,164

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CAPITALIZATION

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

(THOUSANDS OF DOLLARS)		DECEMBER 31,	
		1992	1991
			(RESTATED)
COMMON STOCK EQUITY:	Common stock, no par; authorized, 200,000,000 shares; outstanding, 129,514,483 and 129,513,620 shares at December 31, 1992 and 1991, respectively	$2,362,618	$2,362,581
	Note receivable from ESOP	(332,489)	(332,489)
	Retained earnings	1,254,584	1,202,125
	Total common stock equity	3,284,713	3,232,217
CUMULATIVE PREFERRED STOCK OF HOUSTON LIGHTING & POWER COMPANY:	No par; authorized, 10,000,000 shares; outstanding, 5,832,397 and 4,632,397 shares at December 31, 1992 and 1991, respectively (entitled upon liquidation to $100 per share)		
	Not subject to mandatory redemption:		
	$4.00 series, 97,397 shares	9,740	9,740
	$6.72 series, 250,000 shares	25,115	25,115
	$7.52 series, 500,000 shares	50,226	50,226
	$8.12 series, 500,000 shares	50,098	50,098
	Series A–1984, 500,000 shares		48,810
	Series B–1984, 500,000 shares		48,991
	Series A–1992, 500,000 shares	49,098	
	Series B–1992, 500,000 shares	49,109	
	Series C–1992, 600,000 shares	58,984	
	Series D–1992, 600,000 shares	58,984	
	Total	351,354	232,980
	Subject to mandatory redemption:		
	$8.50 series, 1,000,000 shares	99,195	98,993
	$9.375 series, 1,285,000 shares	127,639	127,639
	Less current redemptions	20,000	
	Total	206,834	226,632
	Total cumulative preferred stock	558,188	459,612
LONG-TERM DEBT:	Debentures:		
	7¼% series, due 1996	200,000	200,000
	9⅜% series, due 2001	250,000	250,000
	7⅞% series, due 2002	100,000	
	Unamortized discount	(1,641)	(1,003)
	Total debentures	548,359	448,997
	Houston Lighting & Power Company:		
	First mortgage bonds:		
	4½% series, due 1992		25,000
	9⅛% series, due 1992		132,000
	9⅝% series, due 1993	136,000	136,000
	5¼% series, due 1996	40,000	40,000
	5½% series, due 1997	40,000	40,000
	6¾% series, due 1997	35,000	35,000
	7⅝% series, due 1997	150,000	
	6¾% series, due 1998	35,000	35,000
	7½% series, due 1999	30,000	30,000
	7¼% series, due 2001	50,000	50,000
	7½% series, due 2001	50,000	50,000
	8⅛% series, due 2004	100,000	100,000
	8¾% series, due 2005	42,247	125,000
	8⅝% series, due 2006	125,000	125,000
	8⅝% series, due 2007	125,000	125,000
	8⅞% series, due 2008		125,000
	9¼% series, due 2008		100,000
	9 % series, due 2017	390,519	390,519
	10¼% series, due 2019		225,000

(THOUSANDS OF DOLLARS)	DECEMBER 31,	
	1992	1991
		(RESTATED)
9.15% series, due 2021	$ 160,000	$ 160,000
8 ¾ % series, due 2022	100,000	
7 % pollution control series, due 2008	19,200	19,200
6 ⅜ % pollution control series, due 2012	33,470	
6 ⅝ % pollution control series, due 2012	12,100	
7 ¼ % pollution control series, due 2015	68,700	68,700
8 ¼ % pollution control series, due 2015	90,000	90,000
7 ⅛ % pollution control series, due 2016	68,000	68,000
6.70% pollution control series, due 2017	43,820	
7 ⅛ % pollution control series, due 2018	50,000	50,000
7.20% pollution control series, due 2018	175,000	175,000
8 ¼ % pollution control series, due 2019	100,000	100,000
8.10% pollution control series, due 2019	100,000	100,000
7 ⅞ % pollution control series, due 2019	29,685	29,685
7.60% pollution control series, due 2019	70,315	70,315
7.70% pollution control series, due 2019	75,000	75,000
7 ⅛ % pollution control series, due 2019	100,000	100,000
7 ⅝ % pollution control series, due 2019	100,000	100,000
6.70% pollution control series, due 2027	56,095	
Medium-term notes series A, 9.79%-9.85%, due 1994-1999	200,000	200,000
Medium-term notes series B, 8⅝%, due 1996	100,000	100,000
Medium-term notes series B, 8.15%, due 2002	100,000	
Total first mortgage bonds	3,200,151	3,394,419
Pollution control revenue bonds:		
Gulf Coast 1980-T series, floating rate, due 1998	5,000	5,000
Brazos River 1983 series, 10½%, due 2003	17,935	25,000
Gulf Coast 1974 series, 7⅜%, due 2004	16,950	17,300
Brazos River 1985 A2 series, 9¼%, due 2005	4,265	10,000
Gulf Coast 1982 series, 9⅞%, due 2012		12,100
Brazos River 1982 series, 9⅛%, due 2012		42,800
Brazos River 1983 series, 10⅝%, due 2013	65,630	75,000
Brazos River 1985 A1 series, 9⅞%, due 2015	87,680	100,000
Matagorda County 1985 series, 10%, due 2015	58,905	115,000
Total pollution control revenue bonds	256,365	402,200
Unamortized premium (discount)–net	(12,118)	(11,826)
Capitalized lease obligations	2,492	3,190
Notes payable	3,153	3,187
Total	3,450,043	3,791,170
KBLCOM Incorporated and Subsidiaries:		
KBL Cable, Inc. senior bank debt	415,000	420,000
KBLCOM Incorporated senior bank debt	167,349	167,349
KBL Cable, Inc. senior notes	69,935	100,000
KBL Cable, Inc. senior subordinated notes	87,419	125,000
Capitalized lease obligations	750	854
Total	740,453	813,203
Utility Fuels, Inc.:		
Other notes payable	1,003	1,064
Capitalized lease obligations, average discount rate 6.4%	17,098	19,997
Total	18,101	21,061
Total	4,756,956	5,074,431
Less current maturities	315,751	207,508
Total long-term debt	4,441,205	4,866,923
Total capitalization	$8,284,106	$8,558,752

See Notes to Consolidated Financial Statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

(THOUSANDS OF DOLLARS)		YEAR ENDED DECEMBER 31,		
		1992	1991	1990
			(RESTATED)	(RESTATED)
CASH FLOWS FROM OPERATING ACTIVITIES	Net income	$434,667	$416,754	$123,071
	Adjustments to reconcile net income to net cash provided by operating activities:			
	Depreciation and amortization	465,081	438,868	411,340
	Amortization of nuclear fuel	29,237	23,145	19,931
	Deferred income taxes	61,670	110,243	270,564
	Investment tax credits	(19,950)	(19,903)	(25,130)
	Allowance for other funds used during construction	(6,169)	(5,749)	(3,841)
	Deferred plant costs		(53,668)	(192,339)
	Payment of disputed income taxes and related interest	(52,817)		(104,534)
	Deferred return under phase-in plan		(38,758)	(35,269)
	Disallowed plant costs and regulatory adjustment		(14,483)	35,573
	Disallowed expenses		13,124	20,950
	Fuel cost (refund) and over recovery–net	(84,072)	(7,061)	46,424
	Restructuring	86,431		
	Cumulative effect of change in accounting for revenues	(94,180)		
	Regulatory asset–net	(12,180)	(21,614)	(143,632)
	Equity in (income) loss of cable television partnerships	(24,871)	(10,672)	214
	Cumulative effect of change in accounting for income taxes			219,718
	Changes in other assets and liabilities:			
	Accounts receivable–net	8,627	6,959	23,770
	Inventory	9,350	(7,182)	(20,037)
	Other current assets	2,885	7,989	(5,770)
	Accounts payable	10,990	11,821	(27,572)
	Interest and taxes accrued	(18,965)	52,889	(8,114)
	Other current liabilities	(53,520)	(40,225)	8,554
	Other–net	57,692	7,407	37,936
	Net cash provided by operating activities	799,908	869,884	651,807
CASH FLOWS FROM INVESTING ACTIVITIES	Electric and coal handling capital expenditures (including allowance for borrowed funds used during construction)	(342,226)	(385,569)	(367,920)
	Cable television additions	(44,306)	(26,624)	(31,186)
	Other–net	(11,333)	(8,153)	8,417
	Net cash used in investing activities	(397,865)	(420,346)	(390,689)

(THOUSANDS OF DOLLARS)		YEAR ENDED DECEMBER 31,		
		1992	1991	1990
			(RESTATED)	(RESTATED)
CASH FLOWS FROM FINANCING ACTIVITIES:	Proceeds from common stock		$ 50,620	$ 55,674
	Increase in note receivable from ESOP		(285,116)	(47,373)
	Proceeds from preferred stock	$216,700		
	Proceeds from first mortgage bonds	488,760	258,141	
	Proceeds from senior bank debt		23,504	29,148
	Proceeds from debentures	99,216	448,935	
	Purchase of senior and subordinated notes	(71,419)		
	Reacquisition of debentures		(205,220)	
	Payment of matured first mortgage bonds	(157,000)	(132,000)	
	Payment of senior bank debt	(5,000)	(40,000)	(40,000)
	Payment of common stock dividends	(385,952)	(381,117)	(376,533)
	Redemption of preferred stock	(103,000)	(112,500)	
	Increase (decrease) in notes payable	233,955	(34,318)	128,229
	Extinguishment of long-term debt	(717,912)	(35,757)	(909)
	Other–net	41,257	14,305	(1,997)
	Net cash used in financing activities	(360,395)	(430,523)	(253,761)
NET INCREASE IN CASH AND CASH EQUIVALENTS		41,648	19,015	7,357
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		27,669	8,654	1,297
CASH AND CASH EQUIVALENTS AT END OF YEAR		$ 69,317	$ 27,669	$ 8,654
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	Cash Payments:			
	Interest (net of amounts capitalized or deferred)	$474,655	$395,822	$384,195
	Income taxes	172,053	85,202	141,313

See Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) System of Accounts

The accounting records of Houston Lighting & Power Company (HL&P), the principal subsidiary of Houston Industries Incorporated (Company), are maintained in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts as adopted by the Public Utility Commission of Texas (Utility Commission).

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

Coal and lignite sales and related cost of coal and lignite sold generally represent intercompany sales to HL&P and are not eliminated because of the distinction for regulatory purposes between utility and non-utility operations. For this same reason, the purchases of accounts receivable from HL&P by Houston Industries Finance, Inc. (Houston Industries Finance) also are not eliminated. All other significant intercompany transactions and balances are eliminated in consolidation.

Investments in affiliates in which the Company has a 20% to 50% interest, which includes the investment in Paragon Communications (Paragon), are recorded using the equity method of accounting. See Note 17.

(c) Electric Plant

Additions to electric plant, betterments to existing property and replacements of units of property are capitalized at cost. Cost includes the original cost of contracted services, direct labor and material, indirect charges for engineering supervision and similar overhead items and an Allowance for Funds Used During Construction (AFUDC). Customer advances for construction reduce additions to electric plant.

HL&P computes depreciation using the straight-line method. The depreciation provision as a percentage of the depreciable cost of plant was 3.0% for 1992, 3.1% for 1991 and 3.2% for 1990.

(d) Cable Television Property

The Company records additions to property at cost which includes amounts for material, labor, overhead and interest. Depreciation is computed by the straight-line method. The depreciation provision as a percentage of the depreciable cost of property was 12.1% for 1992, 11.7% for 1991, and 12.5% for 1990. Expenditures for maintenance and repairs are expensed as incurred.

(e) Cable Television Franchises and Intangible Assets

The Company has recorded the acquisition cost in excess of the fair market value of the tangible assets and liabilities of RCA Cablesystems Holding Co. (Cablesystems) in cable television franchises and intangible assets. Such amount is being amortized over periods ranging from 8-40 years on a straight-line basis.

(f) Allowance for Funds Used During Construction

HL&P accrues AFUDC on construction projects and nuclear fuel payments, except for amounts included in the rate base by regulatory authorities. The accrual rates were 8.75% in 1992 and 1991 and 9.25% in 1990.

(g) Revenues

Effective January 1, 1992, HL&P changed its method of recording electricity sales from cycle billing to a full accrual method, whereby unbilled electricity sales are estimated and recorded each month in order to better match revenues with expenses. Prior to January 1, 1992, electric revenues were recognized as bills were rendered (see Note 19).

The Utility Commission provides for the recovery of certain fuel and purchased power costs through an energy component of base electric rates.

Coal and lignite revenues are recognized as fuel is consumed.

Cable television revenues are recognized as the services are provided to subscribers, and advertising revenues are recorded when earned.

(h) Income Taxes

The Company follows a policy of comprehensive interperiod income tax allocation. Investment tax credits are deferred and amortized over the estimated lives of the related property. In 1992, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," with restatement to January 1, 1990 (see Note 14). Under current tax laws, the Company may realize tax savings by deducting for tax purposes dividends on the Company's common stock that are used to pay debt service on the Employee Stock Ownership Plan (ESOP) loans (see Note 2).

(i) Earnings Per Common Share

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

(j) Statements of Consolidated Cash Flows

For purposes of reporting cash flows, cash equivalents are considered to be short-term, highly liquid investments readily convertible to cash.

2. COMMON STOCK

In October 1990, the Company amended its Savings Plan (Savings Plan) to add an ESOP component. The ESOP component of the Savings Plan allows the Company to satisfy a portion of its obligations to make matching contributions under the Savings Plan. The ESOP trustee purchased shares of the Company's common stock in open-market transactions with funds provided by loans from the Company and completed the purchase of stock under the ESOP in December 1991, after purchasing 9,381,092 shares at a cost of $350 million. At December 31, 1992, the balance of the ESOP loans was approximately $332 million. The loans from the Company to the ESOP are shown on the Company's Consolidated Balance Sheets as a reduction in common stock equity. Principal and interest on the loans will be paid with dividends on the common stock in, and Company contributions to, the ESOP. Repayment of the loan is scheduled to occur over a 20-year period with the first mandatory repayment in 1997. The loans to the ESOP were funded initially by the Company from short-term borrowings which have been refinanced with long-term debt. Interest expense on Company borrowings to fund loans to the ESOP has been reduced by interest income on the loans to the ESOP.

In May 1989, the Company adopted, with shareholder approval, a long-term incentive compensation plan, which includes an incentive stock option component. In January 1992, non-statutory stock options for approximately 68,000 shares of the Company's stock were granted to key employees of the Company and its subsidiaries at an option price of $43.50 per share. Beginning one year after the grant date, the options become exercisable in one-third increments each year. No shares were exercisable on December 31, 1992. The options expire ten years from the grant date.

In July 1990, the Company adopted a shareholders rights plan and declared a dividend of one right for each outstanding share of the Company's common stock. The rights, which under certain circumstances entitle their holders to purchase one one-hundredth of a share of Series A Preference Stock for an exercise price of $85, will expire on July 11, 2000. The rights will become exercisable only if a person or entity acquires 20% or more of the Company's outstanding common stock or if a person or entity commences a tender offer or exchange offer for 20% or more of the outstanding common stock. The rights are redeemable by the Company for $.01 per right at any time prior to the date the rights become exercisable.

When the rights become exercisable, each right will entitle the holder to receive, upon the exercise of such right, a number of shares of the Company's common stock having a current market price (as defined in the plan) equal to twice the exercise price of the right, except pursuant to an offer for all outstanding shares of common stock which a majority of the independent directors of the Company determines to be at a price which is in the best interests of the Company and its shareholders (Permitted Offer).

In the event that the Company is a party to a merger or other business combination (other than a merger that follows a Permitted Offer), rights holders will be entitled to receive, upon the exercise of a right, a number of shares of common stock of the acquiring company having a current market price (as defined in the plan) equal to twice the exercise price of the right.

3. PREFERRED STOCK OF A SUBSIDIARY

HL&P's cumulative preferred stock may be redeemed at the following per share prices, plus any unpaid accrued dividends to the date of redemption:

SERIES	REDEMPTION PRICE PER SHARE		
	CURRENT	FUTURE RANGE	
		FROM	TO
NOT SUBJECT TO MANDATORY REDEMPTION:			
$4.00	$105.00	$105.00	$105.00
$6.72	102.51	102.51	102.51
$7.52	102.35	102.35	102.35
$8.12	102.25	102.25	102.25
Variable Term Preferred A(a)	100.00	100.00	100.00
Variable Term Preferred B(a)	100.00	100.00	100.00
Variable Term Preferred C(a)	100.00	100.00	100.00
Variable Term Preferred D(a)	100.00	100.00	100.00
SUBJECT TO MANDATORY REDEMPTION			
$8.50(b)	$104.25	$102.13	$100.00
$9.375(c)	—	100.00	100.00

(a) Rates for Variable Term Preferred stock as of December 31, 1992, were as follows:

	RATE
Variable Term Preferred A	3.460%
Variable Term Preferred B	3.345%
Variable Term Preferred C	3.240%
Variable Term Preferred D	2.800%

(b) HL&P is required to redeem 200,000 shares of this series annually beginning June 1, 1993.

(c) HL&P is required to redeem 257,000 shares annually beginning April 1, 1995. This series is redeemable at $100 per share after April 1, 1997.

Annual mandatory redemptions of HL&P's preferred stock are $20 million in 1993 and 1994, and $45.7 million for each of the years 1995-1997.

Sinking or improvement fund requirements of HL&P's first mortgage bonds outstanding will be approximately $51 million for each of the years 1993 through 1997. Of such requirements, approximately $32 million for each of the years 1993 through 1997 may be satisfied by certification of property additions at 100% of the requirements, and the remainder through certification of such property additions at 166⅔% of the requirements. Sinking or improvement fund requirements for 1992 and prior years have been satisfied by certification of property additions.

HL&P has agreed to expend an amount each year for replacements and improvements in respect of its depreciable mortgaged utility property equal to $1,450,000 plus 2½% of net additions to such mortgaged property made after March 31, 1948 and before July 1 of the preceding year. Such requirement may be met with cash, first mortgage bonds, gross property additions or expenditures for repairs or replacements, or by taking credit for property additions at 100% of the requirements. At the option of HL&P, but only with respect to first mortgage bonds of a series subject to special redemption, deposited cash may be used to redeem first mortgage bonds of such series at the applicable special redemption price. The replacement fund requirement to be satisfied in 1993 is approximately $263 million.

The amount of HL&P's first mortgage bonds is unlimited as to issuance, but limited by property, earnings, and other provisions of the Mortgage and Deed of Trust dated as of November 1, 1944, between HL&P and South Texas Commercial National Bank of Houston (Texas Commerce Bank National Association, as Successor Trustee) and the supplemental indentures thereto. Substantially all properties of HL&P are subject to liens securing HL&P's long-term debt.

A portion of the funds for the acquisition of Cablesystems was obtained by KBL Cable, Inc. (KBL Cable) and its corporate parent KBLCOM Incorporated (KBLCOM) under the terms of several financing agreements:

(a) KBL Cable Senior Bank Credit Facility

KBL Cable is a party to a $531.9 million revolving credit and letter of credit facility agreement with mandatory commitment reductions (which may require principal payments) which began in 1992. The final maturity for loans under this facility is 1999. Loans have generally borne interest at an interest rate of LIBOR plus an "applicable margin." The margin was .875% at December 31, 1992. The bank credit agreement also contains certain restrictions, including restrictions on dividends, sales of assets and limitations on total indebtedness. The amount of indebtedness outstanding at December 31, 1992 and 1991 was $415 million and $420 million, respectively. Based on annualized cash flow for the fourth quarter of 1992, the amount of additional borrowings under this agreement would have been limited.

In October 1989, KBL Cable entered into interest rate swap agreements with four banks which effectively fixed the rates on $375 million of debt under the KBL Cable senior bank credit facility at approximately 9% plus the applicable margin. As of December 31, 1992 and 1991, the effective interest rates on such debt were approximately 9.875% and 10%, respectively. Interest rate swaps aggregating $100 million and $75 million terminated in October 1991 and 1992, respectively. The remaining interest rate swaps terminate in 1994 and 1996. The differential to be paid or received under the interest rate swap agreements is accrued as interest rates change and is recognized over the life of the agreement. KBL Cable is exposed to risk of nonperformance by the other parties to the interest rate swap agreements. However, KBL Cable does not anticipate nonperformance by the parties.

Commitment fees are required on the unused capacity of the KBL Cable bank credit facilities.

(b) KBLCOM Senior Bank Facility

KBLCOM has entered into a $300 million letter of credit and term loan facility under which $100 million was borrowed upon the closing of the acquisition. This $100 million Tranche A borrowing matures in 1996 but is expected to be prepaid in 1993 and has been reclassified to current maturities of long-term debt.

The purpose of the remaining $200 million under the facility was to provide bank letters of credit (i) to support KBL Cable's debt service obligations on its senior subordinated notes up to $132.7 million (Exclusive Letters of Credit) and (ii) to provide funds to KBLCOM and KBL Cable for certain specified purposes, including reimbursement of KBL Cable's capital expenditures (Non-Exclusive Letters of Credit). Drawings under these Letters of Credit (Tranche B borrowings) totaled approximately $67.3 million as of December 31, 1992 and 1991, all of which related to the Non-Exclusive Letters of Credit, resulting in no remaining capacity on the Non- Exclusive Letters of Credit at December 31, 1992. These borrowings are expected to be prepaid in 1993 and have been reclassified to current maturities of long-term debt. There have been no draws on the Exclusive Letters of Credit, resulting in remaining capacity of $132.7 million at December 31, 1992. Tranche B borrowings must be repaid over five years beginning in 1995. The interest rate on the Tranche B borrowings is LIBOR plus a margin that increases in several steps from the current .75% to 1.25% in 1996. Borrowings under the KBLCOM bank facility are recourse to the Company.

Prepayments of the Tranche A and Tranche B borrowings in 1993 are expected to be funded with proceeds from the sale of commercial paper by the Company, with the Company's contribution to KBLCOM taking the form of an equity investment.

Commitment fees are required on that portion of the KBLCOM facility relating to Exclusive Letters of Credit.

(c) KBL Cable Notes

KBL Cable has outstanding $98.8 million of 10.95% senior notes and $123.5 million of 11.30% senior subordinated notes. Both series mature in 1999 with annual principal payments which began in 1992. The agreement under which the notes were issued contains restrictions and covenants similar to those contained in the KBL Cable senior bank facility. As of December 31, 1992, the Company owned $28.9 million principal amount of the senior notes and $36.05 million principal amount of the senior subordinated notes.

Consolidated annual maturities of long-term debt, prepayment of KBLCOM Tranche A and Tranche B borrowings, and minimum capital lease payments for the Company are approximately $316 million in 1993, $35 million in 1994, $20 million in 1995, $376 million in 1996 and $273 million in 1997.

5. SHORT-TERM FINANCING

The interim financing requirements of the Company's operating subsidiaries are met through short-term bank loans, the issuance of commercial paper and short-term advances from the Company. The Company and its subsidiaries had bank lines of credit aggregating $1.05 billion at December 31, 1992 and $950 million at December 31, 1991, under which borrowings are classified as short-term indebtedness. Such bank lines limit the Company's total short-term borrowings and provide for interest at rates generally less than the prime rate. Outstanding commercial paper was $564 million at December 31, 1992 and $330 million at December 31, 1991. Commitment fees are required on the bank facilities. For a description of bank credit facilities of KBLCOM and KBL Cable, borrowings under which are classified as long-term debt or current maturities of long-term debt, see Note 4.

6. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

In December 1991, the Financial Accounting Standards Board (FASB) issued SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." This accounting standard, which the Company adopted in 1992, requires companies to disclose the fair value of certain financial instruments, as well as the methods and assumptions used to estimate the fair value.

The carrying amount and estimated fair value of the Company's financial instruments at December 31, 1992 are as follows:

(THOUSANDS OF DOLLARS)	CARRYING AMOUNT	FAIR VALUE
Financial assets:		
Cash and short-term investments	$ 69,317	$ 69,317
Note receivable from ESOP	332,489	395,202
Financial liabilities:		
Short-term notes payable	564,249	564,249
Cumulative preferred stock (subject to mandatory redemption)	226,834	242,289
Debentures	548,359	586,405
Long-term debt of subsidiaries:		
Electric:		
First mortgage bonds	3,188,694	3,407,236
Pollution control revenue bonds	255,704	286,813
Cable television:		
Senior bank debt	582,349	582,349
Senior and subordinated notes	157,354	184,044
Other	4,156	4,747
Unrecognized financial instruments:		
Interest rate swaps:		
In a net payable position		17,162

The fair values of cash and short-term investments, short-term notes payable and bank debt are equivalent to the carrying amounts.

The fair values of the ESOP loan, the Company's debentures, HL&P's cumulative preferred stock subject to mandatory redemption, HL&P's first mortgage bonds, pollution control revenue bonds issued on behalf of HL&P, KBL Cable senior and senior subordinated notes and other long-term debt are estimated using rates currently available for securities with similar terms and remaining maturities.

The fair value of interest rate swaps is the estimated amount that the swap counterparties would receive or pay to terminate the swap agreements, taking into account current interest rates and the current creditworthiness of the swap counterparties.

7. RETIREMENT PLANS

The Company has noncontributory retirement plans covering substantially all employees. The plans provide retirement benefits based on years of service and compensation. The Company's funding policy is to contribute amounts annually in accordance with applicable regulations in order to achieve adequate funding of projected benefit obligations. The assets of the plans consist principally of common stocks and high quality, interest-bearing obligations.

Net pension cost includes the following components:

(THOUSANDS OF DOLLARS)	YEAR ENDED DECEMBER 31		
	1992	1991	1990
Service cost–benefits earned during the period	$24,282	$22,132	$21,146
Interest cost on projected benefit obligation	45,585	38,564	35,091
Actual return on plan assets	(26,934)	(61,582)	(8,553)
Net amortization and deferrals	(11,749)	30,413	(21,938)
Net pension cost	$31,184	$29,527	$25,746

The funded status of the retirement plans was as follows:

(THOUSANDS OF DOLLARS)	DECEMBER 31	
	1992	1991
Actuarial present value of:		
Vested benefit obligation	$360,714	$278,990
Accumulated benefit obligation	$396,751	$310,556
Plan assets at fair value	$444,511	$399,400
Projected benefit obligation	598,677	522,962
Assets less than projected benefit obligation	(154,166)	(123,562)
Unrecognized transitional asset	(19,179)	(21,098)
Unrecognized prior service cost	12,129	14,590
Unrecognized net loss	86,084	86,426
Accrued pension cost	$ (75,132)	$ (43,644)

The projected benefit obligation was determined using an assumed discount rate of 8.5% in 1992 and 1991. A long-term rate of compensation increase ranging from 6.9% to 9.0% was assumed in 1992 and 1991. The assumed long-term rate of return on plan assets was 9.5% in 1992 and 1991. The transitional asset at January 1, 1986, is being recognized over approximately 17 years, and the prior service cost is being recognized over approximately 15 years.

In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This accounting standard, effective for fiscal years beginning after December 15, 1992, requires companies to recognize the liability for postretirement benefit plans other than pensions, primarily medical and dental benefits. The Company will adopt SFAS No. 106 in 1993. The transition obligation, or accumulated postretirement benefit obligation, of approximately $213 million will be amortized over approximately 22 years as permitted by SFAS No. 106. The Company estimates that adoption will increase benefit costs by approximately $24 million over the expected "pay-as-you-go" amount in 1993. The Utility Commission has published a proposed rule which, if adopted, would govern the ratemaking treatment for postretirement benefits other than pensions. This rule (i) will allow for recovery of the current postretirement benefits expense on an accrual basis provided that all amounts recovered in rates are placed in an external trust fund, and (ii) will not allow recovery of the transition obligation. HL&P is opposing the portion of the rule which would preclude it from recovering the transition obligation in rates.

8. COMMITMENTS AND CONTINGENCIES

(a) HL&P Commitments

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

HL&P's capital program (exclusive of AFUDC) is presently estimated to cost $344 million in 1993, $498 million in 1994 and $462 million in 1995. These amounts do not include expenditures on projects for which HL&P expects to be reimbursed by customers or other parties.

HL&P has entered into several long-term coal, lignite and natural gas contracts which have various quantity requirements and durations. Minimum obligations for coal and transportation agreements are approximately $167 million in 1993, and $165 million in each of 1994 and 1995. The coal and lignite contracts include provisions permitting HL&P to defer delivery at HL&P's discretion and force majeure provisions. 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 gas purchase contracts are approximately $43.6 million in 1993, $45.0 million in 1994 and $46.5 million in 1995. Collectively, these contracts could amount to 51% 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 $206 million in 1993, $144 million in 1994 and $19 million in 1995. 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.

The Energy Act, 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. This fee is to cover a portion of the cost to decontaminate and decommission the facilities used to perform the enrichment. It is currently estimated that the assessment to the South Texas Project Electric Generating Station (South Texas Project) will be approximately $1.8 million per year (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.

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

(b) KBLCOM Commitments and Obligations Under Cable Franchise Agreements
KBLCOM's capital requirements are estimated to be $46 million in 1993, $40 million in 1994 and $54 million in 1995. KBLCOM and its subsidiaries presently have certain cable franchises containing provisions for construction of cable plant and service to customers within the franchise area. In connection with certain obligations under existing franchise agreements, KBLCOM and its subsidiaries obtain surety bonds and letters of credit guaranteeing performance to municipalities and public utilities. Payment is required only in the event of non-performance. KBLCOM and its subsidiaries have fulfilled all of their obligations such that no payments have been required.

(c) Equipment Expenditures – Utility Fuels
Utility Fuels, Inc.'s (Utility Fuels) expenditures for coal handling facilities and lignite mining and handling facilities are estimated to be $11 million in 1993, and $12 million in each of 1994 and 1995.

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 the corresponding operating expense amounts on the Company's Statements of Consolidated Income.

As of December 31, 1992, HL&P's investments (net of accumulated depreciation and amortization) in the South Texas Project and in nuclear fuel, including AFUDC, were $2.2 billion and $112 million, respectively.

(b) City of Austin Litigation
In July 1989, judgment was entered in favor of HL&P and the Company in a 1983 suit filed in state district court by the City of Austin (Austin), one of the four co-owners in the South Texas Project. Austin alleged 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. Although the amount of alleged damages varied, at trial Austin claimed actual damages of at least $419 million, with all or some portion alleged to be subject to trebling under the Texas Deceptive Trade Practices – Consumer Protection Act. In October 1992, the Court of Appeals for the Fifth District of Texas at Dallas affirmed the trial court's judgment in favor of the Company and HL&P. Austin has filed an application for writ of error to the Supreme Court of Texas, but the Supreme Court has not yet acted. In its application, Austin seeks a new trial on its breach of contract claim, but is not pursuing its fraud in the inducement or its Deceptive Trade Practices Act claims. The Company and HL&P continue to regard the claims of Austin to be without merit.

(c) Arbitration with Co-owners
During the course of the Austin litigation, the City of San Antonio (San Antonio) and Central Power and Light Company (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 among the owners of the South Texas Project (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-party arbitrators will appoint a fifth arbitrator, but that action has not yet occurred.

In May 1992, the Company and HL&P entered into a settlement with CPL and its parent company, Central and South West Corporation (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 on December 30, 1992. Under the terms of the settlement, HL&P reimbursed CPL for certain costs and expenses incurred in pursuing the arbitration and litigation. The settlement also resolved other disputes between the parties concerning various transmission agreements and related billing disputes. In addition, the parties also agreed to support, and to seek consent of the other owners of the South Texas Project to, certain amendments to the Participation Agreement, including changes in the management structure of the South Texas Project through which HL&P would be replaced as project manager by an independent entity.

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

HL&P and the Company continue to regard Austin's claims and those asserted by San Antonio 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 definitive assurance regarding the ultimate resolutions of the City of Austin litigation and the 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 January 1, 1993, the maximum amounts of excess property insurance available through the insurance industry increased from $2.015 billion to $2.125 billion. This $2.125 billion of excess property insurance coverage includes $800 million of excess insurance from ANI and $1.325 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. 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 $15.3 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 (Act), public liability for owners of nuclear power plants, such as the South Texas Project, is limited to approximately $7.9 billion. 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. This plan provides for assessment of deferred premiums for each nuclear incident up to $63 million per reactor subject to indexing for inflation and a possible 5% surcharge (but no more than $10 million per reactor per incident in any one year). 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, 1992, the trustee held approximately $11.9 million for decommissioning, for which the asset and liability are reflected in the Company's Consolidated Balance Sheet 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 exceeds the NRC minimum. There is, however, no assurance that the amounts held in trust will be adequate to cover the decommissioning costs.

(f) NRC Diagnostic Evaluation

In February 1993, the NRC advised HL&P that the NRC will conduct a diagnostic evaluation of the South Texas Project in the spring of 1993. Conducted infrequently, NRC diagnostic evaluations 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. Similar reviews have been conducted at other plants in recent years, and in some cases, based on the evaluation results, those plants have received increased regulatory emphasis or have been required to take actions to improve plant operations, maintenance or condition. In its notification, the NRC cited no specific reason for initiating the diagnostic evaluation. However, during 1992, a number of personnel-induced, equipment-related problems were experienced. Most recently, in February 1993, HL&P shut down both units at the South Texas Project when a problem was encountered with a turbine-driven auxiliary feedwater pump. A similar problem had been encountered previously, and HL&P determined that the units would not be restarted until HL&P had determined the root cause of the difficulty and had briefed the NRC on its corrective action. The NRC formalized that commitment and sent an Augmented Inspection Team to the South Texas Project to review the matter. Resolution of that matter is underway. Unit No. 2 of the South Texas Project began its scheduled refueling outage during the shutdown, and Unit No. 1 of the South Texas Project is expected to resume operation in early March 1993. The NRC's report on its diagnostic evaluation is not expected until the summer of 1993.

The most recent Systematic Assessment of Licensee Performance rating for the South Texas Project, issued in October 1992, declined somewhat from the prior rating, though ratings in all areas were "acceptable" or better, and two areas of NRC concern that were identified during 1992 are still pending enforcement conferences and could result in the assessment of civil penalties by the NRC.

10. APPEALS FROM UTILITY COMMISSION ORDERS

Pursuant to a series of applications filed by HL&P in recent years, the Utility Commission has granted HL&P rate increases to reflect in electric rates HL&P's substantial investment in new plant construction, including the South Texas Project. Although Utility Commission action on those applications has been completed, judicial review of a number of the Utility Commission orders is pending. In Texas, Utility Commission orders may be appealed to a District Court in Travis County, and from that court's decision an appeal may be taken to the Court of Appeals for the 3rd District at Austin (Austin Court of Appeals). Discretionary review by the Supreme Court of Texas may be sought from decisions of the Austin Court of Appeals. The pending appeals from the Utility Commission orders are in various stages. In the event the courts ultimately reverse actions of the Utility Commission in any of these proceedings, such matters

would be remanded to the Utility Commission for action in light of the courts' orders. Because of the number of variables which can affect the ultimate resolution of such matters on remand, the Company and HL&P generally are not in a position at this time to predict the outcome of the matters on appeal or the ultimate effect that adverse action by the courts could have on the Company and HL&P. On remand the Utility Commission's action could range from granting rate relief substantially equal to the rates previously approved to a reduction in the revenues to which HL&P was entitled during the time the applicable rates were in effect, which could require a refund to customers of amounts collected pursuant to such rates.

Judicial review currently is pending on the following final orders of the Utility Commission.

(a) Docket Nos. 6765, 6766 and 5779

The appeals of HL&P's 1986 rate case (Docket Nos. 6765 and 6766) and its 1984 rate case (Docket No. 5779) are pending before the Austin Court of Appeals. Oral argument has been presented to the court in both cases.

In its final order in Docket Nos. 6765 and 6766, the Utility Commission granted HL&P a general rate increase which included in rate base approximately $678 million of Construction Work In Progress (CWIP). In December 1991, a District Court of Travis County, Texas, in considering an appeal from that Utility Commission order, ruled that the inclusion of CWIP in rate base did not comply with the requirements of the applicable Texas statute on the grounds that a threshold showing of "exceptional circumstances" which the court found to be required by the statute had not been met, despite the Utility Commission's determination that HL&P's financial integrity required inclusion of CWIP at the level granted. Rates pursuant to that final order were implemented in December 1986 and remained in effect until June 1989.

A different result was reached by another District Court of Travis County, Texas, in considering a challenge to the inclusion of CWIP in rate base in an appeal of the Utility Commission's final order in Docket No. 5779. In February 1992, that District Court affirmed the Utility Commission's final order, in which HL&P was authorized to include CWIP in rate base at a level of $948 million. When that District Court's decision was appealed to the Austin Court of Appeals, the issue of CWIP in rate base was not appealed. That appeal, concerning the Utility Commission's treatment of certain taxes in Docket No. 5779, remains pending. A motion to voluntarily dismiss the appeal was filed on February 22, 1993, but has not yet been acted upon by the court. Rates ordered in Docket No. 5779 were implemented in January 1985 and remained in effect until December 1986.

(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. The Texas Supreme Court declined to review that decision in December 1992, but motions for rehearing are pending. 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.

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, but 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(c) and 11.

(c) Docket No. 9850

In August 1992, a district court in Travis County affirmed the Utility Commission's final order in Docket No. 9850, HL&P's 1991 rate case. That decision has been 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 Docket No. 9850, the Utility Commission approved a settlement agreement reached with most parties. That settlement agreement provided for a $313 million increase in HL&P's base rates, termination of deferrals granted with respect to Unit No. 2 of the South Texas Project and of the qualified phase-in plan deferrals granted with respect to Unit No. 1 of the South Texas Project, and recovery of deferred plant costs. The settlement authorized a 12.55% return on common equity for HL&P, and HL&P agreed not to request additional increases in base rates that would be implemented prior to May 1, 1993. Rates contemplated by that settlement agreement were implemented in May 1991 and remain in effect.

The Utility Commission's order in Docket No. 9850 found that HL&P would have been entitled to more rate relief than the $313 million agreed to in the settlement, but certain recent actions of the Austin Court of Appeals could, if ultimately upheld and applied to the appeal of Docket No. 9850, require a remand of that settlement to the Utility Commission. HL&P believes that the amount

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

(d) Docket No. 6668

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

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

Appeals by HL&P and other parties of the Utility Commission's order in Docket No. 6668 were dismissed by a District Court in Travis County in May 1991. However, in December 1992 the Austin Court of Appeals reversed the District Court's dismissals on procedural grounds. It is unknown whether any parties will seek further review of the Austin Court of Appeals' order by the Texas Supreme Court, but unless that order is modified on further review, HL&P anticipates that the appeals of the parties will be reinstated and that the merits of 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. HL&P and other parties to the appeal of Docket Nos. 8230 and 9010 have sought discretionary review by the Supreme Court of Texas by filing applications for writ of error with the Supreme Court. Similar review is being sought by parties to the other utility's appeal. The Supreme Court has not acted on any of those applications.

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 in deferred expenses and deferred return under phase-in plan, respectively. Under the phase-in plan, these accumulated deferrals will be recoverable within ten years of the June 1990 order.

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

(THOUSANDS OF DOLLARS)	ORIGINAL BALANCE	BALANCE AT DECEMBER 31 1992
Deferred Accounting:[a]		
Deferred Expenses	$250,151	$239,745
Deferred Carrying Costs on Plant Investment	399,972	383,333
Total	650,123	623,078
Qualified Phase-In Plan:[b]	82,254	67,404
Total Deferred Plant Cost	$732,377	$690,482

[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, 1992, deferred income taxes of $200.5 million with respect to deferred accounting and $16.3 million with respect to the deferrals associated with the qualified phase-in plan have been recorded.

12. MALAKOFF ELECTRIC GENERATING STATION

The scheduled in-service dates for the Malakoff Electric Generating Station (Malakoff) 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 million has been reclassified from plant held for future use to recoverable project costs as of December 31, 1992, and will be amortized beginning in January 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. See Note 10(b) for a discussion of that appeal.

In June 1990, HL&P purchased from its 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, 1992 of $172 million, consisting primarily of lignite reserves and land, is included on the Company's Consolidated Balance Sheets in plant held for future use. For the 1993-1995 period, HL&P anticipates $14 million of expenditures relating to lignite reserves, primarily to keep lignite leases and other related agreements in effect.

13. RECOVERABLE PROJECT COSTS

The Utility Commission has allowed recovery of certain costs over a period of time by amortizing those costs for rate making purposes. However, recoverable project costs have not been included in rate base and, as a result, no return on investment is being earned during the recovery period. Malakoff is the only remaining project with an unrecovered amount of $130 million at December 31, 1992, with remaining recovery periods of 78 months ($84 million) and 90 months ($46 million). The Allens Creek project was fully recovered at December 31, 1992.

14. INCOME TAXES

In February 1992, the FASB issued SFAS No. 109 which amends SFAS No. 96, "Accounting for Income Taxes." The Company adopted SFAS No. 109 in 1992, with restatement to January 1, 1990. SFAS No. 109, among other things, (i) requires the liability method be used in computing deferred taxes on all temporary differences between book and tax bases of assets (other than goodwill) and liabilities; (ii) requires that deferred tax liabilities and assets be adjusted for an enacted change in tax laws or rates; and (iii) prohibits

net-of-tax accounting and reporting. SFAS No. 109 requires that regulated enterprises recognize such adjustments as regulatory assets or liabilities if it is probable that such amounts will be recovered from or returned to customers in future rates. KBLCOM has significant temporary differences related to its 1986 and 1989 acquisitions of cable television systems, the tax effect of which were recognized when SFAS No. 109 was adopted. The cumulative effect of the change in accounting principle as of January 1, 1990 was approximately $220 million and is included on the Company's Statement of Consolidated Income as a cumulative effect of change in accounting for income taxes.

The adoption of SFAS No. 109 did not have an effect on revenues; however, net income for the years 1991 and 1990 were affected and have been restated. A reconciliation of net income and related per share amounts for the years 1991 and 1990 is presented below:

(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	YEAR ENDED DECEMBER 31,			
	1991		1990	
Net Income (As Previously Reported)	$417,383	$ 3.24	$339,454	$ 2.67
Depreciation	(3,851)	(.03)	(3,851)	(.03)
State Franchise Taxes	(18,366)	(.14)		
State and Federal Income Taxes	21,588	.17	7,186	.06
Cumulative Effect of Prior Years			(219,718)	(1.73)
Net Income (As Restated)	$416,754	$ 3.24	$123,071	$ .97

The current and deferred components of income tax expense are as follows:

(THOUSANDS OF DOLLARS)	YEAR ENDED DECEMBER 31,		
	1992	1991	1990
		(RESTATED)	(RESTATED)
Current:			
U.S.	$130,360	$138,195	$121,855
Deferred:			
Liberalized depreciation	79,489	84,763	94,457
Investment tax credit	(20,387)	(19,911)	(37,979)
Alternative minimum tax	(438)	10,391	(33,246)
Excess deferred taxes	(17,403)	(17,532)	(12,295)
Deferred plant costs	(6,671)	22,828	83,725
IRS 1983-84 audit assessment		(2,446)	(34,916)
Other – net	(341)	(8,108)	(16,657)
Income taxes before cumulative effect of accounting change	$164,609	$208,180	$164,944

Effective income tax rates are lower than statutory corporate rates for each year as follows:

(THOUSANDS OF DOLLARS)	YEAR ENDED DECEMBER 31,		
	1992	1991	1990
		(RESTATED)	(RESTATED)
Income before income taxes and cumulative effect of accounting change	$505,096	$624,934	$507,733
Preferred dividends of subsidiary	39,327	46,187	47,753
Total	544,423	671,121	555,486
Statutory rate	34%	34%	34%
Income taxes at statutory rate	185,104	228,181	188,865
Reduction in taxes resulting from:			
AFUDC – other included in income	2,097	6,658	4,902
Amortization of investment tax credit	20,359	20,298	41,319
Amortization of intangible assets	(4,264)	(4,264)	(4,265)
Excess deferred taxes	17,403	17,532	12,295
Difference between book and tax depreciation for which deferred taxes have not been normalized	(13,466)	(14,437)	(17,482)
Disallowed plant costs – net		1,699	(11,973)
Other – net	(1,634)	(7,485)	(875)
Total	20,495	20,001	23,921
Income taxes before cumulative effect of accounting change	$164,609	$208,180	$164,944
Effective rate	30.2%	31.0%	29.7%

Following are the tax effects of temporary differences resulting in deferred tax assets and liabilities:

(THOUSANDS OF DOLLARS)	DECEMBER 31,	
	1992	1991
Deferred Tax Assets:		
Alternative minimum tax	$ 108,287	$ 115,945
Disallowed plant cost	67,728	69,909
IRS audit assessment	74,966	48,513
Unbilled revenues		51,881
Loss and ITC carryforwards	54,799	54,978
Other	68,999	40,201
Total deferred tax assets	374,779	381,427
Less valuation allowance	56,638	56,817
Total deferred tax assets – net	318,141	324,610
Deferred Tax Liabilities:		
Depreciation	1,146,970	1,062,947
Identifiable intangibles	238,778	245,415
Deferred plant costs	216,813	227,255
Regulatory assets – net	177,426	165,246
Capitalized taxes, employee benefits and removal costs	122,268	122,735
Other	205,706	204,480
Total deferred tax liabilities	2,107,961	2,028,078
Accumulated deferred income taxes – net	$1,789,820	$1,703,468

15. SUPPLEMENTARY EXPENSE INFORMATION

Taxes, other than income taxes, were charged to expense as follows:

(THOUSANDS OF DOLLARS)	YEAR ENDED DECEMBER 31,		
	1992	1991	1990
Electric:			
Ad valorem	$135,872	$117,298	$ 99,375
State gross receipts	42,662	40,876	39,091
Payroll	21,582	23,515	22,265
PUC assessment	6,163	6,001	5,713
State franchise tax (net of refunds)	21,065	2,017	21,054
Miscellaneous	894	819	489
Total	228,238	190,526	187,987
Taxes included in cable television operating expenses	9,481	9,260	8,646
Taxes included in cost of coal and lignite sold	7,242	5,475	4,945
Total	$244,961	$205,261	$201,578
Research and development costs charged to expense	$ 15,963	$ 15,548	$ 15,392

16. BUSINESS SEGMENT INFORMATION

The Company operates principally in two business segments: electric utility and cable television. The electric utility business segment encompasses the operations of HL&P and Utility Fuels. HL&P provides electric service in and around Houston, while Utility Fuels supplies coal, lignite and transportation services to certain of HL&P's electric generating facilities. Financial information by business segment is summarized as follows:

(THOUSANDS OF DOLLARS)	YEAR ENDED DECEMBER 31		
	1992	1991	1990
		(RESTATED)	(RESTATED)
Revenues:			
Electric utility[a]	$ 4,359,628	$ 4,219,011	$ 3,978,683
Cable television[b]	236,760	224,728	199,893
Total revenues	$ 4,596,388	$ 4,443,739	$ 4,178,576
Operating Income (Expense):			
Electric utility[c]	$ 923,931	$ 1,013,542	$ 943,283
Cable television[b]	19,394	14,009	5,460
Other operations	(911)	(1,595)	(2,064)
Total operating income	942,414	1,025,956	946,679
Other income (expense)	12,098	77,291	(7,190)
Fixed charges	(449,416)	(478,313)	(431,756)
Income before income taxes	$ 505,096	$ 624,934	$ 507,733
Depreciation and Amortization:			
Electric utility	$ 388,548	$ 366,777	$ 341,608
Cable television[b]	75,622	70,496	67,668
Other operations	911	1,595	2,064
Total depreciation and amortization	$ 465,081	$ 438,868	$ 411,340
Identifiable Assets (end of period):			
Electric utility	$10,823,268	$10,662,099	$10,552,407
Cable television	1,386,927	1,391,526	1,429,768
Other operations	328,268	221,160	241,444
Adjustments and eliminations	(120,962)	(109,621)	(178,864)
Total assets	$12,417,501	$12,165,164	$12,044,755
Capital Expenditures:			
Electric utility	$ 336,035	$ 375,520	$ 358,455
Cable television[b]	44,306	26,624	31,186
Other	1,625		
Total capital expenditures	$ 381,966	$ 402,144	$ 389,641

[a] Electric utility revenues include sales of $529 million, $542 million and $510 million for 1992, 1991 and 1990, respectively, between HL&P and Utility Fuels. These sales are not eliminated in consolidation because of the distinction for regulatory purposes between utility and non-utility operations.

[b] Amounts do not include amounts attributable to Paragon, which is accounted for under the equity method.

[c] 1992 amounts include the effect of a charge of $86 million which relates to HL&P's restructuring of operations as a result of the implementation of the STEP program (see Note 18).

17. INVESTMENTS

(a) Cable Television Partnership

A KBLCOM subsidiary owns a 50% interest in Paragon, a Colorado partnership that owns cable television systems. The remaining interest in the partnership is owned by American Television and Communications Corporation (ATC), a subsidiary of Time Warner Inc. The partnership agreement provides that at any time after December 31, 1993 either partner may elect to divide the assets of the partnership under certain pre-defined procedures set forth in the agreement.

Paragon is party to a $275 million revolving credit and letter of credit facility agreement with a group of banks. Paragon also has outstanding $150 million principal amount of 9.56% senior notes due 1995. In each case, borrowings are non-recourse to the Company and to ATC.

(b) Foreign Electric Utility

Houston Argentina owns a 32.5% interest in an Argentine holding company which acquired, in December 1992, a 51% interest in Edelap S. A., an electric utility company operating in La Plata, Argentina and surrounding regions. Houston Argentina's share of the purchase price was approximately $37.6 million.

18. RESTRUCTURING

HL&P recorded a one-time pre-tax charge of $86 million in the first quarter of 1992 to reflect the implementation of the STEP program, a restructuring of its operations. This charge includes $42 million related to the acceptance of an early retirement plan by 468 employees of HL&P, $31 million for severance benefits related to the elimination of an additional 1,100 positions and $13 million in other costs associated with the restructuring.

19. CHANGE IN ACCOUNTING METHOD FOR REVENUES

During the fourth quarter of 1992, HL&P adopted a change in accounting method for revenue from a cycle billing to a full accrual method, effective January 1, 1992. Unbilled revenues represent the estimated amount customers will be charged for service received, but not yet billed, as of the end of each month. The accrual of unbilled revenues results in a better matching of revenues and expenses. This change impacts the pattern of revenue recognition, which has the effect of increasing revenues and earnings in the second and third quarters (periods of higher usage) and decreasing revenues and earnings in the first and fourth quarters (periods of lower usage).

The cumulative effect of this accounting change, less income taxes of $48.5 million, amounted to $94.2 million, and was included in 1992 income. If this change in accounting method were applied retroactively, the effect on consolidated net income in 1991 and 1990 would not have been material.

20. UNAUDITED QUARTERLY INFORMATION

The following unaudited quarterly financial information includes, in the opinion of management, all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation. Quarterly results are not necessarily indicative of a full year's operations because of seasonality and other factors, including rate increases and variations in operating expense patterns.

The quarterly results have been restated to include the impact of the adoption of SFAS No. 109, as discussed in Note 14, and the recording of unbilled electric revenues as discussed in Note 19.

(THOUSANDS OF DOLLARS) QUARTER ENDED	REVENUES	OPERATING INCOME	NET INCOME (LOSS)	EARNINGS (LOSS) PER COMMON SHARE[a]
1991				
March 31	$ 918,160	$133,311	$ 51,849	$ .40
Adjustment 1[b]		(963)	2,378	.02
March 31 Restated	$ 918,160	$132,348	$ 54,227	$ .42
June 30	$1,059,605	$216,018	$ 87,424	$ .68
Adjustment 1[b]		(963)	2,405	.02
June 30 Restated	$1,059,605	$215,055	$ 89,829	$ .70
Sept. 30	$1,370,609	$459,948	$223,831	$1.73
Adjustment 1[b]		(963)	(7,873)	(.06)
Sept. 30 Restated	$1,370,609	$458,985	$215,958	$1.67
Dec. 31	$1,095,365	$220,530	$ 54,279	$ .42
Adjustment 1[b]		(962)	2,461	.02
Dec. 31 Restated	$1,095,365	$219,568	$ 56,740	$ .44
1992				
March 31	$ 975,250	$ 68,690[d]	$ (33,908)[d]	$ (.26)
Adjustment 1[b]		(963)	1,366	.01
Adjustment 2[c]	(15,584)	(14,681)	(9,689)	(.08)
Cumulative effect of adjustment 2[c]			94,180	.73
March 31 Restated	$ 959,666	$ 53,046[d]	$ 51,949[d]	$ .40[e]
June 30	$1,097,644	$227,656	$ 74,947	$ .58
Adjustment 1[b]		(963)	1,388	.01
Adjustment 2[c]	70,148	66,461	43,865	.34
June 30 Restated	$1,167,792	$293,154	$120,200	$ .93
Sept. 30	$1,392,164	$447,748	$230,913	$1.78
Adjustment 1[b]		(963)	1,408	.01
Adjustment 2[c]	11,180	10,676	7,046	.06
Sept. 30 Restated	$1,403,344	$457,461	$239,367	$1.85
Dec. 31	$1,065,586	$138,753	$ 23,151	$ .18

[a] Quarterly earnings (loss) per common share are based on the weighted average number of shares outstanding during the quarter, and the sum of the quarters may not equal annual earnings per common share.

[b] Adjustment required to restate quarterly amounts for the change in accounting for SFAS No. 109 (see Note 14).

[c] Adjustment required to restate 1992 quarterly amounts for the change in accounting for revenues (see Note 19).

[d] Amounts include the effect of a pre-tax charge of $86 million which relates to HL&P's restructuring of operations as a result of the implementation of the STEP program (see Note 18).

[e] Loss from continuing operations per share for the first quarter of 1992 was $.33.

21. RECLASSIFICATION

Certain amounts from the previous years have been reclassified to conform to the 1992 presentation of financial statements. Such reclassifications do not affect earnings.

Houston Industries Incorporated:

We have audited the accompanying consolidated balance sheets and the consolidated statements of capitalization of Houston Industries Incorporated and its subsidiaries as of December 31, 1992 and 1991 and the related statements of consolidated income, consolidated retained earnings and consolidated cash flows for each of the three years in the period ended December 31, 1992. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries at December 31, 1992 and 1991 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1992 in conformity with generally accepted accounting principles.

As discussed in Note 14 to the consolidated financial statements, in 1992 the Company changed its method of accounting for income taxes to conform with Statement of Financial Accounting Standards No. 109 and, retroactively, restated the 1990 and 1991 consolidated financial statements for the change. As discussed in Note 19 to the consolidated financial statements, the Company changed its method of accounting for revenues in 1992.

DELOITTE & TOUCHE
Houston, Texas
February 16, 1993

OPERATING STATISTICS OF HL&P

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

		YEAR ENDED DECEMBER 31,		
		1992	1991	1990
ELECTRIC ENERGY GENERATED AND PURCHASED (MWH):	Generated – Net Station Output	51,065,016	52,346,488	52,040,529
	Purchased	11,537,872	10,518,246	10,320,356
	Net Interchange	204	(54)	(11,845)
	Total	62,603,092	62,864,680	62,349,040
	Company Use, Lost and Unaccounted for	2,660,704	2,663,539	2,792,536
	Energy Sold	59,942,388	60,201,141	59,556,504
ELECTRIC SALES (MWH):	Residential	16,375,400	16,978,934	16,701,269
	Commercial	12,541,656	12,501,613	12,188,947
	Industrial	24,374,284	24,250,892	23,812,889
	Street Lighting – Government and Municipal	110,896	109,874	110,026
	Total Firm Retail Sales	53,402,216	53,841,313	52,813,131
	Other Electric Utilities	243,167	506,558	718,626
	Total Firm Sales	53,645,383	54,347,871	53,531,757
	Interruptible	5,974,203	5,304,345	5,770,154
	Off-System	322,802	548,925	254,593
	Total	59,942,388	60,201,141	59,556,504
NUMBER OF CUSTOMERS (END OF PERIOD):	Residential	1,258,556	1,238,451	1,217,594
	Commercial	165,241	163,054	161,067
	Industrial (Including Interruptible)	1,756	1,791	1,844
	Street Lighting – Government and Municipal	82	82	82
	Other Electric Utilities (Including Off-System)	10	13	10
	Total	1,425,645	1,403,391	1,380,597
OPERATING REVENUE (THOUSANDS OF DOLLARS):	Residential	$1,465,627	$1,465,403	$1,385,710
	Commercial	926,157	882,873	838,325
	Industrial	1,134,601	1,109,108	1,070,660
	Street Lighting – Government and Municipal	23,148	21,977	20,366
	Total Electric Revenue – Firm Retail Sales	3,549,533	3,479,361	3,315,061
	Other Electric Utilities	26,834	41,136	48,833
	Total Electric Revenue – Firm Sales	3,576,367	3,520,497	3,363,894
	Interruptible	127,042	105,476	121,228
	Off-System	6,364	8,907	4,746
	Total Electric Revenue	3,709,773	3,634,880	3,489,868
	Miscellaneous Electric Revenues	117,068	39,663	(21,186)
	Total	$3,826,841	$3,674,543	$3,468,682
INSTALLED NET GENERATING CAPABILITY (KW) (END OF PERIOD):		13,583,000	13,583,000	13,584,000
COST OF FUEL (CENTS PER MILLION BTU):	Gas	192.3	161.5	178.9
	Coal	218.9	230.6	220.5
	Lignite	178.8	175.5	160.1
	Nuclear	59.9	58.3	57.9
	Average	184.6	175.3	178.9

DIRECTORS

Milton Carroll
42, Chairman, President and Chief Executive Officer of Instrument Products, Inc., Houston, Texas, director since 1992.

John T. Cater
57, Chairman, Chief Executive Officer and Director of River Oaks Trust Company, Houston, Texas, director since 1983.

***Floyd L. Culler, Jr.**
70, President Emeritus and Consultant to the Electric Power Research Institute, Palo Alto, California, director since 1988.

Joseph M. Hendrie, Ph.D
68, Consulting Engineer, Bellport, New York, director since 1985.

Howard W. Horne
66, Vice Chairman of Cushman & Wakefield of Texas, Inc., Houston, Texas, director since 1978.

Don D. Jordan
60, Chairman, President and Chief Executive Officer of the Company, Houston, Texas, director since 1977.

Thomas B. McDade
69, Private Investor, Houston, Texas, director since 1980.

***Randall Meyer**
70, Retired President of Exxon Company USA, Houston, Texas, director since 1988.

Alexander F. Schilt, Ph.D.
52, Chancellor of University of Houston System, Houston, Texas, director since 1992.

Kenneth L. Schnitzer, Sr.
63, Chairman of the Board of Schnitzer Enterprises, Inc. Houston, Texas, director since 1983.

Don D. Sykora
62, Vice President of the Company, Houston, Texas, director since 1982.

Jack T. Trotter
66, Private Investor and Vice Chairman of the Board of First Interstate Bank of Texas, N. A. Houston, Texas, director since 1985.

*Messrs. Culler and Meyer are expected to retire from the Board of Directors at the 1993 Annual Meeting of Shareholders, pursuant to the Company's bylaws.

OFFICERS

Don D. Jordan
60, Chairman, President and Chief Executive Officer

Raymond J. Snokhous
63, Senior Vice President Governmental and Regulatory Affairs

William A. Cropper
53, Vice President and Treasurer

Hugh Rice Kelly
50, Vice President, General Counsel and Corporate Secretary

Don D. Sykora
62, Vice President

Gary G. Weik
47, Vice President

Ken W. Nabors
49, Comptroller

Christian Schley
44, Associate General Counsel and Assistant Corporate Secretary

Rufus S. Scott
49, Associate General Counsel and Assistant Corporate Secretary

Gretchen H. Denum
38, Assistant Corporate Secretary

Marc Kilbride
40, Assistant Corporate Secretary and Assistant Treasurer

Kevin P. Loughnane
36, Assistant Treasurer

Robert E. Smith
48, Assistant Corporate Secretary

HOUSTON LIGHTING & POWER COMPANY

OFFICERS

Don D. Jordan
60, Chairman and
Chief Executive Officer

Don D. Sykora
62, President and
Chief Operating Officer

Jack D. Greenwade
53, Group Vice President
Operations

Donald P. Hall
65, Group Vice President
Nuclear

Lee W. Hogan
48, Group Vice President
External Affairs

Hugh Rice Kelly
50, Senior Vice President,
General Counsel and
Corporate Secretary

R. Steve Letbetter
44, Group Vice President
Finance and Regulatory
Relations

Stephen C. Schaeffer
45, Group Vice President
Administration and Support

L. G. Brackeen
58, Vice President
Fuel and Energy Management

James S. Brian
45, Vice President
and Comptroller

Susan D. Fabre
37, Vice President
Human Resources

Lawrence B. Horrigan, Jr.
58, Vice President
Purchasing and Support
Services

Warren H. Kinsey, Jr.
48, Vice President
Nuclear Generation

Ancel D. Maddox
52, Vice President
Marketing and Industrial
Relations

Stephen W. Naeve
45, Vice President
Corporate Planning
and Treasurer

Stephen L. Rosen
52, Vice President
Nuclear Engineering

David G. Tees
48, Vice President
Energy Production

Robert L. Waldrop
45, Vice President
Public and Customer Relations

Rufus S. Scott
49, Associate General Counsel
and Assistant Corporate
Secretary

Gretchen H. Denum
38, Assistant Corporate
Secretary

Mary P. Ricciardello
37, Assistant Corporate
Secretary and Assistant
Treasurer

Christian Schley
44, Assistant Corporate
Secretary

KBLCOM INCORPORATED

OFFICERS

Don D. Jordan
60, Chairman of the Board
and Chief Executive Officer

Gary G. Weik
47, President and
Chief Operating Officer

John R. Bickham
43, Executive Vice President
Group Operations

Dean A. Gilbert
36, Executive Vice President
Group Operations

David M. McClanahan
43, Senior Vice President
and Chief Financial Officer

Richard N. Clevenger
46, Vice President
Engineering and Technology

William A. Cropper
53, Vice President
and Treasurer

Jonathan F. Myers
44, Vice President,
General Counsel and Assistant
Corporate Secretary

M. Scott Smith
40, Vice President
and Comptroller

Hugh Rice Kelly
50, Corporate Secretary

Meade Collard
37, Assistant Treasurer

Marc Kilbride
40, Assistant Treasurer

UTILITY FUELS, INC.

OFFICERS

Don D. Jordan
60, Chairman of the Board

F. Ken Smith
58, President and Chief
Executive Officer

Charles L. Merka
55, Senior Vice President

Ronald D. Baalman
43, Vice President
Finance and Treasurer

Hugh Rice Kelly
50, Corporate Secretary

Richard B. Dauphin
39, Assistant Corporate
Secretary

Houston Industries is committed to providing the highest level and quality of investor information and services. Investors are encouraged to take advantage of the full range of information and services offered.

ANNUAL MEETING

The annual meeting of shareholders will be held May 5, 1993 at 9 a.m. at the Texas Commerce Center Auditorium, 601 Travis Street, Houston, Texas. All holders of common shares are encouraged to attend and participate.

A formal notice of the meeting will be mailed to shareholders in March. The notice will be accompanied by a proxy statement describing the items of business to be considered and a proxy card, which may be used to vote on nominees for director and any other matters to be decided at the meeting.

TRANSFER AGENT, REGISTRAR AND DIVIDEND DISBURSING AGENT

The Houston Industries Investor Services Department serves as transfer agent, registrar and dividend disbursing agent for HI common stock and for HL&P preferred stock and first mortgage bonds.

DIVIDEND PAYMENTS

Common stock dividends generally are paid on March 10, June 10, September 10 and December 10 to holders of record on February 16, May 16, August 16 and November 16, respectively.

Dividends are subject to declaration by the Board of Directors, which establishes the amount of each quarterly dividend to be paid on common stock and fixes the record date and payment date for each common and preferred stock series.

Shareholders of record may have their quarterly dividends automatically, electronically deposited, on payment date, directly to their bank accounts. Further information on direct deposit may be obtained by writing or calling Investor Services.

DIVIDEND REINVESTMENT

The Company's dividend reinvestment program gives shareholders the opportunity to reinvest dividends in HI common stock. Shareholders also may make optional cash contributions ranging from $50 to $6,000 per calendar quarter to purchase additional shares.

Further information on the dividend reinvestment program may be obtained by calling numbers listed under "Investor Assistance" below.

SHAREHOLDER REPORTS

In addition to the annual report and proxy statement distributed in March, shareholders receive three quarterly reports each year. Reports of results for the first, second and third quarters are mailed about the end of May, August and November, respectively. Fourth quarter results are included in the annual report.

INVESTOR ASSISTANCE

Investor Services representatives are available during normal business hours to provide assistance and answer questions regarding HI common stock, HL&P preferred stock and HL&P first mortgage bonds. Investors may write to Investor Services at the address of the corporate offices, or call using the following telephone numbers:

In Houston: (713) 629-3060
In other parts of Texas:
1-800-392-4261
In other parts of the U.S.:
1-800-231-6406

OTHER MATERIALS

A copy of the annual report to the Securities and Exchange Commission on Form 10-K, other corporate publications and printed copies of key executive speeches are available on request. Videotaped copies of the annual shareholders' meeting are provided on loan upon request. In early May, the annual report will be available on audio tape for the visually impaired. All materials may be requested in writing or by calling the numbers listed under "Investor Assistance".

FINANCIAL INFORMATION

Prospective investors, analysts and representatives of financial institutions requiring information regarding Houston Industries should contact the Financial & Public Relations Department at: (713) 629-3122 or (713) 629-3124.

STOCK LISTING

Houston Industries common stock is traded under the symbol HOU on the New York, Midwest and London Stock Exchanges.

AUDITORS

Deloitte & Touche, Houston, Texas

CORPORATE OFFICES

Houston Industries Incorporated
Five Post Oak Park
4400 Post Oak Parkway
Houston, Texas 77027
P. O. Box 4567
Houston, Texas 77210
Telephone: (713) 629-3000
FAX: (713) 629-3129

Houston
Industries
Incorporated

P.O. Box 4567

Houston, Texas 77210

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (*FEE REQUIRED*)

For the fiscal year ended December 31, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934 (*NO FEE REQUIRED*)

For the transition period from to

Commission File Number 1-7629

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

Texas (State or other jurisdiction of incorporation or organization)	74-1885573 (I.R.S. Employer Identification Number)
5 Post Oak Park 4400 Post Oak Parkway Houston, Texas (Address of principal executive offices)	77027 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock, without par value, and associated rights to purchase preference stock	New York Stock Exchange Midwest Stock Exchange London Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [✓]

Indicate by check mark whether the registrant: (1) has 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No ___

The aggregate market value of the voting stock held by non-affiliates of Houston Industries Incorporated was $5,937,692,220.12 as of February 1, 1993, using the definition of beneficial ownership contained in Rule 13d-3 promulgated pursuant to the Securities Exchange Act of 1934 and excluding shares held by directors and executive officers.

As of February 1, 1993, Houston Industries Incorporated had 129,587,179 shares of Common Stock outstanding.

Portions of the definitive proxy statement relating to the 1993 Annual Meeting of Shareholders of Houston Industries Incorporated, which will be filed within 120 days of December 31, 1992, are incorporated by reference in Item 10, Item 11, Item 12 and Item 13 of Part III of this form.

DEFINITIONS

When used herein, the following terms will have the meanings indicated.

TERM	DEFINITION
1935 Act	Public Utility Holding Company Act of 1935
1992 Cable Act	Consumer Protection and Competition Act of 1992
AFUDC	Allowance for Funds Used During Construction
ATC	American Television and Communications Corporation
Austin	City of Austin
BBtu	Billion British Thermal Units
Bcf	Billion Cubic Feet
Cable Act	Cable Communications Policy Act of 1984
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
Clean Air Act	Federal Clean Air Act including Amendments of 1990
Clean Water Act	Clean Water Act Amendments of 1987
CNN	Cable News Network
Company	Houston Industries Incorporated
Copyright Act	Copyright Act of 1976
CPL	Central Power and Light Company
CSW	Central and South West Corporation
CSW Credit	CSW Credit, Inc.
Development Ventures	Development Ventures, Inc.
DOE	Department of Energy
DSM	Demand Side Management
Du Pont	E.I. du Pont de Nemours Company
Energy Act	Energy Policy Act of 1992
Enron	Enron Corporation
EPA	U.S. Environmental Protection Agency
ESOP	Employee Stock Ownership Plan of Houston Industries Incorporated
EWG	Exempt Wholesale Generator
ESPN	Entertainment & Sports Programming Network
Exxon	Exxon Company, U.S.A.
FASB	Financial Accounting Standards Board
FCC	Federal Communications Commission
FERC	Federal Energy Regulatory Commission
Gulf States	Gulf States Utilities Company
HBO	Home Box Office
HL&P	Houston Lighting & Power Company
Houston	City of Houston
Houston Argentina	Houston Argentina S.A.
Houston Industries Finance	Houston Industries Finance, Inc.
IRP	Integrated Resource Planning
IRS	Internal Revenue Service
KBL Cable	KBL Cable, Inc.
KBLCOM	KBLCOM Incorporated
KW	Kilowatt (1,000 Watts)
KWH	Kilowatt-Hour
LIBOR	London Interbank Offered Rate
Limestone	Limestone Electric Generating Station

TERM	DEFINITION
Malakoff	Malakoff Electric Generating Station
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
Mva	Megavolt Amps
MMBtu	Million British Thermal Units
MMcf	Million Cubic Feet
MW	Megawatt (1,000 KW)
NCTA	National Cable Television Association
NO_x	Nitrogen Oxides
NRC	United States Nuclear Regulatory Commission
Paragon	Paragon Communications
PCB	Polychlorinated Biphenyl
PURA	Texas Public Utility Regulatory Act of 1975 as Amended
RBOC	Regional Bell operating company
RCRA	Resource Conservation and Recovery Act
San Antonio	City of San Antonio
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
Showtime	Showtime Networks, Inc.
South Texas Project	South Texas Project Electric Generating Station
STEP	Success Through Excellence in Performance
Sunset Act	Texas Sunset Act
TACB	Texas Air Control Board
TWC	Texas Water Commission
Utility Commission	Public Utility Commission of Texas
Utility Fuels	Utility Fuels, Inc.
UTT	United Texas Transmission Company
W. A. Parish	W.A. Parish Electric Generating Station
Westinghouse	Westinghouse Electric Corporation

HOUSTON INDUSTRIES INCORPORATED
Form 10-K for the Year Ended December 31, 1992

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PART I

Item 1. Business

THE COMPANY AND ITS SUBSIDIARIES

The Company, incorporated in Texas in 1976, is a holding company operating principally in two business segments, the electric utility business and the cable television business. The Company conducts its operations primarily through three subsidiaries: HL&P, its principal operating subsidiary; KBLCOM and Utility Fuels. See "Regulation of the Company" for a description of the Company's status under the 1935 Act.

The Company's electric utility business segment encompasses the operations of HL&P and Utility Fuels. HL&P is engaged in the generation, transmission, distribution and sale of electric energy and serves over 1.4 million customers in a 5,000 square mile area of the Texas Gulf Coast, including Houston. As of December 31, 1992, the total assets and common stock equity of HL&P represented 84% of the Company's consolidated assets and 106% of the Company's consolidated common stock equity, respectively. For the year then ended, the operations of HL&P accounted for 102% of the Company's consolidated net income. See "Business of HL&P." Utility Fuels primarily provides coal and lignite supply services to HL&P. See "Businesses of Other Subsidiaries - Utility Fuels."

The cable television operations of the Company are conducted through KBLCOM and its subsidiaries. This segment includes five cable television systems located in four states and a 50% interest in Paragon, a partnership which owns systems located in seven states. As of December 31, 1992, KBL Cable served approximately 577,000 basic cable customers subscribing to approximately 435,000 premium programming units and, according to information provided by Paragon's managing partner, Paragon served approximately 901,000 basic cable customers subscribing to approximately 540,000 premium programming units. See "Business of KBLCOM."

As of December 31, 1992, the Company and its subsidiaries had 11,576 full-time employees. The electric utility segment had 9,577 full-time employees and the cable television segment had 1,513 full-time employees (excluding employees of joint ventures and partnerships in which the Company holds less than a majority interest).

In January 1992, HL&P, as part of a program of self-examination to identify performance improvement opportunities, offered certain employees a voluntary early retirement plan and announced a severance plan for those employees affected by recommended changes to HL&P's workforce. Approximately 500 employees accepted the early retirement offer and an additional 1,100 positions were eliminated. Affected employees were released and offered the severance package. HL&P recorded a one-time, pre-tax charge of $86 million in the first quarter of 1992 to reflect the restructuring of its operations. For a further discussion of this program, see "Results of Operations" in Item 7 of this Report and Note 18 to the Consolidated Financial Statements in Item 8 of this Report, which are incorporated herein by reference.

The Company has adopted or will adopt in 1993 certain new accounting principles, including SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"; SFAS No. 107, "Disclosures About Fair Value of Financial Instruments"; and SFAS No. 109, "Accounting for Income Taxes." As a result of the adoption of SFAS No. 109, the Company has restated its financial statements for the period 1990-1991. See the Consolidated Financial Statements in Item 8 of this Report.

From time to time, the Company and its subsidiaries may pursue domestic and international business opportunities including participation in the development of non-utility generation projects which, in the aggregate, are not expected to be significant in the near term in comparison with other activities of the Company. See "Businesses of Other Subsidiaries."

For certain financial information with respect to each of the Company's two principal business segments, see Note 16 to the Consolidated Financial Statements in Item 8 of this Report, which is incorporated herein by reference.

For a discussion of the Company's liquidity and financing activities, see "Liquidity and Capital Resources" in Item 7 of this Report, which is incorporated herein by reference.

BUSINESS OF HL&P

HL&P, incorporated in Texas in 1906, is engaged in the generation, transmission, distribution and sale of electric energy. Sales are made to residential, commercial and industrial customers in an approximately 5,000 square mile service area of the Texas Gulf Coast, including Houston.

As an electric utility, HL&P has been affected to varying degrees by a number of factors that have affected the electric utility industry in general, including difficulty in obtaining rate increases sufficient to provide an adequate return on invested capital, high costs and delays associated with compliance with environmental and nuclear regulations, changes in regulatory climate, prudence audits, competition from other energy suppliers and difficulty in obtaining regulatory approval for construction of new generating plants. HL&P is unable to predict the future effect of these or other factors, including any proposed tax changes contained in the Clinton administration's economic plan, upon its operations and financial condition. For information concerning judicial review of certain rate orders of the Utility Commission with regard to HL&P, see Notes 10 and 11 to the Consolidated Financial Statements in Item 8 of this Report.

In 1992, Congress enacted the Energy Act which, among other changes, exempts a class of electric power producers engaged in sales of electric energy exclusively at wholesale (EWGs) from the 1935 Act. This legislation also directs state regulatory commissions to consider implementation of standards for wholesale purchases of power by electric utilities, IRP, conservation, DSM and energy efficiency. In addition, it expands the FERC's authority to order utilities to transmit power at the request of any electric utility, federal power marketing agency or any person generating energy for sale for resale, subject to certain

conditions. For information with respect to the Energy Act, See "Business of HL&P - Competition."

The 73rd Texas legislature, which convened in January 1993, is charged with reviewing the operations of the Utility Commission under provisions of the Sunset Act. The Sunset Act staff advisory recommendations have supported continuation of the Utility Commission for eight more years; however, they have recommended changes to the PURA, which provides the Utility Commission its legislative authority. HL&P is unable to predict the outcome of this review; however, it may include changes to the organization and responsibilities of the Utility Commission staff and mandate an IRP process for electric utilities.

The Utility Commission has from time to time independently initiated rulemakings related to IRP, including a more formal and structured approach for approval of an electric utility's resource plan for meeting customers' requirements for electricity. This rulemaking has not been completed; therefore, HL&P is unable to predict its ultimate outcome. Under consideration are requirements for public input, demand side resource solicitation, and quantification of externalities (external costs relating to environmental concerns, health care and similar matters) for both demand and supply side resources.

HL&P is project manager and one of the four co-owners of the South Texas Project, which consists of two 1,250 MW nuclear generating units. HL&P owns a 30.8% interest in the South Texas Project. For a description of litigation and regulatory proceedings relating to the South Texas Project including, among other things, the NRC's recently initiated diagnostic evaluation of the South Texas Project, reference is made to "Regulatory Matters" below, Item 3 of this Report, "United States Regulatory Commission (NRC) Diagnostic Evaluation of the South Texas Project" in Item 7 of this Report and Notes 9(b), 9(c), 9(f), 10 and 11 to the Consolidated Financial Statements in Item 8 of this Report, which are incorporated herein by reference.

Service Area

During the mid-1980s, the HL&P service area was adversely impacted by an economic downturn that was largely attributable to conditions in the oil and gas, real estate and banking industries. While employment, personal income and industrial activity in the Houston area have steadily increased since 1987, the effects of the national recession slowed growth in HL&P's service area in 1991 and 1992. The local economy continues to expand and diversify in numerous areas, including medical, professional and engineering services, but is still dependent to a large degree on oil, gas, refined products, petrochemicals and related businesses.

HL&P operates under a certificate of convenience and necessity granted by the Utility Commission which covers HL&P's present service area and facilities. In addition, HL&P holds franchises to provide electric service within the incorporated municipalities in its service territory. None of such franchises expires before 2007.

Peak Loads and Capability

The following table sets forth for the years indicated information with respect to HL&P's net maximum hourly firm demand, the total net megawatt capability at the time of its maximum hourly firm demand and the resulting reserve margin:

Year	Installed Net Capability (MW)	Purchased Power (MW)(1)	Total Net Capability (MW)	Maximum Hourly Firm Demand: Date	MW (2)	% Change From Prior Year	Reserve Margin (%)
1988	12,855	820	13,675	August 9	10,422	1.2	31.2
1989	13,644	820	14,464	Sept. 1	10,456	0.3	38.3
1990	13,584	945	14,529	August 27	11,150	6.6	30.3
1991	13,583	945	14,528	August 21	10,908	(2.2)	33.2
1992	13,583	945	14,528	July 30	10,783	(1.1)	34.7

(1) Reflects firm capacity purchased.

(2) Does not include interruptible load at time of peak.

At December 31, 1992, HL&P owned and operated generating facilities with installed net generating capability of 13,583 MW.

Because of unusually mild summer weather, HL&P experienced a maximum hourly firm demand in 1992 of only 10,783 MW, a 1.1% decline from the 1991 peak. Including interruptible demand, the peak actually served in 1992 was 11,638 MW compared to 11,601 MW in 1991.

For planning purposes, HL&P currently expects peak demand for electricity to grow at a compound annual rate of about 2% over the next ten years. Assuming average weather conditions, reserve margins are projected to decrease from an estimated 29% in 1993 to an estimated 19% in 1995 as a result of growth in peak demand and the expiration of certain firm cogeneration contracts. Assuming facilities currently planned are placed in service and other capacity needs are met as scheduled, HL&P expects to maintain a reserve margin in the range of 17%-20% in excess of its current estimate of peak load requirements. See "Capital Program" and "Competition" below.

HL&P experiences significant seasonal variation in its sales of electricity. Sales during the summer months are typically higher than sales during other months of the year due in large part to the reliance on air conditioning in HL&P's service territory. See Note 20 to the Consolidated Financial Statements in Item 8 of this Report for a presentation of certain unaudited financial information by quarter for 1991 and 1992, which is incorporated herein by reference.

Capital Program

HL&P has a continuous program to maintain its existing facilities and to expand its physical plant as needed to meet customer requirements. Such program and the estimated construction costs set forth below are subject to periodic review and revision because of changes in load forecasts, the need to retire older plants, changing regulatory and environmental standards and other factors. HL&P's capital program is currently estimated to cost approximately $1.30 billion during the three-year period 1993-1995 with approximately $344 million, $498 million and $462 million to be spent in 1993, 1994 and 1995, respectively, excluding AFUDC. In 1992, total capital expenditures were approximately $331 million. These amounts do not include expenditures on projects for which HL&P was reimbursed or expects to be reimbursed by customers or other parties.

HL&P's capital program for 1993-1995 consists of the following principal estimated expenditures:

	Amount (millions)	Percent of Total Expenditures
Generating facilities	$ 583	45%
Transmission facilities	100	8%
Distribution facilities	449	34%
General plant facilities	118	9%
Nuclear fuel	54	4%
Total	$1,304	100%

Current projections indicate a need for additional generating capacity beginning in 1995. HL&P intends to address this need with the installation of two gas turbines with attendant heat recovery steam generators at the Du Pont chemical plant located in the Houston area. The project, which is estimated to cost $121 million, is expected to be available for peak demand in 1995 and is designed to add approximately 160 MW of electrical capacity to HL&P's system while providing needed process steam to the Du Pont chemical plant. For further information regarding the Du Pont project, see "Liquidity and Capital Resources" in Item 7 of this Report, which is incorporated herein by reference. HL&P does not forecast additional capacity needs until the 1997-1999 time frame. HL&P currently believes that future capacity needs will likely be met through the construction of combined cycle gas turbines at existing HL&P plant sites, the development of additional steam sale projects or through other means, such as purchased power, additional DSM activities or the reactivation of previously retired units. See "Competition" below. The remaining construction expenditures relating to generating facilities expected in the 1993-1995 period are primarily associated with improvements to existing generating stations.

For information with respect to expenditures on Malakoff, see Note 12 to the Consolidated Financial Statements in Item 8 of this Report, which is incorporated herein by reference.

Expenditures for environmental protection facilities for the five years ended December 31, 1992 aggregated $69.6 million (excluding AFUDC), including expenditures of $7.6 million in 1992. Environmental protection expenditures for 1993-1995 based on existing laws and current and anticipated regulations are estimated to be $140 million (excluding AFUDC), primarily for NO_x emissions controls and monitoring equipment. See "Regulatory Matters - Environmental Quality" below.

Actual construction expenditures and scheduled in-service dates may vary from estimates as a result of numerous factors, including, but not limited to, changes in the rate of inflation, changes in equipment delivery schedules, construction delays and deferrals, availability and relative cost of fuel, availability and cost of purchased power, environmental protection requirements, the availability of adequate and timely rate relief and other regulatory approvals, the ability to secure external financing, legislative changes and changes in anticipated customer demand and business conditions. In connection with its construction program planning, HL&P employs value-based planning techniques that take into account conservation and load management programs along with traditional utility supply options and renewable energy resources to select the plan utilizing the most appropriate and cost-effective alternatives.

In 1992, HL&P spent approximately $19 million, excluding AFUDC, for uranium concentrate and nuclear fuel processing services for its share of the fuel for the South Texas Project. See "Fuel - Nuclear Fuel Supply" below.

Total gross additions to the plant of HL&P during the five years ended December 31, 1992 amounted to approximately $4.3 billion and, during the same period, retirements amounted to approximately $347 million. Gross additions during the five-year period amounted to approximately 40% of total utility plant at December 31, 1992.

Finance. For a discussion of HL&P's liquidity and financing activities and requirements, including the financing of HL&P's capital program, see "Liquidity and Capital Resources - HL&P and Utility Fuels" in Item 7 of this Report, which is incorporated herein by reference.

Competition

A number of cogeneration facilities have been built in HL&P's service area as a result of a high concentration of process industries located in the Gulf Coast region and the availability of attractively priced fuels. Cogeneration is the simultaneous generation of two forms of energy, usually steam and electricity. The Public Utility Regulatory Policy Act of 1978 generally requires utilities to purchase all electricity offered to them by qualifying cogeneration facilities. In Texas, however, cogenerators generally are not permitted to make sales of electricity to parties other than electric utilities or the sole thermal purchaser.

As of December 31, 1992, HL&P purchased energy from fourteen cogeneration facilities, representing over 3,400 MW of total generating capability. As of December 31, 1992, HL&P had contracts totaling 945 MW of firm cogeneration capacity and associated energy which expire as

follows: 1993 - 225 MW; 1994 - 325 MW; 1998 - 125 MW; and 2005 - 270 MW. A ten-year contract for 50 MW of firm capacity and associated energy becomes effective in 1994. Electric utilities in Texas are required to provide transmission wheeling service for power sales by cogenerators to other electric utilities at a compensatory rate. During 1992, approximately 1,400 MW of cogenerated power was transmitted or "wheeled" by HL&P to other utilities in Texas.

Given the uncertainties associated with efforts to obtain additional commitments for firm power on reasonable terms, HL&P is continuing to pursue plans which include new construction and the possible reactivation of existing facilities. See "Capital Program" above.

In October 1992, the Energy Act became law. The Energy Act contains provisions which affect the regulatory structure of the electric utility industry. First, the legislation amends the 1935 Act, exempting a class of power producers known as EWGs. Companies that are already exempt from registration under the 1935 Act, as well as companies not otherwise engaged in the electric utility business, will be permitted to own EWGs without being subject, as a result of such ownership, to the registration requirements and the geographic, ownership and other restrictions imposed by the 1935 Act on non-exempt holding companies and their subsidiaries. Companies registered under the 1935 Act are also permitted to own EWGs. The Energy Act instructs state regulatory commissions to consider standards applicable to wholesale power purchases by electric utilities, including purchases from EWGs. In addition, the Energy Act permits exempt and registered holding companies to acquire and maintain an interest in "foreign utility companies" that meet certain requirements for an exemption from the 1935 Act. Second, the Energy Act significantly expands the authority of the FERC to order owners of transmission lines, such as HL&P, to carry power at the request of any electric utility, federal power marketing agency or any person generating electric energy for sale for resale over such transmission lines. The Energy Act prohibits the FERC from ordering the transmission of electric energy directly to an ultimate consumer; however, it does not affect any authority of any state or local government under state law concerning transmission of electric energy directly to an ultimate consumer. The full impact of the Energy Act on HL&P cannot be determined at this time.

HL&P continues to address the issue of increased competition, among other things, by holding down the cost of construction through the implementation of DSM programs to control load, by deferring the construction of capital intensive central station generating units and related transmission facilities, and by upgrading existing generating facilities. HL&P attempts to control its cost of fuel by (1) purchasing gas at generally low prices and utilizing gas storage facilities to mitigate significant variations in gas demand, (2) purchasing spot coal at prices below existing contract terms, and (3) contracting for additional purchased power when available on attractive terms. HL&P is also addressing its costs through operating performance improvement programs; see "Results of Operations" in Item 7 of this Report and Note 16 to the Consolidated Financial Statements in Item 8 of this Report, which are incorporated herein by reference. Additionally, HL&P continues to encourage industrial expansion in its service area by offering an economic development tariff and economically attractive interruptible rates for those customers capable of taking such service.

Fuel

Approximately 34% of HL&P's energy requirements during 1992 were met with natural gas, 39% with coal and lignite and 9% with nuclear fuel. The remaining 18% were met principally through purchased power, most of which was gas-fired cogeneration. HL&P currently expects its future energy mix to be in the following proportions for the indicated periods:

	Estimated Energy Mix		
	1993	1995	2000
Gas..........................	36%	38%	40%
Coal and Lignite..............	39	41	39
Nuclear......................	8	9	7
Cogeneration..................	17	12	14
Total..................	100%	100%	100%

HL&P's actual energy mix in future years may vary from the percentages shown in the table. Such percentages are based upon numerous assumptions relating to, among other things, environmental protection requirements, load growth, load management, availability of purchased power, the cost and availability of fuels and the actual in-service dates of HL&P's planned generating facilities.

Natural Gas Supply. HL&P purchased its natural gas fuel supplies from a large number of suppliers during 1992; however, approximately 65% of HL&P's gas requirements were purchased from its traditional suppliers, UTT, Exxon, Enron and their affiliates.

Effective April 1992, HL&P entered into three contracts for the supply of gas for a term of five years, the price of which is fixed for the term of the contracts. The total volume of gas available under these contracts is 50 BBtu/day, approximately 8% of HL&P's average daily demand for gas.

In February 1993, HL&P entered into a contract for the supply of 50 BBtu/day of gas for the months May through September of the years 1993-1997 at fixed prices. The total volume of gas available under this contract represents approximately 6% of HL&P's average daily demand for gas in the months May through September.

In addition, effective June 1992, HL&P and Enron agreed to amend their April 1991 contract to increase the volume of gas deliverable pursuant to such contract and to provide for a fixed term ending May 1997. As a result of this agreement, the annual volume of gas deliverable from Enron increased from 46,000 BBtu to 60,000 BBtu.

In February 1992, HL&P exercised its option to reduce the volumes to be purchased from UTT under a 1990 contract. Effective July 1992, the minimum volume of gas deliverable to HL&P was reduced to 20% of HL&P's requirements. HL&P expects that UTT will continue to supply 20% or more of HL&P's natural gas requirements under the terms of the 1990 contract, which is scheduled to expire in February 1996.

Exxon sells gas to HL&P under a long-term contract which will expire in 1996 or after Exxon has tendered a specified quantity of natural gas, whichever comes first. HL&P believes that Exxon will complete its obligation in 1994. HL&P is seeking additional firm gas supplies to replace the volumes which have been available from Exxon.

HL&P has connected certain of its generating facilities to a number of gas pipelines and is able to purchase gas through various sales, interchange, and gas transportation arrangements. HL&P has a long-term contract for gas storage at the North Dayton gas storage facility, providing HL&P with working storage capacity of up to 3,500 BBtu of natural gas which can be delivered to HL&P's generating facilities at varying rates up to 500 BBtu per day. HL&P's average daily gas consumption during 1992 was 610 BBtu per day with peak consumption of 1,200 BBtu per day.

Although natural gas has been relatively plentiful in recent years, supplies available to HL&P and other consumers are vulnerable to disruption due to weather conditions, transportation disruptions, price changes and other events. Large boiler fuel users of natural gas, including electric utilities, generally have the lowest priority among gas users in the event pipeline suppliers are forced to curtail deliveries due to inadequate supplies. As a result of this vulnerability, supplies of natural gas may become unavailable from time to time, or prices may increase rapidly in response to temporary supply disruptions. Such events could require HL&P to withdraw gas from the North Dayton gas storage facility or shift its gas-fired generation to alternative fuel sources such as fuel oil to the extent it has the capability to burn those alternative fuels. Since most of the purchased power capacity available to HL&P is also gas-fired, gas supply disruptions may also affect these alternate energy supply options.

Currently, HL&P anticipates that its alternate fuel capability, combined with its solid-fueled generating resources and available gas storage capability, are adequate to meet fuel needs during any temporary gas supply interruptions. However, there is no assurance that adequate levels of gas supply will be available over the long-term.

HL&P's average cost of natural gas was $1.85 per MMBtu in 1992 (excluding storage costs).

Coal and Lignite Supply. Coal supply services for HL&P's four coal-fired units at W. A. Parish are being provided by Utility Fuels. Utility Fuels purchases low-sulfur Powder River Basin coal under two long-term coal supply contracts and, if necessary, on the spot market. Substantially all of the coal requirements for the projected operating lives of the four coal-fired units at W. A. Parish are expected to be met under such contracts.

The lignite supply services for HL&P's Limestone units are also provided by Utility Fuels. Utility Fuels has under lease or contract recoverable lignite reserves which are expected to meet substantially all of the total projected lignite fuel requirements for the remaining life of the Limestone units. In June 1990, HL&P purchased Utility Fuels' interest in the lignite reserves and lignite handling facilities for Malakoff. The lignite reserves are expected to be sufficient to meet the

total lignite fuel requirements of the proposed generating units at Malakoff. It is presently contemplated that Utility Fuels will provide management services in connection with the lignite supply for Malakoff. See "Capital Program" above and Note 12 to the Consolidated Financial Statements in Item 8 of this Report, which is incorporated herein by reference.

Nuclear Fuel Supply. The supply of fuel for nuclear generating facilities involves the acquisition of uranium concentrates, conversion to uranium hexafluoride, enrichment of the uranium hexafluoride and fabrication of nuclear fuel assemblies. Contracts have been entered into with various suppliers to provide the South Texas Project with uranium concentrates to permit operation through 1995, conversion services through 1993, enrichment services through 2014 (except as noted below) and fuel fabrication services for the initial cores and 16 additional years of operation. Contracts for enrichment services from October 2000 through September 2002 were terminated under a ten year termination notice provision, as determinations were made that other, lower-cost options will be available. Contracts for uranium concentrates and conversion services for 1994 and beyond are currently being evaluated.

By contract, the DOE will ultimately take possession of all spent fuel generated by the South Texas Project. HL&P has been advised that the DOE plans to place the spent fuel in a permanent underground storage facility in an as-yet undetermined location. The DOE contract currently requires payment of a spent fuel disposal fee on nuclear plant generated electricity of one mill ($.001) per net KWH sold. This fee is subject to adjustment to ensure full cost recovery. The South Texas Project is designed to have sufficient on-site storage facilities to accommodate over 40 years of the spent fuel discharges for each unit.

For information relating to a fee assessment upon domestic utilities having purchased enrichment services from the DOE, see Note 8 to the Consolidated Financial Statements in Item 8 of this Report, which is incorporated herein by reference.

Oil Supply. Fuel oil is maintained in inventory by HL&P to provide for fuel needs in emergency situations in the event sufficient supplies of natural gas are not available. In addition, certain of HL&P's generating plants have the ability to use fuel oil if oil becomes a more economical fuel than incremental gas supplies. HL&P has storage facilities for over six million barrels of oil located at those generating plants capable of burning oil. HL&P's oil inventory is adjusted periodically, as necessary, to accommodate changes in the availability of primary fuel supplies.

Recovery of Fuel Costs. For information relating to the cost of fuel over the last three years, see "Operating Statistics of HL&P" and "Results of Operations" in Item 7 of this Report, which are incorporated herein by reference. Recently amended Utility Commission rules continue to provide for the recovery of certain fuel and purchased power costs through an energy component of electric rates (fixed fuel factor). The fixed fuel factor is established during either a utility's general rate proceeding, a fuel reconciliation proceeding, or an interim fuel proceeding and is to be generally effective for a minimum of six months, unless a substantial change in a utility's cost of fuel occurs. In that

event, a utility may be authorized to revise the fixed fuel factor in its rates appropriately. In any event, a fuel reconciliation is required every three years.

In January 1992 and August 1992, HL&P credited to customers' accounts approximately $65 million and $41 million (each such amount including interest), respectively, of amounts previously collected through its fixed fuel factor. Those amounts resulted primarily from lower unit fuel costs and amounts received from settlements in certain fuel transportation litigation. In October 1991, the Utility Commission approved HL&P's existing fixed fuel factor as contemplated in the settlement agreement reached in February 1991 by HL&P and most other parties to Docket No. 9850. See Note 10(c) to the Consolidated Financial Statements in Item 8 of this Report, which is incorporated herein by reference.

Reconciliation of $1.6 billion of fuel expenses was severed from the 1990 general rate case (Docket No. 9850) into Docket No. 10092. In February 1992, the Utility Commission issued an order disallowing $6.9 million of fuel related costs. After considering interest on the disallowed fuel costs, HL&P recorded an after-tax charge of $7.3 million in 1991.

Regulatory Matters

Rates and Services. Pursuant to the PURA, the Utility Commission has original jurisdiction over electric rates and services in unincorporated areas of the State of Texas and in the cities that have relinquished original jurisdiction. Original jurisdiction over electric rates and services in the remaining incorporated municipalities served by HL&P is exercised by such municipalities, including Houston, but the Utility Commission has appellate jurisdiction over electric rates and services within those incorporated municipalities.

Applications for Rate Increases. For information concerning the Utility Commission's orders with respect to HL&P's applications for general rate increases with the Utility Commission (Docket No. 8425 for the 1988 rate case and Docket No. 9850 for the 1990 rate case) and the municipalities within HL&P's service area and the appeals of such orders, reference is made to Notes 10(b) and 10(c) to the Consolidated Financial Statements in Item 8 of this Report, which are incorporated herein by reference. For information concerning a ruling from a District Court of Travis County, Texas in connection with HL&P's 1986 general rate case (Dockets No. 6765 and 6766), and the affirmation by another District Court of Travis County, Texas of the Utility Commission's final order in HL&P's 1984 rate case (Docket No. 5779), reference is made to Note 10(a) to the Consolidated Financial Statements in Item 8 of this Report, which is incorporated herein by reference.

Prudence Review of South Texas Project. For information concerning the Utility Commission's orders in respect of a prudence review of the South Texas Project (Docket No. 6668) and the appeals of such orders, reference is made to Note 10(d) to the Consolidated Financial Statements in Item 8 of this Report, which is incorporated herein by reference.

Deferred Accounting Dockets. For information concerning the Utility Commission's orders allowing deferred accounting treatment for certain costs associated with the South Texas Project (Docket Nos. 8230, 9010 and 8425), the appeals of such orders and related proceedings, reference is made to Notes 10(b), 10(e) and 11 to the Consolidated Financial Statements in Item 8 of this Report, which are incorporated herein by reference.

Environmental Quality. General. HL&P is subject to regulation with respect to air and water quality, solid waste management and other environmental matters by various federal, state and local authorities. Environmental regulations continue to be affected by legislation, administrative actions and judicial review and interpretation. As a result, the precise effect of existing and potential regulations upon existing and proposed facilities and operations cannot presently be determined. However, developments in these and other areas of regulation in the past have required HL&P to make substantial expenditures to modify, supplement or replace equipment and facilities and may in the future delay or impede construction and operation of new facilities or require substantial expenditures to modify existing facilities.

Air. The TACB has jurisdiction and enforcement power to determine the permissible level of air contaminants emitted in the State of Texas. The standards established by the Texas Clean Air Act and the rules of the TACB are subject to modification by standards promulgated by the EPA. Compliance with such standards has resulted, and is expected to continue to result, in substantial expense to HL&P. In addition, expanded permit and fee systems and enforcement penalties may discourage industrial growth within HL&P's service area.

In November 1990, significant amendments to the Clean Air Act became law. The law is designed to control emissions of air pollutants which contribute to acid rain, to reduce urban air pollution and to reduce emissions of toxic air pollutants. Parts of the Clean Air Act are directed at reducing emissions of sulfur dioxide from electric utility generating units. This reduction program includes an "allowance" system which sets forth formulas and criteria to establish a cap on sulfur dioxide emissions for each utility generating unit. The EPA will determine the allowances which HL&P will receive under this legislation. Although the EPA is not expected to finalize allowance allocations until mid-1993, HL&P believes, based on its current analysis, it should receive allowances sufficient to permit continued operation of its existing facilities and some expansion of its solid-fuel generating facilities without substantial additional expense relating to modification of its facilities. HL&P has already made substantial investments in pollution control facilities, and all of its generating facilities currently comply in all material respects with sulfur dioxide emission standards established by the Clean Air Act. As a result of this previous investment, HL&P does not anticipate that significant expenditures for sulfur dioxide removal equipment will be required. Provisions of the Clean Air Act dealing with urban air pollution require establishing new emission limitations for NO_x from existing sources. These limitations are expected to be finalized in mid-1993. The cost of modifications necessary to reduce NO_x emissions from existing sources has been estimated, based upon anticipated regulations, at $62 million in 1994 and $18 million in 1995. The necessary modifications may cause secondary

impacts to generating unit capacity ratings, and cost estimates could change substantially upon analysis of the impact of the final rules. The Clean Air Act also calls for additional stack gas continuous emissions monitoring equipment to be installed on various HL&P generating facilities. Capital expenditures of $12 million in 1993 and $14 million in 1994 are anticipated for installation of this new monitoring equipment beginning in the fall of 1993. See "Capital Program" above.

The Clean Air Act established a new permitting program to be administered in Texas by the TACB. The precise requirements of the program cannot be determined until final regulations have been promulgated. Based on the regulations proposed to date, HL&P anticipates that additional expenditures may be required for administering the permitting process and implementing modifications to a number of existing generating units to comply with such requirements. The legislation could also substantially increase the cost of constructing new generating units.

Water. The TWC has jurisdiction over water discharges in the State of Texas and is empowered to set water quality standards and issue permits regulating water quality. The TWC jurisdiction is currently shared with the EPA, which also issues water discharge permits and reviews the Texas water quality standards program.

HL&P has obtained permits from both the TWC and the EPA for all facilities currently in operation which require such permits. Applications for renewal of permits for existing facilities have been submitted as required. The reissued permits reflect changes in federal and state regulations which may increase the cost of maintaining compliance. In November 1990, the EPA promulgated stormwater discharge regulations which implement provisions of the Clean Water Act and require HL&P to obtain discharge permits and possibly develop additional controls on certain stormwater discharges. Although compliance with the new regulations has resulted and will continue to result in additional costs to HL&P, the costs have not had and are not expected to have a material impact on HL&P's financial condition or results of operations.

For a description of certain Administrative Orders issued by the EPA to HL&P under the Clean Water Act and for a description of certain other environmental litigation, see Item 3 of this Report, which is incorporated herein by reference.

Solid and Hazardous Waste. HL&P is also subject to regulation by the TWC and the EPA with respect to the handling and disposal of solid waste generated on-site. Although legislation proposing the expansion of the scope of RCRA was not adopted in 1992, the TWC has promulgated new rules regulating the classification of industrial solid waste. These regulations will result in increased analytical and disposal costs to HL&P. Although the precise amount of these costs is unknown at this time, HL&P does not believe that such costs, based on its current analysis, will be material. The EPA has promulgated a number of regulations to protect human health and the environment from hazardous waste. Compliance with the regulations promulgated to date has not materially affected the operation of HL&P's facilities, but such compliance has increased operating costs.

Federal Regulation of Nuclear Power. Under the Atomic Energy Act of 1954 and Energy Reorganization Act of 1974, operation of nuclear plants is extensively regulated by the NRC, which has broad power to impose licensing and safety requirements. In the event of non-compliance, the NRC has the authority to impose fines or shut down nuclear plants, or both, depending upon its assessment of the severity of the situation, until compliance is achieved.

For information concerning a diagnostic evaluation that will be conducted by the NRC at the South Texas Project in the spring of 1993, see "United States Nuclear Regulatory Commission (NRC) Diagnostic Evaluation of the South Texas Project" in Item 7 of this Report and Note 9(f) to the Consolidated Financial Statements in Item 8 of this Report, which are incorporated herein by reference.

Low-Level Radioactive Waste. The federal Low-Level Radioactive Waste Policy Act delegates the responsibility for low-level waste disposal to the states. Texas created the Texas Low-Level Radioactive Waste Disposal Authority to build and operate a low-level waste disposal facility. HL&P was assessed approximately $1.1 million in 1992 by the State of Texas for the development work on this facility, and estimates that the assessment for 1993 will be $1.8 million. The Low-Level Radioactive Waste Policy Act establishes several milestones to ensure adequate progress is being made towards implementation of in-state disposal. States not meeting these milestones may be stopped from sending their waste to currently operating disposal sites. Texas has met the required milestones and access to the low level waste disposal facility at Barnwell, South Carolina was extended until June 1994.

HL&P has constructed a temporary low-level radioactive waste storage facility at the South Texas Project. The facility was completed in late 1992 and will be utilized for interim storage of low level radioactive waste after access to the Barnwell facility is suspended and prior to the opening of the Texas Low-Level Radioactive Waste Site.

Nuclear Insurance and Nuclear Decommissioning

Reference is made to Notes 9(d) and 9(e) to the Consolidated Financial Statements in Item 8 of this Report for information concerning nuclear insurance and nuclear decommissioning, which are incorporated herein by reference.

Labor Matters

As of December 31, 1992, HL&P had 9,388 full-time employees of whom 3,659 were hourly-paid employees represented by the International Brotherhood of Electrical Workers under a collective bargaining agreement which expires on May 25, 1993.

For a discussion of HL&P's STEP program and related employee matters, reference is made to "The Company and its Subsidiaries" above; "Results of Operations" in Item 7 of this Report; and Note 18 to the Consolidated Financial Statements in Item 8 of this Report, which are incorporated herein by reference.

Operating Statistics of HL&P

	Year Ended December 31, 1992	1991	1990
Electric Energy Generated and Purchased (MWH):			
Generated - Net Station Output	51,065,016	52,346,488	52,040,529
Purchased	11,537,872	10,518,246	10,320,356
Net Interchange	204	(54)	(11,845)
Total	62,603,092	62,864,680	62,349,040
Company Use, Lost and Unaccounted for	2,660,704	2,663,539	2,792,536
Energy Sold	59,942,388	60,201,141	59,556,504
Electric Sales (MWH):			
Residential	16,375,400	16,978,934	16,701,269
Commercial	12,541,636	12,501,613	12,188,947
Industrial	24,374,284	24,250,892	23,812,889
Street Lighting - Government and Municipal	110,896	109,874	110,026
Total Firm Retail Sales	53,402,216	53,841,313	52,813,131
Other Electric Utilities	243,167	506,558	718,626
Total Firm Sales	53,645,383	54,347,871	53,531,757
Interruptible	5,974,203	5,304,345	5,770,154
Off-System	322,802	548,925	254,593
Total	59,942,388	60,201,141	59,556,504
Number of Customers (End of Period):			
Residential	1,258,556	1,238,451	1,217,594
Commercial	165,241	163,054	161,067
Industrial (Including Interruptible)	1,756	1,791	1,844
Street Lighting - Government and Municipal	82	82	82
Other Electric Utilities (Including Off-System)	10	13	10
Total	1,425,645	1,403,391	1,380,597
Operating Revenue (Thousands of Dollars):			
Residential	$ 1,465,627	$1,465,403	$1,385,710
Commercial	926,157	882,873	838,325
Industrial	1,134,601	1,109,108	1,070,660
Street Lighting - Government and Municipal	23,148	21,977	20,366
Total Electric Revenue - Firm Retail Sales	3,549,533	3,479,361	3,315,061
Other Electric Utilities	26,834	41,136	48,833
Total Electric Revenue - Firm Sales	3,576,367	3,520,497	3,363,894
Interruptible	127,042	105,476	121,228
Off-System	6,364	8,907	4,746
Total Electric Revenue	3,709,773	3,634,880	3,489,868
Miscellaneous Electric Revenues	117,068	39,663	(21,186)
Total	$ 3,826,841	$3,674,543	$3,468,682
Installed Net Generating Capability (KW) (End of Period)	13,583,000	13,583,000	13,584,000
Cost of Fuel (Cents per Million Btu):			
Gas	192.3	161.5	178.9
Coal	218.9	230.6	220.5
Lignite	178.8	175.5	160.1
Nuclear	59.9	58.3	57.9
Average	184.6	175.3	178.9

BUSINESS OF KBLCOM

General

The cable television operations of the Company are conducted through KBLCOM and its subsidiaries. KBL Cable, a subsidiary of KBLCOM, owns and operates five cable television systems located in four states. Another subsidiary of KBLCOM owns a 50% interest in Paragon, a Colorado partnership, which in turn owns twenty systems located in seven states. KBLCOM's 50% interest in Paragon is recorded in the financial statements using the equity method of accounting. The remaining 50% interest in Paragon is owned by subsidiaries of ATC, which is a subsidiary of Time Warner Inc. ATC serves as the managing partner for all but one of the Paragon systems. The partnership agreement provides that at any time after December 31, 1993, either partner may elect to divide the assets of the partnership under certain predefined procedures set forth in the agreement.

As of December 31, 1992, KBL Cable served approximately 577,000 basic cable customers who subscribed to approximately 435,000 premium programming units. As of the same date, Paragon served approximately 901,000 basic cable customers who subscribed to approximately 540,000 premium programming units.

Unless otherwise indicated or the context otherwise requires, all references in this section to "KBLCOM" mean KBLCOM and its subsidiaries. All references to KBL Cable mean KBL Cable and its subsidiaries, and all references to Paragon mean the Paragon partnership. All information pertaining to Paragon has been provided to KBLCOM by Paragon's managing partner, ATC, unless stated otherwise.

Cable Television Services

The cable television business of KBLCOM consists primarily of selling to subscribers, for a monthly fee, television programming that is distributed through a network of coaxial and fiber optic cables. KBLCOM offers its subscribers both basic services and, for an extra monthly charge, premium services. Each of the KBLCOM systems carries the programming of all three major television networks, programming from independent and public television stations and certain other local and distant (out-of-market) broadcast television stations. KBLCOM also offers to its subscribers locally produced or originated video programming, advertiser-supported cable programming (such as ESPN and CNN), premium programming (such as HBO and Showtime) and a variety of other types of programming services such as sports, family and children, news, weather and home shopping programming. As is typical in the industry, KBLCOM subscribers may terminate their cable television service on notice. KBLCOM's business is generally not considered to be seasonal.

All of KBL Cable's systems are "addressable", allowing individual subscribers, among other things, to electronically select pay-per-view programs. Approximately 47% of KBL Cable's customers presently have converters permitting addressability. This allows KBL Cable to offer pay-per-view services for various movies, sports events, concerts and other entertainment programming.

Overview of Systems and Development

The KBL Cable systems are located in the areas of greater San Antonio and Laredo, Texas; Minneapolis, Minnesota; Portland, Oregon; and Orange County, California. All of these systems other than the Laredo system, which is the smallest system, were built between 1979 and 1986 and have channel capacities ranging from 45 channels (San Antonio and California) to 125 channels (Minneapolis). The Laredo system was originally wired for cable in the 1960s and upgraded in 1979. It has a 38-channel capacity. Although all of these systems are considered fully built, annual capital expenditures will be required to accommodate growth within the service areas and to replace and upgrade existing equipment. Capital expenditures of KBL Cable, which were $44 million in 1992 (including $3.7 million related to the acquisition of a small cable system), are expected to be approximately $152 million over the 1993-1995 period. For additional information with respect to capital expenditures of KBL Cable, see "Liquidity and Capital Resources - KBLCOM" in Item 7 of this Report and Note 8(b) to the Consolidated Financial Statements in Item 8 of this Report, which are incorporated herein by reference.

Paragon owns cable television systems that serve a number of cities, towns or other areas in Texas (including El Paso), Arizona, Florida (including the Tampa Bay area), New Hampshire, New York (including a portion of Manhattan), Maine and southern California (areas in Los Angeles County). Paragon made capital expenditures of approximately $66 million in 1992 and expects to make capital expenditures of approximately $52 million in 1993.

For information regarding KBLCOM's financial results and liquidity and the financing of KBLCOM, see "Liquidity and Capital Resources - KBLCOM" in Item 7 of this Report and Note 4 to the Consolidated Financial Statements in Item 8 of this Report, which are incorporated herein by reference.

The following table summarizes certain information relating to the cable television systems owned by KBL Cable and Paragon:

	KBL Cable As of December 31,			Total Paragon (1) As of December 31,		
	1992	1991	1990	1992	1991	1990
Estimated number of homes passed by cable(2)....	1,176,000	1,160,000	1,149,000	1,544,000	1,513,000	1,467,000
Number of basic subscribers(3).	577,000	559,000	550,000	901,000	865,000	829,000
Basic subscribers as a percentage of homes passed	49.1%	48.2%	47.9%	58.4%	57.2%	56.5%
Number of premium (pay) units(4).......	435,000	434,000	453,000	540,000	541,000	541,000
Premium (pay) units as a percentage of basic subscribers....	75.4%	77.6%	82.4%	59.9%	62.5%	65.3%

1) A KBLCOM subsidiary has a 50% interest in Paragon. Information has been furnished by ATC, the managing partner of Paragon.

2) A home is "passed by cable" if it can be connected to cable service without extension of the distribution system.

3) Basic subscribers means the sum of (i) the number of homes receiving cable services, (ii) all units in multiple dwellings which receive one bill, and (iii) each commercial establishment (hotels, hospitals, etc.), less (iv) complimentary accounts.

4) Premium (or pay) units consist of the number of subscriptions to premium programming services, counting as separate subscriptions each service received by a subscriber.

Over the three-year period ended December 31, 1992, growth in the number of subscribers in the KBLCOM systems was achieved through marketing efforts aimed at existing homes passed by cable, population growth in the franchise areas and increased access to potential subscribers through the construction of additional distribution facilities within existing franchise areas. KBLCOM believes these same factors will contribute to continued growth. In addition, KBLCOM may from time to time acquire additional cable television systems. In 1992, KBL Cable acquired a small cable television system (comprising 2,177 basic subscribers) which adjoined one of the existing systems. KBLCOM is also actively marketing premium programming services and intends to introduce new services as they become commercially feasible.

Sources of Revenues and Rates to Subscribers

For the year ended December 31, 1992, the average monthly revenue per subscriber for KBL Cable was approximately $35. Approximately 67% of KBL Cable's revenue was derived from monthly fees paid by subscribers for basic cable services and 17% was derived from premium programming services. Rates to subscribers vary from system to system and in accordance with the type of service selected. As of December 31, 1992, the average monthly basic revenue per subscriber for the KBL Cable systems generally ranged from $18.20 to $23.90. As of December 31, 1992, approximately 41% of KBL Cable's customers subscribe to one or more premium channels. KBL Cable's premium units increased during 1992 but declined from 1990 due to a variety of reasons including the effect of recessionary economic conditions, value perception, and competition from other forms of entertainment such as pay-per-view and home video rental. KBL Cable is implementing a number of strategies designed to strengthen this service category including new packaging of premium units and multiplexing, which is the delivery of multiple channels of a premium service (with programs beginning at different times) with no change in price to the subscriber.

The remaining portion of KBL Cable's revenues for the year ended December 31, 1992 was derived from advertising, pay-per-view services, installation fees and other ancillary services. KBL Cable believes that, within its present markets, the sale of commercial advertising to local, regional and national advertisers, pay-per-view services and other ancillary services offer the potential for increased revenues. Advertising revenues for the year ended December 31, 1992 increased $3.4 million or 28% over the previous year while other ancillary revenues increased by $2.8 million or 26%. Pay-per-view revenues declined $1.2 million or 10.5% below the previous year due primarily to the reduction in the number of national sporting events available for broadcast.

For the year ended December 31, 1992, the average monthly revenue per subscriber for Paragon systems was approximately $30. Approximately 70% of Paragon's revenues was derived from monthly fees for basic services and 20% was derived from premium services. As of December 31, 1992, the average monthly basic revenue per subscriber for Paragon systems ranged from $18.45 to $21.45. As of December 31, 1992, approximately 34% of Paragon's customers subscribe to one or more premium channels.

Franchises

KBLCOM's cable television systems generally operate pursuant to non-exclusive franchises or permits awarded by local governmental authorities, and, accordingly, other applicants may obtain franchises or permits in franchise areas served by KBLCOM. See "Regulation" below. As of December 31, 1992, KBL Cable held 53 franchises with unexpired terms ranging from under one year to approximately 19 years. A single franchise agreement with San Antonio, which expires in 2003, covers approximately 32% of KBL Cable's subscribers as of December 31, 1992. The expiration periods and approximate percentages of subscribers for KBL Cable's remaining franchises are as follows:

Percent of Subscribers	Expiration Period of Remaining Franchises
14%	1993-1996
32%	1997-2000
49%	after 2000
5%	No expiration date

As of December 31, 1992, Paragon held 147 franchises with unexpired terms ranging from 1993 to 2010. The single largest franchise, which covers a portion of Manhattan, includes more than 20% of Paragon's subscribers as of December 31, 1992.

The provisions of state and local franchises are subject to Federal regulation under the Cable Act. See "Regulation" below. Cable television franchises generally can be terminated prior to their stated expiration date under certain circumstances such as a material breach of the franchise by the cable operator. Franchises typically contain a number of provisions dealing with, among other things, minimum technical specifications for the systems; operational requirements; total channel capacity; local governmental, community and educational access; franchise fees (which range up to 5% of cable system revenues); and procedures for renewal of the franchise. Sometimes conditions of franchise renewal require improved facilities, increased channel capacity or enhanced services. One franchise, with approximately 55,000 subscribers as of December 31, 1992, held by a subsidiary of KBL Cable, provides that the city granting the franchise may at any time require the KBL Cable subsidiary to sell, at fair market value, its franchise and operations in the city to another cable television operator with a franchise for another portion of the city. Conversely, the city may require the other operator to sell, and the KBL Cable subsidiary to purchase, the franchise and operations, with approximately 24,000 subscribers as of December 31, 1992, of the other operator in the city.

KBLCOM's franchises are also subject to renewal and generally are not transferable without the prior approval of the franchising authority. In addition, some franchises provide for the purchase of the franchise under certain circumstances, such as a failure to renew the franchise. To date, KBLCOM's franchises have generally been renewed or extended upon their stated expirations, but there can be no assurance of renewal of franchises in the future.

Programming Contracts

A substantial portion of KBLCOM's programming is obtained under contracts with terms that typically extend for more than one year. KBLCOM generally pays program suppliers a monthly fee per subscriber. Certain of these contracts have price escalation provisions that are generally coupled with a right of KBLCOM to cancel the contract if the price exceeds certain agreed-upon limits.

Competition

Cable television systems experience competition from a variety of sources, including broadcast television signals, multipoint microwave distribution systems, direct broadcast satellite systems (satellite

signals directly to a subscriber's satellite dish) and satellite master antenna systems (a satellite dish which receives signals and distributes them within a multiple unit dwelling). The effectiveness of such competition depends, in part, upon the quality of the signals and the variety of the programming offered by such technologies and the cost thereof as compared with cable television systems. These competitive technologies are not generally subject to the same form of local regulation that affects cable television. Cable television systems also compete to varying degrees with other communications and entertainment media such as motion picture theaters and video cassette rentals, and such competition may increase with the development and growth of new technologies.

KBLCOM is addressing increased competition by focusing on (i) improving customer service; (ii) carrying a greater variety of local and national programming, some of which will be available in its markets only through KBLCOM, and (iii) furthering the development of the interactive use of its cable systems.

Since KBLCOM's systems operate under non-exclusive franchises, other companies may obtain permission to build cable television systems in areas where KBLCOM presently operates. A 1986 United States Supreme Court decision has raised questions regarding the constitutionality of the cable television franchising process. The decision requires lower courts to decide whether, in areas where more than one cable operator can be physically accommodated by local utilities, franchising authorities may refuse to grant more than one franchise to serve that area. No prediction can be made at this time as to whether additional franchises will be granted to any competitors, or if granted and a cable television system is constructed, what the impact on KBLCOM and the Company might be.

KBLCOM competes with a variety of other media in the sale of advertising time on its cable television systems.

Regulation

Cable television is subject to regulation at the Federal, local and, in some cases, state level.

In October 1992, the 1992 Cable Act became law. The 1992 Cable Act expands the scope of cable industry regulation beyond that imposed by the Cable Act. The following are new and significant areas of regulation imposed by the 1992 Cable Act.

Rate Regulation. Under the 1992 Cable Act, virtually all of the Company's cable systems will be subject to rate regulation. The 1992 Cable Act mandates that the FCC establish rate standards and procedures governing regulation of basic cable service rates. Franchising authorities may "certify" to the FCC that they will follow the FCC standards and procedures in regulating basic rates and, once such certification is made, the franchising authorities will assume such rate regulation authority over basic rates. The 1992 Cable Act also requires that the FCC, upon complaint from a franchising authority or a cable subscriber, review the "reasonableness" of rates for additional tiers of cable service. Only rates for premium pay channels and single event pay-

per-view services are excluded entirely from rate regulation. Because implementation of the specific rate standards and formulas for basic tier rates will not be completed by the FCC until at least May 1993, it is impossible to predict the exact impact upon existing and future rates of the Company. It is, however, possible that such rate regulation could result in denial of requested rate increases and in reduction of existing rate levels. The 1992 Cable Act specifically abolishes the annual right to an automatic 5% increase in basic rates provided in the Cable Act. Additionally, the 1992 Cable Act imposes rate regulation pursuant to an FCC formula for the sale and lease of cable equipment such as converters, remote controls and additional outlets "on the basis of actual cost".

Must Carry/Retransmission Consent. The 1992 Cable Act establishes a choice for commercial broadcast stations between "must carry" rights or "retransmission consent" rights. This choice must be made by October 1993 and every three years thereafter.

Retransmission Consent. As of October 1993, cable operators will be required to secure permission from broadcasters that have selected retransmission consent before retransmitting the broadcasters' signals. Established "super stations" are exempted from this provision. Local and distant broadcasters can require cable operators to make payments as a condition to granting such consent for carriage of the broadcast station on the cable system. This requirement has the potential of significantly increasing the cost of carriage of broadcast stations on the Company's cable systems.

Must Carry Requirements. The 1992 Cable Act imposes obligations to carry "local" broadcast stations should such stations choose a "must carry" right as opposed to the "retransmission consent" right described above. Generally, the cable operator must dedicate up to approximately one-third of its channel capacity for carriage of both commercial broadcast television stations and non-commercial broadcast television stations.

Buy-through Prohibition. The 1992 Cable Act prohibits cable systems which have addressable technology and addressable converters in place from requiring cable subscribers to purchase service tiers above basic as a condition to purchasing premium channels, such as HBO or Showtime. If cable systems do not have such addressable technology or addressable converters in place, they are given up to ten years to comply with this provision.

Programming Acquisition. The 1992 Cable Act directs the FCC to promulgate regulations regarding the sale and acquisition of cable programming between cable operators and programming services in which the cable operator has an attributable interest. The legislation and the subsequent FCC regulations will preclude most exclusive programming contracts, will limit "volume discounts" that can be offered to affiliated cable operators, and will generally prohibit cable programmers from providing terms and conditions to affiliated cable operators that are more favorable than those provided to unaffiliated operators. Furthermore, the 1992 Cable Act requires that such cable programmers make their programming services available to competing video technologies, such as multi-channel, microwave distribution systems and direct

broadcast satellite systems on terms and conditions that do not discriminate against such competing technologies.

Programming Carriage Agreements. The 1992 Cable Act requires the FCC to adopt regulations that will prohibit cable operators from (1) requiring ownership of a financial interest in a program service as a condition to carriage of such service, (2) coercing exclusive rights in a programming service, or (3) favoring affiliated programmers so as to restrain unreasonably the ability of unaffiliated programmers to compete.

Ownership Restrictions. The 1992 Cable Act requires the FCC to (1) prescribe rules and regulations establishing reasonable limits on the number of cable subscribers a person is authorized to reach through cable systems owned by such person, or in which such person has an attributable interest; (2) prescribe rules and regulations establishing reasonable limits on the number of channels on a cable system that can be occupied by a video programmer in which a cable operator has an attributable interest; and (3) consider the necessity and appropriateness of imposing limitations on the degree to which multichannel video programming distributors may engage in the creation or production of video programming. Additionally, cable operators are prohibited from selling a cable system within three years of acquisition or construction of such cable system.

Customer Service/Technical Standards. The 1992 Cable Act requires the FCC to promulgate regulations establishing minimum standards for customer service and technical system performance. Franchising authorities are allowed to enforce stricter customer service requirements than the standards so promulgated by the FCC.

The majority of the provisions of the Cable Act remain in place. The Cable Act continues to: (a) restrict the ownership of cable systems by prohibiting cross-ownership by a telephone company within its operating area and cross-ownership by local television broadcast station owners; (b) require cable television systems with 36 or more "activated" channels to reserve a percentage of such channels for commercial use by unaffiliated third parties; (c) permit franchise authorities to require the cable operator to provide channel capacity, equipment and facilities for public, educational and governmental access; (d) limit the amount of fees required to be paid by the cable operator to franchise authorities to a maximum of 5% of annual gross revenues; (e) grant cable operators access to public rights of way and utility easements; (f) establish a federal privacy policy regulating the use of subscriber lists and subscriber information; (g) establish civil and criminal liability for unauthorized reception or interception of programming offered over a cable television system or satellite delivered service; (h) authorize the FCC to preempt state regulation of rates, terms and conditions for pole attachments unless the state has issued effective rules; (i) require the sale or lease to subscribers of devices enabling them to block programming considered offensive; and (j) contain provisions governing cable operators' compliance with equal employment opportunity requirements.

The 1992 Cable Act, together with the Cable Act, creates a comprehensive regulatory framework for cable television. Violation by a cable operator of the statutory provisions or the rules and regulations

of the FCC can subject the operator to substantial monetary penalties and other significant sanctions.

With respect to the 1992 Cable Act, the FCC is directed to conclude ten separate rulemaking procedures within 180 days of October 5, 1992 to clarify and implement significant features of the new statute. While many of the specific obligations imposed on cable television systems under these laws and regulations are complex, burdensome and will increase the Company's costs of doing business, it is impossible to assess the detailed impact of the 1992 Cable Act on the Company until the FCC completes such 1992 Cable Act rulemakings.

Telephone companies continue in their efforts to repeal legislative prohibitions against their ownership of cable television systems. In October 1991, the Court of Appeals for the District of Columbia vacated the stay pending appeal of the order of the United States District Court for the District of Columbia in United States v. Western Electric Company, et al., permitting RBOCs to enter into the information services business both within and outside of each RBOC's service area. While the final effect of this decision is uncertain, RBOCs now may be entitled to own and operate cable television systems outside their service areas as a result of that Court of Appeals' ruling. RBOCs are still prohibited by the Cable Act from owning or operating a cable television system within their service areas. No prediction can be made at this time concerning the impact, if any, of that Court of Appeals decision on KBLCOM and the Company. Any changes to the ownership prohibitions could result in additional direct competition for KBLCOM.

Employees

Excluding employees of Paragon, KBLCOM had 1,513 full-time employees as of December 31, 1992, none of whom is represented by a union.

As of December 31, 1992, Paragon had 1,839 full-time employees of whom 608 were represented by unions.

BUSINESSES OF OTHER SUBSIDIARIES

Utility Fuels

Utility Fuels provides coal and lignite purchasing, transportation and handling services to HL&P. Substantially all of the coal is purchased under long-term contracts from mines in the Powder River Basin area of Wyoming. The coal is transported under terms of a long-term rail contract to Utility Fuels' coal handling facilities located at W. A. Parish by a rail fleet consisting of 1,226 railroad cars owned by Utility Fuels and 1,090 railroad cars that are leased by Utility Fuels. During 1992, Utility Fuels delivered 9.6 million tons of coal to HL&P. At December 31, 1992, Utility Fuels had a net investment of $83.7 million in coal handling facilities and railroad cars.

Utility Fuels provides lignite to Limestone from an adjacent mine. Utility Fuels owns the mining equipment, facilities and a portion of the lignite leases. The lignite is mined by a contract mine operator. Utility Fuels owns and operates the equipment and facilities that receive and deliver the lignite to Limestone. During 1992, Utility Fuels

delivered 7 million tons of lignite to Limestone. At December 31, 1992, Utility Fuels had a net investment of $240.6 million in lignite mining, handling and transportation equipment.

The coal or lignite under contract and lease is believed to be sufficient to provide a substantial portion of the fuel to W. A. Parish and Limestone for their projected operating lives.

As of December 31, 1992, Utility Fuels leased 655 coal-carrying railroad cars in addition to those railroad cars leased in connection with services provided to HL&P. Utility Fuels leases 220 of these railroad cars on a long-term basis and 435 of these railroad cars on a short-term basis to customers other than HL&P.

Utility Fuels expects to make capital expenditures of $10.6 million in 1993, $11.9 million in 1994 and $11.5 million in 1995. These expenditures are primarily related to replacement and maintenance of Utility Fuels' existing equipment and facilities.

For additional information with respect to Utility Fuels' sources of coal and lignite, see "Business of HL&P - Fuel - Coal and Lignite Supply."

Houston Argentina

In December 1992, Houston Argentina, a newly formed subsidiary of the Company, acquired a 32.5% interest in an Argentine holding company that in turn owns a 51% interest in Edelap S.A., an electric utility company operating in La Plata, Argentina and surrounding areas. Houston Argentina's share of the cash purchase price was $37.6 million. Houston Argentina acts as operator of the utility which served approximately 200,000 residential customers, and approximately 30,000 commercial and industrial customers in 1991.

Houston Industries Finance

Houston Industries Finance was organized to purchase receivables from, among others, HL&P and certain KBLCOM subsidiaries. In January 1993, however, HL&P began selling substantially all of its customer accounts receivable to CSW Credit, and Houston Industries Finance ceased to purchase the KBLCOM receivables. Consequently, in January 1993, Houston Industries Finance terminated its commercial paper program and related bank lines of credit and ceased operations.

Financing of Operations of Subsidiaries

For a description of the financing activities of subsidiaries of the Company, see "Liquidity and Capital Resources" in Item 7 of this Report, which is incorporated herein by reference.

REGULATION OF THE COMPANY

Federal

1935 Act. The Company is a holding company as defined in the 1935 Act. It is exempt from regulation under the 1935 Act except with respect to the acquisition of certain voting securities of other domestic public utility companies and holding companies. The Company's exemption is based upon the intrastate character of the operations of its public utility subsidiary, HL&P, and the filing with the SEC of an annual exemption statement pursuant to Section 3(a)(1) of the 1935 Act and Rule 2 thereunder. The SEC is authorized by the 1935 Act and by its own rules to deny or terminate such an exemption upon a determination that it is detrimental to the public interest or to the interest of investors or consumers. Based on past SEC policy, there may be limits on the extent to which the Company and its non-utility subsidiaries may engage in non-utility activity without affecting the Company's exempt status. The Company has no present intention, however, of becoming a registered holding company subject to regulation by the SEC under the 1935 Act.

In February 1989, the SEC released for comment a proposed Rule 17 and proposed amendments to Rule 2 which would establish a "safe harbor" for exempt public utility holding companies, such as the Company, which diversify into non-utility businesses. Under that proposal, such diversification would not be considered detrimental to the interests protected by the 1935 Act if the investment in such businesses did not exceed 10% of the holding company's consolidated assets (with no single investment exceeding 2% of consolidated assets) or if the state of its incorporation had enacted legislation specifically regulating diversification. The Company would not meet either of these tests and has submitted comments opposing the proposed rules. If the proposal is adopted, the Company will file for exemption with the SEC. The Company cannot predict whether or when proposed Rule 17 and the proposed amendments to Rule 2 may be adopted or, if adopted, whether they will be adopted in the form in which they were proposed.

The Energy Act, which amended the 1935 Act, provides that, subject to certain conditions, foreign utility companies are exempt from the provisions of the 1935 Act and will not be deemed to be "public utility companies" under the 1935 Act. For information with respect to the Energy Act, See "Business of HL&P - Competition."

State

The Company is not subject to regulation by the Utility Commission under PURA or by the incorporated municipalities served by HL&P. Those regulatory bodies do, however, have authority to review accounts, records and contracts relating to transactions by HL&P with the Company and its other subsidiaries. The Company's ability to acquire and hold a material interest in a foreign utility company, without becoming subject to regulation as a registered holding company under the 1935 Act, is subject to certification by the Utility Commission to the SEC to the effect that ratepayers subject to its jurisdiction will not be adversely affected. On November 12, 1992, the Utility Commission provided to the SEC the certification contemplated under the 1935 Act with respect to the Company's acquisition of an interest in an Argentine public utility

company. Such certification is also applicable to other foreign utility companies in which the Company may seek to obtain an ownership interest. The certification is subject, however, to being revised or withdrawn by the Utility Commission as to any future acquisition.

EXECUTIVE OFFICERS OF THE COMPANY

Name	Age(1)	Officer Since(2)	Business Experience 1988-1992 and Positions (2)	
Don D. Jordan.......	60	1976	Chairman, President, and Chief Executive Officer and Director	1990-
			President and Chief Executive Officer and Director	1988-1990
			Chairman and Chief Executive Officer and Director - HL&P	1988-
Raymond J. Snokhous.	63	1983	Senior Vice President - Governmental and Regulatory Affairs	1990-
			Group Vice President - HL&P	1988-1990
William A. Cropper..	53	1983	Vice President and Treasurer	1988-
Hugh Rice Kelly.....	50	1984	Vice President, General Counsel and Corporate Secretary	1988-
			Senior Vice President, General Counsel and Corporate Secretary - HL&P	1988-
Don D. Sykora.......	62	1977	Vice President and Director	1988-
			President and Chief Operating Officer and Director - HL&P	1988-
Gary G. Weik........	46	1989	Vice President	1990-
			President and Chief Operating Officer - KBLCOM	1989-
			Chairman and Chief Executive Officer - Weik, Gore Associates, a cable television company	1988-1989
			President and Chief Executive Officer - Harte-Hanks Communications, a cable television company	1988
Ken W. Nabors.......	49	1986	Comptroller	1990-
			Treasurer - HL&P	1988-1990

Each of the following officers is an executive officer of HL&P and for purposes of the requirements of this Report may also be considered an executive officer of the Company:

Name	Age(1)	Officer Since(2)	Business Experience 1988-1992 and Positions (2)	
Jack D. Greenwade...	53	1982	Group Vice President - HL&P	1990-
			Senior Vice President & Chief Operating Officer - KBLCOM	1989
			Vice President - HL&P	1988
Donald P. Hall......	65	1989	Group Vice President - HL&P	1989-
			Senior Vice President - Illinois Power Company, an electric utility	1989
			Vice President - Illinois Power Company	1988-1989

EXECUTIVE OFFICERS OF THE COMPANY (CONTINUED)

Name	Age (1)	Officer Since (2)	Business Experience 1988-1992 and Positions (2)	
Lee W. Hogan........	48	1990	Group Vice President - HL&P	1990-
			President and Chief Executive Officer - Greater Houston Partnership, an organization which governs the Houston Economic Development Council, the Houston Chamber of Commerce and the World Trade Association	1989-1990
			President and Chief Executive Officer - Houston Economic Development Council, an organization formed to promote economic diversity in Houston	1988
R. Steve Letbetter..	44	1978	Group Vice President - HL&P	1988-
			Vice President - HL&P	1988
Stephen C. Schaeffer	45	1989	Group Vice President - HL&P	1992-
			Vice President - HL&P	1989-1992
			General Manager - HL&P	1988-1989
James S. Brian......	45	1983	Vice President and Comptroller - HL&P	1988-

(1) At December 31, 1992.

(2) All of the officers were elected May 6, 1992 to serve for one year and until their successors are qualified.

Item 2. Properties.

The Company considers its property and the property of its subsidiaries to be well maintained, in good operating condition and suitable for their intended purposes.

HL&P

All of HL&P's electric generating stations and all of the other operating property of HL&P are located in the State of Texas.

Electric Generating Stations. As of December 31, 1992, HL&P owned eleven electric generating stations (61 generating units) with a combined turbine nameplate rating of 13,425,868 KW, including a 30.8% interest in one station (two units) with a combined turbine nameplate rating of 2,623,676 KW.

Substations. As of December 31, 1992, HL&P owned 204 major substations (with capacities of at least 10.0 Mva) having a total installed rated transformer capacity of 54,323 Mva (exclusive of spare transformers), including a 30.8% interest in one major substation with an installed rated transformer capacity of 3,080 Mva.

Electric Lines-Overhead. As of December 31, 1992, HL&P operated 24,117 pole miles of overhead distribution lines and 3,557 circuit miles of overhead transmission lines including 532 circuit miles operated at 69,000 volts, 1,995 circuit miles operated at 138,000 volts and 1,030 circuit miles operated at 345,000 volts.

Electric Lines-Underground. As of December 31, 1992, HL&P operated 7,470 circuit miles of underground distribution lines and 12.6 circuit miles of underground transmission lines including 8 circuit miles operated at 138,000 volts and 4.6 circuit miles operated at 69,000 volts.

General Properties. HL&P owns various properties which include a 27-story headquarters office building, division offices, service centers, telecommunications equipment and other facilities used for general purposes.

Title. The electric generating plants and other important units of property of HL&P are situated on lands owned in fee by HL&P. Transmission lines and distribution systems have been constructed in part on or across privately owned land pursuant to easements or on streets and highways and across waterways pursuant to authority granted by municipal and county permits, and by permits issued by state and federal governmental authorities. Under the laws of the State of Texas, HL&P has the right of eminent domain pursuant to which it may secure or perfect rights-of-way over private property, if necessary.

The major properties of HL&P are subject to liens securing its long-term debt, and title to some of its properties are subject to minor encumbrances and defects, none of which impairs the use of such properties in the operation of its business.

KBLCOM

The principal tangible assets (other than real estate) relating to KBLCOM's cable television operations consist of operating plant and equipment for each of its cable television systems. These include signal receiving apparatus, "headend" facilities, coaxial and fiber optic cable or wire and related electronic equipment over which programming and data are distributed and decoding converters attached to subscribers' television receivers. The signal receiving apparatus typically includes a tower, antennae, ancillary electronic equipment and earth stations for reception of video, audio and data signals transmitted by satellite. Headend facilities, which consist of associated electronic equipment necessary for the reception, amplification, switching and modulation of signals, are located near the signal receiving apparatus and control the programming and data signals distributed on the cable system. For certain information with respect to property owned directly or indirectly by KBLCOM, reference is made to "Business of KBLCOM" in Item 1 of this Report, which is incorporated herein by reference.

Other Subsidiaries

For certain information with respect to property owned directly or indirectly by the other subsidiaries of the Company, reference is made to "Businesses of Other Subsidiaries" in Item 1 of this Report, which is incorporated herein by reference.

Item 3. Legal Proceedings.

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

On February 15, 1991, November 20, 1991 and October 19, 1992, the EPA issued Administrative Orders to HL&P pursuant to the Clean Water Act relating to alleged noncompliance at Limestone in each of the years 1989 through 1992. 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, but the EPA could impose fines on HL&P for the matters cited. No material impact on the Company's or HL&P's financial condition or results of operations is expected.

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 or contributed in 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 allegedly occurring during the operation and during the clean-up of the site. In the third suit, Holland vs. Central Power and Light Company, et al., now pending before the 148th District Court for Nueces County, Texas, an individual and his relatives allege that he has suffered various illnesses due to his exposure to PCBs disposed of at the site. 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 another utility concerning another site in Houston, Texas, which allegedly has been contaminated by PCBs and for which Gulf States is undertaking remediation pursuant to an EPA order. Gulf States seeks contribution from HL&P and the other utility for Gulf States' remediation costs, but 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 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 or HL&P.

For information with respect to the EPA's identification of HL&P as a "potentially responsible party" for remediation of a CERCLA site adjacent to one of HL&P's transmission lines in Harris County, reference is made to "Liquidity and Capital Resources--HL&P and Utility Fuels--Environmental Expenditures" in Item 7 of this Report, which 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. To date no similar stress corrosion cracking has been experienced with steam generator tubes supplied for the South Texas Project, but the owners of the South Texas Project have approved remedial operating plans and have undertaken expenditures to forestall such corrosion. The litigation, which is in its early stages, seeks appropriate damages and other relief from Westinghouse and is not expected to go to trial until after 1993. No prediction can be made as to the ultimate outcome of that litigation.

Item 4. Submission of Matters to a Vote of Security Holders.

There were no matters submitted to a vote of security holders during the fourth quarter of 1992.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

The Company's Common Stock, which at February 1, 1993 was held of record by approximately 72,504 shareholders, is listed on the New York, Midwest and London Stock Exchanges (symbol: HOU). The following table sets forth the high and low sales prices of the Common Stock on the composite tape during the periods indicated, as reported by The Wall Street Journal, and the dividends declared for such periods:

	Market Price		Dividend Declared per
	High	Low	Share
1992			
First Quarter			$0.74
January 2	$44 3/8		
February 24		$40 1/8	
Second Quarter			0.74
April 8		42	
May 5	44 3/4		
Third Quarter			0.75
August 3	46 7/8		
August 26		43 3/8	
Fourth Quarter			0.75
October 7		42 1/2	
December 23	46 7/8		
1991			
First Quarter			$0.74
January 15		$34 5/8	
February 8	$37 7/8		
Second Quarter			0.74
May 9	38 5/8		
June 21		35	
Third Quarter			0.74
July 1		35 3/4	
September 30	39 3/4		
Fourth Quarter			0.74
October 15		38 1/2	
December 31	44 3/8		

On December 31, 1992, the consolidated book value of the Company's common stock was $25.36 per share and the market price was $45.88 per share.

There are no contractual limitations on the payment of dividends on the common stock of the Company or on the common stock of the Company's subsidiaries other than KBLCOM and KBL Cable. Restrictions on distributions and other financial covenants in KBLCOM and KBL Cable credit agreements and other debt instruments affecting KBLCOM and KBL Cable will effectively prevent the payment of common stock dividends by these subsidiaries for the foreseeable future.

Item 6. Selected Financial Data.

The following table sets forth selected financial data with respect to the Company's consolidated financial condition and consolidated results of operations and should be read in conjunction with the Consolidated Financial Statements and the related notes included elsewhere herein.

	(Thousands of Dollars, except per share amounts) Year Ended December 31,				
	1992(4)	1991(1)	1990(1)	1989	1988
Revenues	$ 4,596,388	$ 4,443,739	$ 4,178,576	$ 3,789,780	$ 3,540,918
Income before cumulative effect of accounting change	$ 340,487	$ 416,754	$ 342,789	$ 413,452	$ 395,254
Cumulative effect of accounting change	94,180		(219,718)		
Net income	$ 434,667	$ 416,754	$ 123,071	$ 413,452	$ 395,254
Earnings per share before cumulative effect of accounting change	$ 2.63	$ 3.24	$ 2.70	$ 3.32	$ 3.34
Cumulative effect of accounting change	.73		(1.73)		
Earnings per share	$ 3.36	$ 3.24	$ 0.97	$ 3.32	$ 3.34
Cash dividends declared per common share	$ 2.98	$ 2.96	$ 2.96	$ 2.96	$ 2.94
Return on average common equity	13.4%	12.7%	3.6%	11.7%	11.8%
Ratio of earnings to fixed charges before cumulative effect of accounting change:					
Including AFUDC (2)	2.06	2.14	1.91	2.19	2.36
Excluding AFUDC (2)	2.03	1.99	1.66	1.81	1.82
At Year-End:					
Book value per common share	$ 25.36	$ 24.96	$ 26.76	$ 29.05	$ 28.75
Market price per common share	$ 45.88	$ 44.25	$ 36.75	$ 35.00	$ 28.00
Market price as a percent of book value	181%	177%	137%	120%	97%
At Year-End:					
Total assets	$12,417,501	$12,165,164	$12,044,755	$11,681,925	$10,186,752
Long-term obligations including current maturities (3)	$ 4,983,790	$ 5,301,063	$ 4,973,925	$ 4,987,801	$ 3,597,253
Capitalization:					
Common stock equity	38%	37%	39%	41%	46%
Cumulative preferred stock of HL&P (including current maturities)	7%	5%	7%	6%	6%
Long-term debt (including current maturities)	55%	58%	54%	53%	48%
Capital Expenditures:					
Construction and nuclear fuel expenditures (excluding AFUDC)	$ 336,035	$ 375,520	$ 358,455	$ 388,653	$ 543,862
Cable television additions	$ 44,306	$ 26,624	$ 31,186	$ 1,339,68[illegible]	$ 1,130

(continued on next page)

Selected Financial Data (continued).

	Year Ended December 31,				
	1992(4)	1991	1990	1989	1988
HL&P Selected Data:					
Percent of construction expenditures financed internally from operations................	139%	130%	84%	76%	37%
Ratio of earnings to fixed charges before cumulative effect of accounting change:					
Including AFUDC (2).......	2.68	2.95	2.80	3.11	2.76
Excluding AFUDC (2).......	2.64	2.71	2.40	2.49	2.06
Ratio of earnings to fixed charges and preferred dividend requirements before cumulative effect of accounting change......	2.29	2.50	2.34	2.60	2.39
AFUDC as a percent of income before cumulative effect of accounting change......	3%	14%	25%	32%	49%

(1) The 1991 and 1990 data has been restated to reflect the effects of the adoption in 1992, with restatement to January 1, 1990, of SFAS No. 109, "Accounting for Income Taxes." The cumulative effect of all years prior to 1990 are reflected in 1990 net income. See also Note 14 to the Consolidated Financial Statements.

(2) AFUDC includes HL&P's deferred carrying costs and deferred return in 1991, 1990 and 1989.

(3) Includes Cumulative Preferred Stock subject to mandatory redemption.

(4) The 1992 cumulative effect relates to the change in accounting for revenues. See also Note 19 to the Consolidated Financial Statements.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Overview. Consolidated net income of Houston Industries Incorporated (Company) for 1992 was $434.7 million, as compared to $416.8 million and $123.1 million for 1991 and 1990, respectively. Consolidated earnings per share were $3.36 for 1992 as compared to $3.24 per share in 1991 and $.97 per share in 1990.

Houston Lighting & Power Company (HL&P), the Company's electric utility subsidiary, contributed $3.41 to the 1992 consolidated earnings per share on income of $441.9 million after preferred dividends. Utility Fuels, Inc. (Utility Fuels), the Company's coal supply subsidiary, contributed $.21 per share on earnings of $27.4 million. KBLCOM Incorporated (KBLCOM), the Company's cable television subsidiary, posted a loss of $21.2 million or $.16 per share. The Company and its other subsidiaries posted a combined loss of $.10 per share.

The increase in the Company's earnings in 1992 compared to 1991 was principally due to improved results at KBLCOM, partially offset by a slight decrease in earnings at HL&P, in each case for the reasons described below.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes" in the fourth quarter of 1992, with restatement to January 1, 1990. The new standard requires that deferred taxes be recorded to reflect the future tax consequences of differences that exist between the book and tax bases of assets other than goodwill. The cumulative effect of SFAS No. 109 adoption, as of January 1, 1990, was a charge to earnings of $219.7 million in 1990, stemming primarily from acquisitions of cable television systems by KBLCOM. The primary impact was on 1990 earnings which, along with 1991 earnings, have been restated. The effects on 1991 and 1992 results were not material.

HL&P. General. HL&P had income after preferred dividends of $441.9 million for 1992, a decrease of $6.4 million from 1991 and an increase of $50.5 million over 1990. HL&P's 1992 net income was positively impacted by $94.2 million associated with the adoption, in the fourth quarter of 1992, of a change in accounting principle which reflects a change in the timing of recognition of revenue from electricity sales (unbilled revenues) effective January 1, 1992. Unbilled revenues represent the estimated amount customers will be charged for service received, but not yet billed, as of the end of each month. The accrual of unbilled revenues results in a better matching of revenues and expenses. The change in the method of recording electricity sales from cycle billing to a full accrual method impacts the pattern of revenue recognition, which has the effect of increasing revenues and earnings in the second and third quarters (periods of higher usage) and decreasing revenues and earnings in the first and fourth quarters (periods of lower usage). Earnings were negatively impacted by an $86 million one-time pre-tax charge in the first quarter of 1992 related to the restructuring of operations as a result of the implementation of the Success Through Excellence in Performance (STEP) program discussed below.

Earnings were also negatively impacted by a decrease in kilowatt-hour (KWH) sales, due to substantially milder weather than in 1991. This weather impact was partially offset by the addition of approximately 22,000 customers during 1992. The increase in income for 1991 when compared to 1990 was due to higher KWH sales in 1991 and a $313 million increase in base rates implemented in May 1991, while 1990 earnings were decreased by a write-off of disallowed costs of approximately $29 million.

During the years 1990 to 1992, HL&P's results of operations were significantly affected by decisions of the Public Utility Commission of Texas (Utility Commission) in connection with rate increase applications filed by HL&P relating to, among other things, the commercial operation for the South Texas Project Electric Generating Station (South Texas Project). These decisions are discussed in Notes 10 and 11 to the Consolidated Financial Statements, which are incorporated herein by reference.

Operating Revenue and Sales. Electric operating revenue for 1992 increased 4.1% over 1991 due to a rate increase effective May 1991, which reflected recovery of costs previously deferred, partially offset by a decrease in fuel revenue and lower KWH sales. Electric operating revenue for 1991 increased 5.9% over 1990 due to the May 1991 rate increase, higher KWH sales, and an increase in fuel revenue. Residential KWH sales in 1992 decreased approximately 3.6% from 1991 due to substantially milder weather, while 1991 KWH sales increased 1.7% over 1990 due to a 1.7% increase in the number of customers. Commercial and firm industrial sales in 1992 were almost unchanged compared to 1991, while 1991 commercial and firm industrial sales increased 2.6% and 1.8%, respectfully, compared to 1990. The mild weather in 1992, following a warm 1991, resulted in 1992 base revenue being approximately $100 million lower than in 1991.

HL&P expects compound annual growth in firm electricity sales to average 2.3% over the next 10 years. Despite the loss of some industrial sales to self-generation, HL&P expects to gain new customers as a result of industrial expansion in the area.

Fuel and Purchased Power Expense. Fuel expense for 1992 increased $27.8 million over the prior year, primarily due to the higher unit cost of fuel resulting from higher natural gas prices, which was partially offset by the lower unit cost of coal and increased generation from nuclear and coal units. Fuel expense for 1991 decreased $27.1 million from 1990 primarily due to a lower unit cost of fuel resulting from lower natural gas prices which was partially offset by the higher unit cost of coal and lignite. The average cost of fuel used by HL&P during 1992 was $1.85 per million Btu, compared to $1.75 and $1.79 per million Btu in 1991 and 1990, respectively. The combined cost of fuel used by HL&P and the fuel portion of purchased power was 1.95 cents per KWH in 1992, up from 1.86 cents per KWH in 1991 and 1.92 cents per KWH in 1990. Purchased power expense increased $42.4 million and $10.2 million in 1992 and 1991, respectively, due to increased usage and escalating capacity charges paid to cogenerators.

STEP Program. In October 1991, HL&P launched its STEP program, an internal effort to identify performance improvement opportunities that could be made while maintaining the high level of customer satisfaction that HL&P has achieved in the past. Now that HL&P's major construction program has been completed and growth in the service area has become more stable, the

STEP program intensified HL&P's focus on meeting customer requirements at the lowest possible cost in order to maintain the current level of base electric rates for an extended period of time. In January 1992, HL&P offered certain employees a voluntary early retirement plan and announced a severance plan for those employees affected by recommended changes to HL&P's workforce. Approximately 500 employees accepted the early retirement offer, and an additional 1,100 positions were eliminated. Affected employees were released and offered the severance package. HL&P recorded a one-time, pre-tax charge of $86 million in the first quarter of 1992 to reflect the restructuring of its operations. As a result of the STEP program, HL&P operations and maintenance expenses for 1992 were substantially below the amounts originally budgeted for the year.

Various legal proceedings, which the Company and HL&P believe to be immaterial and without merit, have been filed by some former employees of HL&P under federal and state laws seeking damages alleged to have been caused by the STEP program. There can be no assurance that additional proceedings asserting labor related claims will not be filed. The Company and HL&P believe that the resolution of such proceedings will not have a material adverse impact on the Company's or HL&P's financial position.

Operation and Maintenance Expenses, Depreciation and Amortization, Other Taxes and Interest. Electric operation expenses in 1992 decreased $28.8 million from 1991 primarily due to savings resulting from the restructuring of operations discussed above, while maintenance expenses increased $25.4 million primarily due to increases in production, transmission and distribution maintenance expenses. In 1991, operation and maintenance expenses increased $45.6 million over 1990 primarily due to increases in administrative and general, production maintenance and distribution maintenance expenses. The increase in administrative and general expense was primarily attributable to a $9.4 million increase in employee benefits expense related to higher medical and pension expenses. In addition, worker's compensation increased $6.6 million over 1990 as a result of higher premiums and a one-time adjustment to recognize these costs on an accrual basis.

Depreciation and amortization expenses increased $21.9 million in 1992 over 1991, while such expenses in 1991 were $23.7 million higher than in 1990. The 1992 increase is primarily attributable to the increase in depreciable property and to the amortization of deferred plant costs related to the South Texas Project which commenced when new rates were implemented in May 1991, while the 1991 increase is primarily attributable to the amortization of the South Texas Project deferred plant costs. Other taxes increased $37.7 million in 1992 which reflects an increase in state franchise tax due to a new required method of calculating franchise taxes, the positive effects of a state franchise tax refund in 1991 and higher property taxes in 1992 due to increased rates and assessments. Other taxes increased $2.5 million in 1991, reflecting the effects of a state franchise tax refund of $10.5 million in 1991 and a change in the franchise tax calculation methodology, offset by a change in the franchise tax privilege period and by higher property taxes due to new tax rates.

Interest income in 1992 decreased $11.1 million largely because interest was received in 1991 on a refund of prior years' income taxes. Interest on long-term debt in 1992 decreased $14.5 million, primarily due to

refinancing activities and reduction of debt. Other interest expense decreased $19.2 million due to the reduction of interest on commercial paper and on fuel cost over-recoveries in 1992, and because interest was paid in 1991 on a payment of prior years' income taxes.

United States Nuclear Regulatory Commission (NRC) Diagnostic Evaluation of the South Texas Project. In February 1993, the NRC advised HL&P that the NRC will conduct a diagnostic evaluation of the South Texas Project in the spring of 1993. The NRC's report on its diagnostic evaluation is not expected until the summer of 1993. For further discussion of the NRC diagnostic evaluation of the South Texas Project, see Note 9(f) to the Consolidated Financial Statements, which is incorporated herein by reference.

Utility Fuels. Utility Fuels had earnings of $27.4 million, $23.9 million and $51.4 million in 1992, 1991 and 1990, respectively. The increase in 1992 earnings when compared to 1991 was primarily the result of the recording, in 1991, of deferred taxes associated with the enactment of a Texas corporate franchise tax, which is partially based on taxable income, and lower interest costs, partially offset by decreased returns on assets under contract with HL&P. The decrease in 1991 earnings when compared to 1990 was primarily due to the recording in 1990 of the cumulative tax benefit resulting from the adoption of SFAS No. 109.

KBLCOM. General. KBLCOM experienced a net loss of $21.2 million in 1992 compared to net losses of $57.4 million in 1991 and $303.0 million in 1990. Cable television systems owned by KBL Cable, Inc. (KBL Cable), which are located in four states, served approximately 577,000, 559,000 and 550,000 basic subscribers at December 31, 1992, 1991 and 1990, respectively. For business segment information, reference is made to Note 16 to the Consolidated Financial Statements, which is incorporated herein by reference.

KBLCOM's financial results for the years ended December 31, 1991 and 1990 have been restated to reflect the adoption of SFAS No. 109 retroactive to January 1, 1990. The cumulative effect of the adoption of SFAS No. 109 increased 1990's net loss by $241.1 million. In addition, this accounting change had the following effects on KBLCOM's 1992, 1991 and 1990 depreciation expense, income tax expense and net loss:

	Year Ended December 31,		
	1992	1991	1990
	(Thousands of Dollars)		
Depreciation Expense	$ 3,851	$ 3,851	$ 3,851
Income Tax Expense	(10,889)	(1,694)	(13,839)
Increase (Reduction) to Net Loss	$ (7,038)	$ 2,157	$ (9,988)

The positive impact of SFAS No. 109 on tax expense in 1991 was offset by recording cumulative deferred taxes associated with the enactment of a Texas corporate franchise tax which is partially based on taxable income. The effect of such change under SFAS No. 109 was to increase 1991 income tax expense by $10.3 million. For information regarding the effect of the adoption of SFAS No. 109, see Note 14 to the Consolidated Financial Statements, which is incorporated herein by reference.

KBLCOM's future earnings outlook is dependent, to a large degree, on the success of its marketing programs to increase basic subscribers and premium programming services, its success in marketing other services such as advertising and pay-per-view, and the general economic conditions in the areas it serves. In addition, the cable television industry in general, including KBLCOM, is faced with various uncertainties including the impact of recent reregulation of basic service rates by municipalities, the potential entry of telephone companies into the cable business and increased competition from other entities. Recent changes to the legislative and regulatory environment in which the cable television industry operates could limit KBLCOM's ability to increase prices charged for cable television services in the future.

In October 1992, the Cable Television Consumer Protection and Competition Act of 1992 (1992 Cable Act) became law. The 1992 Cable Act significantly revised various provisions of the Cable Communications Policy Act of 1984. The 1992 Cable Act provides that the Federal Communications Commission (FCC) will set guidelines for retail prices on basic cable service, which includes network broadcast stations and educational, public and governmental access channels. Local governments will regulate retail prices for basic service based on the FCC's guidelines. The FCC is required to issue new rules and regulations in 1993. The 1992 Cable Act also requires cable programmers to license their services on a fair basis to cable competitors, such as direct broadcast satellite and wireless distribution system. In addition, at the option of the broadcasters, cable operators will be required to obtain the permission of, and potentially pay a charge to, local broadcast television affiliates to retransmit their programming to cable customers. The full impact of the 1992 Cable Act cannot be determined at this time.

Because the Paragon Communications (Paragon) partnership is accounted for under the equity method of accounting, the following discussion of operating revenues and sales, and depreciation and interest expense relates only to KBL Cable and its wholly-owned subsidiaries.

Operating Revenues and Sales. In 1992, revenues were $236.8 million, an increase of 5.4% over 1991. Revenues increased 12.4% in 1991 as compared to 1990. Gross operating margin (revenues less operating expenses, exclusive of depreciation and amortization) grew to $95 million in 1992, an increase of 12.4% over 1991. Gross operating margin increased 15.6% in 1991 over the prior year. Operating margins were 40.1% for 1992, compared to 37.6% for 1991 and 36.6% for 1990. Cable television revenues were favorably impacted by the addition of approximately 18,000 basic subscribers in 1992, an increase of 3.2%, and by the addition of approximately 9,000 basic subscribers in 1991, an increase of approximately 1.6%.

Basic service revenues increased $10.6 million or 7.2% and $17.9 million or 13.8% in 1992 and 1991, respectively, as compared to the prior years. Basic service revenue increases are due primarily to additional customers and increased rates.

Ancillary service revenues increased significantly in 1992 and 1991. Advertising revenues and installation fees increased $6.2 million or 27% in 1992 from the prior year. In 1991, these same revenue categories increased $7.1 million or 45.3% over the previous year. The increases in both years

are due primarily to increased advertising sales and higher installation and other related transaction fees. Pay-per-view revenues declined in 1992 by $1.2 million or 10.5%. This decrease was primarily due to the lack of major pay-per-view sporting events. In 1991, pay-per-view revenues increased by $3.0 million or 34.8% from the prior year. This increase was due to increased prices, sales and an increased number of major pay-per-view sporting events.

Following a trend in the cable television industry, premium service revenues for 1992 were down $3.5 million or 8.3% compared to 1991 due to a decline in unit prices. Premium service revenues in 1991 decreased $3.1 million or 6.9% from 1990 due to a decline in both the number of premium units and unit prices.

Depreciation and Interest Expense. Depreciation and amortization increased $5.1 million or 7.3% in 1992 over 1991 and $2.8 million or 4.1% in 1991 over 1990. The increases in both years were due primarily to asset additions. Interest expense decreased $18.1 million or 20.5% in 1992 when compared to the prior year due to lower interest rates and lower debt balances resulting from the conversion, in March 1992, of $117 million of intercompany loans to common stock equity. This debt conversion, which accounted for $5.4 million of the decrease in interest expense, does not affect consolidated earnings. Interest expense decreased $6.6 million or 6.9% in 1991 when compared to 1990, primarily due to lower interest rates.

The Company intends to recapitalize KBLCOM to reduce the amount of debt in its capital structure. As part of this restructuring, the Company plans to contribute to KBLCOM $167 million of equity which will be used to reduce KBLCOM's indebtedness. This restructuring will increase KBLCOM's equity capitalization, reduce the financial risks associated with indebtedness of KBLCOM and increase KBLCOM's financial flexibility.

Paragon Partnership. A subsidiary of KBLCOM owns a 50% interest in Paragon, a Colorado partnership, which, in turn, owns cable television systems that served approximately 901,000, 865,000 and 829,000 basic cable customers in seven states as of December 31, 1992, 1991 and 1990, respectively. Paragon's revenues were favorably impacted in 1992 and 1991 by the addition of approximately 36,000 basic subscribers each year. This represents an increase in subscribers of 4.2% and 4.3% for 1992 and 1991, respectively. KBLCOM's 1992 equity interest in the pre-tax earnings of Paragon was $24.9 million compared to $10.3 million for the year 1991 and a loss of $.7 million for the year 1990. The increase in both of these years was due to increased revenue, improved operating margins and reduced interest expense at Paragon.

Liquidity and Capital Resources

Overview. The Company's cash requirements stem primarily from operating expenses, capital expenditures, payment of common stock dividends, payment of preferred stock dividends, and interest and principal payments on debt. Net cash provided by operating activities totaled $799.5 million in 1992.

Net cash used in investing activities in 1992 totaled $397.9 million primarily due to electric and coal handling capital expenditures of $342.2 million and cable television additions of $44.3 million.

Financing activities for 1992 resulted in a net cash outflow of $360.4 million. The Company's primary financing activities were the payment and extinguishment of long-term debt and payment of dividends partially offset by the issuance of long-term debt and preferred stock.

The liquidity and capital requirements of the Company and its subsidiaries are affected primarily by capital programs and debt service requirements. The capital requirements for 1992, and as estimated for 1993 through 1995, are as follows:

	Millions of Dollars			
	1992	1993	1994	1995
Utility construction and nuclear fuel (excluding Allowance for Funds Used During Construction (AFUDC)) (1).........	$331	$344	$498	$462
Coal handling facilities and lignite mining and handling facilities.................	5	11	12	12
Cable television additions.................	44	46	40	54
Other cable related investments............		12		
Investment in foreign electric utility.....	2	36		
Maturities of long-term debt, preferred stock and minimum capital lease payments..............................	208	336	55	66
Total......................................	$590	$785	$605	$594

(1) These amounts do not include expenditures on projects for which HL&P expects to be reimbursed by customers or other parties.

For a discussion of the Company's commitments for capital expenditures, see Note 8 to the Consolidated Financial Statements, which is incorporated herein by reference.

The Company. General. The Company has consolidated its financing activities in order to provide a coordinated, cost-effective method of meeting short and long-term capital requirements. As part of the consolidated financing program, the Company has established a "money fund" through which its subsidiaries can borrow or invest on a short-term basis. The funding requirements of individual subsidiaries are aggregated and borrowing or investing is conducted by the Company based on the net cash position. Net funding requirements are met with borrowings under the Company's commercial paper program except that HL&P's borrowing requirements are generally met with HL&P's commercial paper program. As of December 31, 1992, the Company maintained bank lines aggregating $500 million (exclusive of bank lines maintained by subsidiaries of the Company) which are used to support its commercial paper program. At December 31, 1992, the Company had approximately $285 million of commercial paper outstanding. Rates paid by the Company on its short-term borrowings are generally lower than the prime rate.

ESOP. In October 1990, the Company amended its existing Savings Plan (Plan) to add an Employee Stock Ownership Plan (ESOP) component to the Plan. The ESOP component of the Plan allows the Company to satisfy a portion of its obligations to make matching contributions under the Plan. The ESOP trustee purchased shares of the Company's common stock in open market transactions with funds provided by loans from the Company and completed the purchase of stock under the ESOP in December 1991 after purchasing 9,381,092 shares at a cost of $350 million. As the ESOP loans are repaid by the ESOP trustee over a period of up to 20 years, the common stock purchased for the Plan will be allocated to the participants' accounts. The loans will be repaid from dividends on the common stock in, and Company contributions to, the Plan. The loans to the Plan were funded initially by the Company from short-term borrowings which have been refinanced with long-term debt. At December 31, 1992, the balance of the ESOP loans was approximately $332 million.

Financing Activities. In July 1992, the Company issued $100 million aggregate principal amount of its debentures, 7 7/8% series due 2002. Proceeds were used to repay a portion of the Company's short-term indebtedness, including amounts incurred in connection with loans to the Company's ESOP. The Company has registered with the Securities and Exchange Commission (SEC) $150 million principal amount of debt securities which remain unissued. Proceeds from the sale of these debt securities are expected to be used for general corporate purposes including investments in and loans to subsidiaries.

In February 1992 and December 1992, the Company purchased from third parties $19 million and $9.9 million principal amount, respectively, of KBL Cable's 10.95% Senior Notes due 1999 and $23.75 million and $12.3 million principal amount, respectively, of KBL Cable's 11.30% Senior Subordinated Notes due 1999. The notes were purchased at a weighted average price of approximately 109% and 112% of their principal amount in February 1992 and December 1992, respectively. The purchases were made to reduce interest expense on a consolidated basis. The notes are being held by the Company.

In December 1992, the Company established a new bank facility which replaced the Company's existing facilities and increased the Company's bank lines supporting its commercial paper program from $400 million to $500 million. The Company intends to sell commercial paper supported by the facility in order to contribute funds to KBLCOM as equity for the prepayment of approximately $167 million of KBLCOM's borrowings under its Senior Bank Facility during the first quarter of 1993.

Houston Argentina. Houston Argentina S. A. (Houston Argentina), a subsidiary of the Company, owns a 32.5% interest in an Argentine holding company which acquired, in December 1992, a 51% interest in Edelap S. A., an electric utility company operating in La Plata, Argentina and surrounding regions. Houston Argentina's share of the purchase price was approximately $37.6 million, of which $1.6 million was paid in December 1992 with the remainder to be paid in March 1993.

HL&P and Utility Fuels. General. Utility construction and nuclear fuel expenditures for the 1993-1995 period represent estimated costs of HL&P's construction program. The estimated expenditures for coal handling facilities and lignite mining and handling facilities are expected to be

incurred by HL&P and Utility Fuels primarily in connection with HL&P's existing plants. Utility Fuels expects to finance its capital program primarily through internally generated funds.

HL&P's cash requirements stem primarily from operating expenses, capital expenditures, payment of common stock dividends, payment of preferred stock dividends, and interest and principal payments on debt. HL&P's net cash provided by operating activities for the year ended December 31, 1992 totaled approximately $817.7 million.

Net cash used in HL&P's investing activities for the twelve months ended December 31, 1992 totaled $348.0 million.

HL&P's financing activities for the twelve months ended December 31, 1992 resulted in a net cash outflow of approximately $476.9 million. Included in these activities were the payment of dividends and the payment and extinguishment of long-term debt, partially offset by the issuance of long-term debt and preferred stock. For information with respect to these matters, reference is made to Notes 3 and 4 to the Consolidated Financial Statements, which Notes are incorporated herein by reference.

Capital Program. HL&P's construction and nuclear fuel expenditures (excluding AFUDC) for 1992 totaled $331 million which was below the authorized budgeted level of $395 million. Estimated expenditures for 1993, 1994 and 1995 are $344 million, $498 million and $462 million, respectively. These amounts do not include expenditures on projects for which HL&P expects to be reimbursed by customers or other parties. Maturities of long-term debt and preferred stock with mandatory redemption provisions for this same period include $159 million in 1993, $41 million in 1994 and $46 million in 1995.

While over half of HL&P's construction program for the next three years is expected to relate to costs for transmission, distribution, and general plant, HL&P expects to begin construction of the E.I. du Pont de Nemours Company (Du Pont) project in 1993 in order to provide generating capacity in 1995. The Du Pont project is based on a contractual agreement between HL&P and Du Pont, whereby HL&P will construct, own, and operate two 80 megawatt gas turbine units to be located at Du Pont's chemical plant. The project will supply Du Pont with process steam while all electrical energy will be used in the HL&P system. Expenditures for additional generating capacity are planned to begin in 1994. HL&P's capital program is subject to periodic review and portions may be revised from time to time due to changes in load forecasts, changing regulatory and environmental standards and other factors.

Financing Activities. In January 1992, HL&P repaid at maturity $132 million aggregate principal amount of its 9 3/8% first mortgage bonds.

In February 1992, HL&P issued $100 million aggregate liquidation value of variable term perpetual preferred stock. Proceeds from the sale were used to reduce short-term indebtedness, including indebtedness from the preferred stock redemptions that occurred in November 1991.

In March 1992, HL&P issued $100 million principal amount of 8.15% medium-term notes due 2002. In March 1992, HL&P also issued $150 million principal amount of 7 5/8% first mortgage bonds due 1997 and $100 million principal amount of 8 3/4% first mortgage bonds due 2022. Proceeds were used

to provide funds for the purchases and redemptions of HL&P's first mortgage bonds described in the following paragraph and for general corporate purposes, including the repayment of short-term indebtedness of HL&P.

In April 1992, HL&P purchased, at 101% of their principal amount, $56,633,000 aggregate principal amount of its 9 1/4% first mortgage bonds due 2008, pursuant to its tender offer for any and all bonds of such series. In May 1992, HL&P redeemed all of the remaining $43,367,000 aggregate principal amount of its 9 1/4% first mortgage bonds at 100% of their principal amount, all $125 million aggregate principal amount of its 8 7/8% first mortgage bonds due 2008 at 100% of their principal amount and $82,753,000 aggregate principal amount of its 8 3/4% first mortgage bonds due 2005 at 100.64% of their principal amount.

In April 1992, HL&P purchased, at a premium over the principal amount, portions of seven series of pollution control revenue bonds issued on behalf of HL&P by the Brazos River Authority (BRA) and the Matagorda County Navigation District Number One (MCND). Funds were obtained from the April 1992 issuance of $99,915,000 of 6.7% revenue refunding bonds collateralized by HL&P's first mortgage bonds. Of this amount, $56,095,000 principal amount of bonds were issued on behalf of HL&P by the MCND and mature 2027. The remainder mature in 2017 and were issued on behalf of HL&P by the BRA. The refunded bonds bore interest at rates ranging from 9 3/4% to 10 5/8%. Premiums aggregating $16.9 million were paid in connection with the purchases of the refunded bonds.

In August 1992, HL&P repaid at maturity $25 million aggregate principal amount of its 4 1/2% first mortgage bonds.

In October 1992, HL&P purchased at 109.125% of their principal amount, $212,533,000 aggregate principal amount of its 10 1/4% first mortgage bonds due 2019 pursuant to a tender offer for any and all bonds of such series.

In October 1992, the BRA and the Gulf Coast Waste Disposal Authority (GCWDA) issued on behalf of HL&P $45.6 million aggregate principal amount of 6 3/8% revenue refunding bonds collateralized by HL&P's first mortgage bonds due 2012. Proceeds were used to redeem, at 103% of their aggregate principal amount, $45.6 million principal amount of three series of pollution control revenue bonds previously issued on behalf of HL&P by the BRA and GCWDA.

In October 1992, HL&P issued $120 million aggregate liquidation value of variable term perpetual preferred stock. Proceeds from the sale were used (i) to redeem all shares of HL&P's adjustable rate cumulative preferred stock, series A and series B, having an aggregate liquidation value of $100 million at a redemption price of $103 per share; (ii) to redeem $12,467,000 aggregate principal amount of 10 1/4% first mortgage bonds due 2019 at 108.47% of their principal amount; and (iii) for general corporate purposes.

In January 1993, HL&P repaid at maturity $136 million aggregate principal amount of its 9 3/8% first mortgage bonds.

Sources of Capital Resources and Liquidity. HL&P expects to finance its capital program for the period 1993-1995 with funds generated internally from operations.

HL&P has registered with the SEC $230 million aggregate liquidation value of preferred stock and $250 million aggregate principal amount of first mortgage bonds. In addition, HL&P has registered $800 million aggregate principal amount of debt securities that may be issued as first mortgage bonds and/or as securities collateralized by first mortgage bonds. Proceeds from the sale of these securities are expected to be used for general corporate purposes including the purchase, redemption (to the extent permitted by the terms of the outstanding securities), repayment or retirement of outstanding indebtedness or preferred stock of HL&P.

HL&P's interim financing requirements are met through the issuance of short-term debt, primarily commercial paper, supported by a bank line of credit. At December 31, 1992, a $250 million line was maintained. Commercial paper outstanding at December 31, 1992 was $139 million.

HL&P's capitalization ratios at December 31, 1992 consisted of 46% long-term debt, 8% preferred stock and 46% common equity.

Environmental Expenditures. In November 1990, the Clean Air Act was extensively amended by Congress. HL&P has already made a substantial 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 require establishing new emission limitations for nitrogen oxides (NO_x) from existing sources. These limitations are expected to be finalized in mid-1993. The cost of modifications necessary to reduce NO_x emissions from existing sources has been estimated, based upon anticipated regulations, at $62 million in 1994 and $18 million in 1995. The necessary modifications may cause secondary impacts to generating unit capacity ratings, and cost estimates could change substantially upon analysis of the impact of the final rules. In addition, continuous emission monitoring regulations are anticipated to require expenditures of $12 million in 1993 and $14 million in 1994. Capital expenditures are estimated to total $140 million for the years 1993 through 1995.

The United States Environmental Protection Agency (EPA) has identified HL&P as a "potentially responsible party" for the costs of remediation of a Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) site located adjacent to one of HL&P's transmission lines in Harris County. Although HL&P did not contribute waste to or operate the site, the party primarily responsible for contributing waste to the site and possibly other potentially responsible parties have alleged that waste disposal pits dug by the site operator encroach onto HL&P's property and therefore HL&P is responsible as a site owner. HL&P denies that it ever owned the strip of land containing the pits but admits that it owns the adjacent strip of land onto which substances from the site appear to have migrated. In October 1992, the EPA issued an Administrative Order to HL&P and several other companies purporting to require those parties to implement the management of migration remediation at the site. A related Administrative Order had been issued in June 1990. HL&P, if necessary, will remove substances which have migrated onto its property, but HL&P denies that it has other responsibility for the remediation activities. HL&P understands that the other respondents to the Administrative Orders, through the MOTCO Trust Group, have complied with the first order, and that they ultimately will assume responsibility for

completion of the management of migration remediation. HL&P is not a member of the MOTCO Trust Group. Neither the EPA nor any other responsible party has presented HL&P with a claim for a share of costs for the management of the migration remediation design or operation. However, in the event HL&P were ultimately held to be a responsible party for the remediation of this site and if other responsible parties do not complete the management of migration remediation, CERCLA provides for substantial remedies that could be pursued by the United States, including substantial fines, punitive damages and treble damages for costs incurred by the United States in completing such remediation. The aggregate potential clean-up costs for the entire site are presently estimated to be approximately $80 million. Although no prediction can be made at this time as to the ultimate outcome of this matter, in light of all the circumstances, the Company and HL&P do not believe that any costs that HL&P incurs in this matter will have a material adverse effect on the Company or HL&P.

KBLCOM. KBLCOM's net cash provided by operating activities was $40 million and $1.1 million in 1992 and 1991, respectively, compared to net cash used in operating activities of $5.7 million in 1990. The improvements in 1992 and 1991 over the prior years were primarily attributable to increased revenues, improved operating margins and reduced interest expense.

During 1992, KBLCOM's primary financing or investing activities were a $5 million reduction in outstanding bank indebtedness, principal payments on other third party indebtedness of $2.7 million, capital expenditures of approximately $44.3 million for cable television additions, which includes the acquisition of a small cable system for $3.7 million. These amounts were financed principally through internally generated funds and intercompany advances. A substantial portion of KBLCOM's 1993-1995 capital requirements is expected to be met through internally generated funds. It is expected that any shortfall will be met through intercompany borrowings. The net cash used in investing activities decreased approximately $5.8 million in 1991 as compared to 1990 primarily due to reductions in construction expenditures and equipment purchases.

KBLCOM's net cash provided by financing activities decreased $13 million for 1991, as compared to 1990, primarily due to less borrowing from the Company and reductions in long-term debt. In the first quarter of 1991, the Company advanced KBLCOM $24 million, and additional funds were drawn by KBLCOM under its bank facility to repay a portion of the outstanding bank indebtedness of KBL Cable and to make interest payments.

KBLCOM expects to satisfy its cash requirements for 1993 through internally generated funds, intercompany borrowings and contributions, and borrowings under KBL Cable's bank facility. KBL Cable's ability to borrow additional funds under its bank facility is currently limited by certain financial covenants which require KBL Cable to maintain and satisfy certain debt to cash flow ratios and other financial tests. KBL Cable is in compliance with all financial covenants contained in its bank facility.

Houston Industries Finance. During 1992, Houston Industries Finance, Inc. (Houston Industries Finance) purchased accounts receivable of HL&P and of certain KBLCOM subsidiaries. As of January 12, 1993, Houston Industries

Finance ceased operations and the $300 million bank revolving credit facility and related commercial paper program were terminated. At December 31, 1992, Houston Industries Finance had $139.9 million of commercial paper outstanding.

New Accounting Pronouncements

In December 1990, the Financial Accounting Standards Board issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". This accounting standard, effective for fiscal years beginning after December 15, 1992, requires companies to recognize the liability for postretirement benefit plans other than pensions, primarily medical and dental benefits. The Company will adopt SFAS No. 106 in 1993. The transition obligation, or accumulated postretirement benefit obligation, of approximately $213 million will be amortized over approximately 22 years as permitted by SFAS No. 106. The Company estimates that adoption will increase benefit costs by approximately $24 million over the expected "pay-as-you-go" amount in 1993. The Utility Commission has published a proposed rule which, if adopted, would govern the ratemaking treatment for postretirement benefits other than pensions. This rule (i) will allow for recovery of the current postretirement benefits expense on an accrual basis provided that all amounts recovered in rates are placed in an external trust fund, and (ii) will not allow recovery of the transition obligation. HL&P is opposing the portion of the rule which would preclude it from recovering the transition obligation in rates.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME
(Thousands of Dollars)

	Year Ended December 31, 1992	1991 (Restated)	1990 (Restated)
Revenues:			
Electric	$3,826,841	$3,674,543	$3,468,682
Coal and lignite	532,787	544,468	510,001
Cable television	236,760	224,728	199,893
Total	4,596,388	4,443,739	4,178,576
Expenses:			
Electric:			
Fuel	987,918	960,091	987,168
Purchased power	486,414	444,040	433,862
Operation and maintenance	802,194	805,564	759,933
Taxes other than income taxes	228,238	190,526	187,987
Deferred expenses		(22,973)	(101,187)
Restructuring	86,431		
Cost of coal and lignite sold	455,954	461,444	426,030
Cable television operating expenses	141,744	140,223	126,764
Depreciation and amortization	465,081	438,868	411,340
Total	3,653,974	3,417,783	3,231,897
Operating Income	942,414	1,025,956	946,679
Other Income (Expense):			
Allowance for other funds used during construction	6,169	5,749	3,841
Deferred return under phase-in plan		38,758	35,269
Disallowed plant costs and regulatory adjustment		14,483	(35,573)
Equity in income (loss) of cable television partnerships	24,871	10,672	(214)
Interest income	1,745	21,144	2,488
Other - net	(20,687)	(13,515)	(13,001)
Total	12,098	77,291	(7,190)
Fixed Charges:			
Interest on long-term debt	396,323	429,900	435,748
Other interest	19,957	42,970	48,872
Allowance for borrowed funds used during construction	(6,191)	(10,049)	(9,465)
Deferred carrying costs		(30,695)	(91,152)
Preferred dividends of subsidiary	39,327	46,187	47,753
Total	449,416	478,313	431,756

(continued on next page)

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME
(Thousands of Dollars)

(Continued)

	Year Ended December 31, 1992	1991 (Restated)	1990 (Restated)
Income Before Income Taxes and Cumulative Effect of Accounting Change	$ 505,096	$ 624,934	$ 507,733
Income Taxes	164,609	208,180	164,944
Income Before Cumulative Effect of Accounting Change	340,487	416,754	342,789
Cumulative Effect of Change in Accounting for Income Taxes			(219,718)
Cumulative Effect of Change in Accounting for Revenues (net of income taxes of $48,517)	94,180		
Net Income	$ 434,667	$ 416,754	$ 123,071
Earnings Per Common Shares:			
Earnings Per Common Share Before Cumulative Effect of Accounting Change	$ 2.63	$ 3.24	$ 2.70
Cumulative Effect of Change in Accounting for Income Taxes			(1.73)
Cumulative Effect of Change in Accounting for Revenues	.73		
Earnings Per Common Share	$ 3.36	$ 3.24	$ .97
Weighted Average Common Shares Outstanding (000)	129,514	128,802	127,254

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED RETAINED EARNINGS
(Thousands of Dollars)

	Year Ended December 31,		
	1992	1991 (Restated)	1990 (Restated)
Balance at Beginning of Year	$1,202,125	$1,165,786	$1,419,248
Add - Net Income	434,667	416,754	123,071
Total	1,636,792	1,582,540	1,542,319
Common Stock Dividends: 1992, $2.98; 1991, $2.96, 1990, $2.96; (per share)	(385,952)	(381,117)	(376,533)
Tax Benefit of ESOP Dividends	8,944	4,862	
Redemption of HL&P Preferred Stock	(5,200)	(4,160)	
Balance at End of Year	$1,254,584	$1,202,125	$1,165,786

See Notes to Consolidated Financial Statements.

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HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars)

ASSETS

	December 31, 1992	December 31, 1991 (Restated)
Property, Plant and Equipment - At Cost:		
Electric plant:		
Production	$ 6,853,263	$ 6,724,735
Transmission	818,584	801,049
Distribution	2,394,226	2,302,657
General	737,675	690,246
Construction work in progress	201,165	239,159
Nuclear fuel	202,013	181,853
Plant held for future use	200,865	275,719
Electric plant acquisition adjustments	3,166	3,166
Coal handling equipment and mining property	537,772	536,728
Cable television property	320,661	278,052
Other property	12,197	12,159
Total	12,281,587	12,045,523
Less accumulated depreciation and amortization	3,091,132	2,746,451
Property, plant and equipment - net	9,190,455	9,299,072
Current Assets:		
Cash and cash equivalents	69,317	27,669
Special deposits	2,071	1,417
Accounts receivable:		
Customers (less allowance for doubtful accounts of $10,439 and $12,585 at December 31, 1992 and 1991, respectively)	135,072	130,666
Others	19,611	36,274
Accrued unbilled revenues	190,897	
Fuel stock, at lifo cost:		
Oil and gas	23,703	25,443
Coal and lignite	44,861	41,611
Materials and supplies, at average cost	167,438	178,298
Prepayments	14,765	18,304
Total current assets	667,735	459,682
Other Assets:		
Cable television franchises and intangible assets (less accumulated amortization of $145,856 and $107,681 at December 31, 1992 and 1991, respectively)	1,021,934	1,058,576
Deferred plant costs	690,482	716,264
Deferred debits	273,750	247,852
Unamortized debt expense and premium on reacquired debt	137,395	93,665
Equity investment in cable television partnerships	90,220	65,025
Equity investment in foreign electric utility	37,554	
Regulatory asset - net	177,426	165,246
Recoverable project costs	130,550	59,782
Total other assets	2,559,311	2,406,410
Total	$12,417,501	$12,165,164

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars)

CAPITALIZATION AND LIABILITIES

	December 31, 1992	December 31, 1991 (Restated)
Capitalization (statements on following pages):		
Common Stock Equity	$ 3,284,713	$ 3,232,217
Preference Stock, no par; authorized 10,000,000 shares; none outstanding		
Cumulative Preferred Stock of Subsidiary:		
Not subject to mandatory redemption	351,354	232,980
Subject to mandatory redemption	206,834	226,632
Total cumulative preferred stock	558,188	459,612
Long-Term Debt	4,441,205	4,866,923
Total capitalization	8,284,106	8,558,752
Current Liabilities:		
Notes payable	564,249	330,294
Accounts payable	249,397	238,407
Taxes accrued	187,484	190,675
Interest accrued	101,054	116,826
Accrued liabilities to municipalities	20,947	21,510
Customer deposits	69,940	65,224
Current portion of long-term debt and preferred stock	335,751	207,508
Fuel refund, including interest		62,993
Other	75,485	49,454
Total current liabilities	1,604,307	1,282,891
Deferred Credits:		
Accumulated deferred income taxes	1,789,820	1,703,468
Unamortized investment tax credit	454,782	474,732
Other	284,486	145,321
Total deferred credits	2,529,088	2,323,521
Commitments and Contingencies		
Total	$12,417,501	$12,165,164

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITALIZATION
(Thousands of Dollars)

	December 31, 1992	December 31, 1991 (Restated)
Common Stock Equity:		
Common stock, no par; authorized, 200,000,000 shares; outstanding, 129,514,483 and 129,513,620 shares at December 31, 1992 and 1991, respectively	$2,362,618	$2,362,581
Note receivable from ESOP	(332,489)	(332,489)
Retained earnings	1,254,584	1,202,125
Total common stock equity	3,284,713	3,232,217
Cumulative Preferred Stock, no par; authorized, 10,000,000 shares; outstanding, 5,832,397 and 4,632,397 shares at December 31, 1992 and 19[illegible], respectively (entitled upon liquidation to $100 per [illegible]hare)		
Houston Lighting & Power Company:		
Not subject to mandatory redemption:		
$4.00 series, 97,397 shares	9,740	9,740
$6.72 series, 250,000 shares	25,115	25,115
$7.52 series, 500,000 shares	50,226	50,226
$8.12 series, 500,000 shares	50,098	50,098
Series A - 1984, 500,000 shares		48,810
Series B - 1984, 500,000 shares		48,991
Series A - 1992, 500,000 shares	49,098	
Series B - 1992, 500,000 shares	49,109	
Series C - 1992, 600,000 shares	58,984	
Series D - 1992, 600,000 shares	58,984	
Total	351,354	232,980
Subject to mandatory redemption:		
$8.50 series, 1,000,000 shares	99,195	98,993
$9.375 series, 1,285,000 shares	127,639	127,639
Less current redemptions	20,000	
Total	206,834	226,632
Total cumulative preferred stock	558,188	459,612
Long-Term Debt:		
Debentures:		
7 1/4% series, due 1996	200,000	200,000
9 3/8% series, due 2001	250,000	250,000
7 7/8% series, due 2002	100,000	
Unamortized discount	(1,641)	(1,003)
Total debentures	548,359	448,997
Houston Lighting & Power Company:		
First mortgage bonds:		
4 1/2% series, due 1992		25,000
9 3/8% series, due 1992		132,000
9 3/8% series, due 1993	136,000	136,000
5 1/4% series, due 1996	40,000	40,000
5 1/4% series, due 1997	40,000	40,000
6 3/4% series, due 1997	35,000	35,000

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CONSOLIDATED STATEMENTS OF CAPITALIZATION
(Thousands of Dollars)

(Continued)

	December 31, 1992	December 31, 1991 (Restated)
7 5/8% series, due 1997	$ 150,000	
6 3/4% series, due 1998	35,000	$ 35,000
7 1/2% series, due 1999	30,000	30,000
7 1/4% series, due 2001	50,000	50,000
7 1/2% series, due 2001	50,000	50,000
8 1/8% series, due 2004	100,000	100,000
8 3/4% series, due 2005	42,247	125,000
8 3/8% series, due 2006	125,000	125,000
8 3/8% series, due 2007	125,000	125,000
8 7/8% series, due 2008		125,000
9 1/4% series, due 2008		100,000
9 % series, due 2017	390,519	390,519
10 1/4% series, due 2019		225,000
9.15 % series, due 2021	160,000	160,000
8 3/4% series, due 2022	100,000	
7 % pollution control series, due 2008	19,200	19,200
6 3/8% pollution control series, due 2012	33,470	
6 3/8% pollution control series, due 2012	12,100	
7 3/4% pollution control series, due 2015	68,700	68,700
8 1/4% pollution control series, due 2015	90,000	90,000
7 7/8% pollution control series, due 2016	68,000	68,000
6.70 % pollution control series, due 2017	43,820	
7 7/8% pollution control series, due 2018	50,000	50,000
7.20 % pollution control series, due 2018	175,000	175,000
8 1/4% pollution control series, due 2019	100,000	100,000
8.10 % pollution control series, due 2019	100,000	100,000
7 7/8% pollution control series, due 2019	29,685	29,685
7.60 % pollution control series, due 2019	70,315	70,315
7.70 % pollution control series, due 2019	75,000	75,000
7 1/8% pollution control series, due 2019	100,000	100,000
7 5/8% pollution control series, due 2019	100,000	100,000
6.70 % pollution control series, due 2027	56,095	
Medium-term notes series A, 9.79%-9.85%, due 1994-1999	200,000	200,000
Medium-term notes series B, 8 5/8%, due 1996	100,000	100,000
Medium-term notes series B, 8.15%, due 2002	100,000	
Total first mortgage bonds	3,200,151	3,394,419
Pollution control revenue bonds:		
Gulf Coast 1980-T series, floating rate, due 1998	5,000	5,000
Brazos River 1983 series, 10 1/2%, due 2003	17,935	25,000
Gulf Coast 1974 series, 7 3/8%, due 2004	16,950	17,300
Brazos River 1985 A2 series, 9 3/4%, due 2005	4,265	10,000
Gulf Coast 1982 series, 9 7/8%, due 2012		12,100
Brazos River 1982 series, 9 7/8%, due 2012		42,800
Brazos River 1983 series, 10 5/8%, due 2013	65,630	75,000
Brazos River 1985 A1 series, 9 7/8%, due 2015	87,680	100,000
Matagorda County 1985 series, 10%, due 2015	58,905	115,000
Total pollution control revenue bonds	256,365	402,200

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HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITALIZATION
(Thousands of Dollars)

(Continued)

	December 31, 1992	December 31, 1991 (Restated)
Unamortized premium (discount) - net	$ (12,118)	$ (11,826)
Capitalized lease obligations	2,492	3,190
Notes payable	3,153	3,187
Total	3,450,043	3,791,170
KBLCOM Incorporated and Subsidiaries:		
KBL Cable, Inc. senior bank debt	415,000	420,000
KBLCOM Incorporated senior bank debt	167,349	167,349
KBL Cable, Inc. senior notes	69,935	100,000
KBL Cable, Inc. senior subordinated notes	87,419	125,000
Capitalized lease obligations	750	854
Total	740,453	813,203
Utility Fuels, Inc.:		
Other notes payable	1,003	1,064
Capitalized lease obligations, average discount rate 6.4%	17,098	19,997
Total	18,101	21,061
Total	4,756,956	5,074,431
Less current maturities	315,751	207,508
Total long-term debt	4,441,205	4,866,923
Total capitalization	$8,284,106	$8,558,752

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)

	Year Ended December 31,		
	1992	1991 (Restated)	1990 (Restated)
Cash Flows from Operating Activities:			
Net income	$ 434,667	$ 416,754	$ 123,071
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	465,081	438,868	411,340
Amortization of nuclear fuel	29,237	23,145	19,931
Deferred income taxes	61,670	110,243	270,564
Investment tax credits	(19,950)	(19,903)	(25,130)
Allowance for other funds used during construction	(6,169)	(5,749)	(3,841)
Deferred plant costs		(53,668)	(192,339)
Payment of disputed income taxes and related interest	(52,817)		(104,534)
Deferred return under phase-in plan		(38,758)	(35,269)
Disallowed plant costs and regulatory adjustment		(14,483)	35,573
Disallowed expenses		13,124	20,950
Fuel cost (refund) and over recovery - net	(84,072)	(7,061)	46,424
Restructuring	86,431		
Cumulative effect of change in accounting for revenues	(94,180)		
Regulatory asset - net	(12,180)	(21,614)	(143,632)
Equity in (income) loss of cable television partnerships	(24,871)	(10,672)	214
Cumulative effect of change in accounting for income taxes			219,718
Changes in other assets and liabilities:			
Accounts receivable - net	8,627	6,959	23,770
Inventory	9,350	(7,182)	(20,037)
Other current assets	2,885	7,989	(5,770)
Accounts payable	10,990	11,821	(27,572)
Interest and taxes accrued	(18,963)	52,889	(8,114)
Other current liabilities	(53,520)	(40,225)	8,554
Other - net	57,692	7,407	37,936
Net cash provided by operating activities	799,908	869,884	651,807
Cash Flows from Investing Activities:			
Electric and coal handling capital expenditures (including allowance for borrowed funds used during construction)	(342,226)	(385,569)	(367,920)
Cable television additions	(44,306)	(26,624)	(31,186)
Other - net	(11,333)	(8,153)	8,417
Net cash used in investing activities	(397,865)	(420,346)	(390,689)

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HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents
(Thousands of Dollars)

(Continued)

	Year Ended December 31, 1992	1991 (Restated)	1990 (Restated)
Cash Flows from Financing Activities:			
Proceeds from common stock		$ 50,620	$ 55,674
Increase in note receivable from ESOP		(285,116)	(47,373)
Proceeds from preferred stock	$ 216,700		
Proceeds from first mortgage bonds	488,760	258,141	
Proceeds from senior bank debt		23,504	29,148
Proceeds from debentures	99,216	448,935	
Purchase of senior and subordinated notes	(71,419)		
Reacquisition of debentures		(205,220)	
Payment of matured first mortgage bonds	(157,000)	(132,000)	
Payment of senior bank debt	(5,000)	(40,000)	(40,000)
Payment of common stock dividends	(385,952)	(381,117)	(376,533)
Redemption of preferred stock	(103,000)	(112,500)	
Increase (decrease) in notes payable	233,955	(34,318)	128,229
Extinguishment of long-term debt	(717,912)	(35,757)	(909)
Other - net	41,257	14,305	(1,997)
Net cash used in financing activities	(360,395)	(430,523)	(253,761)
Net Increase in Cash and Cash Equivalents	41,648	19,015	7,357
Cash and Cash Equivalents at Beginning of Year	27,669	8,654	1,297
Cash and Cash Equivalents at End of Year	$ 69,317	$ 27,669	$ 8,654

Supplemental Disclosure of Cash Flow Information:

	1992	1991	1990
Cash Payments:			
Interest (net of amounts capitalized or deferred)	$ 474,655	$ 395,822	$ 384,195
Income taxes	172,053	85,202	141,313

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three Years Ended December 31, 1992

(1) Summary of Significant Accounting Policies

(a) System of Accounts. The accounting records of Houston Lighting & Power Company (HL&P), the principal subsidiary of Houston Industries Incorporated (Company), are maintained in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts as adopted by the Public Utility Commission of Texas (Utility Commission).

(b) Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

Coal and lignite sales and related cost of coal and lignite sold generally represent intercompany sales to HL&P and are not eliminated because of the distinction for regulatory purposes between utility and non-utility operations. For this same reason, the purchases of accounts receivable from HL&P by Houston Industries Finance, Inc. (Houston Industries Finance) also are not eliminated. All other significant intercompany transactions and balances are eliminated in consolidation.

Investments in affiliates in which the Company has a 20% to 50% interest, which includes the investment in Paragon Communications (Paragon), are recorded using the equity method of accounting. See Note 17.

(c) Electric Plant. Additions to electric plant, betterments to existing property and replacements of units of property are capitalized at cost. Cost includes the original cost of contracted services, direct labor and material, indirect charges for engineering supervision and similar overhead items and an Allowance for Funds Used During Construction (AFUDC). Customer advances for construction reduce additions to electric plant.

HL&P computes depreciation using the straight-line method. The depreciation provision as a percentage of the depreciable cost of plant was 3.0% for 1992, 3.1% for 1991 and 3.2% for 1990.

(d) Cable Television Property. The Company records additions to property at cost which includes amounts for material, labor, overhead and interest. Depreciation is computed by the straight-line method. The depreciation provision as a percentage of the depreciable cost of property was 12.1% for 1992, 11.7% for 1991, and 12.5% for 1990. Expenditures for maintenance and repairs are expensed as incurred.

(e) Cable Television Franchises and Intangible Assets. The Company has recorded the acquisition cost in excess of the fair market value of the tangible assets and liabilities of RCA Cablesystems Holding Co. (Cablesystems) in cable television franchises and intangible assets. Such amount is being amortized over periods ranging from 8-40 years on a straight-line basis.

(f) Allowance for Funds Used During Construction. HL&P accrues AFUDC on construction projects and nuclear fuel payments, except for amounts included in the rate base by regulatory authorities. The accrual rates were 8.75% in 1992 and 1991 and 9.25% in 1990.

(g) Revenues. Effective January 1, 1992, HL&P changed its method of recording electricity sales from cycle billing to a full accrual method, whereby unbilled electricity sales are estimated and recorded each month in order to better match revenues with expenses. Prior to January 1, 1992, electric revenues were recognized as bills were rendered (see Note 19).

The Utility Commission provides for the recovery of certain fuel and purchased power costs through an energy component of base electric rates.

Coal and lignite revenues are recognized as fuel is consumed.

Cable television revenues are recognized as the services are provided to subscribers, and advertising revenues are recorded when earned.

(h) Income Taxes. The Company follows a policy of comprehensive interperiod income tax allocation. Investment tax credits are deferred and amortized over the estimated lives of the related property. In 1992, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," with restatement to January 1, 1990 (see Note 14). Under current tax laws, the Company may realize tax savings by deducting for tax purposes dividends on the Company's common stock that are used to pay debt service on the Employee Stock Ownership Plan (ESOP) loans (see Note 2).

(i) Earnings Per Common Share. Earnings per common share is computed by dividing net income by the weighted average number of shares outstanding during the respective periods.

(j) Statements of Consolidated Cash Flows. For purposes of reporting cash flows, cash equivalents are considered to be short-term, highly liquid investments readily convertible to cash.

(2) Common Stock

In October 1990, the Company amended its Savings Plan (Savings Plan) to add an ESOP component. The ESOP component of the Savings Plan allows the Company to satisfy a portion of its obligations to make matching contributions under the Savings Plan. The ESOP trustee purchased shares of the Company's common stock in open-market transactions with funds provided by loans from the Company and completed the purchase of stock under the ESOP in December 1991, after purchasing 9,381,092 shares at a cost of $350 million. At December 31, 1992, the balance of the ESOP loans was approximately $332 million. The loans from the Company to the ESOP are shown on the Company's Consolidated Balance Sheets as a reduction in common stock equity. Principal and interest on the loans will be paid with dividends on the common stock in, and Company contributions to, the ESOP. Repayment of the loan is scheduled to occur over a 20-year

period with the first mandatory repayment in 1997. The loans to the ESOP were funded initially by the Company from short-term borrowings which have been refinanced with long-term debt. Interest expense on Company borrowings to fund loans to the ESOP has been reduced by interest income on the loans to the ESOP.

In May 1989, the Company adopted, with shareholder approval, a long-term incentive compensation plan, which includes an incentive stock option component. In January 1992, non-statutory stock options for approximately 68,000 shares of the Company's stock were granted to key employees of the Company and its subsidiaries at an option price of $43.50 per share. Beginning one year after the grant date, the options become exercisable in one-third increments each year. No shares were exercisable on December 31, 1992. The options expire ten years from the grant date.

In July 1990, the Company adopted a shareholders rights plan and declared a dividend of one right for each outstanding share of the Company's common stock. The rights, which under certain circumstances entitle their holders to purchase one one-hundredth of a share of Series A Preference Stock for an exercise price of $85, will expire on July 11, 2000. The rights will become exercisable only if a person or entity acquires 20% or more of the Company's outstanding common stock or if a person or entity commences a tender offer or exchange offer for 20% or more of the outstanding common stock. The rights are redeemable by the Company for $.01 per right at any time prior to the date the rights become exercisable.

When the rights become exercisable, each right will entitle the holder to receive, upon the exercise of such right, a number of shares of the Company's common stock having a current market price (as defined in the plan) equal to twice the exercise price of the right, except pursuant to an offer for all outstanding shares of common stock which a majority of the independent directors of the Company determines to be at a price which is in the best interests of the Company and its shareholders (Permitted Offer).

In the event that the Company is a party to a merger or other business combination (other than a merger that follows a Permitted Offer), rights holders will be entitled to receive, upon the exercise of a right, a number of shares of common stock of the acquiring company having a current market price (as defined in the plan) equal to twice the exercise price of the right.

(3) Preferred Stock of a Subsidiary

HL&P's cumulative preferred stock may be redeemed at the following per share prices, plus any unpaid accrued dividends to the date of redemption:

Series	Redemption Price Per Share		
	Current	Future Range	
		From	To
Not Subject to Mandatory Redemption:			
$4.00	$105.00	$105.00	$105.00
$6.72	102.51	102.51	102.51
$7.52	102.35	102.35	102.35

Series	Redemption Price Per Share		
	Current	Future Range	
		From	To
$8.12...........................	$102.25	$102.25	$102.25
Variable Term Preferred A (a)....	100.00	100.00	100.00
Variable Term Preferred B (a)....	100.00	100.00	100.00
Variable Term Preferred C (a)....	100.00	100.00	100.00
Variable Term Preferred D (a)....	100.00	100.00	100.00
Subject to Mandatory Redemption:			
$8.50 (b).......................	$104.25	$102.13	$100.00
$9.375 (c)......................	---	100.00	100.00

(a) Rates for Variable Term Preferred stock as of December 31, 1992, were as follows:

	Rate
Variable Term Preferred A	3.460%
Variable Term Preferred B	3.345%
Variable Term Preferred C	3.240%
Variable Term Preferred D	2.800%

(b) HL&P is required to redeem 200,000 shares of this series annually beginning June 1, 1993.

(c) HL&P is required to redeem 257,000 shares annually beginning April 1, 1995. This series is redeemable at $100 per share after April 1, 1997.

Annual mandatory redemptions of HL&P's preferred stock are $20 million in 1993 and 1994, and $45.7 million for each of the years 1995-1997.

(4) Long-Term Debt

Sinking or improvement fund requirements of HL&P's first mortgage bonds outstanding will be approximately $51 million for each of the years 1993 through 1997. Of such requirements, approximately $32 million for each of the years 1993 through 1997 may be satisfied by certification of property additions at 100% of the requirements, and the remainder through certification of such property additions at 166 2/3% of the requirements. Sinking or improvement fund requirements for 1992 and prior years have been satisfied by certification of property additions.

HL&P has agreed to expend an amount each year for replacements and improvements in respect of its depreciable mortgaged utility property equal to $1,450,000 plus 2 1/2% of net additions to such mortgaged property made after March 31, 1948 and before July 1 of the preceding year. Such requirement may be met with cash, first mortgage bonds, gross property additions or expenditures for repairs or replacements, or by taking credit for property additions at 100% of the requirements. At the option of HL&P, but only with respect to first mortgage bonds of a series subject to special redemption, deposited cash may be used to redeem first mortgage bonds of such series at the applicable special redemption price. The replacement fund requirement to be satisfied in 1993 is approximately $263 million.

The amount of HL&P's first mortgage bonds is unlimited as to issuance, but limited by property, earnings, and other provisions of the Mortgage and Deed of Trust dated as of November 1, 1944, between HL&P and South Texas Commercial National Bank of Houston (Texas Commerce Bank National Association, as Successor Trustee) and the supplemental indentures thereto. Substantially all properties of HL&P are subject to liens securing HL&P's long-term debt.

A portion of the funds for the acquisition of Cablesystems was obtained by KBL Cable, Inc. (KBL Cable) and its corporate parent KBLCOM Incorporated (KBLCOM) under the terms of several financing agreements:

(a) KBL Cable Senior Bank Credit Facility. KBL Cable is a party to a $531.9 million revolving credit and letter of credit facility agreement with mandatory commitment reductions (which may require principal payments) which began in 1992. The final maturity for loans under this facility is 1999. Loans have generally borne interest at an interest rate of LIBOR plus an "applicable margin." The margin was .875% at December 31, 1992. The bank credit agreement also contains certain restrictions, including restrictions on dividends, sales of assets and limitations on total indebtedness. The amount of indebtedness outstanding at December 31, 1992 and 1991 was $41[illegible] million and $420 million, respectively. Based on annualized cash flow for the fourth quarter of 1992, the amount of additional borrowings under this agreement would have been limited.

In October 1989, KBL Cable entered into interest rate swap agreements with four banks which effectively fixed the rates on $375 million of debt under the KBL Cable senior bank credit facility at approximately 9% plus the applicable margin. As of December 31, 1992 and 1991, the effective interest rates on such debt were approximately 9.875% and 10%, respectively. Interest rate swaps aggregating $100 million and $75 million terminated in October 1991 and 1992, respectively. The remaining interest rate swaps terminate in 1994 and 1996. The differential to be paid or received under the interest rate swap agreements is accrued as interest rates change and is recognized over the life of the agreement. KBL Cable is exposed to risk of nonperformance by the other parties to the interest rate swap agreements. However, KBL Cable does not anticipate nonperformance by the parties.

Commitment fees are required on the unused capacity of the KBL Cable bank credit facilities.

(b) KBLCOM Senior Bank Facility. KBLCOM has entered into a $300 million letter of credit and term loan facility under which $100 million was borrowed upon the closing of the acquisition. This $100 million Tranche A borrowing matures in 1996 but is expected to be prepaid in 1993 and has been reclassified to current maturities of long-term debt.

The purpose of the remaining $200 million under the facility was to provide bank letters of credit (i) to support KBL Cable's debt service obligations on its senior subordinated notes up to $132.7 million (Exclusive Letters of Credit) and (ii) to provide funds to KBLCOM and KBL Cable for certain specified purposes, including reimbursement of KBL Cable's capital expenditures (Non-Exclusive Letters of Credit). Drawings under these Letters of Credit (Tranche B borrowings) totaled approximately $67.3 million as of December 31, 1992 and 1991, all of which related to the Non-Exclusive Letters of Credit, resulting in no remaining capacity on the Non-Exclusive Letters of Credit at December 31, 1992. These borrowings are expected to be prepaid in 1993 and have been reclassified to current maturities of long-term debt. There have been no draws on the Exclusive Letters of Credit, resulting in remaining capacity of $132.7 million at December 31, 1992. Tranche B borrowings must be repaid over five years beginning in 1995. The interest rate on the Tranche B borrowings is LIBOR plus a margin that increases in several steps from the current .75% to 1.25% in 1996. Borrowings under the KBLCOM bank facility are recourse to the Company.

Prepayments of the Tranche A and Tranche B borrowings in 1993 are expected to be funded with proceeds from the sale of commercial paper by the Company, with the Company's contribution to KBLCOM taking the form of an equity investment.

Commitment fees are required on that portion of the KBLCOM facility relating to Exclusive Letters of Credit.

(c) KBL Cable Notes. KBL Cable has outstanding $98.8 million of 10.95% senior notes and $123.5 million of 11.30% senior subordinated notes. Both series mature in 1999 with annual principal payments which began in 1992. The agreement under which the notes were issued contains restrictions and covenants similar to those contained in the KBL Cable senior bank facility. As of December 31, 1992, the Company owned $28.9 million principal amount of the senior notes and $36.05 million principal amount of the senior subordinated notes.

Consolidated annual maturities of long-term debt, prepayment of KBLCOM Tranche A and Tranche B borrowings, and minimum capital lease payments for the Company are approximately $316 million in 1993, $35 million in 1994, $20 million in 1995, $376 million in 1996 and $273 million in 1997.

(5) Short-Term Financing

The interim financing requirements of the Company's operating subsidiaries are met through short-term bank loans, the issuance of commercial paper and short-term advances from the Company. The Company and its subsidiaries had bank lines of credit aggregating $1.05 billion at December 31, 1992 and $950 million at December 31, 1991, under which borrowings are classified as short-term indebtedness. Such bank lines limit the Company's total short-term borrowings and provide for interest at rates generally less than the

prime rate. Outstanding commercial paper was $564 million at December 31, 1992 and $330 million at December 31, 1991. Commitment fees are required on the bank facilities. For a description of bank credit facilities of KBLCOM and KBL Cable, borrowings under which are classified as long-term debt or current maturities of long-term debt, see Note 4.

(6) Estimated Fair Value of Financial Instruments

In December 1991, the Financial Accounting Standards Board (FASB) issued SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." This accounting standard, which the Company adopted in 1992, requires companies to disclose the fair value of certain financial instruments, as well as the methods and assumptions used to estimate the fair value.

The carrying amount and estimated fair value of the Company's financial instruments at December 31, 1992 are as follows:

	Carrying Amount	Fair Value
	(Thousands of Dollars)	
Financial assets:		
Cash and short-term investments	$ 69,317	$ 69,317
Note receivable from ESOP	332,489	395,202
Financial liabilities:		
Short-term notes payable	564,249	564,249
Cumulative preferred stock (subject to mandatory redemption)	226,834	242,289
Debentures	548,359	586,405
Long-term debt of subsidiaries:		
Electric:		
First mortgage bonds	3,188,694	3,407,236
Pollution control revenue bonds	255,704	286,813
Cable television:		
Senior bank debt	582,349	582,349
Senior and subordinated notes	157,354	184,044
Other	4,156	4,747
Unrecognized financial instruments:		
Interest rate swaps:		
In a net payable position		17,162

The fair values of cash and short-term investments, short-term notes payable and bank debt are equivalent to the carrying amounts.

The fair values of the ESOP loan, the Company's debentures, HL&P's cumulative preferred stock subject to mandatory redemption, HL&P's first mortgage bonds, pollution control revenue bonds issued on behalf of HL&P, KBL Cable senior and senior subordinated notes and other long-term debt are estimated using rates currently available for securities with similar terms and remaining maturities.

The fair value of interest rate swaps is the estimated amount that the swap counterparties would receive or pay to terminate the swap agreements, taking into account current interest rates and the current creditworthiness of the swap counterparties.

(7) **Retirement Plans**

The Company has noncontributory retirement plans covering substantially all employees. The plans provide retirement benefits based on years of service and compensation. The Company's funding policy is to contribute amounts annually in accordance with applicable regulations in order to achieve adequate funding of projected benefit obligations. The assets of the plans consist principally of common stocks and high quality, interest-bearing obligations.

Net pension cost includes the following components:

	Year Ended December 31,		
	1992	1991	1990
	(Thousands of Dollars)		
Service cost - benefits earned during the period................	$ 24,282	$ 22,132	$ 21,146
Interest cost on projected benefit obligation................	45,585	38,564	35,091
Actual return on plan assets........	(26,934)	(61,582)	(8,553)
Net amortization and deferrals......	(11,749)	30,413	(21,938)
Net pension cost....................	$ 31,184	$ 29,527	$ 25,746

The funded status of the retirement plans was as follows:

	December 31,	
	1992	1991
	(Thousands of Dollars)	
Actuarial present value of:		
Vested benefit obligation.................	$ 360,714	$ 278,990
Accumulated benefit obligation............	$ 396,751	$ 310,556
Plan assets at fair value....................	$ 444,511	$ 399,400
Projected benefit obligation.................	598,677	522,962
Assets less than projected benefit obligation................................	(154,166)	(123,562)
Unrecognized transitional asset.............	(19,179)	(21,098)
Unrecognized prior service cost.............	12,129	14,590
Unrecognized net loss.......................	86,084	86,426
Accrued pension cost........................	$ (75,132)	$ (43,644)

The projected benefit obligation was determined using an assumed discount rate of 8.5% in 1992 and 1991. A long-term rate of compensation increase ranging from 6.9% to 9.0% was assumed in 1992 and 1991. The assumed long-term rate of return on plan assets was 9.5% in 1992 and 1991. The transitional asset at January 1, 1986, is being recognized over approximately 17 years, and the prior service cost is being recognized over approximately 15 years.

In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This accounting standard, effective for fiscal years beginning after December 15, 1992, requires companies to recognize the liability for

postretirement benefit plans other than pensions, primarily medical and dental benefits. The Company will adopt SFAS No. 106 in 1993. The transition obligation, or accumulated postretirement benefit obligation, of approximately $213 million will be amortized over approximately 22 years as permitted by SFAS No. 106. The Company estimates that adoption will increase benefit costs by approximately $24 million over the expected "pay-as-you-go" amount in 1993. The Utility Commission has published a proposed rule which, if adopted, would govern the ratemaking treatment for postretirement benefits other than pensions. This rule (i) will allow for recovery of the current postretirement benefits expense on an accrual basis provided that all amounts recovered in rates are placed in an external trust fund, and (ii) will not allow recovery of the transition obligation. HL&P is opposing the portion of the rule which would preclude it from recovering the transition obligation in rates.

(8) Commitments and Contingencies

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

HL&P's capital program (exclusive of AFUDC) is presently estimated to cost $344 million in 1993, $498 million in 1994 and $462 million in 1995. These amounts do not include expenditures on projects for which HL&P expects to be reimbursed by customers or other parties.

HL&P has entered into several long-term coal, lignite and natural gas contracts which have various quantity requirements and durations. Minimum obligations for coal and transportation agreements are approximately $167 million in 1993, and $165 million in each of 1994 and 1995. The coal and lignite contracts include provisions permitting HL&P to defer delivery at HL&P's discretion and force majeure provisions. 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 gas purchase contracts are approximately $43.6 million in 1993, $45.0 million in 1994 and $46.5 million in 1995. Collectively, these contracts could amount to 51% 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 $206 million in 1993, $144 million in 1994 and $19 million in 1995. 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.

The Energy Act, 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. This fee is to cover a portion of the cost to decontaminate and decommission the facilities used to perform the enrichment. It is currently estimated that the assessment to the South Texas Project Electric Generating Station (South Texas Project) will be approximately $1.8 million per year (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.

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

(b) KBLCOM Commitments and Obligations Under Cable Franchise Agreements. KBLCOM's capital requirements are estimated to be $46 million in 1993, $40 million in 1994 and $54 million in 1995. KBLCOM and its subsidiaries presently have certain cable franchises containing provisions for construction of cable plant and service to customers within the franchise area. In connection with certain obligations under existing franchise agreements, KBLCOM and its subsidiaries obtain surety bonds and letters of credit guaranteeing performance to municipalities and public utilities. Payment is required only in the event of non-performance. KBLCOM and its subsidiaries have fulfilled all of their obligations such that no payments have been required.

(c) Equipment Expenditures - Utility Fuels. Utility Fuels, Inc.'s (Utility Fuels) expenditures for coal handling facilities and lignite mining and handling facilities are estimated to be $11 million in 1993, and $12 million in each of 1994 and 1995.

(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 the corresponding operating expense amounts on the Company's Statements of Consolidated Income.

As of December 31, 1992, HL&P's investments (net of accumulated depreciation and amortization) in the South Texas Project and in nuclear fuel, including AFUDC, were $2.2 billion and $112 million, respectively.

(b) **City of Austin Litigation.** In July 1989, judgment was entered in favor of HL&P and the Company in a 1983 suit filed in state district court by the City of Austin (Austin), one of the four co-owners in the South Texas Project. Austin alleged 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. Although the amount of alleged damages varied, at trial Austin claimed actual damages of at least $419 million, with all or some portion alleged to be subject to trebling under the Texas Deceptive Trade Practices-Consumer Protection Act. In October 1992, the Court of Appeals for the Fifth District of Texas at Dallas affirmed the trial court's judgment in favor of the Company and HL&P. Austin has filed an application for writ of error to the Supreme Court of Texas, but the Supreme Court has not yet acted. In its application, Austin seeks a new trial on its breach of contract claim, but is not pursuing its fraud in the inducement or its Deceptive Trade Practices Act claims. The Company and HL&P continue to regard the claims of Austin to be without merit.

(c) **Arbitration with Co-owners.** During the course of the Austin litigation, the City of San Antonio (San Antonio) and Central Power and Light Company (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 among the owners of the South Texas Project (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-party arbitrators will appoint a fifth arbitrator, but that action has not yet occurred.

In May 1992, the Company and HL&P entered into a settlement with CPL and its parent company, Central and South West Corporation (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 on December 30, 1992. Under the terms of the settlement, HL&P reimbursed CPL for certain costs and expenses incurred in pursuing the arbitration and litigation. The settlement also resolved other disputes between the parties concerning various transmission agreements and related billing disputes. In addition, the parties also agreed to support, and to seek consent of the other owners of the South Texas Project to, certain amendments to the Participation Agreement, including changes in the management structure of the South Texas Project through which HL&P would be replaced as project manager by an independent entity.

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

HL&P and the Company continue to regard Austin's claims and those asserted by San Antonio 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 definitive assurance regarding the ultimate resolutions of the City of Austin litigation and the 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 January 1, 1993, the maximum amounts of excess property insurance available through the insurance industry increased from $2.015 billion to $2.125 billion. This $2.125 billion of excess property insurance coverage includes $800 million of excess insurance from ANI and $1.325 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. 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 $15.3 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 (Act), public liability for owners of nuclear power plants, such as the South Texas Project, is limited to approximately $7.9 billion. 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. This plan provides for assessment of deferred premiums for each nuclear incident up to $63 million per reactor subject to indexing for inflation and a possible 5% surcharge (but no more than $10 million per reactor per incident in any one year). 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, 1992, the trustee held approximately $11.9 million for decommissioning, for which the asset and liability are reflected in the Company's Consolidated Balance Sheet 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 exceeds the NRC minimum. There is, however, no assurance that the amounts held in trust will be adequate to cover the decommissioning costs.

(f) NRC Diagnostic Evaluation. In February 1993, the NRC advised HL&P that the NRC will conduct a diagnostic evaluation of the South Texas Project in the spring of 1993. Conducted infrequently, NRC diagnostic evaluations 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. Similar reviews have been conducted at other plants in recent years, and in some cases, based on the evaluation results, those plants have received increased regulatory emphasis or have been required to take actions to improve plant operations, maintenance or condition. In its notification, the NRC cited no specific reason for initiating the diagnostic evaluation. However, during 1992, a number of personnel-induced, equipment-related problems were experienced. Most recently, in February 1993, HL&P shut down both units at the South Texas Project when a problem was encountered with a turbine-driven auxiliary feedwater pump. A similar problem had been encountered previously, and HL&P determined that the units would not be restarted until HL&P had determined the root cause of the difficulty and had briefed the NRC on its corrective action. The NRC formalized that commitment and sent an Augmented Inspection Team to the South Texas Project to review the matter. Resolution of that matter is underway. Unit No. 2 of the South Texas Project began its scheduled refueling outage during the shutdown, and Unit No. 1 of the South Texas Project is expected to resume operation in early March 1993. The NRC's report on its diagnostic evaluation is not expected until the summer of 1993.

The most recent Systematic Assessment of Licensee Performance rating for the South Texas Project, issued in October 1992, declined somewhat from the prior rating, though ratings in all areas were

"acceptable" or better, and two areas of NRC concern that were identified during 1992 are still pending enforcement conferences and could result in the assessment of civil penalties by the NRC.

(10) Appeals from Utility Commission Orders

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

Judicial review currently is pending on the following final orders of the Utility Commission.

(a) Docket Nos. 6765, 6766 and 5779. T. appeals of HL&P's 1986 rate case (Docket Nos. 6765 and 6766) and its 1984 rate case (Docket Nos. 5779) are pending before the Austin Court of Appeals. Oral argument has been presented to the court in both cases.

In its final order in Docket Nos. 6765 and 6766, the Utility Commission granted HL&P a general rate increase which included in rate base approximately $678 million of Construction Work In Progress (CWIP). In December 1991, a District Court of Travis County, Texas, in considering an appeal from that Utility Commission order, ruled that the inclusion of CWIP in rate base did not comply with the requirements of the applicable Texas statute on the grounds that a threshold showing of "exceptional circumstances" which the court found to be required by the statute had not been met, despite the Utility Commission's determination that HL&P's financial integrity required inclusion of CWIP at the level granted. Rates pursuant to that final order were implemented in December 1986 and remained in effect until June 1989.

A different result was reached by another District Court of Travis County, Texas, in considering a challenge to the inclusion of CWIP in rate base in an appeal of the Utility Commission's final order in

Docket No. 5779. In February 1992, that District Court affirmed the Utility Commission's final order, in which HL&P was authorized to include CWIP in rate base at a level of $948 million. When that District Court's decision was appealed to the Austin Court of Appeals, the issue of CWIP in rate base was not appealed. That appeal, concerning the Utility Commission's treatment of certain taxes in Docket No. 5779, remains pending. A motion to voluntarily dismiss the appeal was filed on February 22, 1993, but has not yet been acted upon by the court. Rates ordered in Docket No. 5779 were implemented in January 1985 and remained in effect until December 1986.

(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. The Texas Supreme Court declined to review that decision in December 1992, but motions for rehearing are pending. 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.

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, but 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(c) and 11.

(c) Docket No. 9850. In August 1992, a district court in Travis County affirmed the Utility Commission's final order in Docket No. 9850, HL&P's 1991 rate case. That decision has been 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 Docket No. 9850, the Utility Commission approved a settlement agreement reached with most parties. That settlement agreement provided for a $313 million increase in HL&P's base rates, termination of deferrals granted with respect to Unit No. 2 of the South Texas Project and of the qualified phase-in plan deferrals granted with respect to Unit No. 1 of the South Texas Project, and recovery of deferred plant costs. The settlement authorized a 12.55% return on common equity for HL&P, and HL&P agreed not to request additional increases in base rates that would be implemented prior to May 1, 1993. Rates contemplated by that settlement agreement were implemented in May 1991 and remain in effect.

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

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

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

Appeals by HL&P and other parties of the Utility Commission's order in Docket No. 6668 were dismissed by a District Court in Travis County in May 1991. However, in December 1992 the Austin Court of Appeals reversed the District Court's dismissals on procedural grounds. It is unknown whether any parties will seek further review of the Austin Court of Appeals' order by the Texas Supreme Court, but unless that order is modified on further review, HL&P anticipates that the appeals of the parties will be reinstated and that the merits of 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. HL&P and other parties to the appeal of Docket Nos. 8230 and 9010 have sought discretionary review by the Supreme Court of Texas by filing applications for writ

of error with the Supreme Court. Similar review is being sought by parties to the other utility's appeal. The Supreme Court has not acted on any of those applications.

(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 in deferred expenses and deferred return under phase-in plan, respectively. Under the phase-in plan, these accumulated deferrals will be recoverable within ten years of the June 1990 order.

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

	Original Balance	Balance at December 31, 1992
	(Thousands of Dollars)	
Deferred Accounting: (a)		
Deferred Expenses...........	$ 250,151	$ 239,745
Deferred Carrying Costs on Plant Investment.......	399,972	383,333
Total....................	650,123	623,078
Qualified Phase-In Plan: (b)..	82,254	67,404
Total Deferred Plant Cost.....	$ 732,377	$ 690,482

(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, 1992, deferred income taxes of $200.5 million with respect to deferred accounting and $16.3 million with respect to the deferrals associated with the qualified phase-in plan have been recorded.

(12) Malakoff Electric Generating Station

The scheduled in-service dates for the Malakoff Electric Generating Station (Malakoff) 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 million has been reclassified from plant held for future use to recoverable project costs as of December 31, 1992, and will be amortized beginning in January 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. See Note 10(b) for a discussion of that appeal.

In June 1990, HL&P purchased from its 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, 1992 of $172 million, consisting primarily of lignite reserves and land, is included on the Company's Consolidated Balance Sheets in plant held for future use. For the 1993-1995 period, HL&P anticipates $14 million of expenditures relating to lignite reserves, primarily to keep lignite leases and other related agreements in effect.

(13) Recoverable Project Costs

The Utility Commission has allowed recovery of certain costs over a period of time by amortizing those costs for rate making purposes. However, recoverable project costs have not been included in rate base and, as a result, no return on investment is being earned during the recovery period. Malakoff is the only remaining project with an unrecovered amount of $130 million at December 31, 1992, with remaining recovery periods of 78 months ($84 million) and 90 months ($46 million). The Allens Creek project was fully recovered at December 31, 1992.

(14) Income Taxes

In February 1992, the FASB issued SFAS No. 109 which amends SFAS No. 96, "Accounting for Income Taxes." The Company adopted SFAS No. 109 in 1992, with restatement to January 1, 1990. SFAS No. 109, among other things, (i) requires the liability method be used in computing deferred taxes on all temporary differences between book and tax bases of assets other than goodwill; (ii) requires that deferred tax liabilities and assets be adjusted for an enacted change in tax laws or rates; and (iii) prohibits net-of-tax accounting and reporting. SFAS No. 109 requires that regulated enterprises recognize such adjustments as regulatory assets or liabilities if it is probable that such amounts will be recovered from or returned to customers in future rates. KBLCOM has significant temporary differences related to its 1986 and 1989 acquisitions of cable television systems, the tax effect of which were recognized when SFAS No. 109 was adopted. The cumulative effect of the change in accounting principle as of January 1, 1990 was approximately $220 million and is included on the Company's Statement of Consolidated Income as a cumulative effect of change in accounting for income taxes.

The adoption of SFAS No. 109 did not have an effect on revenues; however, net income for the years 1991 and 1990 were affected and have been restated. A reconciliation of net income and related per share amounts for the years 1991 and 1990 is presented below:

	Year Ended December 31,			
	1991		1990	
	(Thousands of dollars, except per share amounts)			
Net Income (As Previously Reported)	$ 417,383	$ 3.24	$ 339,454	$ 2.67
Depreciation	(3,851)	(.03)	(3,851)	(.03)
State Franchise Taxes	(18,366)	(.14)		
State and Federal Income Taxes	21,588	.17	7,186	.06
Cumulative Effect of Prior Years			(219,718)	(1.73)
Net Income (As Restated)	$ 416,754	$ 3.24	$ 123,071	$ .97

The current and deferred components of income tax expense are as follows:

	Year Ended December 31,		
	1992	1991 (Restated)	1990 (Restated)
	(Thousands of Dollars)		
Current:			
U.S.	$130,360	$138,195	$121,855
Deferred:			
Liberalized depreciation	79,489	84,763	94,457
Investment tax credit	(20,387)	(19,911)	(37,979)
Alternative minimum tax	(438)	10,391	(33,246)
Excess deferred taxes	(17,403)	(17,532)	(12,295)
Deferred plant costs	(6,671)	22,828	83,725
IRS 1983-84 audit assessment		(2,446)	(34,916)
Other - net	(341)	(8,108)	(16,657)
Income taxes before cumulative effect of accounting change	$164,609	$208,180	$164,944

Effective income tax rates are lower than statutory corporate rates for each year as follows:

	Year Ended December 31,		
	1992	1991 (Restated)	1990 (Restated)
	(Thousands of Dollars)		
Income before income taxes and cumulative effect of accounting change	$505,096	$624,934	$507,733
Preferred dividends of subsidiary	39,327	46,187	47,753
Total	544,423	671,121	555,486
Statutory rate	34%	34%	34%
Income taxes at statutory rate	185,104	228,181	188,865
Reduction in taxes resulting from:			
AFUDC - other included in income	2,097	6,658	4,902
Amortization of investment tax credit	20,359	20,298	41,319
Amortization of intangible assets	(4,264)	(4,264)	(4,265)

	Year Ended December 31, 1992	1991 (Restated)	1990 (Restated)
	(Thousands of Dollars)		
Excess deferred taxes	$ 17,403	$ 17,532	$ 12,295
Difference between book and tax depreciation for which deferred taxes have not been normalized	(13,466)	(14,437)	(17,482)
Disallowed plant costs - net		1,699	(11,973)
Other - net	(1,634)	(7,485)	(875)
Total	20,495	20,001	23,921
Income taxes before cumulative effect of accounting change	$164,609	$208,180	$164,944
Effective rate	30.2%	31.0%	29.7%

Following are the tax effects of temporary differences resulting in deferred tax assets and liabilities:

	December 31, 1992	1991
	(Thousands of Dollars)	
Deferred Tax Assets:		
Alternative minimum tax	$ 108,287	$ 115,945
Disallowed plant cost	67,728	69,909
IRS audit assessment	74,966	48,513
Unbilled revenues		51,881
Loss and ITC carryforwards	54,799	54,978
Other	68,999	40,201
Total deferred tax assets	374,779	381,427
Less valuation allowance	56,638	56,817
Total deferred tax assets - net	318,141	324,610
Deferred Tax Liabilities:		
Depreciation	1,146,970	1,062,947
Identifiable intangibles	238,778	245,415
Deferred plant costs	216,813	227,255
Regulatory assets - net	177,426	165,246
Capitalized taxes, employee benefits and removal costs	122,268	122,735
Other	205,706	204,480
Total deferred tax liabilities	2,107,961	2,028,078
Accumulated deferred income taxes - net	$1,789,820	$1,703,468

(15) Supplementary Expense Information

Taxes, other than income taxes, were charged to expense as follows:

	Year Ended December 31, 1992	1991	1990
	(Thousands of Dollars)		
Electric:			
Ad valorem	$135,872	$117,298	$ 99,375
State gross receipts	42,662	40,876	39,091
Payroll	21,582	23,515	22,265

	Year Ended December 31,		
	1992	1991	1990
	(Thousands of Dollars)		
PUC assessment	$ 6,163	$ 6,001	$ 5,713
State franchise tax (net of refunds)	21,065	2,017	21,054
Miscellaneous	894	819	489
Total	228,238	190,526	187,987
Taxes included in cable television operating expenses	9,481	9,260	8,646
Taxes included in cost of coal and lignite sold	7,242	5,475	4,945
Total	$244,961	$205,261	$201,578
Research and development costs charged to expense	$ 15,963	$ 15,548	$ 15,392

(16) Business Segment Information

The Company operates principally in two business segments: electric utility and cable television. The electric utility business segment encompasses the operations of HL&P and Utility Fuels. HL&P provides electric service in and around Houston, while Utility Fuels supplies coal, lignite and transportation services to certain of HL&P's electric generating facilities. Financial information by business segment is summarized as follows:

	Year Ended December 31,		
	1992	1991 (Restated)	1990 (Restated)
	(Thousands of Dollars)		
Revenues:			
Electric utility (a)	$ 4,359,628	$ 4,219,011	$ 3,978,683
Cable television (b)	236,760	224,728	199,893
Total revenues	$ 4,596,388	$ 4,443,739	$ 4,178,576
Operating Income (Expense):			
Electric utility (c)	$ 923,931	$ 1,013,542	$ 943,283
Cable television (b)	19,394	14,009	5,460
Other operations	(911)	(1,595)	(2,064)
Total operating income	942,414	1,025,956	946,679
Other income (expense)	12,098	77,291	(7,190)
Fixed charges	(449,416)	(478,313)	(431,756)
Income before income taxes	$ 505,096	$ 624,934	$ 507,733
Depreciation and Amortization:			
Electric utility	$ 388,548	$ 366,777	$ 341,608
Cable television (b)	75,622	70,496	67,668
Other operations	911	1,595	2,064
Total depreciation and amortization	$ 465,081	$ 438,868	$ 411,340

	Year Ended December 31,		
	1992	1991 (Restated)	1990 (Restated)
	(Thousands of Dollars)		
Identifiable Assets (end of period):			
Electric utility	$10,823,268	$10,662,099	$10,552,407
Cable television	1,386,927	1,391,526	1,429,768
Other operations	328,268	221,160	241,444
Adjustments and eliminations	(120,962)	(109,621)	(178,864)
Total assets	$12,417,501	$12,165,164	$12,044,755
Capital Expenditures:			
Electric utility	$ 336,035	$ 375,520	$ 358,455
Cable television (b)	44,306	26,624	31,186
Other	1,625		
Total capital expenditures	$ 381,966	$ 402,144	$ 389,641

(a) Electric utility revenues include sales of $529 million, $542 million and $510 million for 1992, 1991 and 1990, respectively, between HL&P and Utility Fuels. These sales are not eliminated in consolidation because of the distinction for regulatory purposes between utility and non-utility operations.

(b) Amounts do not include amounts attributable to Paragon, which is accounted for under the equity method.

(c) 1992 amounts include the effect of a charge of $86 million which relates to HL&P's restructuring of operations as a result of the implementation of the STEP program (see Note 18).

(17) Investments

(a) Cable Television Partnership. A KBLCOM subsidiary owns a 50% interest in Paragon, a Colorado partnership that owns cable television systems. The remaining interest in the partnership is owned by American Television and Communications Corporation (ATC), a subsidiary of Time Warner Inc. The partnership agreement provides that at any time after December 31, 1993 either partner may elect to divide the assets of the partnership under certain pre-defined procedures set forth in the agreement.

Paragon is party to a $275 million revolving credit and letter of credit facility agreement with a group of banks. Paragon also has outstanding $150 million principal amount of 9.56% senior notes due 1995. In each case, borrowings are non-recourse to the Company and to ATC.

(b) Foreign Electric Utility. Houston Argentina owns a 32.5% interest in an Argentine holding company which acquired, in December 1992, a 51% interest in Edelap S. A., an electric utility company operating in La Plata, Argentina and surrounding regions. Houston Argentina's share of the purchase price was approximately $37.6 million.

(18) Restructuring

HL&P recorded a one-time pre-tax charge of $86 million in the first quarter of 1992 to reflect the implementation of the STEP program, a restructuring of its operations. This charge includes $42 million related to the acceptance of an early retirement plan by 468 employees of HL&P, $31 million for severance benefits related to the elimination of an additional 1,100 positions and $13 million in other costs associated with the restructuring.

(19) Change in Accounting Method for Revenues

During the fourth quarter of 1992, HL&P adopted a change in accounting method for revenue from a cycle billing to a full accrual method, effective January 1, 1992. Unbilled revenues represent the estimated amount customers will be charged for service received, but not yet billed, as of the end of each month. The accrual of unbilled revenues results in a better matching of revenues and expenses. This change impacts the pattern of revenue recognition, which has the effect of increasing revenues and earnings in the second and third quarters (periods of higher usage) and decreasing revenues and earnings in the first and fourth quarters (periods of lower usage).

The cumulative effect of this accounting change, less income taxes of $48.5 million, amounted to $94.2 million, and was included in 1992 income. If this change in accounting method were applied retroactively, the effect on consolidated net income in 1991 and 1990 would not have been material.

(20) Unaudited Quarterly Information

The following unaudited quarterly financial information includes, in the opinion of management, all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation. Quarterly results are not necessarily indicative of a full year's operations because of seasonality and other factors, including rate increases and variations in operating expense patterns.

The quarterly results have been restated to include the impact of the adoption of SFAS No. 109, as discussed in Note 14, and the recording of unbilled electric revenues as discussed in Note 19.

Quarter Ended	Revenues	Operating Income	Net Income (Loss)	Earnings (Loss) per Common Share(a)
	(Thousands of Dollars)			
1991				
March 31..........	$ 918,160	$ 133,311	$ 51,849	$ .40
Adjustment 1(b)...		(963)	2,378	.02
March 31 Restated.	$ 918,160	$ 132,348	$ 54,227	$ .42
June 30...........	$1,059,605	$ 216,018	$ 87,424	$ .68
Adjustment 1(b)...		(963)	2,405	.02
June 30 Restated..	$1,059,605	$ 215,055	$ 89,829	$ .70

Quarter Ended	Revenues	Operating Income	Net Income (Loss)	Earnings (Loss) per Common Share(a)
	(Thousands of Dollars)			
1991				
Sept. 30..........	$1,370,609	$ 459,948	$ 223,831	$1.73
Adjustment 1(b)...		(963)	(7,873)	(.06)
Sept. 30 Restated.	$1,370,609	$ 458,985	$ 215,958	$1.67
Dec. 31...........	$1,095,365	$ 220,530	$ 54,279	$ .42
Adjustment 1(b)...		(962)	2,461	.02
Dec. 31 Restated..	$1,095,365	$ 219,568	$ 56,740	$ .44
1992				
March 31..........	$ 975,250	$ 68,690(d)	$ (33,908)(d)	$(.26)
Adjustment 1(b)...		(963)	1,366	.01
Adjustment 2(c)...	(15,584)	(14,681)	(9,689)	(.08)
Cumulative effect of adjustment 2(c)............			94,180	.73
March 31 Restated.	$ 959,666	$ 53,046(d)	$ 51,949(d)	$ .40(e)
June 30...........	$1,097,644	$ 227,656	$ 74,947	$ .58
Adjustment 1(b)...		(963)	1,388	.01
Adjustment 2(c)...	70,148	66,461	43,865	.34
June 30 Restated..	$1,167,792	$ 293,154	$ 120,200	$ .93
Sept. 30..........	$1,392,164	$ 447,748	$ 230,913	$1.78
Adjustment 1(b)...		(963)	1,408	.01
Adjustment 2(c)...	11,180	10,676	7,046	.06
Sept. 30 Restated.	$1,403,344	$ 457,461	$ 239,367	$1.85
Dec. 31...........	$1,065,586	$ 138,753	$ 23,151	$ .18

(a) Quarterly earnings (loss) per common share are based on the weighted average number of shares outstanding during the quarter, and the sum of the quarters may not equal annual earnings per common share.

(b) Adjustment required to restate quarterly amounts for the change in accounting for SFAS No. 109 (see Note 14).

(c) Adjustment required to restate 1992 quarterly amounts for the change in accounting for revenues (see Note 19).

(d) Amounts include the effect of a pre-tax charge of $86 million which relates to HL&P's restructuring of operations as a result of the implementation of the STEP program (see Note 18).

(e) Loss from continuing operations per share for the first quarter of 1992 was $.33.

(21) Reclassification

Certain amounts from the previous years have been reclassified to conform to the 1992 presentation of financial statements. Such reclassifications do not affect earnings.

INDEPENDENT AUDITORS' REPORT

Houston Industries Incorporated:

We have audited the accompanying consolidated balance sheets and the consolidated statements of capitalization of Houston Industries Incorporated and its subsidiaries as of December 31, 1992 and 1991 and the related statements of consolidated income, consolidated retained earnings and consolidated cash flows for each of the three years in the period ended December 31, 1992. Our audits also included the financial statement schedules listed in the Index in Item 14. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries at December 31, 1992 and 1991 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1992 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 14 to the consolidated financial statements, in 1992 the Company changed its method of accounting for income taxes to conform with Statement of Financial Accounting Standards No. 109 and, retroactively, restated the 1990 and 1991 consolidated financial statements for the change. As discussed in Note 19 to the consolidated financial statements, the Company changed its method of accounting for revenues in 1992.

Deloitte & Touche

DELOITTE & TOUCHE

Houston, Texas
February 16, 1993

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant. *

Item 11. Executive Compensation. *

Item 12. Security Ownership of Certain Beneficial Owners and Management.*

Item 13. Certain Relationships and Related Transactions. *

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* The information called for by Items 10, 11, 12 and 13, to the extent not set forth under Item 1. "Business-Executive Officers of the Company," is or will be set forth in the definitive proxy statement relating to the 1993 Annual Meeting of Shareholders of Houston Industries Incorporated pursuant to the Commission's Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Items 10, 11 (excluding the information required by paragraphs (i), (k) and (l) of Item 402 of Regulation S-K), 12 and 13 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) (1) Financial Statements.

(a) (2) Financial Statement Schedules.

The following schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements:

I, II, III, IV, VII, X, XI, XII and XIII.

(a)(3) Exhibits.

See Index of Exhibits on page 99, which also includes the management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(10)(iii) of Regulation S-K.

(b) Reports on Form 8-K.

None.

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

For the Three Years Ended December 31, 1992
(Thousands of Dollars)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost	Retire-ments	Other Changes - Add (Deduct)	Balance at End of Period
Year Ended December 31, 1992:					
Production Plant....................	$ 6,724,735	$ 139,761	$ 11,233		$ 6,853,263
Transmission Plant..................	801,049	20,352	2,817		818,584
Distribution Plant..................	2,302,657	126,417	34,848		2,394,226
General Plant.......................	690,246	64,800	17,371		737,675
Plant Acquisition Adjustments......	3,166				3,166
Plant Held for Future Use..........	275,719	9,221		$ (84,075)	200,865
Coal Handling Equipment and Mining Property.........................	536,728	4,943	3,899		537,772
Cable Television Property..........	278,052	43,236	627		320,661
Other Property......................	12,159	225	187		12,197
Total Plant..............	11,624,511	408,955	70,982	(84,075)	11,878,409
Construction Work in Progress......	239,159	(37,994)			201,165
Nuclear Fuel........................	181,853	20,160			202,013
Total....................	$12,045,523	$ 391,121	$ 70,982	$ (84,075)	$12,281,587
Year Ended December 31, 1991:					
Production Plant....................	$ 6,595,577	$ 131,843	$ 2,685		$ 6,724,735
Transmission Plant..................	764,336	39,937	3,224		801,049
Distribution Plant..................	2,173,981	163,896	35,220		2,302,657
General Plant.......................	660,969	64,560	35,283		690,246
Plant Acquisition Adjustments......	3,166				3,166
Plant Held for Future Use..........	263,735	11,984			275,719
Coal Handling Equipment and Mining Property.........................	518,221	22,489	3,982		536,728
Cable Television Property..........	252,485	26,624	1,057		278,052
Other Property......................	11,995	324	77	$ (83)	12,159
Total Plant..............	11,244,465	461,657	81,528	(83)	11,624,511
Construction Work in Progress......	287,805	(48,646)			239,159
Nuclear Fuel........................	177,308	6,049		(1,504)	181,853
Total....................	$11,709,578	$ 419,060	$ 81,528	$ (1,587)	$12,045,523
Year Ended December 31, 1990:					
Production Plant....................	$ 6,680,966	$ 85,339	$ 2,228	$ (168,500)	$ 6,595,577
Transmission Plant..................	748,325	17,970	1,959		764,336
Distribution Plant..................	2,060,841	146,187	33,047		2,173,981
General Plant.......................	584,454	91,137	13,[illegible]49	(773)	660,969
Plant Acquisition Adjustments......	3,166				3,166
Plant Held for Future Use..........	181,041	5,735		76,959	2[illegible]3,735
Coal Handling Equipment and Mining Property.........................	611,304	20,278	5,723	(107,638)	518,221
Cable Television Property..........	193,614	31,186	447	28,132	252,485
Other Property......................	15,701	653	4,334	(25)	11,995
Total Plant..............	11,079,412	398,485	61,587	(171,845)	11,244,465
Construction Work in Progress......	296,035	(8,230)			287,805
Nuclear Fuel........................	161,191	16,117			177,308
Total....................	$11,536,638	$ 406,372	$ 61,587	$ (171,845)	$11,709,578

Notes:

(A) Substantially all electric utility additions are originally charged to Construction Work in Progress and transferred to electric utility plant accounts upon completion. Additions at cost give effect to such transfers.

(B) Additions at cost include noncash charges for AFUDC for HL&P and capitalized interest for other subsidiaries.

(C) Depreciation is computed using the straight-line method. The depreciation provisions as a percentage of the depreciable cost of plant were 3.4% for 1992, 1991 and 1990.

(D) Other changes to Production Plant in 1990 reflect the disallowance of $375.5 million net of the settlement with the former architect-engineer of $207 million.

(E) Other changes in Plant Held for Future Use in 1990 represent the addition of $138.2 million related to HL&P's purchase of lignite reserves and lignite handling facilities from Utility Fuels and the deduction of recoverable costs of $61.3 million related to Malakoff.

(F) Other changes in Coal Handling Equipment and Mining Property in 1990 represent Utility Fuels' sale of lignite reserves and lignite handling facilities related to Malakoff to HL&P.

(G) Cable television property balances for 1990 and 1991 have been restated to reflect the effects of the adoption in 1992, with restatement to January 1, 1990, of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

(H) Other changes to Plant Held for Future Use in 1992 represent the deduction of $84 million of recoverable costs related to Malakoff.

SCHEDULE VI - ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

For the Three Years Ended December 31, 1992
(Thousands of Dollars)

Col. A	Col. B	Col. C		Col. D		Col. E
		Additions		Deductions from Reserve		
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Retirements, Renewals and Replacements	Other	Balance at End of Period
Year Ended December 31, 1992:						
Depreciation and amortization of property, plant and equipment.......	$2,685,429	$376,106	$ 11,887	$ 72,549		$3,000,873
Amortization of nuclear fuel......................	61,022	29,237				90,259
Year Ended December 31, 1991:						
Depreciation and amortization of property, plant and equipment.......	$2,392,410	$364,578	$ 11,867	$ 82,617	$ 809	$2,685,429
Amortization of nuclear fuel......................	38,603	23,145			726	61,022
Year Ended December 31, 1990:						
Depreciation and amortization of property, plant and equipment.......	$2,085,226	$362,060	$ 10,866	$ 57,388	$8,354	$2,392,410
Amortization of nuclear fuel......................	18,672	19,931				38,603

Note: The 1991 and 1990 balances have been restated to reflect the effects of the adoption in 1992, with restatement to January 1, 1990, of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

SCHEDULE VIII - RESERVES

For the Three Years Ended December 31, 1992
(Thousands of Dollars)

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions from Reserves	Balance at End of Period
Year Ended December 31, 1992:					
Accumulated provisions deducted from related assets on balance sheet:					
Uncollectible accounts......	$ 12,585	$16,634		$18,780	$ 10,439
Cable television franchises and intangible assets.....	107,681	38,175			145,856
Deferred tax asset valuation allowance..................	56,817			179	56,638
Reserve other than those deducted from assets on balance sheet:					
Property insurance..........	(4,645)	2,187		363	(2,821)
Injuries and damages.........	5,847	3,693		5,629	3,911
Year Ended December 31, 1991:					
Accumulated provisions deducted from related assets on balance sheet:					
Uncollectible accounts......	$ 10,018	$14,831	$ 204	$12,468	$ 12,585
Cable television franchises and intangible assets.....	69,723	7,958			107,681
Deferred tax asset valuation allowance..................	52,140		4,677		56,817
Reserves other than those deducted from assets on balance sheet:					
Property insurance..........	(1,539)	1,764		4,870	(4,645)
Injuries and damages.........	2,163	8,808		5,124	5,847
Year Ended December 31, 1990:					
Accumulated provisions deducted from related assets on balance sheet:					
Uncollectible accounts......	$ 7,753	$14,248	$ 1,000	$12,983	$ 10,018
Cable television franchises and intangible assets.....	33,365	36,631		273	69,723
Deferred tax asset valuation allowance..................			52,140		52,140
Reserves other than those deducted from assets on balance sheet:					
Property insurance..........		533		2,072	(1,539)
Injuries and damages.........	6,004	5,390		9,231	2,163

NOTES:

(A) Deductions from reserves represent losses or expenses for which the respective reserves were created. In the case of the uncollectible accounts reserve, such deductions are net of recoveries of amounts previously written off.

(B) Reflects the adoption in 1992, with restatement to January 1, 1990, of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

SCHEDULE IX - SHORT-TERM BORROWINGS

For the Three Years Ended December 31, 1992
(Thousands of Dollars)

Description	Col. A Category of Aggregate Short-term Borrowings	Col. B Balance at End of Period	Col. C Weighted Average Interest Rate at End of Period	Col. D Maximum Amount Outstanding During the Period	Col. E Average Amount Outstanding During the Period	Col. F Weighted Average Interest Rate During the Period
Year Ended December 31, 1992...	Commercial Paper	$564,249	4.08%	$661,300	$488,582	4.14%
Year Ended December 31, 1991...	Bank Loans			$ 5,000	$ 521	7.75%
	Commercial Paper	$330,294	5.37%	689,200	445,994	6.51%
Year Ended December 31, 1990...	Bank Loans	$ 25,000	10.00%	$ 25,000	$ 753	9.22%
	Commercial Paper	339,577	9.00%	593,300	412,850	8.53%

Note: The weighted average interest rate during the period is calculated by dividing interest by the weighted average proceeds from the borrowings.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Houston and State of Texas, on the 24th day of February, 1993.

HOUSTON INDUSTRIES INCORPORATED
(Registrant)

By DON D. JORDAN
(Don D. Jordan, Chairman, Preside t and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, t is report has been signed below by the following persons on behalf of the registrant and in the capacities a d on the date indicated.

Signature	Title	Date
DON D. JORDAN (Don D. Jordan)	Chairman, President and Chief Executive Officer and Director (Principal Executive and Financial Officer)	February 24, 1993
KEN W. NABORS (Ken W. Nabors)	Comptroller (Principal Accounting Officer)	
MILTON CARROLL (Milton Carroll)	Director	
JOHN T. CATER (John T. Cater)	Director	
FLOYD L. CULLER, JR. (Floyd L. Culler, Jr.)	Director	
JOSEPH M. HENDRIE (Joseph M. Hendrie)	Director	
HOWARD W. HORNE (Howard W. Horne)	Director	
THOMAS B. MCDADE (Thomas B. McDade)	Director	
RANDALL MEYER (Randall Meyer)	Director	
ALEXANDER F. SCHILT (Alexander F. Schilt)	Director	
KENNETH L. SCHNITZER, SR. (Kenneth L. Schnitzer, Sr.)	Director	
D. D. SYKORA (D. D. Sykora)	Director	
JACK T. TROTTER (Jack T. Trotter)	Director	

HOUSTON INDUSTRIES INCORPORATED

Exhibits to the Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 1992

INDEX OF EXHIBITS

Exhibits not incorporated by reference to a prior filing are designated by a cross (+); all exhibits not so designated are incorporated herein by reference to a prior filing as indicated. Exhibits designated by an asterisk (*) are management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(10)(iii) of Regulation S-K.

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
3(a)	Restated Articles of Incorporation of the Company	Form 10-Q for the quarter ended September 30, 1990	1-7629	3
3(b)	Amended and Restated Bylaws of the Company	Form 8-K dated June 29, 1992	1-7629	3
4(a)(1)	Mortgage and Deed of Trust dated November 1, 1944 between HL&P and South Texas Commercial National Bank of Houston (Texas Commerce Bank National Association, as successor trustee), as Trustee, as amended and supplemented by 20 Supplemental Indentures thereto	Form S-7 of HL&P filed on August 25, 1977	2-59748	2(b)
4(a)(2)	Twenty-First through Fiftieth Supplemental Indentures to HL&P Mortgage and Deed of Trust	HL&P's Form 10-K for the year ended December 31, 1989	1-3187H-1	4(a)(2)
4(a)(3)	Fifty-First Supplemental Indenture dated March 25, 1991 to HL&P Mortgage and Deed of Trust	HL&P's Form 10-Q for the quarter ended June 30, 1991	1-3187H-1	4(a)
4(a)(4)	Fifty-Second through Fifty-Fifth Supplemental Indentures, each dated March 1, 1992, to HL&P Mortgage and Deed of Trust	HL&P's Form 10-Q for the quarter ended March 31, 1992	1-3187H-1	4
4(a)(5)	Fifty-Sixth and Fifty-Seventh Supplemental Indentures, each dated October 1, 1992, to HL&P Mortgage and Deed of Trust	HL&P's Form 10-Q for the quarter ended September 30, 1992	1-3187H-1	4

INDEX OF EXHIBITS (CONT'D)

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
4(b)(1)	Rights Agreement dated July 11, 1990 between the Company and Texas Commerce Bank National Association, as Rights Agent (Rights Agent), which includes form of Statement of Resolution Establishing Series of Shares designated Series A Preference Stock and form of Rights Certificate	Form 8-K dated July 11, 1990	1-7629	4(a)(1)
4(b)(2)	Agreement and Appointment of Agent dated as of July 11, 1990 between the Company and the Rights Agent	Form 8-K dated July 11, 1990	1-7629	4(a)(2)
4(c)	Indenture dated as of April 1, 1991 between the Company and NationsBank of Texas, National Association, as Trustee	Form 10-Q for the quarter ended June 30, 1991	1-7629	4(b)
*10(a)	Executive Benefit Plan of the Company and First and Second Amendments thereto (effective as of June 2, 1982, July 1, 1984 May 7, 1986, respectively)	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(a)(1) 10(a)(2) and 10(a)(3)
*10(b)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1982)	Form 10-K for the year ended December 31, 1991	1-7629	10(b)
*10(b)(2)	First Amendment to Exhibit 10(b)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(a)
+*10(b)(3)	Second Amendment to Exhibit 10(b)(1) (effective as of November 4, 1992)			
*10(c)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1985)	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(b)(1)

INDEX OF EXHIBITS (CONT'D)

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
*10(c)(2)	First Amendment to Exhibit 10(c)(1) (effective as of January 1, 1985)	Form 10-K for the year ended December 31, 1988	1-7629	10(b)(3)
*10(c)(3)	Second Amendment to Exhibit 10(c)(1) (effective as of January 1, 1985)	Form 10-K for the year ended December 31, 1991	1-7629	10(c)(3)
*10(c)(4)	Third Amendment to Exhibit 10(c)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(b)
+*10(c)(5)	Fourth Amendment to Exhibit 10(c)(1) (effective as of November 4, 1992)			
*10(d)	Executive Incentive Compensation Plan of HL&P (effective as of January 1, 1985)	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(b)(2)
*10(e)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1989)	Form 10-Q for the quarter ended June 30, 1989	1-7629	10(b)
*10(e)(2)	First Amendment to Exhibit 10(e)(1) (effective as of January 1, 1989)	Form 10-K for the year ended December 31, 1991	1-7629	10(e)(2)
*10(e)(3)	Second Amendment to Exhibit 10(e)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(c)
+*10(e)(4)	Third Amendment to Exhibit 10(e)(1) (effective as of November 4, 1992)			
*10(f)(1)	Executive Incentive Compensation Plan of the Company (effective as of January 1, 1991)	Form 10-K for the year ended December 31, 1990	1-7629	10(b)
*10(f)(2)	First Amendment to Exhibit 10(f)(1) (effective as of January 1, 1991)	Form 10-K for the year ended December 31, 1991	1-7629	10(f)(2)

INDEX OF EXHIBITS (CONT'D)

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
*10(f)(3)	Second Amendment to Exhibit 10(f)(1) (effective as of January 1, 1991)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(d)
+*10(f)(4)	Third Amendment to Exhibit 10(f)(1) (effective November 4, 1992)			
+*10(f)(5)	Fourth Amendment to Exhibit 10(f)(1) (effective January 1, 1993)			
*10(g)(1)	Benefit Restoration Plan of the Company (effective as of June 1, 1985)	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(c)
*10(g)(2)	Benefit Restoration Plan of the Company as amended and re-stated (effective as of January 1, 1988)	Form 10-K for the year ended December 31, 1991	1-7629	10(g)(2)
*10(g)(3)	Benefit Restoration Plan of the Company, as amended and re-stated (effective as of July 1, 1991)	Form 10-K for the year ended December 31, 1991	1-7629	10(g)(3)
*10(h)(1)	Deferred Compensation Plan of the Company (effective as of September 1, 1985)	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(d)
*10(h)(2)	First Amendment to Exhibit 10(h)(1) (effective as of September 1, 1985)	Form 10-K for the year ended December 31, 1990	1-7629	10(d)(2)
*10(h)(3)	Second Amendment to Exhibit 10(h)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(e)
*10(i)(1)	Deferred Compensation Plan of the Company (effective as of January 1, 1989)	Form 10-Q for the quarter ended June 30, 1989	1-7629	10(a)
*10(i)(2)	First Amendment to Exhibit 10(i)(1) (effective as of January 1, 1989)	Form 10-K for the year ended December 31, 1989	1-7629	10(e)(3)

INDEX OF EXHIBITS (CONT'D)

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
*10(i)(3)	Second Amendment to Exhibit 10(i)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(f)
*10(j)(1)	Deferred Compensation Plan of the Company (effective as of January 1, 1991)	Form 10-K for the year ended December 31, 1990	1-7629	10(d)(3)
*10(j)(2)	First Amendment to Exhibit 10(j)(1) (effective as of January 1, 1991)	Form 10-K for the year ended December 31, 1991	1-7629	10(j)(2)
*10(j)(3)	Second Amendment to Exhibit 10(j)(1) (effective as of March 30, 1992)	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(g)
*10(k)(1)	Long-Term Incentive Compensation Plan of the Company (effective as of January 1, 1989)	Form 10-Q for the quarter ended June 30, 1989	1-7629	10(c)
*10(k)(2)	First Amendment to Exhibit 10(k)(1) (effective as of January 1, 1990)	Form 10-K for the year ended December 31, 1989	1-7629	10(f)(2)
+*10(k)(3)	Second Amendment to Exhibit 10(k)(1) (effective as of December 22, 1992)			
*10(l)	Form of stock option agreement for nonqualified stock options granted under the Company's Long-Term Incentive Compensation Plan	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(h)
*10(m)	Forms of restricted stock agreement for restricted stock granted under the Company's Long-Term Incentive Compensation Plan	Form 10-Q for the quarter ended March 31, 1992	1-7629	10(i)
*10(n)(1)	Savings Restoration Plan of the Company (effective as of January 1, 1991)	Form 10-K for the year ended December 31, 1990	1-7629	10(f)

INDEX OF EXHIBITS (CONT'D)

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
*10(n)(2)	First Amendment to Exhibit 10(n)(1) (effective as of January 1, 1991)	Form 10-K for the year ended December 31, 1991	1-7629	10(l)(2)
*10(o)	Director Benefits Plan, effective as of January 1, 1992	Form 10-K for the year ended December 31, 1991	1-7629	10(m)
*10(p)	Employment and Supplemental Benefits Agreement between HL&P and Hugh Rice Kelly	Form 10-Q for the quarter ended March 31, 1987	1-7629	10(f)
*10(q)	Employment Agreement between KBLCOM and Gary G. Weik	Form 10-K for the year ended December 31, 1989	1-7629	10(h)
+*10(r)	Employment Agreement dated as of November 2, 1992 between HL&P and Donald P. Hall			
10(s)(1)	Houston Industries Master Savings Trust, effective as of July 1, 1989, and First Amendment thereto, effective as of October 4, 1989 and Second Amendment thereto, dated October 30, 1990 each between the Company and Texas Commerce Bank National Association	Form 10-K for the year ended December 31, 1990	1-7629	10(j)(1)
+10(s)(2)	Third Amendment to Exhibit 10(s)(1) effective as of September 1, 1991			
10(s)(3)	ESOP Trust Agreement between the Company and State Street Bank and Trust Company, as ESOP Trustee, dated October 5, 1990	Form 10-K for the the year ended December 31, 1990	1-7629	10(j)(2)
10(s)(4)	Note Purchase Agreement between the Company and the ESOP Trustee, dated as of October 5, 1990	Form 10-K for the the year ended December 31, 1990	1-7629	10(j)(3)

INDEX OF EXHIBITS (CONT'D)

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
10(s)(5)	Stock Purchase Agreement between the Company and the ESOP Trustee, dated as of October 5, 1990	Form 10-K for the year ended December 31, 1991	1-7629	10(j)(4)
+*10(t)	Letter agreement between the Company and Howard W. Horne			
+11	Computation of Earnings Per Share			
+12	Computation of Ratios of Earnings to Fixed Charges			
+18	Letter of Change in Accounting Principle			
+22	Subsidiaries of the Company			
+24	Consent of Deloitte & Touche, Independent Auditors of the Company			

Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Company has not filed as exhibits to this Form 10-K certain long-term debt instruments, under which the total amount of securities authorized do not exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis. The Company hereby agrees to furnish a copy of any such instrument to the SEC upon request.