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**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**AMENDMENT NO. 3**  
**TO**  
**FORM S-3**  
**REGISTRATION STATEMENT**  
**UNDER**  
**THE SECURITIES ACT OF 1933**

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**CENTERPOINT ENERGY HOUSTON  
ELECTRIC, LLC**

(Exact name of Registrant and Sponsor as specified in its charter)

**Texas**

(State or other jurisdiction of  
incorporation or organization)

**22-3865106**

(I.R.S. Employer Identification No.)

**1111 Louisiana  
Houston, Texas 77002  
(713) 207-3000**

(Address, including zip code, and telephone number,  
including area code, of Registrant's principal executive offices)

**CENTERPOINT ENERGY TRANSITION BOND  
COMPANY III, LLC**

(Exact name of Registrant and Issuing Entity as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**83-0492914**

(I.R.S. Employer Identification No.)

**1111 Louisiana  
Suite 4689A  
Houston, Texas 77002  
(713) 207-5747**

(Address, including zip code, and telephone number,  
including area code, of Registrant's principal executive offices)

**Rufus S. Scott  
1111 Louisiana  
Houston, Texas 77002  
(713) 207-3000**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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**With copies to:**

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1301 Avenue of the Americas  
New York, New York 10019-6092  
(212) 259-8000**

**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this registration statement as determined by market conditions.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

**The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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The information in this prospectus supplement and the accompanying prospectus is not complete and may be changed. The transition bonds may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and they are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated \_\_\_\_\_, 2008.

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED \_\_\_\_\_, 2008

\$

# CenterPoint Energy Transition Bond Company III, LLC

*Issuing Entity*

**CenterPoint Energy Houston Electric, LLC**

*Seller, Initial Servicer and Sponsor*

2008 Senior Secured Transition Bonds

<u>Tranche</u>	<u>Initial Principal Balance</u>	<u>Interest Rate</u>	<u>Price to Public</u>	<u>Underwriting Discounts and Commissions</u>	<u>Proceeds to the Issuing Entity</u>	<u>Scheduled Final Payment Date</u>	<u>Final Maturity Date</u>
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The total price to the public is \$ \_\_\_\_\_. The total amount of the underwriting discounts and commissions is \$ \_\_\_\_\_. The total amount of proceeds to the issuing entity before deduction of expenses (estimated to be \$ \_\_\_\_\_) is \$ \_\_\_\_\_.

**Investing in the 2008 Senior Secured Transition Bonds involves risks. Please read “[Risk Factors](#)” beginning on page 13 of the accompanying prospectus.**

CenterPoint Energy Transition Bond Company III, LLC is issuing up to \$ \_\_\_\_\_ of 2008 Senior Secured Transition Bonds, referred to herein as the “Bonds,” in multiple tranches. CenterPoint Energy Houston Electric, LLC is the seller, initial servicer and sponsor with regard to the Bonds. The Bonds are senior secured obligations of the issuing entity and will be supported by transition property which includes the right to a special, irrevocable nonbypassable charge, known as a transition charge, paid by retail electric customers in CenterPoint Energy Houston Electric, LLC’s service territory as discussed herein. The utility restructuring provisions of the Public Utility Regulatory Act mandate and the Public Utility Commission of Texas requires that transition charges be adjusted at least annually, and semi-annually as necessary, to ensure the expected recovery of amounts sufficient to timely provide all scheduled payments of principal, interest and other required amounts and charges in connection with the Bonds. Credit enhancement for the Bonds will be provided by such statutory true-up mechanism, as well as by general, excess funds and capital subaccounts held under the indenture.

The Bonds represent obligations only of the issuing entity, CenterPoint Energy Transition Bond Company III, LLC, and do not represent obligations of the sponsor or any of its affiliates other than the issuing entity. The Bonds are secured only by the assets of the issuing entity, consisting principally of the transition property and funds on deposit in the collection account for the Bonds and related subaccounts. Please read “The Bonds—The Collateral,” “—The Transition Property” and “Credit Enhancement” in this prospectus supplement. The Bonds are not a debt or obligation of the State of Texas, the Public Utility Commission of Texas or any other governmental agency or instrumentality and are not a charge on the full faith and credit or the taxing power of the State of Texas or any governmental agency or instrumentality. Except in their capacity as retail electric customers with facilities in CenterPoint Energy Houston Electric, LLC’s service territory, neither the State of Texas nor any political subdivision, agency, authority or instrumentality of the State of Texas, nor any other public or private entity, will be obligated to provide funds for the payment of the Bonds.

The Public Utility Commission of Texas guaranteed that it will act pursuant to its irrevocable financing order, dated September 18, 2007, as expressly authorized by the utility restructuring provisions of the Public Utility Regulatory Act to ensure that expected transition charge revenues are sufficient to pay on a timely basis scheduled principal and interest on the Bonds. The financing order provides that the true-up mechanism and all other obligations of the State of Texas and the Public Utility Commission of Texas set forth in the financing order are direct, explicit, irrevocable and unconditional upon issuance of the Bonds, and are legally enforceable against the State of Texas and the Public Utility Commission of Texas.

All matters relating to the structuring and pricing of the Bonds have been considered jointly by CenterPoint Energy Houston Electric, LLC and the Public Utility Commission of Texas or its designated representative.

Additional information is contained in the accompanying prospectus. You should read this prospectus supplement and the accompanying prospectus carefully before you decide to invest in the Bonds. This prospectus supplement may not be used to offer or sell the Bonds unless accompanied by the prospectus.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement and the accompanying prospectus are truthful or complete. Any representation to the contrary is a criminal offense.**

The underwriters expect to deliver the Bonds through the book-entry facilities of The Depository Trust Company against payment in New York, New York on \_\_\_\_\_, 2008. Each Bond will be entitled to interest on February 1st and August 1st of each year. The first scheduled payment date is February 1, 2009. There currently is no secondary market for the Bonds, and we cannot assure you that one will develop.

**Citi**

**Credit Suisse**

*Joint Bookrunners*

**MORGAN STANLEY**

*Lead Manager*

**DEPFA FIRST ALBANY SECURITIES LLC**

*Co-Manager*

The date of this prospectus supplement is \_\_\_\_\_, 2008.

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## ABOUT THIS PROSPECTUS SUPPLEMENT AND THE PROSPECTUS

This prospectus supplement and the accompanying prospectus provide information about us, the Bonds and CenterPoint Energy Houston Electric, LLC, as seller, initial servicer and sponsor. This prospectus supplement describes the specific terms of the Bonds, while the accompanying prospectus describes more general terms of the Bonds.

References in this prospectus supplement and the accompanying prospectus to the terms “we,” “us,” “our” or “the issuing entity” mean CenterPoint Energy Transition Bond Company III, LLC. References to “CenterPoint Houston,” “the sponsor,” “the initial servicer” or “the seller” mean CenterPoint Energy Houston Electric, LLC. References to “CenterPoint Energy” mean CenterPoint Energy, Inc., the ultimate parent company of CenterPoint Houston. References to the “Bonds” or, unless the context otherwise requires, the “transition bonds” mean our 2008 Senior Secured Transition Bonds offered pursuant to this prospectus supplement and the accompanying prospectus. References to “the servicer” refer to CenterPoint Houston and any successor servicer under the servicing agreement referred to in this prospectus supplement and the accompanying prospectus, and references to the “integrated utility” mean Reliant Energy, Incorporated, the legal predecessor to CenterPoint Houston, as it existed prior to its restructuring and the onset of competition in the retail electric services market in Texas on January 1, 2002, as mandated by the 1999 utility restructuring amendments to the Public Utility Regulatory Act, as subsequently amended, which we refer to as the “Restructuring Act.” We refer to the geographical certificated service area of the integrated utility as it existed on May 1, 1999 as “CenterPoint Houston’s service territory,” within which CenterPoint Houston may recover qualified costs through nonbypassable transition charges assessed on retail electric customers within that area. Unless the context otherwise requires, the term “customer” means a retail end user of electricity and related services provided by a retail electric provider via the transmission and distribution system of an electric utility such as CenterPoint Houston. We also refer to the Public Utility Commission of Texas as the “PUC.” You can find a glossary of some of the other defined terms we use in this prospectus supplement and the accompanying prospectus on page 88 of the accompanying prospectus.

We have included cross-references to sections in this prospectus supplement and the accompanying prospectus where you can find further related discussions. You can also find references to key topics in the table of contents on the previous page.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and in any written communication from us or the underwriters specifying the final terms of the offering. Neither we nor any underwriter, agent, dealer, salesperson, the PUC or CenterPoint Houston has authorized anyone else to provide you with any different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not offering to sell the Bonds in any jurisdiction where the offer or sale is not permitted. The information in this prospectus supplement is current only as of the date of this prospectus supplement.

## SUMMARY OF TERMS

The following section is only a summary of selected information and does not provide you with all the information you will need to make your investment decision. There is more detailed information in this prospectus supplement and in the accompanying prospectus. To understand all of the terms of the offering of the Bonds, carefully read this entire document and the accompanying prospectus.

*Securities offered:* \$[\_\_\_\_\_] 2008 Senior Secured Transition Bonds.

*Issuing entity and capital structure:* CenterPoint Energy Transition Bond Company III, LLC is a direct, wholly-owned subsidiary of CenterPoint Houston and a limited liability company formed under Delaware law. We were formed solely to purchase and own transition property, to issue transition bonds and to perform activities incidental thereto. Please read “CenterPoint Energy Transition Bond Company III, LLC, The Issuing Entity” in the accompanying prospectus.

In addition to the transition property, the assets of the issuing entity will include a capital investment by CenterPoint Houston in the amount of 0.5% of the Bonds’ initial principal amount (to be held in the capital subaccount). We will also have an excess funds subaccount to retain, until the next payment date, any amounts collected and remaining after all payments on the Bonds have been timely made.

*Our relationship with the PUCT:* Pursuant to the financing order,

- the PUCT or its designated representative has a decision-making role co-equal with CenterPoint Houston with respect to the structuring and pricing of the Bonds and all matters related to the structuring and pricing of the transition bonds will be determined through a joint decision of CenterPoint Houston and the PUCT or its designated representative,
- CenterPoint Houston is directed to take all necessary steps to ensure that the PUCT or its designated representative is provided sufficient and timely information to allow the PUCT or its designated representative to fully participate in, and exercise its decision making power over, the proposed securitization, and
- the servicer will file periodic adjustments to transition charges with the PUCT on our behalf.

We have agreed that certain reports will be submitted to the PUCT by us or on our behalf.

*Our address:* 1111 Louisiana, Suite 4689A, Houston, Texas 77002

*Our telephone number:* (713) 207-5747

*Our manager and executive officers:* The following is a list of our sole manager and principal executive officers as of the date of this prospectus supplement:

<u>Name</u>	<u>Age</u>	<u>Background</u>
Marc Kilbride	55	Manager, Vice President and Treasurer of the issuing entity; Vice President and Treasurer of CenterPoint Houston since June 2002 and Treasurer since 1997.
Gary L. Whitlock	58	President of the issuing entity; Executive Vice President and Chief Financial Officer of CenterPoint Energy, Inc. since September 2002.
Walter L. Fitzgerald	50	Senior Vice President and Chief Accounting Officer of the issuing entity; Vice President and Controller of CenterPoint Energy, Inc. since 2001 and Senior Vice President and Chief Accounting Officer since 2007.

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<i>Required ratings:</i>	Aaa/AAA/AAA by Moody's, S&P and Fitch, respectively. Please read "Ratings for the Bonds" in this prospectus supplement.
<i>Seller, sponsor and initial servicer of the transition property:</i>	CenterPoint Houston is a regulated electric transmission and distribution utility wholly-owned indirectly by CenterPoint Energy. CenterPoint Houston is engaged in the transmission and distribution of electric energy in a 5,000 square-mile area of the Texas Gulf Coast that includes Houston. CenterPoint Houston, acting as the initial servicer, and any successor servicer, referred to in this prospectus supplement and the accompanying prospectus as the "servicer," will service the transition property securing the Bonds under the servicing agreement with us. Please read "The Seller, Initial Servicer and Sponsor of the Transition Property" in the accompanying prospectus. Neither CenterPoint Houston nor CenterPoint Energy nor any other affiliate (other than us) is an obligor on the Bonds.
<i>CenterPoint Houston's address:</i>	1111 Louisiana, Houston, Texas 77002
<i>CenterPoint Houston's telephone number:</i>	(713) 207-3000
<i>Use of proceeds:</i>	Used to pay the expenses of the issuance and sale of the Bonds and to purchase the transition property from CenterPoint Houston. In accordance with the financing order, CenterPoint Houston will use the proceeds it receives from the sale of the transition property to reduce its debt and/or equity and may not use such proceeds for general corporate purposes or commercial purposes. Please read "Use of Proceeds" in the accompanying prospectus.
<i>Bond structure:</i>	Sinking fund bond, [four] tranches; tranches A-1, expected average life [ ] years, A-2, expected average life [ ] years, A-3, expected average life [ ] years, and A-4, expected average life [ ] years are scheduled to pay principal semi-annually and sequentially. Please read the Expected Amortization Schedule.
<i>Indenture trustee:</i>	Deutsche Bank Trust Company Americas, a New York banking corporation.
<i>Indenture trustee's experience:</i>	Deutsche Bank Trust Company Americas currently serves as indenture trustee for other securitizations that are structurally similar to the Bonds. Please read "The Trustee" in this prospectus supplement for further information.
<i>Average life:</i>	Prepayment is not permitted. Extension risk is possible but is expected to be statistically remote. Please read "The Bonds—Weighted Average Life Sensitivity" in this prospectus supplement and "Weighted Average Life and Yield Considerations for the Transition Bonds" in the accompanying prospectus.
<i>Optional redemption:</i>	None. Non-call for the life of the Bonds.
<i>Minimum denomination:</i>	\$100,000, or integral multiples of \$1,000 in excess thereof, except for one bond of each tranche which may be of a smaller denomination.
<i>Credit enhancement/security:</i>	Pursuant to the financing order issued by the PUCT, the irrevocable right to impose, collect and receive a nonbypassable electricity consumption-based transition charge from retail electric providers serving approximately 2 million individuals, corporations and other business or governmental entities who purchase electricity at retail in CenterPoint Houston's service territory. Transition charges are set and adjusted to collect amounts sufficient to pay principal, interest and other required amounts and charges on a timely basis. Please read "Credit Enhancement—Statutory True-Up Mechanism for Payment of Scheduled Principal and Interest" in this prospectus supplement, as well as "Prospectus Summary—Parties to Transaction and Responsibilities," "The Restructuring Act" and "CenterPoint Houston's Financing Order" in the accompanying prospectus.

The transition property securing the Bonds is not a pool of receivables. It consists of all of CenterPoint Houston's rights and interests under the financing order transferred to us in connection with the issuance of the Bonds, including the irrevocable right to impose, collect and receive nonbypassable transition charges and the right to implement the statutory true-up mechanism. Transition property is a present property right created by the Restructuring Act and the financing order and is protected by the state pledge in the Restructuring Act described below. For a description of the transition property, please read "The Bonds—The Transition Property" in this prospectus supplement.

The Bonds are secured only by our assets, consisting principally of the transition property relating to the Bonds and funds on deposit in the collection account for the Bonds and related subaccounts. The subaccounts consist of a capital subaccount, which will be funded at closing in the amount of 0.5% of the initial aggregate principal amount of the Bonds, a general subaccount, into which the servicer will deposit all transition charge collections, and an excess funds subaccount, into which we will transfer any amounts collected and remaining on a payment date after all payments to bondholders and other parties have been made. Amounts on deposit in each of these subaccounts will be available to make payments on Bonds on each payment date. Please read "Credit Enhancement—Collection Account and Subaccounts" and "Credit Enhancement—How Funds in the Collection Account Will Be Allocated" in this prospectus supplement.

*State pledge:*

The State of Texas has pledged in the Restructuring Act that it will not take or permit any action that would impair the value of the transition property, or reduce, alter or impair the transition charges until the Bonds are fully repaid or discharged, other than specified true-up adjustments to correct any overcollections or undercollections. Please read "The Restructuring Act—CenterPoint Houston and Other Utilities May Securitize Qualified Costs" in the accompanying prospectus.

*Statutory true-up mechanism for payment of scheduled principal and interest:*

The Restructuring Act mandates and the irrevocable financing order guarantees that transition charges on all retail electric customers be reviewed and adjusted at least annually, and semi-annually as necessary, to ensure the expected recovery of amounts sufficient to timely provide payment of scheduled principal and interest on the Bonds. Pursuant to the financing order, adjustments other than the annual adjustments may be made generally not more than once in any six-month period. In the financing order, the PUCT guaranteed that it will act pursuant to the financing order as expressly authorized by the Restructuring Act to ensure that expected transition charge revenues are sufficient to timely pay scheduled principal and interest on the Bonds.

There is no "cap" on the level of transition charges that may be imposed on the consumers of electricity in CenterPoint Houston's service territory, including the State of Texas and other governmental entities, to timely pay scheduled principal and interest on the Bonds.

The financing order provides that the statutory true-up mechanism and all other obligations of the State of Texas and the PUCT set forth in the financing order are direct, explicit, irrevocable and unconditional upon issuance of the Bonds, and are legally enforceable against the State of Texas and the PUCT. Please read "The Transition Charges" in this prospectus supplement and "CenterPoint Houston's Financing Order" and "The Servicing Agreement—Adjustment Process for Transition Charges" in the accompanying prospectus.

*Nonbypassable transition charges:*

The Regulatory Act and the PUCT require the imposition on, and collection of transition charges from, existing and future retail electric customers

located within CenterPoint Houston's service territory, regardless of the retail electric provider serving those customers, and even if those customers choose to operate new on-site generation or the utility goes out of business and its service area is acquired by another utility or is municipalized, subject to limited exceptions. Please read "Risk Factors—Other Risks Associated with an Investment in the Transition Bonds—Alternatives to purchasing electricity through CenterPoint Houston's distribution facilities may be more widely utilized by retail electric customers in the future" in the accompanying prospectus. The transition charges are applied to retail electric customers individually and are adjusted and reallocated among all customers as necessary under the statutory true-up mechanism. Please read "The Transition Charges" in this prospectus supplement and "CenterPoint Houston's Financing Order" and "The Servicing Agreement— Adjustment Process for Transition Charges" in the accompanying prospectus.

*Priority of distributions:*

On each payment date, the trustee will allocate or pay all amounts on deposit in the general subaccount of the collection account for the Bonds in the following order of priority:

1. payment of the trustee's fees, expenses and any outstanding indemnity amounts relating to the Bonds not to exceed \$800,000 in any 12-month period,
2. payment of the servicing fee relating to the Bonds, plus any unpaid servicing fees relating to the Bonds from prior payment dates,
3. payment of the fees of our independent manager (which are billed annually), which will be in an amount specified in an agreement between us and our independent manager, and a pro rata portion of the administration fee,
4. payment of all of our other ordinary periodic operating expenses relating to the Bonds, such as accounting and audit fees, rating agency fees, legal fees and certain reimbursable costs of the administrator under the administration agreement and of the servicer under the servicing agreement,
5. payment of the interest then due on the Bonds, including any past-due interest,
6. payment of the principal then required to be paid on the Bonds at final maturity or upon acceleration upon an event of default,
7. payment of the principal then scheduled to be paid on the Bonds in accordance with the expected sinking fund schedule, including any previously unpaid scheduled principal,
8. payment of any of our remaining unpaid operating expenses and any remaining amounts owed pursuant to the basic documents relating to the Bonds, including all remaining indemnity amounts owed to the trustee,
9. replenishment of any amounts drawn from the capital subaccount, including investment earnings in the capital subaccount to the extent used for allocations and payments contemplated by clauses 1 through 8,
10. so long as no event of default has occurred and is continuing, release the investment earnings in the capital subaccount to us,

11. allocation of the remainder, if any, to the excess funds subaccount, and
12. after the Bonds have been paid in full and discharged, the balance, together with all amounts in the capital subaccount and the excess funds subaccount, to us free and clear of the lien of the indenture.

The annual servicing fee in clause 2 may not exceed 0.05% of the original principal amount of the Bonds (for so long as CenterPoint Houston is the servicer) and the annual administration fee in clause 3 may not exceed \$100,000.

*Initial transition charge as a percentage of customer's total electricity bill:*

The initial transition charge would represent approximately 0.31% of the total bill received by a 1,000 kWh residential customer of the largest retail electric provider in CenterPoint Houston's service territory as of December 31, 2007.

*Other transition bonds being serviced by CenterPoint Houston:*

CenterPoint Houston will be the initial servicer of the Bonds. CenterPoint Houston currently acts as servicer with respect to the Series 2001-1 transition bonds issued by CenterPoint Energy Transition Bond Company, LLC, which we refer to in this prospectus supplement and the accompanying prospectus as "Transition Bond Company I" and with respect to the Senior Secured Transition Bonds, Series A issued by CenterPoint Energy Transition Bond Company II, LLC, which we refer to in this prospectus supplement and the accompanying prospectus as "Transition Bond Company II". Please read "Relationship to the Series 2001-1 transition bonds" and "Relationship to the Senior Secured Transition Bonds, Series A" in this Summary of Terms.

*Relationship to the Series 2001-1 transition bonds:*

In October 2001, Transition Bond Company I, a special purpose wholly owned subsidiary of CenterPoint Houston, issued and sold \$749 million of Series 2001-1 transition bonds in accordance with a financing order issued by the PUCT on May 31, 2000. CenterPoint Houston currently acts as servicer with respect to the Series 2001-1 transition bonds. Transition Bond Company I will have no obligations under the Bonds, and we have no obligations under the Series 2001-1 transition bonds. The security pledged to secure the Bonds will be separate from the security that is securing the Series 2001-1 transition bonds. The outstanding Series 2001-1 transition bonds are currently rated Aaa/AAA/AAA by Moody's, S&P and Fitch, respectively. Please read "Relationship to the Series 2001-1 Transition Bonds" in the accompanying prospectus.

*Relationship to the Senior Secured Transition Bonds, Series A:*

In December 2005, Transition Bond Company II, a special purpose wholly owned subsidiary of CenterPoint Houston, issued and sold \$1.851 billion of Senior Secured Transition Bonds, Series A, in accordance with a financing order issued by the PUCT on March 16, 2005. CenterPoint Houston currently acts as servicer with respect to the Senior Secured Transition Bonds, Series A. Transition Bond Company II will have no obligations under the Bonds, and we have no obligations under Transition Bond Company II's Senior Secured Transition Bonds, Series A. The security pledged to secure the Bonds will be separate from the security that is securing the Senior Secured Transition Bonds, Series A. The outstanding Senior Secured Transition Bonds, Series A are currently rated Aaa/AAA/AAA by Moody's, S&P and Fitch, respectively. Please read "Relationship to the Senior Secured Transition Bonds, Series A" in the accompanying prospectus.

*20% international risk weighting:*

Under the standardized approach provided in the framework established by "International Convergence of Capital Management and Capital Standards: A Revised Framework" (as amended, "Basel II"), the Bonds may attract a risk weighting of 20% on the basis that the bonds are rated in the highest category by a major rating agency. In the alternative, under the framework established by Basel II, the Bonds may attract the same risk weighting if the bonds are considered to be "guaranteed" by a non governmental public sector entity.

If held by financial institutions subject to regulation in countries (other than the United States) that have adopted and that continue to use or permit the use of the 1988 International Convergence of Capital Measurement and Capital Standards of the Basel Committee on Banking Supervision (as amended, the “Basel Accord”) for risk weighting, the Bonds may attract the same risk weighting as “claims on” or “claims guaranteed by” non-central government bodies within the United States, which are accorded a 20% risk weighting. We note, however, that the analysis under the Basel Accord may be different than that under Basel II.

However, we cannot assure you that the Bonds will attract a 20% risk weighting treatment under any national law, regulation or policy implementing Basel II, the Basel Accord or any transitional regime. Investors should consult their regulators before making any investment in the Bonds. Please read “Risk Weighting of the Bonds Under Certain International Capital Guidelines” in this prospectus supplement and “Risk Weighting Under Certain International Capital Guidelines” in the accompanying prospectus.

*Continuing disclosure:*

The indenture under which the Bonds will be issued requires all of the periodic reports that we file with the SEC, the principal transaction documents and other information concerning the transition charges and security relating to the Bonds to be posted on the website associated with our parent company, located at [www.centerpointenergy.com](http://www.centerpointenergy.com).

*Tax treatment:*

The Bonds will be treated as debt for U.S. federal income tax purposes. Please read “Material U.S. Federal Income Tax Consequences for the Transition Bondholders” in the accompanying prospectus.

*ERISA eligible:*

Yes; please read “ERISA Considerations” in the accompanying prospectus.

*Payment dates and interest accrual:*

Interest payable semi-annually, February 1 and August 1. Interest will be calculated on a 30/360 basis. The first scheduled interest and principal payment date is February 1, 2009.

Interest is due on each payment date and principal is due upon the final maturity date for each tranche.

*Expected settlement:*

[\_\_\_\_\_], 2008, settling flat. DTC, Clearstream and Euroclear.

*Risk factors:*

**You should consider carefully the risk factors beginning on page 13 of the accompanying prospectus before you invest in the Bonds.**

## THE BONDS

We will issue the Bonds and secure their payment under an indenture that we will enter into with Deutsche Bank Trust Company Americas, as trustee, referred to in this prospectus supplement and the accompanying prospectus as the “trustee.” We will issue the Bonds in minimum denominations of \$100,000, or in integral multiples of \$1,000 in excess thereof, except that we may issue one Bond in each tranche in a smaller denomination. The expected average life in years, initial principal balance, scheduled final payment date, final maturity date and interest rate for each tranche of the Bonds are stated in the table below.

<u>Tranche</u>	<u>Expected Average Life (Years)</u>	<u>Initial Principal Balance</u>	<u>Scheduled Final Payment Date</u>	<u>Final Maturity Date</u>	<u>Interest Rate</u>
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The scheduled final payment date for each tranche of the Bonds is the date when the outstanding principal balance of that tranche will be reduced to zero if we make payments according to the expected sinking fund schedule for that tranche. The final maturity date for each tranche of the Bonds is the date when we are required to pay the entire remaining unpaid principal balance, if any, of all outstanding Bonds of that tranche. The failure to pay principal of any tranche of Bonds by the final maturity date for that tranche is an event of default under the indenture, but the failure to pay principal of any tranche of Bonds by the respective scheduled final payment date will not be an event of default under the indenture. Please read “The Transition Bonds—Payments of Interest and Principal on the Transition Bonds” and “—What Constitutes an Event of Default on the Transition Bonds” in the accompanying prospectus.

### The Collateral

The Bonds will be secured under the indenture by the indenture’s trust estate. The principal asset of the indenture’s trust estate for the Bonds is the transition property relating to the Bonds, which is a present property right created under the Restructuring Act by the financing order issued by the PUCT on September 18, 2007, referred to in this prospectus supplement as the “financing order.” The indenture’s trust estate also consists of:

- our rights under the sale agreement pursuant to which we will acquire the transition property relating to the Bonds, under the administration agreement and under the bill of sale delivered by CenterPoint Houston pursuant to the sale agreement,
- our rights under the servicing agreement and any subservicing, agency, intercreditor or collection agreements executed in connection with the servicing agreement,
- the collection account and all subaccounts of the collection account,
- our rights in all deposits, guarantees, surety bonds, letters of credit and other forms of credit support provided by or on behalf of retail electric providers pursuant to any financing order or tariff,
- all of our other property, other than any cash released to us by the trustee on any payment date from earnings on the capital subaccount,
- all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing, and
- all payments on or under and all proceeds in respect of any or all of the foregoing.

### The Transition Property

In general terms, the portion of all of the rights and interests of CenterPoint Houston that relate to the Bonds under the financing order, upon transfer to us pursuant to the sale agreement, are referred to in this prospectus supplement as the “transition property.” The transition property includes the right to impose, collect and receive, through the applicable transition charges payable by retail electric customers, including, the State of Texas and other governmental entities, within CenterPoint Houston’s service territory which, subject to certain limitations specified in the Restructuring Act, consume electricity that is delivered through the distribution system or produced in new on-site generation, an amount sufficient to pay principal and interest and other required amounts and charges in connection with the Bonds. During the twelve months ended December 31, 2007, approximately 41% of CenterPoint Houston’s total deliveries were to industrial customers, approximately 27% were to commercial customers and approximately 32% were to residential and other customers. Except in their capacity as retail electric

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customers with facilities in CenterPoint Houston's service territory, neither the State of Texas nor any political subdivision, agency, authority or instrumentality of the State of Texas, nor any other public or private entity, will be obligated to provide funds for the payment of the Bonds.

We will purchase the transition property from CenterPoint Houston. The transition property is not a receivable, and the principal collateral securing the Bonds is not a pool of receivables. Transition charges authorized in the financing order that relate to the Bonds are irrevocable and not subject to reduction, impairment, or adjustment by further action of the PUCT, except for annual and interim true-up adjustments to correct overcollections or undercollections and to provide the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the Bonds. Please read "Credit Enhancement—Statutory True-Up Mechanism for Payment of Scheduled Principal and Interest" in this prospectus supplement. All revenues and collections resulting from transition charges provided for in the financing order that relate to the Bonds are part of the transition property. CenterPoint Houston's qualified costs authorized in the financing order approving the issuance of the Bonds include:

- the principal amount which remains to be collected through continued application of the competition transition charge ("CTC") if the CTC were to remain in effect for its then remaining term, minus the difference between (a) the balance of unexpended environmental retrofit funds CenterPoint Houston is required to refund pursuant to the final order in Docket No. 33823 and (b) the settled adjustment to the fuel balance approved in Docket No. 34031 (together, the "Securitizable Balance"), which as of February 11, 2008 was approximately \$483 million,
- the costs of issuing, supporting and servicing the Bonds, subject to certain caps, and
- any transaction costs of retiring and refunding CenterPoint Houston's existing debt and equity securities in connection with the issuance of the Bonds (excluding costs of retiring or refunding debt or equity securities held by an affiliate of CenterPoint Houston).

The transition property relating to the Bonds is described in more detail under "The Sale Agreement—CenterPoint Houston's Sale and Assignment of the Transition Property" in the accompanying prospectus.

The servicer will bill and collect transition charges allocable to the Bonds from "retail electric providers," which are entities certified under state law that provide electricity and related services to retail electric customers within CenterPoint Houston's service territory, and will remit the collections to the trustee. The retail electric providers will in turn bill and collect the transition charges from retail electric customers in CenterPoint Houston's service territory. Each retail electric provider will include the transition charges in its bill to its retail electric customers but is not required to show the transition charges as a separate line item or footnote. However, each retail electric provider will be required to provide annual written notice to its customers that transition charges have been included in the customers' bills.

Each retail electric provider will be required to pay the transition charges on or before the 35th day after it receives the bill from the servicer, less an agreed allowance for expected uncollectible amounts, whether or not the retail electric provider has collected all amounts owed to it by its retail electric customers. Prior to the date on which the retail electric provider remits the transition charges to the servicer, the transition charges may be commingled with the retail electric provider's other funds. Please read "Risk Factors—Risks Associated With Potential Bankruptcy Proceedings of Retail Electric Providers," "Retail Electric Providers" and "How a Bankruptcy May Affect Your Investment—Bankruptcy of a Retail Electric Provider" in the accompanying prospectus.

The servicer will have only limited rights to collect the transition charges directly from retail electric customers if a retail electric provider does not remit such payments to the servicer but will have certain rights against the retail electric provider. Please read "Retail Electric Providers" in the accompanying prospectus. For information on how electric service to retail electric customers may be terminated, please read "Risk Factors—Servicing Risks—Limits on rights to terminate service might make it more difficult to collect the transition charges" in the accompanying prospectus.

Under the Restructuring Act and the indenture, the trustee or the holders of the Bonds have the right to foreclose or otherwise enforce the lien on the transition property. However, in the event of foreclosure, there is likely to be a limited market, if any, for the transition property. Therefore, foreclosure might not be a realistic or practical remedy. Please read "Risk Factors—Risks Associated with the Unusual Nature of the Transition Property—Foreclosure of the trustee's lien on the transition property securing the transition bonds might not be practical, and acceleration of the transition bonds before maturity might have little practical effect" in the accompanying prospectus.

### **The Financing Order**

On September 18, 2007, the PUCT issued the financing order relating to the Bonds to CenterPoint Houston. The financing order became final and non-appealable on October 3, 2007. The financing order authorizes CenterPoint Houston to cause us to issue transition bonds in one or more series in an aggregate amount not to exceed the Securitizable Balance as of the date the Bonds are issued and up-front qualified costs, subject to certain caps, as set forth in the financing order. The financing order

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also authorizes transition charges in amounts sufficient to recover the principal and interest on the Bonds plus ongoing qualified costs. Our ability to recover servicing fees and administration agreement costs through transition charges is subject to caps imposed by the financing order. The PUCT guaranteed that it will take specific actions pursuant to the irrevocable financing order as expressly authorized by the Restructuring Act to ensure that expected transition charge revenues are sufficient to timely pay scheduled principal and interest on the Bonds. The financing order provides that the true-up mechanism and all other obligations of the State of Texas and the PUCT set forth in the financing order are direct, explicit, irrevocable and unconditional upon issuance of the Bonds, and are legally enforceable against the State of Texas and the PUCT. Please read “CenterPoint Houston’s Financing Order” in the accompanying prospectus.

### **Payment and Record Dates and Payment Sources**

Beginning February 1, 2009, we will make payments of interest on the Bonds semi-annually on February 1st and August 1st of each year, or, if that day is not a business day, the following business day (each, a “payment date”). So long as the Bonds are in book-entry form, on each payment date, we will make interest and principal payments to the persons who are the holders of record as of the business day immediately prior to that payment date, which is referred to as the “record date.” If we issue certificated transition bonds to beneficial owners of the Bonds as described in “The Transition Bonds—Definitive Certificated Transition Bonds” in the accompanying prospectus, the record date will be the last business day of the calendar month immediately preceding the payment date. On each payment date, we will pay amounts on outstanding Bonds from amounts available in the collection account and the related subaccounts held by the trustee in the priority set forth under “Credit Enhancement—How Funds in the Collection Account Will Be Allocated” in this prospectus supplement. These available amounts, which will include amounts collected by the servicer for us with respect to the transition charges, are described in greater detail under “The Transition Bonds—The Collection Account for the Transition Bonds” in the accompanying prospectus.

### **Principal Payments**

On each payment date, we will pay principal of the Bonds to the bondholders equal to the sum, without duplication, of:

- the unpaid principal amount of any Bond whose final maturity date is on that payment date, plus
- the unpaid principal amount of any Bond upon acceleration following an event of default relating to the Bonds, plus
- any overdue payments of principal, plus
- any unpaid and previously scheduled payments of principal, plus
- the principal scheduled to be paid on any Bond on that payment date,

but only to the extent funds are available in the collection account (including all applicable subaccounts) after payment of certain of our fees and expenses and after payment of interest as described below under “—Interest Payments.” To the extent funds are so available, we will make scheduled payments of principal of the Bonds in the following order:

1. to the holders of the [tranche A-1] Bonds, until the principal balance of that tranche has been reduced to zero,
2. to the holders of the [tranche A-2] Bonds, until the principal balance of that tranche has been reduced to zero,
3. to the holders of the [tranche A-3] Bonds, until the principal balance of that tranche has been reduced to zero, and
4. to the holders of the [tranche A-4] Bonds, until the principal balance of that tranche has been reduced to zero.

However, we will not pay principal of any tranche of Bonds on any payment date if making the payment would reduce the principal balance of that tranche to an amount lower than the amount specified in the expected amortization schedule below for that tranche on that payment date. Any excess funds remaining in the collection account after payment of principal, interest, applicable fees and expenses and payments to the applicable subaccounts of the collection account will be retained in the excess funds subaccount until applied on a subsequent payment date. The entire unpaid principal balance of each tranche of the Bonds will be due and payable on the final maturity date for the tranche.

If an event of default under the indenture has occurred and is continuing, the trustee or the holders of a majority in principal amount of the Bonds then outstanding may declare the unpaid principal balance of the Bonds, together with accrued interest thereon, to be due and payable. However, the nature of our business will result in payment of principal upon an acceleration of the Bonds being made as funds become available. Please read “Risk Factors—Risks Associated With the Unusual Nature of the Transition Property—Foreclosure of the trustee’s lien on the transition property securing the transition bonds might not be practical, and acceleration of the transition bonds before maturity might have little practical effect” and “—You may experience material payment delays or incur a loss on your investment in the transition bonds because the source of funds for payment is limited” in the accompanying prospectus. If there is a shortfall in the amounts available to make principal payments on the Bonds



**Expected Sinking Fund Schedule**

Semi-Annual Payment Date	Tranche A-[ ]	Tranche A-[ ]	Tranche A-[ ]	Tranche A-[ ]
Tranche Size				
Total Payments				

We cannot assure you that principal payments will be made or that the principal balance of any tranche of the Bonds will be reduced at the rates indicated in the schedules above. Principal payments and the actual reduction in tranche principal balances may occur more slowly. Principal payments and the actual reduction in tranche principal balances will not occur more quickly than indicated in the above schedules, except to the extent that the total outstanding principal balance of and interest accrued on the Bonds are accelerated upon an event of default under the indenture. The Bonds will not be in default if principal is not paid as specified in the schedules above unless the principal of any tranche is not paid in full on or before the final maturity date of that tranche.

**Weighted Average Life Sensitivity**

Weighted average life refers to the average amount of time from the date of issuance of a security until each dollar of principal of the security has been repaid to the investor. The rate of principal payments on each tranche of Bonds, the aggregate amount of each interest payment on each tranche of Bonds and the actual final payment date of each tranche of Bonds will depend on the timing of the servicer’s receipt of transition charges from retail electric providers. Please read “Weighted Average Life and Yield Considerations for the Transition Bonds” in the accompanying prospectus for further information. Changes in the expected weighted average lives of the tranches of the Bonds in relation to variances in actual energy consumption levels (retail electric sales) from forecast levels are shown below. Severe stress cases on electricity consumption result in minor changes (approximately \_\_\_\_\_ weeks), if any, in the weighted average lives of each tranche.

**Weighted Average Life Sensitivity**

Tranche	Expected Weighted Avg. Life ("WAL") (yrs)	WAL			
		-[ ]% ([ ] Standard Deviations from Mean)		-[ ]% ([ ] Standard Deviations from Mean)	
		WAL (yrs)	Change (days)	WAL (yrs)	Change (days)
A-[ ]					
A-[ ]					
A-[ ]					
A-[ ]					

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For the purposes of preparing the above table, we have assumed, among other things, that:

- the forecast error stays constant over the life of the Bonds and is equal to an overestimate of electricity consumption of [\_\_]% ([\_\_] standard deviations from mean) or [\_\_]% ([\_\_] standard deviations from mean) as stated in the chart above;
- the servicer makes timely and accurate filings to true-up the transition charges semi-annually in years one through thirteen and quarterly in the fourteenth and fifteenth years;
- retail electric providers remit all transition charges 35 days after such charges are billed;
- there is no acceleration of the final maturity date of the Bonds; and
- a permanent loss of all customers has not occurred.

There can be no assurance that the weighted average lives of the various tranches of the Bonds will be as shown in the above table.

### **Fees and Expenses**

As set forth in the table below, we are obligated to pay fees to the servicer, the trustee, our independent manager and CenterPoint Houston as administrator. The following table illustrates this arrangement.

<u>Recipient</u>	<u>Source of Payment</u>	<u>Fees and Expenses Payable</u>
Servicer	Transition charge collections and investment earnings.	0.05% of initial principal amount of the Bonds issued per annum, as long as CenterPoint Houston or an affiliate is the servicer
Trustee	Transition charge collections and investment earnings.	\$4,500 per annum, plus expenses
Independent manager	Transition charge collections and investment earnings.	\$3,500 per annum, plus expenses
Administrator	Transition charge collections and investment earnings.	\$100,000 per annum
Other operating expenses (accounting, rating agency, legal fees, etc.)	Transition charge collections and investment earnings.	\$245,000 (estimated)

In accordance with the terms of the financing order and subject to the approval of the trustee, the PUCT will permit a successor servicer to CenterPoint Houston to recover a higher servicer fee if CenterPoint Houston ceases to serve as the servicer and service the transition property. The annual servicing fee payable to any other servicer not affiliated with CenterPoint Houston shall not at any time exceed 0.6% of the original principal amount of the Bonds unless such higher rate is approved by the PUCT.

### **Distribution Following Acceleration**

Upon an acceleration of the maturity of the Bonds, the total outstanding principal balance of and interest accrued on the Bonds will be payable without priority of interest over principal or principal over interest and without regard to tranche. Although principal will be due and payable upon acceleration, the nature of our business will result in principal being paid as funds become available. Please read “Risk Factors—Risks Associated with the Unusual Nature of the Transition Property—Foreclosure of the trustee’s lien on the transition property securing the transition bonds might not be practical, and acceleration of the transition bonds before maturity might have little practical effect” and “—You may experience material payment delays or incur a loss on your investment in the transition bonds because the source of funds for payment is limited” in the accompanying prospectus. Please read “The Restructuring Act—CenterPoint Houston and Other Utilities May Securitize Qualified Costs—The State Pledge” and “—Constitutional Matters” in the accompanying prospectus.

### **Interest Payments**

Holders of Bonds will receive interest at the rate for the tranche of Bonds such holder owns as set forth in the table on page S-9.

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Interest on each tranche of Bonds will accrue from and including the date of issuance to but excluding the first payment date, and thereafter from and including the previous payment date to but excluding the applicable payment date until the Bonds have been paid in full, at the interest rate indicated in the table on page S-9. Each of those periods is referred to as an “interest accrual period.” On each payment date, we will pay interest on each tranche of the Bonds equal to the following amounts:

- any interest payable but unpaid on any prior payment date, together with interest on such unpaid interest, if any, and
- accrued interest on the principal balance of each tranche of the Bonds as of the close of business on the preceding payment date, or the date of the original issuance of the Bonds, after giving effect to all payments of principal made on the preceding payment date, if any.

We will pay interest on the Bonds before we pay principal on the Bonds. Please read “The Transition Bonds—Payments of Interest and Principal on the Transition Bonds” in the accompanying prospectus. If there is a shortfall in the amounts available in the collection account to make interest payments on the Bonds, the trustee will distribute interest pro rata to each tranche of Bonds based on the amount of interest payable on each such outstanding tranche. Please read “Credit Enhancement—Collection Account and Subaccounts” in this prospectus supplement. We will calculate interest on tranches of the Bonds on the basis of a 360-day year consisting of twelve 30-day months.

### **Optional Redemption**

We may not voluntarily redeem any tranche of the Bonds.

## **THE TRUSTEE**

Deutsche Bank Trust Company Americas is a New York banking corporation. Deutsche Bank Trust Company Americas has acted as indenture trustee on numerous asset-backed securities transactions, including acting as indenture trustee on various auto loan and auto lease securitization transactions and for other securitizations that are structurally similar to the Bonds. Deutsche Bank Trust Company Americas is experienced in administering transactions of this kind. Please read “The Transition Bonds,” “The Sale Agreement” and “The Servicing Agreement” in the accompanying prospectus for further information.

## **CREDIT ENHANCEMENT**

Credit enhancement for the Bonds is intended to protect you against losses or delays in scheduled payments on your Bonds. Please read “Risk Factors—You may experience material payment delays or incur a loss on your investment in the transition bonds because the source of funds for payment is limited” in the accompanying prospectus.

### **Statutory True-Up Mechanism for Payment of Scheduled Principal and Interest**

The Restructuring Act mandates and the irrevocable financing order guarantees that transition charges on all retail electric customers, including the State of Texas and other governmental entities, will be reviewed and adjusted at least annually, and semi-annually as necessary, to ensure the expected recovery of amounts sufficient to timely provide payment of scheduled principal and interest on the Bonds. Transition charges are required to be adjusted semi-annually if necessary to ensure the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the Bonds. In the irrevocable financing order, the PUCT guaranteed that it will act pursuant to the financing order as expressly authorized by the Restructuring Act to ensure that expected transition charge revenues are sufficient to pay on a timely basis, scheduled principal and interest on the Bonds. There is no “cap” on the level of transition charges that may be imposed on the consumers of electricity in CenterPoint Houston’s service territory, including the State of Texas and other governmental entities, to timely pay scheduled principal and interest on the Bonds. The Financing Order provides that the true-up mechanism and all other obligations of the State of Texas and the PUCT set forth in the financing order are direct, explicit, irrevocable and unconditional upon issuance of the Bonds and are legally enforceable against the State of Texas and the PUCT. Please read “The Transition Charges” below and “CenterPoint Houston’s Financing Order” and “The Servicing Agreement—Adjustment Process for Transition Charges” in the accompanying prospectus.

### **Collection Account and Subaccounts**

The trustee will establish a collection account for the Bonds to hold the capital contribution from CenterPoint Houston and collected transition charges periodically remitted to the trustee by the servicer. The collection account will consist of various subaccounts, including the following:

- the general subaccount,
- the excess funds subaccount,
- the capital subaccount, and
- other subaccounts, if necessary.

Withdrawals from and deposits to these subaccounts will be made as described below in this prospectus supplement and under “The Transition Bonds—The Collection Account for the Transition Bonds” and “—How Funds in the Collection Account Will Be Allocated” in the accompanying prospectus.

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*The General Subaccount.* The trustee will deposit collected transition charges remitted to it by the servicer with respect to the Bonds into the general subaccount. On each payment date, the trustee will allocate amounts in the general subaccount as described under “—How Funds in the Collection Account Will Be Allocated” below.

*The Excess Funds Subaccount.* The excess funds subaccount will be funded on any payment date with collected transition charges and earnings on amounts in the collection account, other than earnings on amounts allocated to the capital subaccount, in excess of the amount necessary to pay:

- fees and expenses, including any indemnity payments, of the trustee, our independent manager, the servicer and the administrator and other fees, expenses, costs and charges,
- principal and interest payments on the Bonds required to be paid or scheduled to be paid on that payment date, and
- any amount required to replenish any amounts drawn from the capital subaccount.

The periodic adjustments of the transition charges will be calculated to eliminate any amounts held in the excess funds subaccount. These adjustments generally will occur annually. Under limited circumstances, these adjustments may occur more frequently, but not more frequently than every six months during the first thirteen years the transition charges are collected in respect of the Bonds and every three months during the fourteenth and fifteenth years.

If amounts available in the general subaccount are not sufficient to pay the fees and expenses due on any payment date, to make required or scheduled payments to the bondholders and to replenish any amounts drawn from the capital subaccount, the trustee will first draw on any amounts in the excess funds subaccount to make those payments.

*The Capital Subaccount.* On the date we issue the Bonds, CenterPoint Houston will deposit \$[\_\_\_\_\_] into the capital subaccount as a capital contribution to us, which is equal to 0.5% of the initial outstanding principal balance of the Bonds. The capital contribution has been set at a level sufficient to obtain the ratings on the Bonds described below under “Ratings for the Bonds.” If amounts available in the general subaccount and the excess funds subaccount are not sufficient to make required or scheduled payments to the bondholders and to pay the fees and expenses specified in the indenture due on any payment date, the trustee will draw on amounts in the capital subaccount to make those payments.

*Other Subaccounts.* Other credit enhancements in the form of subaccounts may be utilized for the transaction provided that the PUCT’s designated representative and CenterPoint Houston agree in advance that such enhancements provide benefits greater than their tangible and intangible costs.

### **How Funds in the Collection Account Will Be Allocated**

Amounts remitted by the servicer to the trustee with respect to the Bonds, including any indemnity amounts and all investment earnings on amounts in the general subaccount of the collection account, will be deposited into the general subaccount.

On each payment date, the trustee will allocate or pay all amounts on deposit in the general subaccount of the collection account for the Bonds in the following priority:

1. payment of the trustee’s fees, expenses and any outstanding indemnity amounts relating to the Bonds not to exceed \$800,000 in any 12-month period,
2. payment of the servicing fee relating to the Bonds, plus any unpaid servicing fees relating to the Bonds from prior payment dates,
3. payment of the fees of our independent manager (which are billed annually), which will be in an amount specified in an agreement between us and our independent manager, and a pro rata portion of the administration fee,
4. payment of all of our other ordinary periodic operating expenses relating to the Bonds, such as accounting and audit fees, rating agency fees, legal fees and certain reimbursable costs of the administrator under the administration agreement and of the servicer under the servicing agreement,
5. payment of the interest then due on the Bonds, including any past-due interest,
6. payment of the principal then required to be paid on the Bonds at final maturity or upon acceleration upon an event of default,
7. payment of the principal then scheduled to be paid on the Bonds in accordance with the expected sinking fund schedule, including any previously unpaid scheduled principal,

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8. payment of any of our remaining unpaid operating expenses and any remaining amounts owed pursuant to the basic documents relating to the Bonds, including all remaining indemnity amounts owed to the trustee,
9. replenishment of any amounts drawn from the capital subaccount, including investment earnings in the capital subaccount to the extent used for allocations and payments contemplated by clauses 1 through 8,
10. so long as no event of default has occurred and is continuing, release the investment earnings in the capital subaccount to us,
11. allocation of the remainder, if any, to the excess funds subaccount, and
12. after the Bonds have been paid in full and discharged, the balance, together with all amounts in the capital subaccount and the excess funds subaccount, to us free and clear of the lien of the indenture.

The annual servicing fee in clause 2 may not exceed 0.05% of the original principal amount of the Bonds (for so long as CenterPoint Houston is the servicer) and the annual administration fee in clause 3 may not exceed \$100,000.

If, on any payment date, funds in the general subaccount are insufficient to make the allocations or payments contemplated by clauses 1 through 9 of the first paragraph of this subsection, the trustee will draw from amounts on deposit in the following subaccounts in the following order up to the amount of the shortfall:

1. from the excess funds subaccount for allocations and payments contemplated in clauses 1 through 9, and
2. from the capital subaccount for allocations and payments contemplated by clauses 1 through 8.

If, on any payment date, available collections of transition charges allocable to the Bonds, together with available amounts in the subaccounts, are not sufficient to pay interest due on all outstanding Bonds on that payment date, amounts available will be allocated pro rata based on the amount of interest payable on each tranche of the Bonds. If, on any payment date, remaining collections of transition charges allocable to the Bonds, together with available amounts in the subaccounts, are not sufficient to pay principal due and payable on all outstanding Bonds on that payment date, amounts available will be allocated pro rata based on the principal amount of each tranche then due and payable. If, on any payment date, remaining collections of transition charges allocable to the Bonds, together with available amounts in the subaccounts, are not sufficient to pay principal scheduled to be paid on all outstanding Bonds, amounts available will be allocated sequentially to each tranche then scheduled to be paid on the payment date. If the trustee uses amounts on deposit in the capital subaccount to pay those amounts or make those transfers, as the case may be, subsequent adjustments to the transition charges will take into account, among other things, the need to replenish those amounts.

## THE TRANSITION CHARGES

CenterPoint Houston will be the initial servicer of the Bonds. Beginning on the date we issue the Bonds, the initial transition charges listed in the table below will be imposed on retail electric customers in each transition charge customer class at the applicable rate for the class determined pursuant to the financing order. These transition charges may be adjusted annually, or more frequently under certain circumstances, by the servicer in accordance with its filings with the PUCT. Please read “CenterPoint Houston’s Financing Order” in the accompanying prospectus.

### Initial Transition Charges

<u>Transition Charge Customer Class</u>	<u>Initial Transition Charge Rate</u>
Residential	\$ _____ per kWh
MGS (miscellaneous general service)	\$ _____ per kWh
LGS (large general service)	\$ _____ per kVa
LOS-A (large overhead service – A)	\$ _____ per kW
LOS-B (large overhead service – B)	\$ _____ per kW
Non-Metered Lighting	\$ _____ per kWh
Standby Electric Service – Distribution	\$ _____ per kW
Interruptible Service Supplemental – Distribution	\$ _____ per kW
Interruptible Service – 30 Minute Notice	\$ _____ per kW
Interruptible Service – 10 Minute Notice	\$ _____ per kW
Interruptible Service – Instantaneous	\$ _____ per kW
Interruptible Service Supplemental – Transmission	\$ _____ per kW
Standby Electric Service – Transmission	\$ _____ per kW
Standby Interruptible Service	\$ _____ per kW
SCP (special contract pricing)	\$ _____ per kW

Please read “CenterPoint Houston’s Financing Order—Allocation” in the accompanying prospectus.

### ASSURANCES OF FINANCIAL RESPONSIBILITY FOR RETAIL ELECTRIC PROVIDERS

Each retail electric provider in CenterPoint Houston’s service territory is obligated to collect and remit transition charges to the servicer as described under “Retail Electric Providers” in the accompanying prospectus. The financing order provides that each retail electric provider that does not maintain a long-term, unsecured credit rating of not less than “BBB-” and “Baa3” (or the equivalent) from S&P and Moody’s, respectively, must provide:

- a cash deposit of two months’ maximum expected transition charge collections,
- an affiliate guarantee, surety bond or letter of credit from an entity with a long-term, unsecured credit rating of not less than “BBB-” and “Baa3” (or the equivalent) from S&P and Moody’s, respectively, providing for payment of such amount of transition charge collections in the event that the retail electric provider defaults in its payment obligations, or
- a combination of any of the foregoing.

A retail electric provider that does not have or maintain the requisite credit rating may select which alternate form of deposit, credit support or combination thereof it will utilize. As of December 31, 2007, there were approximately 70 retail electric providers providing service in CenterPoint Houston’s service territory, all of which did business with CenterPoint Houston. Reliant Energy, Inc., through its subsidiaries, is CenterPoint Houston’s largest customer, accounting for approximately 48% of CenterPoint Houston’s outstanding receivables from retail electric providers as of December 31, 2007 and approximately 43% of the total retail kWh billed by CenterPoint Houston in its service territory for the twelve months then ended.

Retail electric provider cash deposits will be held by the trustee, maintained in a segregated account, and invested in short-term high quality investments, as permitted by the rating agencies rating the Bonds. If a retail electric provider defaults in making a payment of transition charges to the servicer and does not remedy the default within a 10 calendar-day grace period, the amounts on deposit or available from other credit support (up to an amount of the lesser of the payment default of the retail electric provider or the amount of the deposit or other credit support amount) will be used to make transition charge payments in respect of the Bonds. Please read “Retail Electric Providers—Rating, Deposit and Related Requirements” “—Remedies Upon Default” and “Risk Factors—Risks Associated With Potential Bankruptcy Proceedings of Retail Electric Providers” in the accompanying prospectus.

## UNDERWRITING THE BONDS

Subject to the terms and conditions in the underwriting agreement among us, CenterPoint Houston and the underwriters, for whom Citigroup Global Markets Inc. and Credit Suisse Securities (USA) LLC are acting as representatives, we have agreed to sell to the underwriters, and the underwriters have severally agreed to purchase, the principal amount of the Bonds listed opposite each underwriter's name below:

<u>Underwriter</u>	<u>Tranche A-[ ]</u>	<u>Tranche A-[ ]</u>	<u>Tranche A-[ ]</u>	<u>Tranche A-[ ]</u>
<b>Citigroup Global Markets Inc.</b>				
<b>Credit Suisse Securities (USA) LLC</b>				
<b>Morgan Stanley &amp; Co. Incorporated</b>				
<b>DEPFA First Albany Securities LLC</b>				

Under the underwriting agreement, the underwriters will take and pay for all of the Bonds we offer, if any are taken. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

### The Underwriters' Sales Price for the Bonds

The Bonds sold by the underwriters to the public will be initially offered at the prices to the public set forth on the cover of this prospectus supplement. The underwriters propose initially to offer the Bonds to dealers at such prices, less a selling concession not to exceed the percentage listed below for each tranche. The underwriters may allow, and dealers may reallow, a discount not to exceed the percentage listed below for each tranche.

	<u>Selling Concession</u>	<u>Reallowance Discount</u>
Tranche A-[ ]		

After the initial public offering, the public offering prices, selling concessions and reallowance discounts may change.

### No Assurance as to Resale Price or Resale Liquidity for the Bonds

The Bonds are a new issue of securities with no established trading market. They will not be listed on any securities exchange. The underwriters have advised us that they intend to make a market in the Bonds, but they are not obligated to do so and may discontinue market making at any time without notice. We cannot assure you that a liquid trading market will develop for the Bonds.

### Various Types of Underwriter Transactions That May Affect the Price of the Bonds

The underwriters may engage in over-allotment transactions, stabilizing transactions, syndicate covering transactions and penalty bids with respect to the Bonds in accordance with Regulation M under the Securities Exchange Act of 1934. Over-allotment transactions involve syndicate sales in excess of the offering size, which create a syndicate short position.

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Stabilizing transactions are bids to purchase the Bonds, which are permitted, so long as the stabilizing bids do not exceed a specific maximum price. Syndicate covering transactions involve purchases of the Bonds in the open market after the distribution has been completed in order to cover syndicate short positions. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the Bonds originally sold by the syndicate member are purchased in a syndicate covering transaction. These overallotment transactions, stabilizing transactions, syndicate covering transactions and penalty bids may cause the prices of the Bonds to be higher than they would otherwise be. Neither we, CenterPoint Houston, the trustee, our managers nor any of the underwriters represent that the underwriters will engage in any of these transactions or that these transactions, if commenced, will not be discontinued without notice at any time.

Certain of the underwriters and their affiliates have in the past provided, and may in the future from time to time provide, investment banking and general financing and banking services to CenterPoint Houston and its affiliates for which they have in the past received, and in the future may receive, customary fees. In addition, each underwriter may from time to time take positions in the Bonds.

We estimate that the total expenses of the offering will be approximately \$3.4 million.

We and CenterPoint Houston have agreed to indemnify the underwriters against some liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the Bonds, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters, including the validity of the Bonds and other conditions contained in the underwriting agreement, such as receipt of ratings confirmations, officers' certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject offers in whole or in part.

### **MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES**

Based on guidance from the IRS and certain representations from us, including a representation by us that we will not make, or allow there to be made, any election to be treated as a separate taxable entity, Baker Botts L.L.P., counsel to us and to CenterPoint Houston, has rendered its opinion that for federal income tax purposes (1) we will not be treated as a taxable entity separate and apart from CenterPoint Energy, (2) the Bonds will constitute indebtedness of CenterPoint Energy and (3) interest paid on the Bonds generally will be taxable to a U.S. bondholder as ordinary income at the time it accrues or is received in accordance with the U.S. bondholder's method of accounting. Each beneficial owner of a Bond, by acquiring a beneficial interest, agrees to treat such Bond as indebtedness of CenterPoint Energy for federal (and, to the extent applicable, state) income tax purposes unless otherwise required by appropriate taxing authorities. Please read "Material U.S. Federal Income Tax Consequences For the Transition Bondholders" in the accompanying prospectus.

### **RISK WEIGHTING OF THE BONDS UNDER CERTAIN INTERNATIONAL CAPITAL GUIDELINES**

Under the standardized approach under the framework established by Basel II, the Bonds may attract a risk weighting of 20% on the basis that the Bonds are rated in the highest category by a major rating agency. It is a condition of issuance of the Bonds that the bonds be rated "Aaa" by Moody's, "AAA" by S&P, and "AAA" by Fitch. In the alternative, under the framework established by Basel II, the Bonds may attract the same risk weighting if the bonds are considered to be "guaranteed" by a non governmental public sector entity.

If held by financial institutions subject to regulation in countries (other than the United States) that have adopted and continue to use or permit the use of the Basel Accord for risk weighting, the Bonds may attract the same risk weighting as "claims on" or "claims guaranteed by" non-central government bodies within the United States, which are accorded a 20% risk weighting. Please read "CenterPoint Houston's Financing Order—Statutory True-Ups" in the accompanying prospectus. We note, however, that the analysis may be different than that under Basel II.

We note that the timetable for, and scope of, the implementation of Basel II differs from country to country and it may not always be clear which regime — Basel Accord or Basel II, or any transitional regime — may be applicable at any particular time.

Before acquiring any Bonds, prospective investors that are banks or bank holding companies, particularly those that are organized under the laws of any country other than the United States or of any state, territory or other political subdivision of the United States, and prospective investors that are U.S. branches and agencies of foreign banks, should consult all applicable laws, regulations and policies, as well as appropriate regulatory bodies and legal counsel, to confirm that an investment in the Bonds is permissible and in compliance with any applicable investment or other limits. We cannot assure you that the Bonds will attract a 20% risk weighting under any national law, regulation or policy implementing Basel II, the Basel Accord or any transitional regime.

## **RATINGS FOR THE BONDS**

It is a condition of any underwriter's obligation to purchase the Bonds that each tranche of the Bonds be rated "AAA" by S&P, "AAA" by Fitch and "Aaa" by Moody's.

A security rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn at any time by the rating agency. Each rating should be evaluated independently of any other rating. No person is obligated to maintain its rating on the Bonds, and accordingly, we cannot assure you that a rating assigned to any tranche of the Bonds upon initial issuance will not be revised or withdrawn by a rating agency at any time thereafter. If a rating of any tranche of the Bonds is revised or withdrawn, the liquidity of that tranche may be adversely affected. In general, ratings address credit risk and do not represent any assessment of the likelihood of any particular level of principal payments on the Bonds other than payment in full of each tranche of the Bonds by the applicable final maturity date, as well as the timely payment of interest.

## **LEGAL PROCEEDINGS**

There are no legal or governmental proceedings pending against us, the sponsor, seller, trustee or servicer, or of which any property of the foregoing is subject, that is material to the holders of the Bonds

## **WHERE YOU CAN FIND MORE INFORMATION**

To the extent that we are required to file such reports and information with the Securities and Exchange Commission under the Securities Exchange Act of 1934, we will file annual, quarterly and current reports and other information with the Securities and Exchange Commission. We are incorporating by reference any future filings which we (file no. 333-147114) or CenterPoint Houston, but solely in its capacity as our sponsor, make with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until we sell all the Bonds, excluding any information that is furnished to, and not filed with, the Securities and Exchange Commission. These reports will be filed under our own name as issuing entity. Please also read "Where You Can Find More Information" in the accompanying prospectus.

## **LEGAL MATTERS**

Certain legal matters relating to us and the issuance of the Bonds will be passed upon for CenterPoint Houston and for us by Baker Botts L.L.P., Houston, Texas and Richards, Layton & Finger, P.A., Wilmington, Delaware, and for the underwriters by Dewey & LeBoeuf LLP, New York, New York. Certain legal matters relating to the federal income tax consequences of the issuance of the Bonds will be passed upon for us by Baker Botts L.L.P.

## **OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS**

### **NOTICE TO RESIDENTS OF SINGAPORE**

EACH UNDERWRITER ACKNOWLEDGES THAT THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS HAVE NOT BEEN REGISTERED AS A PROSPECTUS WITH THE MONETARY AUTHORITY OF SINGAPORE. ACCORDINGLY, EACH UNDERWRITER REPRESENTS, WARRANTS AND AGREES THAT IT HAS NOT OFFERED OR SOLD ANY BONDS OR CAUSED THE BONDS TO BE MADE THE SUBJECT OF AN INVITATION FOR SUBSCRIPTION OR PURCHASE, AND WILL NOT OFFER OR SELL ANY BONDS OR CAUSE THE BONDS TO BE MADE THE SUBJECT OF AN INVITATION FOR SUBSCRIPTION OR PURCHASE, AND HAS NOT CIRCULATED OR DISTRIBUTED, NOR WILL IT CIRCULATE OR DISTRIBUTE THIS PROSPECTUS SUPPLEMENT OR THE ACCOMPANYING PROSPECTUS OR ANY OTHER DOCUMENT OR MATERIAL IN CONNECTION WITH THE OFFER OR SALE, OR INVITATION FOR SUBSCRIPTION OR PURCHASE, OF BONDS, WHETHER DIRECTLY OR INDIRECTLY, TO PERSONS IN SINGAPORE OTHER THAN (I) TO AN INSTITUTIONAL INVESTOR UNDER SECTION 274 OF THE SECURITIES AND FUTURES ACT, CHAPTER 289 OF SINGAPORE (THE "SFA"), OR ANY PERSON PURSUANT TO SECTION 275(1A), AND IN ACCORDANCE WITH THE CONDITIONS SPECIFIED IN SECTION 275 OF THE SFA OR (II) TO A RELEVANT PERSON PURSUANT TO SECTION 275(1) OR ANY PERSON PURSUANT TO SECTION 275(1A) OF THE SFA, AND IN ACCORDANCE WITH THE CONDITIONS SPECIFIED IN SECTION 275 OF THE SFA OR (III) OTHERWISE PURSUANT TO, AND IN ACCORDANCE WITH THE CONDITIONS OF, ANY OTHER APPLICABLE PROVISION OF THE SFA.

WHERE THE BONDS ARE SUBSCRIBED OR PURCHASED UNDER SECTION 275 BY A RELEVANT PERSON WHICH IS:

(A) A CORPORATION (WHICH IS NOT AN ACCREDITED INVESTOR (AS DEFINED IN SECTION 4A OF THE SFA)) THE SOLE BUSINESS OF WHICH IS TO HOLD INVESTMENTS AND THE ENTIRE SHARE CAPITAL OF WHICH IS OWNED BY ONE OR MORE INDIVIDUALS, EACH OF WHOM IS AN ACCREDITED INVESTOR; OR

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(B) A TRUST (WHERE THE TRUSTEE IS NOT AN ACCREDITED INVESTOR) WHOSE SOLE PURPOSE IS TO HOLD INVESTMENTS AND EACH BENEFICIARY OF THE TRUST IS AN INDIVIDUAL WHO IS AN ACCREDITED INVESTOR,

SHARES, DEBENTURES AND UNITS OF SHARES AND DEBENTURES OF THAT CORPORATION OR THE BENEFICIARIES' RIGHTS AND INTEREST (HOWSOEVER DESCRIBED) IN THAT TRUST SHALL NOT BE TRANSFERRED WITHIN 6 MONTHS AFTER THAT CORPORATION OR THAT TRUST HAS ACQUIRED THE BONDS PURSUANT TO AN OFFER MADE UNDER SECTION 275 EXCEPT:

(1) TO AN INSTITUTIONAL INVESTOR (FOR CORPORATIONS, UNDER SECTION 274 OF THE SFA) OR TO A RELEVANT PERSON DEFINED IN SECTION 275(2) OF THE SFA, OR TO ANY PERSON PURSUANT TO AN OFFER THAT IS MADE ON TERMS THAT SUCH RIGHTS OR INTEREST ARE ACQUIRED AT A CONSIDERATION OF NOT LESS THAN S\$200,000 (OR ITS EQUIVALENT IN A FOREIGN CURRENCY) FOR EACH TRANSACTION, WHETHER SUCH AMOUNT IS TO BE PAID FOR IN CASH OR BY EXCHANGE OF SECURITIES OR OTHER ASSETS, AND FURTHER FOR CORPORATIONS, IN ACCORDANCE WITH THE CONDITIONS SPECIFIED IN SECTION 275 OF THE SFA;

(2) WHERE NO CONSIDERATION IS OR WILL BE GIVEN FOR THE TRANSFER; OR

(3) WHERE THE TRANSFER IS BY OPERATION OF LAW. THE PROSPECTUS RELATING TO THE BONDS ("PROSPECTUS") WILL, PRIOR TO ANY SALE OF SECURITIES PURSUANT TO THE PROVISIONS OF SECTION 106D OF THE COMPANIES ACT (CAP.50), BE LODGED, PURSUANT TO SAID SECTION 106D, WITH THE REGISTRAR OF COMPANIES IN SINGAPORE, WHICH WILL TAKE NO RESPONSIBILITY FOR ITS CONTENTS. HOWEVER, NEITHER THIS PROSPECTUS SUPPLEMENT NOR THE PROSPECTUS HAS BEEN AND NOR WILL THEY BE REGISTERED AS A PROSPECTUS WITH THE REGISTRAR OF COMPANIES IN SINGAPORE. ACCORDINGLY, THE BONDS MAY NOT BE OFFERED, AND NEITHER THIS PROSPECTUS SUPPLEMENT NOR ANY OTHER OFFERING DOCUMENT OR MATERIAL RELATING TO THE BONDS MAY BE CIRCULATED OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, TO THE PUBLIC OR ANY MEMBER OF THE PUBLIC IN SINGAPORE OTHER THAN TO INSTITUTIONAL INVESTORS OR OTHER PERSONS OF THE KIND SPECIFIED IN SECTION 106C AND SECTION 106D OF THE COMPANIES ACT OR ANY OTHER APPLICABLE EXEMPTION INVOKED UNDER DIVISION 5A OF PART IV OF THE COMPANIES ACT. THE FIRST SALE OF SECURITIES ACQUIRED UNDER A SECTION 106C OR SECTION 106D EXEMPTION IS SUBJECT TO THE PROVISIONS OF SECTION 106E OF THE COMPANIES ACT.

**NOTICE TO RESIDENTS OF THE PEOPLE'S REPUBLIC OF CHINA**

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES LAW OF THE PEOPLE'S REPUBLIC OF CHINA (AS THE SAME MAY BE AMENDED FROM TIME TO TIME) AND ARE NOT TO BE OFFERED OR SOLD TO PERSONS WITHIN THE PEOPLE'S REPUBLIC OF CHINA (EXCLUDING THE HONG KONG AND MACAU SPECIAL ADMINISTRATIVE REGIONS).

**NOTICE TO RESIDENTS OF JAPAN**

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES AND EXCHANGE LAW OF JAPAN (THE "SEL"), AND MAY NOT BE OFFERED OR SOLD IN JAPAN OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF JAPAN OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF JAPAN OR TO OTHERS FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF JAPAN, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE SEL, AND IN COMPLIANCE WITH THE OTHER RELEVANT LAWS AND REGULATIONS OF JAPAN. AS USED IN THIS PARAGRAPH, "RESIDENT OF JAPAN" MEANS ANY PERSON RESIDENT IN JAPAN, INCLUDING ANY CORPORATION OR OTHER ENTITY ORGANIZED UNDER THE LAWS OF JAPAN.

**NOTICE TO RESIDENTS OF HONG KONG**

EACH UNDERWRITER HAS REPRESENTED AND AGREED THAT:

IT HAS NOT OFFERED OR SOLD AND WILL NOT OFFER OR SELL IN HONG KONG, BY MEANS OF ANY DOCUMENT, ANY BONDS OTHER THAN (A) TO PERSONS WHOSE ORDINARY BUSINESS IS TO BUY OR SELL SHARES OR DEBENTURES (WHETHER AS PRINCIPAL OR AGENT); OR (B) TO PROFESSIONAL INVESTORS WITHIN THE MEANING OF THE SECURITIES AND FUTURES ORDINANCE (CAP. 571) OF THE LAWS OF HONG KONG AND ANY RULES MADE THEREUNDER; OR (C) IN CIRCUMSTANCES THAT DO NOT RESULT IN THE DOCUMENT BEING A "PROSPECTUS" AS DEFINED IN THE COMPANIES ORDINANCE (CAP. 32) OF THE LAWS OF HONG KONG OR THAT DO NOT CONSTITUTE AN OFFER TO THE PUBLIC WITHIN THE MEANING OF THAT ORDINANCE; AND

IT HAS NOT ISSUED OR HAD IN ITS POSSESSION FOR THE PURPOSE OF ISSUE, AND WILL NOT ISSUE OR HAVE IN ITS POSSESSION FOR THE PURPOSE OF ISSUE, WHETHER IN HONG KONG OR ELSEWHERE ANY ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE BONDS, WHICH IS DIRECTED AT, OR THE CONTENTS OF WHICH ARE LIKELY TO BE ACCESSED OR READ BY, THE PUBLIC OF HONG KONG (EXCEPT IF PERMITTED TO DO SO UNDER THE SECURITIES LAWS OF HONG KONG) OTHER THAN WITH RESPECT TO BONDS THAT ARE INTENDED TO BE DISPOSED OF ONLY TO PERSONS OUTSIDE HONG KONG OR ONLY TO “PROFESSIONAL INVESTORS” AS DEFINED UNDER THE SECURITIES AND FUTURES ORDINANCE (CAP. 571) OF THE LAWS OF HONG KONG AND ANY RULES MADE UNDER THAT ORDINANCE.

#### **NOTICE TO RESIDENTS OF THE EUROPEAN ECONOMIC AREA**

IN RELATION TO EACH MEMBER STATE OF THE EUROPEAN ECONOMIC AREA WHICH HAS IMPLEMENTED THE PROSPECTUS DIRECTIVE (EACH, A “RELEVANT MEMBER STATE”), THE UNDERWRITER HAS REPRESENTED AND AGREED THAT WITH EFFECT FROM AND INCLUDING THE DATE ON WHICH THE PROSPECTUS DIRECTIVE IS IMPLEMENTED IN THAT RELEVANT MEMBER STATE (THE “RELEVANT IMPLEMENTATION DATE”) IT HAS NOT MADE AND WILL NOT MAKE AN OFFER OF BONDS TO THE PUBLIC IN THAT RELEVANT MEMBER STATE PRIOR TO THE PUBLICATION OF A PROSPECTUS IN RELATION TO THE BONDS WHICH HAS BEEN APPROVED BY THE COMPETENT AUTHORITY IN THAT RELEVANT MEMBER STATE OR, WHERE APPROPRIATE, APPROVED IN ANOTHER RELEVANT MEMBER STATE AND NOTIFIED TO THE COMPETENT AUTHORITY IN THAT RELEVANT MEMBER STATE, ALL IN ACCORDANCE WITH THE PROSPECTUS DIRECTIVE, EXCEPT THAT IT MAY, WITH EFFECT FROM AND INCLUDING THE RELEVANT IMPLEMENTATION DATE, MAKE AN OFFER OF BONDS TO THE PUBLIC IN THAT RELEVANT MEMBER STATE AT ANY TIME:

(A) TO LEGAL ENTITIES WHICH ARE AUTHORIZED OR REGULATED TO OPERATE IN THE FINANCIAL MARKETS OR, IF NOT SO AUTHORIZED OR REGULATED, WHOSE CORPORATE PURPOSE IS SOLELY TO INVEST IN SECURITIES;

(B) TO ANY LEGAL ENTITY WHICH HAS TWO OR MORE OF (1) AN AVERAGE OF AT LEAST 250 EMPLOYEES DURING THE LAST FINANCIAL YEAR; (2) A TOTAL BALANCE SHEET OF MORE THAN €43,000,000 AND (3) AN ANNUAL NET TURNOVER OF MORE THAN €50,000,000, AS SHOWN IN ITS LAST ANNUAL OR CONSOLIDATED ACCOUNTS;

(C) TO FEWER THAN 100 NATURAL OR LEGAL PERSONS (OTHER THAN QUALIFIED INVESTORS AS DEFINED IN THE PROSPECTUS DIRECTIVE) SUBJECT TO OBTAINING THE PRIOR CONSENT OF THE LEAD UNDERWRITER(S) NOMINATED BY THE ISSUING ENTITY FOR ANY SUCH OFFICER;

(D) IF THE DENOMINATION PER NOTE BEING OFFERED AMOUNT TO AT LEAST €50,000; OR

(E) IN ANY OTHER CIRCUMSTANCES WHICH DO NOT REQUIRE THE PUBLICATION BY THE ISSUING ENTITY OF A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS DIRECTIVE.

FOR THE PURPOSES OF THIS PROVISION, THE EXPRESSION AN “OFFER OF BONDS TO THE PUBLIC” IN RELATION TO ANY BONDS IN ANY RELEVANT MEMBER STATE MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE BONDS TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE OR SUBSCRIBE THE BONDS, AS THE SAME MAY BE VARIED IN THAT MEMBER STATE BY ANY MEASURE IMPLEMENTING THE PROSPECTUS DIRECTIVE IN THAT MEMBER STATE AND THE EXPRESSION “PROSPECTUS DIRECTIVE” MEANS DIRECTIVE 2003/71/EC AND INCLUDES ANY RELEVANT IMPLEMENTING MEASURE IN EACH RELEVANT MEMBER STATE.

#### **NOTICE TO RESIDENTS OF THE UNITED KINGDOM**

THE UNDERWRITER HAS REPRESENTED AND AGREED THAT:

(A) IT HAS ONLY COMMUNICATED OR CAUSED TO BE COMMUNICATED AND WILL ONLY COMMUNICATE OR CAUSE TO BE COMMUNICATED AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT (THE “FSMA”)) RECEIVED BY IT IN CONNECTION WITH THE ISSUE OR SALE OF THE BONDS IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FSMA DOES NOT APPLY TO THE ISSUING ENTITY; AND

(B) IT HAS COMPLIED AND WILL COMPLY WITH ALL APPLICABLE PROVISIONS OF THE FSMA WITH RESPECT TO ANYTHING DONE BY IT IN RELATION TO THE BONDS IN, FROM OR OTHERWISE INVOLVING THE UNITED KINGDOM.

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**The information in this prospectus is not complete and may be changed. The transition bonds may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

Subject to completion, dated \_\_\_\_\_, 2008.

PROSPECTUS

**CenterPoint Energy Transition Bond Company III, LLC**  
*Issuing Entity*

SENIOR SECURED TRANSITION BONDS

**CenterPoint Energy Houston Electric, LLC**  
*Seller, Initial Servicer and Sponsor*

**You should carefully consider the [risk factors](#) beginning on page 13 of this prospectus before you invest in the transition bonds.**

We, the issuing entity, may, in the future, issue the transition bonds described in this prospectus. The transition bonds may have one or more tranches. The transition bonds represent only our obligations and are backed only by our assets. CenterPoint Energy Houston Electric, LLC and its affiliates, other than us, are not liable for any payments on the transition bonds. The transition bonds are not a debt or obligation of the State of Texas, the Public Utility Commission of Texas or any other governmental agency or instrumentality and are not a charge on the full faith and credit or the taxing power of the State of Texas or any governmental agency or instrumentality. Except in their capacity as retail electric customers with facilities in CenterPoint Energy Houston Electric, LLC's service territory, neither the State of Texas nor any political subdivision, agency, authority or instrumentality of the State of Texas, nor any other public or private entity, will be obligated to provide funds for the payment of the transition bonds.

We are a special purpose entity and own no property other than the collateral described in this prospectus. The collateral is the sole source of payment for the transition bonds.

There currently is no secondary market for the transition bonds, and we cannot assure you that one will develop.

We may offer and sell the transition bonds by use of this prospectus. We will provide the specific terms of the offering of the transition bonds in a supplement to this prospectus. You should read this prospectus and the prospectus supplement carefully before you invest in the transition bonds. This prospectus may not be used to offer and sell the transition bonds unless accompanied by a prospectus supplement.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is \_\_\_\_\_, 2008.

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## ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement we have filed with the SEC. This prospectus provides you with a general description of the transition bonds we may offer. When we offer transition bonds, we will provide a supplement to this prospectus. The prospectus supplement will describe the specific terms of the offering. The prospectus supplement may also contain information that supplements the information contained in this prospectus, and you should rely on the supplementary information in the prospectus supplement. Please carefully read this prospectus, the prospectus supplement and the information, if any, contained in the documents we refer to in this prospectus under the heading “Where You Can Find More Information.”

References in this prospectus and the prospectus supplement to the terms “we,” “us,” “our” or “the issuing entity” mean CenterPoint Energy Transition Bond Company III, LLC. References to “CenterPoint Houston,” “the sponsor,” “the initial servicer” or “the seller” mean CenterPoint Energy Houston Electric, LLC. References to “CenterPoint Energy” mean CenterPoint Energy, Inc., the ultimate parent company of CenterPoint Houston. References to the “Bonds” or, unless the context otherwise requires, the “transition bonds” mean the transition bonds offered pursuant to the prospectus supplement. References to “the servicer” refer to CenterPoint Houston and any successor servicer under the servicing agreement referred to in this prospectus and references to the “integrated utility” mean Reliant Energy, Incorporated, the legal predecessor to CenterPoint Houston, as it existed prior to its restructuring and the onset of competition in the retail electric services market in Texas on January 1, 2002, as mandated by the 1999 utility restructuring amendments to the Public Utility Regulatory Act, as subsequently amended, which we refer to as the “Restructuring Act.” We refer to the geographical certificated service area of the integrated utility as it existed on May 1, 1999 as “CenterPoint Houston’s service territory,” within which CenterPoint Houston may recover qualified costs through nonbypassable transition charges assessed on retail electric customers within that area. Unless the context otherwise requires, the term “customer” means a retail end user of electricity and related services provided by a retail electric provider via the transmission and distribution system of an electric utility such as CenterPoint Houston. We also refer to the Public Utility Commission of Texas as the “P.U.C.T.” You can find a glossary of some of the other defined terms we use in this prospectus on page 88 of this prospectus.

You should rely only on the information contained or incorporated by reference in this prospectus and the prospectus supplement. We have not authorized anyone else to provide you with any different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell the transition bonds in any jurisdiction where the offer or sale is not permitted. The information in this prospectus is current only as of the date of this prospectus.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Some statements contained in this prospectus and the prospectus supplement concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are not historical facts, including statements in the documents that are incorporated by reference as discussed in this prospectus under the heading “Where You Can Find More Information,” are forward-looking statements within the meaning of the federal securities laws. Actual results may differ materially from those expressed or implied by these statements. In some cases, you can identify our forward-looking statements by the words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “goal,” “intend,” “may,” “objective,” “plan,” “potential,” “predict,” “projection,” “should,” “will,” or other similar words.

We have based our forward-looking statements on our management’s beliefs, expectations and assumptions based on information available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions and projections about future events may and often do vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by our forward-looking statements.

The following are some of the factors that could cause actual results to differ from those expressed or implied by our forward-looking statements:

- changes in market demand and demographic patterns;
- weather variations and other natural phenomena affecting retail electric customer energy usage in CenterPoint Houston’s service territory;
- state and federal legislative and regulatory actions or developments, including deregulation, re-regulation and changes in or application of laws or regulations applicable to various aspects of CenterPoint Houston’s business;
- the accuracy of the servicer’s forecast of electrical consumption or the payment of transition charges;
- non-payment of transition charges by retail electric providers;

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- the reliability of the systems, procedures and other infrastructure necessary to operate the retail electric business in CenterPoint Houston's service territory, including the systems owned and operated by the independent system operator in the Electric Reliability Council of Texas, Inc.;
- national or regional economic conditions affecting retail electric customer energy usage in CenterPoint Houston's service territory;
- acts of war or terrorism or other catastrophic events affecting retail electric customer energy usage in CenterPoint Houston's service territory; and
- other factors we discuss in this prospectus, any prospectus supplement and our other Securities and Exchange Commission filings.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to update or revise any forward-looking statement.

## PROSPECTUS SUMMARY

This summary contains a brief description of the transition bonds we may offer by use of this prospectus. You will find a more detailed description of the terms of the offering of the transition bonds following this summary and in the prospectus supplement.

*You should carefully consider the risk factors beginning on page 13 of this prospectus before you invest in the transition bonds.*

### Summary of the Transition Bonds

The issuing entity:	CenterPoint Energy Transition Bond Company III, LLC, a direct, wholly owned subsidiary of CenterPoint Houston and a limited liability company formed under Delaware law. We were formed solely to purchase and own transition property, to issue transition bonds secured by transition property and to perform any activity incidental thereto.
Our relationship with the PUCT:	<p>Pursuant to the financing order,</p> <ul style="list-style-type: none"><li>• the PUCT or its designated representative has a decision-making role co-equal with CenterPoint Houston with respect to the structuring and pricing of the transition bonds and all matters related to the structuring and pricing of the transition bonds will be determined through a joint decision of CenterPoint Houston and the PUCT or its designated representative,</li><li>• CenterPoint Houston is directed to take all necessary steps to ensure that the PUCT or its designated representative is provided sufficient and timely information to allow the PUCT or its designated representative to fully participate in, and exercise its decision making power over, the proposed securitization, and</li><li>• the servicer will file periodic adjustments to transition charges with the PUCT on our behalf.</li></ul> <p>We have agreed that certain reports concerning transition charge collections will be provided to the PUCT.</p>
Our address:	1111 Louisiana, Suite 4689A, Houston, Texas 77002
Our telephone number:	(713) 207-5747
The seller, initial servicer and sponsor of the transition property:	<p>CenterPoint Energy Houston Electric, LLC is a regulated electric transmission and distribution utility organized under Texas law. CenterPoint Houston is engaged in the transmission and distribution of electric energy in a 5,000 square-mile area of the Texas Gulf Coast that includes Houston. As of December 31, 2007, CenterPoint Houston provided electric transmission and distribution service to approximately 2 million metered customers in this area. CenterPoint Houston is an indirect, wholly owned subsidiary of CenterPoint Energy.</p> <p>CenterPoint Houston, acting as the initial servicer, and any successor servicer, referred to in this prospectus as the “servicer,” will service the transition property under the servicing agreement with us. CenterPoint Houston currently services under separate servicing agreements other transition property securing (i) the Series 2001-1 Transition Bonds issued by CenterPoint Energy Transition Bond Company, LLC, also a wholly owned subsidiary of CenterPoint Houston, which we refer to in this prospectus as “Transition Bond Company I” and (ii) the Senior Secured Transition Bonds, Series A, issued by CenterPoint Energy Transition Bond Company II, LLC,</p>

also a wholly owned subsidiary of CenterPoint Houston, which we refer to in this prospectus as “Transition Bond Company II.” Please read “Relationship to the Series 2001-1 Transition Bonds” and “Relationship to the Senior Secured Transition Bonds, Series A.”

CenterPoint Houston’s address:

1111 Louisiana, Houston, Texas 77002

CenterPoint Houston’s telephone number:

(713) 207-3000

The trustee:

The trustee for the transition bonds will be named in the prospectus supplement.

Transaction overview:

The Restructuring Act’s mandate to transition to a competitive electric market created stranded investment and other balances for electric utilities within the State of Texas. The Restructuring Act permits electric utilities to recover true-up balances through the issuance of transition bonds pursuant to and supported by an irrevocable financing order issued by the PUCT. The Restructuring Act also permits the PUCT to impose an irrevocable nonbypassable transition charge on all retail electric customers within a utility’s certificated service territory as it existed on May 1, 1999, for payment of the transition bonds. We refer to this area in this prospectus and the prospectus supplement, with regard to CenterPoint Houston and the integrated utility, as “CenterPoint Houston’s service territory.” The amount and terms for collections of these transition charges are governed by one or more financing orders issued to an electric utility by the PUCT. The Restructuring Act permits an electric utility to transfer its rights and interests under a financing order, including the right to impose, collect and receive transition charges, to a special purpose entity formed by the electric utility to issue debt securities secured by the right to receive revenues arising from the transition charges. The electric utility’s right to receive the transition charges, all revenues and collections resulting from the transition charges and its other rights and interests under a financing order, upon transfer to the issuing entity, constitute transition property. Under the Restructuring Act, transition property does not come into existence until an electric utility first transfers to an assignee or pledges in connection with the issuance of transition bonds its rights under a related financing order. However, for convenience of reference in this prospectus and the prospectus supplement, the transfer of CenterPoint Houston’s rights under such a financing order is sometimes referred to as the sale or purchase of transition property. References in this prospectus to a “financing order” are to a financing order of the PUCT as described above. Unless the context indicates otherwise, the reference is to the financing order issued by the PUCT on September 18, 2007 which is further described below.

On September 18, 2007, the PUCT issued a financing order to CenterPoint Houston authorizing the issuance of transition bonds in an aggregate amount not to exceed the Securitizable Balance as of the date the Bonds are issued and up-front qualified costs, subject to certain caps, as set forth in the financing order. Please read “CenterPoint Houston’s Financing Order” for a discussion of the qualified costs authorized in the financing order, which we refer to in this prospectus and the prospectus supplement as “qualified costs.”

The primary transactions underlying the offering of the transition bonds are as follows:

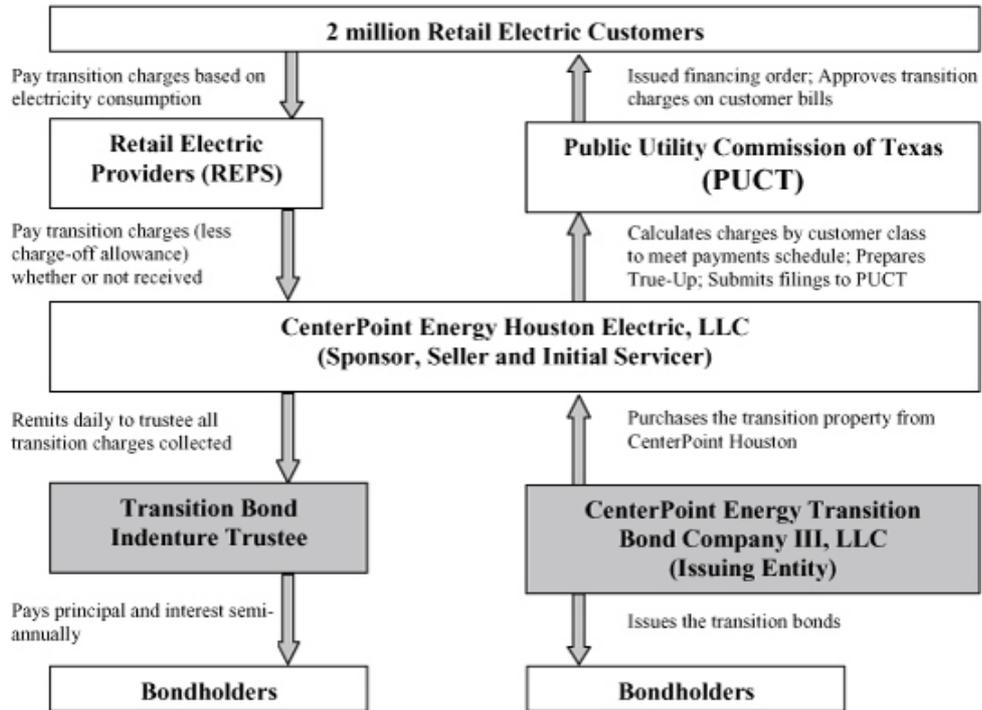
- CenterPoint Houston will sell transition property to us in exchange for the net proceeds from the sale of the transition bonds,
- We will sell the transition bonds, which will be secured primarily by the transition property, to the underwriters named in the prospectus supplement, and

- CenterPoint Houston will act as the initial servicer of the transition property.

The transition bonds are not obligations of the trustee, our managers, CenterPoint Houston, CenterPoint Energy or of any of their affiliates other than us. The transition bonds are also not obligations of the State of Texas or any governmental agency, authority or instrumentality of the State of Texas. Except in their capacity as retail electric customers with facilities in CenterPoint Houston's service territory, neither the State of Texas nor any political subdivision, agency, authority or instrumentality of the State of Texas, nor any other public or private entity, will be obligated to provide funds for the payment of the transition bonds.

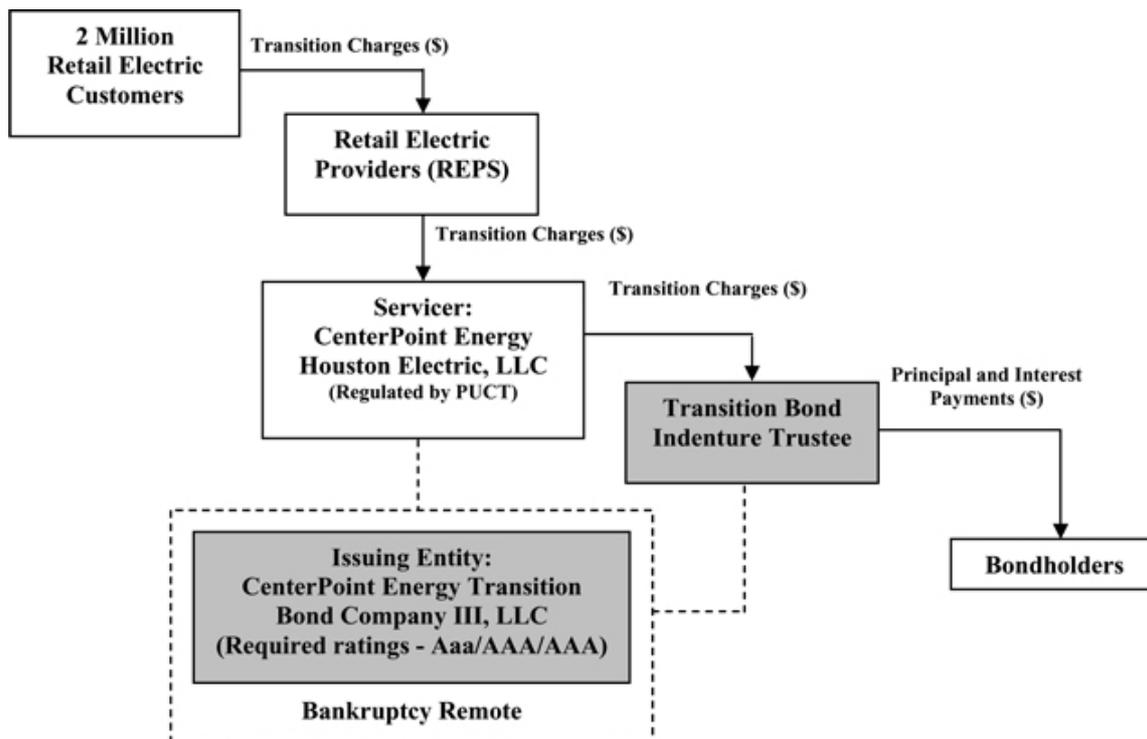
### Parties to Transaction and Responsibilities

The following chart represents a general summary of the parties to the transactions underlying the offering of the transition bonds, their roles and their various relationships to the other parties:



### Flow of Funds

The following chart represents a general summary of the flow of funds:



### The Collateral

The transition bonds will be secured under the indenture by the indenture's trust estate. The principal asset of the trust estate will be transition property, which is a present property right created under the Restructuring Act by a financing order issued by the PUCT. The indenture's trust estate will also consist of:

- our rights under the sale agreement pursuant to which we will acquire the transition property, under the administration agreement and under the bill of sale delivered by CenterPoint Houston pursuant to the sale agreement,
- our rights under the servicing agreement and any subservicing, agency, intercreditor or collection agreements executed in connection with such servicing agreement,
- the collection account for the transition bonds and all subaccounts of the collection account,
- our rights in all deposits, guarantees, surety bonds, letters of credit and other forms of credit support provided by or on behalf of retail electric providers pursuant to the financing order or tariff,
- all of our other property related to the transition bonds, other than any cash released to us by the trustee on any payment date from earnings on the capital subaccount,
- all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing, and
- all payments on or under and all proceeds in respect of any or all of the foregoing.

### **The Transition Property**

In general terms, all of the rights and interests of CenterPoint Houston under a financing order that are transferred to us pursuant to a sale agreement are referred to in this prospectus and the prospectus supplement as “transition property.” Transition property includes the right to impose, collect and receive transition charges in amounts sufficient to pay principal and interest and to make other deposits in connection with the transition bonds. Transition charges are payable by retail electric customers within CenterPoint Houston’s service territory, including the State of Texas and other governmental entities, who, subject to certain limitations specified in the Restructuring Act, consume electricity that is delivered through the distribution system or produced in new on-site generation. During the twelve months ended December 31, 2007, approximately 41% of CenterPoint Houston’s total deliveries were to industrial customers, approximately 27% were to commercial customers and approximately 32% were to residential and other customers. Except in their capacity as retail electric customers with facilities in CenterPoint Houston’s service territory, neither the State of Texas nor any political subdivision, agency, authority or instrumentality of the State of Texas, nor any other public or private entity, will be obligated to provide funds for the payment of the transition bonds.

The transition property is not a receivable, and the principal collateral securing the transition bonds will not be a pool of receivables. Transition charges authorized in a financing order are irrevocable and not subject to reduction, impairment, or adjustment by further action of the PUCT, except for annual and interim true-up adjustments to correct overcollections or undercollections and to provide for the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the transition bonds. Please read “CenterPoint Houston’s Financing Order—Statutory True-Ups.” All revenues and collections resulting from transition charges are part of the transition property with respect to the transition bonds.

We will purchase transition property from CenterPoint Houston to support the issuance of the transition bonds. The servicer will collect the applicable transition charges from “retail electric providers,” which are entities certified under Texas law that provide electricity and related services to retail electric customers within CenterPoint Houston’s service territory, and will remit the collections to the trustee. The retail electric providers will in turn bill and collect the transition charges from retail electric customers in CenterPoint Houston’s service territory. Each retail electric provider will include the transition charges in its bills to its retail electric customers but is not required to show the transition charges as a separate line item or footnote. However, each retail electric provider will be required to provide annual written notice to its customers that transition charges have been included in the customers’ bills.

Each retail electric provider will be required to pay the transition charges on or before the 35th day after it receives the bill from the servicer, less an agreed allowance for expected uncollectible amounts, whether or not the retail electric provider has collected all amounts owed to it by its retail electric customers. Prior to the date on which the retail electric provider remits the transition charges to the servicer, the transition charges may be commingled with the retail electric provider’s other funds. Please read “Risk Factors—Risks Associated With Potential Bankruptcy Proceedings of Retail Electric Providers,” “Retail Electric Providers” and “How a Bankruptcy May Affect Your Investment—Bankruptcy of a Retail Electric Provider” in this prospectus.

The servicer will have only limited rights to collect the transition charges directly from retail electric customers if a retail electric provider does not remit such payments to the servicer, but will have certain rights against the retail electric provider. Please read “Retail Electric Providers” in this prospectus. For information on how electric service to retail electric customers may be terminated, please read “Risk Factors—Servicing Risks—Limits on rights to terminate service might make it more difficult to collect the transition charges” in this prospectus. Because the amount of transition charge collections will largely depend on the amount of electricity consumed by customers within CenterPoint Houston’s service territory, the amount of collections may vary substantially from month to month and year to year. Please read “The Seller, Initial Servicer and Sponsor of the Transition Property” in this prospectus.

### **Interest Payments**

Interest on each tranche of the transition bonds will accrue from the date we issue the transition bonds at the interest rate stated for such tranche in the prospectus supplement. On each payment date, we will pay interest on each tranche of the transition bonds equal to the following amounts:

- if there has been a payment default, any interest payable but unpaid on any prior payment dates, together with interest on such unpaid interest, if any, and

- accrued interest on the principal balance of each tranche of the transition bonds as of the close of business on the preceding payment date or the date of the original issuance of the transition bonds, as applicable, after giving effect to all payments of principal made on the preceding payment date, if any.

We will pay interest on each tranche of the transition bonds before we pay the principal of any tranche of the transition bonds. Please read “The Transition Bonds—Payments of Interest and Principal on the Transition Bonds.” If there is a shortfall in the amounts available in the collection account to make interest payments, the trustee will distribute interest pro rata to each tranche of the transition bonds based on the amount of interest payable on each outstanding tranche. We will calculate interest on the basis of a 360-day year of twelve 30-day months.

#### **Principal Payments and Record Dates and Payment Sources**

On each payment date specified in the prospectus supplement for the transition bonds, referred to in this prospectus as a “payment date,” we will pay amounts then due or scheduled to be paid on the transition bonds from amounts available in the collection account and the related subaccounts held by the trustee. We will make these payments to the holders of record of the transition bonds on each record date specified in the prospectus supplement, referred to in this prospectus as a “record date.” These available amounts, which will include the applicable transition charges collected by the servicer for us since the last payment date, are described in greater detail under “The Transition Bonds—The Collection Account for the Transition Bonds.”

#### **Priority of Distributions**

On each payment date for the transition bonds, the trustee will allocate or pay all amounts on deposit in the general subaccount of the collection account in the following order of priority:

1. payment of the trustee’s fees, expenses and any outstanding indemnity amounts not to exceed a specified amount in any 12-month period, which amount will be fixed in the indenture,
2. payment of the servicing fee, the total amount of which will be fixed as specified in the servicing agreement, plus any unpaid servicing fees relating to the transition bonds from prior payment dates,
3. payment of the fees of our independent manager (which are billed annually), which will be in an amount specified in an agreement between us and our independent manager, and a pro rata portion of the administration fee, which will be a fixed amount specified in the administration agreement between us and CenterPoint Houston,
4. payment of all of our other ordinary periodic operating expenses relating to the transition bonds, such as accounting and audit fees, rating agency fees, legal fees and certain reimbursable costs of the administrator under the administration agreement and of the servicer under the servicing agreement,
5. payment of the interest then due on the transition bonds,
6. payment of the principal then required to be paid on the transition bonds at final maturity or upon acceleration upon an event of default,
7. payment of the principal then scheduled to be paid on the transition bonds, including any previously unpaid scheduled principal,
8. payment of any of our remaining unpaid operating expenses and any remaining amounts owed pursuant to the basic documents relating to the transition bonds, including all remaining indemnity amounts owed to the trustee,
9. replenishment of any amounts drawn from the capital subaccount for the transition bonds, including investment earnings in the capital subaccount for the transition bonds to the extent used for allocations and payments contemplated by clauses 1 through 8,

10. so long as no event of default has occurred and is continuing, release the investment earnings in the capital subaccount for the transition bonds to us,
11. allocation of the remainder, if any, to the excess funds subaccount for the transition bonds, and
12. after the transition bonds have been paid in full and discharged, the balance, together with all amounts in the capital subaccount and the excess funds account for the transition bonds, to us free and clear of the lien of the indenture.

The amount of the servicer's fee referred to in clause 2 above and the amount of the administration fee referred to in clause 3 will be described in the prospectus supplement. The priority of distributions for the collected transition charges, as well as available amounts in the subaccounts, are described in more detail under "The Transition Bonds—How Funds in the Collection Account Will Be Allocated," as well as in the prospectus supplement.

### **Credit Enhancement**

Credit enhancement for the transition bonds will be as follows:

- The PUCT will approve adjustments to the transition charges, but only upon petition of the servicer, to make up for any shortfall or reduce any excess in collected transition charges. We sometimes refer to these adjustments as the "true-up adjustments" or the "statutory true-up mechanism." These adjustments will be made at least annually, and semi-annually if necessary to ensure the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the transition bonds. Please read "CenterPoint Houston's Financing Order—Statutory True-Ups."
- Collection Account—Under the indenture, the trustee will hold a collection account for the transition bonds, divided into various subaccounts. The primary subaccounts for credit enhancement purposes are:
  - the general subaccount—the trustee will deposit into the general subaccount all transition charge collections remitted to it by the servicer with respect to the transition bonds and investment earnings on amounts in the general subaccount,
  - the capital subaccount—CenterPoint Houston will deposit an amount specified in the prospectus supplement into the capital subaccount for the transition bonds on the date of issuance of the transition bonds, and
  - the excess funds subaccount—any excess amount of collected transition charges for the transition bonds and investment earnings on amounts in the excess funds subaccount will be held in the excess funds subaccount.

Each of these subaccounts for the transition bonds will be available to make payments on the transition bonds on each payment date.

Retail electric providers in CenterPoint Houston's service territory that do not maintain a long-term, unsecured credit rating of not less than "BBB-" and "Baa3" (or the equivalent) from S&P and Moody's, respectively, are required to provide a cash deposit of two months' maximum expected transition charge collections, an affiliate guarantee, surety bond or letter of credit from an entity with such a credit rating providing for payment of such amount of transition charge collections in the event that the retail electric provider defaults in its payment obligations or a combination of any of the foregoing. If a retail electric provider defaults in making a payment of transition charges to the servicer and does not remedy the default within a 10 calendar-day grace period, amounts on deposit or available from other credit support (up to an amount of the lesser of the payment default of the retail electric provider or the amount of the deposit or other credit support amount) will be used to make payments in respect of the transition bonds. Please also read "Retail Electric Providers—Rating, Deposit and Related Requirements" and "—Remedies Upon Default."

Credit enhancement for the transition bonds is intended to protect you against losses or delays in scheduled payments on the transition bonds.

**State Pledge**

The State of Texas has pledged in the Restructuring Act that it will not take or permit any action that would impair the value of the transition property, or, except as permitted in connection with a true-up adjustment authorized by the Restructuring Act, reduce, alter or impair the transition charges until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the transition bonds, have been paid and performed in full. The transition bonds are not a debt or an obligation of the State of Texas, the PUCT or any other governmental agency or instrumentality and are not a charge on the full faith and credit or the taxing power of the State of Texas or any governmental agency or instrumentality.

**Optional Redemption**

We may not voluntarily redeem the transition bonds or any tranche thereof.

**Payment and Record Dates**

The payment and record dates for the transition bonds will be specified in the prospectus supplement.

### **Scheduled Final Payment Dates and Final Maturity Dates**

Failure to pay a scheduled principal payment on any payment date or the entire outstanding amount of the transition bonds of any tranche by the scheduled final payment date will not result in a default with respect to that tranche. The failure to pay the entire outstanding principal balance of the transition bonds of any tranche will result in a default only if such payment has not been made by the final maturity date for the tranche. We will specify the scheduled final payment date and the final maturity date of each tranche of the transition bonds in the prospectus supplement.

### **Ratings for the Transition Bonds**

It will be a condition of issuance for the transition bonds that the transition bonds be rated “Aaa” by Moody’s Investors Service, Inc., “AAA” by Standard and Poor’s, a division of The McGraw-Hill Companies, Inc. and “AAA” by Fitch, Inc. Please read “Ratings for the Transition Bonds” in this prospectus.

### **Reports to Transition Bondholders**

Pursuant to the indenture, the trustee will provide to the holders of record of the transition bonds regular reports prepared by the servicer containing information concerning, among other things, us and the collateral for the transition bonds. Unless and until the transition bonds are issued in definitive certificated form, the reports for the transition bonds will be provided to The Depository Trust Company. The reports will be available to beneficial owners of the transition bonds upon written request to the trustee or the servicer. These reports will not be examined and reported upon by an independent public accountant. In addition, no independent public accountant will provide an opinion thereon. Please read “The Transition Bonds— The Trustee Must Provide an Annual Report to All Transition Bondholders.”

### **Servicing Compensation**

We will pay the servicer on each payment date the servicing fee with respect to the transition bonds. As long as CenterPoint Houston or any affiliated entity acts as servicer, this fee will be 0.05% of the initial principal balance of the transition bonds on an annualized basis. If a successor servicer is appointed, the servicing fee will be negotiated by the successor servicer and the trustee, but will not, unless the PUCT consents, exceed 0.60% of the initial principal balance of the transition bonds on an annualized basis. In no event will the trustee be liable for any servicing fee in its individual capacity.

### **Prohibition from Issuing More than One Series of Transition Bonds**

Our amended and restated limited liability company agreement and the indenture will prohibit us from issuing any transition bonds (as such term is defined in the Restructuring Act) other than the transition bonds that we will offer pursuant to the prospectus supplement.

### **Federal Income Tax Status**

In the opinion of Baker Botts L.L.P., counsel to us and CenterPoint Houston, for United States federal income tax purposes, we will not be considered an entity separate from CenterPoint Energy and the transition bonds will constitute debt of CenterPoint Energy. This opinion is based upon guidance from the Internal Revenue Service and certain representations that we have made to tax counsel. If you purchase a transition bond, you agree to treat it as debt of CenterPoint Energy for United States federal income tax purposes. Please read “Material U.S. Federal Income Tax Consequences for the Transition Bondholders.”

### **ERISA Considerations**

Pension plans and other investors subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA), may acquire the transition bonds subject to specified conditions. The acquisition and holding of the transition bonds could be treated as a direct or indirect prohibited transaction under ERISA. Accordingly, by purchasing the transition bonds, each investor purchasing on behalf of a pension plan, or other investor subject to ERISA, will be deemed to certify that the purchase and subsequent holding of the transition bonds would be exempt from the prohibited transaction rules of ERISA. For further information regarding the application of ERISA, please read “ERISA Considerations.”

## RISK FACTORS

*Please carefully consider all the information we have included or incorporated by reference in this prospectus and the prospectus supplement, including the risks described below and the statements in “Cautionary Statement Regarding Forward-Looking Information,” before deciding whether to invest in the transition bonds.*

***You may experience material payment delays or incur a loss on your investment in the transition bonds because the source of funds for payment is limited.***

The only source of funds for payment of the transition bonds will be our assets, which consist of the transition property securing the transition bonds, including:

- the right to impose, collect and receive the transition charges;
- the funds on deposit in the accounts held by the trustee;
- our rights under various contracts we describe in this prospectus; and
- any credit enhancement as set forth in the prospectus supplement.

The transition bonds are not a charge on the full faith and credit or taxing power of the State of Texas or any governmental agency or instrumentality, nor will the transition bonds be insured or guaranteed by CenterPoint Houston, including in its capacity as the servicer, or by its ultimate parent, CenterPoint Energy, any of its affiliates (other than us), the trustee or by any other person or entity. Thus, you must rely for payment of the transition bonds solely upon collections of the transition charges, funds on deposit in the related accounts held by the trustee and any other credit enhancement described in the prospectus supplement. Our organizational documents restrict our right to acquire other assets unrelated to the transactions described in this prospectus. Please read “CenterPoint Energy Transition Bond Company III, LLC, The Issuing Entity” in this prospectus.

### **Risks Associated with Potential Judicial, Legislative or Regulatory Actions**

***We are not obligated to indemnify you for changes in law.***

Neither we nor CenterPoint Houston will indemnify you for any changes in the law, including any federal preemption or repeal or amendment of the Restructuring Act, that may affect the value of your transition bonds. CenterPoint Houston will agree in the sale agreement to institute any action or proceeding as may be reasonably necessary to block or overturn any attempts to cause a repeal, modification or amendment to the Restructuring Act that would be materially adverse to us, the trustee or transition bondholders. Please read “The Sale Agreement—CenterPoint Houston’s Covenants” in this prospectus. However, we cannot assure you that CenterPoint Houston would be able to take this action or that any such action would be successful.

***Future judicial action could reduce the value of your investment in the transition bonds.***

The transition property is the creation of the Restructuring Act and the financing order for the transition bonds that has been issued by the PUCT to CenterPoint Houston. There is uncertainty associated with investing in bonds payable from an asset that depends for its existence on legislation because there is limited judicial or regulatory experience implementing and interpreting the legislation. Because the transition property is a creation of the Restructuring Act, any judicial determination affecting the validity of or interpreting the Restructuring Act, the transition property or our ability to make payments on the transition bonds might have an adverse effect on the transition bonds. In June of 2001, the Supreme Court of the State of Texas upheld the constitutionality of certain securitization provisions of the Restructuring Act. Notwithstanding that decision, a federal or state court could be asked in the future to determine whether the relevant provisions of the Restructuring Act are unlawful or invalid. If the Restructuring Act is invalidated, the financing order authorizing us to issue these securities might also be invalidated.

Other states have passed electric utility deregulation laws similar to the Restructuring Act, and some of these laws have been challenged by judicial actions. To date, none of these challenges has succeeded, but future judicial challenges might be made. An unfavorable decision regarding another state’s law would not automatically invalidate the Restructuring Act or the financing order, but it might provoke a challenge to the Restructuring Act, establish a legal precedent for a successful challenge to the Restructuring Act or heighten awareness of the political and other risks of the transition bonds, and in that way may limit the liquidity and value of the transition bonds. Therefore, legal activity in other states may indirectly affect the value of your investment in the transition bonds.

***The federal government might preempt the Restructuring Act without full compensation.***

In the past, bills have been introduced in Congress that would prohibit the recovery of all or some types of stranded costs, but none of those bills was enacted. Congress could, however, pass a law or adopt a rule or regulation negating the existence of or reducing the value of the transition property.

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If federal legislation preempting the Restructuring Act or the financing order is enacted, there is no assurance that the courts would consider it a “taking” under the United States Constitution for which the government would be required to pay just compensation or, if it is considered a “taking,” that any amount provided as compensation would be sufficient to pay the full amount of principal of and interest on the transition bonds or to pay these amounts on a timely basis.

### ***Future state legislative action could reduce the value of your investment in the transition bonds.***

Despite its pledge in the Restructuring Act not to take or permit certain actions that would impair the value of the transition property or the transition charges, the Texas legislature might attempt to repeal or amend the Restructuring Act in a manner that limits or alters the transition property so as to reduce its value. For a description of the State’s pledge, please read “The Restructuring Act—CenterPoint Houston and Other Utilities May Securitize Qualified Costs” in this prospectus. It might be possible for the Texas legislature to repeal or amend the Restructuring Act notwithstanding the State’s pledge if the legislature acts in order to serve a significant and legitimate public purpose. Any such action, as well as the costly and time-consuming litigation that likely would ensue, might adversely affect the price and liquidity, the dates of payment of interest and principal and the weighted average lives of the transition bonds. Moreover, the outcome of any litigation cannot be predicted. Accordingly, you might incur a loss on or delay in recovery of your investment in the transition bonds.

If an action of the Texas legislature adversely affecting the transition property or the ability to collect transition charges were considered a “taking” under the United States or Texas Constitutions, the State of Texas might be obligated to pay compensation for the taking. However, even in that event, there is no assurance that any amount provided as compensation would be sufficient for you to recover fully your investment in the transition bonds or to offset interest lost pending such recovery.

Unlike the citizens of some other states, the citizens of the State of Texas currently do not have the constitutional right to adopt or revise state laws by initiative or referendum. Thus, absent an amendment of the Texas Constitution, the Restructuring Act cannot be amended or repealed by direct action of the electorate of the State of Texas.

The enforcement of any rights against the State of Texas or the PUCT under the State’s pledge may be subject to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against state and local governmental entities in Texas. These limitations might include, for example, the necessity to exhaust administrative remedies prior to bringing suit in a court, or limitations on type and locations of courts in which the State of Texas or the PUCT may be sued.

### ***The PUCT might take actions that could reduce the value of your investment in the transition bonds.***

The Restructuring Act provides that a financing order is irrevocable and that the PUCT may not directly or indirectly, by any subsequent action, rescind or amend a financing order or reduce or impair the transition charges authorized under a financing order, except for the true-up adjustments to the transition charges. However, the PUCT retains the power to adopt, revise or rescind rules or regulations affecting CenterPoint Houston. The PUCT also retains the power to interpret the financing order granted to CenterPoint Houston, and in that capacity might be called upon to rule on the meanings of provisions of the order that might need further elaboration. Any new or amended regulations or orders from the PUCT might affect the ability of the servicer to collect the transition charges in full and on a timely basis, the rating of the transition bonds or their price and, accordingly, the amortization of the transition bonds and their weighted average lives.

The servicer is required to file with the PUCT, on our behalf, certain adjustments of the transition charges. Please read “CenterPoint Houston’s Financing Order—Statutory True-Ups” and “—Adjustments to Allocation of Transition Charges” in this prospectus. True-up adjustment procedures have been challenged in the past and may be challenged in the future. Challenges to or delays in the true-up process might adversely affect the market perception and valuation of the transition bonds. Also, any litigation might materially delay transition charge collections due to delayed implementation of true-up adjustments and might result in missing payments or payment delays and lengthened weighted average life of the transition bonds.

## **Servicing Risks**

### ***Inaccurate consumption forecasting or unanticipated delinquencies or charge-offs might reduce scheduled payments on the transition bonds.***

The transition charges are generally assessed based on forecasted customer usage. The amount and the rate of transition charge collections will depend in part on actual electricity usage and the amount of collections and write-offs for each customer class. If the servicer inaccurately forecasts electricity consumption or uses inaccurate customer delinquency or charge-off data when setting or adjusting the transition charges, there could be a shortfall or material delay in transition charge collections, which might result in missed or delayed payments of principal and interest and lengthened weighted average life of the transition bonds. Please read “CenterPoint Houston’s Financing Order—Statutory True-Ups” and “—Adjustments to Allocation of Transition Charges” in this prospectus.

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In the past, the servicer, in connection with setting Transition Bond Company I's and Transition Bond Company II's transition charges, has experienced difficulties from time to time in making accurate forecasts of electricity consumption because of unexpected weather conditions. Inaccurate forecasting of electricity consumption by the servicer might result from, among other things, unanticipated weather or economic conditions, resulting in less electricity consumption than forecast; general economic conditions being worse than expected, causing retail electric customers to migrate from CenterPoint Houston's service territory or reduce their electricity consumption; the occurrence of a natural disaster, such as a hurricane, or an act of terrorism or other catastrophic event; unanticipated changes in the market structure of the electric industry; customers consuming less electricity than anticipated because of increased energy prices, unanticipated increases in conservation efforts or unanticipated increases in electric usage efficiency; or customers switching to alternative sources of energy, including self-generation of electric power.

The servicer's use of inaccurate delinquency or charge-off rates might result also from, among other things, unexpected deterioration of the economy or the occurrence of a natural disaster, an act of terrorism or other catastrophic event or the unanticipated declaration of a moratorium on terminating electric service to customers in the event of extreme weather, any of which would cause greater delinquencies or charge-offs than expected or force CenterPoint Houston or any retail electric providers to grant additional payment relief to more customers, or any other unanticipated change in law that makes it more difficult for CenterPoint Houston or retail electric providers to terminate service to nonpaying customers or that requires CenterPoint Houston or retail electric providers to apply more lenient credit standards in accepting retail electric customers.

### ***Your investment in the transition bonds depends on CenterPoint Houston or its successor or assignee, acting as servicer of the transition property.***

CenterPoint Houston, as servicer, will be responsible for, among other things, calculating, billing and collecting the transition charges from retail electric providers, submitting requests to the PUCT to adjust these charges, monitoring the collateral for the transition bonds and taking certain actions in the event of non-payment by a retail electric provider. The trustee's receipt of collections in respect of the transition charges, which will be used to make payments on the transition bonds, will depend in part on the skill and diligence of the servicer in performing these functions. The systems the State of Texas and servicer have in place for transition charge billings and collections might, in particular circumstances, cause the servicer to experience difficulty in performing these functions in a timely and completely accurate manner. CenterPoint Houston, as servicer of the transition charges of Transition Bond Company I, experienced some difficulties in 2002 in implementing and maintaining the systems and procedures required to perform the duties required of it by the servicing agreement relating to Transition Bond Company I. If the servicer fails to make collections for any reason, then the servicer's payments to the trustee in respect of the transition charges might be delayed or reduced. In that event, our payments on the transition bonds might be delayed or reduced.

### ***If we have to replace CenterPoint Houston as the servicer, we may experience difficulties finding and using a replacement servicer.***

If CenterPoint Houston ceases to service the transition property, it might be difficult to find a successor servicer. Also, any successor servicer might have less experience and ability than CenterPoint Houston and might experience difficulties in collecting transition charges and determining appropriate adjustments to the transition charges and billing and/or payment arrangements may change, resulting in delays or disruptions in collections. A successor servicer might charge fees that, while permitted under the financing order, are substantially higher than the fees paid to CenterPoint Houston as servicer. In the event of the commencement of a case by or against the servicer under the United States Bankruptcy Code or similar laws, we and the trustee might be prevented from effecting a transfer of servicing due to operation of the bankruptcy code. Any of these factors and others might delay the timing of payments and may reduce the value of your investment. Please read "The Servicing Agreement" in this prospectus.

### ***It might be difficult to collect transition charges from retail electric providers.***

As required by the Restructuring Act, retail electric customers will pay the transition charges to retail electric providers who supply them with electric power. The retail electric providers will be obligated to remit payments of the transition charges, less a specified percentage allowance for charge-offs of delinquent customer accounts, within 35 days of billing from the servicer, even if they do not collect the transition charges from retail electric customers. Please read "Retail Electric Providers" in this prospectus. Because the retail electric providers will bill most retail electric customers for the transition charges, we will have to rely on a relatively small number of entities for the collection of the bulk of the transition charges. As of December 31, 2007, CenterPoint Houston did business with approximately 70 retail electric providers. Reliant Energy, through its subsidiaries, is CenterPoint Houston's largest customer, accounting for approximately 48% of CenterPoint Houston's outstanding receivables from retail electric providers as of December 31, 2007.

Failure by the retail electric providers to remit transition charges to the servicer might cause delays in payments on the transition bonds and adversely affect your investment in the transition bonds. The servicer will not pay any shortfalls resulting from the failure of any retail electric provider to forward transition charge collections.

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Adjustments to the transition charges and any credit support provided by a retail electric provider, while available to compensate for a failure by a retail electric provider to pay the transition charges to the servicer, might not be sufficient to protect the value of your investment in the transition bonds. Please read “CenterPoint Houston’s Financing Order—Statutory True-ups” in this prospectus.

The Restructuring Act provides for one or more retail electric providers in each area to be designated the “provider of last resort” for that area or a specified customer classes. The provider of last resort is required to offer basic electric service to retail electric customers in its designated area, regardless of the creditworthiness of the customer. The provider of last resort might face greater difficulty in bill collection than other retail electric providers and therefore the servicer may face greater difficulty in collecting transition charges from the provider of last resort.

Retail electric providers may issue a single bill to individual retail customers that includes all charges related to the purchase of electricity, without separately itemizing the transition charge component of the bill. A retail electric provider’s use of a consolidated bill might increase the risk that customers who have claims against the retail electric provider will attempt to offset those claims against transition charges or increase the risk that, in the event of a bankruptcy of a retail electric provider, a bankruptcy court would find that the retail electric provider has an interest in the transition property and would make it more difficult to terminate the services of a bankrupt retail electric provider or collect transition charges from its customers.

### ***Competitive metering services might result in unexpected problems in receiving accurate metering data.***

Under the Restructuring Act, commercial and industrial retail customers that are required by ERCOT to have an interval data recorder meter may choose to own the settlement and billing meters that are used to measure electric energy delivered to their location or to have those meters owned by a retail electric provider, the transmission and distribution utility or another person authorized by the customer. As of December 31, 2007, CenterPoint Houston continued to provide metering services related to the installation and removal of meters, meter testing and calibration, data collection and data management. Should the PUCT allow third parties to perform those metering services in CenterPoint Houston’s service territory, there might be problems converting to the third party’s metering system, taking accurate meter readings and collecting and processing accurate metering data. Inaccurate metering data might lead to inaccuracies in the calculation and imposition of transition charges and might give rise to disputes between the servicer and retail electric providers regarding payments and payment shortfalls resulting in missing or delayed payments of principal and interest and lengthened weighted average life of the transition bonds.

### ***Changes to billing and collection practices might reduce the value of your investment in the transition bonds.***

The financing order specifies the methodology for determining the amount of the transition charges we may impose. The servicer may not change this methodology without approval from the PUCT. However, the servicer may set its own billing and collection arrangements with retail electric providers and retail electric customers, if any, from whom it collects transition charges directly, provided that these arrangements comply with the PUCT’s customer safeguards. For example, to recover part of an outstanding bill, the servicer may agree to extend a retail electric provider’s payment schedule or to write off the remaining portion of the bill, including the transition charges. Also, the servicer may change billing and collection practices, which might adversely impact the timing and amount of retail electric customer payments and might reduce transition charge collections, thereby limiting our ability to make scheduled payments on the transition bonds. Separately, the PUCT might require changes to these practices. Any changes in billing and collection practices regulations might make it more difficult for the servicer to collect the transition charges and adversely affect the value of your investment in the transition bonds. Please read “The Seller, Initial Servicer and Sponsor of the Transition Property—How CenterPoint Houston Forecasts the Number of Retail Electric Customers and the Amount of Electricity Usage” in this prospectus.

### ***Limits on rights to terminate service might make it more difficult to collect the transition charges.***

The financing order expressly provides that we may authorize the servicer to disconnect service for nonpayment of transition charges to the same extent as an electric utility. Moreover, if the servicer is billing customers for transition charges, the servicer may terminate transmission and distribution service to the customer for non-payment of transition charges pursuant to the applicable rules of the PUCT. Nonetheless, Texas statutory requirements and the rules and regulations of the PUCT, which may change from time to time, regulate and control the right to disconnect service. For example, retail electric providers generally may not terminate service to a customer (1) on a holiday or weekend day or the day immediately preceding a holiday or weekend, (2) during certain extreme weather conditions, (3) if such disconnection would cause a person to become seriously ill or more seriously ill, (4) if such customer is an energy assistance client under certain circumstances or (5) if the customer is a master-metered apartment complex unless certain notices are given. To the extent these retail electric customers do not pay for their electric service, retail electric providers will not be able to collect transition charges from these retail electric customers. Although retail electric providers will have to pay the servicer the transition charges on behalf of those customers (subject to any charge-off allowance and reconciliation rights), required service to non-paying customers could affect the ability of retail electric providers to make such payment.

***Future adjustments to the transition charges by customer class might result in insufficient collections.***

The customers who pay the transition charges are divided into customer classes. The transition charges will be allocated among customer classes and assessed in accordance with the formula required under the Restructuring Act and specified in the financing order. A shortfall in collections of the transition charges in one customer class may be corrected by making adjustments to the transition charges payable by that customer class and any other customer class. If enough customers in a class fail to pay the transition charges or cease to be customers, the servicer might have to substantially increase the transition charges for the remaining customers in that customer class and for other customer classes. This effect might be more extreme in the case of the large industrial and the interruptible customer classes, which consist of a small number of large customers. These increases could lead to further unanticipated failures by the remaining customers to pay the transition charges, thereby increasing the risk of a shortfall in funds to pay the transition bonds.

**Risks Associated with the Unusual Nature of the Transition Property**

***We will not receive the transition charges in respect of electric service provided more than 15 years from the date of issuance of the transition bonds.***

CenterPoint Houston will not be entitled to charge transition charges for electricity delivered after the fifteenth anniversary of the issuance of the transition bonds. If the collections from transition charges for electricity delivered through the fifteenth anniversary of the transition bonds, or from any credit enhancement funds, are not sufficient to repay the transition bonds in full, no other funds will be available to pay the unpaid balance due on the transition bonds.

***Foreclosure of the trustee's lien on the transition property securing the transition bonds might not be practical, and acceleration of the transition bonds before maturity might have little practical effect.***

Under the Restructuring Act and the indenture, the trustee or the transition bondholders have the right to foreclose or otherwise enforce the lien on the transition property securing the transition bonds. However, in the event of foreclosure, there is likely to be a limited market, if any, for the transition property. Therefore, foreclosure might not be a realistic or practical remedy. Moreover, although principal of the transition bonds will be due and payable upon acceleration of the transition bonds before maturity, the transition charges may not be accelerated and the nature of our business will result in principal of the transition bonds being paid as funds become available. If there is an acceleration of the transition bonds, all tranches of the transition bonds will be paid pro rata; therefore, some tranches might be paid earlier than expected and some tranches might be paid later than expected.

**Risks Associated with Potential Bankruptcy Proceedings of the Seller or the Servicer**

*For a detailed discussion of the following bankruptcy risks, please read “How a Bankruptcy May Affect Your Investment” in this prospectus.*

***The servicer will commingle the transition charges with other revenues it collects, which might obstruct access to the transition charges in case of the servicer’s bankruptcy and reduce the value of your investment in the transition bonds.***

The servicer will be required to remit collections to the trustee within two business days of receipt. The servicer will not segregate the transition charges from the other funds it collects from retail electric customers or retail electric providers or its general funds. The transition charges will be segregated only when the servicer pays them to the trustee.

Despite this requirement, the servicer might fail to pay the full amount of the transition charges to the trustee or might fail to do so on a timely basis. This failure, whether voluntary or involuntary, might materially reduce the amount of transition charge collections available to make payments on the transition bonds.

The Restructuring Act provides that our rights to the transition property are not affected by the commingling of these funds with any other funds of the servicer. In a bankruptcy of the servicer, however, a bankruptcy court might rule that federal bankruptcy law does not recognize our right to collections of the transition charges that are commingled with other funds of the servicer as of the date of bankruptcy. If so, the collections of the transition charges held by the servicer as of the date of bankruptcy would not be available to pay amounts owing on the transition bonds. In this case, we would have only a general unsecured claim against the servicer for those amounts. This decision could cause material delays in payments of principal or interest, or losses, on your transition bonds and could materially reduce the value of your investment in the transition bonds, particularly if it occurred in the fifteenth year of the transition bonds after the completion of which no transition charges can be charged. Please read “How a Bankruptcy May Affect Your Investment” in this prospectus.

***The bankruptcy of CenterPoint Houston or any successor seller might result in losses or delays in payments on the transition bonds.***

The Restructuring Act and the financing order provide that as a matter of Texas state law:

- the rights and interests of a selling utility under a financing order, including the right to impose, collect and receive transition charges, are contract rights of the seller,
- the seller may make a present transfer of its rights under a financing order, including the right to impose, collect and receive future transition charges that retail customers do not yet owe,
- upon the transfer to us, the rights will become transition property, and transition property constitutes a present property right, even though the imposition and collection of transition charges depend on further acts that have not yet occurred, and
- a transfer of the transition property from the seller, or its affiliate, to us that expressly states the transfer is a sale or other absolute transfer is a true sale of the transition property, not a pledge of the transition property to secure a financing by the seller.

Please read “The Restructuring Act” in this prospectus. These provisions are important to maintaining payments on the transition bonds in accordance with their terms during any bankruptcy of CenterPoint Houston. In addition, the transaction has been structured with the objective of keeping us legally separate from CenterPoint Houston and its affiliates in the event of a bankruptcy of CenterPoint Houston or any such affiliates.

A bankruptcy court generally follows state property law on issues such as those addressed by the state law provisions described above. However, a bankruptcy court does not follow state law if it determines that the state law is contrary to a paramount federal bankruptcy policy or interest. If a bankruptcy court in a CenterPoint Houston bankruptcy refused to enforce one or more of the state property law provisions described above, the effect of this decision on you as a beneficial owner of the transition bonds might be similar to the treatment you would receive in a CenterPoint Houston bankruptcy if the transition bonds had been issued directly by CenterPoint Houston. A decision by the bankruptcy court that, despite our separateness from CenterPoint Houston, our assets and liabilities and those of CenterPoint Houston should be consolidated would have a similar effect on you as a bondholder.

We have taken steps together with CenterPoint Houston, as the seller, to reduce the risk that in the event the seller or an affiliate of the seller were to become the debtor in a bankruptcy case, a court would order that our assets and liabilities be substantively consolidated with those of CenterPoint Houston or an affiliate. Nonetheless, these steps might not be completely effective, and thus if CenterPoint Houston or an affiliate of the seller were to become a debtor in a bankruptcy case, a court might order that our assets and liabilities be consolidated with those of CenterPoint Houston or an affiliate of the seller. This might cause material delays in payment of, or losses on, your transition bonds and might materially reduce the value of your investment in the transition bonds. For example:

- without permission from the bankruptcy court, the trustee might be prevented from taking actions against CenterPoint Houston or recovering or using funds on your behalf or replacing CenterPoint Houston as the servicer,

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- the bankruptcy court might order the trustee to exchange the transition property for other property, of lower value,
- tax or other government liens on CenterPoint Houston's property might have priority over the trustee's lien and might be paid from collected transition charges before payments on the transition bonds,
- the trustee's lien might not be properly perfected in the collected transition property collections prior to or as of the date of CenterPoint Houston's bankruptcy, with the result that the transition bonds would represent only general unsecured claims against CenterPoint Houston,
- the bankruptcy court might rule that neither our property interest nor the trustee's lien extends to transition charges in respect of electricity consumed after the commencement of CenterPoint Houston's bankruptcy case, with the result that the transition bonds would represent only general unsecured claims against CenterPoint Houston,
- we and CenterPoint Houston might be relieved of any obligation to make any payments on the transition bonds during the pendency of the bankruptcy case and might be relieved of any obligation to pay interest accruing after the commencement of the bankruptcy case,
- CenterPoint Houston might be able to alter the terms of the transition bonds as part of its plan of reorganization,
- the bankruptcy court might rule that the transition charges should be used to pay, or that we should be charged for, a portion of the cost of providing electric service, or
- the bankruptcy court might rule that the remedy provisions of the sale agreement are unenforceable, leaving us with an unsecured claim for actual damages against CenterPoint Houston that may be difficult to prove or, if proven, to collect in full.

Furthermore, if CenterPoint Houston enters bankruptcy proceedings, it might be permitted to stop acting as servicer and it may be difficult to find a third party to act as servicer. The failure of the servicer to perform its duties or the inability to find a successor servicer might cause payment delays or losses on your investment in the transition bonds. Also, the mere fact of a servicer or seller bankruptcy proceeding might have an adverse effect on the resale market for the transition bonds and on the value of the transition bonds.

***The sale of the transition property might be construed as a financing and not a sale in a case of CenterPoint Houston's bankruptcy which might delay or limit payments on the transition bonds.***

The Restructuring Act provides that the characterization of a transfer of transition property as a sale or other absolute transfer will not be affected or impaired by treatment of the transfer as a financing for federal or state tax purposes or financial reporting purposes. We and CenterPoint Houston will treat the transaction as a sale under applicable law, although for financial reporting and state income and franchise tax purposes the transaction is intended to be treated as a financing. In the event of a bankruptcy of CenterPoint Houston, a party in interest in the bankruptcy might assert that the sale of the transition property to us was a financing transaction and not a "sale or other absolute transfer" and that the treatment of the transaction for financial reporting and tax purposes as a financing and not a sale lends weight to that position. If a court were to characterize the transaction as a financing, we expect that we would, on behalf of ourselves and the trustee, be treated as a secured creditor of CenterPoint Houston in the bankruptcy proceedings, although a court might determine that we only have an unsecured claim against CenterPoint Houston. Please read "The servicer will commingle the transition charges with other revenues it collects, which might obstruct access to the transition charges in case of the servicer's bankruptcy and reduce the value of your investment in the transition bonds" above. Even if we had a security interest in the transition property, we would not likely have access to the transition charge collections during the bankruptcy and would be subject to the risks of a secured creditor in a bankruptcy case, including the possible bankruptcy risks described in the immediately preceding risk factor. As a result, repayment of the transition bonds might be significantly delayed and a plan of reorganization in the bankruptcy might permanently modify the amount and timing of payments to us of the transition charge collections and therefore the amount and timing of funds available to us to pay transition bondholders.

***If the servicer enters bankruptcy proceedings, the collections of the transition charges held by the servicer as of the date of bankruptcy might constitute preferences, which means these funds might be unavailable to pay amounts owing on the transition bonds.***

In the event of a bankruptcy of the servicer, a party in interest might take the position that the remittance of funds prior to bankruptcy of the servicer, pursuant to the servicing agreement or intercreditor agreement, constitutes a preference under bankruptcy law if the remittance of those funds was deemed to be paid on account of a preexisting debt. If a court were to hold that the remittance of funds constitutes a preference, any such remittance within 90 days of the filing of the bankruptcy petition could be avoidable, and the funds could be required to be returned to the bankruptcy estate of the servicer. To the extent that transition charges have been

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commingled with the general funds of the servicer, the risk that a court would hold that a remittance of funds was a preference would increase. Also, we or the servicer may be considered an “insider” with any retail electric provider that is affiliated with us or the servicer. If the servicer or we are considered to be an “insider” of the retail electric provider, any such remittance made within one year of the filing of the bankruptcy petition could be avoidable as well if the court were to hold that such remittance constitutes a preference. In either case, we or the trustee would merely be an unsecured creditor of the servicer. If any funds were required to be returned to the bankruptcy estate of the servicer, we would expect that the amount of any future transition charges would be increased through the statutory true-up mechanism to recover such amount.

### ***Claims against CenterPoint Houston or any successor seller might be limited in the event of a bankruptcy of the seller.***

If the seller were to become a debtor in a bankruptcy case, claims, including indemnity claims, by us against the seller under the sale agreement and the other documents executed in connection with the sale agreement would be unsecured claims and would be disposed of in the bankruptcy case. In addition, the bankruptcy court might estimate any contingent claims that we have against the seller and, if it determines that the contingency giving rise to these claims is unlikely to occur, estimate the claims at a lower amount. A party in interest in the bankruptcy of the seller might challenge the enforceability of the indemnity provisions in a sale agreement. If a court were to hold that the indemnity provisions were unenforceable, we would be left with a claim for actual damages against the seller based on breach of contract principles, which would be subject to estimation and/or calculation by the court. We cannot give any assurance as to the result if any of the above-described actions or claims were made. Furthermore, we cannot give any assurance as to what percentage of their claims, if any, unsecured creditors would receive in any bankruptcy proceeding involving the seller.

### ***The bankruptcy of CenterPoint Houston or any successor seller might limit the remedies available to the trustee.***

Upon an event of default for the transition bonds under the indenture, the Restructuring Act permits the trustee to enforce the security interest in the transition property in accordance with the terms of the indenture. In this capacity, the trustee is permitted to request the PUCT or a Travis County, Texas district court to order the sequestration and payment to bondholders of all revenues arising with respect to the transition property. There can be no assurance, however, that the PUCT or the Travis County, Texas district court would issue this order after a CenterPoint Houston bankruptcy in light of the automatic stay provisions of Section 362 of the United States Bankruptcy Code. In that event, the trustee would be required to seek an order from the bankruptcy court lifting the automatic stay to permit this action by the Texas court, and an order requiring an accounting and segregation of the revenues arising from the transition property. There can be no assurance that a court would grant either order.

### **Risks Associated with Potential Bankruptcy Proceedings of Retail Electric Providers**

***Retail electric providers may commingle the transition charges with other revenues they collect. This may cause losses on or reduce the value of your investment in the transition bonds in the event a retail electric provider enters bankruptcy proceedings.***

A retail electric provider is not required to segregate from its general funds the transition charges it collects, but will be required to remit to the servicer amounts billed to it for transition charges, less an amount relating to expected customer charge-offs, within 35 days of the billing by the servicer. A retail electric provider nevertheless might fail to remit the full amount of the transition charges owed to the servicer or might fail to do so on a timely basis. This failure, whether voluntary or involuntary, might materially reduce the amount of transition charge collections available on the next payment date to make timely payments on the transition bonds.

The Restructuring Act provides that our rights to the transition property are not affected by the commingling of these funds with other funds. In a bankruptcy of a retail electric provider, however, a bankruptcy court might rule that federal bankruptcy law takes precedence over the Restructuring Act and does not recognize our right to receive the collected transition charges that are commingled with other funds of a retail electric provider as of the date of bankruptcy. If so, the collections of the transition charges held by a retail electric provider as of the date of bankruptcy would not be available to pay amounts owing on the transition bonds. In this case, we would have only a general unsecured claim against the retail electric provider for those amounts. This decision might cause material delays in payments of principal or interest or losses on your transition bonds and could materially reduce the value of your investment in the transition bonds, particularly if it occurred in the fifteenth year of the transition bonds after the completion of which no transition charges can be charged. Please read “How a Bankruptcy May Affect Your Investment” in this prospectus.

***If a retail electric provider enters bankruptcy proceedings, any cash deposit of the retail electric provider held by the trustee might not be available to cover amounts owed by the retail electric provider.***

If a retail electric provider does not have the credit rating required by the financing order, it may nevertheless qualify to act as a retail electric provider if, among other alternatives, it provides a cash deposit equal to two months’ maximum expected transition charge collections. Please read “Retail Electric Providers” in this prospectus. That cash deposit will be held by the trustee under the indenture. However, it is unclear whether the Restructuring Act creates a lien on the cash deposit in favor of the trustee. If the retail electric provider becomes bankrupt, the trustee would be stayed from applying that cash deposit to cover amounts owed by the retail electric provider, and the trustee might be required to return that cash deposit to the retail electric provider’s bankruptcy estate if the

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bankruptcy court determines there is no valid right of set-off or recoupment. In that case, the issuing entity might only have an unsecured claim for any amounts owed by the retail electric provider in the retail electric provider's bankruptcy proceedings. Three retail electric providers with which CenterPoint Houston has done business have filed for bankruptcy. CenterPoint Houston, as servicer under the transition bonds issued by Transition Bond Company I and Transition Bond Company II, was able to recover the full amount or a substantial majority of the transition charges relating to those transition bonds from cash deposits or a combination of cash deposits and payments from these retail electric providers, but there is no assurance that CenterPoint Houston will be able to recover such amounts from any bankrupt retail electric providers in the future. For additional information regarding the bankruptcies of these retail electric providers, please read "The Seller, Initial Servicer and Sponsor of the Transition Property—Customer Classes—Relationship With Retail Electric Providers."

***If a retail electric provider enters bankruptcy proceedings, transition charge payments made by that retail electric provider to the servicer might constitute preferences, and the servicer may be required to return such funds to the bankruptcy estate of the retail electric provider.***

In the event of a bankruptcy of a retail electric provider, a party in interest might take the position that the remittance of funds by the retail electric provider to the servicer, pursuant to the financing order, prior to bankruptcy constitutes a preference under bankruptcy law if the remittance of those funds was deemed to be paid on account of a preexisting debt. If a court were to hold that the remittance of funds constitutes preferences, any remittance of such funds made within 90 days of the filing of the bankruptcy petition might be avoidable, and the funds might be required to be returned to the bankruptcy estate of the retail electric provider by us or the servicer. To the extent that transition charges have been commingled with the general funds of the retail electric provider, the risk that a court would hold that a remittance of funds was a preference would increase. Also, we or the servicer might be considered an "insider" with any retail electric provider that is affiliated with us or the servicer. If the servicer or we are considered to be an "insider" of the retail electric provider, any such remittance made within one year of the filing of the bankruptcy petition could be avoidable as well if the court were to hold that such remittance constitutes a preference. In either case, we or the servicer would merely be an unsecured creditor of the retail electric provider. If any funds were required to be returned to the bankruptcy estate of the retail electric provider, we would expect that the amount of any future transition charges would be increased through the statutory true-up mechanism to recover the amount returned.

Furthermore, the mere fact of a retail electric provider bankruptcy proceeding could have an adverse effect on the resale market for the transition bonds and on the value of the transition bonds. Please read "How a Bankruptcy May Affect Your Investment" in this prospectus.

### **Other Risks Associated with an Investment in the Transition Bonds**

***CenterPoint Houston's indemnification obligations under the sale and servicing agreements are limited and might not be sufficient to protect your investment in the transition bonds.***

CenterPoint Houston is obligated under the sale agreement to indemnify us and the trustee, for itself and on behalf of the transition bondholders, only in specified circumstances and will not be obligated to repurchase any transition property in the event of a breach of any of its representations, warranties or covenants regarding the transition property. Similarly, CenterPoint Houston is obligated under the servicing agreement to indemnify us, the trustee, for itself and on behalf of the transition bondholders, and the PUCT only in specified circumstances. Please read "The Sale Agreement" and "The Servicing Agreement" in this prospectus.

Neither the trustee nor the transition bondholders will have the right to accelerate payments on the transition bonds as a result of a breach under the sale agreement or the servicing agreement, absent an event of default under the indenture as described in "The Transition Bonds—What Constitutes an Event of Default on the Transition Bonds." Furthermore, CenterPoint Houston might not have sufficient funds available to satisfy its indemnification obligations under these agreements, and the amount of any indemnification paid by CenterPoint Houston might not be sufficient for you to recover all of your investment in the transition bonds. In addition, if CenterPoint Houston becomes obligated to indemnify transition bondholders, the ratings on the transition bonds will likely be downgraded as a result of the circumstances causing the breach and the fact that transition bondholders will be unsecured creditors of CenterPoint Houston with respect to any of these indemnification amounts.

***CenterPoint Houston's ratings might affect the market value of the transition bonds.***

A downgrading of the credit ratings on the debt of CenterPoint Houston might have an adverse effect on the market value of your transition bonds.

***Alternatives to purchasing electricity through CenterPoint Houston's distribution facilities may be more widely utilized by retail electric customers in the future.***

Broader use of distributed generation by retail electric customers may result from customers' changing perceptions of the merits of utilizing existing generation technology or from technological developments resulting in smaller-scale, more fuel efficient, more

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environmentally friendly and/or more cost effective distributed generation. Electric customers within CenterPoint Houston's service territory whose load is served by an on-site power production facility with a rated capacity of 10 megawatts or less are not required to pay transition charges under the Restructuring Act except for transition charges associated with services actually provided by the transmission and distribution utility. Therefore, more widespread use of distributed generation might allow greater numbers of retail customers to reduce or eliminate their payment of transition charges causing transition charges to remaining customers to increase.

### ***The absence of a secondary market for the transition bonds might limit your ability to resell your transition bonds.***

The underwriters for the transition bonds might assist in resales of the transition bonds, but they are not required to do so. A secondary market for the transition bonds might not develop. If a secondary market does develop, it might not continue or it might not be sufficiently liquid to allow you to resell any of your transition bonds. Please read "Plan of Distribution for the Transition Bonds" in this prospectus.

### ***You might receive principal payments for the transition bonds later than you expect.***

The amount and the rate of collection of the transition charges, together with the transition charge adjustments, will generally determine whether there is a delay in the scheduled repayments of transition bond principal. If the servicer collects the transition charges at a slower rate than expected from any retail electric provider, it might have to request adjustments of the transition charges. If those adjustments are not timely and accurate, you might experience a delay in payments of principal and interest and a decrease in the value of your investment in the transition bonds. Please read "The Transition Bonds" in this prospectus.

### ***Other subsidiaries or affiliates of CenterPoint Houston may issue bonds similar to the transition bonds in the future without your prior review or approval.***

CenterPoint Houston may sell transition property created pursuant to a financing order it may obtain in the future, to other subsidiaries or affiliates of CenterPoint Houston in connection with the issuance of other transition bonds in the future without your prior review or approval. In the event a retail electric provider does not pay in full all amounts owed under any bill, including transition charges for the transition bonds and other similar transition bonds, the amount remitted shall first be allocated ratably among the transition charges relating to all such transition bonds and other fees and charges (including transition charges, delivery charges, nuclear decommissioning charges and other fees and charges) other than late fees, and second, any remaining portion of the remittance shall be attributed to late fees. We cannot assure you that the issuance of additional bonds similar to the transition bonds would not cause reductions or delays in payments on the transition bonds.

## **THE RESTRUCTURING ACT**

### **The Restructuring Act's General Effect on the Electric Utility Industry in Texas**

*An Overview of the Restructuring Act.* The Restructuring Act was enacted by the Texas legislature in June 1999 and became effective on September 1, 1999 and was last amended in June 2007. The Restructuring Act substantially amended the regulatory structure governing electric utilities in Texas in order to transition to a competitive electric market, thereby creating stranded investment and other balances for electric utilities within the State of Texas. The Restructuring Act, among other things,

- authorized competition in the retail electric market and the electricity generation market for electricity beginning in January 2002, and in some instances sooner,
- required a rate freeze for all retail electric customers until January 2002, and access to certain reduced rates for residential and small commercial retail electric customers through the so-called "price to beat" mechanism for up to five years thereafter,
- permits electric utilities to recover all true-up balances through the issuance of transition bonds pursuant to and supported by an irrevocable financing order issued by the PUCT,
- permits the PUCT to impose an irrevocable nonbypassable transition charge on all retail electric customers within a utility's certificated service territory as it existed on May 1, 1999, for payment of transition bonds, and

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- provided for a proceeding in 2004 to determine the recoverable stranded cost and other true-up balances.

*Unbundling.* Each electric utility was required to separate its customer-related energy services activities that are otherwise already widely available in the competitive market from its regulated activities by September 1, 2000. By January 1, 2002, each electric utility was required to separate its business into the following units:

- a power generation company,
- a retail electric provider, and
- a transmission and distribution utility or separate transmission and distribution utilities.

A power generation company generates electricity that is intended to be sold at wholesale. In general, a power generation company may not own a transmission or distribution facility and may not have a certificated service territory. A retail electric provider sells electric energy to retail electric customers. A retail electric provider may not own or operate generation assets. A transmission and distribution utility owns or operates facilities to transmit or distribute electricity. Pursuant to the unbundling provisions of the Restructuring Act, the terms of a business separation plan approved by the PUCT and separation agreements among the companies, the integrated electric utility business of the integrated utility that was a predecessor of CenterPoint Houston was split among three separate companies. Texas Genco, LP was, until December 2004, the power generation company which owned and operated the electric generation assets formerly owned by the integrated utility and sold electricity in wholesale transactions. CenterPoint Houston is a transmission and distribution utility that now owns and operates the transmission and distribution facilities used to transmit and distribute electricity. Reliant Energy Retail Services, LLC and Reliant Energy Solutions, LLC are the retail electric providers that succeeded to the retail customers which, prior to January 2002, had been served by the integrated utility. CenterPoint Houston is a wholly owned indirect subsidiary of CenterPoint Energy. In December 2004 and April 2005, all of Texas Genco, LP's generation assets were sold to third parties in a two-step transaction. Reliant Energy Retail Services and Reliant Energy Solutions are wholly owned subsidiaries of Reliant Energy, Inc. ("Reliant Energy"), formerly Reliant Resources, Inc., which was formed as a subsidiary of the integrated utility and the equity of which was then either sold or distributed to the public in connection with the business separation plan. Reliant Energy and CenterPoint Energy have no overlapping board members or executive officers, and neither owns any stock in the other.

*Retail Competition.* Beginning in January 2002, all retail electric customers in most of Texas, including the area historically served by the integrated utility, were able to choose their own retail electric provider. Any customer in the CenterPoint Houston service territory that has not chosen a new retail electric provider is served by Reliant Energy Retail Services and Reliant Energy Solutions. As of December 31, 2007, there were approximately 70 retail electric providers providing electric service in CenterPoint Houston's service territory. Reliant Energy Retail Services and Reliant Energy Solutions are the largest retail electric providers in CenterPoint Houston's service territory. Together, the retail electric providers owned by Reliant Energy accounted for approximately 45% of the total retail kWh billed by CenterPoint Houston for the twelve months ended December 31, 2007.

The PUCT designates each year "providers of last resort" for each customer class in each service territory in the state. The providers of last resort are required to offer a standard retail service package for their class of retail electric customers at a fixed rate approved by the PUCT. Each provider of last resort is required to offer the service to any retail electric customer in the class it serves in that service territory who requests service, whose selected retail electric provider goes out of business. The PUCT has designated a number of providers of last resort for each customer class in CenterPoint Houston's service territory for the 2007-2008 term.

Under the Restructuring Act, commercial and industrial retail customers that are required by ERCOT to have an interval data recorder meter are able to choose to own the settlement and billing meters that are used to measure electric energy delivered to their location or to have those meters owned by a retail electric provider, the transmission and distribution utility or another person authorized by the customer. As of December 31, 2007, however, no such commercial or industrial retail customer has requested competitive metering services. Whether or not the commercial or industrial retail customer chooses an alternative meter owner, until the PUCT authorizes otherwise, CenterPoint Houston will continue to provide metering services related to the installation and removal of meters, meter maintenance, meter testing and calibration, data collection and data management, including the transfer of meter data to ERCOT. The PUCT's rules require ERCOT to file with the PUCT quarterly updates as to the operational readiness of the support systems necessary for the PUCT to authorize an entity other than the transmission and distribution utility to provide these metering services. For residential and nonresidential customers other than those required by ERCOT to have an interval data recorder meter within CenterPoint Houston's service territory, metering services shall continue to be provided by CenterPoint Houston.

### **Recovery of Qualified Costs for CenterPoint Houston and Other Texas Utilities**

The Restructuring Act allows utilities to recover certain costs associated with the transition to competitive retail electric markets in Texas. Final determination of the amount of utilities' recoverable transition costs was required to be made by the PUCT in a final true-up proceeding in 2004. In CenterPoint Houston's case, the PUCT issued an order on December 17, 2004 determining that CenterPoint Houston is entitled pursuant to the Restructuring Act to recover approximately \$2.3 billion plus the principal portion of all excess mitigation credits provided by CenterPoint Houston after August 31, 2004, plus interest accrued after August 31, 2004 on certain balances until collected. Of this principal balance, approximately \$1.343 billion plus the principal portion of all excess

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mitigation credits provided by CenterPoint Houston after August 31, 2004 represents stranded costs and approximately \$150 million represents regulatory assets. The remaining amount represents other recoverable true-up balances. The Restructuring Act originally provided for recovery of stranded costs and regulatory assets as determined in the final true-up proceeding through nonbypassable competition transition charges on retail electric customers' bills or through issuance of transition bonds to be paid and secured by nonbypassable transition charges. The PUCT determined that under the original wording of the Restructuring Act the other true-up balances could not be securitized and could only be collected through competition transition charges imposed on retail electric customers. However, effective June 15, 2007, the Restructuring Act was amended to permit the recovery of the entire true-up balance through the issuance of transition bonds, including true-up amounts that CenterPoint Houston is currently recovering through competition transition charges. The amounts the PUCT approved for recovery by CenterPoint Houston in the PUCT's order dated December 17, 2004 may be affected by rulings the courts have made in the appellate process. That process is continuing; however, under the terms of the financing order, the ultimate resolution of those appeals would not affect the transition bonds, the transition charges or the transition property.

### **CenterPoint Houston and Other Utilities May Securitize Qualified Costs**

*We May Issue Transition Bonds to Recover CenterPoint Houston's Qualified Costs.* The Restructuring Act authorizes the PUCT to issue financing orders approving the issuance of transition bonds to recover certain qualified costs of an electric utility. A utility, its successors or a third-party assignee of a utility may issue transition bonds. Under the Restructuring Act, proceeds of transition bonds must be used to reduce the amount of recoverable transition costs through the refinancing or retirement of the electric utility's debt or equity and the payment of up-front qualified costs. The transition bonds are secured by, and payable from, transition property, which includes the right to impose, collect and receive transition charges, and may have a maximum maturity of 15 years. The amounts of transition charges must be allocated to customer classes based in part on the methodology used to allocate the costs of the underlying assets in the utility's most recent PUCT order addressing rate design and in part based on the energy consumption of the customer classes. Transition charges can be imposed only when and to the extent that transition bonds are issued.

The Restructuring Act contains a number of provisions designed to facilitate the securitization of qualified costs.

*Creation of Transition Property.* Under the Restructuring Act, transition property is created when the rights and interests of an electric utility or successor under a financing order, including the right to impose, collect and receive transition charges authorized in the financing order, are first transferred to an assignee, such as us, or pledged in connection with the issuance of transition bonds.

*A Financing Order is Irrevocable.* A financing order, once effective, together with the transition charges authorized in the financing order, is irrevocable and not subject to reduction, impairment or adjustment by the PUCT except for adjustments pursuant to the Restructuring Act in order to correct overcollections or undercollections and to provide that sufficient funds are available to timely provide for payments of debt service and other required amounts in connection with the related series of transition bonds. Although a financing order is irrevocable, the Restructuring Act allows applicants to apply for one or more new financing orders to provide for retiring and refunding of transition bonds if such retirement or refunding would result in lower transition charges.

*The State Pledge.* Under the Restructuring Act, the State of Texas has pledged, for the benefit and protection of transition bondholders and the electric utilities covered by the Restructuring Act, that it will not take or permit any action that would impair the value of the transition property or, except for adjustments discussed in "CenterPoint Houston's Financing Order—Statutory True-ups," reduce, alter or impair the transition charges to be imposed, collected and remitted to transition bondholders, until the principal, interest and premium, if any, and any other charges incurred and contracts to be performed in connection with the transition bonds have been paid and performed in full. For a description of risks related to the enforcement of this pledge, please read "Risks Associated with Potential Judicial, Legislative or Regulatory Actions" in this prospectus.

*Constitutional Matters.* To date, no federal or Texas cases addressing the repeal or amendment of securitization provisions analogous to those contained in the Restructuring Act have been decided. There have been cases in which federal courts have applied the Contract Clause of the United States Constitution and Texas courts have applied the Contract Clause of the Texas Constitution to strike down legislation regarding similar matters, such as legislation reducing or eliminating taxes, public charges or other sources of revenues servicing other types of bonds issued by public instrumentalities or private issuers, or otherwise substantially impairing or eliminating the security for bonds or other indebtedness. Based upon this case law, Baker Botts L.L.P., counsel to CenterPoint Houston and us, expects to deliver an opinion prior to the closing of the offering of the transition bonds to the effect that the pledge described above creates a binding contractual obligation for purposes of the Contract Clauses of the United States and Texas constitutions, and provides a basis upon which the bondholders (or the trustee acting on their behalf) could challenge successfully, under the Contract Clauses of the United States and Texas constitutions, the constitutionality of any action by the State of Texas (including the PUCT) of a legislative character, including the repeal or amendment of the securitization provisions of the Restructuring Act, that a court would determine violates the pledge described above in a way that would substantially reduce, alter or impair the value of the transition property or substantially reduce, alter or impair the transition charges, unless such action is a reasonable exercise of the sovereign powers of the State of Texas and of a character reasonable and appropriate to the public purpose justifying such action. It may be possible for the Texas legislature to repeal or amend the Restructuring Act or the PUCT to amend or revoke the financing order notwithstanding the State's pledge, if the legislature or the PUCT acts in order to serve a significant and legitimate public purpose, such as protecting the public health and safety or responding to a national or regional catastrophe affecting CenterPoint Houston's service territory, or if the legislature otherwise acts in the valid exercise of the state's police power.

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In addition, any action of the Texas legislature adversely affecting the transition property or the ability to collect transition charges may be considered a “taking” under the United States or Texas Constitutions. Baker Botts L.L.P. has advised us that it is not aware of any federal or Texas court cases addressing the applicability of the Takings Clause of the United States or Texas Constitution in a situation analogous to that which could be involved in an amendment or repeal of the Restructuring Act. It is possible that a court would decline even to apply a Takings Clause analysis to a claim based on an amendment or repeal of the Restructuring Act, since, for example, a court might determine that a Contract Clause analysis rather than a Takings Clause analysis should be applied. Assuming a Takings Clause analysis were applied under the United States or Texas Constitution, Baker Botts L.L.P. expects to render an opinion prior to the closing of the offering of the transition bonds to the effect that under existing case law, if a court concludes that the transition property is protected by the Takings Clause of the United States or Texas Constitution, it would find a compensable taking if the State were to enact a law that, without paying just compensation to the transition bondholders (i) permanently appropriates the transition property or denies all economically productive use of the transition property; or (ii) destroys the transition property, other than in response to emergency conditions; or (iii) substantially reduces, alters or impairs the value of the transition property, if the law unduly interferes with such bondholders’ reasonable investment backed expectations. In examining whether action of the Texas legislature amounts to a regulatory taking, both federal and state courts will consider the character of the governmental action and whether such action substantially advances the State’s legitimate governmental interests, the economic impact of the governmental action on the bondholders, and the extent to which the governmental action interferes with distinct investment-backed expectations. There is no assurance, however, that, even if a court were to award just compensation, it would be sufficient for you to recover fully your investment in the transition bonds.

In connection with the foregoing, Baker Botts L.L.P. has advised us that issues relating to the Contract and Takings Clauses of the United States and Texas constitutions are essentially decided on a case by case basis and that the courts’ determinations, in most cases, appear to be strongly influenced by the facts and circumstances of the particular case. Baker Botts L.L.P. has further advised us that there are no reported controlling judicial precedents that are directly on point. The opinions described above will be subject to the qualifications included in them. The degree of impairment necessary to meet the standards for relief under a Takings Clause analysis or Contract Clause analysis could be substantially in excess of what a transition bondholder would consider material. We will file a copy of the Baker Botts L.L.P. opinion as an exhibit to an amendment to the registration statement of which this prospectus is a part, or to one of our periodic filings with the SEC.

For a discussion of risks associated with potential judicial, legislative or regulatory actions, please read “Risk Factors—Risks Associated with Potential Judicial, Legislative or Regulatory Actions” in this prospectus.

*The PUCT May Adjust Transition Charges.* The Restructuring Act requires the PUCT to provide in all financing orders a mechanism requiring that transition charges relating to the series of transition bonds authorized in such financing order be reviewed and adjusted at least annually, within 45 days of the anniversary of the date of the issuance of such series of transition bonds:

- to correct any overcollections or undercollections during the preceding 12 months, and
- to provide for the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with such series of transition bonds.

*Transition Charges are Nonbypassable.* The Restructuring Act provides that the transition charges are nonbypassable. Nonbypassable means that a utility collects transition charges attributable to all existing and future retail electric customers located within the utility’s service territory as it existed on May 1, 1999, except for certain categories of existing customers whose load had been lawfully served by a fully operational qualifying facility before September 1, 2001 if the facility was supported by substantially complete filings for site-specific environmental permits on or before December 31, 1999, or by an on-site power production facility with a rated capacity of 10 megawatts or less, or customers in a multiply certificated service territory that requested to switch providers on or before May 1, 1999, or were not taking service from the utility on, and do not do so after, May 1, 1999. The utility is generally entitled to collect transition charges attributable to non-exempted customers even if they are receiving transmission or distribution service from another utility or choose to operate self-generation equipment.

*The Restructuring Act Protects the Transition Bonds’ Lien on Transition Property.* The Restructuring Act provides that a valid and enforceable lien and security interest in transition property may be created only by a financing order and the execution and delivery of a security agreement in connection with the issuance of a series of transition bonds. The security interest automatically attaches from the time value is received by the issuer of such series of transition bonds.

On perfection through the filing of a notice with the Secretary of State of Texas, the security interest (1) will be a continuously perfected lien and security interest in the related transition property and all proceeds of such transition property, whether the related transition charges have accrued or not, and (2) will have a priority in the order of filing and take precedence over any subsequent judicial or other lien creditor. If notice is filed within 10 days after value is received for a series of transition bonds, the security interest is perfected retroactive to the date value was received. Otherwise, the security interest is perfected as of the date of filing.

The Restructuring Act provides that priority of security interests in transition property relating to a series of transition bonds will not be impaired by:

- commingling of funds collected from related transition charges with other funds, or

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- modifications to the financing order resulting from any true-up adjustment.

Please read “Risk Factors—Risks Associated With the Unusual Nature of the Transition Property.”

*The Restructuring Act Characterizes the Transfer of Transition Property as a True Sale.* The Restructuring Act provides that an electric utility’s or an assignee’s transfer of transition property is a “true sale” under Texas law and is not a secured transaction and that legal and equitable title passes to the transferee, if the agreement governing that transfer expressly states that the transfer is a sale or other absolute transfer. Please read “The Sale Agreement” and “Risk Factors—Risks Associated With Potential Bankruptcy Proceedings of the Seller or the Servicer” in this prospectus.

*Tax Exemption.* The Restructuring Act provides that transactions involving the transfer and ownership of transition property and the receipt of transition charges are exempt from state and local income, sales, franchise, gross receipts and other taxes or similar charges.

### CENTERPOINT HOUSTON’S FINANCING ORDER

*Background.* The PUCT issued the financing order on September 18, 2007 authorizing CenterPoint Houston to securitize an amount not to exceed the principal amount which remains to be collected through continued application of the competition transition charge (“CTC”) if the CTC were to remain in effect for its then remaining term, minus the difference between (a) the balance of unexpended environmental retrofit funds CenterPoint Houston is required to refund pursuant to the final order in Docket No. 33823 and (b) the settled adjustment to the fuel balance approved in Docket No. 34031 (together, the “Securizable Balance”) and up-front qualified costs.

Pursuant to the financing order,

- the PUCT or its designated representative has a decision-making role co-equal with CenterPoint Houston with respect to the structuring and pricing of the transition bonds and all matters related to the structuring and pricing of the transition bonds will be determined through a joint decision of CenterPoint Houston and the PUCT or its designated representative,
- CenterPoint Houston is directed to take all necessary steps to ensure that the PUCT or its designated representative is provided sufficient and timely information to allow the PUCT or its designated representative to fully participate in, and exercise its decision making power over, the proposed securitization, and
- the servicer will file periodic adjustments to transition charges with the PUCT on our behalf.

We have also agreed that certain reports concerning transition charge collections will be provided to the PUCT.

We have filed the financing order with the SEC as an exhibit to the registration statement of which this prospectus forms a part. This summary does not purport to be complete and is subject to and qualified by reference to the provisions of the financing order.

In the financing order, the PUCT guarantees that it will act pursuant to the irrevocable financing order as expressly authorized by the Restructuring Act to ensure that expected transition charge revenues relating to the transition bonds are sufficient to pay on a timely basis scheduled principal and interest on the transition bonds and other costs, including fees and expenses, in connection with the transition bonds. The financing order, pursuant to the provisions of the Restructuring Act, is irrevocable and is not subject to reduction, impairment or adjustment by further action of the PUCT, except as contemplated by the periodic true-up adjustments. The financing order also provides that the statutory true-up mechanism and all other obligations of the State of Texas and the PUCT set forth in the financing order that relate to the transition bonds are direct, explicit, irrevocable and unconditional upon issuance of the transition bonds, and are legally enforceable against the State of Texas and the PUCT.

*Collection of Transition Charges.* The financing order authorizes CenterPoint Houston to collect transition charges from the retail electric providers serving retail electric customers in CenterPoint Houston’s service territory in an amount expected to be sufficient to permit the timely recovery of its aggregate qualified costs which include principal and interest and certain ongoing fees and expenses associated with the transition bonds. There is no “cap” on the level of transition charges that may be imposed on consumers of electricity in CenterPoint Houston’s service territory, including the State of Texas and other governmental entities, to meet scheduled principal and interest on the transition bonds. However, we may not charge transition charges for the transition bonds for electricity delivered after the fifteenth anniversary of the date of issuance of the transition bonds.

*Issuance Advice Letter.* Within twenty-four hours following the determination of the final terms of the transition bonds and prior to their issuance, CenterPoint Houston is required to file with the PUCT an issuance advice letter, which will:

- demonstrate compliance with the statutory financial tests and terms of the financing order,
- evidence the actual terms on which the transition bonds will be issued,
- show the actual dollar amount of the initial transition charges relating to the transition bonds,

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- identify the transition property relating to the transition bonds we will purchase,
- identify us,
- certify that, based on information reasonably available, the structuring and pricing of the transition bonds will result in the lowest transition bond charges consistent with market conditions and the terms of the financing order, and
- update the benefit analysis to verify that the final amount securitized satisfies the statutory financial tests.

Both the issuance advice letter and the accompanying compliance tariff become effective on the date of issuance of the transition bonds unless the PUCT issues an order prior to noon on the fourth business day after the determination of the final terms of the transition bonds, that the proposed issuance does not comply with the requirements of the Restructuring Act or the financing order. The PUCT's review of the issuance advice letter will be limited to confirming the arithmetic accuracy of the calculations and to compliance with the specific requirements contained in the issuance advice letter.

*Tariff.* We are required, prior to the issuance of any transition bonds, to complete and file a tariff in the form attached to the financing order. The tariff establishes the initial transition charges. It also implements the procedures for periodic adjustments to the transition charges, the procedures for retail electric providers to remit transition charge payments and the annual procedures allowing retail electric providers to reconcile remittances with actual charge-offs.

*Allocation.* Under the terms of the financing order, CenterPoint Houston will initially allocate the qualified costs among its transition charge customer classes as follows (each allocation factor percentage has been rounded to two decimal places and assumes that the transition bonds are issued on January 31, 2008):

<u>Transition Charge Customer Class</u>	<u>Allocation Factor</u>
Residential	18.34%
MGS (miscellaneous general service)	42.45%
LGS (large general service)	23.93%
LOS-A (large overhead service—A)	5.75%
LOS-B (large overhead service—B)	5.15%
Non-Metered Lighting	0.30%
Standby Electric Service—Distribution	0.02%
Interruptible Service Supplemental—Distribution	(0.04)%
Interruptible Service—30 Minute Notice	(0.05)%
Interruptible Service—10 Minute Notice	0.34%
Interruptible Service—Instantaneous	(0.05)%
Interruptible Service Supplemental—Transmission	0.06%
Standby Electric Service—Transmission	0.45%
Standby Interruptible Service	0.03%
SCP (special contract pricing)	3.32%

The allocation factors for each class are subject to adjustment prior to the issuance of the transition bonds and will be subject to periodic adjustment after any such issuance. Please read "Adjustments to Allocation of Transition Charges" below.

*Statutory True-Ups.* In the financing order, the PUCT guarantees that it will act pursuant to its irrevocable financing order, dated September 18, 2007, as expressly authorized by the Restructuring Act to ensure that expected transition charge revenues are sufficient to pay on a timely basis scheduled principal and interest on the Bonds. The Restructuring Act mandates and the financing order provides that the transition charges will be reviewed and adjusted at least annually and, if necessary, semi-annually to ensure the expected recovery of amounts sufficient to provide timely payment of principal and interest on the transition bonds. The financing order requires CenterPoint Houston and any successor servicer to make periodic adjustment filings pursuant to the following statutory true-up mechanism and reconciliation procedures.

True-up adjustments will be based upon the cumulative differences between the periodic payment requirement, which is discussed in the paragraph below (including scheduled principal and interest payments on the transition bonds), and the amount of transition charge remittances to the trustee. In order to provide for adequate revenues from the transition charges, the servicer will calculate the adjusted transition charges using its most recent forecast of electric consumption and its most current estimates of ongoing transaction-related expenses. The calculation of the transition charges will reflect both a projection of uncollectible transition charges and

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payment lags between the billing and collection of transition charges based upon the servicer's and the retail electric provider's most recent experience regarding collection of transition charges. The calculation of transition charges will also take into account any amounts due any retail electric providers as a result of the reconciliation of the remittances and collections. There is no "cap" on the level of transition charges that may be imposed on consumers of electricity in CenterPoint Houston's service territory, including the State of Texas and other governmental entities, to meet scheduled principal and interest on the transition bonds.

There are two types of true-ups that may occur under the financing order.

- First, pursuant to the Restructuring Act, the servicer is required to make a filing with the PUCT for an adjustment at least annually
  - to correct any undercollection or overcollection of transition charges relating to the transition bonds and
  - to provide for the billing of transition charges necessary to generate the collection of amounts sufficient to timely provide all scheduled payments of principal and any other amounts due in connection with the transition bonds (including ongoing fees and expenses, amounts required to be deposited in or allocated to any collection account or subaccount relating to the transition bonds, trustee indemnities and any payments due in connection with any expenses incurred by the trustee to enforce bondholder rights and all other payments pursuant to the waterfall of payments described under "The Transition Bonds—How Funds in the Collection Account Will Be Allocated" or otherwise in the waterfall of payments set forth in the prospectus supplement) during the period for which such adjusted transition charges are to be in effect.

These amounts are referred to as the "periodic payment requirement."

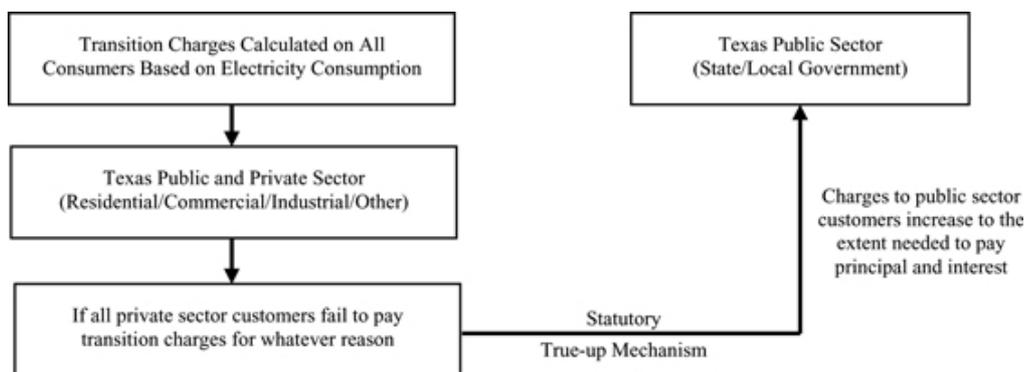
- Second, the servicer will be required under the servicing agreement to seek an interim true-up adjustment with respect to the transition bonds once every six months, or quarterly in the fourteenth and fifteenth years:
  - if the servicer expects, at the next payment date, more than a 5% variation between (a) the actual principal balance of the transition bonds, taking into account amounts on deposit in the excess funds subaccount, and (b) the expected principal balance on the expected amortization schedule,
  - as needed to meet any rating agency requirement that the transition bonds be paid in full at the scheduled final payment date, or
  - to correct any undercollection of transition charges, regardless of cause, in order to assure timely payment of the transition bonds based on rating agency and transition bondholder considerations.

For more discussion of the statutory true-up mechanism, please read "The Servicing Agreement—Adjustment Process for Transition Charges" in this prospectus.

*Statutory True-Up Mechanism—Credit Risk.* The State of Texas has pledged in the Restructuring Act that it will not take or permit any action that would impair the value of the transition property, or, except as permitted in connection with a true-up adjustment authorized by the statute, reduce, alter or impair the transition charges until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the transition bonds, have been paid and performed in full.

The financing order provides that the broad-base nature of the true-up mechanism and this pledge by the State of Texas, along with other elements of the transition bonds, will serve to minimize, if not effectively eliminate, for all practical purposes and circumstances, any credit risk associated with the transition bonds (*i.e.*, sufficient funds will be available and paid to discharge all principal when due at final maturity and interest obligations on the transition bonds when due). With respect to the foregoing, interest is due on each payment date and principal is due upon the final maturity date for each tranche. Please consider, however, the risk factors discussed in "Risk Factors" generally, including, among others, "Risk Factors—Risks Associated with Potential Judicial, Legislative or Regulatory Actions", "—Servicing Risks—Inaccurate consumption forecasting or unanticipated delinquencies or charge-offs might reduce scheduled payments on the transition bonds" and "—Risks Associated with Potential Bankruptcy Proceedings of the Seller or the Servicer," and please read the financing order, Finding of Fact 93, and "The Restructuring Act—CenterPoint Houston and Other Utilities May Securitize Qualified Costs," and "Cautionary Statement Regarding Forward-Looking Information" for further information.

*Statutory True-Ups: Entire Private Sector Default.* In the unlikely events that (i) all retail electric customers in CenterPoint Houston's service territory (other than state and local government accounts) leave the CenterPoint Houston service territory or for whatever reason fail to pay the transition charges and (ii) the state and local government accounts physically located within the CenterPoint Houston service territory continue to use electricity either delivered through CenterPoint Houston's transmission and distribution system or produced from new on-site generation as defined in the Restructuring Act, these entities, pursuant to the statutory true-up mechanism described above, would be responsible for paying transition charges sufficient to service the transition bonds. Such transition charges would be a direct claim on such governments, but only in their capacity as retail electric customers. The diagram below depicts the operation of the statutory true-up mechanism if these unlikely events were ever to occur. However, if all private sector customers in CenterPoint Houston's service territory were able to avoid the payment of transition charges, there is no assurance that the State of Texas or such local government agencies would continue to use electricity in CenterPoint Houston's service territory in a manner that would subject them to paying transition charges or, even though there would be a direct claim on them, would pay such transition charges if they did incur them.



*Adjustments to Allocation of Transition Charges.* In the financing order, the PUCT requires CenterPoint Houston and any successor servicer to request periodic adjustments to the allocation of the transition charges among various classes of customers. The allocation may be adjusted to reflect load losses that a transition charge class or group of transition charge classes may suffer or to reflect certain changes to the allocation methodology that may be ordered by the PUCT. The financing order specifically provides for an additional true-up and adjustment of allocation applicable to industrial customers, whereby the first 10% of load loss within an industrial class is borne by that class, with the excess load loss over 10% allocated to the remaining industrial classes. Adjustments to the allocation of the transition charges will take place at the same time as the annual true-up adjustments described above.

*Binding on Successors.* The financing order, along with the transition charges authorized in the financing order, is binding on:

- CenterPoint Houston,
- any successor to CenterPoint Houston that provides transmission or distribution service in CenterPoint Houston’s service territory,
- any other entity that provides transmission or distribution service to retail electric customers within CenterPoint Houston’s service territory,
- each retail electric provider that sells electric energy to retail electric customers located within CenterPoint Houston’s service territory or any such retail electric provider’s successor,
- any other entity responsible for imposing, billing, collecting and remitting transition charges on our behalf, or
- any successor to the PUCT.

#### **RETAIL ELECTRIC PROVIDERS**

Under the Restructuring Act, beginning in January 2002, certain electric utilities, including CenterPoint Houston, were required to cease selling electricity to their retail customers. Since that time, only retail electric providers have been allowed to sell electricity to retail customers formerly served by those utilities. Each retail customer may choose a retail electric provider from among those who have been certified under standards set by the PUCT. As of the date of this prospectus, neither CenterPoint Houston nor its parent CenterPoint Energy directly or indirectly owns or controls or is owned or controlled by any retail electric provider. In the future, either company may directly or indirectly own or control a retail electric provider.

CenterPoint Houston and any successor servicer will bill and collect transition charges from the retail electric providers in CenterPoint Houston’s service territory. The retail electric providers will in turn bill and collect the transition charges from retail electric customers in CenterPoint Houston’s service territory. Each retail electric provider will be required to pay the transition charges on or before the 35th day after it receives the bill from the servicer, less an agreed allowance for expected uncollectible amounts, whether or not the retail electric provider has collected all amounts owed to it by its retail electric customers. Please read “—Payment of Transition Charges.” Prior to the date on which the retail electric provider remits the transition charges to the servicer, the transition charges may be commingled with the retail electric provider’s other funds. Please read “Risk Factors—Risks Associated With Potential Bankruptcy Proceedings of Retail Electric Providers” and “How a Bankruptcy May Affect Your Investment— Bankruptcy of a Retail Electric Provider” in this prospectus.

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Each retail electric provider will deliver a combined bill to each retail electric customer for the electric power sold by it to the retail electric customer, for the related transmission and distribution service provided by the electric utility, for the transition charge, for transition charges associated with the transition bonds issued in 2001 by Transition Bond Company I, for transition charges associated with the transition bonds issued in 2005 by Transition Bond Company II and for other charges approved by the PUCT. The retail electric providers will collect the combined amounts and then allocate the appropriate amounts to itself, to the electric utility, to the servicer, to the servicer of the Series 2001-1 Transition Bonds issued by Transition Bond Company I, to the servicer of the Senior Secured Transition Bonds, Series A issued by Transition Bond Company II and to other parties, if any, entitled to receive a portion of such amounts. Transition charges will be remitted to the servicer, less an estimated allowance for charge-offs. Please read “Risk Factors—Servicing Risks—It might be difficult to collect transition charges from retail electric providers” in this prospectus. The retail electric provider will have custody of the transition charges collected from its retail electric customers until remitted to the servicer and may commingle the transition charges with its other funds.

*Rating, Deposit and Related Requirements.* The financing order will allow a retail electric provider to provide retail electric service within CenterPoint Houston’s service territory and collect transition charges if it either (1) has a long-term, unsecured credit rating of not less than “BBB-” and “Baa3” (or the equivalent) from S&P and Moody’s, respectively, or (2) provides (A) a cash deposit of two months’ maximum expected transition charge collections, (B) an affiliate guarantee, surety bond or letter of credit providing for payment of such amount of transition charge collections in the event that the retail electric provider defaults in its payment obligations, or (C) a combination of any of the foregoing. The provider of any affiliate guarantee, surety bond or letter of credit must have and maintain long-term, unsecured credit ratings of not less than “BBB-” and “Baa3” (or the equivalent) from S&P and Moody’s, respectively. A retail electric provider that does not have or maintain the requisite long-term, unsecured credit rating may select, in its sole discretion, which alternate form of deposit, credit support or combination thereof it will utilize.

If the long-term, unsecured credit rating from either S&P or Moody’s of a retail electric provider that did not previously provide the alternate form of deposit, credit support or combination thereof or of any provider of an affiliate guarantee, surety bond or letter of credit is suspended, withdrawn or downgraded below “BBB-” or “Baa3” (or the equivalent), the retail electric provider must provide an alternate form of deposit, credit support or combination thereof, in each case from providers with the requisite ratings, within 10 business days following such suspension, withdrawal or downgrade. A retail electric provider failing to make such provision must comply with the provisions set forth below in “—Remedies Upon Default.”

The computation of the size of a required deposit must be agreed upon by the servicer and the retail electric provider and reviewed no more frequently than quarterly to ensure that the deposit accurately reflects two months’ maximum collections. Within 10 business days following such review, (1) the retail electric provider must remit to the trustee the amount of any shortfall in such required deposit or (2) the servicer must instruct the trustee to remit to the retail electric provider any amount in excess of such required deposit. A retail electric provider failing to so remit any such shortfall must comply with the provisions set forth below in “—Remedies Upon Default.” Retail electric provider cash deposits will be held by the trustee, maintained in a segregated account, and invested in short-term high quality investments, as permitted by the rating agencies rating the transition bonds. Investment earnings on retail electric provider cash deposits will be considered part of such cash deposits so long as they remain on deposit with the trustee. At the instruction of the servicer, cash deposits will be remitted with investment earnings to the retail electric provider at the end of the term of the transition bonds unless otherwise utilized for the payment of the retail electric provider’s obligations for transition charges. Once the deposit is no longer required, the servicer must promptly (but not later than 30 days after such event) instruct the trustee in writing to remit the amount in the segregated account to the retail electric provider.

*Billing and Collection Standards.* Retail electric providers must comply with the billing, collection and remittance procedures and information access requirements established by the financing order. These standards relate only to the billing and collection of transition charges authorized under the financing order and do not apply to collection of any other nonbypassable charges or other charges. The standards apply to all retail electric providers other than retail electric providers, if any, that have contracted with the transmission and distribution utility to have it bill and collect transition charges from retail electric customers. Retail electric providers may contract with parties other than the transmission and distribution utility to bill and collect transition charges from retail customers, but such retail electric providers will remain subject to these standards. If the PUCT later determines that different standards are to be applied to retail electric providers in particular areas (e.g., payment terms), then those new standards, with appropriate modifications to related provisions, may replace the specific portions of the standards approved in the financing order, but only if the rating agency condition (as described below) is satisfied. Upon adoption of any rule addressing any of these retail electric provider standards, the PUCT’s staff will open a proceeding to investigate the need to modify the standards to conform to that rule, with the understanding that such modifications may not be implemented absent written notification to each of the rating agencies that have rated the transition bonds and confirmation from S&P that such modifications will not cause a reduction or withdrawal of the ratings on the transition bonds, referred to in this prospectus and the prospectus supplement as the “rating agency condition.”

*Payment of Transition Charges.* On a daily basis, the servicer will bill each retail electric provider for transition charges owed by the retail electric provider’s retail customers. Payments of transition charges are due 35 days following each billing by the servicer to

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the retail electric provider, without regard to whether or when the retail electric provider receives payment from its retail electric customers. The servicer must accept payment by electronic funds transfer, wire transfer and/or check. Payment will be considered received the date the electronic funds transfer or wire transfer is received by the servicer, or the date the check clears. A 5% penalty is to be charged on amounts received after 35 days; however, a 10 calendar-day grace period will be allowed before the retail electric provider is considered to be in default. A retail electric provider in default must comply with the provisions set forth below in “—Remedies Upon Default.” The 5% penalty will be a one-time assessment measured against the current amount overdue from the retail electric provider to the servicer. The “current amount” consists of the total unpaid transition charges existing on the 36th day after the billing by the servicer. Any and all penalty payments will be made to the trustee to be applied against transition charge obligations. If there is a shortfall in a retail electric provider’s payment of an amount billed, the amount paid shall first be allocated ratably among the transition charges relating to the transition bonds and other fees and charges (including transition charges relating to other transition bonds, delivery charges, nuclear decommissioning charges and other fees and charges) other than late fees, and second, any remaining portion of the payment shall be attributed to late fees. A retail electric provider will not be obligated to pay the overdue transition charges of another retail electric provider. If a retail electric provider agrees to assume the responsibility for the payment of overdue transition charges as a condition of receiving the customers of another retail electric provider that has decided to terminate service to those customers for any reason, the new retail electric provider will not be assessed the 5% penalty upon such transition charges; however, the prior retail electric provider will not be relieved of the previously assessed penalties.

*Remedies Upon Default.* After the 10 calendar-day grace period (the 46th day after the billing date) referred to above under the heading “—Payment of Transition Charges,” the servicer will direct the trustee to seek recourse against any cash deposit, affiliate guarantee, surety bond, letter of credit or combination thereof provided by the retail electric provider, and will avail itself of such legal remedies as may be appropriate to collect any remaining unpaid transition charges and associated penalties due the servicer after the application of the retail electric provider’s deposit or alternate form of credit support. In addition, a retail electric provider that is in default with respect to the requirements set forth above in “—Rating, Deposit and Related Requirements” and “—Payment of Transition Charges” must select and implement one of the following options:

- allow its billing and collection responsibilities to be immediately assumed by another retail electric provider of the retail electric customer’s choosing or by the applicable provider of last resort,
- arrange that all amounts owed by retail electric customers for services rendered be timely billed and immediately paid directly into a lock-box controlled by the servicer with such amounts to be applied first to pay transition charges before remaining amounts are released to the retail electric provider and with all costs associated with the lock-box to be borne solely by the retail electric provider, or
- immediately implement other mutually suitable and agreeable arrangements with the servicer consistent with the terms of the servicing agreement and rating agency requirements to avoid a suspension, withdrawal or downgrade of the ratings of the transition bonds.

Historically, the retail electric providers that have been in default with respect to the requirements noted above have selected the third option.

If a retail electric provider that is in default fails to immediately select and implement one of the foregoing options or, after so selecting one of the foregoing options, fails to adequately meet its responsibilities thereunder, then the servicer is required to immediately implement the first option listed above. Upon re-establishment of compliance with the requirements set forth above in “—Rating, Deposit, and Related Requirements” and “—Payment of Transition Charges” and the payment of all past-due amounts and associated penalties, the retail electric provider will no longer be required to comply with this paragraph.

*Billing by Providers of Last Resort.* The provider of last resort appointed by the PUCT must meet the minimum credit rating or deposit/ credit support requirements described above in “—Rating, Deposit and Related Requirements” in addition to any other standards that may be adopted by the PUCT. If the provider of last resort defaults or is not eligible to provide such services, responsibility for billing and collection of transition charges will immediately be transferred to and assumed by the servicer until a new provider of last resort can be named by the PUCT or the customer requests the services of another retail electric provider. Retail electric customers may never be re-billed by the successor retail electric provider (although future transition charges will reflect retail electric provider and other system-wide charge-offs).

*Disputes.* In the event that a retail electric provider disputes any amount of billed transition charges, the retail electric provider must pay the disputed amount under protest according to the timelines detailed above in “—Payment of Transition Charges.” The retail electric provider and the servicer must first attempt to informally resolve the dispute, but if they fail to do so within 30 days, either party may file a complaint with the PUCT. If the retail electric provider is successful in the dispute process (informal or formal), the retail electric provider will be entitled to interest on the disputed amount paid to the servicer at the PUCT-approved interest rate. Disputes about the date of receipt of transition charge payments and related penalties or the size of a required retail electric provider deposit will be handled in a like manner. Any interest paid by the servicer on disputed amounts may not be recovered through transition charges if it is determined that the servicer’s claim to the funds is clearly unfounded. No interest will be paid by the servicer if it is determined that the servicer has received inaccurate metering data from another entity providing competitive metering services.

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*Metering Data.* If the servicer is providing metering services, metering data will be provided to the retail electric provider at the same time the servicer bills the retail electric provider. If the servicer is not providing metering services, the entity providing the metering services will be responsible for complying with PUCT rules and ensuring that the servicer and the retail electric provider receive timely and accurate metering data in order for the servicer to meet its obligations under the servicing agreement and the financing order with respect to billing and true-ups.

*Charge-Off Allowance.* The retail electric provider will be allowed to hold back an allowance for charge-offs in its payments to the servicer. Such charge-off rate will be recalculated each year in connection with the annual true-up procedure. For the initial year of the transition bonds, the retail electric provider will remit payments based on the same charge-off percentage then being used by the retail electric provider to remit payments to the servicer in connection with the then most recently established transition charges related to (i) the transition bonds issued by Transition Bond Company I or (ii) the transition bonds issued by Transition Bond Company II. On an annual basis in connection with the true-up process, the retail electric provider and the servicer will be responsible for reconciling the amounts held back with amounts actually written off as uncollectible in accordance with the terms agreed to by the retail electric provider and the servicer, provided that:

- the retail electric provider's right to reconciliation for charge-offs will be limited to retail electric customers whose service has been permanently terminated and whose entire accounts (*i.e.*, all amounts due the retail electric provider for its own account as well as the portion representing transition charges) have been written off,
- the retail electric provider's recourse will be limited to a credit against future transition charge payments unless the retail electric provider and the servicer agree to alternative arrangements, but in no event will the retail electric provider have recourse to the trustee, us or our funds for such payments, and
- the retail electric provider is required to provide information on a timely basis to the servicer so that the servicer can include the retail electric provider's default experience and any subsequent credits into its calculation of the adjusted transition charge rates for the next transition charge billing period and the retail electric provider's rights to credit will not take effect until after such adjusted transition charges have been implemented.

*Service Termination.* In the event that the servicer is billing retail electric customers for transition charges, the servicer will have the right to terminate transmission and distribution service to the retail electric customer for non-payment by the retail electric customer pursuant to applicable PUCT rules. Under current rules of the PUCT adopted in April 2004 and effective June 2004, any non-paying residential or small non-residential customers are subject to disconnection by any retail electric provider. Non-paying large non-residential customers can be disconnected by any retail electric provider if the customer's contract does not preclude disconnection.

### **THE SELLER, INITIAL SERVICER AND SPONSOR OF THE TRANSITION PROPERTY**

#### **About CenterPoint Houston**

*Background Information.* CenterPoint Houston engages in the electric transmission and distribution business in a 5,000-square mile area of the Texas Gulf Coast that includes Houston. The Company is an indirect wholly owned subsidiary of CenterPoint Energy, a public utility holding company created on August 31, 2002 as part of a corporate restructuring of Reliant Energy, Incorporated that implemented certain requirements of the Restructuring Act. The transmission and distribution function that CenterPoint Houston performs remains subject to traditional utility rate regulation. CenterPoint Houston recovers the cost of its services through an energy delivery charge approved by the PUCT.

CenterPoint Houston's principal executive offices are located at 1111 Louisiana, Houston, Texas 77002 (telephone number: (713) 207-3000).

*Where to Find Information About CenterPoint Houston.* CenterPoint Houston files periodic reports with the SEC as required by the Exchange Act. Reports filed with the SEC are available for inspection without charge at the public reference room maintained by the SEC at 100 F Street, N.E., Washington, DC 20549. Copies of periodic reports and exhibits thereto may be obtained at the above location at prescribed rates. Information as to the operation of the public reference facilities is available by calling the SEC at 1 800-SEC-0330. Information filed with the SEC can also be inspected at the SEC site on the World Wide Web at <http://www.sec.gov>. Except as provided in the prospectus supplement, no other information contained on that website constitutes part of this prospectus or any prospectus supplement related to the transition bonds.

*Servicing Experience.* Since October 2001, CenterPoint Houston has acted as servicer for the Series 2001-1 Transition Bonds issued by Transition Bond Company I, in the original aggregate principal amount of \$748,897,000 and since December of 2005 for the Senior Secured Transition Bonds, Series A issued by Transition Bond Company II, in the original aggregate principal amount of \$1,851,000,000. Since the date of issuance of the Series 2001-1 Transition Bonds and Senior Secured Transition Bonds, Series A, CenterPoint Houston has filed on a timely basis all true-up filings required for the Series 2001-1 Transition Bonds and Senior Secured Transition Bonds, Series A and Transition Bond Company I and Transition Bond Company II have satisfied on a timely basis all interest payments on the Series 2001-1 Transition Bonds and Senior Secured Transition Bonds, Series A and have made all principal

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payments on the Series 2001-1 Transition Bonds and Senior Secured Transition Bonds, Series A in accordance with their expected amortization schedules. CenterPoint Houston, as servicer of the transition charges of Transition Bond Company I, experienced some difficulties in 2002 in implementing and maintaining the systems and procedures required to perform the duties required of it by the servicing agreement relating to Transition Bond Company I. Such difficulties have since been resolved. Please read “Relationship to the Series 2001-1 Transition Bonds” and “Relationship to the Senior Secured Transition Bonds, Series A”. CenterPoint Houston services the Series 2001-1 Transition Bonds and Senior Secured Transition Bonds, Series A in accordance with servicing standards that are substantially similar to those set forth in CenterPoint Houston’s servicing agreement with us.

*Municipalization.* Texas law may authorize certain local municipalities to seek to acquire portions of CenterPoint Houston’s electric distribution facilities through the power of eminent domain for use as part of municipally-owned utility systems. Although the power of eminent domain has not been used by municipalities in Texas in recent times to acquire electric distribution systems, there can be no assurance that one or more municipalities will not seek to acquire some or all of CenterPoint Houston’s electric distribution facilities while transition bonds remain outstanding. The Restructuring Act specifies that transition charges approved by a PUCT financing order shall be collected by an electric utility as well as its “successors”. In the servicing agreement, CenterPoint Houston has covenanted to assert in an appropriate forum that any municipality that acquires any portion of CenterPoint Houston’s electric distribution facilities must be treated as a successor to CenterPoint Houston under the Restructuring Act and the financing order and that retail customers in such municipalities remain responsible for payment of transition charges. However, the involved municipality might assert that it should not be treated as a successor to CenterPoint Houston for these purposes and that its distribution customers are not responsible for payment of transition charges. In any such cases, there can be no assurance that the transition charges will be collected from customers of municipally-owned utilities who were formerly customers of CenterPoint Houston.

*Service Territory.* CenterPoint Houston provides electric transmission and distribution service to approximately 2 million metered customers in its service territory, which has a population of over 5 million people. With the exception of Texas City, CenterPoint Houston serves nearly all of the Houston-Sugar Land-Baytown metropolitan area. Effective January 2002, electric utilities, including CenterPoint Houston, were required to cease selling their electricity to their retail electric customers. Since that time, only retail electric providers have been allowed to sell electricity to retail customers formerly served by those utilities. The retail electric providers in CenterPoint Houston’s service territory are CenterPoint Houston’s primary customers.

*Area Economic Profile.* Although the city has undergone a decade of diversification, Houston’s economy is still primarily centered around its key roles in international energy sectors. These roles include (1) an operations center for global exploration and drilling activities of major oil firms, (2) one of the world’s largest concentrations of petrochemical and refining facilities, (3) home office and base of operations for several of the world’s largest industrial and petrochemical construction firms and (4) a major distribution and processing center for the natural gas industry. Other important sectors of the Houston economy include the Port of Houston and airports, the Johnson Space Center and the Texas Medical Center. Together, Houston’s energy and nonenergy sectors provide the city with a strong technical and engineering employment base.

*Area Economic Outlook.* Most sectors in Houston’s economy are currently performing well, and the outlook is for continued growth over the next several years. As a result of the current economic outlook, CenterPoint Houston expects the number of residential retail electric customers to increase by approximately 2% per year for the next 5 years. KWh sales to the residential class are expected to grow at about the same rate. KWh sales to the commercial and small industrial classes, which have grown at rates exceeding 2% for several years, are expected to moderate to an approximate 2% growth rate. The large industrial sector, which already has a large amount of self-generation capacity in place, is forecast to remain relatively flat.

In recent years, the number of customers in CenterPoint Houston’s service territory has grown steadily. Reflecting the strength of the local economy, CenterPoint Houston’s service territory has added over 25,000 residential customers in each year since 1997, and an average of over 40,000 per year for the last five years. As a consequence, on a weather-adjusted basis, energy sales to the residential, commercial and small industrial customer classes have increased an average of 2.1%, 3.1% and 1.0%, respectively, over the ten-year period ended December 31, 2007. Energy sales to large industrial customers in 2007 were approximately 1.6% below levels in 1997. Industrial sales are potentially sensitive to increased use of self-generation and the unfavorable impact that high natural gas prices could have on the competitiveness of Houston’s petrochemical industry. There can be no assurance that future usage rates will grow at rates similar to historical experience.

*Electric Transmission.* On behalf of retail electric providers, CenterPoint Houston delivers electricity from power plants to substations, from one substation to another and to retail electric customers taking power above 69 kilovolts (kV) in locations throughout the control area managed by ERCOT. CenterPoint Houston provides transmission services under tariffs approved by the PUCT.

*Electric Distribution.* CenterPoint Houston delivers electricity for retail electric providers in its certificated service territory by carrying lower-voltage power from the substation to the retail electric customer. CenterPoint Houston's distribution network receives electricity from the transmission grid through power distribution substations and distributes electricity to end users through distribution feeders. Its operations include construction and maintenance of electric transmission and distribution facilities, metering services, outage response services and call center operations. CenterPoint Houston provides distribution services under tariffs approved by the PUCT. PUCT rules and market protocols govern the commercial retail operations of distribution companies and other market participants.

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*ERCOT Market Framework.* CenterPoint Houston is a member of ERCOT. ERCOT serves as the regional reliability coordinating council for member electric power systems in Texas. ERCOT membership is open to consumer groups, investor and municipally owned electric utilities, rural electric cooperatives, independent generators, power marketers and retail electric providers. The ERCOT market includes much of the State of Texas, other than a portion of the panhandle, a portion of the eastern part of the state bordering on Louisiana and the area in and around El Paso. The ERCOT market represents approximately 85% of the demand for power in Texas and is one of the nation's major power markets. The ERCOT market includes an aggregate net generating capacity of approximately 71,800 megawatts (MW). There are only limited direct current interconnections between the ERCOT market and other power markets in the United States.

The ERCOT market operates under the reliability standards set by the North American Electric Reliability Council. The PUCT has primary jurisdiction over the ERCOT market to ensure the adequacy and reliability of electricity supply across the state's main interconnected power transmission grid. The ERCOT independent system operator (ERCOT ISO) is responsible for maintaining reliable operations of the bulk electric power supply system in the ERCOT market. Its responsibilities include ensuring that electricity production and delivery are accurately accounted for among the generation resources and wholesale buyers and sellers. Unlike certain other regional power markets, the ERCOT market is not a centrally dispatched power pool, and the ERCOT ISO does not procure energy on behalf of its members other than to maintain the reliable operations of the transmission system. Members who sell and purchase power are responsible for contracting sales and purchases of power bilaterally. The ERCOT ISO also serves as agent for procuring ancillary services for those members who elect not to provide their own ancillary services.

CenterPoint Houston's electric transmission business supports the operation of the ERCOT ISO and all ERCOT members. The transmission business has planning, design, construction, operation and maintenance responsibility for the portion of the transmission grid and for the load-serving substations it owns, primarily within its certificated area. The transmission business is participating with the ERCOT ISO and other ERCOT utilities to plan, design, obtain regulatory approval for and construct new transmission lines necessary to increase bulk power transfer capability and to remove existing constraints on the ERCOT transmission grid.

### **Customer Classes**

*General.* CenterPoint Houston will recover transition charges from the following customer classes:

- residential,
- commercial,
- industrial, and
- other, which includes government and municipal street lighting.

Residential customers are those in individually metered single-family or multi-family homes, apartments or mobile homes. Master-metered apartments are included in the commercial class. Commercial customers typically have a maximum usage level less than 500 kVA and include such customers as offices, retail stores, schools and other businesses. Industrial customers, which generally use more than 600 kVA on a sustained basis, range from large office buildings and small manufacturing concerns (small industrials) to massive chemical, oil refining and other process plants and facilities (large industrials). Other is primarily municipal street lighting. During the twelve months ended December 31, 2007, approximately 41% of CenterPoint Houston's total deliveries were to industrial customers, approximately 27% were to commercial customers and approximately 32% were to residential and other customers. Except in their capacity as retail electric customers, neither the State of Texas nor any political subdivision, agency, authority or instrumentality of the State of Texas, nor any other public or private entity, will be obligated to provide funds for the payment of the transition bonds.

Customer classes may include a number of rate schedules. Rate schedules and customer classes are created by CenterPoint Houston and approved by the PUCT and are subject to change. The rate classes from which transition charges will be billed and collected have been established as part of the financing order. These rate classes are not subject to change and will remain in effect for the duration of the securitization financing.

*Statistics Regarding Retail Electric Customers in CenterPoint Houston's Service Territory.* CenterPoint Houston will bill transition charges according to rate schedules for each customer class. For the transition charges assessed to individual rate schedules as of the issuance date and any adjustment thereto, in each case giving effect to the issuance of transition bonds on that date, please read the prospectus supplement.

CenterPoint Houston has changed its method of accounting for some customers as a result of the implementation of the Restructuring Act. Before January 1, 2002, some points of delivery were combined into a single point of delivery and accounted for as a single customer. CenterPoint Houston is now required to account for those points separately.

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Actual usage fluctuations are highly dependent on weather conditions. On a weather adjusted basis, the compound annual growth rate for actual usage for the ten-year period ended December 31, 2007 was 2.1% for the residential customer class and 2.5% for the combined commercial and small industrial classes. We cannot assure you that future usage rates will be similar to historical experience. In particular, we cannot assure you that total retail electric customers, the composition of total retail electric customers by customer class, usage levels or revenues for each customer class will remain at or near the levels reflected in the following table. Please read “Risk Factors—Servicing Risks” in this prospectus.

Over the past ten years, there has been growth in residential retail electric usage as well as in usage by the combined commercial and small industrial classes, in each case on a weather adjusted basis. However, trends are less discernible and less meaningful within the commercial and industrial classes since customer counts within specific rates can change as a result of reclassification within these classes due to voltage and usage level determinants. The following tables set forth customer usage for each year shown and the number of metered retail electric customers at the end of each of those years.

### **Retail Electric Usage (As Measured by Billed MWh Sales) by Customer Class and Percentage Composition**

Customer Class	Twelve Months Ended December 31,									
	2003		2004		2005		2006		2007	
Residential	23,588,983	33.4%	23,583,782	32.1%	24,808,600	33.4%	24,153,871	31.8%	23,981,086	31.5%
Commercial	18,777,800	26.6%	19,052,995	26.0%	19,783,899	26.6%	20,318,294	26.8%	20,954,414	27.5%
Industrial	28,103,027	39.8%	30,598,650	41.7%	29,496,638	39.7%	31,233,556	41.2%	31,052,004	40.8%
Other	153,075	0.2%	156,433	0.2%	158,202	0.2%	159,598	0.2%	161,136	0.2%
Total Retail	70,622,885	100%	73,391,861	100%	74,247,339	100%	75,865,318	100%	76,148,640	100.0%

### **Service Territory Number of Metered Retail Electric Customers and Percentage Composition**

Customer Class	December 31,									
	2003		2004		2005		2006		2007	
Residential	1,615,921	88.0%	1,658,076	88.0%	1,711,384	88.0%	1,743,963	88.0%	1,793,600	88.2%
Commercial	218,739	11.9%	223,174	11.9%	230,400	11.9%	234,925	11.9%	238,413	11.7%
Industrial	1,981	0.1%	2,038	0.1%	2,125	0.1%	2,072	0.1%	2,061	0.1%
Total Retail	1,836,641	100.0%	1,883,288	100.0%	1,943,909	100.0%	1,980,960	100.0%	2,034,074	100.0%

The transmission and distribution revenue data for the years ended December 31, 2004, 2005 and 2006 and for the nine months ended September 30, 2007 represents CenterPoint Houston’s revenues for transmission and distribution charges billed to retail electric providers.

### **Transmission and Distribution Revenue by Customer Class and Percentage Composition (Dollars in Thousands)**

Customer Class	Twelve Months Ended December 31,						Nine Months Ended September 30, 2007	
	2004		2005		2006			
Residential	\$ 643,818	52%	679,776	52%	666,254	51%	\$ 485,919	50.3%
Commercial	389,789	31%	404,448	31%	416,949	32%	313,753	32.5%
Industrial	187,958	15%	202,214	15%	195,177	15%	146,583	15.2%
Other	26,473	2%	26,983	2%	27,129	2%	19,917	2.0%
Total Retail	\$1,248,038	100%	\$1,313,461	100%	\$1,305,509	100%	\$ 966,172	100%

*Relationship with Retail Electric Providers.* In accordance with the Restructuring Act, in January 2002, CenterPoint Houston ceased selling electricity to its retail customers. Those retail customers became customers of the various retail electric providers which were providing service in CenterPoint Houston’s service territory. Those retail electric providers became CenterPoint Houston’s primary customers in its service territory. As of December 31, 2007, CenterPoint Houston did business with approximately 70 retail electric providers. Reliant Energy, through its subsidiaries, is CenterPoint Houston’s largest customer, accounting for approximately 48% of CenterPoint Houston’s outstanding receivables from retail electric providers as of December 31, 2007. Since January 2002, other than the bankruptcies described below and minor delays and payment discrepancies, the retail electric providers providing service in CenterPoint Houston’s service territory, including Reliant Energy, generally have made timely payments for the electricity and other services provided by CenterPoint Houston and have generally been cooperative in coordinating billing and payment systems with CenterPoint Houston’s and the State of Texas’ systems in the implementation of the Restructuring Act.

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Three retail electric providers with which CenterPoint Houston has done business filed for bankruptcy in June 2002, March 2003 and December 2005, respectively. CenterPoint Houston, as servicer under the transition bonds issued by Transition Bond Company I, recovered from two of these retail electric providers the full amount of the transition charges relating to those transition bonds from a cash deposit provided by those retail electric providers. CenterPoint Houston recovered all but a minimal amount of the pre-petition balance of transition charges relating to the transition bonds issued by Transition Bond Company I from payments and a cash deposit provided by the other retail electric provider. For additional information regarding retail electric providers' obligation to make cash deposits in order to provide retail electric service and collect transition charges within CenterPoint Houston's service territory, please read "Retail Electric Providers—Rating, Deposit and Related Requirements." For discussions of potential difficulties in collecting transition charges from retail electric providers and risks associated with the bankruptcy of a retail electric provider, please read "Risk Factors—Servicing Risks—It might be difficult to collect transition charges from retail electric providers" and "—Risks Associated With Potential Bankruptcy Proceedings of Retail Electric Providers," respectively.

### **Percentage Concentration of Large End-Use Retail Customers Served by CenterPoint Houston**

For the year ended December 31, 2007, the largest end-use retail electric customer served by retail electric providers in CenterPoint Houston's service territory represented approximately 3%, and the ten largest end-use retail electric customers represented approximately 9%, of the total electric usage by end-use retail electric customers in CenterPoint Houston's service territory. All of those customers were in the industrial customer class. We cannot assure you that the current end-use customers in CenterPoint Houston's service territory will remain in the territory or that the levels of end-use customer concentration in the future will be similar to those experienced in the past.

### **How CenterPoint Houston Forecasts the Number of Retail Electric Customers and the Amount of Electricity Usage**

Accurate projections of the number of retail electric customers, usage and retail electric revenue are important in setting, maintaining and adjusting the transition charges. The transition charges must be sufficient to make principal and interest payments on the transition bonds, to replenish any amounts drawn from the capital subaccount and to pay the trustee's fee, the servicing fee and the other expenses and costs included in qualified costs. Please read "CenterPoint Houston's Financing Order" and "Risk Factors—Risks Associated With the Unusual Nature of the Transition Property" in this prospectus.

*Historical Forecasting Methodology.* Prior to 2002, CenterPoint Houston's forecast of energy deliveries and peak demand focused primarily on supporting the long-term planning needs of an integrated utility. In this capacity, the forecast played a key role in the long-term planning for new generation resources and for transmission facilities. Forecasts were routinely prepared for all customer classes and reviewed by the PUCT for reasonableness and accuracy in regulatory proceedings.

Currently, CenterPoint Houston relies extensively on the use of regression modeling in the preparation of its residential and commercial forecasts. These models combine information on weather, meter read dates and economic parameters as part of the process of developing the forecast. Large industrial customers are forecast in detail based on knowledge of their past activity and expected activity and how it relates to their energy needs. Known and measurable industrial plant additions, expansions and closures are incorporated into the electricity delivery projections, based on information CenterPoint Houston obtains through multiple sources, including an annual survey of its large industrial customers. CenterPoint Houston uses economic forecasts, prepared by independent economic forecasting and consulting firms, as inputs to its forecasting models.

*Sales Forecast Variances.* CenterPoint Houston will use its annual forecast to determine the appropriate levels of transition charges. Actual deliveries can deviate from forecast deliveries for many reasons, including the general economic climate in the service territory, the impact of weather on air-conditioning and heating usage, levels of business activity, the availability of more energy efficient appliances, new energy conservation technologies and the customers' ability to acquire these new products. CenterPoint Houston's ability to predict energy consumption accurately may affect the timing of collections of transition charges.

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The table below compares actual usage in MWh for a particular period to the most recent forecast, usually prepared during the preceding year. For example, the annual 2007 variance is based on a forecast prepared in 2006. The variances for the residential customer class ranged from -3.7% to 1.8%. The variances for the commercial customer class ranged from 0% to 2.1% and for the industrial class from -1.8% to 9.1%. Variances for the other customer class ranged from -3.1% to 0.8%. We cannot assure you that the future variance between actual and expected consumption in the aggregate or by customer class will be similar to the historical experience set forth below. In the following table, “variance” represents percentage deviation from the forecast amount of electricity usage.

### Forecast Variance For the Amount of Electricity Consumed

	2003	2004	2005	2006	2007
<b>Residential</b>					
Forecast (MWh)	23,591,423	23,990,031	24,375,208	24,110,499	24,912,955
Actual (MWh)	23,588,983	23,583,782	24,808,600	24,153,871	23,981,086
Variance	0.0%	-1.7%	1.8%	0.2%	-3.7%
<b>Commercial</b>					
Forecast (MWh)	18,768,660	18,978,028	19,381,914	19,906,064	20,554,376
Actual (MWh)	18,777,800	19,052,995	19,783,899	20,318,294	20,954,414
Variance	0.0%	0.4%	2.1%	2.1%	1.9%
<b>Industrial</b>					
Forecast (MWh)	28,617,844	28,036,906	28,970,123	30,070,461	30,082,490
Actual (MWh)	28,103,027	30,598,650	29,496,638	31,233,556	31,052,004
Variance	-1.8%	9.1%	1.8%	3.9%	3.2%
<b>Other</b>					
Forecast (MWh)	157,891	155,172	159,212	161,586	161,223
Actual (MWh)	153,075	156,433	158,202	159,598	161,136
Variance	-3.1%	0.8%	-0.6%	-1.2%	-0.1%
<b>Total</b>					
Forecast (MWh)	71,135,818	71,160,137	72,886,457	74,248,610	75,711,044
Actual (MWh)	70,622,885	73,391,861	74,247,339	75,865,318	76,148,640
Variance	-0.7%	3.1%	1.9%	2.2%	0.6%

The table below compares the actual number of customers at the end of a particular period to the related forecast of the number of customers for such date prepared during the previous year. Variance, expressed as a percentage, represents the difference between forecast and actual numbers of customers. A positive variance means there were more customers than forecast. A negative variance means there were fewer customers than forecast. The variances for the residential customer class ranged from 0.1% to 1.1%. The variances for the commercial customer class ranged from -2.1% to 0.9%. The variances for the industrial customer class ranged from -6.8% to 5.8%. We cannot assure you that the future variance between actual and expected numbers of customers in the aggregate or by customer class will be similar to the historical experience set forth below. Any updated information relating to this table will be set forth in the prospectus supplement. In this table, “variance” represents percentage deviation from the forecast number of customers.

**Forecast Variance For the Number of Metered Customers at Period End**

	2003	2004	2005	2006	2007
<b>Residential</b>					
Forecast	1,602,916	1,640,280	1,692,130	1,739,541	1,792,158
Actual	1,615,921	1,658,076	1,711,384	1,743,963	1,793,600
Variance	0.8%	1.1%	1.1%	0.3%	0.1%
<b>Commercial</b>					
Forecast	223,415	224,265	228,250	234,539	241,306
Actual	218,739	223,174	230,400	234,925	238,413
Variance	-2.1%	-0.5%	0.9%	0.2%	-1.2%
<b>Industrial</b>					
Forecast	1,903	1,930	2,009	2,146	2,211
Actual	1,981	2,038	2,125	2,072	2,061
Variance	4.1%	5.6%	5.8%	-3.4%	-6.8%
<b>Total</b>					
Forecast	1,828,234	1,866,475	1,922,389	1,976,226	2,035,675
Actual	1,836,641	1,883,288	1,943,909	1,980,960	2,034,074
Variance	0.5%	0.9%	1.1%	0.2%	-0.1%

**The Billing Process**

Retail electric providers issue a single bill to retail electric customers purchasing electricity from a retail electric provider. This single bill includes all charges related to purchasing electricity from the retail electric provider, transmission and distribution services from CenterPoint Houston, the applicable transition charges and any other charges authorized by the PUCT.

Under the servicing agreement, any changes CenterPoint Houston institutes to customary billing and collection practices will apply to the servicing of the transition property so long as CenterPoint Houston is the servicer. CenterPoint Houston expects that any such changes would be designed to enhance its ability to make timely recovery of amounts billed.

**The Collection Process**

Retail electric customers will pay the transition charges to retail electric providers who supply them with electric power as part of their single bill for electric service. The retail electric providers will be obligated to remit to the servicer payments of the transition charges as described under “Retail Electric Providers—Payment of Transition Charges.” The servicer will have rights only under very limited circumstances to collect transition charges directly from retail electric customers. The servicer will not pay any shortfalls resulting from the failure of any retail electric provider to forward transition charge collections. If a retail electric provider defaults in the payment of transition charges, the retail electric provider must implement one of the courses of action described under “Retail Electric Providers—Remedies Upon Default.”

*Write-Off Experience.* The table below sets forth net write-off experience with respect to payments owed to the retail electric providers CenterPoint Houston serves. The information in the table is derived from data provided to the servicer by retail electric providers. Neither we nor the servicer has independently verified this information. We cannot assure you that this historical data will be indicative of future experiences. In the table below, columns labeled “TC1” reflect write-off experience with respect to payments of transition charges relating to the Series 2001-1 transition bonds and columns labeled “TC2” reflect write-off experience with respect to payments of transition charges relating to the Senior Secured Transition Bonds, Series A. The statutory true-up mechanism mitigates the effect of any write-offs on the scheduled payment of the transition bonds. Please read “CenterPoint Houston’s Financing Order—Statutory True-Ups.”

	Net write-off for 12 months ended May 31,						
	2003 TC1	2004 TC1	2005 TC1	2006		2007	
				TC1	TC2	TC1	TC2
Residential customers	2.73%	3.37%	1.87%	1.56%	1.39%	2.38%	2.34%
Non-residential customers	0.54%	0.59%	0.39%	0.26%	0.20%	0.40%	0.34%

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**Delinquencies**

The following table sets forth information relating to the delinquency experience of CenterPoint Houston for retail electric providers on December 31 of each of the five preceding years:

**Customer Delinquency Data**

<u>Retail Electric Providers</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Percent of Billed Revenue Not Collected Within:					
36-65 days	0.01%	0.57%	0.03%	0.01%	0.02%
66 days or more	0.21%	0.23%	0.21%	0.06%	0.02%
Total	0.22%	0.80%	0.24%	0.07%	0.04%

CenterPoint Houston does not believe that the delinquency experience with respect to transition charge collections will differ substantially from the approximate rates indicated above.

**Days Sales Outstanding**

The following table sets forth information relating to CenterPoint Houston's days sales outstanding for all retail electric providers in its service territory as of December 31 for each of the past five years. Days sales outstanding is a measure of the average number of days that CenterPoint Houston takes to collect its revenue. The average number of days for the collection of the transition charges is expected to be similar to CenterPoint Houston's revenue collection experience. The days sales outstanding numbers in the following table were generally calculated using the following formula which we calculated as follows: total amount billed as of December 31 divided by the total revenues for the related calendar year times the number of days in the related calendar year.

**Days Sales Outstanding**

<u>December 31,</u>	<u>Days Sales Outstanding</u>
2003	22
2004	24
2005	29
2006	29
2007	32

## CENTERPOINT ENERGY TRANSITION BOND COMPANY III, LLC, THE ISSUING ENTITY

### General

We are a special purpose limited liability company formed under the Delaware Limited Liability Company Act pursuant to a limited liability company agreement executed by our sole member or owner, CenterPoint Houston, and the filing of a certificate of formation with the Secretary of State of the State of Delaware. Our limited liability company agreement will be amended and restated in its entirety prior to the date we enter into the sale agreement relating to the transition bonds with CenterPoint Houston. We and CenterPoint Houston have filed the form of our limited liability company agreement (as initially executed and as it will be amended and restated) with the SEC as an exhibit to the registration statement of which this prospectus forms a part. We have summarized selected provisions of our limited liability company agreement below. Our limited liability company agreement restricts us from engaging in activities other than those described in this section. We do not have any employees, but we will pay our member for administrative services in accordance with our limited liability company agreement. On the date of issuance of the transition bonds, our capital will be equal to 0.5% of the principal amount of the transition bonds issued, or such other amount as specified in the prospectus supplement. Our capitalization after giving effect to the issuance of any transition bonds will be set forth in the prospectus supplement.

As of the date of this prospectus, we have not carried on any business activities and have no operating history. Our fiscal year is the calendar year. We are not an agency or instrumentality of the State of Texas. Immediately following our issuance of the transition bonds, our assets will include:

- the transition property,
- our rights under the sale agreement, under the administration agreement and the bill of sale delivered by CenterPoint Houston pursuant to the sale agreement,
- our rights under the servicing agreement and any subservicing, agency, administration, intercreditor or collection agreements executed in connection with such servicing agreement,
- the collection account and all subaccounts of such collection account,
- our rights in the deposits of retail electric providers required under the financing order,
- all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing, and
- all payments on or under and all proceeds in respect of any or all of the foregoing.

The indenture provides that the transition property, as well as our other assets, other than any cash released to us by the trustee semi-annually from earnings on the capital subaccount, will be pledged by us to the trustee. Pursuant to the indenture, the collected transition charges remitted to the trustee by the servicer must be used to pay principal and interest on the transition bonds and our other obligations specified in the indenture.

### Our Purpose

We were created for the specific purposes of:

- purchasing and owning transition property and other transition bond collateral,
- issuing and registering the transition bonds,
- pledging our interest in transition property and other transition bond collateral to the trustee pursuant to the terms of the indenture in order to secure the transition bonds,
- making payments on the transition bonds,
- distributing amounts released to us, and
- performing other activities that are necessary, suitable or convenient to accomplish these purposes.

Our limited liability company agreement does not permit us to engage in any activities not directly related to these purposes, including issuing securities (other than the transition bonds), borrowing money or making loans to other persons. The list of permitted activities set forth in our limited liability company agreement may not be altered, amended or repealed without the affirmative vote of a majority of our managers, which vote must include the affirmative vote of all of our independent manager. Our amended and restated limited liability company agreement and the indenture will prohibit us from issuing any transition bonds (as such term is defined in the Restructuring Act) other than the transition bonds that we will offer pursuant to the prospectus supplement.

## **Our Relationship With CenterPoint Houston**

On the issue date for the transition bonds, CenterPoint Houston will sell the transition property to us pursuant to the sale agreement between us and CenterPoint Houston. Pursuant to the servicing agreement between us and CenterPoint Houston, CenterPoint Houston will serve as the initial servicer of the transition property. We will pay CenterPoint Houston fixed fees for performing these services. Pursuant to an administration agreement between us and CenterPoint Houston, CenterPoint Houston will provide administrative services to us.

## **Our Relationship With the PUCT**

Pursuant to the financing order,

- the PUCT or its designated representative has a decision-making role co-equal with CenterPoint Houston with respect to the structuring and pricing of the transition bonds and all matters related to the structuring and pricing of the transition bonds will be determined through a joint decision of CenterPoint Houston and the PUCT or its designated representative,
- CenterPoint Houston is directed to take all necessary steps to ensure that the PUCT or its designated representative is provided sufficient and timely information to allow the PUCT or its designated representative to fully participate in, and exercise its decision making power over, the proposed securitization, and
- the servicer will file periodic adjustments to transition charges with the PUCT on our behalf.

We have agreed that certain reports concerning transition charge collections will be provided to the PUCT.

## **Our Managers**

Pursuant to our limited liability company agreement, our affairs will be managed by managers, whom we refer to in this prospectus and the prospectus supplement as our “managers.” CenterPoint Houston will appoint our managers from time to time or, in the event CenterPoint Houston transfers its interest in us, the new owner or owners will appoint our managers. Following the issuance of the transition bonds, we will have at least one independent manager at all times who, among other things, is not and has not been for at least five years prior to the date of his or her appointment:

- a direct or indirect legal or beneficial owner of us, CenterPoint Houston, any of our affiliates or any of CenterPoint Houston’s affiliates,
- a relative, supplier, employee, officer, director or manager (other than as an independent director or manager of us, CenterPoint Houston or any of its affiliates, as the case may be), contractor or material creditor of us, CenterPoint Houston or any of its affiliates, or
- a person who controls (whether directly, indirectly or otherwise) CenterPoint Houston or any of its affiliates or any creditor, employee, officer, director, manager or material supplier or contractor of CenterPoint Houston or its affiliates; provided, that the indirect or beneficial ownership of stock of CenterPoint Houston or its affiliates through a mutual fund or similar diversified investment vehicle with respect to which the owner does not have discretion or control over the investments held by such diversified investment vehicle shall not preclude such owner from being an independent manager.

The persons who serve as independent managers of Transition Bond Company I and Transition Bond Company II may also serve as our independent manager. The remaining managers will be employees or officers of CenterPoint Houston. The managers will devote the time necessary to conduct our affairs. As of the date of this prospectus, Marc Kilbride, who is 55 years of age and the Vice President and Treasurer of CenterPoint Houston, is our sole manager. He has served as Vice President and Treasurer of CenterPoint Houston since June 2002 and Treasurer since 1997. We expect that CenterPoint Houston will appoint two of its employees or officers to serve as managers with Mr. Kilbride and the independent manager in connection with the issuance of the transition bonds.

None of our managers has been involved in any legal proceedings which are specified in Item 401(f) of the SEC’s regulation S-K.

## **Manager Fees and Limitation on Liabilities**

As of the date of this prospectus, we have not paid any compensation to any manager since the date we were formed. We will not compensate our managers, other than our independent manager, for their services performed on our behalf. The independent manager will be paid a manager’s fee from our assets and will be reimbursed for their reasonable expenses including, without limitation, the reasonable compensation, expenses and disbursements of any agents, representatives, experts and counsel the independent manager may employ in connection with the performance of their respective duties under our limited liability company agreement.

Our limited liability company agreement provides that to the extent permitted by law, our managers will not be personally liable for any of our debts, obligations or liabilities. Our limited liability company agreement further provides that, except as described below, to the fullest extent permitted by law, we will indemnify our managers against judgments, penalties (including excise and

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similar taxes and punitive damages), fines, settlements and reasonable expenses (including reasonable attorneys' fees) actually incurred by such manager in connection with such proceeding except that such manager shall not be entitled to indemnification for any judgment, penalty, fine, settlement or expense directly caused by such manager's fraud, gross negligence or willful misconduct.

### **We Are a Separate and Distinct Legal Entity from CenterPoint Houston**

Under our limited liability company agreement, we may not file a voluntary petition for relief under the bankruptcy code without a unanimous vote of our managers (including our independent manager). CenterPoint Houston has agreed that it will not cause us to file a voluntary petition for relief under the bankruptcy code. Our limited liability company agreement, except for financing reporting purposes and for federal and state income tax purposes, requires us to:

- take all reasonable steps to continue our identity as a separate legal entity,
- make it apparent to third persons that we are an entity with assets and liabilities distinct from those of CenterPoint Houston, other affiliates of CenterPoint Houston, our managers or any other person, and
- make it apparent to third persons that we are not a division of CenterPoint Houston or any of its affiliates or any other person.

Our principal place of business is 1111 Louisiana, Suite 4689A , Houston, Texas 77002, and our telephone number at such address is (713) 207-5747.

### **Administration Agreement**

CenterPoint Houston will, pursuant to an administration agreement between CenterPoint Houston and us, provide administrative services to us, including services relating to the preparation of financial statements, required filings with the SEC, any tax returns we might be required to file under applicable law, qualifications to do business, and minutes of our managers' meetings. We will pay CenterPoint Houston a fixed fee of \$100,000 per annum, payable in installments of \$50,000 on each payment date for performing these services, plus we will reimburse CenterPoint Houston for all costs and expenses for services performed by unaffiliated third parties and actually incurred by CenterPoint Houston in performing such services described above.

### **USE OF PROCEEDS**

We will use the proceeds of the issuance of the transition bonds to pay the expenses of the issuance and sale of the transition bonds and to purchase the transition property from CenterPoint Houston. In accordance with the financing order, CenterPoint Houston will use the proceeds it receives from the sale of the transition property to reduce its debt and/or equity and to adjust its capitalization on its regulatory books.

### **RELATIONSHIP TO THE SERIES 2001-1 TRANSITION BONDS**

In October 2001, Transition Bond Company I, a special purpose, wholly owned subsidiary of CenterPoint Houston, issued \$749 million of Series 2001-1 transition bonds. These bonds were issued to securitize CenterPoint Houston's generation-related regulatory assets recoverable through irrevocable nonbypassable transition charges provided for in the Restructuring Act and a financing order issued by the PUCT on May 31, 2000.

Although CenterPoint Houston is the servicer with respect to the Series 2001-1 transition bonds and will be the initial servicer with respect to the transition bonds, as more fully described under "The Seller, Initial Servicer and Sponsor of the Transition Property," we are a separate legal entity from Transition Bond Company I, and the transition bonds described herein will be payable from collateral that is separate from that securing the Series 2001-1 transition bonds. Transition Bond Company I will have no obligations under our transition bonds, and we will have no obligations under the Series 2001-1 transition bonds. Please read "The Restructuring Act—CenterPoint Houston and Other Utilities May Securitize Qualified Costs," "CenterPoint Houston's Financing Order" and "The Transition Bonds—The Security for the Transition Bonds."

### **RELATIONSHIP TO THE SENIOR SECURED TRANSITION BONDS, SERIES A**

In December 2005, Transition Bond Company II, a special purpose, wholly owned subsidiary of CenterPoint Houston, issued \$1.851 billion of Senior Secured Transition Bonds, Series A. These bonds were issued to securitize CenterPoint Houston's generation-related regulatory assets recoverable through irrevocable nonbypassable transition charges provided for in the Restructuring Act and a financing order issued by the PUCT on March 16, 2005.

Although CenterPoint Houston is the servicer with respect to the Senior Secured Transition Bonds, Series A and will be the initial servicer with respect to the transition bonds, as more fully described under “The Seller, Initial Servicer and Sponsor of the Transition Property,” we are a separate legal entity from Transition Bond Company II, and the transition bonds described herein will be payable from collateral that is separate from that securing the Senior Secured Transition Bonds, Series A. Transition Bond Company II will have no obligations under our transition bonds, and we will have no obligations under the Senior Secured Transition Bonds, Series A. Please read “The Restructuring Act—CenterPoint Houston and Other Utilities May Securitize Qualified Costs,” “CenterPoint Houston’s Financing Order” and “The Transition Bonds—The Security for the Transition Bonds.”

## THE TRANSITION BONDS

We will issue the transition bonds pursuant to the terms of an indenture between us and the trustee specified in the prospectus supplement. We have filed the form of the indenture with the SEC as an exhibit to the registration statement of which this prospectus forms a part. The particular terms of the transition bonds will be provided in the indenture and the supplemental indenture. We have summarized selected provisions of the indenture and the transition bonds below. This summary does not purport to be complete and is subject to and qualified by reference to the provisions of the indenture. We will describe the particular terms of the transition bonds in the prospectus supplement. You should carefully read the summary below, the prospectus supplement and the terms and provisions of the indenture that may be important to you before investing in the transition bonds. Please read “Where You Can Find More Information” in this prospectus.

### General Terms of the Transition Bonds

We may issue the transition bonds under the indenture in the future to finance the purchase by us of the transition property. The aggregate principal amount of the transition bonds that may be authenticated and delivered under the indenture and the financing order issued by the PUCT on September 18, 2007 may not exceed the Securitizable Balance as of the date the transition bonds are issued plus up-front qualified costs as set forth in the financing order. The transition bonds may include one or more tranches which differ, among other things, as to interest rate and amortization of principal. The terms of the transition bonds will be identical, unless we issue more than one tranche, in which case the terms of all transition bonds of the same tranche will be identical. The particular terms of the transition bonds and, if applicable, tranches thereof, will be set forth in the supplemental indenture. Please read “Risk Factors—Other Risks Associated with an Investment in the Transition Bonds” in this prospectus.

The prospectus supplement will describe the following terms of the transition bonds and, if applicable, the tranches of the transition bonds:

- the number of tranches, if any,
- the principal amount of the transition bonds and, if applicable, the tranches of the transition bonds,
- the transition charges,
- the annual rate at which interest accrues or the method or methods of determining such annual rate,
- the payment dates,
- the scheduled final payment date and the final maturity date of the transition bonds and, if applicable, the tranches of the transition bonds,
- the issuance date of the transition bonds,
- the collateral for the transition bonds,
- the authorized denominations,
- the expected amortization schedule for principal of the transition bonds and, if applicable, the tranches of the transition bonds,
- any other material terms of the tranches that are not inconsistent with the provisions of the indenture and that will not result in any rating agency’s reducing or withdrawing its rating of any outstanding tranche of transition bonds, and
- the identity of the trustee.

The transition bonds are not a debt, liability or other obligation of the State of Texas or of any political subdivision, agency or instrumentality of the State and do not represent an interest in or legal obligation of CenterPoint Energy, CenterPoint Houston or any of their affiliates, other than us. None of CenterPoint Energy, CenterPoint Houston or any of their affiliates will guarantee or insure the transition bonds. A financing order authorizing the issuance of transition bonds does not constitute a pledge of the full faith and credit of the State of Texas or of any of its political subdivisions. The issuance of the transition bonds under the Restructuring Act will not directly, indirectly or contingently obligate the State of Texas or any of its political subdivisions to levy or to pledge any form of taxation for the transition bonds or to make any appropriation for their payment.

## Payments of Interest and Principal on the Transition Bonds

Interest will accrue on the principal balance of the transition bonds at the interest rate specified in or determined in the manner specified in the prospectus supplement. Interest will be payable to the transition bondholders on each payment date, commencing on the payment date specified in the prospectus supplement. Interest payments will be made from collections of the transition charges, including amounts available in the excess funds subaccount and, if necessary, the amounts available in the capital subaccount. In the event of default by a retail electric provider, the amounts in the retail electric provider security deposit account or available from other credit support (up to an amount of the lesser of the payment default of that retail electric provider or the amount of that retail electric provider's deposit or other credit support amount) will be used to make payments in respect of the transition bonds.

On any payment date, we generally will pay principal of transition bonds only until the outstanding principal balance has been reduced to the principal balance specified for that payment date in the expected amortization schedule, but only to the extent funds are available as described in this prospectus. Accordingly, principal of the transition bonds may be paid later, but generally not sooner, than reflected in the expected sinking fund schedule, except in the case of an acceleration. Please read "Risk Factors—Other Risks Associated With an Investment in the Transition Bonds" and "Weighted Average Life and Yield Considerations for the Transition Bonds" in this prospectus.

The trustee will retain in the excess funds subaccount for payment on later payment dates any collections of transition charges in excess of amounts payable as:

- fees and expenses of the servicer (including the servicing fee), the independent manager and the trustee,
- payments of interest and principal on the transition bonds,
- allocations to the capital subaccount, and
- investment earnings on amounts in the capital subaccount released to us.

If the trustee receives insufficient collections of transition charges for the transition bonds for any payment date, and amounts in the collection account (and the applicable subaccounts of that collection account) are not sufficient to make up the shortfall, principal of the transition bonds may be paid later than expected, as described in this prospectus. The failure to make a scheduled payment of principal on the transition bonds because there are not sufficient funds in the collection account does not constitute a default or an event of default under the indenture, except for the failure to make the scheduled payment of principal due upon the final maturity of the transition bonds.

The trustee will distribute on each payment date to the transition bondholders to the extent of available funds in the collection account all payments of principal and interest then due on such transition bonds (other than special payments as defined in the indenture). The trustee will make each such payment to the transition bondholders, other than the final payment, on the applicable record date. If the transition bonds are ever issued in definitive certificated form, however, the final payment with respect to the transition bonds will be made only upon presentation and surrender of such transition bond at the office or agency of the trustee specified in the notice given by the trustee with respect to such final payment. The trustee will mail notice of the final payment to the transition bondholders no later than five days prior to the final payment date, specifying the date set for the final payment and the amount of the payment.

The transition bonds will originally be issued in book-entry form, and we do not expect that the transition bonds will be issued in definitive certificated form. At the time, if any, we issue the transition bonds in the form of definitive transition bonds and not to The Depository Trust Company ("DTC") or its nominee, the trustee will make payments with respect to that tranche as described below under "—Definitive Certificated Transition Bonds." Upon application by a holder of any tranche of transition bonds in the principal amount of \$10,000,000 or more to the trustee not later than the applicable record date, the trustee will make payments by wire transfer to an account maintained by the payee.

On each payment date, the amount to be paid as principal on the transition bonds will equal:

- the unpaid principal amount due on the final maturity date, plus
- the unpaid principal amount upon acceleration following an event of default, plus
- the overdue payments of principal, plus
- the unpaid and previously scheduled payments of principal, plus
- the principal scheduled to be paid on that payment date.

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The failure to pay accrued interest on the transition bonds on any payment date (even if the failure is caused by a shortfall in transition charges received) will result in an event of default for the transition bonds unless such failure is cured within five business days. If interest is not paid within that five-day period, the issuing entity will pay such defaulted interest (plus interest on such defaulted interest at the applicable interest rate to the extent lawful) to the persons who are transition bondholders on a special record date (as defined in the indenture). The special record date will be at least fifteen business days prior to the date on which the trustee is to make a special payment (a special payment date). We will fix any special record date and special payment date and, at least 10 days before such special record date, we will mail to each affected transition bondholder a notice that states the special record date, the special payment date and the amount of defaulted interest (plus interest on such defaulted interest) to be paid. Please read “—What Constitutes an Event of Default on the Transition Bonds” below.

The entire unpaid principal amount of the transition bonds will be due and payable:

- on the final maturity date,
- if an event of default under the indenture occurs and is continuing and the trustee or the holders of a majority in principal amount of the transition bonds have declared the transition bonds to be immediately due and payable.

However, the nature of our business will result in payment of principal upon an acceleration of the transition bonds being made as funds become available. Please read “Risk Factors—Risks Associated with the Unusual Nature of the Transition Property—Foreclosure of the trustee’s lien on the transition property securing the transition bonds might not be practical, and acceleration of the transition bonds before maturity might have little practical effect” and “—You may experience material payment delays or incur a loss on your investment in the transition bonds because the source of funds for payment is limited.”

If any special payment date or other date specified herein for distribution of any payments to transition bondholders is not a business day, payments scheduled to be made on such special payment date or other date may be made on the next succeeding business day, and no interest will accrue upon such payment during the intervening period. “Business day” means any day other than a Saturday, a Sunday or a day on which banking institutions in New York, New York, or Houston, Texas, are required or authorized by law or executive order to remain closed.

Neither we nor CenterPoint Houston makes any representation or warranty that any amounts actually collected arising from transition charges will in fact be sufficient to meet payment obligations on the transition bonds or that assumptions made in calculating transition charges will in fact be realized.

### **Credit Enhancement for the Transition Bonds**

Credit enhancement with respect to the transition bonds will be provided by adjustments to the transition charges, amounts on deposit in the excess funds subaccount and the capital subaccount and cash deposits and other credit support provided in respect of transition charges by retail electric providers who do not meet specified credit rating requirements.



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### **Transition Bonds Will Be Issued in Book-Entry Form**

The transition bonds will be available to investors only in the form of book-entry transition bonds. You may hold your transition bonds through DTC in the U.S., Clearstream Banking, Luxembourg, S.A., referred to as Clearstream, or Euroclear in Europe or in any other manner we describe in the prospectus supplement. You may hold your transition bonds directly with one of these systems if you are a participant in the system or indirectly through organizations that are participants.

*The Role of DTC, Clearstream and Euroclear.* Cede & Co., as nominee for DTC, will hold the global bond or bonds representing the transition bonds. Clearstream and Euroclear will hold omnibus positions on behalf of the Clearstream customers and Euroclear participants, respectively, through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories. These depositories will, in turn, hold these positions in customers' securities accounts in the depositories' names on the books of DTC.

*The Function of DTC.* DTC is a limited purpose trust company organized under the laws of the State of New York and is a member of the Federal Reserve System. DTC is a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entries, thereby eliminating the need for physical movement of bonds. Direct participants of DTC include securities brokers and dealers, banks, trust companies and clearing corporations and may include other organizations, including the underwriters of the transition bonds. Indirect access to the DTC system also is available to others, including banks, brokers, dealers and trust companies, as indirect participants, that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

*The Function of Clearstream.* Clearstream is incorporated under the laws of Luxembourg. Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream customers through electronic book-entry changes in accounts of Clearstream customers, thereby eliminating the need for physical movement of securities. Transactions may be settled by Clearstream in any of various currencies, including United States dollars. Clearstream provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream also deals with domestic securities markets in various countries through established depository and custodial relationships. Clearstream is registered as a bank in Luxembourg and therefore is subject to regulation by the Commission de Surveillance du Secteur Financier, which supervises Luxembourg banks. Clearstream's customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations, among others, and may include the underwriters of the transition bonds. Clearstream's United States customers are limited to securities brokers and dealers and banks. Clearstream has customers located in various countries. Indirect access to Clearstream is also available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream. Clearstream has established an electronic bridge with Euroclear Bank S.A./N.V. as the operator of the Euroclear System in Brussels to facilitate settlement of trades between Clearstream and Euroclear.

*The Function of Euroclear.* Euroclear was created in 1968 to hold securities for Euroclear participants and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of securities and any risk from lack of simultaneous transfers of securities and cash. Such transactions may be settled in any of various currencies, including United States dollars. The Euroclear System includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC described below. The Euroclear System is operated by Euroclear Bank S.A./N.V. as the Euroclear operator. All operations are conducted by the Euroclear operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear operator. Euroclear participants include central banks and other banks, securities brokers and dealers and other professional financial intermediaries and may include the underwriters of the transition bonds. Indirect access to the Euroclear System is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

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*Terms and Conditions of Euroclear.* Securities clearance accounts and cash accounts with the Euroclear operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System. These terms and conditions govern transfers of securities and cash within the Euroclear System, withdrawals of securities and cash from the Euroclear System and receipts of payments with respect to securities in the Euroclear System. All securities in Euroclear are held on a fungible basis without attribution of specific securities to specific securities clearance accounts. The Euroclear operator acts under these rules and laws only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

*The Rules for Transfers Among DTC, Clearstream or Euroclear Participants.* Transfers between DTC participants will occur in accordance with DTC rules. Transfers between Clearstream customers or Euroclear participants will occur in the ordinary way in accordance with their respective rules and operating procedures.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream customers or Euroclear participants, on the other, will be effected through DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its depository; however, those cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in that system in accordance with its rules and procedures and within its established deadlines, which will be based on European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving transition bonds in DTC and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream customers and Euroclear participants may not deliver instructions directly to Clearstream's and Euroclear's depositories.

Because of time-zone differences, credits of securities in Clearstream or Euroclear as a result of a transaction with a participant will be made during the subsequent securities settlement processing, dated the business day following the DTC settlement date, and those credits or any transactions in those securities settled during that processing will be reported to the relevant Clearstream customer or Euroclear participant on that business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream customer or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

*DTC Will Be the Holder of the Transition Bonds.* Transition bondholders that are not participants or indirect participants but desire to purchase, sell or otherwise transfer ownership of, or other interest in, transition bonds may do so only through participants and indirect participants. In addition, transition bondholders will receive all distributions of principal of and interest on the transition bonds from the trustee through the participants, who in turn will receive them from DTC. Under a book-entry format, transition bondholders may experience some delay in their receipt of payments because payments will be forwarded by the trustee to Cede & Co., as nominee for DTC. DTC will forward those payments to its participants, who thereafter will forward them to indirect participants or transition bondholders. It is anticipated that the only "bondholder" will be Cede & Co., as nominee of DTC. The trustee will not recognize transition bondholders as bondholders, as that term is used in the indenture, and transition bondholders will be permitted to exercise the rights of bondholders only indirectly through the participants, who in turn will exercise the rights of transition bondholders through DTC.

Under the rules, regulations and procedures creating and affecting DTC and its operations, DTC is required to make book-entry transfers among participants on whose behalf it acts with respect to the transition bonds and is required to receive and transmit distributions of principal and interest on the transition bonds. Participants and indirect participants with whom transition bondholders have accounts with respect to the transition bonds similarly are required to make book-entry transfers and receive and transmit those payments on behalf of their respective transition bondholders. Accordingly, although transition bondholders will not possess transition bonds, transition bondholders will receive payments and will be able to transfer their interests.

Because DTC can act only on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of a transition bondholder to pledge transition bonds to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of those transition bonds, may be limited due to the lack of a physical certificate for those transition bonds.

DTC has advised us that it will take any action permitted to be taken by a transition bondholder under the indenture only at the direction of one or more participants to whose account with DTC the transition bonds are credited. Additionally, DTC has advised us that it will take those actions with respect to specified percentages of the collateral amount only at the direction of and on behalf of participants whose holdings include interests that satisfy those specified percentages. DTC may take conflicting actions with respect to other interests to the extent that those actions are taken on behalf of participants whose holdings include those interests.

*How Transition Bond Payments Will Be Credited by Clearstream and Euroclear.* Distributions with respect to transition bonds held through Clearstream or Euroclear will be credited to the cash accounts of Clearstream customers or Euroclear participants in accordance with the relevant system's rules and procedures, to the extent received by its depository. Those distributions will be subject

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to tax reporting in accordance with relevant United States tax laws and regulations. Please read “Material U.S. Federal Income Tax Consequences for the Transition Bondholders” in this prospectus. Clearstream or the Euroclear operator, as the case may be, will take any other action permitted to be taken by a transition bondholder under the indenture on behalf of a Clearstream customer or Euroclear participant only in accordance with its relevant rules and procedures and subject to its depository’s ability to effect those actions on its behalf through DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the transition bonds among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform those procedures, and those procedures may be discontinued at any time.

### **Definitive Certificated Transition Bonds**

*The Circumstances That Will Result in the Issuance of Definitive Certificated Transition Bonds.* Unless we specify otherwise in the prospectus supplement, each tranche of the transition bonds will be issued in fully registered, certificated form to beneficial owners of transition bonds or other intermediaries, rather than to DTC or its nominee, only if:

- DTC or we advise the trustee in writing that DTC is no longer willing or able to discharge properly its responsibilities as nominee and depository with respect to the book-entry certificates for the transition bonds and we are unable to locate a qualified successor,
- we advise the trustee in writing that we elect to discontinue use of book-entry-only transfers through DTC and deliver certificated transition bonds to DTC, or
- after the occurrence of an event of default under the indenture, transition bondholders representing at least a majority of the outstanding principal balance of the transition bonds advise us, the trustee and DTC through the financial intermediaries and the DTC participants in writing that the continuation of a book-entry system through DTC, or a successor to DTC, is no longer in the transition bondholders’ best interest.

Upon issuance of definitive bonds, the transition bonds evidenced by such definitive bonds will be transferable directly (and not exclusively on a book-entry basis) and registered holders will deal directly with the trustee with respect to transfers, notices and payments.

*The Delivery of Definitive Certificated Transition Bonds.* Upon the occurrence of any event described in the immediately preceding paragraph (unless otherwise specified), the trustee will be required to notify all affected beneficial owners of transition bonds of the occurrence of the event and the availability through DTC of definitive certificated transition bonds. Upon surrender by DTC of the global bond or bonds in the possession of DTC that had represented the transition bonds and receipt of instructions for re-registration, the trustee will authenticate and deliver definitive certificated transition bonds to the beneficial owners, and the trustee will recognize the holders of the definitive certificated transition bonds as bondholders under the indenture.

*The Payment Mechanism for Definitive Certificated Transition Bonds.* Payments of principal of, and interest on, definitive certificated transition bonds will be made by the trustee, as paying agent, in accordance with the procedures set forth in the indenture. These payments will be made directly to holders of definitive certificated transition bonds in whose names the definitive certificated transition bonds were registered at the close of business on the related record date specified in each prospectus supplement. These payments will be made by check mailed to the address of the holder as it appears on the register maintained by the trustee or, in certain cases, by wire transfer.

*The Transfer or Exchange of Definitive Certificated Transition Bonds.* Definitive certificated transition bonds will be transferable and exchangeable at the offices of the transfer agent and registrar, which will initially be the trustee. No service charge will be imposed for any registration of transfer or exchange, but we and the transfer agent and registrar may require payment of a sum sufficient to cover any tax or other governmental charge imposed in connection with the transfer or exchange.

*Final Payments on Definitive Certificated Transition Bonds.* The final payment on any transition bond, however—whether a definitive certificated transition bond or a transition bond registered in the name of Cede & Co.—will be made only upon presentation and surrender of the transition bond at the office or agency specified in the notice of final payment to transition bondholders. The trustee will be required to mail that notice to registered bondholders not later than the fifth day of the month of the final payment.

### **Registration and Transfer of the Transition Bonds**

We may issue one or more tranches of transition bonds in definitive form, which will be transferable and exchangeable as described above under “—Definitive Certificated Transition Bonds.” There will be no service charge for any registration or transfer of the transition bonds, but the trustee may require the owner to pay a sum sufficient to cover any tax or other governmental charge.

We will issue each tranche of transition bonds in the minimum initial denominations set forth in the prospectus supplement and, except as otherwise provided in the prospectus supplement, in integral multiples thereof.

The trustee will make payments of interest and principal on each payment date to the bondholders in whose names the transition bonds were registered on the applicable record date.

### **The Security for the Transition Bonds**

To secure the payment of principal, premium, if any, and interest on, and any other amounts owing in respect of, the transition bonds pursuant to the indenture, we will grant to the trustee for the benefit of the transition bondholders a security interest in all of our right, title and interest, whether now owned or later acquired, in and to the following collateral, which collectively constitutes the trust estate under the indenture:

- the transition property,
- our rights under the statutory true-up mechanism,
- our rights under the sale agreement,
- the bill of sale delivered by CenterPoint Houston pursuant to the sale agreement,
- our rights under the servicing agreement and any subservicing, agency, intercreditor or collection agreements executed in connection with the servicing agreement,
- our rights under the administration agreement,
- our rights in the collection account and all subaccounts of the collection account, including the general subaccount, the capital subaccount and the excess funds subaccount and all cash, securities, instruments, investment property or other assets credited to or deposited in the collection account or any subaccount of the collection account from time to time or purchased with funds from the collection account, and all financial assets and securities entitlements carried therein or credited thereto,
- our rights in the deposits of retail electric providers required under the financing order,
- all of our other property related to the transition bonds, other than any cash released to us by the trustee semi-annually from earnings on the capital subaccount,

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- all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing, and
- all payments on or under and all proceeds in respect of any or all of the foregoing, including all proceeds of the conversion, voluntary or involuntary, into cash or other liquid property of any or all of the foregoing, all cash proceeds, accounts, accounts receivable, general intangibles, notes, drafts, acceptances, chattel paper, checks, deposit accounts, insurance proceeds, condemnation awards, payment intangibles, letter-of-credit rights, investment property, commercial tort claims, documents, rights to payment of any and every kind, and other forms of obligations and receivables, instruments and other property which at any time constitute all or part of or are included in the proceeds of any of the foregoing.

The security interest does not extend to:

- amounts (including net investment earnings) on deposit in a retail electric provider security deposit subaccount that have been released to the servicer or a retail electric provider,
- amounts representing investment earnings on the capital subaccount released to us,
- amounts deposited in the capital subaccount that have been released to us or as we direct following retirement of the transition bonds,
- amounts deposited with us on the issuance date for payment of costs of issuance with respect to the transition bonds (together with any interest earnings thereon), and
- amounts in the segregated trust account held for the benefit of the trustee to pay certain expenses of the trustee.

Section 39.309(b) of the Restructuring Act provides that a valid and enforceable security interest in transition property will attach and be perfected by the means set forth in Section 39.309. Specifically, Section 39.309(b) provides that a valid and enforceable lien and security interest in transition property may be created only by a financing order and the execution and delivery of a security agreement in connection with issuance of financing instruments such as the transition bonds. The lien and security interest attach automatically at the time when value is received for the instruments. Upon perfection by filing notice with the Secretary of State of Texas under Section 39.309(d) of the Restructuring Act, the lien and security interest will be a continuously perfected lien and security interest in the transition property and all proceeds of the property, whether accrued or not, and will have priority in the order of filing and take precedence over any subsequent judicial or other lien creditor.

### **The Collection Account for the Transition Bonds**

Under the indenture, we will establish a collection account with the trustee or at another eligible institution for the transition bonds. The collection account will be under the sole dominion and exclusive control of the trustee. Funds received from collections of the applicable transition charges will be deposited into the collection account. The collection account for the transition bonds will be divided into the following subaccounts, which need not be separate bank accounts:

- the general subaccount,
- the capital subaccount, and
- the excess funds subaccount.

All amounts in the collection account for the transition bonds not allocated to any other subaccount by the servicer will be allocated to the general subaccount. Unless the context indicates otherwise, references in this prospectus and the prospectus supplement to the collection account for the transition bonds include all of the subaccounts contained therein. All monies deposited from time to time in the collection account, all deposits therein pursuant to the indenture, and all investments made in eligible investments with these monies will be held by the trustee in the collection account as part of the collateral. The following institutions are eligible institutions for the establishment of the collection account:

- the corporate trust department of the trustee so long as any of the securities of the trustee are rated investment grade by each rating agency specified in the indenture, or

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- the trust department of a depository institution organized under the laws of the United States of America or any state or domestic branch of a foreign bank, which:
  - has deposits insured by the Federal Deposit Insurance Corporation, and has either:
    - with respect to specified investments having a maturity of greater than one month, a long-term unsecured debt rating of “AA-” by S&P and “A2” by Moody’s and, if applicable, the equivalent of the lower of those two ratings by Fitch, or
    - with respect to specified investments having a maturity of one month or less a certificate of deposit rating of “A-1+” by S&P and “P-1” by Moody’s and, if applicable, the equivalent of the lower of those two ratings by Fitch, or any other long-term, short-term or certificate of deposit rating acceptable to the rating agencies.

All deposits to and withdrawals from the Collection Account, all allocations to the subaccounts of the Collection Account and any amounts to be paid to the servicer shall be made by the trustee in accordance with written instructions provided by the servicer pursuant to the servicing agreement, which is discussed in “The Servicing Agreement” below.

*Appropriate Investments for Funds in the Collection Account.* So long as no default or event of default has occurred and is continuing, all or a portion of the funds in the collection account for the transition bonds must be invested by the trustee in accordance with the written direction of the servicer in any of the following, each of which is referred to as an eligible investment:

1. direct obligations of, and obligations fully guaranteed as to timely payment by, the United States of America,
2. demand deposits, time deposits or certificates of deposit of any depository institution or trust company incorporated under the laws of the United States of America or any state thereof, or any domestic branch of a foreign bank, and subject to supervision and examination by federal or state banking or depository institution authorities; provided, however, that at the time of the investment or contractual commitment to invest therein, the commercial paper or other short-term unsecured debt obligations, other than any obligations thereof where the rating is based on the credit of a person other than such depository institution or trust company, shall have either (A) a long-term unsecured debt rating from Moody’s and S&P of at least “Aa3” and “AA”, respectively, or (B) a certificate of deposit rating by Moody’s and S&P of at least “P-1” and “A-1+”, respectively,
3. commercial paper or other short-term obligations of any corporation (other than CenterPoint Houston or any of its affiliates), whose ratings, at the time of the investment or contractual commitment to invest therein, from Moody’s and S&P of at least “P-1” and “A-1+”, respectively,
4. investments in money market funds having a rating from Moody’s and S&P of “Aaa” and “AAA”, respectively, including funds for which the trustee or any of its affiliates act as investment manager or advisor,
5. bankers’ acceptances issued by any depository institution or trust company referred to in clause 2 above,
6. repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or any agency or instrumentality thereof the obligations of which are backed by the full faith and credit of the United States of America, in either case entered into with a depository institution or trust company, acting as principal, described in clause 2 above,
7. repurchase obligations with respect to any security or whole loan entered into with:
  - a. a depository institution or trust company, acting as principal, described in clause 2 above,
  - b. a broker/ dealer, acting as principal, registered as a broker or dealer under Section 15 of the Securities Exchange Act of 1934 the unsecured short-term debt obligations of which are rated at least “P-1” by Moody’s and at least “A-1+” by S&P at the time of entering into this repurchase obligation, or
  - c. an unrated broker/ dealer, acting as principal, that is a wholly owned subsidiary of a nonbank or bank holding company the unsecured short-term debt obligations of which are rated at least “P-1” by Moody’s and at least “A-1+” by S&P at the time of purchase, or
8. any other investment permitted by each of the rating agencies;

provided, however, that:

- a. any book-entry security, instrument or security having a maturity of one month or less that would be an eligible investment but for its failure, or the failure of the obligor thereon, to have the rating specified above shall be an eligible investment if such book-entry security, instrument or security, or the obligor thereon, has an unsecured short-term debt rating of at least “P-1” by Moody’s, and at least “A-1+” by S&P, and
- b. any book-entry security, instrument or security having a maturity of greater than one month that would be an eligible investment but for its failure, or the failure of the obligor thereon, to have the rating specified above shall be an eligible investment if such book-entry security, instrument or security, or the obligor thereon, has an unsecured long-term debt rating of at least “AA-” by S&P or “Aa3” by Moody’s and an unsecured short-term debt rating of at least “P-1” by Moody’s or the equivalent thereof by S&P,

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provided, that unless otherwise permitted by the applicable rating agencies, upon the failure of any Eligible Institution to maintain any applicable rating set forth in this definition or the definition of Eligible Institution, the related investments at that institution shall be reinvested in Eligible Investments at a successor Eligible Institution within 10 days.

If Fitch provides a rating for any of the securities, instruments or entities described above, then such security, instrument or entity must have a rating from Fitch specified at a level generally not less than the equivalent of the lower of the ratings thereon from Moody's and S&P.

These eligible investments may not:

- mature later than the next payment date, or
- be sold, liquidated or otherwise disposed of at a loss prior to the maturity thereof.

No moneys held in the collection account may be invested, and no investment held in the collection account may be sold, unless the security interest granted and perfected in the collection account will continue to be perfected in the investment or the proceeds of the sale in either case without any further action by any person.

*Remittances to the Collection Account.* On each remittance date, the servicer will remit all collected transition charges, any indemnity amounts and any other proceeds of the trust estate securing the transition bonds to the trustee for deposit in the collection account. Indemnity amount means any amount paid by the servicer or CenterPoint Houston to the trustee, for the trustee or on behalf of the transition bondholders, in respect of indemnification obligations pursuant to the servicing agreement or sale agreement. Please read "The Servicing Agreement" and "The Sale Agreement" in this prospectus. To the extent that the combined amounts remitted by a retail electric provider are insufficient to satisfy amounts owed under any bill, including transition charges, the amount remitted shall first be allocated ratably among the transition charges relating to transition bonds and other fees and charges (including transition charges relating to other transition bonds, delivery charges, nuclear decommissioning charges and other fees and charges) other than late fees, and second, any remaining portion of the remittance shall be attributed to late fees. If a retail electric provider defaults in the payment of transition charges, it must implement one of the actions described under "Retail Electric Providers—Remedies Upon Default."

*General Subaccount.* Collected transition charges and any indemnity amounts remitted to the trustee will be deposited into the general subaccount. On each payment date, the trustee will allocate amounts in the general subaccount among the other subaccounts as described under "—How Funds in the Collection Account Will Be Allocated." Amounts in the general subaccount will be invested in the eligible investments described above.

*Capital Subaccount.* Upon the issuance of the transition bonds, CenterPoint Houston will make a capital contribution to us in an amount stated in the prospectus supplement. We will pay this amount to the trustee for deposit into the capital subaccount which will be invested in eligible investments by the trustee in accordance with the written direction of the servicer. The trustee will draw on amounts in the capital subaccount to the extent that, in allocating funds in accordance with clauses 1 through 8 in "—How Funds in the Collection Account Will Be Allocated," below, amounts on deposit in the general subaccount and, the excess funds subaccount are insufficient to make scheduled payments on the transition bonds and payments of fees and expenses specified in clauses 1 through 8. The trustee will allocate collected transition charges available on any payment date that are not necessary to pay amounts described in clauses 1 through 8 in "—How Funds in the Collection Account Will Be Allocated," below, to the capital subaccount in an amount sufficient to replenish any amounts drawn from the capital subaccount. If the transition bonds have been retired as of any payment date, the amounts on deposit in the capital subaccount will be released to us, free of the lien of the indenture.

*Excess Funds Subaccount.* The trustee will allocate collected transition charges available on any payment date that are not necessary to pay clauses 1 through 10 in "—How Funds in the Collection Account Will Be Allocated," below, to the excess funds subaccount. The trustee will invest amounts in the excess funds subaccount in eligible investments in accordance with the written direction of the servicer. On each payment date, the trustee will draw on the excess funds subaccount in allocating funds in accordance with clauses 1 through 9 in "—How Funds in the Collection Account Will Be Allocated," below, to the extent that amounts on deposit in the general subaccount are insufficient to make scheduled payments on the transition bonds and payments of fees and expenses specified in clauses 1 through 9.

### **How Funds in the Collection Account Will Be Allocated**

Amounts remitted by the servicer to the trustee with respect to the transition bonds, including any indemnity amounts and all investment earnings on amounts in the general subaccount of the collection account will be deposited into the general subaccount. On each payment date, the trustee will allocate or pay all amounts on deposit in the general subaccount of the collection account in the following priority:

1. payment of the trustee's fees and expenses and any outstanding indemnity amounts owed to the trustee not to exceed a specified amount in any 12-month period, which amount will be fixed in the indenture,

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2. payment of the servicing fee, which will be a fixed amount specified in the servicing agreement, plus any unpaid servicing fees from prior payment dates,
3. payment of the fees of our independent manager (which are billed annually), which will be in an amount specified in an agreement between us and our independent manager, and a pro rata portion of the administration fee, which will be a fixed amount specified in the administration agreement between us and CenterPoint Houston,
4. payment of all of our other ordinary periodic operating expenses, such as accounting and audit fees, rating agency fees, legal fees and certain reimbursable costs of the administrator under the administration agreement and of the servicer under the servicing agreement,
5. payment of the interest then due on the transition bonds,
6. payment of the principal then required to be paid on the transition bonds at final maturity or upon acceleration upon an event of default,
7. payment of the principal then scheduled to be paid on the transition bonds,
8. payment of any of our remaining unpaid operating expenses and any remaining amounts owed pursuant to the basic documents, including all remaining indemnity amounts owed to the trustee,
9. replenishment of any amounts drawn from the capital subaccount for the transition bonds, including investment earnings in the capital subaccount for the transition bonds to the extent used for allocations and payments contemplated by clauses 1 through 8,
10. so long as no event of default has occurred and is continuing, release the investment earnings in the capital subaccount for the transition bonds to us, and
11. allocation of the remainder, if any, to the excess funds subaccount, and
12. after the transition bonds have been paid in full and discharged, the balance, together with all amounts in the capital subaccount and the excess funds account for the transition bonds, to us free and clear of the lien of the indenture.

The amount of the servicer's fee referred to in clause 2 above and the amount of the administration fee referred to in clause 3 will be described in the prospectus supplement for the transition bonds.

Interest means, for any payment date for any tranche of the transition bonds, the sum, without duplication, of:

- an amount equal to the interest accrued on that tranche at the applicable interest rate from the prior payment date or, with respect to the first payment date, the amount of interest accrued since the issuance date, of the transition bonds,
- any unpaid interest plus, to the fullest extent permitted by law, any interest accrued on this unpaid interest, and
- if the transition bonds have been declared due and payable, all accrued and unpaid interest thereon.

Principal means, with respect to any payment date and any tranche of the transition bonds, the sum, without duplication, of:

- the amount of principal due as a result of the occurrence and continuance of an event of default and acceleration of the transition bonds,
- the amount of principal due on the final maturity date of any tranche,
- any unpaid and previously scheduled payments of principal and overdue payments of principal, and
- the amount of principal scheduled to be paid on such payment date in accordance with the expected sinking fund schedule.

If on any payment date funds in the general subaccount are insufficient to make the allocations or payments contemplated by clauses 1 through 9 of the first paragraph of this subsection with respect to the transition bonds, the trustee will draw from amounts on deposit in the following subaccounts in the following order up to the amount of the shortfall:

1. from the excess funds subaccount for allocations and payments contemplated in clauses 1 through 9, and
2. from the capital subaccount for allocations and payments contemplated by clauses 1 through 8.

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If, on any payment date, available collections of the transition charges, together with available amounts in the subaccounts, are not sufficient to pay interest due on all outstanding transition bonds on that payment date, amounts available will be allocated pro rata based on the amount of interest payable on each tranche. If, on any payment date, remaining collections of the transition charges, together with available amounts in the subaccounts, are not sufficient to pay principal due and payable on all outstanding transition bonds on that payment date, amounts available will be allocated pro rata based on the principal amount of each tranche then due and payable. If, on any payment date, remaining collections of the transition charges, together with available amounts in the subaccounts, are not sufficient to pay principal scheduled to be paid on all outstanding transition bonds, amounts available will be allocated pro rata based on the principal amounts of each tranche then scheduled to be paid on the payment date. If the trustee uses amounts on deposit in the capital subaccount to pay those amounts or make those transfers, as the case may be, subsequent adjustments to the transition charges will take into account, among other things, the need to replenish those amounts.

### **Reports to Holders of the Transition Bonds**

On or prior to each payment date, the trustee will deliver a statement prepared by the servicer to each transition bondholder, to the PUCT and to the rating agencies. This statement will include, to the extent applicable, the following information, as well as any other information so specified in the supplemental indenture, as to the transition bonds with respect to that payment date or the period since the previous payment date, as applicable:

- the amount to be paid to transition bondholders and the related tranches in respect of principal,
- the amount to be paid to transition bondholders and the related tranches in respect of interest,
- the transition bond balance and the projected transition bond balance of the tranches as of that payment date,
- the amount on deposit in the capital subaccount as of that payment date,
- the amount, if any, on deposit in the excess funds subaccount as of that payment date,
- the amount to be paid to the trustee on that payment date,
- the amount to be paid to the servicer on that payment date, and
- any other transfers and payments made pursuant to the indenture.

### **Website**

We will, to the extent permitted by and consistent with the issuing entity's obligations under applicable law, cause to be posted on the website associated with CenterPoint Houston:

- the final prospectus for the transition bonds,
- a statement of transition charge remittances made to the trustee during the prior interest payment period,
- a statement reporting the balances in the collection account and in each subaccount of the collection account as of the most recent interest payment date,
- a statement showing the balance of outstanding transition bonds that reflects the actual periodic payments made on the transition bonds versus the expected periodic payments,
- the semi-annual servicer's certificate delivered for the transition bonds pursuant to the servicing agreement,
- any reports and other information that we are required to file with the SEC under the Securities Exchange Act of 1934, and

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- a current organization chart for the issuing entity and servicer (unless the servicer is not related to us in which case the servicer will post two separate organization charts), in each case disclosing the parent company and material subsidiaries of the servicer and us.

### **We and the Trustee May Modify the Indenture**

*Modifications of the Indenture That Do Not Require Consent of Transition Bondholders.* Without the consent of any of the holders of the outstanding transition bonds but with prior notice to the rating agencies and, with respect to amendments that would increase ongoing qualified costs as defined in the financing order, with the consent or deemed consent of the PUCT (other than with respect to the supplemental indenture establishing the specific terms of the transition bonds), we and the trustee may execute a supplemental indenture for any of the following purposes:

- to correct or amplify the description of the collateral, or to better assure, convey and confirm unto the trustee the collateral, or to subject additional property to the lien of the indenture,
- to evidence the succession, in compliance with the applicable provisions of the indenture, of another entity to us, and the assumption by any applicable successor of our covenants contained in the indenture and in the transition bonds,
- to add to our covenants, for the benefit of the holders of the transition bonds, or to surrender any right or power therein conferred upon us,
- to convey, transfer, assign, mortgage or pledge any property to the trustee,
- to cure any ambiguity, to correct or supplement any provision of the indenture or in any supplemental indenture which may be inconsistent with any other provision of the indenture or in any supplemental indenture, to make any other provisions with respect to matters or questions arising under the indenture or in any supplemental indenture, to change in any manner or eliminate any provisions of the indenture or to modify in any manner the rights of the transition bondholders under the indenture; provided, however, that:
  - this action shall not adversely affect in any material respect the interests of any transition bondholder, and
  - the rating agency condition shall have been satisfied with respect thereto,
- to evidence and provide for the acceptance of the appointment under the indenture by a successor trustee with respect to the transition bonds and to add to or change any of the provisions of the indenture as shall be necessary to facilitate the administration of the trust estate under the indenture by more than one trustee, pursuant to the requirements specified in the indenture,
- to qualify the transition bonds for registration with a clearing agency,
- to modify, eliminate or add to the provisions of the indenture to the extent necessary to effect the qualification of the indenture under the Trust Indenture Act or under any similar federal statute hereafter enacted and to add to the indenture any other provisions as may be expressly required by the Trust Indenture Act, or
- to satisfy any rating agency requirements.

*Additional Modifications to the Indenture That Do Not Require the Consent of Transition Bondholders.* We may also, without the consent of any of the transition bondholders but, with respect to amendments that would increase ongoing qualified costs as defined in the financing order, with the consent or deemed consent of the PUCT, execute one or more other agreements supplemental to the indenture as long as:

- the supplemental agreement does not adversely affect in any material respect the interests of any transition bondholder, and
- the rating agency condition shall have been satisfied with respect thereto.

*Modifications to the Indenture That Require the Approval of the Transition Bondholders.* We and the trustee also may, with the consent of the holders of not less than a majority of the outstanding amount of the transition bonds of each tranche to be affected by the supplemental indenture and, with respect to amendments that would increase ongoing qualified costs as defined in the financing order, with the consent or deemed consent of the PUCT, execute a supplemental indenture to add any provisions to, or change in any manner or eliminate any of the provisions of, the indenture or modify in any manner the rights of the transition bondholders under the indenture. However, the supplemental indenture may not, without the consent of the holder of each outstanding transition bond of each tranche affected thereby:

- change the date of payment of any installment of principal or premium, if any, or interest on any transition bond of such tranche, or reduce the principal amount thereof, the interest rate thereon or the premium, if any, with respect thereto,

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- change the provisions of the indenture and the supplemental indenture relating to the application of collections on, or the proceeds of the sale of, the collateral to payment of principal of or premium, if any, or interest on the transition bonds of such tranche, or change the coin or currency in which any transition bond or any interest thereon is payable,
- impair the right to institute suit for the enforcement of those provisions of the indenture specified therein requiring payment of any such amount due on the transition bonds on or after the respective due dates thereof, reduce the percentage of the aggregate amount of the outstanding transition bonds, or of a tranche thereof, the consent of the transition bondholders of which is required for any such supplemental indenture, or the consent of the transition bondholders of which is required for any waiver of compliance with the provisions of the indenture or of defaults specified in the indenture and their consequences provided for in the indenture or modify certain aspects of the definition of the term “outstanding”,
- reduce the percentage of the outstanding amount of the transition bonds of such tranche required to direct the trustee to direct us to sell, liquidate or preserve the collateral,
- modify any provision of the section of the indenture relating to the consent of transition bondholders of such tranche with respect to supplemental indentures, except to increase any percentage specified therein or to provide that those provisions of the indenture or the basic documents specified in the indenture cannot be modified or waived without the consent of each outstanding transition bondholder affected thereby,
- modify any of the provisions of the indenture in a manner so as to affect the amount of any payment of interest, principal or premium, if any, payable on any transition bond of such tranche on any payment date, or change the redemption dates, expected sinking fund schedules or tranche final maturity dates of any transition bonds of such tranche,
- decrease the required capital amount, modify or alter the provisions of the indenture regarding the voting of the transition bonds held by us, CenterPoint Houston, an affiliate of either of us or any obligor on the transition bonds,
- decrease the percentage of the aggregate principal amount of the transition bonds or tranche required to amend the sections of the indenture which specify the applicable percentage of the aggregate principal amount of the transition bonds necessary to amend the indenture or other related agreements specified therein, or
- permit the creation of any lien ranking prior to or on a parity with the lien of the indenture with respect to any of the collateral for the transition bonds or tranche or, except as otherwise permitted or contemplated in the indenture, terminate the lien of the indenture on any property at any time subject thereto or deprive the holder of any transition bond of the security provided by the lien of the indenture.

*Enforcement of the Sale Agreement, the Administration Agreement, the Intercreditor Agreement and the Servicing Agreement.* The indenture provides that we will take all lawful actions to enforce our rights under the sale agreement, the administration agreement, the intercreditor agreement and the servicing agreement. The indenture also provides that we will take all lawful actions to compel or secure the performance and observance by CenterPoint Houston, the administrator and the servicer of their respective obligations to us under or in connection with the sale agreement, the administration agreement, the intercreditor agreement and the servicing agreement. So long as no event of default occurs and is continuing, we may exercise any and all rights, remedies, powers and privileges lawfully available to us under or in connection with the sale agreement, the administration agreement, the intercreditor agreement and the servicing agreement, provided that such action shall not adversely affect the interests of the Holders in any material respect.

If an event of default occurs and is continuing, the trustee may, and, at the written direction of the holders of a majority of the outstanding amount of the transition bonds shall, exercise all of our rights, remedies, powers, privileges and claims against CenterPoint Houston, the administrator and servicer, under or in connection with the sale agreement, administration agreement, intercreditor agreement and servicing agreement, and any right of ours to take this action shall be suspended.

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*Modifications to the Sale Agreement, the Intercreditor Agreement, the Administration Agreement and the Servicing Agreement.* With the prior written consent of the trustee, the sale agreement, the intercreditor agreement, the administration agreement and the servicing agreement, may be amended, so long as the rating agency condition is satisfied in connection therewith, at any time and from time to time, without the consent of the transition bondholders but, with respect to amendments that would increase ongoing qualified costs as defined in the financing order, with the consent or deemed consent of the PUCT (other than with respect to an intercreditor agreement). However, any such amendment may not adversely affect the interest of any transition bondholder in any material respect without the consent of the holders of a majority of the outstanding principal amount of the transition bonds.

*Notification of the Rating Agencies, the PUCT, the Trustee and the Transition Bondholders of Any Modification.* If we, CenterPoint Houston or the servicer or any other party to the applicable agreement:

- proposes to amend, modify, waive, supplement, terminate or surrender, or agree to any other amendment, modification, waiver, supplement, termination or surrender of, the terms of the sale agreement or the servicing agreement, or
- waives timely performance or observance by CenterPoint Houston or the servicer under the sale agreement, the intercreditor agreement or the servicing agreement,

in each case in a way which would materially and adversely affect the interests of transition bondholders, we must first notify the rating agencies of the proposed action. Upon receiving notification that the rating agency condition has been satisfied, we must notify the trustee, the paying agent, the transition bond registrar and the PUCT in writing and the trustee shall notify the transition bondholders of the proposed action and whether the rating agency condition has been satisfied with respect thereto. The trustee will consent to this proposed amendment, modification, supplement or waiver only with the written consent of the holders of a majority of the outstanding principal amount of the transition bonds of the tranches materially and adversely affected thereby and, if such action would increase ongoing qualified costs, the consent of the PUCT (other than with respect to the intercreditor agreement).

### **What Constitutes an Event of Default on the Transition Bonds**

An event of default with respect to the transition bonds is defined in the indenture as being:

1. a default in the payment of any interest on any transition bond when the same becomes due and payable and the continuation of this default for five business days,
2. a default in the payment of the then unpaid principal of any transition bond on the final maturity date or, if applicable, any tranche on the final maturity date for that tranche,
3. a default in the observance or performance of any of our covenants or agreements made in the indenture, other than those specifically dealt with in clause 1 or 2 above, or any of our representations or warranties made in the indenture or in any certificate or other writing delivered pursuant to the indenture or in connection with the indenture proving to have been incorrect in any material respect as of the time when made, and this default continues or is not cured for a period of 30 days after the earlier of (a) written notice of the default is given to us by the trustee or to us and the trustee by the holders of at least 25% of the outstanding principal amount of the transition bonds or (b) the date we have knowledge of the default,
4. the filing of a decree or order for relief by a court having jurisdiction in respect of us or any substantial part of the collateral securing the transition bonds in an involuntary case or proceeding under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of us or our property or for any substantial part of the collateral securing the transition bonds or ordering the winding-up or liquidation of our affairs, and such decree or order remains unstayed and in effect for a period of 90 consecutive days,
5. the commencement by us of a voluntary case or proceeding under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or the consent by us to the entry of an order for relief in an involuntary case under any such law, or the consent by us to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of us or our property for any substantial part of the collateral securing the transition bonds or the making by us of any general assignment for the benefit of creditors, or the failure by us generally to pay our debts as such debts become due, or the taking of action by us in furtherance of any of the foregoing,

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6. any act or failure to act by the State of Texas or any of its agencies (including the PUCT), officers or employees that violates or is not in accordance with the pledge of the State of Texas in Section 39.310 of the Restructuring Act including, without limitation, the failure of the PUCT to implement the statutory true-up mechanism, or
7. any other event designated as an event of default in the prospectus supplement.

*Remedies Available Following an Event of Default.* If an event of default with respect to the transition bonds, other than event number 6 above, occurs and is continuing, the trustee or holders holding not less than a majority in principal amount of the transition bonds may declare the unpaid principal balance of the transition bonds, together with accrued interest, to be immediately due and payable. This declaration may, under the circumstances specified therein involving a cure, be rescinded by the holders of a majority in principal amount of the transition bonds. The nature of our business will result in payment of principal upon such a declaration being made as funds become available. Please read “Risk Factors—Risks Associated with the Unusual Nature of the Transition Property—Foreclosure of the trustee’s lien on the transition property securing the transition bonds might not be practical, and acceleration of the transition bonds before maturity might have little practical effect” and “—You may experience material payment delays or incur a loss on your investment in the transition bonds because the source of funds for payment is limited.”

In addition to acceleration of the transition bonds described above, the trustee may, and upon the written direction of the holders of a majority in principal amount of the transition bonds, shall, exercise one or more of the following remedies upon an event of default (other than event number 6 above):

- the trustee may institute proceedings in its own name and as trustee of an express trust for the collection of all amounts then payable on the transition bonds or under the indenture with respect to the transition bonds, whether by declaration or otherwise, enforce any judgment obtained, and collect from us or the servicer moneys adjudged due,
- the trustee may institute proceedings from time to time for the complete or partial foreclosure of the indenture with respect to the collateral securing the transition bonds,
- the trustee may exercise any remedies of a secured party under the Uniform Commercial Code or the Restructuring Act or any other applicable law and take any other appropriate action to protect and enforce the rights and remedies of the trustee and the transition bondholders,
- the trustee may sell the collateral securing the transition bonds or any portion thereof or rights or interest therein, at one or more public or private sales called and conducted in any manner permitted by law provided that certain conditions set forth in the indenture are met, and
- the trustee may exercise all of our rights, remedies, powers, privileges and claims against the seller, administrator and the servicer under or in connection with the administration agreement, the sale agreement, the intercreditor agreement or the servicing agreement.

If event of default number 6 above occurs, the trustee may to the extent allowed by law, institute or participate in proceedings reasonably necessary to compel performance of or to enforce the pledge of the State of Texas and to collect any monetary damages incurred by the transition bondholders or the trustee as a result of such event of default. This is the only remedy the trustee may exercise if this event of default has occurred.

*When the Trustee Can Sell the Collateral.* If the final maturity date of the transition bonds has occurred or the transition bonds have been declared to be due and payable following an event of default, the trustee may, or at the written direction of the holders of a majority in principal amount of the transition bonds shall, either:

- subject to the paragraph immediately below, sell the collateral securing the transition bonds,
- elect to have us maintain possession of the collateral securing the transition bonds, or
- take such other remedial action as the trustee, at the written direction of the holders of a majority in principal amount of the transition bonds then outstanding and declared to have been due and payable, may direct and continue to apply distributions on the collateral securing the transition bonds as if there had been no declaration of acceleration.

The trustee is prohibited from selling the collateral securing the transition bonds following an event of default, unless:

- the holders of 100% of the principal amount of the transition bonds consent to the sale,
- the proceeds of the sale or liquidation are sufficient to pay in full the principal of and premium, if any, and accrued interest on the outstanding transition bonds, or

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- the trustee determines, at its option, that funds provided by the collateral securing the transition bonds would not be sufficient on an ongoing basis to make all payments on the transition bonds as these payments would have become due if the transition bonds had not been declared due and payable, and the trustee obtains the written consent of the holders of 66 2/3% of the aggregate outstanding principal amount of the transition bonds.

*Right of Transition Bondholders to Direct Proceedings.* Subject to the provisions for indemnification and the limitations contained in the indenture, the holders of a majority in principal amount of the outstanding transition bonds of the affected tranches will have the right to direct the time, method and place of conducting any proceeding or any remedy available to the trustee or exercising any trust or power conferred on the trustee; provided that, among other things:

- this direction does not conflict with any rule of law or with the indenture,
- any direction to the trustee to sell or liquidate the collateral shall be by the holders of the transition bonds representing not less than 100% of the outstanding transition bonds,
- so long as the conditions specified in the indenture have been satisfied and the trustee elects to retain the collateral securing the transition bonds pursuant to the indenture and elects not to sell or liquidate that collateral, then any direction to the trustee to sell or liquidate the collateral securing the transition bonds by holders representing less than 100% of the outstanding transition bonds shall be of no force and effect, and
- the trustee may take any other action deemed proper by the trustee that is not inconsistent with this direction.

However, in case an event of default occurs and is continuing, the trustee will be under no obligation to exercise any of the rights or powers under the indenture at the request or direction of any of the holders of the transition bonds if:

- it reasonably believes it will not be indemnified to its reasonable satisfaction against the costs, expenses and liabilities which might be incurred by it in complying with this request, or
- it determines that this action might materially adversely affect the rights of any transition bondholder not consenting to the action.

*Waiver of Default.* Prior to acceleration of the transition bonds, the holders of a majority in principal amount of the transition bonds or affected tranche may, subject to certain conditions specified in the indenture, waive any default with respect to the transition bonds or such affected tranche, as the case may be. However, they may not waive a default in the payment of principal or of premium, if any, or interest on any of the transition bonds or a default in respect of a covenant or provision of the indenture that cannot be modified without the waiver or consent of all of the holders of the outstanding transition bonds of all affected tranches.

*Limitation of Proceedings.* Under the indenture, no transition bondholder will have the right to institute any proceeding, judicial or otherwise, or to avail itself of the right to foreclose on the transition property or otherwise enforce the lien in the transition property pursuant to Section 39.309 of the Restructuring Act, unless:

- the holder previously has given to the trustee written notice of a continuing event of default,
- the holders of not less than a majority in principal amount of the outstanding transition bonds have made written request of the trustee to institute the proceeding in its own name as trustee,
- the holder or holders have offered the trustee security or indemnity reasonably satisfactory to the trustee against the costs, expenses and liabilities to be incurred in complying with the request,
- the trustee for 60 days after its receipt of the notice, request and offer of indemnity has failed to institute the proceeding, and
- no direction inconsistent with this written request has been given to the trustee during the 60-day period referred to above by the holders of a majority in principal amount of the outstanding transition bonds.

In addition, each of the trustee, the transition bondholders and the servicer will covenant that it will not, prior to the date that is one year and one day after the termination of the indenture, acquiesce in or institute or invoke or cause us or the underwriters to invoke against us or against our managers or our member or members any bankruptcy, reorganization or other proceeding under any federal or state bankruptcy or similar law. By purchasing transition bonds, each transition bondholder will be deemed to have made this covenant.

## **Our Covenants**

*Consolidation, Merger or Sale of Assets.* We will keep in effect our existence, rights and franchises as a limited liability company under Delaware law, provided that we may consolidate with, merge into or convert into another entity or sell substantially all of our assets to another entity if:

- the entity formed by or surviving the consolidation, merger or conversion or to whom substantially all of our assets are sold is organized under the laws of the United States or any state thereof and expressly assumes by a supplemental indenture the due and punctual payment of the principal of and premium, if any, and interest on all outstanding transition bonds and the performance of our obligations under the indenture,

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- the entity formed by or surviving the consolidation, merger or conversion or to whom substantially all of our assets are sold expressly assumes all obligations and succeeds to all of our rights under the sale agreement, the administration agreement, the intercreditor agreement, the servicing agreement and any other basic document specified in the indenture to which we are a party or under which we have rights pursuant to an assignment and assumption agreement executed and delivered to the trustee,
- no default or event of default will have occurred and be continuing immediately after giving effect to the merger, consolidation, conversion or sale,
- prior notice will have been given to the rating agencies and the rating agency condition will have been satisfied with respect to the merger, consolidation, conversion or sale,
- we have received an opinion of independent counsel to the effect that the merger, consolidation, conversion or sale:
  - will have no material adverse tax consequence to us or any transition bondholder,
  - complies with the indenture and all conditions precedent therein provided relating to the merger, consolidation, conversion or sale, and
  - will result in the trustee maintaining a continuing valid first priority perfected security interest in the collateral,
- none of the transition property, the financing order or our rights under the Restructuring Act or the financing order are impaired thereby, and
- any action that is necessary to maintain the lien and security interest created by the indenture has been taken.

*Additional Covenants.* We will from time to time execute and deliver all documents, make all filings and take any other action necessary or advisable to, among other things, maintain and preserve the lien of the indenture and the priority thereof. We will not, among other things:

- permit the validity of the indenture to be impaired or the lien to be amended, subordinated or terminated or discharged,
- permit any person to be released from any covenants or obligations except as expressly permitted by the indenture,
- permit any lien, charge, claim, security interest, mortgage or other encumbrance, other than the lien of the indenture, to be created on or extend to or otherwise arise upon or burden the collateral or any part thereof or any interest therein or the proceeds thereof,
- except as expressly permitted by the indenture, any supplemental indenture, the sale agreement or the servicing agreement, sell, transfer, exchange or otherwise dispose of any of the collateral unless directed to do so by the trustee in accordance with the indenture,
- claim any credit on, or make any deduction from the principal or premium, if any, or interest payable in respect of, the transition bonds, other than amounts properly withheld under the Internal Revenue Code of 1986, or assert any claim against any present or former transition bondholder because of the payment of taxes levied or assessed upon us or any part of the collateral,
- terminate our existence, dissolve or liquidate in whole or in part, except as otherwise permitted by the indenture,
- take any action which is the subject of a rating agency condition if such action would result in a downgrade, or
- elect to be classified as an association taxable as a corporation for federal income tax purposes or otherwise take any action inconsistent with our treatment for federal income tax purposes as a disregarded entity not separate from our sole owner.

We may not engage in any business other than purchasing and owning the transition property, issuing the transition bonds, pledging our interest in the collateral to the trustee under the indenture in order to secure the transition bonds, and performing activities that are necessary, suitable or convenient to accomplish the foregoing or are incidental thereto.

We may not issue, incur, assume or guarantee any indebtedness except for the transition bonds. Also, we may not guarantee or otherwise become contingently liable in connection with the obligations, stocks or dividends of, or own, purchase, repurchase or acquire, or agree contingently to acquire, any stock, obligations, assets or securities of, or any other interest in, or make any capital contribution to, any other person, other than the specified eligible investments. We may not, except as contemplated by the indenture, the sale agreement, the servicing agreement and related

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documents, including our limited liability company agreement, make any loan or advance or credit to any person. We will not make any expenditure for capital assets or lease any capital asset other than the transition property purchased from CenterPoint Houston pursuant to, and in accordance with, the sale agreement. We may not make any payments, distributions or dividends to any member in respect of its membership interest except in accordance with the indenture.

The servicer will deliver to the trustee the annual accountant's report, compliance certificates and reports regarding distributions and other statements required by the servicing agreement. Please read "The Servicing Agreement" in this prospectus.

### **Access to the List of Transition Bondholders**

Any transition bondholder who has owned a transition bond for at least six months may, by written request to the trustee, obtain access to the list of all transition bondholders maintained by the trustee for the purpose of communicating with other transition bondholders with respect to their rights under the indenture or the transition bonds. In addition, a group of transition bondholders each of whom has owned a transition bond for at least six months may also obtain access to the list of all transition bondholders for the same purpose. The trustee may elect not to afford the requesting transition bondholders access to the list of transition bondholders if it agrees to mail the desired communication or proxy, on behalf and at the expense of the requesting transition bondholders, to all transition bondholders.

### **We Must File an Annual Compliance Statement**

We will deliver to the trustee, within 120 days after the end of each fiscal year, an officer's certificate (a copy of which we will deliver to each rating agency and the PUCT) stating, as to the Manager signing such officer's certificate, that

- (i) a review of the our activities during such year (or relevant portion thereof) and of performance under the indenture has been made under such Manager's supervision; and
- (ii) to the best of such Manager's knowledge, based on such review, we have complied with all conditions and covenants under the indenture throughout such fiscal year (or relevant portion thereof), or, if there has been a default in compliance with any such condition or covenant, describing each such default known to the Manager and the nature and status thereof.

### **The Trustee Must Provide an Annual Report to All Transition Bondholders**

If required by the Trust Indenture Act, the trustee will be required to mail each year to all transition bondholders a brief report. This report may state, in accordance with the requirements of the Trust Indenture Act, among other items:

- the trustee's eligibility and qualification to continue as the trustee under the indenture,
- any amounts advanced by it under the indenture,
- the amount, interest rate and maturity date of specific indebtedness owing by us to the trustee in the trustee's individual capacity,
- the property and funds physically held by the trustee, and
- any action taken by it that materially affects the transition bonds and that has not been previously reported.

### **What Will Trigger Satisfaction and Discharge of the Indenture**

The transition bonds, all moneys payable with respect to the transition bonds and the indenture will cease to be of further effect and the lien of the indenture will be released, interest will cease to accrue on the transition bonds and the trustee, on our written demand and at our expense, will execute instruments acknowledging satisfaction and discharge of the indenture with respect to the transition bonds, when:

- either all transition bonds which have already been authenticated or delivered, with certain exceptions set forth in the indenture, have been delivered to the trustee for cancellation or we have irrevocably deposited with the trustee cash, in trust for this purpose, in an amount sufficient to make payments of principal of and, premium, if any, and interest on the transition bonds and to pay and discharge the entire indebtedness on those transition bonds not previously delivered to the trustee,
- we have paid or caused to be paid all other sums payable by us under the indenture, and
- we have delivered to the trustee an officer's certificate, an opinion of counsel, and if required by the Trust Indenture Act or the trustee, a certificate from a firm of independent certified public accountants, each stating that there has been compliance with the conditions precedent in the indenture or relating to the satisfaction and discharge of the indenture with respect to the transition bonds.

## Our Legal Defeasance and Covenant Defeasance Options

We may, at any time, terminate:

- all of our obligations under the indenture with respect to the transition bonds, or
- our obligations to comply with some of the covenants in the indenture, including some of the covenants described under “—Our Covenants.”

The legal defeasance option is our right to terminate at any time our obligations under the indenture with respect to the transition bonds. The covenant defeasance option is our right at any time to terminate our obligations to comply with some of the covenants in the indenture. We may exercise the legal defeasance option of the transition bonds notwithstanding our prior exercise of the covenant defeasance option. If we exercise the legal defeasance option, the transition bonds will be entitled to payment only from the funds or other obligations set aside under the indenture for payment thereof on the scheduled final payment date therefor as described below. The transition bonds will not be subject to payment through redemption or acceleration prior to the scheduled final payment date. If we exercise the covenant defeasance option, the final payment of the transition bonds may not be accelerated because of an event of default relating to a default in the observance or performance of our covenant as described in “—What Constitutes an Event of Default on the Transition Bonds” above.

We may exercise the legal defeasance option or the covenant defeasance option with respect to the transition bonds only if:

- we irrevocably deposit or cause to be deposited in trust with the trustee cash or U.S. government obligations specified in the indenture for the payment of principal of and premium, if any, and interest on the transition bonds to the scheduled final payment date therefor, as applicable, and all other amounts due and payable under the indenture, the deposit to be made in the defeasance subaccount,
- we deliver to the trustee a certificate from a nationally recognized firm of independent accountants expressing its opinion that the payments of principal and interest on the U.S. government obligations when due and without reinvestment plus any cash deposited in the defeasance subaccount without investment will provide cash at times and in sufficient amounts to pay in respect of the transition bonds:
  - principal in accordance with the expected sinking fund schedule therefor, and
  - interest when due,
- in the case of the legal defeasance option, 95 days pass after the deposit is made and during the 95-day period no default relating to events of our bankruptcy, insolvency, receivership or liquidation occurs and is continuing at the end of the period,
- no default has occurred and is continuing on the day of this deposit and after giving effect thereto,
- in the case of the legal defeasance option, we deliver to the trustee an opinion of counsel stating that:
  - we have received from, or there has been published by, the Internal Revenue Service a ruling, or
  - since the date of execution of the indenture, there has been a change in the applicable federal income tax law, and in either case confirming that the holders of the transition bonds will not recognize income, gain or loss for federal income tax purposes as a result of the exercise of the legal defeasance option and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the legal defeasance had not occurred,
- in the case of the covenant defeasance option, we deliver to the trustee an opinion of counsel to the effect that the holders of the transition bonds will not recognize income, gain or loss for federal income tax purposes as a result of the exercise of the covenant defeasance option and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the covenant defeasance had not occurred,
- we deliver to the trustee a certificate of one of our managers and an opinion of counsel, each stating that all conditions precedent to the legal defeasance option or the covenant defeasance option, as applicable, have been complied with as required by the indenture,
- we deliver to the trustee an opinion of counsel to the effect that (a) in a case under the bankruptcy code in which CenterPoint Houston (or any of its affiliates, other than us) is the debtor, the court would hold that the deposited cash or U.S. government obligations would not be in the bankruptcy estate of CenterPoint Houston (or any of its affiliates, other than us, that deposited the cash or U.S. government obligations); and (b) in the event CenterPoint Houston (or any of its affiliates, other than us, that

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deposited the cash or U.S. government obligations), were to be a debtor in a case under the bankruptcy code, the court would not disregard the separate legal existence of CenterPoint Houston (or any of its affiliates, other than us, that deposited the cash or U.S. government obligations) and us so as to order substantive consolidation under the bankruptcy code of our assets and liabilities with the assets and liabilities of CenterPoint Houston (or any of its affiliates, other than us, that deposited the cash or U.S. government obligations), and

- each rating agency has notified us and the trustee that the exercise of the proposed defeasance option will not result in a downgrade or withdrawal of the then current rating of any then outstanding transition bonds.

### **The Trustee**

The trustee for the transition bonds will be named in the prospectus supplement. You will also find information relating to the Trustee's form of organization and a description of its prior experience as a trustee in the prospectus supplement. The trustee may resign at any time upon 30 days' notice by so notifying us. The holders of a majority in principal amount of the transition bonds then outstanding may remove the trustee by so notifying the trustee and us in writing and may appoint a successor trustee. We will remove the trustee by written notice if the trustee ceases to be eligible to continue in this capacity under the indenture, the trustee becomes a debtor in a bankruptcy proceeding or is adjudged insolvent, a receiver, administrator or other public officer takes charge of the trustee or its property, the trustee becomes incapable of acting or the trustee fails to provide to us certain information we reasonably request which is necessary for us to satisfy our reporting obligations under the securities laws. If the trustee resigns or is removed or a vacancy exists in the office of trustee for any reason, we will be obligated promptly to appoint a successor trustee eligible under the indenture. We are responsible, initially, for payment of the expenses associated with any such removal or resignation, but any such expenses will be treated as an operating expense and paid out of the general subaccount on a payment date in accordance with the priority of payments set forth in "—How Funds in the Collection Account Will Be Allocated" in this prospectus. No resignation or removal of the trustee will become effective until acceptance of the appointment by a successor trustee. The trustee shall at all times satisfy the requirements of certain provisions of the Trust Indenture Act, as amended, and the Investment Company Act of 1940, as amended, and have a combined capital and surplus of at least \$50 million and a long-term debt rating of "Baa3" or better by Moody's, "BBB-" or better by S&P and, if applicable, "BBB-" or better by Fitch. If the trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust business or assets to, another entity, the resulting, surviving or transferee entity shall without any further action be the successor trustee. We and our affiliates may, from time to time, maintain various banking, investment banking and trust relationships with the trustee and its affiliates. Please read "The Sale Agreement" and "The Servicing Agreement" in this prospectus for further information.

The trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers; provided that its conduct does not constitute willful misconduct, negligence or bad faith. We have agreed to indemnify the trustee and its officers, directors, employees and agents against any and all loss, liability or expense (including reasonable attorney's fees and expenses) incurred by it in connection with the administration of the trust and the performance of its duties under the indenture, provided that we are not required to pay any expense or indemnify against any loss, liability or expense incurred by the trustee through the trustee's own willful misconduct, negligence or bad faith. Please read "Prospectus Summary—Priority of Distributions" and "—How Funds in the Collection Account Will Be Allocated" in this prospectus for further information.

### **Governing Law**

The indenture will be governed by the laws of the State of Texas.

### **WEIGHTED AVERAGE LIFE AND YIELD CONSIDERATIONS FOR THE TRANSITION BONDS**

The rate of principal payments, the amount of each interest payment and the actual final payment date of each tranche of the transition bonds and the weighted average life thereof will depend primarily on the timing of receipt of collected transition charges by the trustee and the statutory true-up mechanism. The aggregate amount of collected transition charges and the rate of principal amortization on the transition bonds will depend, in part, on actual energy usage and energy demands, and the rate of delinquencies and write-offs. The transition charges are required to be adjusted from time to time based in part on the actual rate of collected transition charges. However, we can give no assurance that the servicer will be able to forecast accurately actual electricity usage and the rate of delinquencies and write-offs or implement adjustments to the transition charges that will cause collected transition charges to be received at any particular rate. Please read "Risk Factors—Servicing Risks," "—Other Risks Associated With an Investment in the Transition Bonds" and "CenterPoint Houston's Financing Order—Statutory True-Ups" in this prospectus.

If the servicer receives transition charges at a slower rate than expected, the transition bonds may be retired later than expected. Except in the event of the acceleration of the final payment date of the transition bonds after an event of default, however, the transition bonds will not be paid at a rate faster than that contemplated in the expected sinking fund schedule for each tranche of the transition bonds even if the receipt of collected transition charges is accelerated. Instead, receipts in excess of the amounts necessary to amortize the transition bonds in accordance with the expected amortization schedule, to pay interest and related fees and expenses and to fund subaccounts of the collection account will be allocated to the excess funds subaccount. Acceleration of the final maturity date after an event of default in accordance with the terms thereof will result in payment of principal earlier than the related scheduled final payment dates. A payment on a date that is earlier than forecast might result in a shorter weighted average life, and a payment on a date that is later than forecast might result in a longer weighted average life. In addition, if a larger portion of the delayed payments on the transition bonds is received in later years, the transition bonds may have a longer weighted average life.

## THE SALE AGREEMENT

The following summary describes particular material terms and provisions of the sale agreement pursuant to which we will purchase the transition property from the seller. We and CenterPoint Houston have filed the form of the sale agreement with the SEC as an exhibit to the registration statement of which this prospectus forms a part. This summary does not purport to be complete and is subject to and qualified by reference to the provisions of the sale agreement.

### CenterPoint Houston's Sale and Assignment of the Transition Property

In connection with the issuance of the transition bonds, the seller will offer and sell the transition property to us pursuant to the terms and conditions of the sale agreement. The sale of the transition property to us by CenterPoint Houston will be financed through the corresponding issuance of the transition bonds. Pursuant to the sale agreement, CenterPoint Houston will sell and assign to us, without recourse, except as provided therein, its rights and interests under the financing order, which will become transition property upon such transfer pursuant to the Restructuring Act. The transition property will represent all rights and interests of CenterPoint Houston under the financing order, including the right to impose, collect and receive the transition charges and the revenues and collections resulting from such transition charges. We will apply the net proceeds that we receive from the sale of the transition bonds to the purchase of the transition property.

As provided by the Restructuring Act, our purchase of the transition property from CenterPoint Houston pursuant to the sale agreement, which will expressly provide that such transfer is a sale, will be a true sale, and all title to the transition property, legal or equitable, will pass to us. Under the Restructuring Act, such sale will constitute a true sale under state law whether or not

- we have any recourse against CenterPoint Houston,
- CenterPoint Houston retains any equity interest in the transition property under state law,
- CenterPoint Houston acts as a collector of transition charges relating to the transition property, or
- CenterPoint Houston treats the transfer as a financing for tax, financial reporting or other purposes.

Under the Restructuring Act, all rights and interests under the financing order will become transition property upon transfer of such rights to us by CenterPoint Houston in connection with the issuance of the transition bonds. The transition property will constitute our present property right for purposes of contracts concerning the sale or pledge of property.

Upon the execution and delivery of the sale agreement and bill of sale and the filing of a notice with the Secretary of State of the State of Texas in accordance with the rules prescribed under the Restructuring Act, our purchase of the transition property from CenterPoint Houston will be perfected as against all third persons, including subsequent judicial or other lien creditors. In accordance with the Restructuring Act, a valid and enforceable lien and security interest in the transition property will be created upon the issuance of the financing order and the execution and delivery of the sale agreement. The lien and security interest attaches automatically from the time that value is received for the transition bonds and, on perfection through the timely filing of a notice with the Secretary of State of the State of Texas in accordance with the rules prescribed under the Restructuring Act, will be a continuously perfected lien and security interest in the transition property and all proceeds of the transition property.

The records and computer systems of CenterPoint Houston and CenterPoint Energy will reflect the sale and assignment of CenterPoint Houston's rights and interests under the financing order to us. However, we expect that the transition bonds will be reflected as debt on CenterPoint Energy's consolidated financial statements. In addition, we anticipate that the transition bonds will be treated as debt of CenterPoint Energy for federal income tax purposes. Please read "Material U.S. Federal Income Tax Consequences for the Transition Bondholders."

### CenterPoint Houston's Representations and Warranties

In the sale agreement, CenterPoint Houston will make representations and warranties to us as of the transfer date to the effect, among other things, that:

1. subject to clause 9 below (assumptions used in calculating the transition charges as of the transfer date), all written information, as amended or supplemented from time to time, provided by CenterPoint Houston to us with respect to the transferred transition property (including the financing order and the issuance advice letter) is correct in all material respects;

2. it is the intention of the parties to the sale agreement that, other than for specified tax purposes, the sale, transfer, assignment, setting over and conveyance contemplated by the sale agreement constitutes a sale or other absolute transfer of all right, title and interest of CenterPoint Houston related to the transition bonds in, to and under the

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financing order to us, whereupon (subject to the effectiveness of the issuance advice letter) such rights and interests will become transition property; upon execution and delivery of the sale agreement and the bill of sale and payment of the purchase price, CenterPoint Houston will have no right, title or interest in, to or under the transferred transition property; and that such transferred transition property would not be a part of the estate of CenterPoint Houston in the event of the filing of a bankruptcy petition by or against CenterPoint Houston under any bankruptcy law;

3. a. CenterPoint Houston is the sole owner of the rights and interests under the financing order,
  - b. on the transfer date, immediately upon the sale under the sale agreement, the transferred transition property will have been validly sold, assigned, transferred, set over and conveyed to us free and clear of all liens (except for any lien created in favor of the transition bondholders pursuant to Section 39.309 of the Restructuring Act or any lien created by us under the basic documents), and
  - c. all actions or filings (including filings with the Secretary of State of the State of Texas in accordance with the rules prescribed under the Restructuring Act and the Uniform Commercial Code) necessary in any jurisdiction to give us a perfected ownership interest (subject to any lien created in favor of the transition bondholders pursuant to Section 39.309 of the Restructuring Act or any lien created by us under the basic documents) in the transferred transition property and to grant to the trustee a first priority perfected security interest in the transferred transition property, free and clear of all liens of CenterPoint Houston or anyone else (except for any lien created in favor of the transition bondholders pursuant to Section 39.309 of the Restructuring Act or any lien created by us under the basic documents) have been taken or made;
4. the financing order has been issued by the PUCT in accordance with the Restructuring Act, the financing order and the process by which it was issued comply with all applicable laws, rules and regulations of the State of Texas and the federal laws of the United States, and the financing order is final, non-appealable and in full force and effect;
  5. as of the date of issuance of the transition bonds, the transition bonds will be entitled to the protections provided by the Restructuring Act and the financing order, and the financing order and the transition charges authorized therein will have become irrevocable and not subject to reduction, impairment or adjustment by further action of the PUCT, except as permitted by Section 39.307 of the Restructuring Act, the issuance advice letter relating to the transferred transition property will have been filed in accordance with the financing order, and the PUCT will not have issued any order prior to noon on the fourth business day after submission of the issuance advice letter that the transition bonds do not comply with specified ordering provisions of the financing order and the initial transition charges and the final term of the transition bonds set forth in the issuance advice letter will have become effective;
  6. a. under the Restructuring Act, the State of Texas has pledged that it will not take or permit any action that would impair the value of the transition property transferred under the sale agreement or, except as permitted in Section 39.307 of the Restructuring Act, reduce, alter or impair the transition charges until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the transition bonds, have been paid and performed in full,
  - b. under the laws of the State of Texas and the federal laws of the United States, the State of Texas could not constitutionally take any action of a legislative character, including the repeal or amendment of the Restructuring Act, which would substantially limit, alter or impair the transition property or other rights vested in the transition bondholders pursuant to the financing order, or substantially limit, alter, impair or reduce the value or amount of the transition property, unless that action is a reasonable exercise of the State of Texas's sovereign powers and of a character reasonable and appropriate to further a legitimate public purpose, and, under the takings clauses of the Texas and United States Constitutions, the State of Texas could not repeal or amend the Restructuring Act or take any other action in contravention of its pledge quoted above without paying just compensation to the transition bondholders, as determined by a court of competent jurisdiction, if doing so would constitute a permanent appropriation of a substantial property interest of those transition bondholders in the transition property and deprive those transition bondholders of their reasonable expectations arising from their investments in the transition bonds; however, there is no assurance that, even if a court were to award just compensation, it would be sufficient to pay the full amount of principal and interest on those transition bonds;
7. there is no order by any court providing for the revocation, alteration, limitation or other impairment of the Restructuring Act, the financing order or issuance advice letter, the transferred transition property or the transition charges or any rights arising under any of them or that seeks to enjoin the performance of any obligations under the financing order;

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8. under the laws of the State of Texas and the federal laws of the United States in effect on the transfer date, no other approval, authorization, consent, order or other action of, or filing with any court, federal or state regulatory body, administrative agency or other governmental instrumentality is required in connection with the creation or transfer of CenterPoint Houston's rights and interests related to the transition bonds under the financing order and our purchase of the transition property from CenterPoint Houston, except those that have been obtained or made;
9. based on information available to CenterPoint Houston on the transfer date, the assumptions used in calculating the transition charges in the issuance advice letter are reasonable and made in good faith; however, notwithstanding the foregoing, CenterPoint Houston makes no representation or warranty, express or implied, that amounts actually collected arising from the transition charges will in fact be sufficient to meet the payment obligations on the transition bonds or that the assumptions used in calculating the transition charges will in fact be realized;
10.
  - a. upon the effectiveness of the issuance advice letter, the transfer of CenterPoint Houston's rights and interests related to the transition bonds under the financing order and our purchase of the transition property from CenterPoint Houston pursuant to the sale agreement, the transferred transition property will constitute a present property right,
  - b. upon the effectiveness of the issuance advice letter, the transfer of CenterPoint Houston's rights and interests under the financing order and our purchase of the transition property from CenterPoint Houston pursuant to the sale agreement, the transferred transition property will include, without limitation:
    - (1) the right to impose, collect and receive transition charges authorized in the financing order, including, without limitation, the right to receive transition charges in amounts and at times sufficient to pay principal and interest on the transition bonds,
    - (2) all rights and interests of CenterPoint Houston under the financing order that relate to the transition bonds,
    - (3) the rights to file for periodic adjustments of the transition charges as provided in the financing order, and
    - (4) all revenues and collections resulting from the transition charges,
  - c. upon the effectiveness of the issuance advice letter and the transfer of CenterPoint Houston's rights and interests under the financing order and our purchase of the transition property from CenterPoint Houston on such transfer date pursuant to the sale agreement, the transferred transition property will not be subject to any lien created by a previous indenture;
11. CenterPoint Houston is a limited liability company duly organized and in good standing under the laws of the State of Texas, with limited liability company power and authority to own its properties and conduct its business as currently owned or conducted;
12. CenterPoint Houston has the limited liability company power and authority to obtain the financing order and to execute and deliver the sale agreement and to carry out its terms; CenterPoint Houston has the limited liability company power and authority to own the rights and interests under the financing order, to sell and assign those rights and interests under the financing order to us, whereupon (subject to the effectiveness of the issuance advice letter) such rights and interests will become transition property; and the execution, delivery and performance of the sale agreement have been duly authorized by CenterPoint Houston by all necessary limited liability company action;
13. the sale agreement constitutes a legal, valid and binding obligation of CenterPoint Houston, enforceable against CenterPoint Houston in accordance with its terms, subject to customary exceptions relating to bankruptcy, creditors' rights and equitable principles;
14. the consummation of the transactions contemplated by the sale agreement and the fulfillment of the terms thereof do not (a) conflict with or result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time) a default under, the articles of organization or limited liability company regulations of CenterPoint Houston, or any indenture, mortgage, credit agreement or other agreement or instrument to which CenterPoint Houston is a party or by which it or its properties is bound; (b) result in the creation or imposition of any lien upon any of CenterPoint Houston's properties pursuant to the terms of any such indenture or agreement or other instrument (except for any lien created in favor of the transition bondholders pursuant to Section 39.309 of the Restructuring Act or any lien created by us under the basic documents) or (c) violate any existing law or any existing order, rule or regulation applicable to CenterPoint Houston of any court or of any federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over CenterPoint Houston or its properties;

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15. except for continuation filings under the Uniform Commercial Code and other filings under the Restructuring Act and the Uniform Commercial Code, no approval, authorization, consent, order or other action of, or filing with, any court, federal or state regulatory body, administrative agency or other governmental instrumentality is required under any applicable law, rule or regulation in connection with the execution and delivery by CenterPoint Houston of the sale agreement, the performance by CenterPoint Houston of the transactions contemplated by the sale agreement or the fulfillment by CenterPoint Houston of the terms of the sale agreement, except those that have previously been obtained or made and those that CenterPoint Houston, in its capacity as servicer under the servicing agreement, is required to make in the future pursuant to the servicing agreement;
16. except as disclosed in this prospectus or the prospectus supplement, there are no proceedings pending, and to CenterPoint Houston's knowledge, (a) there are no proceedings threatened and (b) there are no investigations pending or threatened before any court, federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over CenterPoint Houston or its properties involving or related to CenterPoint Houston or us or, to CenterPoint Houston's knowledge, to any other person:
  - a. asserting the invalidity of the sale agreement, any of the other basic documents, the transition bonds, the Restructuring Act or the financing order,
  - b. seeking to prevent the issuance of the transition bonds or the consummation of the transactions contemplated by the sale agreement or any of the other basic documents,
  - c. seeking any determination or ruling that could reasonably be expected to materially and adversely affect the performance by CenterPoint Houston of its obligations under, or the validity or enforceability of, the sale agreement or any of the other basic documents or the transition bonds, or
  - d. challenging CenterPoint Houston's treatment of the transition bonds as debt of CenterPoint Energy for federal or state income, gross receipts or franchise tax purposes;
17. after giving effect to the sale of the transition property under the sale agreement, CenterPoint Houston:
  - a. is solvent and expects to remain solvent,
  - b. is adequately capitalized to conduct its business and affairs considering its size and the nature of its business and intended purposes,
  - c. is not engaged and does not expect to engage in a business for which its remaining property represents an unreasonably small portion of its capital,
  - d. reasonably believes that it will be able to pay its debts as they become due, and
  - e. is able to pay its debts as they become due and does not intend to incur, or believes that it will incur, indebtedness that it will not be able to repay at its maturity; and
18. CenterPoint Houston is duly qualified to do business as a foreign limited liability company in good standing, and has obtained all necessary licenses and approvals, in all jurisdictions in which the ownership or lease of property or the conduct of its business requires such qualifications, licenses or approvals (except where the failure to so qualify or obtain such licenses and approvals would not be reasonably likely to have a material adverse effect on CenterPoint Houston's business, operations, assets, revenues or properties).

The representations and warranties made by CenterPoint Houston survive the sale of the transferred transition property to us and the pledge thereof on the transfer date to the trustee. Any change in the law occurring after the transfer date that renders any of the representations and warranties untrue does not constitute a breach under the sale agreement.

### **CenterPoint Houston's Covenants**

In the sale agreement, CenterPoint Houston will make the following covenants:

1. subject to its rights to assign its rights and obligations under the sale agreement, so long as any transition bonds are outstanding, CenterPoint Houston will (i) keep in full force and effect its existence and remain in good standing under the laws of the state of its organization, and will obtain and preserve its qualification to do business in each jurisdiction in which such qualification is or will be necessary to protect the validity and enforceability of the sale agreement and each other instrument or agreement to which CenterPoint Houston is a party necessary to the proper administration of the sale agreement and the transactions contemplated by the sale agreement and (ii) continue to operate its transmission and distribution system in order to provide electric services to retail electric customers in its certificated service area, provided that CenterPoint Houston is not prohibited from selling, assigning or otherwise divesting its transmission and distribution system or any part thereof in accordance with the sale agreement and the financing order;

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2. except for the conveyances under the sale agreement or any lien under Section 39.309 of the Restructuring Act for our benefit, the transition bondholders and the trustee, CenterPoint Houston may not sell, pledge, assign or transfer to any other person, or grant, create, incur, assume or suffer to exist any lien on, any of the transferred transition property, whether then existing or thereafter created, or any interest therein. CenterPoint Houston may not at any time assert any lien against or with respect to the transferred transition property, and CenterPoint Houston shall defend the right, title and interest of us and of the trustee, as our assignee, in, to and under the transferred transition property against all claims of third parties claiming through or under CenterPoint Houston;
3. in the event that CenterPoint Houston receives any payments under the terms of an intercreditor agreement in respect of the transition charges or the proceeds thereof other than in its capacity as the servicer, CenterPoint Houston agrees to pay all those payments to the servicer, in accordance with the intercreditor agreement, as soon as practicable after receipt thereof by CenterPoint Houston;
4. CenterPoint Houston will notify us and the trustee promptly after becoming aware of any lien on any of the transferred transition property, other than the conveyances under the sale agreement, any lien created in favor of the transition bondholders under Section 39.309 of the Restructuring Act or any lien created by us under the indenture;
5. CenterPoint Houston agrees to comply with its organizational or governing documents and all laws, treaties, rules, regulations and determinations of any court or federal or state regulatory body, administrative agency or governmental instrumentality applicable to it, except to the extent that failure to so comply would not materially adversely affect our or the trustee's interests in the transferred transition property or under the basic documents or CenterPoint Houston's performance of its obligations under the sale agreement;
6. so long as any transition bonds are outstanding, CenterPoint Houston
  - a. will treat the transition bonds as our debt and not debt of CenterPoint Houston, except for financial reporting or tax purposes;
  - b. will disclose in its financial statements that it is not the owner of the transferred transition property and that our assets are not available to pay creditors of CenterPoint Houston or its affiliates (other than us);
  - c. will not own or purchase any transition bonds; and
  - d. will disclose the effects of all transactions between us and CenterPoint Houston in accordance with generally accepted accounting principles;
7. so long as any transition bonds are outstanding:
  - a. in all proceedings relating directly or indirectly to the transferred transition property, CenterPoint Houston will affirmatively certify and confirm that it has sold all of its rights and interests under the financing order that relate to the transition bonds to us (other than for financial reporting or tax purposes), and will not make any statement or reference in respect of the transferred transition property that is inconsistent with our ownership interest (other than for financial reporting or tax purposes), and
  - b. CenterPoint Houston will not take any action in respect of the transferred transition property except solely in its capacity as servicer thereof pursuant to the servicing agreement or as contemplated by the basic documents;
8. CenterPoint Houston agrees that, upon the sale by CenterPoint Houston of all of its rights and interests under the financing order to us pursuant to the sale agreement any payment to the servicer by any person responsible for remitting transition charges to the servicer under the terms of the financing order or the Restructuring Act or applicable tariff shall discharge such person's obligations in respect of the transferred transition property to the extent of such payment, notwithstanding any objection or direction to the contrary by CenterPoint Houston;

9. CenterPoint Houston will execute and file such filings, and cause to be executed and filed such filings in such manner and in such places as may be required by law fully to preserve, maintain and protect our and the trustee's interests in the transferred transition property, including all filings required under the Restructuring Act and the Uniform Commercial Code relating to the transfer of the ownership of the rights and interests related to the transition bonds under the financing order by CenterPoint Houston to us and the pledge of the transferred transition property by us to the trustee. CenterPoint Houston will deliver (or cause to be delivered) to us and the trustee file-stamped copies of, or filing receipts for, any document filed as provided above, as soon as available following such filing. CenterPoint Houston will institute any action or proceeding reasonably necessary to compel performance by the PUCT or the State of Texas of any of their obligations or duties under the Restructuring Act, the financing order or the issuance advice letter relating to the

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transfer of the rights and interests under the financing order by CenterPoint Houston to us, and CenterPoint Houston agrees to take such legal or administrative actions, including defending against or instituting and pursuing legal actions and appearing or testifying at hearings or similar proceedings, in each case as may be reasonably necessary:

- a. to protect us and the transition bondholders from claims, state actions or other actions or proceedings of third parties which, if successfully pursued, would result in a breach of any representation described above under the caption “—CenterPoint Houston’s Representations and Warranties”; or
- b. so long as CenterPoint Houston is also the servicer, to block or overturn any attempts to cause a repeal of, modification of or supplement to the Restructuring Act, the financing order, the issuance advice letter or the rights of transition bondholders by legislative enactment or constitutional amendment that would be materially adverse to us, the trustee or the transition bondholders.

The costs of any such actions or proceedings would be reimbursed by us to CenterPoint Houston from amounts on deposit in the collection account as an operating expense in accordance with the terms of the indenture. CenterPoint Houston’s obligations pursuant to this covenant survive and continue notwithstanding that the payment of operating expenses pursuant to the indenture may be delayed;

10. so long as any transition bonds are outstanding, CenterPoint Houston will pay all material taxes, assessments and governmental charges imposed upon it or any of its properties or assets or with respect to any of its franchises, businesses, income or property before any penalty accrues thereon if the failure to pay any such taxes, assessments and governmental charges would, after any applicable grace periods, notices or other similar requirements, result in a lien on the transferred transition property; provided that no such tax need be paid if CenterPoint Houston or any of its affiliates is contesting the same in good faith by appropriate proceedings promptly instituted and diligently conducted and if CenterPoint Houston or such affiliate has established appropriate reserves as shall be required in conformity with generally accepted accounting principles;
11. CenterPoint Houston will comply with all filing requirements imposed upon it in its capacity as seller of the transferred transition property under the financing order, including making any post-closing filings; and
12. even if the sale agreement or the indenture is terminated, CenterPoint Houston will not, prior to the date that is one year and one day after the termination of the indenture, petition or otherwise make or cause us to invoke the process of any court or federal or state regulatory body, administrative agency or governmental instrumentality for the purpose of commencing or sustaining a case against us under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of ours, or any substantial property of ours or ordering the winding up or liquidation of our affairs. We will also agree in the sale agreement not to petition or otherwise invoke or cause CenterPoint Houston to invoke such a process for the same period of time.

### **CenterPoint Houston’s Obligation to Indemnify Us and the Trustee and to Take Legal Action**

Under the sale agreement, CenterPoint Houston is obligated to indemnify us and the trustee, for itself and on behalf of the transition bondholders and related parties specified therein, against:

1. any and all taxes, other than any taxes imposed on transition bondholders solely as a result of their ownership of transition bonds, that may at any time be imposed on or asserted against any of those persons under existing law as of the transfer date as a result of the sale and assignment of CenterPoint Houston’s rights and interests under the financing order that relates to the transition bonds by CenterPoint Houston to us, the acquisition or holding of the transferred transition property by us or the issuance and sale by us of transition bonds, including any sales, gross receipts, tangible personal property, privilege, franchise or license taxes, but excluding any taxes imposed as a result of a failure of that person to properly withhold or remit taxes imposed with respect to payments on any transition bond, in the event and to the extent such taxes are not recoverable qualified costs, it being understood that the transition bondholders will be entitled to enforce their rights against CenterPoint Houston solely through a cause of action brought for their benefit by the trustee in accordance with the terms of the indenture; and
2. a. any and all amounts of principal of and interest on the transition bonds not paid when due or when scheduled to be paid in accordance with their terms and the amount of any deposits to us required to have been made in accordance with the terms of the basic documents which are not made when so required, in each case as a result of CenterPoint Houston’s breach of any of its representations, warranties or covenants contained in the sale agreement; and

- b. any and all liabilities, obligations, claims, actions, suits or payments of any kind whatsoever that may be imposed on or asserted against any such person, other than any liabilities, obligations or claims for or payments of principal of or interest on the transition bonds, together with any reasonable costs and expenses incurred by that person, in each case as a result of CenterPoint Houston's breach of any of its representations, warranties or covenants contained in the sale agreement.

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However, CenterPoint Houston is not required to indemnify the trustee or related parties against any loss incurred by them through their own willful misconduct, negligence or bad faith.

These indemnification obligations will rank equally in right of payment with other general unsecured obligations of CenterPoint Houston. The indemnities described above will survive the resignation or removal of the trustee and the termination of the sale agreement and include reasonable fees and expenses of investigation and litigation (including reasonable attorneys' fees and expenses). The representations and warranties described above under the caption "—CenterPoint Houston's Representations and Warranties" are made under existing law as in effect as of the date of issuance of the transition bonds. CenterPoint Houston will not indemnify any party for any changes of law after the issuance of the transition bonds, including by means of legislative enactment, constitutional amendment or voter initiative, or for any liability resulting solely from a downgrade in the ratings on such transition bonds.

*CenterPoint Houston's Limited Obligation to Undertake Legal Action.* As described in clause 9 above under "—CenterPoint Houston's Covenants," the sale agreement will require CenterPoint Houston to institute any action or proceeding reasonably necessary to compel performance by the PUCT or the State of Texas of any of their obligations or duties under the Restructuring Act, the financing order or the related issuance advice letter with respect to the transferred transition property. Except for the foregoing and subject to CenterPoint Houston's further covenant to fully preserve, maintain and protect our interests in the transition property, CenterPoint Houston will not be under any obligation to appear in, prosecute or defend any legal action that is not incidental to its obligations under the sale agreement and that in its opinion may involve it in any expense or liability.

### **Successors to CenterPoint Houston**

The sale agreement will provide that any person which succeeds by merger, consolidation, sale or other similar transaction to all or substantially all of the electric transmission and distribution business of CenterPoint Houston (or, if the transmission and distribution business is split, the person which provides distribution service to a majority of the retail electric customers in CenterPoint Houston's service territory), which person executes an agreement of assumption to perform every obligation of CenterPoint Houston under the sale agreement, will be the successor to CenterPoint Houston with respect to CenterPoint Houston's ongoing obligations under the sale agreement without the execution or filing of any document or any further act by any of the parties to the sale agreement. The sale agreement will further require that:

- immediately after giving effect to any transaction referred to in this paragraph, no representation or warranty made in the sale agreement will have been breached in any material respect, and no servicer default, and no event that, after notice or lapse of time, or both, would become a servicer default will have occurred and be continuing,
- the rating agencies specified in the sale agreement will have received prior written notice of the transaction, and
- officers' certificates and opinions of counsel specified in the sale agreement will have been delivered to us and the trustee.

### **Amendment**

The sale agreement may be amended in writing by the seller and us, if notice of the amendment is provided by us to each rating agency and the rating agency condition has been satisfied, with the consent of the trustee and, with respect to amendments that would increase ongoing qualified costs as defined in the financing order, the consent or deemed consent of the PUCT.

## **THE SERVICING AGREEMENT**

The following summary describes the material terms and provisions of the servicing agreement pursuant to which the servicer will undertake to service the transition property. This summary does not purport to be complete and is qualified by reference to the provisions of the servicing agreement. We and CenterPoint Houston have filed the form of the servicing agreement with the SEC as an exhibit to the registration statement of which this prospectus forms a part.

### **Servicing Procedures**

*General.* The servicer, as our agent, will manage, service, administer and make collections in respect of the transition property. The servicer's duties will include:

- calculating and billing the transition charges,
- obtaining meter reads and collecting the transition charges from retail electric providers or an agent appointed by the servicer or an account designated under the intercreditor agreement to collect the charges, as applicable, and posting all collections,

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- responding to inquiries by retail electric customers, retail electric providers, the PUCT or any federal, local or other state governmental authority with respect to the transition property and transition charges,
- accounting for collected transition charges and late-payment penalties received from retail electric providers, investigating and resolving delinquencies, processing and depositing collections, making periodic remittances to the trustee and furnishing periodic reports to us, the trustee, the PUCT and the rating agencies,
- providing certified calculations and other information reasonably requested by agents appointed by the servicer to collect the charges to enable the agents to perform collection services properly under the intercreditor agreement and monitoring the collections of the agents for compliance with the intercreditor agreement,
- monitoring payments by each retail electric provider, reviewing reports provided by each retail electric provider and monitoring compliance by each retail electric provider with the credit standards and deposit obligations set forth in the financing order,
- notifying each retail electric provider of any defaults by such retail electric provider in its payment obligations and other obligations (including its credit standards), and enforcing against such retail electric provider at the earliest date permitted any remedies provided by applicable law,
- making all filings with the PUCT and taking all other actions necessary to perfect our ownership interests in and the trustee's lien on the transition property and other collateral,
- selling, as our agent, defaulted or written-off accounts in accordance with the servicer's usual and customary practices,
- taking action in connection with adjustments to the transition charges and allocation of the charges among various classes of customers as described below,
- any other duties specified for a servicer under the financing order or applicable law, and
- reconciling, within 30 calendar days after bank statement cutoff date or such later time as is consistent with the servicer's usual and customary practices that does not materially impair the ability of the servicer to correct errors, all bank account debits and credits for bank accounts that are held in our name or the name of the servicer (as servicer under the servicing agreement) that relate to the collateral or the transition bonds.

Please read "CenterPoint Houston's Financing Order" in this prospectus. The servicer is required to notify us, the trustee, the PUCT and the rating agencies in writing of any laws or PUCT regulations promulgated after the execution of the servicing agreement that have a material adverse effect on the servicer's ability to perform its duties under the servicing agreement. The servicer is also authorized to execute and deliver documents and to make filings and participate in proceedings on our behalf.

In the servicing agreement, the servicer will agree, among other things, that, in servicing the transition property:

- except where the failure to comply with any of the following would not materially adversely affect our or the trustee's respective interests in the transition property,
  - it will manage, service, administer and make collections in respect of the transition property with reasonable care and in material compliance with applicable law, including all applicable PUCT regulations and guidelines, using the same degree of care and diligence that the servicer exercises with respect to billing and collection activities that the servicer conducts for itself and others,
  - it will follow standards, policies and procedures in performing its duties as servicer that are customary in the electric transmission and distribution industry or that the PUCT has mandated and consistent with the terms of the financing order, tariffs and existing law,
  - it will use all reasonable efforts, consistent with its customary servicing procedures, to enforce and maintain the trustee's and our rights in respect of the transition property,
  - it will calculate the transition charges and the allocation of transition charges among customer classes in compliance with the Restructuring Act, the financing order, any PUCT order related to transition charge allocation and any applicable tariffs,
  - it will provide all reports to such parties to the intercreditor agreement regarding the transition charges as are necessary to effect collection, allocation and remittance of payments in respect of transition charges and other collected funds in accordance with the servicing agreement and the intercreditor agreement,
  - it will make all filings required under the applicable Uniform Commercial Code or the Restructuring Act to maintain the perfected security interest of the trustee in the collateral and use all reasonable efforts to otherwise enforce and maintain the trustee's rights in respect of the transition property and the collateral,
- it will petition the PUCT for adjustments to the transition charges and allocation of the charges among customer classes that the servicer determines to be necessary in accordance with the financing order, and

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- it will keep on file, in accordance with customary procedures, all documents pertaining to the transition property and will maintain accurate and complete accounts, records and computer systems pertaining to the transition property.

The duties of the servicer set forth in the servicing agreement are qualified by any PUCT regulations or orders in effect at the time those duties are to be performed.

*Servicer Obligation to Undertake Legal Action.* The servicer is required, subject to applicable law, to institute any action or proceeding necessary to compel performance by any retail electric provider and any party to the intercreditor agreement of any of their respective obligations or duties under the Restructuring Act, the financing order or the intercreditor agreement, as the case may be, with respect to the transition property. The costs of any such actions or proceedings would be reimbursed by us to the servicer from amounts on deposit in the collection account as an operating expense in accordance with the terms of the indenture. The servicer's obligations pursuant to this covenant survive and continue notwithstanding that the payment of operating expenses pursuant to the indenture may be delayed.

*Collections.* Each retail electric provider in CenterPoint Houston's service territory will include the applicable transition charges in its bill to retail electric customers. The servicer or its agent will bill each retail electric provider for the applicable transition charges attributable to the retail electric provider's retail electric customers at least monthly. Pursuant to the financing order, each retail electric provider must remit to the servicer the amount of applicable transition charges attributable to its retail electric customers (less an allowance for charge-offs of delinquent customer accounts) within 35 days of the servicer's bill for such charges regardless of whether payments have been received by the retail electric providers from such retail electric customers. In addition, in the event a retail electric provider fails to pay the servicer in full within 35 days of the date the applicable transition charges are billed to such retail electric provider, the servicer will assess a late-payment penalty against the retail electric provider in the amount of five percent of the outstanding balance of such transition charges payable by the retail electric provider. All late-payment penalties will be remitted to the collection account to be applied against transition charge obligations. A grace period of 10 days from the 35th day after the payment due date will be allowed before the retail electric provider is considered to be in default. If there is a shortfall in a retail electric provider's payment of an amount billed, the amount paid shall first be allocated ratably among the transition charges relating to the transition bonds and other fees and charges (including transition charges relating to other transition bonds, delivery charges, nuclear decommissioning charges and other fees and charges) other than late fees, and second, any remaining portion of the payment shall be attributed to late fees owed to CenterPoint Houston or any successor.

*Remittances to the Trustee.* The servicer will collect and remit to the trustee, on a daily basis, transition charges plus any accrued interest thereon from the date such transition charges were actually received. The servicer will be required to pay transition charges to the trustee on or before the second business day after the servicer receives those transition charge collections.

### **Adjustment Process for Transition Charges**

*Annual True-Ups.* Among other things, the servicing agreement will require the servicer to file adjustment requests annually and, if necessary, semi-annually (or quarterly in the fourteenth and fifteenth years) to ensure the expected recovery of amounts sufficient to provide timely payment of principal and interest on the transition bonds. For more information on the true-up process, please refer to "CenterPoint Houston's Financing Order—Statutory True-Ups." These adjustment requests are based on actual collected transition charges and updated assumptions by the servicer as to projected future usage of electricity by retail electric customers, expected write-offs and future payments and expenses relating to the transition property and the transition bonds. The servicer agrees to calculate these adjustments to result in:

- the transition bond balance equaling the projected transition bond balance and the aggregate reimbursement amount due and owing for the preceding calendar year to any retail electric provider,
- the replenishment of any amounts drawn from the related capital subaccount,
- amortization of the remaining outstanding principal amount in accordance with the expected amortization schedule and payment of interest when due,
- the servicer's reconciliation of past overpayments and underpayments by any retail electric provider of transition charges arising out of the retail electric provider's right to hold back certain payments of transition charges in expectation of future write-offs from customers who do not pay their electric bills, and
- the servicer's recovery of any interest paid to a retail electric provider arising out of a dispute between the servicer and such retail electric provider in which the servicer's claim to the funds in dispute was not clearly unfounded.

In addition to filing requests for adjustments to the transition charges, the servicer may be required in some years to file a request to adjust the allocation of the transition charges among the transition charge classes, according to the methodology set forth in the tariff established by the PUCT.

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In the servicing agreement, the servicer will agree to file adjustment requests on each calculation date for us as specified in the servicing agreement. In accordance with the financing order, the PUCT has 15 days to approve the adjustments. Any adjustment to the allocation of transition charges must be filed with the PUCT at least 90 days before the date the proposed adjustment will become effective. The PUCT must enter a final order by the proposed adjustment date stated in the filing. The adjustments to the transition charges are expected to occur on each adjustment date. Adjustments to the transition charges will cease with respect to the transition bonds on the final adjustment date specified in the prospectus supplement.

*Interim True-Ups.* In addition to the annual adjustment process, the servicer will be required under the servicing agreement to seek an interim true-up adjustment with respect to the transition bonds once every six months, or quarterly in the fourteenth and fifteenth years:

- if the servicer expects, at the next payment date, more than a 5% variation between (a) the actual principal balance of the transition bonds, taking into account amounts on deposit in the excess funds subaccount, and (b) the expected principal balance on the expected amortization schedule,
- as needed to meet any rating agency requirement that the transition bonds be paid in full at scheduled maturity, or
- to correct any undercollection of transition charges, regardless of cause, in order to assure timely payment of the transition bonds based on rating agency and transition bondholder considerations.

*Reconciliation of Charge-Off Allowances.* Under the financing order, retail electric providers will be entitled to withhold an allowance for charge-offs from their payments of the transition charges to the servicer. In connection with the annual adjustment process, the servicer and each retail electric provider will reconcile the retail electric provider's hold-backs with the amount actually written off as uncollectible during that time. If the retail electric provider has held back less than the amount actually written off as uncollectible during that time, it will be entitled to a credit, in the amount of the hold-back shortfall, toward the retail electric provider's future payments of the transition charges.

*Collected Transition Charges.* In the servicing agreement, the servicer will agree to remit all related collected transition charges from whatever source and all proceeds of our other collateral, if any, to the trustee for deposit pursuant to the indenture. Until collected the transition charges are remitted to the collection account, the servicer will not segregate them from its general funds. Remittances of related collected transition charges will include accrued interest thereon from the date such transition charges were actually received, and also include any penalties assessed against retail electric providers for delinquent remittances of the transition charges. Please read "Risk Factors—Risks Associated with Potential Bankruptcy Proceedings of the Seller or the Servicer" in this prospectus.

### **Servicer Compensation**

The servicer will be entitled to receive an aggregate annual servicing fee for the transition bonds in an amount equal to:

- 0.05% of the aggregate initial principal amount of the transition bonds, for so long as the servicer remains CenterPoint Houston or any of its permitted successors or assigns or an affiliate, or
- an amount agreed upon by the successor servicer and the trustee, but, unless the PUCT consents, not more than 0.60% of the aggregate initial principal amount of the transition bonds if CenterPoint Houston, any permitted successor or assign or an affiliate is not the servicer.

The servicing fee will be paid semi-annually with respect to the transition bonds, with half of the annual servicing fee being paid on each semi-annual payment date. The servicing fee for the transition bonds, together with any portion of the servicing fee that remains unpaid from prior payment dates, will be paid solely to the extent funds are available therefor as described under "The Transition Bonds—How Funds in the Collection Account Will Be Allocated" in this prospectus. The servicing fee for the transition bonds will be paid prior to the payment of or provision for any amounts in respect of interest on and principal of the transition bonds. As long as CenterPoint Houston is the servicer, the PUCT may adjust CenterPoint Houston's transmission and distribution rates to take into account the extent, if any, by which its servicing fees exceed its actual incremental costs in servicing the transition bonds.

### **CenterPoint Houston's Representations and Warranties as Servicer**

In the servicing agreement, the servicer will represent and warrant as of the date CenterPoint Houston sells or otherwise transfers the transition property to us to the effect, among other things, that:

- the servicer is duly organized, validly existing and in good standing under the laws of the state of its organization (which is Texas, when CenterPoint Houston is the servicer), with the limited liability company or corporate, as the case may be, power and authority to conduct its business as presently conducted and to execute, deliver and carry out the terms of the servicing agreement and the intercreditor agreement, and has the power, authority and legal right to service the transition property and to hold the transition property records as custodian,

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- the servicer is duly qualified to do business and is in good standing and has obtained all necessary licenses and approvals, in all jurisdictions in which it is required to do so (except where such failure would not be reasonably likely to have a material adverse effect on its business, operations or properties or adversely affect the servicing of the transition property),
- the servicer's execution, delivery and performance of the servicing agreement and the intercreditor agreement have been duly authorized by the servicer by all necessary limited liability company or corporate, as the case may be, action,
- the servicing agreement and the intercreditor agreement both constitute legal, valid and binding obligations of the servicer, enforceable against the servicer in accordance with their terms, subject to customary exceptions relating to bankruptcy and equitable principles,
- the consummation of the transactions contemplated by the servicing agreement and the intercreditor agreement will not conflict with or result in any breach of the terms and provisions of nor constitute a default under the servicer's limited liability company agreement or articles of incorporation or by-laws, as the case may be, or any material agreement to which the servicer is a party or by which it is bound or result in the creation or imposition of any lien upon the servicer's properties (other than any lien that may be granted under the basic documents or any lien created pursuant to Section 39.309 of the Restructuring Act) or violate any law or any existing order, rule or regulation applicable to the servicer,
- except for the issuance advice letter and filings with the PUCT for adjusting the amount and allocation of the transition charges and filings under the Uniform Commercial Code and under the Restructuring Act, no governmental approvals, authorizations, consents, orders or other actions or filings are required for the servicer to execute, deliver and perform its obligations under the servicing agreement, except those that have previously been obtained,
- except as disclosed in this prospectus or the prospectus supplement, there are no proceedings pending and, to the servicer's knowledge, there are no proceedings threatened before any court, federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the servicer or its properties:
  - asserting the invalidity of the servicing agreement or any other underlying agreement,
  - seeking any determination or ruling that might materially and adversely affect the transition property or the performance by the servicer of its obligations under, or the validity or enforceability against the servicer of, the servicing agreement,
  - relating to the servicer and that might materially and adversely affect the federal or state income, gross receipts or franchise tax attributes of the transition property or the transition bonds, or
  - seeking to prevent the issuance of the transition bonds or the consummation of any of the transactions contemplated by the servicing agreement or any other underlying agreement, and
- each report and certificate delivered in connection with any filing made with the PUCT by the servicer on our behalf with respect to transition charges or adjustments will be true and correct in all material respects except that the servicer represents and warrants with respect to any assumption, forecast or prediction in such report or certificate that it is reasonably based on historical performance.

The servicer is not responsible for any ruling, action or delay of the PUCT, except those caused by the servicer's failure to file required applications in a timely and correct manner or other breach of its duties under the servicing agreement. The servicer also is not liable for the calculation of the transition charges and adjustments, including any inaccuracy in the assumptions made in the calculation, so long as the servicer has acted in good faith and has not acted in a negligent manner.

### **The Servicer Will Indemnify Us, Other Entities and the PUCT in Limited Circumstances**

Under the servicing agreement, the servicer will agree to indemnify, defend and hold harmless us, the trustee, for itself and on behalf of the transition bondholder, and related parties specified in the servicing agreement, including our managers, against any costs, expenses, losses, damages and liabilities of any kind whatsoever that may be imposed upon, incurred by or asserted against any of those persons as a result of:

- the servicer's willful misconduct, bad faith or negligence in the performance of, or reckless disregard of, its duties or observance of its covenants under the servicing agreement or the intercreditor agreement,
- the servicer's breach of any of its representations or warranties under the servicing agreement or the intercreditor agreement, and
- litigation and related expenses relating to its status and obligations as servicer (other than any proceedings the servicer is required to institute under the servicing agreement).

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except to the extent that any such costs, expenses, losses, damages or liabilities resulted from the bad faith, willful misconduct or negligence of any such person or resulting from a breach of a representation or warranty made by any such person in any of the basic documents that gives rise to the servicer's indemnification obligation.

In addition, the servicer will agree to indemnify, defend and hold harmless the PUCT (for the benefit of retail electric customers) us, the trustee, for itself and on behalf of the transition bondholder, and related parties specified in the servicing agreement, including our managers, in connection with any increase in servicing fees as described under "—Servicer Compensation" if that increase is the result of a servicer default arising out of the servicer's willful misconduct, bad faith or negligence in performance of its duties or observance of its covenants under the servicing agreement. Any such indemnity payments made to the PUCT for the benefit of the retail electric consumers will be remitted to the trustee promptly for deposit in the collection account.

In the servicing agreement, the servicer will release us, our managers and the trustee from any and all claims whatsoever relating to the transition property or the servicer's servicing activities with respect thereto except to the extent of bad faith, willful misconduct or negligence.

The PUCT, acting through its authorized legal representative, may enforce the servicer's obligations imposed pursuant to the financing order for the benefit of ratepayers to the extent permitted by law.

### **The Servicer Will Provide Statements to Us, the PUCT and the Trustee**

For each calculation date for the transition bonds, which will be either 15 or 90 days before each annual true-up filing is made by the servicer with the PUCT, the servicer will provide to us, the PUCT and the trustee a statement indicating, with respect to the transition property, among other things:

- the transition bond balance and the projected transition bond balance as of the immediately preceding payment date,
- the amount on deposit in the capital subaccount and the amount required to be on deposit in the capital subaccount as of the immediately preceding payment date,
- the amount on deposit in the excess funds subaccount as of the immediately preceding payment date,
- the projected transition bond balance on the calculation date and the servicer's projection of the transition bond balance on the payment date immediately preceding the next succeeding adjustment date,
- the required capital subaccount balance and the servicer's projection of the amount on deposit in the capital subaccount for the payment date immediately preceding the next succeeding adjustment date, and
- the servicer's projection of the amount on deposit in the excess funds subaccount for the payment date immediately preceding the next succeeding adjustment date.

The servicer will prepare and furnish to us, the PUCT and the trustee a statement setting forth the aggregate amount remitted or to be remitted by the servicer to the trustee on or before each such remittance. In addition, on or before each payment date, the servicer will prepare and furnish to us and the trustee a statement setting forth the transfers and payments to be made on that payment date and the amounts thereof. Further, on or before each payment date for the transition bonds, the servicer will prepare and furnish to us, the PUCT and the trustee a statement setting forth the amounts to be paid to the holders of the transition bonds. The trustee will forward to the transition bondholders on each payment date such report prepared by the servicer.

### **The Servicer Will Provide Compliance Reports Concerning the Servicing Agreement**

The servicing agreement will provide that the servicer will furnish annually to us, the PUCT, the trustee and the rating agencies, on or before March 31 of each year, beginning March 31, 2009 or, if earlier, on the date on which CenterPoint Houston's annual report on Form 10-K is required to be filed, a report on its assessment of compliance with specified servicing criteria as required by Item 1122(a) of Regulation AB of the SEC, during the preceding 12 months ended December 31 (or preceding period since the closing date of the issuance of the transition bonds in the case of the first statement), together with a certificate by an officer of the servicer certifying the statements set forth therein.

The servicing agreement will provide that a firm of independent certified public accountants will furnish to us, the PUCT, the trustee and the rating agencies, on or before March 31st of each year, beginning March 31, 2009, or, if earlier, on the date on which CenterPoint Houston's annual report on Form 10-K is required to be filed, a statement as to compliance by the servicer during the preceding calendar year, or the relevant portion thereof, with procedures relating to the servicing of transition property. This report, which is referred to in this prospectus as the "annual accountant's report," will state that the firm has performed a review of the servicer's compliance with the servicing obligations of the servicing agreement, identify the results of this review and include any exceptions to the procedures relating to the servicing of the transition property noted. The annual accountant's report will also indicate that the accounting firm providing the report is independent of the servicer within the meaning of the Code of Professional Ethics of the American Institute of Certified Public Accountants and of the Rules of the Public

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Company Accounting Oversight Board. The servicing agreement also will provide for delivery to us, the PUCT and the trustee, on or before March 31 of each year, a certificate signed by an officer of the servicer. This certificate will state that to the best of such officer's knowledge, the servicer has fulfilled its obligations under the servicing agreement for the preceding calendar year, or the relevant portion thereof, or, if there has been a default in the fulfillment of any relevant obligation, stating that there has been a default and describing each default. The servicer has agreed to give us, each rating agency and the trustee written notice of any servicer default under the servicing agreement.

### **Matters Regarding CenterPoint Houston as the Servicer**

Under the servicing agreement, any person:

- into which the servicer may be merged, converted or consolidated and which succeeds to all or substantially all of the electric transmission and distribution business of the servicer (or, if the transmission and distribution business is split, which provides distribution services directly to a majority of the customers in CenterPoint Houston's service territory),
- which results from the division of the servicer into two or more persons and which succeeds to all or substantially all of the electric transmission and distribution business of the servicer (or, if the transmission and distribution business is split, which provides distribution services directly to a majority of the customers in CenterPoint Houston's service territory),
- which may result from any merger, conversion or consolidation to which the servicer shall be a party and which succeeds to all or substantially all of the electric transmission and distribution business of the servicer (or, if the transmission and distribution business is split, which provides distribution services directly to a majority of the customers in CenterPoint Houston's service territory),
- which may purchase or otherwise succeed to the properties and assets of the servicer substantially as a whole and which purchases or succeeds to all or substantially all of the electric transmission and distribution business of the servicer (or, if the transmission and distribution business is split, which provides distribution services directly to a majority of the customers in CenterPoint Houston's service territory), or
- which may otherwise purchase or succeed to the major part of the electric transmission and distribution business of the servicer (or, if the transmission and distribution business is split, which provides distribution services directly to a majority of the customers in CenterPoint Houston's service territory),

will be the successor of the servicer under the servicing agreement.

The servicing agreement will further require that:

- immediately after giving effect to any transaction referred to above, the representations and warranties made by the servicer in the servicing agreement will be true and correct and no servicer default, and no event which, after notice or lapse of time, or both, would become a servicer default, will have occurred and be continuing,
- the successor to the servicer must execute an agreement of assumption to perform every obligation of the servicer under the servicing agreement,
- officers' certificates and opinions of counsel will have been delivered to us, the PUCT and the trustee, and
- prior written notice will have been received by the PUCT and rating agencies.

So long as the conditions of any such assumptions are met, then the prior servicer will automatically be released from its obligations under the servicing agreement. The servicing agreement will permit the servicer to appoint any person to perform any or all of its obligations including a collection agent acting pursuant to any intercreditor agreement, provided the appointment must satisfy the rating agency condition. In all cases where an agent is appointed, the servicer will remain obligated and liable under the servicing agreement.

The servicing agreement will provide that, subject to the foregoing provisions, CenterPoint Houston may not resign from the obligations and duties imposed on it as servicer unless CenterPoint Houston delivers an opinion of independent legal counsel that the performance of its duties under the servicing agreement shall no longer be permissible under applicable law. Written notice of any such determination will be communicated to us, the trustee, the PUCT and each rating agency at the earliest practicable time and shall be evidenced by an opinion of counsel. A resignation by CenterPoint Houston as servicer will not become effective until a successor servicer has assumed the servicing obligations and duties of CenterPoint Houston under the servicing agreement.

Except as expressly provided in the servicing agreement, the servicer will not be liable to us, our managers, the trustee, you or any other person for any action taken or for refraining from taking any action pursuant to the servicing agreement or for errors in judgment. However, the servicer will be liable to the extent this liability is imposed by reason of the servicer's willful misconduct, bad faith or negligence in the performance of its duties. The servicer and any of its directors, officers, employees or agents may rely in good faith on the advice of counsel reasonably acceptable to the trustee or on any document submitted by any person respecting any matters under the servicing agreement. In addition, the servicing agreement will provide that the servicer is under no obligation to appear in, prosecute, or defend any legal action, except as provided in the servicing agreement.

### **Events Constituting a Default by the Servicer**

Servicer defaults under the servicing agreement will include, among other things:

- any failure by the servicer to remit to the trustee, on our behalf, any required remittance by the date that such remittance must be made and that continues unremedied for a period of five business days,
- any failure by the servicer to duly perform its obligations to make transition charge adjustment filings in the time and manner set forth in the servicing agreement, which failure continues unremedied for a period of five days,
- any failure by the servicer duly to observe or perform, in any material respect, any other covenant or agreement in the servicing agreement or any other basic document to which it is a party, which failure materially and adversely affects the transition property or the timely collection of the transition charges and which continues unremedied for 60 days after written notice of this failure has been given to the servicer by us, the PUCT or the trustee or after discovery of this failure by an officer of the servicer, as the case may be,
- any representation or warranty made by the servicer in the servicing agreement proves to have been incorrect when made, which has a material adverse effect on any of the transition property, the transition bondholders or their investment in the transition bonds, the trustee, the PUCT or us and which continues unremedied for 60 days after written notice of this failure has been given to the servicer by us or the trustee or after discovery of this failure by an officer of the servicer, as the case may be, or
- an event of bankruptcy, insolvency, readjustment of debt, marshaling of assets and liabilities or similar proceedings with respect to the servicer or an action by the servicer indicating its insolvency, reorganization pursuant to bankruptcy proceedings or inability to pay its obligations as specified in the servicing agreement.

### **The Trustee's Rights if the Servicer Defaults**

As long as a servicer default under the servicing agreement remains unremedied, the trustee may, and upon the instruction of the holders of a majority of the outstanding principal amount of the transition bonds, must, except as described below under “—Intercreditor Agreement,” by written notice to the servicer, terminate all the rights and obligations of the servicer under the servicing agreement. However, the servicer's indemnification obligation and obligation to continue performing its functions as servicer may not be terminated until a successor servicer is appointed. Under the servicing agreement, the servicer's indemnity obligations will survive its replacement as servicer. In the event of the removal or resignation of the servicer, the trustee in compliance with the intercreditor agreement may, and upon the written instruction of the holders of a majority of the outstanding principal amount of the transition bonds, must, appoint a successor servicer which will succeed to all the rights and duties of the servicer under the servicing agreement. In no event will the trustee be liable for its appointment of a successor servicer made with due care. The trustee may make arrangements for compensation to be paid to any successor servicer.

In addition, when a servicer defaults, the transition bondholders (subject to the provisions of the indenture) and the trustee as beneficiary of any statutory lien permitted by the Restructuring Act will be entitled to (i) apply to a Travis County, Texas district court for sequestration and payment of revenues arising from the transition property, (ii) foreclose on or otherwise enforce the lien on and security interests in, any transition property and (iii) apply to the PUCT for an order that amounts arising from the transition charges be transferred to a separate account for the benefit of the transition bondholders. Upon a servicer default based upon the commencement of a case by or against the servicer under the bankruptcy or insolvency laws, the trustee may be prevented from effecting a transfer of servicing. Please read the “Risk Factors—Risks Associated With Potential Bankruptcy Proceedings of the Seller or Servicer” and “How a Bankruptcy May Affect Your Investment” in this prospectus. The trustee may appoint, or petition a court of competent jurisdiction for the appointment of, a successor servicer which satisfies criteria specified by the rating agencies rating the transition bonds.

### **Waiver of Past Defaults**

The Trustee, with the written consent of the holders of transition bonds evidencing not less than a majority in principal amount of the then outstanding transition bonds, on behalf of all bondholders, may waive in whole or in part any default by the servicer in the performance of its obligations under the servicing agreement and its consequences, except a default in making any required remittances to the collection account under the servicing agreement. The servicing agreement will provide that no waiver will impair the bondholders' rights relating to subsequent defaults.

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### **The Obligations of a Successor Servicer**

Pursuant to the provisions of the servicing agreement, if for any reason a third party assumes or succeeds to the role of the servicer under the servicing agreement, the existing servicer must cooperate with us, the trustee and the successor servicer in terminating the existing servicer's rights and responsibilities under the servicing agreement. This procedure includes the transfer to the successor servicer of all documentation pertaining to the transition property and all cash amounts then held by the servicer for remittance or subsequently acquired by the servicer. The servicing agreement will provide that the servicer will be liable for all reasonable costs and expenses incurred in transferring servicing responsibilities to the successor servicer in the event the successor servicer is appointed as a result of a servicer default. In all other cases, those costs and expenses will be paid by the party incurring them. A successor servicer may not resign unless it is prohibited from serving by law. The predecessor servicer is obligated, on an ongoing basis, to cooperate with the successor servicer and provide whatever information is, and take whatever actions are, reasonably necessary to assist the successor servicer in performing its obligations under the servicing agreement.

### **Amendment**

The servicing agreement may be amended by the parties thereto, if the rating agency condition has been satisfied, with the consent of the trustee and, with respect to amendments that would increase ongoing qualified costs as defined in the financing order, the consent or deemed consent of the PUCT. The servicing agreement will provide that to the extent that the PUCT adopts rules or regulations permitted by the financing order or the Restructuring Act the effect of which is to modify or supplement any provision of the servicing agreement related to retail electric provider standards, the servicing agreement will be deemed to have been so modified or supplemented on the effective date of such rule or regulation without the necessity of any further action by any party to the servicing agreement. The servicer will notify us, the rating agencies and the trustee of any such PUCT rules or regulations and the corresponding modification of or supplement to the servicing agreement promptly upon obtaining knowledge thereof.

### **Intercreditor Agreement**

In connection with the issuance of the transition bonds, we will enter into an intercreditor agreement with CenterPoint Houston (on behalf of itself and in its capacities as (i) servicer of the transition bonds and as servicer of the transition bonds issued by Transition Bond Company I and Transition Bond Company II and (ii) the collection agent with respect to nuclear decommissioning charges), the trustee of the transition bonds, Transition Bond Company I and the trustee under the indenture relating to the transition bonds issued by Transition Bond Company I, Transition Bond Company II and the trustee under the indenture relating to the transition bonds issued by Transition Bond Company II pursuant to which:

- the servicer that allocates and remits funds received from retail electric providers for the transition bonds and for the transition bonds issued by Transition Bond Company I and Transition Bond Company II and places such funds into deposit accounts (such allocation, remittance and deposits hereafter referred to as the "allocation services") must be the same entity under the servicing agreement and the servicing agreements relating to the transition bonds issued by Transition Bond Company I and Transition Bond Company II, and
- the trustee of the transition bonds, acting upon the vote of transition bondholders representing a majority of the outstanding principal amount of the transition bonds, and the trustees of the transition bonds issued by Transition Bond Company I and Transition Bond Company II must agree upon a replacement servicer that performs the allocation services.

In the event of a default by the servicer under any servicing agreement relating to the transition bonds or the transition bonds issued by Transition Bond Company I and Transition Bond Company II, if the trustees are unable to agree on a replacement servicer, no trustee would be able to replace CenterPoint Houston or any successor as servicer. Instead, under the intercreditor agreement, any trustee could upon such a default require all collections by the servicers to be deposited directly into a designated account with a financial institution selected by the trustees, subject to satisfaction of the rating agency condition. The financial institution holding the designated account would then be responsible for allocating the collections in the account between transition charges relating to the transition bonds and the transition bonds issued by Transition Bond Company I and Transition Bond Company II.

## HOW A BANKRUPTCY MAY AFFECT YOUR INVESTMENT

*Challenge to True Sale Treatment.* CenterPoint Houston will represent and warrant that the transfer of the transition property in accordance with the sale agreement constitutes a true and valid sale and assignment of the transition property by CenterPoint Houston to us. It will be a condition of closing for the sale of transition property pursuant to the sale agreement that CenterPoint Houston will take the appropriate actions under the Restructuring Act, including filing a notice of transfer of an interest in the transition property, to perfect this sale. The Restructuring Act provides that a transfer of transition property by an electric utility to

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an assignee which the parties have in the governing documentation expressly stated to be a sale or other absolute transfer, in a transaction approved in a financing order, shall be treated as an absolute transfer of all the transferor's right, title and interest, as in a "true sale" under applicable creditors' rights principles, and not as a pledge or other financing, of the relevant transition property. We and CenterPoint Houston will treat such a transaction as a sale under applicable law. However, we expect that transition bonds will be reflected as debt on CenterPoint Energy's consolidated financial statements. In addition, we anticipate that the transition bonds will be treated as debt of CenterPoint Energy for federal income tax purposes. Please read "The Restructuring Act—Recovery of Qualified Costs for CenterPoint Houston and Other Texas Utilities" and "Material U.S. Federal Income Tax Consequences for the Transition Bondholders." In the event of a bankruptcy of a party to a sale agreement, if a party in interest in the bankruptcy were to take the position that the transfer of the transition property to us pursuant to that sale agreement was a financing transaction and not a true sale under applicable creditors' rights principles, there can be no assurance that a court would not adopt this position. Even if a court did not ultimately recharacterize the transaction as a financing transaction, the mere commencement of a bankruptcy of CenterPoint Houston and the attendant possible uncertainty surrounding the treatment of the transaction could result in delays in payments on the transition bonds.

In that regard, we note that the bankruptcy court in *In re: LTV Steel Company, Inc., et al.*, 274 B.R. 278 (Bankr. N. D. Oh. 2001) issued an interim order that observed that a debtor, LTV Steel Company, which had previously entered into securitization arrangements with respect both to its inventory and its accounts receivable may have "at least some equitable interest in the inventory and receivables, and that this interest is property of the Debtor's estate... sufficient to support the entry of" an interim order permitting the debtor to use proceeds of the property sold in the securitization. 274 B.R. at 285. The court based its decision in large part on its view of the equities of the case.

LTV and the securitization investors subsequently settled their dispute over the terms of the interim order and the bankruptcy court entered a final order in which the parties admitted and the court found that the pre-petition transactions constituted "true sales." The court did not otherwise overrule its earlier ruling. The LTV memorandum opinion serves as an example of the pervasive equity powers of bankruptcy courts and the importance that such courts may ascribe to the goal of reorganization, particularly where the assets sold are integral to the ongoing operation of the debtor's business.

We and CenterPoint Houston have attempted to mitigate the impact of a possible recharacterization of a sale of transition property as a financing transaction under applicable creditors' rights and principles. The sale agreement will provide that if the transfer of the transition property is thereafter recharacterized by a court as a financing transaction and not a true sale, the transfer by CenterPoint Houston will be deemed to have granted to us on behalf of ourselves and the trustee a first priority security interest in all CenterPoint Houston's right, title and interest in and to the transition property and all proceeds thereof. In addition, the sale agreement will require the filing of a notice of security interest in the transition property and the proceeds thereof in accordance with the Restructuring Act. As a result of this filing, we would be a secured creditor of CenterPoint Houston and entitled to recover against the collateral or its value. This does not, however, eliminate the risk of payment delays or reductions and other adverse effects caused by a CenterPoint Houston bankruptcy. Further, if, for any reason, a transition property notice is not filed under the Restructuring Act or we fail to otherwise perfect our interest in the transition property, and the transfer is thereafter deemed not to constitute a true sale, we would be an unsecured creditor of CenterPoint Houston.

The Restructuring Act provides that the creation, granting, perfection and enforcement of liens and security interests in transition property are governed by the Restructuring Act and not by the Texas Business & Commerce Code. Under the Restructuring Act, a valid and enforceable lien and security interest in transition property may be created only by a financing order issued under the Restructuring Act and the execution and delivery of a security agreement with a holder of transition bonds or a trustee or agent for the holder. The lien and security interest attaches automatically from the time value is received for the transition bonds. Upon perfection through the filing of notice with the Secretary of State of Texas pursuant to rules established by the Secretary of State of Texas, the security interest shall be a continuously perfected lien and security interest in the transition property, with priority in the order of filing and take precedence over any subsequent judicial or other lien creditor. If this notice is filed within ten days after value is received for the transition bonds, the security interest will be perfected retroactive to the date value was received, otherwise, the security interest will be perfected as of the date of filing.

None of this, however, mitigates the risk of payment delays and other adverse effects caused by a CenterPoint Houston bankruptcy. Further, if, for any reason, a transition property notice is not filed under the Restructuring Act or we fail to otherwise perfect our interest in the transition property sold pursuant to the sale agreement, and the transfer is thereafter deemed not to constitute a true sale, we would be an unsecured creditor of CenterPoint Houston.

*Consolidation of the Issuing Entity and CenterPoint Houston.* If CenterPoint Houston were to become a debtor in a bankruptcy case, a party in interest might attempt to substantively consolidate the assets and liabilities of CenterPoint Houston and us. We and CenterPoint Houston have taken steps to attempt to minimize this risk. Please read “CenterPoint Energy Transition Bond Company III, LLC, The Issuing Entity” in this prospectus. However, no assurance can be given that if CenterPoint Houston were to become a debtor in a bankruptcy case, a court would not order that our assets and liabilities be substantively consolidated with those of CenterPoint Houston. Substantive consolidation would result in payment of the claims of the beneficial owners of the transition bonds to be subject to substantial delay and to adjustment in timing and amount under a plan of reorganization in the bankruptcy case.

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*Status of Transition Property as Current Property.* CenterPoint Houston will represent in the sale agreement, and the Restructuring Act provides, that the transition property sold pursuant to the sale agreement constitutes a current property right on the date that it is first transferred or pledged in connection with the issuance of the transition bonds. Nevertheless, no assurance can be given that, in the event of a bankruptcy of CenterPoint Houston, a court would not rule that the transition property comes into existence only as retail electric customers use electricity.

If a court were to accept the argument that the transition property comes into existence only as retail electric customers use electricity, no assurance can be given that a security interest in favor of the bondholders of the transition bond would attach to the transition charges in respect of electricity consumed after the commencement of the bankruptcy case or that the transition property has been sold to us. If it were determined that the transition property had not been sold to us, and the security interest in favor of the transition bondholders did not attach to the applicable transition charges in respect of electricity consumed after the commencement of the bankruptcy case, then we would have an unsecured claim against CenterPoint Houston. If so, there would be delays and/or reductions in payments on the transition bonds. Whether or not a court determined that transition property had been sold to us pursuant to a sale agreement, no assurances can be given that a court would not rule that any transition charges relating to electricity consumed after the commencement of the bankruptcy could not be transferred to us or the trustee.

In addition, in the event of a bankruptcy of CenterPoint Houston, a party in interest in the bankruptcy could assert that we should pay, or that we should be charged for, a portion of CenterPoint Houston's costs associated with the transmission or distribution of the electricity, consumption of which gave rise to the transition charge receipts used to make payments on the transition bonds.

Regardless of whether CenterPoint Houston is the debtor in a bankruptcy case, if a court were to accept the argument that transition property sold pursuant to the sale agreement comes into existence only as customers use electricity, a tax or government lien or other nonconsensual lien on property of CenterPoint Houston arising before that transition property came into existence could have priority over our interest in that transition property. Adjustments to the transition charges may be available to mitigate this exposure, although there may be delays in implementing these adjustments.

*Estimation of Claims; Challenges to Indemnity Claims.* If CenterPoint Houston were to become a debtor in a bankruptcy case, claims, including indemnity claims, by us or the trustee against CenterPoint Houston as seller under the sale agreement and the other documents executed in connection therewith would be unsecured claims and would be subject to being discharged in the bankruptcy case. In addition, a party in interest in the bankruptcy may request that the bankruptcy court estimate any contingent claims that we or the trustee have against CenterPoint Houston. That party may then take the position that these claims should be estimated at zero or at a low amount because the contingency giving rise to these claims is unlikely to occur. If a court were to hold that the indemnity provisions were unenforceable, we would be left with a claim for actual damages against CenterPoint Houston based on breach of contract principles. The actual amount of these damages would be subject to estimation and/or calculation by the court.

No assurances can be given as to the result of any of the above-described actions or claims. Furthermore, no assurance can be given as to what percentage of their claims, if any, unsecured creditors would receive in any bankruptcy proceeding involving CenterPoint Houston.

*Enforcement of Rights by the Trustee.* Upon an event of default under the indenture, the Restructuring Act permits the trustee to enforce the security interest in the transition property sold pursuant to the sale agreement in accordance with the terms of the indenture. In this capacity, the trustee is permitted to request the PUCT or a Travis County, Texas district court to order the sequestration and payment to holders of transition bonds of all revenues arising from the applicable transition charges. There can be no assurance, however, that the PUCT or a district court judge would issue this order after a seller bankruptcy in light of the automatic stay provisions of Section 362 of the United States Bankruptcy Code. In that event, the trustee may under the indenture seek an order from the bankruptcy court lifting the automatic stay with respect to this action by the PUCT or a district court judge and an order requiring an accounting and segregation of the revenues arising from the transition property sold pursuant to the sale agreement. There can be no assurance that a court would grant either order.

*Bankruptcy of the Servicer.* The servicer is entitled to commingle the transition charges that it receives with its own funds until each date on which the servicer is required to remit funds to the trustee as specified in the servicing agreement. The Restructuring Act provides that the relative priority of a lien created under the Restructuring Act is not defeated or adversely affected by the commingling of transition charges arising with respect to the transition property with funds of the electric utility. In the event of a bankruptcy of the servicer, a party in interest in the bankruptcy might assert, and a court might rule, that the transition charges commingled by the servicer with its own funds and held by the servicer, prior to and as of the date of bankruptcy were property of the servicer as of that date, and are therefore property of the servicer's bankruptcy estate, rather than our property. If the court so rules, then the court would likely rule that the trustee has only a general unsecured claim against the servicer for the amount of commingled transition charges held as of that date and could not recover the commingled transition charges held as of the date of the bankruptcy.

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However the court rules on the ownership of the commingled transition charges, the automatic stay arising upon the bankruptcy of the servicer could delay the trustee from receiving the commingled transition charges held by the servicer as of the date of the bankruptcy until the court grants relief from the stay. A court ruling on any request for relief from the stay could be delayed pending the court's resolution of whether the commingled transition charges are our property or are property of the servicer, including resolution of any tracing of proceeds issues.

The servicing agreement will provide that the trustee, as our assignee, together with the other persons specified therein, may vote to appoint a successor servicer that satisfies the rating agency condition. The servicing agreement will also provide that the trustee, together with the other persons specified therein, may petition the PUCT or a court of competent jurisdiction to appoint a successor servicer that meets this criterion. However, the automatic stay in effect during a servicer bankruptcy might delay or prevent a successor servicer's replacement of the servicer. Even if a successor servicer may be appointed and may replace the servicer, a successor may be difficult to obtain and may not be capable of performing all of the duties that CenterPoint Houston as servicer was capable of performing. Furthermore, should the servicer enter into bankruptcy, it may be permitted to stop acting as servicer.

*Bankruptcy of a Retail Electric Provider.* A retail electric provider is not required to segregate the transition charges it collects from its general funds. The Restructuring Act provides that our rights to the transition property are not affected by the commingling of these funds with other funds. In a bankruptcy of a retail electric provider, however, a bankruptcy court might rule that federal bankruptcy law takes precedence over the Restructuring Act and does not recognize our right to receive the collected transition charges that are commingled with other funds of a retail electric provider prior to or as of the date of bankruptcy, including transition charges associated with other series of transition bonds. If so, the collected transition charges held by a retail electric provider as of the date of bankruptcy would not be available to us to pay amounts owing on the transition bonds. In this case, we would have only a general unsecured claim against that retail electric provider for those amounts.

In addition, the bankruptcy of a retail electric provider may cause a delay in or prohibition of enforcement of various rights against the retail electric provider, including rights to require payments by the retail electric provider, rights to retain preferential payments made by the retail electric provider prior to bankruptcy, rights to require the retail electric provider to comply with financial provisions of the Restructuring Act or other state laws, rights to terminate contracts with the retail electric provider and rights that are conditioned on the bankruptcy, insolvency or financial condition of the retail electric provider.

Retail electric providers will be required to remit to the servicer a fixed portion of billed transition charges except for a reasonable allowance for expected losses. The specified percentage will be adjusted on an annual basis to take into account the collection experience of the previous year, as demonstrated by audited reports from all retail electric providers.

Other risks relating to bankruptcy may be found in "Risk Factors—The Risks Associated With Potential Bankruptcy Proceedings of Retail Electric Providers."

## **MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES FOR THE TRANSITION BONDHOLDERS**

### **General**

The following is a summary of the material federal income tax consequences to transition bondholders of the purchase, ownership and disposition of transition bonds and is based on the opinion of Baker Botts L.L.P., special federal income tax counsel to us and to CenterPoint Houston, referred to in this prospectus as special tax counsel. Special tax counsel is of the opinion that the description of material federal income tax consequences in this summary is accurate in all material respects. The opinion of special tax counsel is based on some assumptions and is limited by some qualifications stated in this discussion or in the opinion. This discussion is based on current provisions of the Internal Revenue Code, currently applicable Treasury Regulations and judicial and administrative rulings and decisions. Legislative, judicial or administrative changes could alter or modify the statements and conclusions in this discussion. Any legislative, judicial or administrative changes or new interpretations may be retroactive and could affect tax consequences to transition bondholders.

This discussion applies to transition bondholders who acquire transition bonds at original issue for cash equal to the issue price of those bonds and hold the bonds as capital assets. This discussion does not address all of the tax consequences relevant to a particular transition bondholder in light of that holder's circumstances, and some transition bondholders may be subject to special tax rules and limitations not discussed below (*e.g.*, life insurance companies, tax-exempt organizations, financial institutions, dealers in securities, S corporations, taxpayers subject to the alternative minimum tax provisions of the Internal Revenue Code, broker-dealers and persons who hold the transition bonds as part of a hedge, straddle, "synthetic security" or other integrated investment, risk reduction or constructive sale transaction). Except as described below, this discussion also does not address the tax consequences to nonresident aliens, foreign corporations, foreign partnerships or foreign trusts that are subject to U.S. federal income tax on a net basis on income with respect to the transition bonds because that income is effectively connected with the conduct of a U.S. trade or business. In addition, except as described below, this discussion does not address any tax consequences under state, local or foreign tax laws. Consequently, you are urged to consult your tax adviser to determine the federal, state, local and foreign income and any other tax consequences of the purchase, ownership and disposition of the transition bonds.

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### **Income Tax Status of the Transition Bonds and the Issuing Entity**

Based upon guidance from the IRS and certain representations from us, including a representation by us that we will not make, or allow there to be made, any election to the contrary, special tax counsel has rendered its opinion that for United States federal income tax purposes we will not be considered an entity separate from CenterPoint Energy and the transition bonds will be treated as debt of CenterPoint Energy. By acquiring a transition bond, a transition bondholder agrees to treat the transition bond as debt of CenterPoint Energy for United States federal income tax purposes.

CenterPoint Energy expects to receive prior to the issuance of the transition bonds, a ruling from the Comptroller of Public Accounts of the State of Texas to the effect that (i) our receipt of the transition property, (ii) our receipt of the transition charges, and (iii) our earnings on eligible investments of the transition charges and the amounts held in the excess funds subaccount and the collection account will not be subject to Texas franchise tax.

### **Taxation of Transition Bondholders**

Based on the assumptions and subject to the qualifications stated herein, it is the opinion of special tax counsel that the material federal income tax consequences to transition bondholders are as follows:

#### **Definition of United States Person**

For purposes of the discussion below, a United States person is:

- an individual who is a citizen or resident of the United States for U.S. federal income tax purposes,
- a corporation, including an entity treated as a corporation, created or organized in or under the laws of the United States, or any state, including the District of Columbia, or any political subdivision thereof,
- an estate, the net income of which is subject to United States federal income taxation regardless of its source, or
- a trust, if a court within the United States is able to exercise primary supervision over the administration of such trust and one or more United States persons have the authority to control all substantial decisions of such trust or if the trust has a valid election in effect under applicable Treasury Regulations to be treated as a United States person.

A U.S. holder means a transition bondholder that is a United States person. Except in the case of a partnership, a non-U.S. holder means a transition bondholder other than a U.S. holder. In the case of a transition bondholder that is a partnership (including for this purpose any entity treated as a partnership for United States federal income tax purposes), the tax consequences will generally affect the partners rather than the partnership, but special considerations not set forth herein may apply.

#### **Tax Consequences to U.S. Holders**

*Payments of Interest.* Interest on the transition bonds will be taxable as ordinary interest income when received or accrued by U.S. holders under their method of accounting. Generally, interest on the transition bonds will constitute “investment income” for purposes of Internal Revenue Code limitations on the deductibility of investment interest expense.

*Original Issue Discount.* This discussion assumes that the transition bonds will not be considered to be issued with original issue discount (“OID”). OID is generally defined as any excess of the stated redemption price at maturity over the issue price which is greater than a de minimis amount (0.25% of a bond’s stated redemption price at maturity multiplied by the weighted average number of years to maturity), all within the meaning of the Internal Revenue Code and the Treasury Regulations promulgated thereunder (the “OID Regulations”). If the transition bonds are issued with OID, U.S. holders generally will be subject to the special tax accounting rules for OID obligations provided under the OID Regulations. U.S. holders of transition bonds issued with OID should be aware that they generally must include OID in income for United States federal income tax purposes as it accrues economically, in advance of the receipt of cash attributable to that income. If any tranche of transition bonds is issued with OID, prospective holders will be so informed in the prospectus supplement.

*Sale or Other Taxable Disposition of the Transition Bonds.* If there is a sale, exchange, redemption, retirement or other taxable disposition of a transition bond, a U.S. holder generally will recognize gain or loss equal to the difference between (a) the amount of cash and the fair market value of any other property received (other than amounts attributable to, and taxable as, accrued stated interest) and (b) the holder’s adjusted tax basis in the transition bond. The adjusted tax basis in the transition bond generally will equal its cost, reduced by any payments reflecting principal previously received with respect to the bond. Gain or loss generally will be capital gain or loss if the transition bond was held as a capital asset.

*Backup Withholding.* Payments made on and proceeds from the sale of a transition bond may be subject to backup withholding unless a U.S. holder complies with certain identification requirements. Any amounts withheld from a payment to a U.S. holder will be allowed as a credit against such U.S. holder's federal income tax liability, provided that the required information is timely furnished to the IRS.

## Tax Consequences to Non-U.S. Holders

*Withholding.* Under present United States federal income tax law, and subject to the discussion below concerning backup withholding, payments of principal, premium (if any) and interest on a transition bond by us or any paying agent to any non-U.S. holder, and gain realized on the sale or exchange of a transition bond by a non-U.S. holder, will be exempt from United States federal income or withholding tax, provided that:

- such non-U.S. holder does not own, actually or constructively, 10% or more of the total combined voting power of all classes of voting stock of CenterPoint Energy, is not a controlled foreign corporation related, directly or indirectly, to CenterPoint Energy, through stock ownership and is not a bank receiving interest pursuant to a loan agreement entered into in the ordinary course of its trade or business,
- the statement requirement described below has been fulfilled with respect to the beneficial owner,
- such non-U.S. holder is not an individual who is present in the United States for 183 days or more in the taxable year of disposition, or such individual does not have a “tax home” (as defined in the Internal Revenue Code) or an office or other fixed place of business in the United States and such holder is not subject to the rules under the Internal Revenue Code applicable to expatriates, and
- such payments and gain are not effectively connected with the conduct by such non-U.S. holder of a trade or business in the United States.

The statement requirement referred to in the preceding paragraph will be fulfilled if the beneficial owner of a transition bond certifies on an appropriate form (generally IRS Form W-8BEN), under penalties of perjury, that it is not a United States person and provides its name and address, and (a) the beneficial owner files that form with the withholding agent or (b) a securities clearing organization, bank or other financial institution holding customers’ securities in the ordinary course of its trade or business holds the transition bond on behalf of the beneficial owner, files with the withholding agent a statement that it has received that form from the beneficial owner and furnishes the withholding agent with a copy thereof. With respect to any transition bond held by a foreign partnership, under current law, this certification may be provided by the foreign partnership. However, unless a foreign partnership has entered into a withholding agreement with the IRS, each partner that is a non-U.S. holder will be required to supply this certification in order to avoid withholding with respect to such partner’s share of interest paid to the foreign partnership. Prospective investors, including foreign partnerships and their partners, should consult their tax advisers regarding possible additional reporting requirements.

If a non-U.S. holder of a transition bond is engaged in a trade or business in the United States, and if interest on the transition bond is effectively connected with the conduct of such trade or business, the non-U.S. holder, although exempt from the withholding tax discussed in the preceding paragraphs, will generally be subject to regular United States federal income tax on interest and on any gain realized on the sale or exchange of the transition bond in the same manner as if it were a U.S. holder. In lieu of the certificate described in the preceding paragraph, such a non-U.S. holder will be required to provide to the withholding agent an appropriate form (generally IRS Form W-8ECI), executed under penalties of perjury, in order to claim an exemption from withholding tax. In addition, if such a non-U.S. holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments.

*Estate Tax.* A transition bond held by an individual who is not a citizen or resident of the United States at the time of his death will not be subject to United States federal estate tax as a result of such individual’s death, provided that at the time of death:

- the individual did not own, actually or constructively, 10% or more of the total combined voting power of all classes of CenterPoint Energy’s voting stock, and
- payments with respect to a transition bond would not have been effectively connected with the conduct by such individual of a trade or business in the United States.

*Backup Withholding and Information Reporting.* Payments on a transition bond may be subject to information reporting. Backup withholding will not apply to payments made on or proceeds from the sale of a transition bond if the statement requirement described above is met, provided in each case that the payor does not have actual knowledge or reason to know that the payee is a United States person. Any amounts withheld from a payment to a non-U.S. holder under the backup withholding rules will be allowed as a credit against such non-U.S. holder’s United States federal income tax liability and may entitle such non-U.S. holder to a refund, provided that the required information is furnished to the IRS. Non-U.S. holders of a transition bond should consult their tax advisers regarding the application of information reporting and backup withholding in their particular situations, the availability of an exemption therefrom and the procedure for obtaining such an exemption, if available.

## ERISA CONSIDERATIONS

ERISA and Section 4975 of the Internal Revenue Code, as amended (“Code”), impose restrictions on:

- employee benefit plans, as defined in Section 3(3) of ERISA, that are subject to Title I of ERISA;
- plans, as defined in Section 4975(e)(1) of the Code, that are subject to Section 4975 of the Code, including, but not limited to, individual retirement accounts and certain types of Keogh plans;
- any entities whose underlying assets include plan assets by reason of that plan’s investment in those entities, each of the entities described in the first three bullet points being referred to as a “plan;” and
- persons who, based on their specific relationship to a plan, are “parties in interest” under Section 3(14) of ERISA or “disqualified persons” under Section 4975(e)(2) of the Code (collectively referred to as “parties in interest”). Parties in interest with respect to a plan include, but are not limited to, fiduciaries, persons providing services to the plan, employers any of whose employees are covered by the plan, and employee organizations any of whose members are covered by the plan.

Moreover, based on the reasoning of the United States Supreme Court in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993), an insurance company’s general account may be deemed to include assets of the plans investing in the general account, such as through the purchase of an annuity contract. ERISA also imposes specific duties on persons who are fiduciaries of plans subject to ERISA, and ERISA and Section 4975 of the Code prohibit specified transactions between a plan and parties in interest with respect to the plan. Violations of these rules may result in the imposition of excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code.

### Plan Asset Issues for an Investment in the Transition Bonds

Pursuant to Department of Labor Regulation Section 2510.3-101, as modified by the Pension Protection Act of 2006 (the “plan asset regulation”), in general, when a plan acquires an equity interest in an entity such as a trust, corporation, partnership or other specified entity, and such interest does not represent a “publicly offered security” or a security issued by an investment company registered under the Investment Company Act of 1940, as amended, the plan’s assets include both the equity interest and an undivided interest in each of the underlying assets of the entity, unless it is established either that the entity is an “operating company” or that equity participation in the entity by “benefit plan investors” is not “significant.” In general, an “equity interest” is defined under the plan asset regulation as any interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there is little statutory or regulatory guidance on this subject, and there can be no assurances in this regard, it appears that the transition bonds should not be treated as an equity interest for purposes of the plan asset regulation. Accordingly, our assets should not be treated as the assets of plans investing in the transition bonds.

If the transition bonds were deemed to be equity interests in us and none of the exceptions contained in Section 2510.3-101 of the regulations were applicable, then our assets would be considered to be assets of any plans that purchase the transition bonds. The extent to which the transition bonds are owned by benefit plan investors will not be monitored. If our assets were deemed to constitute “plan assets” pursuant to Section 2510.3-101 of the regulations, as modified by Section 3(42) of ERISA, transactions we might enter into, or may have entered into in the ordinary course of business, might constitute non-exempt prohibited transactions under ERISA and/or Section 4975 of the Internal Revenue Code.

### Prohibited Transaction Exemptions

It should be noted, however, that without regard to the treatment of the transition bonds as equity interests under the plan asset regulation, CenterPoint Houston, the underwriters and/or their affiliates, as providers of services to plans or otherwise, may be deemed to be parties in interest with respect to many plans. The purchase and holding of the transition bonds by or on behalf of one or more of these plans could result in a prohibited transaction within the meaning of Section 406 of ERISA or Section 4975 of the Code. However, the purchase and holding of the transition bonds may be subject to one or more exemptions from the prohibited transaction rules of ERISA and Section 4975 of the Code.

*Examples of Prohibited Transaction Exemptions.* Potentially applicable prohibited transaction exemptions, include the following:

- Prohibited Transaction Class Exemption (“PTCE”) 84-14, which exempts certain transactions effected on behalf of a plan by a “qualified professional asset manager” (“QPAM”), with such exemption referred to as the “QPAM exemption;”
- PTCE 90-1, which exempts certain transactions between insurance company pooled separate accounts and parties in interest;
- PTCE 91-38, which exempts certain transactions between bank collective investment funds and parties in interest;
- PTCE 95-60, which exempts certain transactions between insurance company general accounts and parties in interest;

- PTCE 96-23, which exempts certain transactions effected on behalf of a plan by an “in-house asset manager”; and

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- the statutory exemption (the “Statutory Exemption”) under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for certain prohibited transactions between a plan and a party in interest to such plan solely by reason of providing services to the plan (other than a party in interest that is a fiduciary with respect to the assets of the plan involved in the transaction, or an affiliate of such fiduciary), provided that there is adequate consideration for the transaction.

It should be noted, however, that even if the conditions specified in one or more of these exemptions are met, the scope of relief provided by these exemptions may not necessarily cover all acts that might be construed as prohibited transactions.

**Prior to making an investment in the transition bonds, each fiduciary causing the transition bonds to be purchased by, on behalf of, or using plan assets of a plan that is subject to the prohibited transaction rules of ERISA or Section 4975 of the Code, including without limitation, an insurance company general account, shall be deemed to have represented and warranted that, a class exemption from the prohibited transaction rules or the Statutory Exemption applies, so that the use of plan assets of the plan to purchase and hold the transition bonds does not and will not constitute or otherwise result in a nonexempt prohibited transaction in violation of Section 406 of ERISA or Section 4975 of the Code.**

### **General Investment Considerations for Prospective Plan Investors in the Transition Bonds**

Prior to making an investment in the transition bonds, prospective plan investors should consult with their legal advisors concerning the impact of ERISA and the Code and the potential consequences of this investment with respect to their specific circumstances. Moreover, each plan fiduciary should take into account, among other considerations:

- whether the fiduciary has the authority to make the investment,
- whether the investment constitutes a direct or indirect transaction with a party in interest,
- the composition of the plan’s portfolio with respect to diversification by type of asset,
- the plan’s funding objectives,
- the tax effects of the investment, and
- whether, under the general fiduciary standards of investment prudence and diversification, an investment in the transition bonds is appropriate for the plan, taking into account the overall investment policy of the plan and the composition of the plan’s investment portfolio.

Governmental plans and some church plans are generally not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code. However, these plans may be subject to substantially similar rules under state or other federal law and may also be subject to the prohibited transaction rules of Section 503 of the Code.

The sale of the transition bonds to a plan shall not be deemed a representation by CenterPoint Houston, the underwriters, or us that this investment meets all relevant legal requirements with respect to plans generally or any particular plan.

## **PLAN OF DISTRIBUTION FOR THE TRANSITION BONDS**

### **Distribution**

We may sell the transition bonds to or through the underwriters named in the prospectus supplement by a negotiated firm commitment underwriting and public reoffering by the underwriters. The transition bonds may also be sold to or through any other underwriting arrangement as may be specified in the prospectus supplement. We may also offer or place the transition bonds either directly or through agents. We intend that transition bonds will be offered through these various methods from time to time and that offerings may be made concurrently through more than one of these methods or that an offering of the transition bonds may be made through a combination of these methods.

The distribution of the transition bonds may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, or at market prices prevailing at the time of sale, at prices related to prevailing market prices or in negotiated transactions or otherwise at varying prices to be determined at the time of sale.

The transition bonds may be offered through one or more different methods, including offerings through underwriters. It is not anticipated that transition bonds will be listed on any securities exchange. The underwriters may, from time to time, buy and sell transition bonds, but there can be no assurance that a secondary market for the transition bonds will develop or, if one does develop, that it will continue.

**Compensation to Underwriters**

In connection with the sale of the transition bonds, underwriters or agents may receive compensation in the form of discounts, concessions or commissions. Underwriters may sell transition bonds to particular dealers at prices less a concession.

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Underwriters may allow, and these dealers may reallow, a concession to other dealers. Underwriters, dealers and agents that participate in the distribution of the transition bonds may be deemed to be underwriters. Any discounts or commissions received by the underwriters from us and any profit on the resale of the transition bonds by them may be deemed to be underwriting discounts and commissions under the Securities Act of 1933. These underwriters or agents will be identified, and any compensation received from us will be described, in the prospectus supplement.

### **Other Distribution Matters**

Under agreements which may be entered into by CenterPoint Houston, us and the trustee, underwriters and agents who participate in the distribution of the transition bonds may be entitled to indemnification by CenterPoint Houston and us against liabilities specified therein, including under the Securities Act of 1933.

### **RISK WEIGHTING UNDER CERTAIN INTERNATIONAL CAPITAL GUIDELINES**

Under the standardized approach under the framework established by Basel II, the transition bonds may attract a risk weighting of 20% on the basis that the transition bonds are rated in the highest category by a major rating agency. It is a condition of issuance of the transition bonds that the transition bonds be rated “Aaa” by Moody’s, “AAA” by S&P, and “AAA” by Fitch. In the alternative, under the framework established by Basel II, the transition bonds may attract the same risk weighting if the transition bonds are considered to be “guaranteed” by a non governmental public sector entity.

If held by financial institutions subject to regulation in countries (other than the United States) that have adopted and continue to use or permit the use of the Basel Accord for risk weighting, the transition bonds may attract the same risk weighting as “claims on” or “claims guaranteed by” non-central government bodies within the United States, which are accorded a 20% risk weighting. We note, however, that the analysis may be different than that under Basel II.

We note that the timetable for, and scope of, the implementation of Basel II differs from country to country and it may not always be clear which regime — Basel Accord or Basel II, or any transitional regime — may be applicable at any particular time.

Before acquiring any transition bonds, prospective investors that are banks or bank holding companies, particularly those that are organized under the laws of any country other than the United States or of any state, territory or other political subdivision of the United States, and prospective investors that are U.S. branches and agencies of foreign banks, should consult all applicable laws, regulations and policies, as well as appropriate regulatory bodies and legal counsel, to confirm that an investment in the transition bonds is permissible and in compliance with any applicable investment or other limits. We cannot assure you that the transition bonds will attract a 20% risk weighting under any national law, regulation or policy implementing Basel II, the Basel Accord or any transitional regime.

### **RATINGS FOR THE TRANSITION BONDS**

It is a condition to issuance of the transition bonds that each tranche be rated in the highest rating category by each of Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., Moody’s Investors Service Inc. and Fitch, Inc.

*Limitations of Security Ratings.* A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating. No person is obligated to maintain the rating on any tranche of transition bonds and, accordingly, we can give no assurance that the ratings assigned to any tranche of the transition bonds upon initial issuance will not be lowered or withdrawn by a rating agency at any time thereafter. If a rating of any tranche of transition bonds is revised or withdrawn, the liquidity of this tranche of the transition bonds may be adversely affected. In general, ratings address credit risk and do not represent any assessment of any particular rate of principal payments on the transition bonds other than the payment in full of each tranche of the transition bonds by the tranche final maturity date, as well as the timely payment of interest.

## WHERE YOU CAN FIND MORE INFORMATION

This prospectus is part of a registration statement we and CenterPoint Houston have filed with the SEC relating to the transition bonds. This prospectus and each prospectus supplement describe the material terms of some of the documents we have filed as exhibits to the registration statement. However, this prospectus and each prospectus supplement do not contain all of the information contained in the registration statement and the exhibits. Any statements contained in this prospectus or any prospectus supplement concerning the provisions of any document filed as an exhibit to the registration statement or otherwise filed with the SEC are not necessarily complete. Each statement concerning those provisions is qualified in its entirety by reference to the respective exhibit. Information filed with the SEC can be inspected at the SEC's Internet site located at <http://www.sec.gov>. You may also read and copy the registration statement, the exhibits and any other documents we file with the SEC at the SEC's Public Reference Room located at 100F Street, N.E, Washington, D.C. 20549. You may obtain further information regarding the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also obtain a copy of our filings with the SEC at no cost, by writing to or telephoning us at the following address:

CenterPoint Energy Transition Bond Company III, LLC  
1111 Louisiana, Suite 4689A  
Houston, Texas 77002  
(713) 207-5747

We or CenterPoint Houston as sponsor will also file with the SEC all of the periodic reports we or the sponsor are required to file under the Securities Exchange Act of 1934 and the rules, regulations or orders of the SEC thereunder.

The SEC allows us to “incorporate by reference” into this prospectus information we or the sponsor file with the SEC. This means we can disclose important information to you by referring you to the documents containing the information. The information we incorporate by reference is considered to be part of this prospectus, unless we update or supersede that information by the information contained in the prospectus supplement or information that we or the sponsor file subsequently that is incorporated by reference into this prospectus. We are incorporating into this prospectus any future filings, which we or CenterPoint Houston, but solely in its capacity as our sponsor, make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until the offering of the transition bonds is completed, excluding any information that is furnished to, and not filed with, the SEC. These reports will be filed under our own name as issuing entity. Any statement contained in this prospectus, in any prospectus supplement or in a document incorporated or deemed to be incorporated by reference in this prospectus or any prospectus supplement will be deemed to be modified or superseded for purposes of this prospectus and any prospectus supplement to the extent that a statement contained in this prospectus, any prospectus supplement or in any separately filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute part of this prospectus or the prospectus supplement.

#### **LEGAL MATTERS**

Certain legal matters relating to us and the issuance of transition bonds will be passed upon for CenterPoint Houston and for us by Baker Botts L.L.P., Houston, Texas. Certain legal matters relating to the federal income tax consequences of the issuance of the transition bonds will be passed upon for us by Baker Botts L.L.P. Underwriters will be advised about certain legal matters relating to the issuance of transition bonds by counsel named in the prospectus supplement.

## GLOSSARY OF DEFINED TERMS

The following definitions are used in this prospectus and in any accompanying prospectus supplement:

*Adjustment request* with regard to the transition charges means a request filed by the servicer with the PUCT requesting modifications to the transition charges.

*Bankruptcy Code* means Title 11 of the United States Code (11 U.S.C. section 101 et. seq.), as amended.

*Basel Accord* means the 1988 International Convergence of Capital Measurement and Capital Standards of the Basel Committee on Banking Supervision, as amended.

*Basic documents* means, the administration agreement, the sale agreement, the servicing agreement, the indenture and any supplements thereto or the bill of sale given by the seller and the notes evidencing the transition bonds.

*Business day* means any day other than a Saturday, a Sunday or a day on which banking institutions in Houston, Texas or New York, New York are, or DTC is, authorized or obligated by law, regulation or executive order to remain closed.

*Capital subaccount* means that subaccount of the collection account into which the seller will contribute capital in an amount equal to 0.50% of the principal amount of the transition bonds issued by us.

*CenterPoint Houston* means CenterPoint Energy Houston Electric, LLC.

*Clearstream* means Clearstream Banking, Luxembourg, S.A.

*Collection account* means the segregated trust account relating to the transition bonds designated the collection account and held by the trustee under the indenture.

*DTC* means The Depository Trust Company, New York, New York, and its nominee holder, Cede & Co.

*ERCOT* means the Electric Reliability Council of Texas, Inc.

*ERISA* means the Employee Retirement Income Security Act of 1974, as amended.

*Euroclear* means the Euroclear System.

*Excess funds subaccount* means that subaccount of the collection account into which funds collected by the servicer in excess of amounts necessary to make the payments specified on a given payment date.

*Excess payments* means advances paid to the servicer by the retail electric provider in excess of amounts paid by retail electric customers to the retail electric provider on an annual basis.

*Financing order* means, unless the context indicates otherwise, the financing order issued by the PUCT on September 18, 2007 to CenterPoint Houston relating to the transition bonds.

*Fitch* means Fitch, Inc.

*General subaccount* means that subaccount that will hold funds held in the collection account that are not held in the other subaccounts of the collection account.

*Indenture* means the indenture to be entered into between the issuing entity and the trustee, providing for the issuance of transition bonds, as the same may be amended and supplemented from time to time by one or more indentures supplemental thereto.

*Internal Revenue Code* means the Internal Revenue Code of 1986, as amended.

*IRS* means the Internal Revenue Service of the United States.

*Issuing Entity* means CenterPoint Energy Transition Bond Company III, LLC.

*Integrated utility* means Reliant Energy, Incorporated, the legal predecessor to CenterPoint Houston, as it existed prior to its corporate restructuring on August 31, 2002 in response to the Restructuring Act.

*kVa* means kilovolt amperes.

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*kW* means kilowatt.

*kWh* means kilowatt-hour.

*Moody's* means Moody's Investors Service, Inc.

*MWh* means megawatt-hour.

*Nonbypassable* refers to the right of the servicer to collect the transition charges from all existing and future retail electric customers located within CenterPoint Houston's service territory, subject to certain limitations specified in the Restructuring Act, even if those customers elect to purchase electricity from another supplier or choose to operate new on-site generation or if the utility goes out of business and its service area is acquired by another utility or is municipalized.

*Payment date* means the date or dates on which interest and principal are to be payable on the transition bonds.

*PUCT* means the Public Utility Commission of Texas.

*Qualified costs* means the costs of an electric utility recoverable through the issuance of transition bonds, the costs of issuing, supporting and servicing the transition bonds, and any costs of retiring and refunding existing debt and equity securities in connection with the issuance of transition bonds.

*Rating agencies* means Moody's, S&P and Fitch.

*Rating agency condition* means, with respect to any action, the notification in writing to each rating agency of such action and the confirmation by S&P to the servicer, the trustee and the issuing entity that such action will not result in a reduction or withdrawal of the then rating by such rating agency of any outstanding tranche of the transition bonds.

*Record date* means the date or dates with respect to each payment date on which it is determined the person in whose name each transition bond is registered will be paid on the respective payment date.

*Regulation AB* means the rules of the SEC promulgated under Subpart 229.1100 – Asset Backed Securities (Regulation AB), 17 C.F.R. §§229.1100-229.1123, as such may be amended from time to time.

*Restructuring Act* means the Texas legislation adopted in June 1999 that substantially amended the regulatory structure governing electric utilities in order to allow retail competition beginning on January 1, 2002.

*Retail electric customers* means the consumers of electricity and related services within CenterPoint Houston's service territory.

*Retail electric providers* means entities certified under state law that provide electricity and related services to retail electric customers within CenterPoint Houston's service territory.

*S&P* means Standard and Poor's Ratings Services, a Division of The McGraw-Hill Companies.

*Sale agreement* means the sale agreement to be entered into between the issuing entity and CenterPoint Houston, pursuant to which CenterPoint Houston sells and the issuing entity buys the transition property.

*SEC* means the U.S. Securities and Exchange Commission.

*Securitizable Balance* means the principal amount which remains to be collected through continued application of the competition transition charge ("CTC") if the CTC were to remain in effect for its then remaining term, minus the difference between (a) the balance of unexpended environmental retrofit funds CenterPoint Houston is required to refund pursuant to the final order in Docket No. 33823 and (b) the settled adjustment to the fuel balance approved in Docket No. 34031.

*Senior Secured Transition Bonds, Series A* means the Senior Secured Transition Bonds, Series A issued by CenterPoint Energy Transition Bond Company II, LLC in December 2005.

*Series 2001-1 transition bonds* means the Series 2001-1 transition bonds issued by CenterPoint Energy Transition Bond Company, LLC in October 2001.

*Service territory* means, with regard to CenterPoint Houston, the certificated service area of the integrated utility as it existed on May 1, 1999, within which CenterPoint Houston may recover qualified costs through nonbypassable transition charges assessed on retail electric customers within that area.

*Servicer* means CenterPoint Houston, acting as the servicer, and any successor or assignee servicer, which will service the transition property under the servicing agreement with the issuing entity.

*Servicing agreement* means the servicing agreement to be entered into between the issuing entity and CenterPoint Houston, as the same may be amended and supplemented from time to time, pursuant to which CenterPoint Houston undertakes to service the transition property.

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*Transition Bond Company I* means CenterPoint Energy Transition Bond Company, LLC, the issuer of the Series 2001-1 transition bonds.

*Transition Bond Company II* means CenterPoint Energy Transition Bond Company II, LLC, the issuer of the Senior Secured Transition Bonds, Series A.

*Transition charges* means, with regard to CenterPoint Houston, the amounts authorized to be imposed on all retail electric customer bills within CenterPoint Houston's service territory and collected, through a nonbypassable mechanism, by the servicer, to recover qualified costs pursuant to the financing order.

*Transition property* means, with regard to CenterPoint Houston, all of CenterPoint Houston's right, title, and interest in and to the financing order that are transferred to the issuing entity pursuant to the sale agreement. Transition property includes the right to impose, collect and receive the transition charges in amounts sufficient to pay principal and interest on the transition bonds and make deposits to the various subaccounts within the collection account.

*Treasury Regulations* means proposed or issued regulations promulgated from time to time under the Internal Revenue Code.

*True-up provision* means a mechanism required by the financing order whereby the servicer will apply to the PUCT for adjustments to the applicable transition charges based on actual collected transition charges and updated assumptions by the servicer as to future collections of transition charges. The PUCT will approve properly filed adjustments. Adjustments will immediately be reflected in the customers' next billing cycle. Any corrections for mathematical errors will be reflected in the next true-up.

*Trust Indenture Act* means the Trust Indenture Act of 1939, as amended.

[LOGO]

**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****Item 14. Other Expenses of Issuance and Distribution.**

The following is an itemized list of the estimated expenses to be incurred in connection with the offering of the securities being offered hereunder other than underwriting discounts and commissions:

Registration Fee	\$ 19,198
Financial advisory fees	670,487
Trustee's fees and expenses	25,000
Legal fees and expenses	1,589,303
Independent accountant's fees and expenses	185,000
Printing and engraving expenses	45,000
Rating agency fees	626,141
Miscellaneous expenses	229,371
Total	<u>\$3,389,500</u>

**Item 15. Indemnification of Directors and Officers.****CenterPoint Energy Transition Bond Company III, LLC**

Section 108 of the Delaware Limited Liability Company Act provides that subject to such standards and restrictions, if any, as are set forth in the limited liability company agreement of a limited liability company, a limited liability company may, and shall have the power to, indemnify and hold harmless any member or manager or other person from and against any and all claims and demands whatsoever. Under our limited liability company agreement, we will indemnify our managers to the fullest extent permitted by law against any liability incurred with respect to their services as managers under our limited liability company agreement, except for:

- liabilities arising from their own willful misconduct or gross negligence,
- liabilities arising from the failure by any manager to perform obligations expressly undertaken in our limited liability company agreement, or
- taxes, fees or other charges, based on or measured by any fees, commissions or compensation received by our managers in connection with the transactions described in this prospectus.

**CenterPoint Energy Houston Electric, LLC**

Article 2.20 of the Texas Limited Liability Company Act and Article VIII of CenterPoint Houston's Limited Liability Company Regulations provide CenterPoint Houston with broad powers and authority to indemnify its member, managers and officers and to purchase and maintain insurance for such purposes. Pursuant to such statutory and Limited Liability Company Regulation provisions, CenterPoint Houston has purchased insurance against certain costs of indemnification that may be incurred by it and by its member, manager and officers.

Additionally, Section 7.12 of CenterPoint Houston's Limited Liability Company Regulations provides that a manager of CenterPoint Houston is not liable to CenterPoint Houston or its member for monetary damages for breach of fiduciary duty as a manager, except that Section 7.12 does not eliminate or limit the liability of a manager for any acts or omissions that involve intentional misconduct, fraud or a knowing violation of law or for a distribution in violation of Texas law as a result of the willful or grossly negligent act or omission of the manager.

Section 7.12 also provides that any subsequent amendments to Texas statutes that further limit the liability of managers will inure to the benefit of the managers. Any repeal or modification of Section 7.12 shall not adversely affect any right of protection of a manager of CenterPoint Houston existing at the time of the repeal or modification.

**Item 16. Exhibits.**

See Index to Exhibits at page II-6.

**Item 17. Undertakings.**

- As to Rule 415:

Each undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made of the securities registered hereby, a post-effective amendment to this Registration Statement:

(i) to include any prospectus required by section 10(a)(3) of the Securities Act of 1933, as amended (the “Securities Act”);

(ii) to reflect in the prospectus any facts or events arising after the effective date of this Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Securities and Exchange Commission (the “Commission”) pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the “Calculation of Registration Fee” table in the effective Registration Statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in this Registration Statement or any material change to such information in this Registration Statement;

*provided, however*, that the undertakings set forth in clauses (1)(i), (1)(ii) and (1)(iii) above do not apply if the information required to be included in a post-effective amendment by those clauses is contained in periodic reports filed by the Registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that are incorporated by reference in this Registration Statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of this Registration Statement; and *provided further, however*, that the undertakings set forth in clauses (1)(i) and (1)(ii) above do not apply if the information required to be included in a post-effective amendment by those clauses is provided pursuant to Item 1100(c) of Regulation AB.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act to any purchaser, if the Registrants are relying on Rule 430B:

(i) Each prospectus filed by the Registrants pursuant to Rule 424(b)(3) shall be deemed to be part of this Registration Statement as of the date the filed prospectus was deemed part of and included in this Registration Statement; and

(ii) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii) or (x) for the purpose of providing the information required by section 10(a) of the Securities Act shall be deemed to be part of and included in this Registration Statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuing entity and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof; *provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to the purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

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(5) That, for the purpose of determining liability of the Registrants under the Securities Act to any purchaser in the initial distribution of the securities, each Registrant undertakes that in a primary offering of securities of such Registrant pursuant to this Registration Statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the Registrants will be sellers to the purchaser and will be considered to offer or sell such securities to such purchaser:

- (i) Any preliminary prospectus or prospectus of the undersigned Registrants relating to the offering required to be filed pursuant to Rule 424;
- (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the Registrants or used or referred to by the Registrants;
- (iii) The portion of any other free writing prospectus relating to the offering containing material information about the Registrants or the securities provided by or on behalf of the Registrants; and
- (iv) Any other communication that is an offer in the offering made by the Registrants to the purchaser.

- As to documents subsequently filed that are incorporated by reference:

The Registrants hereby undertake that, for purposes of determining any liability under the Securities Act, each filing of the Registrants' annual report pursuant to section 13(a) or section 15(d) of the Exchange Act that is incorporated by reference in this Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

- As to indemnification:

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of each Registrant pursuant to the provisions described under Item 15 above, or otherwise, each Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by a Registrant of expenses incurred or paid by a director, officer or controlling person of such Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, each Registrant will, unless in the opinion of its respective counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

- As to qualification of trust indentures:

The Registrants hereby undertake to file an application for the purpose of determining the eligibility of the trustee to act under subsection (a) of Section 310 of the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), in accordance with the rules and regulations prescribed by the Commission under Section 305(b)(2) of the Trust Indenture Act.

- As to incorporating by reference subsequent Exchange Act documents by third parties:

The Registrants hereby undertake that, for purposes of determining any liability under the Securities Act, each filing of an annual report pursuant to section 13(a) or section 15(d) of the Exchange Act of a third party that is incorporated by reference in this Registration Statement in accordance with Item 1100(c)(1) of Regulation AB shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

- As to providing certain information through an Internet Web site:

The Registrants hereby undertake that, except as otherwise provided by Item 1105 of Regulation AB, information provided in response to that Item pursuant to Rule 312 of Regulation S-T through the specified Internet address in the prospectus is deemed to be a part of the prospectus included in this Registration Statement. In addition, the Registrants hereby undertake to provide to any person without charge, upon request, a copy of the information provided in response to Item 1105 of Regulation AB pursuant to Rule 312 of Regulation S-T through the specified Internet address as of the date of the prospectus included in this Registration Statement if a subsequent update or change is made to the information.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on the 25th day of January, 2008.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
(Registrant)

By: /s/ David M. McClanahan

David M. McClanahan  
Sole Manager

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons on the 25th day of January, 2008 in the capacities indicated.

**Signature** \_\_\_\_\_

/s/ David M. McClanahan

David M. McClanahan

/s/ Gary L. Whitlock

Gary L. Whitlock

/s/ Walter L. Fitzgerald

Walter L. Fitzgerald

**Title** \_\_\_\_\_

Manager and Chairman

(Principal Executive Officer and Sole Manager)

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

Senior Vice President and Chief Accounting Officer

(Principal Accounting Officer)

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on the 25th day of January, 2008.

CENTERPOINT ENERGY TRANSITION BOND COMPANY  
III, LLC  
(Registrant)

By: /s/ Marc Kilbride

Marc Kilbride  
Sole Manager

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons on the 25th day of January, 2008 in the capacities indicated.

**Signature** \_\_\_\_\_

/s/ Gary L. Whitlock  
Gary L. Whitlock

/s/ Marc Kilbride  
Marc Kilbride

/s/ Walter L. Fitzgerald  
Walter L. Fitzgerald

**Title** \_\_\_\_\_

President  
(Principal Executive Officer)

Vice President and Treasurer  
(Principal Financial Officer and Sole Manager)

Senior Vice President and  
Chief Accounting Officer  
(Principal Accounting Officer)

INDEX TO EXHIBITS

<b>Exhibit Number</b>	<b>Document Description</b>
1.1*	Form of Underwriting Agreement
3.1**	Articles of Conversion of Reliant Energy, Incorporated (Exhibit 3(a) to Current Report on Form 8-K dated August 31, 2002 filed with the SEC on September 3, 2002 (SEC File No. 1-3187))
3.2**	Articles of Organization of CenterPoint Energy Houston Electric, LLC (Exhibit 3(b) to Current Report on Form 8-K dated August 31, 2002 filed with the SEC on September 3, 2002 (SEC File No. 1-3187))
3.3**	Limited Liability Company Regulations of CenterPoint Energy Houston Electric, LLC (Exhibit 3(c) to Current Report on Form 8-K dated August 31, 2002 filed with the SEC on September 3, 2002 (SEC File No. 1-3187))
3.4†	Certificate of Formation of CenterPoint Energy Transition Bond Company III, LLC
3.5†	Form of Amended and Restated Certificate of Formation of Centerpoint Energy Transition Bond Company III, LLC
3.6†	Limited Liability Company Agreement of CenterPoint Energy Transition Bond Company III, LLC
3.7†	Form of Amended and Restated Limited Liability Company Agreement of CenterPoint Energy Transition Bond Company III, LLC
4.1	Form of Indenture
4.2*	Form of the Transition Bonds (included in Exhibit 4.3)
4.3*	Form of Supplemental Indenture relating to the issuance of the transition bonds
5.1	Opinion of Baker Botts L.L.P. relating to legality of the transition bonds
8.1	Opinion of Baker Botts L.L.P. with respect to federal tax matters
23.1	Consent of Baker Botts L.L.P. (included in Exhibits 5.1 and 8.1)
24.1†	Power of Attorney (CenterPoint Energy Houston Electric, LLC)
25.1†	Statement of Eligibility under the Trust Indenture Act on Form T-1 of Trustee
99.1	Form of Transition Property Sale Agreement
99.2	Form of Transition Property Servicing Agreement
99.3	Form of Administration Agreement
99.4	Form of Intercreditor Agreement
99.5†	Financing Order dated September 18, 2007
99.6*	Opinion of Baker Botts L.L.P. with respect to the constitutionality of certain matters

\* To be filed by amendment or as an exhibit to a Current Report on Form 8-K pursuant to Item 601(b)(1) of Regulation S-K.

\*\* Incorporated by reference herein as indicated.

† Previously filed.

CENTERPOINT ENERGY TRANSITION BOND COMPANY III, LLC

Issuer

and

DEUTSCHE BANK TRUST COMPANY AMERICAS

Trustee

INDENTURE

Dated as of February [ ], 2008

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Securing Transition Bonds

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CERTAIN SECTIONS OF THIS INDENTURE RELATING TO SECTIONS 310 THROUGH  
318, INCLUSIVE, OF THE TRUST INDENTURE ACT OF 1939:

<u>TRUST INDENTURE ACT SECTION</u>	<u>INDENTURE SECTION(S)</u>
Section 310(a)(1)	6.11
Section 310(a)(2)	6.11
Section 310(a)(3)	6.10(b)
Section 310(a)(4)	Not Applicable
Section 310(a)(5)	6.11
Section 310(b)	6.08, 6.11
Section 311(a)	6.12
Section 311(b)	6.12
Section 311(c)	Not Applicable
Section 312(a)	7.01, 7.02
Section 312(b)	7.02
Section 312(c)	7.02
Section 313(a)	7.04
Section 313(b)	7.04
Section 313(c)	7.04
Section 313(d)	7.04
Section 314(a)	3.09, 7.03
Section 314(b)	3.07
Section 314(b)(1)	Not Addressed
Section 314(b)(2)	3.06
Section 314(c)(1)	11.01
Section 314(c)(2)	11.01

**TRUST INDENTURE ACT SECTION****INDENTURE SECTION(S)**

Section 314(c)(3)	11.02
Section 314(d)	8.03, 8.04, 9.02
Section 314(e)	11.01
Section 315(a)	6.01, 6.02
Section 315(b)	6.05
Section 315(c)	6.01
Section 315(d)	6.01
Section 315(e)	5.13
Section 316(a)	5.11, 5.12
Section 316(a)(1)(A)	5.11
Section 316(a)(1)(B)	5.12
Section 316(a)(2)	Not Applicable
Section 316(b)	5.07
Section 316(c)	Not Addressed
Section 317(a)(1)	5.03
Section 317(a)(2)	5.03
Section 317(b)	3.03
Section 318(a)	11.08

NOTE: This reconciliation and tie sheet shall not, for any purpose, be deemed to be a part of the Indenture.

INDENTURE dated as of February [ ], 2008, by and among CenterPoint Energy Transition Bond Company III, LLC, a Delaware limited liability company (the “Issuer”), and Deutsche Bank Trust Company Americas, a New York banking corporation, in its capacity as trustee (the “Trustee”).

The Issuer has duly authorized the execution and delivery of this Indenture to provide for the Transition Bonds, issuable as provided in this Indenture. The Transition Bonds will be issued only under a separate Supplement to this Indenture, duly executed and delivered by the Issuer and the Trustee. The Issuer is entering into this Indenture, and the Trustee is accepting the trusts created hereby, each for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and each intending to be legally bound hereby.

The Transition Bonds shall be non-recourse obligations and shall be secured by and payable solely out of the Transition Property and the other Trust Estate securing the Transition Bonds. If and to the extent such Transition Property and the other Trust Estate are insufficient to pay all amounts owing with respect to the Transition Bonds secured thereby, then, except as otherwise expressly provided herein, the Holders shall have no claim in respect of such insufficiency against the Issuer or any other Person, and the Holders, by their acceptance of such Transition Bonds, waive any such claim.

All things necessary to (a) make the Transition Bonds, when executed and duly issued by the Issuer and authenticated and delivered by the Trustee hereunder, valid obligations, and (b) make this Indenture a valid agreement of the Issuer, in each case, in accordance with their respective terms, have been done.

In consideration of the foregoing, the Issuer and the Trustee agree as follows:

That under the Supplement, the Issuer will Grant to the Trustee a Lien on and trust interest in the property described therein (all such property, collectively, the “Trust Estate”). The Trust Estate shall secure the obligations of the Issuer as more particularly described in the Supplement.

AND IT IS HEREBY COVENANTED, DECLARED AND AGREED between the parties hereto that all Transition Bonds are to be issued, countersigned, registered and delivered and the Trust Estate is to be held and applied, subject to the further covenants, conditions, releases, uses and trusts hereinafter set forth, and the Issuer, for itself and any successor, does hereby covenant and agree to and with the Trustee and its successors in said trust, for the benefit of the Holders, as follows:

## ARTICLE I

### DEFINITIONS AND INCORPORATION BY REFERENCE

SECTION 1.01. DEFINITIONS. Capitalized terms used but not otherwise defined in this Indenture have the respective meanings set forth in Appendix A hereto unless the context otherwise requires.

SECTION 1.02. INCORPORATION BY REFERENCE OF THE TRUST INDENTURE ACT. Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part of this Indenture. Each of the following TIA terms used in this Indenture has the following meaning:

“Commission” means the Securities and Exchange Commission.

“indenture securities” means the Transition Bonds.

“indenture security holder” means a Holder.

“indenture to be qualified” means this Indenture.

“indenture trustee” or “institutional trustee” means the Trustee.

“obligor” on the indenture securities means the Issuer and any other obligor on the indenture securities.

All other TIA terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by Commission rule have the meaning assigned to them by such definitions.

#### SECTION 1.03. RULES OF CONSTRUCTION.

(i) An accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles as in effect from time to time;

(ii) “including” means including without limitation;

(iii) with respect to terms defined in Appendix A hereto, the meanings shall be equally applicable to both the singular and plural forms of such terms and shall refer to either gender as may be appropriate;

(iv) unless otherwise specified, references herein to Sections or Articles are to Sections or Articles of this Indenture; and

(v) the words “herein,” “hereof,” “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

## **ARTICLE II THE TRANSITION BONDS**

SECTION 2.01. FORM. The Transition Bonds and the Trustee’s certificate of authentication shall be in substantially the forms set forth in the Supplement, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted

by this Indenture or by the Supplement and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may, consistently herewith, be determined by the Managers of the Issuer executing such Transition Bonds, as evidenced by their execution of such Transition Bonds. Any portion of the text of any Transition Bond may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Transition Bond. Each Transition Bond shall be dated the date of its authentication.

The Transition Bonds shall be typewritten, printed, lithographed or engraved or produced by any combination of these methods (with or without steel engraved borders), all as determined by the Managers of the Issuer executing such Transition Bonds, as evidenced by their execution of such Transition Bonds.

Each Transition Bond shall bear upon its face the designation so selected for the Tranche to which it belongs. The terms of all Transition Bonds of the same Tranche shall be the same.

Each Transition Bond shall state that the Texas Electric Choice Plan provides that the State of Texas pledges “for the benefit and protection of financing parties and the electric utility, that it will not take or permit any action that would impair the value of the transition property, or except as permitted . . . [through the Transition Charge Adjustment Process] . . . reduce, alter, or impair the transition charges to be imposed, collected, and remitted to financing parties, until the principal, interest, and premium, and any other charges incurred and contracts to be performed in connection with the related transition bonds have been paid and performed in full.”

SECTION 2.02. EXECUTION, AUTHENTICATION AND DELIVERY. The Transition Bonds shall be executed on behalf of the Issuer by a Manager. The signature of any such Manager on the Transition Bonds may be manual or facsimile.

Transition Bonds bearing the manual or facsimile signature of individuals who were at any time Managers shall bind the Issuer, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Transition Bonds.

The Trustee hereby appoints Deutsche Bank Trust Company Americas as authenticating agent to authenticate the Transition Bonds whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. The Trustee shall not be liable for any act or any failure of the authenticating agent to perform any duty either required herein or authorized herein to be performed by such person in accordance with this Indenture.

At any time and from time to time after the execution and delivery of this Indenture, the Issuer may deliver Transition Bonds executed on behalf of the Issuer to the Trustee pursuant to an Issuer Order for authentication; and the Trustee shall authenticate and deliver such Transition Bonds as in this Indenture provided and not otherwise.

No Transition Bond shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose, unless there appears on such Transition Bond a certificate of authentication substantially in the form provided for herein executed by the Trustee by the manual signature of one of its authorized signatories, and such certificate upon any Transition Bond shall be conclusive evidence, and the only evidence, that such Transition Bond has been duly authenticated and delivered hereunder.

If and for so long as the Transition Bonds are listed on the Luxembourg Stock Exchange and the rules and regulations of such exchange so require, a transfer or other agent appointed pursuant to Section 3.02 shall be authorized on behalf of the Trustee to execute and deliver such certificate of authentication.

SECTION 2.03. DENOMINATIONS. The Transition Bonds shall be issuable as registered Transition Bonds in Authorized Denominations.

The Transition Bonds shall be authorized by a Manager and the terms and provisions shall be set forth in the Supplement. The Transition Bonds may, as provided in the Supplement, be issued in one or more Tranches, and shall be designated generally as the "Transition Bonds" of the Issuer, with such further particular designations added or incorporated in such title for the Transition Bonds of any particular Tranche as a Manager of the Issuer may determine and as set forth in the Supplement.

The Transition Bonds shall be created by the Supplement which shall specify the following matters:

- (a) designation of the Transition Bonds and, if applicable, the Tranches thereof;
- (b) the aggregate initial principal amount of the Transition Bonds and, if applicable, each Tranche thereof;
- (c) the Bond Rate of the Transition Bonds and, if applicable, each Tranche thereof or the formula, if any, used to calculate the applicable Bond Rate or Bond Rates for the Transition Bonds and each Tranche thereof;
- (d) the Payment Dates for the Transition Bonds and, if applicable, each Tranche thereof;
- (e) the Expected Final Payment Date of the Transition Bonds, and, if applicable, each Tranche thereof;
- (f) the Final Maturity Date for the Transition Bonds and, if applicable, the Tranche Final Maturity Date for each Tranche thereof;
- (g) the Issuance Date for the Transition Bonds;
- (h) the Trust Estate;
- (i) the place or places for payments with respect to the Transition Bonds and, if applicable, each Tranche thereof;
- (j) the Authorized Denominations for the Transition Bonds and, if applicable, each Tranche thereof;

- (k) the provisions, if any, for redemption of the Transition Bonds by the Issuer and, if applicable, each Tranche thereof;
- (l) whether the Transition Bonds are to be Book-Entry Transition Bonds and the extent to which Section 2.11 will apply;
- (m) the Expected Amortization Schedule for the Transition Bonds and, if applicable, each Tranche thereof;
- (n) the Required Capital Amount with respect to the Transition Bonds;
- (o) the Calculation Dates and Adjustment Dates for the Transition Bonds;
- (p) the credit enhancement, if any, applicable to the Transition Bonds and each Tranche thereof; and
- (q) any other terms of the Transition Bonds and each Tranche thereof that are not inconsistent with the provisions of this Indenture.

SECTION 2.04. TEMPORARY TRANSITION BONDS. Pending the preparation of definitive Transition Bonds pursuant to Section 2.13, or by agreement of the purchasers of all Transition Bonds or, in the case of Transition Bonds held in a book-entry only system by a Clearing Agency, a Manager on behalf of the Issuer may execute, and upon receipt of an Issuer Order, the Trustee shall authenticate and deliver temporary Transition Bonds which are printed, lithographed, typewritten, mimeographed or otherwise produced of the tenor of the definitive Transition Bonds in lieu of which they are issued and with such variations not inconsistent with the terms of this Indenture as a Manager executing such Transition Bonds may determine, as evidenced by its execution of such Transition Bonds.

If temporary Transition Bonds are issued, the Issuer will cause definitive Transition Bonds to be prepared without unreasonable delay except where temporary Transition Bonds are held by a Clearing Agency. After the preparation of definitive Transition Bonds, the temporary Transition Bonds shall be exchangeable for definitive Transition Bonds upon surrender of the temporary Transition Bonds at the office or agency of the Issuer to be maintained as provided in Section 3.02, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Transition Bonds, a Manager on behalf of the Issuer shall execute and the Trustee shall authenticate and deliver in exchange therefor a like Tranche and initial principal amount of definitive Transition Bonds in Authorized Denominations. Until so exchanged, the temporary Transition Bonds shall in all respects be entitled to the same benefits under this Indenture as definitive Transition Bonds.

SECTION 2.05. REGISTRATION; REGISTRATION OF TRANSFER. The Issuer shall cause to be kept a register (the "Transition Bond Register") in which, subject to such reasonable regulations as it may prescribe, the Transition Bond Registrar shall provide for the registration of Transition Bonds and the registration of transfers of Transition Bonds. Deutsche Bank Trust Company Americas shall be Transition Bond Registrar for the purpose of registering Transition Bonds and transfers of Transition Bonds as herein provided. Upon any resignation of any Transition Bond Registrar, the Issuer shall promptly appoint a successor or, if it elects not to make such an appointment, assume the duties of Transition Bond Registrar.

If a Person other than the Trustee is appointed by the Issuer as Transition Bond Registrar, the Issuer shall give the Trustee and any transfer, paying, or listing agent of the Issuer prompt written notice of the appointment of such Transition Bond Registrar and of the location, and any change in the location, of the Transition Bond Register, and the Trustee and any such agent shall have the right to inspect the Transition Bond Register at all reasonable times and to obtain copies thereof, and the Trustee shall have the right to rely conclusively upon a certificate executed on behalf of the Transition Bond Registrar by a duly authorized officer thereof as to the names and addresses of the Holders of the Transition Bonds and the principal amounts and number of such Transition Bonds.

Upon surrender for registration of transfer of any Transition Bond at the office or agency of the Issuer to be maintained as provided in Section 3.02, a Manager on behalf of the Issuer shall execute, and the Trustee shall authenticate and the Transition Bondholder shall obtain from the Trustee, in the name of the designated transferee or transferees, one or more new Transition Bonds in any Authorized Denominations (and Tranche) and aggregate outstanding principal amount.

All Transition Bonds issued upon any registration of transfer of the Transition Bonds shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Transition Bonds surrendered upon such registration of transfer.

Every Transition Bond presented or surrendered for registration of transfer shall be duly endorsed by, or be accompanied by a written instrument of transfer in the form set forth in the Supplement or such other form as is satisfactory to the Trustee duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing, with such signature guaranteed by an Eligible Guarantor Institution in the form set forth in such Transition Bond.

No service charge shall be made to a Holder for any registration of transfer of the Transition Bonds (except as may be required by the rules and regulations of the Luxembourg Stock Exchange with respect to any Transition Bonds listed thereon), but, other than in respect of exchanges pursuant to Section 2.04 or 9.05 not involving any transfer, the Issuer or the Trustee may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer of the Transition Bonds.

The preceding provisions of this Section notwithstanding, except to the extent otherwise required by the rules and regulations of the Luxembourg Stock Exchange with respect to any Transition Bonds listed thereon, the Issuer shall not be required to make, and the Transition Bond Registrar need not register, transfers or exchanges of Transition Bonds selected for redemption or transfers or exchanges of any Transition Bond for a period of 15 days preceding the Final Maturity Date with respect to such Transition Bond.

**SECTION 2.06. MUTILATED, DESTROYED, LOST OR STOLEN TRANSITION BONDS.** If (i) any mutilated Transition Bond is surrendered to the Trustee, or the Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Transition Bond, and (ii) there is delivered to the Trustee such security or indemnity as may be required by it to hold the Issuer and the Trustee harmless, then, in the absence of written notice to the Issuer, the Transition Bond Registrar or the Trustee that such Transition Bond has been acquired by a bona fide purchaser, a Manager on behalf of the Issuer shall execute, and upon a Manager's written request the Trustee shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Transition Bond, a replacement Transition Bond of like Tranche, tenor and initial principal amount in Authorized Denominations, bearing a number not contemporaneously outstanding; provided, however, that if any such destroyed, lost or stolen Transition Bond, but not a mutilated Transition Bond, shall have become or within seven days shall be due and payable, or shall have been called for redemption, instead of issuing a replacement Transition Bond, the Issuer may pay such destroyed, lost or stolen Transition Bond when so due or payable or upon the Redemption Date without surrender thereof. If, after the delivery of such replacement Transition Bond or payment of a destroyed, lost or stolen Transition Bond pursuant to the proviso to the preceding sentence, a bona fide purchaser of the original Transition Bond in lieu of which such replacement Transition Bond was issued, or in respect of which such payment was made, presents for payment such original Transition Bond, the Issuer and the Trustee shall be entitled to recover such replacement Transition Bond (or such payment) from the Person to whom it was delivered or any Person taking such replacement Transition Bond from such Person to whom such replacement Transition Bond was delivered or any assignee of such Person, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Issuer or the Trustee in connection therewith.

Upon the issuance of any replacement Transition Bond under this Section, the Issuer or the Trustee may require the payment by the Holder of such Transition Bond of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other reasonable expenses (including the fees and expenses of the Trustee and its counsel) connected therewith.

Every replacement Transition Bond issued pursuant to this Section in replacement of any mutilated, destroyed, lost or stolen Transition Bond shall constitute an original additional contractual obligation of the Issuer, whether or not the mutilated, destroyed, lost or stolen Transition Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Transition Bonds duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Transition Bonds.

**SECTION 2.07. PERSONS DEEMED OWNER.** Prior to due presentment for registration of transfer of any Transition Bond, the Issuer, the Trustee, the Transition Bond Registrar and any agent of the Issuer, the Transition Bond Registrar or the Trustee may treat the Person in whose name any Transition Bond is registered (as of the day of determination) as the owner of such Transition Bond for the purpose of receiving payments of Principal of and premium, if any, and Interest on such Transition Bond and for all other purposes whatsoever,

whether or not such Transition Bond be overdue, and neither the Issuer, the Trustee, the Transition Bond Registrar nor any agent of the Issuer, the Transition Bond Registrar or the Trustee shall be affected by notice to the contrary.

**SECTION 2.08. PAYMENT OF PRINCIPAL, PREMIUM, IF ANY, AND INTEREST; INTEREST ON OVERDUE PRINCIPAL AND PREMIUM, IF ANY; PRINCIPAL, PREMIUM AND INTEREST RIGHTS PRESERVED.**

(a) The Transition Bonds shall accrue Interest as provided in the Supplement, at the applicable Bond Rate specified therein, and such Interest shall be payable on each Payment Date as specified therein. Any installment of Interest, principal or premium, if any, payable on any Transition Bond which is punctually paid or duly provided for by the Issuer on the applicable Payment Date shall be paid to the Person in whose name such Transition Bond (or one or more Predecessor Transition Bonds) is registered on the Record Date for such Payment Date, by check mailed first-class, postage prepaid, to such Person's address as it appears on the Transition Bond Register on such Record Date, or in such other manner as may be provided in the Supplement, except that (i) upon application to the Trustee by any Holder owning Transition Bonds of any Tranche in the principal amount of \$10,000,000 or more not later than the applicable Record Date payment will be made by wire transfer to an account maintained and specified by such Holder and (ii) with respect to Book-Entry Transition Bonds, payments will be made by wire transfer in immediately available funds to the account designated by the Holder of the applicable global Transition Bond unless and until such global Transition Bond is exchanged for definitive Transition Bonds (in which event payments shall be made as provided above) and except for the final installment of principal and premium, if any, payable with respect to such Transition Bond on a Payment Date which shall be payable as provided in Section 2.08(b). The funds represented by any such checks returned undelivered shall be held in accordance with Section 3.03.

(b) The principal of each Transition Bond Tranche shall be payable in installments on each Payment Date specified in the Expected Amortization Schedule included in the form of Transition Bond attached to the Supplement, but only to the extent that moneys are available for such payment pursuant to Section 8.02; provided that installments of principal not paid when scheduled to be paid shall be paid upon receipt of moneys available for such purpose, in the manner set forth in the Expected Amortization Schedule. Failure to pay principal of each Transition Bond Tranche in accordance with the Expected Amortization Schedule because moneys are not available pursuant to Section 8.02 to make such payments shall not constitute a Default or Event of Default under this Indenture. Notwithstanding the foregoing, the entire unpaid principal amount of the Transition Bonds of any Tranche shall be due and payable, if not previously paid (i) on the Final Maturity Date (or Tranche Final Maturity Date) therefor, (ii) on the date on which the Transition Bonds have been declared immediately due and payable in accordance with Section 5.02 or (iii) on the Redemption Date, if any, therefor. The Trustee shall notify the Person in whose name a Transition Bond is registered at the close of business on the Record Date preceding the Payment Date on which the Issuer expects that the final installment of principal of and premium, if any, and Interest on such Transition Bond will be paid. Such notice shall be mailed no later than five days prior to such Expected Final Payment Date and shall specify such Payment Date, the amount of such payment, and that such final installment of principal and premium, if any, will be payable only upon presentation and surrender of such Transition Bond and shall specify the place where such Transition Bond may be presented and

surrendered for payment of such installment, which, so long as any Transition Bonds are listed on the Luxembourg Stock Exchange, shall include the office of the paying agent in Luxembourg appointed pursuant to Section 3.02. Notices in connection with redemptions of Transition Bonds shall be mailed to Transition Bondholders as provided in Section 10.02.

(c) If the Issuer defaults in a payment of Interest on the Transition Bonds, the Issuer shall pay defaulted Interest (plus Interest on such defaulted Interest at the applicable Bond Rate to the extent lawful) in any lawful manner. The Issuer may pay such defaulted Interest to the Persons who are Transition Bondholders on a subsequent special record date, which date shall be at least fifteen Business Days prior to the special payment date. The Issuer shall fix or cause to be fixed any such special record date and payment date, and, at least 10 days before any such special record date, the Issuer shall mail to each affected Transition Bondholder a notice that states the special record date, the payment date and the amount of defaulted Interest to be paid.

SECTION 2.09. CANCELLATION. All Transition Bonds surrendered for payment, registration of transfer or redemption shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly canceled by the Trustee. The Issuer may at any time deliver to the Trustee for cancellation any Transition Bonds previously authenticated and delivered hereunder which the Issuer may have acquired in any manner whatsoever, and all Transition Bonds so delivered shall be promptly canceled by the Trustee. No Transition Bonds shall be authenticated in lieu of for any Transition Bonds canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Transition Bonds may be held or disposed of by the Trustee in accordance with its standard retention or disposal policy as in effect at the time unless the Issuer shall direct by an Issuer Order that they be destroyed or returned to it; provided that such Issuer Order is timely and the Transition Bonds have not been previously disposed of by the Trustee.

SECTION 2.10. AMOUNT; AUTHENTICATION AND DELIVERY OF TRANSITION BONDS. The aggregate principal amount of Transition Bonds that may be authenticated and delivered under this Indenture shall not exceed \$[            ].

The Transition Bonds created and established by the Supplement shall be executed by a Manager on behalf of the Issuer and delivered to the Trustee for authentication and thereupon the same shall be authenticated and delivered by the Trustee upon Issuer Request and upon delivery to the Trustee at the Issuer's expense of the following: provided, however, that except with respect to items (1), (4)(a)(i) and (4)(a)(vi) below, compliance with the following conditions and delivery of the following documents shall be required only in connection with the original issuance of the Transition Bonds:

(1) Issuer Action. An Issuer Order authorizing and directing the execution, authentication and delivery of the Transition Bonds by the Trustee or the authenticating agent and specifying the principal amount of the Transition Bonds to be authenticated.

(2) Authorizing Certificate. A certified resolution of the Managers authorizing the execution and delivery of the Supplement for the Transition Bonds applied for and the execution, authentication and delivery of such Transition Bonds.

(3) Supplement. A Supplement in form satisfactory to the Trustee for the Transition Bonds being issued, which shall set forth the provisions and form of the Transition Bonds (and each Tranche thereof).

(4) Certificates of the Issuer and the Seller.

(a) An Issuer Officer's Certificate dated as of the Issuance Date, stating:

(i) that no Default has occurred and is continuing under this Indenture and that the issuance of the Transition Bonds being issued will not result in any Default;

(ii) that the Issuer has not assigned any interest or participation in the Trust Estate, except for the Grant contained in the Supplement; that the Issuer has the power and authority to Grant the Trust Estate, and to Grant a security interest in and a Lien upon the Trust Estate, to the Trustee, free and clear of any other security interest, Liens, adverse claims and options; and that such security interest is a perfected security interest in all right, title and interest in and to the Trust Estate free and clear of any Lien, except the Lien of this Indenture;

(iii) that the Issuer has appointed an Independent registered public accounting firm contemplated in Section 8.05 and identifying such firm;

(iv) that attached thereto are duly executed, true and complete copies of the Sale Agreement, Servicing Agreement, Administration Agreement, and Intercreditor Agreement;

(v) that all filings with the PUCT pursuant to the Texas Electric Choice Plan and the Financing Order and all filings required under the Texas Electric Choice Plan and all UCC financing statements with respect to the Trust Estate that are required to be filed by the terms of the Financing Order, the Texas Electric Choice Plan, the Sale Agreement, the Servicing Agreement or this Indenture have been filed as required; and

(vi) that all conditions precedent provided in the Basic Documents relating to the authentication and delivery of the Transition Bonds have been complied with.

(b) An Officer's Certificate from the Seller, dated as of the Issuance Date, to the effect that:

(i) in the case of the Transition Property to be transferred to the Issuer on such date, immediately prior to the conveyance thereof to the Issuer pursuant to the Sale Agreement, the Seller was the sole owner of the rights and interests under the Financing Order that will comprise the Transition Property upon transfer to the Issuer and such ownership interest was perfected; such Transition Property has been validly transferred and sold to the Issuer free and clear of all Liens (other than Liens created by the Issuer pursuant to this Indenture) and such

transfer is absolute, irrevocable and has been perfected; the Seller has the power and authority to own, sell and assign the rights and interests under the Financing Order that will comprise the Transition Property upon transfer to the Issuer; and the Seller has duly authorized such sale and assignment to the Issuer; and

(ii) the Financing Order creating such Transition Property attached to such certificate is in full force and effect and the copy of the Financing Order attached thereto is true and complete.

(5) Issuer Opinion of Counsel. An Issuer Opinion of Counsel, portions of which may be delivered by counsel for the Issuer and portions of which may be delivered by counsel for the Seller and/or the Servicer, dated as of the Issuance Date subject to customary qualifications, acceptable to the Trustee, to the collective effect that (or, in the case of subsections (d), (e) and (f) below, in the form of):

(a) regarding the Financing Order, that (i) such Financing Order is final and non-appealable and in full force and effect and (ii) the Transition Bonds being issued are authorized to be issued under the Financing Order;

(b) regarding the Issuer:

(i) the Issuer has the power and authority to execute and deliver the Supplement and this Indenture and to issue the Transition Bonds being issued, each of the Supplement and this Indenture and such Transition Bonds have been duly authorized, executed and delivered, and the Issuer is duly organized and is validly existing in good standing under the laws of the jurisdiction of its organization;

(ii) no authorization, approval or consent of any governmental body is required for the valid issuance, authentication or delivery of such Transition Bonds, except for any such authorization, approval or consent as already has been obtained and such registrations as are required under the Blue Sky and securities laws of any State;

(iii) the Transition Bonds being issued, when executed and authenticated in accordance with the provisions of the Indenture and delivered, will constitute valid and binding obligations of the Issuer except as such enforceability may be subject to bankruptcy, insolvency, reorganization or other laws relating to or affecting creditors' rights generally and to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) entitled to the benefits of the Indenture and the Supplement;

(iv) this Indenture (including the Supplement), the Sale Agreement, the Administration Agreement, the Servicing Agreement and the Intercreditor Agreement are valid and binding agreements of the Issuer, enforceable against the Issuer in accordance with their respective terms, except as such enforceability may be subject to bankruptcy, insolvency, reorganization or other laws relating to or affecting creditors' rights generally and to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law);

(c) regarding the Seller, the Servicer, CenterPoint Houston and the Administrator: the Sale Agreement, the Servicing Agreement, the Intercreditor Agreement, and the Administration Agreement are valid and binding agreements of the Seller, the Servicer, CenterPoint Houston and the Administrator, respectively (as to which any such Person is a party), enforceable against the Seller, the Servicer, CenterPoint Houston and the Administrator, respectively (as to which any such Person is a party), in accordance with their terms except as such enforceability may be subject to bankruptcy, insolvency, reorganization or other laws relating to or affecting creditors' rights generally and to general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law);

(d) Schedule 2a attached hereto with respect to the sale and transfer of the Transition Property from the Seller to the Issuer;

(e) Schedule 2b attached hereto with respect to the Grant of a security interest under the Texas Electric Choice Plan in the Trust Estate to the Trustee for the benefit of the Transition Bondholders;

(f) Schedule 2c attached hereto with respect to the Grant of a security interest under the UCC in the Trust Estate to the Trustee for the benefit of the Transition Bondholders;

(g) the Indenture has been duly qualified under the Trust Indenture Act and either (i) the Supplement for the Transition Bonds applied for has been duly qualified under the Trust Indenture Act or (ii) no such qualification of such Supplement is necessary;

(h) all instruments furnished to the Trustee conform to the requirements of this Indenture and constitute all the documents required to be delivered hereunder for the Trustee to authenticate and deliver the Transition Bonds applied for and all conditions precedent provided for in this Indenture relating to the authentication and delivery of such Transition Bonds (unless waived in writing by the Trustee) have been complied with;

(i) the registration statement covering the Transition Bonds is effective under the Securities Act and, to the best of such counsel's knowledge and information, no stop order suspending the effectiveness of such registration statement has been issued under the Securities Act nor have proceedings therefor been instituted by the Commission;

(j) the Sale Agreement, the Servicing Agreement, and the Administration Agreement have been duly authorized, executed and delivered by the Seller, the Servicer, the Issuer and the Administrator, respectively (as to which any such Person is a party);

(k) the Intercreditor Agreement has been duly authorized, executed and delivered by CenterPoint Houston, the Servicer and the Issuer; and

(l) the Issuer is not now and, following the issuance of the Transition Bonds will not be, required to be registered under the Investment Company Act of 1940, as amended.

(6) *Reserved.*

(7) Rating Agency Condition. The Trustee shall receive written confirmation from each Rating Agency that the Transition Bonds will be rated as set forth in the Supplement.

(8) Required Capital Amount. Evidence satisfactory to the Trustee that the Required Capital Amount has been credited to the Capital Subaccount.

SECTION 2.11. BOOK-ENTRY TRANSITION BONDS. Unless otherwise specified in the Supplement, the Transition Bonds, upon original issuance, will be issued in the form of a typewritten Transition Bond or Transition Bonds representing the Book-Entry Transition Bonds, to be delivered to DTC, as the initial Clearing Agency, by, or on behalf of, the Issuer. Such Transition Bond shall initially be registered on the Transition Bond Register in the name of Cede & Co., the nominee of the initial Clearing Agency, and no Transition Bond Owner will receive a definitive Transition Bond representing such Transition Bond Owner's interest in such Transition Bond, except as provided in Section 2.13. Unless and until definitive, fully registered Transition Bonds (the "Definitive Transition Bonds") replacing the Book-Entry Transition Bonds have been issued to Transition Bondholders pursuant to Section 2.13 or pursuant to the Supplement:

(a) the provisions of this Section shall be in full force and effect;

(b) the Transition Bond Registrar and the Trustee shall be entitled to deal with the Clearing Agency for all purposes of this Indenture (including the payment of Principal of and premium, if any, and Interest on the Transition Bonds and the giving of instructions or directions hereunder) as the sole Holder of the Transition Bonds, and shall have no obligation to the Transition Bond Owners;

(c) to the extent that the provisions of this Section conflict with any other provisions of this Indenture, the provisions of this Section shall control;

(d) the rights of Transition Bond Owners shall be exercised only through the Clearing Agency and shall be limited to those established by law and agreements between such Transition Bond Owners and the Clearing Agency or the Clearing Agency Participants. Pursuant to the DTC Agreement, unless and until Definitive Transition Bonds are issued pursuant to Section 2.13, the initial Clearing Agency will make book-entry transfers among the Clearing Agency Participants and receive and transmit payments of Principal of and premium, if any, and Interest on the Transition Bonds to such Clearing Agency Participants; and

(e) whenever this Indenture requires or permits actions to be taken based upon instructions or directions of Holders of Transition Bonds evidencing a specified percentage of the Outstanding Amount of the Transition Bonds or Tranche thereof, the Clearing Agency shall be deemed to represent such percentage only to the extent that it has received instructions to such effect from Transition Bond Owners or Clearing Agency Participants owning or representing, respectively, such required percentage of the beneficial interest in the Transition Bonds or such Tranche and has delivered such instructions to the Trustee.

SECTION 2.12. NOTICES TO CLEARING AGENCY. Whenever a notice or other communication to the Transition Bondholders is required under this Indenture, unless and until Definitive Transition Bonds shall have been issued to Transition Bond Owners pursuant to Section 2.13 and the Supplement, the Trustee, the Servicer and the Paying Agent shall give all such notices and communications specified herein to be given to Transition Bondholders to the Clearing Agency, and shall have no obligation to separately give such notices and communications to the Transition Bond Owners.

SECTION 2.13. DEFINITIVE TRANSITION BONDS. If (i) the Clearing Agency or the Issuer advises the Trustee in writing that the Clearing Agency is no longer willing or able to properly discharge its responsibilities as nominee and depository with respect to any Book-Entry Tranche of the Transition Bonds and the Issuer is unable to locate a qualified successor, (ii) the Issuer advises the Trustee in writing that it elects to discontinue use of the book-entry-only transfers through the Clearing Agency with respect to any Tranche of the Transition Bonds and to deliver certificated Transition Bonds to the Clearing Agency or (iii) after the occurrence of an Event of Default, Transition Bond Owners representing beneficial interests aggregating at least a majority of the Outstanding Amount of the Transition Bonds maintained as Book-Entry Transition Bonds advise the Issuer and, through the Clearing Agency, the Trustee in writing that the continuation of a book-entry system through the Clearing Agency is no longer in the best interests of the Transition Bond Owners, then the Trustee shall notify all affected Transition Bond Owners and the Issuer of the occurrence of any such event and of the availability of Definitive Transition Bonds to affected Transition Bond Owners requesting the same. Upon surrender by the Clearing Agency to the Trustee of the typewritten Transition Bond or Transition Bonds representing the Book-Entry Transition Bonds, accompanied by registration instructions, a Manager on behalf of the Issuer shall execute and the Trustee shall authenticate the Definitive Transition Bonds in accordance with the instructions of the Clearing Agency. None of the Issuer, the Transition Bond Registrar or the Trustee shall be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be protected in relying on, such instructions. Upon the issuance of Definitive Transition Bonds, the Trustee shall recognize the Holders of the Definitive Transition Bonds as Transition Bondholders.

Definitive Transition Bonds will be transferable at the offices of the Transition Bond Registrar or, with respect to any Transition Bonds listed on the Luxembourg Stock Exchange, at the offices of the transfer agent appointed pursuant to the second paragraph of Section 3.02. With respect to any transfer of such listed Transition Bonds, the new Definitive Transition Bonds registered in the names specified by the transferee and the original transferor shall be available at the offices of such transfer agent.

### **ARTICLE III COVENANTS**

SECTION 3.01. PAYMENT OF PRINCIPAL, PREMIUM, IF ANY, AND INTEREST. The Issuer will duly and punctually pay the Principal of and premium, if any, and Interest on the

Transition Bonds in accordance with the terms of the Transition Bonds, this Indenture and the Supplement; provided that except on the Final Maturity Date, the Tranche Final Maturity Date or the Redemption Date for a Tranche of the Transition Bonds or upon the acceleration of the Transition Bonds following the occurrence of an Event of Default, the Issuer shall only be obligated to pay the Principal of such Transition Bonds on each Payment Date therefor to the extent moneys are available for such payment pursuant to Section 8.02. Amounts properly withheld under the Code or other applicable tax laws by any Person from a payment to any Transition Bondholder of Interest or Principal or premium, if any, shall be considered as having been paid by the Issuer to such Transition Bondholder for all purposes of this Indenture.

**SECTION 3.02. MAINTENANCE OF OFFICE OR AGENCY.** The Issuer will maintain in the Borough of Manhattan, the City of New York or in Wilmington, Delaware, an office or agency where Transition Bonds may be surrendered for registration of transfer and where notices and demands to or upon the Issuer in respect of the Transition Bonds and this Indenture may be served. The Issuer hereby initially appoints the Corporate Trust Office of Deutsche Bank Trust Company Americas in the Borough of Manhattan, the City of New York to serve as its agent for the foregoing purposes. The Issuer will give prompt written notice to the Holders and the Trustee of the location, and of any change in the location, of any such office or agency. If at any time the Issuer shall fail to maintain any such office or agency or shall fail to furnish such agent with the address thereof, such surrenders, notices and demands may be made or served at the Corporate Trust Office, and the Issuer hereby appoints Deutsche Bank Trust Company Americas as its agent to receive all such surrenders, notices and demands.

To the extent any of the Transition Bonds are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, (i) the Issuer will maintain in Luxembourg (A) an office and a transfer agent where Transition Bonds may be surrendered for registration of transfer, (B) an office and a listing agent where notices and demands to or upon the Issuer in respect of the Transition Bonds and this Indenture may be served, and (C) an office and a paying agent where payments in respect of the Transition Bonds may be made and (ii) any reference in this Indenture to the office or agency of the Issuer referred to in this Section 3.02 shall also refer to such offices, and the transfer, listing and paying agents, of the Issuer in Luxembourg, as applicable. The Issuer shall give the Trustee and any other agent appointed under this Section 3.02 written notice of the location and identity, and of any change in the location or identity, of any such office or agency.

**SECTION 3.03. MONEY FOR PAYMENTS TO BE HELD IN TRUST.** As provided in Section 8.02(a), all payments of Principal of, or premium and Interest on, the Transition Bonds that are to be made from amounts withdrawn from the Collection Account pursuant to Section 8.02(d) or (e) or Section 4.03 shall be made on behalf of the Issuer by the Trustee or by another Paying Agent, and no amounts so withdrawn from the Collection Account for payments of the Transition Bonds shall be paid over to the Issuer except as provided in this Section and in Section 8.02.

The Issuer hereby appoints Deutsche Bank Trust Company Americas as the Paying Agent hereunder and, in connection therewith the Paying Agent agrees that it will (and the Issuer shall cause any other Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee (and during such time as the Trustee acts as Paying Agent, it hereby so agrees that it will)), subject to the provisions of this Section:

(a) hold all sums held by it for the payment of Principal of, or premium or Interest on, the Transition Bonds in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided and pay such sums to such Persons as herein provided;

(b) give the Trustee written notice of any Default by the Issuer (or any other obligor upon the Transition Bonds) of which the Paying Agent has actual knowledge in the making of any payment required to be made with respect to the Transition Bonds;

(c) at any time during the continuance of any such Default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent;

(d) immediately resign as a Paying Agent and forthwith pay to the Trustee all sums held by the Paying Agent in trust for the payment of the Transition Bonds if at any time the Paying Agent ceases to meet the standards required of Paying Agents at the time of its appointment; and

(e) comply with all requirements of the Code and other applicable tax laws with respect to the withholding from any payments made by it on any Transition Bonds of any applicable withholding taxes imposed thereon and with respect to any applicable reporting requirements in connection therewith.

The Issuer may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, by Issuer Order direct any Paying Agent to pay to the Trustee all sums held in trust by such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which the sums were held by such Paying Agent; and upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Subject to applicable laws with respect to escheat of funds, any money held by the Trustee or any Paying Agent in trust for the payment of any amount of Principal of, premium, if any, or Interest on any Transition Bond and remaining unclaimed for two years after such amount has become due and payable shall be discharged from such trust and be paid to the Issuer upon delivery by the Issuer of an Issuer Order; and the Holder of such Transition Bond shall thereafter, as an unsecured general creditor, look only to the Issuer for payment thereof (but only to the extent of the amounts so paid to the Issuer), and all liability of the Trustee or such Paying Agent with respect to such trust money shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Issuer cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in the City of New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Issuer. The Trustee may also adopt and employ, at the expense of the Issuer, any other reasonable means of notification of such

repayment (including mailing notice of such repayment to Holders whose Transition Bonds have been called but have not been surrendered for redemption or whose right to or interest in moneys due and payable but not claimed is determinable from the records of the Trustee or of any Paying Agent, at the last address of record for each such Holder).

SECTION 3.04. EXISTENCE. Subject to Section 3.10, the Issuer shall keep in full effect its existence, rights and franchises as a statutory limited liability company under the laws of the State of Delaware (unless it becomes, or any successor Issuer hereunder is or becomes, organized under the laws of any other State or of the United States of America, in which case the Issuer will keep in full effect its existence, rights and franchises under the laws of such other jurisdiction) and will obtain and preserve its qualification to do business in each jurisdiction in which such qualification is or shall be necessary to protect the validity and enforceability of this Indenture, the Transition Bonds, the Trust Estate and each other instrument or agreement included in the Trust Estate.

SECTION 3.05. PROTECTION OF TRUST ESTATE. The Issuer shall from time to time execute and deliver, and file if required, all such supplements and amendments hereto and all such filings (including filings with the PUCT pursuant to the Texas Electric Choice Plan), financing statements, continuation statements, instruments of further assurance and other instruments, and shall take such other action reasonably necessary to:

- (a) maintain and preserve the Grant, Lien and security interest (and the priority thereof) of this Indenture or carry out more effectively the purposes hereof;
- (b) perfect, publish notice of or protect the validity of any Grant made or to be made by this Indenture, including the Supplement;
- (c) enforce any of the Trust Estate;
- (d) preserve and defend title to the Trust Estate and the rights of the Trustee and the Transition Bondholders in the Trust Estate against the claims of all Persons and parties; or
- (e) pay any and all taxes levied or assessed upon all or any part of the Trust Estate.

The Issuer hereby authorizes the Trustee to execute upon written direction any filing with the PUCT, financing statement, continuation statement or other instrument required to be filed pursuant to this Section.

SECTION 3.06. OPINIONS AS TO TRUST ESTATE. (a) On or before March 31 in each calendar year, while any Transition Bonds are outstanding, beginning on March 31, 2009, the Issuer shall furnish to the Trustee an Issuer Opinion of Counsel stating that, in the opinion of such counsel, either (i) all necessary action has been taken with respect to the recording, filing, re-recording and re-filing of this Indenture, any Supplemental Indentures and any other requisite documents and, with respect to the execution and filing of any filings pursuant to the Texas Electric Choice Plan, the Financing Order or the UCC, financing statements and continuation statements as are necessary to maintain the Lien and security interest, and the first priority thereof, created by this Indenture and reciting the details of such action or (ii) no such action is necessary to maintain such Lien and security interest, and the first priority thereof. Such Issuer

Opinion of Counsel shall also describe the recording, filing, re-recording and re-filing of this Indenture, any Supplemental Indentures and any other requisite documents, and the execution and filing of any filings pursuant to the Texas Electric Choice Plan, the Financing Order or the UCC, financing statements and continuation statements that will, in the opinion of such counsel, be required to maintain the Grant, Lien and security interest of this Indenture until March 31 in the following calendar year.

(b) Prior to the effectiveness of any amendment to the Sale Agreement or the Servicing Agreement, the Issuer shall furnish to the Trustee an Issuer Opinion of Counsel either (i) stating that, in the opinion of such counsel, all filings, including filings pursuant to the UCC, have been executed and filed that are necessary fully to preserve and protect the interest of the Issuer and the Trustee in the Transition Property and the proceeds thereof, and reciting the details of such filings or referring to prior Opinions of Counsel in which such details are given, or (ii) stating that, in the opinion of such counsel, no such action shall be necessary to preserve and protect such interest.

#### SECTION 3.07. PERFORMANCE OF OBLIGATIONS; COMMISSION FILINGS.

(a) The Issuer (i) shall diligently pursue any and all actions to enforce its rights under the Basic Documents and each other instrument or agreement included in the Trust Estate and (ii) shall not take any action and will use its best efforts not to permit any action to be taken by others that would release any Person from any of such Person's covenants or obligations under any such Basic Document, instrument or agreement or that would result in the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, any such Basic Document, instrument or agreement, except, in each case, as expressly provided in such Basic Document or such other instrument or agreement.

(b) The Issuer may contract with other Persons to assist it in performing its duties under this Indenture, and any performance of such duties by a Person identified to the Trustee in an Issuer Officer's Certificate shall be deemed to be action taken by the Issuer. Initially, the Issuer has contracted with the Administrator to assist the Issuer in performing its duties under this Indenture.

(c) The Issuer shall punctually perform and observe all of its obligations and agreements contained in the Basic Documents and in all other instruments and agreements included in the Trust Estate.

(d) The Issuer shall file with the Commission such periodic reports, if any, as are required (without regard to the number of Holders of Bonds to the extent permitted by and consistent with the Issuer's obligations under applicable law) from time to time under Section 13 or Section 15(d) of the Exchange Act so long as any Transition Bonds remain Outstanding, and the Issuer shall not voluntarily suspend or terminate its filing obligations with the Commission. The Issuer shall also, to the extent permitted by and consistent with the Issuer's obligations under applicable law, post on its website or furnish or file in the periodic reports and other reports to be filed with the Commission pursuant to the Exchange Act, as described below, the following information in respect of the Transition Bonds to the extent such information is reasonably available to the Issuer:

(i) a statement of Transition Charge remittances to the Trustee (to be included in a Form 10-D or Form 10-K filed subsequent to the respective report);

(ii) a statement reporting the balance in the Collection Account and the balance in each subaccount of the Collection Account as of the end of each quarter or the most recent date available (to be included in a Form 10-D or Form 10-K);

(iii) a statement showing the balance of Outstanding Transition Bonds that reflects the actual periodic payments made on the Transition Bonds (to be included in the next Form 10-D or Form 10-K);

(iv) the Semiannual Servicer's Certificate which is required to be submitted pursuant to the Servicing Agreement (to be filed with a Form 10-D, Form 10-K or Form 8-K);

(v) the text (or a link to the website where a reader can find the text) of each true-up filing in respect of the Outstanding Transition Bonds and the results of each true-up filing;

(vi) any change in the long-term or short-term credit ratings of the Servicer assigned by the Rating Agencies (to be filed or furnished in a Form 8-K);

(vii) material legislative or regulatory developments directly relevant to the Outstanding Transition Bonds (to be filed or furnished in a Form 8-K);  
and

(viii) a quarterly statement (to be included in each Form 10-D and each Form 10-K) affirming that, to the Issuer's knowledge, in all material respects, for each materially significant REP, (A) each REP has been billed in compliance with the requirements outlined in the Financing Order; (B) each REP has made payments in compliance with the requirements outlined in the Financing Order; and (C) each REP satisfies the creditworthiness requirements of the Financing Order or describing the Servicer's actions if (A), (B) or (C) has not occurred.

In addition, the Issuer shall, to the extent permitted by and consistent with the Issuer's obligations under applicable law, cause to be posted on the website associated with the Issuer's parent's website:

A. the Final Prospectus for the Transition Bonds;

B. the Semiannual Servicer's Certificates delivered for the Transition Bonds pursuant to the Servicing Agreement;

C. the periodic reports described above in this subsection (d); and

D. a current organization chart for the Issuer and the Servicer (unless the Servicer is not related to the Issuer, in which case the Servicer shall post two separate organization charts), in each case disclosing the parents and material subsidiaries of the Issuer and the Servicer.

(e) The Issuer shall make all filings required under the Texas Electric Choice Plan relating to the transfer of the ownership or security interest in the Transition Property other than those required to be made by the Seller or any Servicer pursuant to the Basic Documents.

SECTION 3.08. NEGATIVE COVENANTS. So long as any Transition Bonds are Outstanding, the Issuer shall not:

(i) except as expressly permitted by this Indenture, any Supplemental Indenture, the Sale Agreement or the Servicing Agreement, sell, transfer, exchange or otherwise dispose of any of the assets of the Issuer or the Trust Estate, unless directed to do so by the Trustee in accordance with Article V;

(ii) terminate its existence, dissolve or liquidate in whole or in part, except as Section 3.10 permits;

(iii) claim any credit on, or make any deduction from the Principal or premium, if any, or Interest payable in respect of, the Transition Bonds (other than amounts properly withheld from such payments under the Code) or assert any claim against any present or former Transition Bondholder by reason of the payment of taxes levied or assessed upon the Issuer or any part of the Trust Estate;

(iv)(A) permit the validity or effectiveness of this Indenture to be impaired, or permit the Lien of this Indenture to be amended, hypothecated, subordinated, terminated or discharged, or permit any Person to be released from any covenants or obligations with respect to the Transition Bonds under this Indenture except as may be expressly permitted hereby, (B) permit any Lien (other than the Lien created by this Indenture) to be created on or extend to or otherwise arise upon or burden the Trust Estate or any part thereof or any interest therein or the proceeds thereof or (C) permit the Lien of this Indenture not to constitute a continuing valid first priority security interest in the Trust Estate;

(v) except as contemplated by this Indenture, any Supplemental Indenture, the Sale Agreement, or the Servicing Agreement, enter into any swap, hedge or other similar financial arrangement or sell, transfer, exchange or otherwise dispose of any of the Trust Estate unless directed to do so by the Trustee in accordance with this Indenture;

(vi) elect to be classified as an association taxable as a corporation for federal income tax purposes or otherwise take any action, file any tax return or make any election inconsistent with the treatment of the Issuer, for purposes of federal taxes and, to the extent consistent with applicable state tax law, state income and franchise tax purposes, as a disregarded entity that is not separate from the sole owner of the Issuer; or

(vii) take any action that is the subject of a Rating Agency Condition if such action would result in a reduction or withdrawal of the then-current rating on any Outstanding Tranche of the Transition Bonds.

SECTION 3.09. ANNUAL STATEMENT AS TO COMPLIANCE. The Issuer will deliver to the Trustee, within 120 days after the end of each fiscal year of the Issuer (which, as of

the date hereof, is the calendar year) commencing with the fiscal year 2008, an Issuer Officer's Certificate (a copy of which the Issuer will deliver to each Rating Agency and the PUCT) stating, as to the Manager signing such Issuer Officer's Certificate, that

(i) a review of the activities of the Issuer during such year (or relevant portion thereof) and of performance under this Indenture has been made under such Manager's supervision; and

(ii) to the best of such Manager's knowledge, based on such review, the Issuer has complied with all conditions and covenants under this Indenture throughout such fiscal year (or relevant portion thereof), or, if there has been a default in compliance with any such condition or covenant, describing each such default known to the Manager and the nature and status thereof.

SECTION 3.10. ISSUER MAY CONSOLIDATE, ETC., ONLY ON CERTAIN TERMS. The Issuer shall not consolidate or merge with or into or convert into any other Person or sell substantially all of its assets to any other Person, unless:

(i) the Person (if other than the Issuer) formed by or surviving such consolidation, merger or conversion or to whom substantially all of such assets are sold shall be a Person organized and existing under the laws of the United States of America or any State and shall expressly assume by a Supplemental Indenture, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the Principal of and premium, if any, and Interest on all Outstanding Transition Bonds and the performance or observance of every agreement and covenant of this Indenture on the part of the Issuer to be performed or observed, all as provided herein and in the Supplement or any other Supplemental Indentures;

(ii) the Person (if other than the Issuer) formed by or surviving such consolidation, merger or conversion or to whom substantially all of such assets are sold shall expressly assume all obligations and succeed to all rights of the Issuer under the Basic Documents to which the Issuer is a party (or under which the Issuer has rights) pursuant to an assignment and assumption agreement executed and delivered to the Trustee, in form satisfactory to the Trustee;

(iii) immediately after giving effect to such consolidation, merger, conversion or sale, no Default or Event of Default shall have occurred and be continuing;

(iv) prior notice to the Rating Agencies shall have been provided and the Rating Agency Condition shall have been satisfied with respect to such consolidation, merger, conversion or sale;

(v) the Issuer shall have received an opinion of Independent counsel (and shall have delivered copies thereof to the Trustee) to the effect that such consolidation, merger, conversion or sale (a) will not have any material adverse tax consequence to the Issuer or any Transition Bondholder, (b) complies with this Indenture and all of the conditions precedent herein relating to such transaction and (c) will result in the Trustee maintaining a continuing valid first priority perfected security interest in the Trust Estate;

(vi) none of the Transition Property, the Financing Order or the Issuer's rights under the Texas Electric Choice Plan or the Financing Order shall be impaired thereby; and

(vii) any action as is necessary to maintain the Lien created by this Indenture shall have been taken.

**SECTION 3.11. SUCCESSOR OR TRANSFEREE.**

(a) Upon any consolidation, merger or conversion of the Issuer in accordance with Section 3.10, the Person formed by or surviving such consolidation, merger or conversion (if other than the Issuer) shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under this Indenture with the same effect as if such Person had been named as the Issuer herein.

(b) Except for such obligations set forth in Section 6.07, upon any sale by the Issuer of substantially all of its assets in a sale which complies with Section 3.10, immediately upon the delivery of written notice to the Trustee from the Person acquiring such assets stating that the Issuer is to be so released, the Issuer will be released from every covenant and agreement of this Indenture to be observed or performed on the part of the Issuer with respect to the Transition Bonds and from every covenant and agreement of the Basic Documents to be observed or performed on the part of the Issuer.

**SECTION 3.12. NO OTHER BUSINESS.** The Issuer shall not engage in any business other than purchasing and owning the Transition Property provided for in the Financing Order issued by the PUCT, issuing transition bonds provided for in the Supplement, pledging its interest in the Trust Estate to the Trustee under this Indenture in order to secure the Issuer's obligations as set forth in the Supplement, entering into and performing under the Basic Documents relating to the Transition Bonds, and performing activities that are necessary, suitable or convenient to accomplish these purposes or are incidental thereto.

**SECTION 3.13. NO BORROWING.** The Issuer shall not issue, incur, assume, guarantee or otherwise become liable, directly or indirectly, for any indebtedness except for the Transition Bonds except as contemplated by the Basic Documents.

**SECTION 3.14. GUARANTEES, LOANS, ADVANCES AND OTHER LIABILITIES.** Except as contemplated by the Basic Documents, the Issuer shall not make any loan or advance or credit to, or guarantee (directly or indirectly or by an instrument having the effect of assuring another's payment or performance on any obligation or capability of so doing or otherwise), endorse or otherwise become contingently liable, directly or indirectly, in connection with the obligations, stocks or dividends of, or own, purchase, repurchase or acquire (or agree contingently to do so) any stock, obligations, assets or securities of, or any other interest in, or make any capital contribution to, any other Person other than any Eligible Investments.

**SECTION 3.15. CAPITAL EXPENDITURES.** The Issuer shall not make any expenditure (by long-term or operating lease or otherwise) for capital assets (either realty or personalty) other than the Transition Property purchased from the Seller pursuant to, and in accordance with, the Sale Agreement.

SECTION 3.16. RESTRICTED PAYMENTS. The Issuer shall not, directly or indirectly, (i) pay any dividend or make any distribution (by reduction of capital or otherwise), whether in cash, property, securities or a combination thereof, to any owner of a beneficial interest in the Issuer or otherwise with respect to any ownership or equity interest in, or ownership security of, the Issuer, (ii) redeem, purchase, retire or otherwise acquire for value any such ownership or equity interest or security or (iii) set aside or otherwise segregate any amounts for any such purpose; provided, however, that if no Event of Default shall have occurred and be continuing, the Issuer may make, or cause to be made, any such distributions to any owner of a beneficial interest in the Issuer or otherwise with respect to any ownership or equity interest or security in or of the Issuer using funds distributed to the Issuer pursuant to Section 8.02(d) or which are not otherwise subject to the Lien of this Indenture to the extent that such distributions would not cause the book value of the remaining equity in the Issuer to decline below 0.5% of the original principal amount of the Transition Bonds which remain outstanding. The Issuer will not, directly or indirectly, make payments to or distributions from the Collection Account except in accordance with the Basic Documents.

SECTION 3.17. NOTICE OF EVENTS OF DEFAULT. The Issuer agrees to deliver to the Trustee, the PUCT, the Rating Agencies and, to the extent the rules and regulations of the Luxembourg Stock Exchange so require, any agent in Luxembourg appointed pursuant to the second paragraph of Section 3.02 written notice in the form of an Issuer Officer's Certificate of any Default or Event of Default hereunder or under any of the Basic Documents, its status and what action the Issuer is taking or proposes to take with respect thereto within five Business Days after the occurrence thereof.

SECTION 3.18. INTENTIONALLY OMITTED.

SECTION 3.19. INSPECTION. The Issuer agrees that, on reasonable prior notice, it will permit any representative of the Trustee, during the Issuer's normal business hours, to examine all the books of account, records, reports, and other papers of the Issuer, to make copies and extracts therefrom, to cause such books to be audited annually by an Independent registered public accounting firm, and to discuss the Issuer's affairs, finances and accounts with the Issuer's officers, employees and an Independent registered public accounting firm, all at such reasonable times and as often as may be reasonably requested. The Trustee shall hold and shall cause its representatives to hold, in confidence all such information except to the extent disclosure may be required by law (and all reasonable applications for confidential treatment are unavailing) and except to the extent that the Trustee may reasonably determine that such disclosure is consistent with its obligations hereunder.

SECTION 3.20. SALE AGREEMENT, INTERCREDITOR AGREEMENT, ADMINISTRATION AGREEMENT AND SERVICING AGREEMENT COVENANTS.

(a) The Issuer agrees to take all such lawful actions to enforce its rights under the Sale Agreement, the Intercreditor Agreement, the Administration Agreement and the Servicing Agreement and to compel or secure the performance and observance by the Seller, the Administrator, the Servicer and CenterPoint Houston of each of their respective obligations to the Issuer under or in connection with the Sale Agreement, the Intercreditor Agreement, the Administration Agreement and the Servicing Agreement in accordance with the terms thereof.

So long as no Event of Default occurs and is continuing, but subject to Section 3.20(f), the Issuer may exercise any and all rights, remedies, powers and privileges lawfully available to the Issuer under or in connection with the Sale Agreement, the Intercreditor Agreement, the Administration Agreement and the Servicing Agreement; provided that such action shall not adversely affect the interests of the Holders in any material respect.

(b) If an Event of Default occurs and is continuing, the Trustee may, and at the direction (which direction shall be in writing) of the holders of a majority of the Outstanding Amount of the Transition Bonds of all Tranches affected thereby shall, exercise all rights, remedies, powers, privileges and claims of the Issuer against the Seller, CenterPoint Houston, the Administrator and the Servicer, as the case may be, under or in connection with the Administration Agreement and the Sale Agreement, Intercreditor Agreement and Servicing Agreement, including the right or power to take any action to compel or secure performance or observance by the Seller, CenterPoint Houston, the Administrator or the Servicer of each of their obligations to the Issuer thereunder and to give any consent, request, notice, direction, approval, extension or waiver under the Administration Agreement and the Sale Agreement, Intercreditor Agreement and Servicing Agreement, and any right of the Issuer to take such action shall be suspended.

(c) Except as set forth in Section 3.20(e) of this Indenture, with the prior written consent of the Trustee and the consent of the PUCT pursuant to Section 9.07 if the amendment increases ongoing qualified costs as defined in the Financing Order, the Administration Agreement, the Sale Agreement, Intercreditor Agreement (except that any amendment to the Intercreditor Agreement shall not require the consent of the PUCT) and Servicing Agreement may be amended in accordance with the provisions thereof, so long as the Rating Agency Condition is satisfied in connection therewith, at any time and from time to time, without the consent of the Transition Bondholders; provided that such amendment shall not adversely affect the interest of any Transition Bondholder in any material respect.

(d) Except as set forth in Section 3.20(e) of this Indenture, if the Issuer, the Seller, CenterPoint Houston, the Administrator, the Servicer or any other party to the respective agreement proposes to amend, modify, waive, supplement, terminate or surrender, or agree to any amendment, modification, waiver, supplement, termination or surrender of, the terms of the Administration Agreement or the Sale Agreement, Intercreditor Agreement or Servicing Agreement, or waive timely performance or observance by the Administrator, the Seller, CenterPoint Houston or the Servicer under the Administration Agreement or the Sale Agreement, Intercreditor Agreement or Servicing Agreement, in each case in such a way as would materially and adversely affect the interests of Transition Bondholders, the Issuer shall first notify the Rating Agencies of the proposed amendment, modification, waiver, supplement, termination or surrender and, upon receipt of notification regarding whether the Rating Agency Condition has been satisfied, shall notify the Trustee, the Paying Agent, the Transition Bond Registrar and the PUCT in writing and the Trustee shall notify the Transition Bondholders of the proposed amendment, modification, waiver, supplement, termination or surrender and whether the Rating Agency Condition has been satisfied with respect thereto. The Trustee shall consent to such proposed amendment, modification, waiver, supplement, termination or surrender only with the prior written consent of the holders of a majority of the Outstanding Amount of the Transition Bonds of the Tranches materially and adversely affected thereby and, if the proposed

amendment, modification, waiver, supplement, termination or surrender would increase ongoing qualified costs as defined in the Financing Order, the consent of the PUCT pursuant to Section 9.07 other than with respect to the Intercreditor Agreement. If any such amendment, modification, waiver, supplement, termination or surrender shall be so consented to by the Trustee or such Holders, the Issuer agrees to execute and deliver, in its own name and at its own expense, such agreements, instruments, consents and other documents as shall be necessary or appropriate in the circumstances. For so long as any of the Transition Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notice of such proposed action will be published by an agent to be appointed by the Issuer in accordance with such rules promptly following its effectiveness.

(e) If the Issuer or the Servicer proposes to amend, modify, waive, supplement, terminate or surrender, or to agree to any amendment, modification, supplement, termination, waiver or surrender of, the Transition Charge Adjustment Process, the Issuer shall notify the PUCT, the Trustee, the Paying Agent and the Transition Bond Registrar in writing and the Trustee shall notify the Transition Bondholders of such proposal and the Trustee shall consent thereto only with the consent of the PUCT pursuant to Section 9.07 and the prior written consent of the holders of a majority of the Outstanding Amount of Transition Bonds or Tranches materially and adversely affected thereby and only if the Rating Agency Condition has been satisfied with respect thereto.

(f) Promptly following a default by the Seller under the Sale Agreement, by CenterPoint Houston or any successor to CenterPoint Houston under the Intercreditor Agreement, by the Administrator under the Administration Agreement, or the occurrence of a Servicer Default under the Servicing Agreement, and at the Issuer's expense, the Issuer agrees to take all such lawful actions as the Trustee may request to compel or secure the performance and observance by each of the Seller, CenterPoint Houston, the Administrator or the Servicer of their obligations under and in accordance with the Sale Agreement, Intercreditor Agreement, Administration Agreement or Servicing Agreement, as the case may be, in accordance with the terms thereof, and to exercise any and all rights, remedies, powers and privileges lawfully available to the Issuer under or in connection with such agreements to the extent and in the manner directed by the Trustee, including the transmission of notices of any default by the Seller, CenterPoint Houston, the Administrator or the Servicer, respectively, thereunder and the institution of legal or administrative actions or Proceedings to compel or secure performance of their obligations under the Sale Agreement, Intercreditor Agreement, Administration Agreement or Servicing Agreement, as applicable.

(g) If the Issuer shall have knowledge of the occurrence of a Servicer Default under the Servicing Agreement, the Issuer shall (i) promptly give written notice thereof to the Trustee, the PUCT, the Paying Agent, the Transition Bond Registrar and the Rating Agencies, (ii) specify in such notice the action, if any, the Issuer is taking with respect to such default and (iii) take such reasonable steps as are available to it to remedy such defaults or shall take such actions as shall have been directed by the Trustee, as the case may be, provided that, notwithstanding the foregoing, the Issuer shall not take any action to terminate the Servicer's rights and powers under the Servicing Agreement unless a Servicer Default shall have occurred and be continuing, and the Trustee shall not direct the Issuer to take such action unless a Servicer Default shall have occurred and be continuing.

(h) As promptly as possible after the giving of notice of termination to the Servicer, the PUCT and the Rating Agencies of the Servicer's rights and powers pursuant to that Servicing Agreement, the Trustee upon the written direction of the majority of the Outstanding Amount of the Transition Bonds and subject to the provisions of the related Intercreditor Agreement shall appoint a successor Servicer (the "Successor Servicer"), and such Successor Servicer shall accept its appointment by a written assumption in a form acceptable to the Issuer and the Trustee. A person shall qualify as a Successor Servicer only if such Person satisfies the requirements set forth in the Servicing Agreement. If within 30 days after the delivery of the notice referred to above, a Successor Servicer shall not have been appointed and accepted its appointment as such, the Trustee may petition the PUCT or a court of competent jurisdiction to appoint a Successor Servicer. In connection with any such appointment, the Issuer may make such arrangements for the compensation of such Successor Servicer as it and such Successor Servicer shall agree, subject to the limitations set forth below and in that Servicing Agreement, and in accordance with that Servicing Agreement, the Issuer shall enter into an agreement with such Successor Servicer for the servicing of the Transition Property (such agreement to be in form and substance satisfactory to the Trustee).

(i) Upon termination of the Servicer's rights and powers pursuant to the Servicing Agreement, the Trustee shall promptly notify the Issuer, the PUCT, the Transition Bondholders and the Rating Agencies in writing of such termination. As soon as a Successor Servicer is appointed, the Issuer shall notify the Trustee, the PUCT, the Transition Bondholders, the Paying Agent, the Transition Bond Registrar and the Rating Agencies of such appointment, specifying in such notice the name and address of such Successor Servicer.

SECTION 3.21. TAXES. So long as any of the Transition Bonds is outstanding, the Issuer shall pay all taxes, assessments and governmental charges imposed upon it or any of its properties or assets or with respect to any of its franchises, business, income or property before any penalty accrues thereon if the failure to pay any such taxes, assessments and governmental charges would, after any applicable grace periods, notices or other similar requirements, result in a Lien on the Trust Estate.

#### **ARTICLE IV**

#### **SATISFACTION AND DISCHARGE; DEFEASANCE**

##### **SECTION 4.01. SATISFACTION AND DISCHARGE OF INDENTURE; DEFEASANCE.**

(a) The Transition Bonds, all moneys payable with respect thereto and this Indenture shall cease to be of further effect and the Lien hereunder shall be released, Interest shall cease to accrue on the Transition Bonds and the Trustee, on written demand of and at the expense of the Issuer, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture with respect to the Transition Bonds, when

(A) either

(1) all Transition Bonds theretofore authenticated and delivered (other than (i) Transition Bonds that have been destroyed, lost or stolen and that have been replaced or paid as provided in Section 2.06 and (ii) Transition Bonds for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust, as provided in Section 3.03) have been delivered to the Trustee for cancellation; or

(2) the Issuer has irrevocably deposited or caused to be irrevocably deposited with the Trustee cash, in trust for such purpose, in an amount sufficient to make payments of Principal of and, premium, if any, and Interest on the Transition Bonds and to pay and discharge the entire indebtedness on such Transition Bonds not theretofore delivered to the Trustee;

(B) the Issuer has paid or caused to be paid all other sums payable hereunder by the Issuer; and

(C) the Issuer has delivered to the Trustee an Issuer Officer's Certificate, an Issuer Opinion of Counsel and (if required by the TIA or the Trustee) an Independent Certificate from an Independent registered public accounting firm, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture with respect to Transition Bonds have been complied with.

(b) Subject to Sections 4.01(c) and 4.02, the Issuer at any time may terminate (i) all its obligations under this Indenture with respect to the Transition Bonds ("Legal Defeasance Option") or (ii) its obligations under Sections 3.05, 3.06 (other than with respect to the Defeasance Subaccounts and all funds and U.S. Government Obligations therein), 3.07(a), (b) and (c), 3.08, 3.10, 3.16 and 3.19 and the operation of Section 5.01(iii) (other than with respect to the Defeasance Subaccount and U.S. Government Obligations therein) ("Covenant Defeasance Option") with respect to the Transition Bonds. The Issuer may exercise the Legal Defeasance Option with respect to the Transition Bonds notwithstanding its prior exercise of the Covenant Defeasance Option.

If the Issuer exercises the Legal Defeasance Option, the maturity of the Transition Bonds may not be (a) accelerated because of an Event of Default or (b) except as provided in Section 4.02, redeemed. If the Issuer exercises the Covenant Defeasance Option, the maturity of the Transition Bonds may not be accelerated because of an Event of Default specified in Section 5.01(iii).

Upon satisfaction of the conditions set forth herein to the exercise of the Legal Defeasance Option or the Covenant Defeasance Option with respect to the Transition Bonds, the Trustee, on written demand of and at the expense of the Issuer, shall execute proper instruments acknowledging satisfaction and discharge of the obligations that are terminated pursuant to such exercise.

(c) Notwithstanding Sections 4.01(a) and (b) above, (i) rights of registration of transfer and exchange, (ii) rights of substitution of mutilated, destroyed, lost or stolen Transition Bonds, (iii) rights of Transition Bondholders to receive payments of Principal, premium, if any, and Interest, but only from the amounts deposited with the Trustee for such payments, (iv) Sections 4.03 and 4.04, (v) the rights, obligations and immunities of the Trustee hereunder (including the rights of the Trustee under Section 6.07 and the obligations of the Trustee under Section 4.03) and (vi) the rights of Transition Bondholders under this Indenture with respect to the property deposited with the Trustee payable to all or any of them, shall survive until the Transition Bonds as to which this Indenture or certain obligations hereunder have been satisfied and discharged pursuant to Section 4.01(a) or 4.01(b) and have been paid in full. Thereafter, the obligations in Sections 6.07 and 4.04 shall survive.

SECTION 4.02. CONDITIONS TO DEFEASANCE. The Issuer may exercise the Legal Defeasance Option or the Covenant Defeasance Option with respect to the Transition Bonds only if:

(a) the Issuer irrevocably deposits or causes to be deposited in trust with the Trustee cash or U.S. Government Obligations for the payment of Principal of and premium, if any, and Interest on the Transition Bonds to the Expected Payment Date or Redemption Date therefor, as applicable, and all other amounts due and payable hereunder, such deposit to be made in the Defeasance Subaccount for the Transition Bonds;

(b) the Issuer delivers to the Trustee a certificate from a nationally recognized Independent registered public accounting firm expressing its opinion that the payments of Principal and Interest when due and without reinvestment on the deposited U.S. Government Obligations plus any deposited cash without investment will provide cash at such times and in such amounts (but, in the case of the Legal Defeasance Option only, not more than such amounts) as will be sufficient to pay in respect of the Transition Bonds (i) subject to clause (ii), Principal in accordance with the Expected Amortization Schedule therefor, (ii) if the Transition Bonds are to be redeemed, the redemption price therefor on the Redemption Date therefor and (iii) Interest when due;

(c) in the case of the Legal Defeasance Option, the expiration of 95 days after the deposit is made and during such 95-day period no Default specified in Section 5.01(iv) or (v) shall have occurred and be continuing at the end of the period; provided, however, that in determining whether a default under Section 5.01(iv) has occurred, the requirement that the decree or order shall remain unstayed and in effect for 90 days shall be disregarded;

(d) no Default has occurred and is continuing on the day of such deposit and after giving effect thereto;

(e) in the case of the Legal Defeasance Option, the Issuer delivers to the Trustee an Issuer Opinion of Counsel stating that (i) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling, or (ii) since the date of execution of this Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the Holders of the Transition Bonds will not recognize income, gain or loss for federal income tax purposes as a result of the

exercise of such Legal Defeasance Option and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(f) in the case of the Covenant Defeasance Option, the Issuer delivers to the Trustee an Issuer Opinion of Counsel to the effect that the Holders of the Transition Bonds will not recognize income, gain or loss for federal income tax purposes as a result of the exercise of such Covenant Defeasance Option and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(g) the Issuer delivers to the Trustee an Issuer Officer's Certificate and an Issuer Opinion of Counsel, each stating that all conditions precedent to the satisfaction and discharge of the Transition Bonds to the extent contemplated by this Article IV have been complied with;

(h) the Issuer delivers to the Trustee an Opinion of Counsel to the effect that (i) in a case under the Bankruptcy Code in which CenterPoint Houston (or any of its Affiliates, other than the Issuer) is the debtor, the court would hold that the deposited cash or U.S. Government Obligations would not be in the bankruptcy estate of CenterPoint Houston (or any of its Affiliates, other than the Issuer, that deposited the cash or U.S. Government Obligations); and (ii) in the event CenterPoint Houston (or any of its Affiliates, other than the Issuer, that deposited the cash or U.S. Government Obligations), were to be a debtor in a case under the Bankruptcy Code, the court would not disregard the separate legal existence of CenterPoint Houston (or any of its Affiliates, other than the Issuer, that deposited the cash or U.S. Government Obligations) and the Issuer so as to order substantive consolidation under the Bankruptcy Code of the Issuer's assets and liabilities with the assets and liabilities of CenterPoint Houston (or any of its Affiliates, other than the Issuer, that deposited the cash or U.S. Government Obligations), and

(i) the Rating Agency Condition shall have been satisfied with respect to the exercise of any Legal Defeasance Option or Covenant Defeasance Option.

Notwithstanding any other provision of this Section 4.02 to the contrary, no delivery of cash or U.S. Government Obligations to the Trustee under this Section shall terminate any obligations of the Issuer under this Indenture with respect to any Transition Bonds which are to be redeemed prior to the Expected Final Payment Date therefor until such Transition Bonds shall have been irrevocably called or designated for redemption on a date thereafter on which such Transition Bonds may be redeemed in accordance with the provisions of this Indenture and proper notice of such redemption shall have been given in accordance with the provisions of this Indenture or the Issuer shall have given the Trustee, in form satisfactory to the Trustee, irrevocable written instructions to give, in the manner and at the times prescribed herein, notice of redemption.

SECTION 4.03. APPLICATION OF TRUST MONEY. All moneys or U.S. Government Obligations deposited with the Trustee pursuant to Section 4.01 or 4.02 hereof with respect to the Transition Bonds shall be held in trust in the Defeasance Subaccount and applied by it, in accordance with the provisions of the Transition Bonds and this Indenture, to the payment, either directly or through any Paying Agent, as the Trustee may determine, to the

Holders of the particular Transition Bonds for the payment or redemption of which such moneys have been deposited with the Trustee, of all sums due and to become due thereon for Principal, premium, if any, and Interest. Such moneys shall be segregated and held apart solely for paying such Transition Bonds and such Transition Bonds shall not be entitled to any amounts on deposit in the Collection Account other than amounts on deposit in the Defeasance Subaccount for such Transition Bonds.

SECTION 4.04. REPAYMENT OF MONEYS HELD BY PAYING AGENT. In connection with the satisfaction and discharge of this Indenture or the Covenant Defeasance Option or Legal Defeasance Option with respect to the Transition Bonds, all moneys then held by any Paying Agent other than the Trustee under the provisions of this Indenture or the Intercreditor Agreement with respect to such Transition Bonds shall, upon written demand of the Issuer, be paid to the Trustee to be held and applied according to Section 4.03 and thereupon such Paying Agent shall be released from all further liability with respect to such moneys.

## ARTICLE V

### REMEDIES

SECTION 5.01. EVENTS OF DEFAULT. “Event of Default” wherever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(i) default in the payment of any Interest on any Transition Bond when the same becomes due and payable and the continuation of such default for five Business Days;

(ii) default in the payment of the then unpaid Principal of any Transition Bond on the Final Maturity Date or any Tranche on the Tranche Final Maturity Date for such Tranche;

(iii) default in the observance or performance of any covenant or agreement of the Issuer made in this Indenture (other than a covenant or agreement, a default in the observance or performance of which is specifically dealt with in clause (i), (ii) or (iii) above), or any representation or warranty of the Issuer made herein or therein or in any certificate or other writing delivered pursuant hereto or in connection herewith proving to have been incorrect in any material respect as of the time when made and any such default shall continue or not be cured, for a period of 30 days after the earlier of (A) there shall have been given, by registered or certified mail, to the Issuer by the Trustee or to the Issuer and the Trustee by the Holders of at least 25% of the Outstanding Amount of the Transition Bonds, a written notice specifying such default or incorrect representation or warranty and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder or (B) the date the Issuer has knowledge of the default;

(iv) the filing of a decree or order for relief by a court having jurisdiction in respect of the Issuer or any substantial part of the Trust Estate in an involuntary case or Proceeding under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for the Issuer or its property or for any substantial part of the Trust Estate, or ordering the winding-up or liquidation of the Issuer's affairs, and such decree or order shall remain unstayed and in effect for a period of 90 consecutive days;

(v) the commencement by the Issuer of a voluntary case or Proceeding under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or the consent by the Issuer to the entry of an order for relief in an involuntary case under any such law, or the consent by the Issuer to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer or for any substantial part of the Trust Estate, or the making by the Issuer of any general assignment for the benefit of creditors, or the failure by the Issuer generally to pay its debts as such debts become due, or the taking of action by the Issuer in furtherance of any of the foregoing;

(vi) any act or failure to act by the State of Texas or any of its agencies (including the PUCT), officers or employees that violates or is not in accordance with the pledge of the State of Texas in Section 39.310 of the Texas Electric Choice Plan, including the failure of the PUCT to implement the statutorily guaranteed true-up mechanism in accordance with the Financing Order; or

(vii) any other event designated as an Event of Default in the Supplement.

**SECTION 5.02. ACCELERATION OF MATURITY; RESCISSION AND ANNULMENT.** If an Event of Default other than an Event of Default under Section 5.01(vi) occurs and is continuing, then and in every such case either the Trustee or the Holders holding not less than a majority of the Outstanding Amount of the Transition Bonds may, but need not, declare all the Transition Bonds to be immediately due and payable, by a notice in writing to the Issuer (and to the Trustee if given by Transition Bondholders), and upon any such declaration the unpaid principal amount of the Transition Bonds, together with accrued and unpaid interest thereon through the date of acceleration, shall become immediately due and payable.

At any time after such declaration of acceleration of maturity has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article V provided, the Holders holding not less than a majority of the Outstanding Amount of the Transition Bonds, by written notice to the Issuer and the Trustee, may rescind and annul such declaration and its consequences if:

(i) the Issuer has paid or deposited with the Trustee, for deposit in the General Subaccount of the Collection Account, a sum sufficient to pay

(A) all payments of Principal of and premium, if any, and Interest on all Transition Bonds due and owing at such time as if such Event of Default had not

occurred and was not continuing and all other amounts that would then be due hereunder or upon such Transition Bonds as if the Event of Default giving rise to such acceleration had not occurred and was not continuing; and

(B) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents and counsel; and

(ii) all Events of Default other than the nonpayment of the Principal of the Transition Bonds that has become due solely by such acceleration have been cured or waived as provided in Section 5.12.

No such rescission shall affect any subsequent Default or impair any right consequent thereto.

#### SECTION 5.03. COLLECTION OF INDEBTEDNESS AND SUITS FOR ENFORCEMENT BY TRUSTEE.

(a) The Issuer covenants that if (i) Default is made in the payment of any Interest on any Transition Bond when such Interest becomes due and payable and such Default continues for five Business Days, (ii) Default is made in the payment of the then unpaid Principal of any Transition Bond on the Final Maturity Date or Tranche Final Maturity Date, as applicable, therefor, or (iii) Default is made in the payment of the redemption price for any Transition Bond on the Redemption Date therefor, the Issuer shall, upon demand of the Trustee, pay to it, for the benefit of the Holders of the Transition Bonds, such amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents and counsel and the whole amount then due and payable on such Transition Bonds for Principal, premium, if any, and Interest, with interest upon the overdue Principal and premium, if any, and, to the extent payment at such rate of interest shall be legally enforceable, upon overdue installments of Interest, at the respective Bond Rate or the applicable Tranche.

(b) In case the Issuer shall fail forthwith to pay the amounts specified in Section 5.03(a) upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a Proceeding for the collection of the sums so due and unpaid, and may prosecute such Proceeding to judgment or final decree, and may enforce the same against the Issuer or other obligor upon such Transition Bonds and collect in the manner provided by law out of the Trust Estate and the proceeds thereof, the whole amount then due and payable on the Transition Bonds for Principal, premium, if any, and Interest, with interest upon the overdue Principal and premium, if any, and, to the extent payment at such rate of interest shall be legally enforceable, upon overdue installments of Interest, at the respective rate borne by the Transition Bonds or the applicable Tranche and in addition thereto such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents and counsel.

(c) If an Event of Default other than the Event of Default described in Section 5.01(vi) occurs and is continuing, the Trustee may, as more particularly provided in Section 5.04,

proceed to protect and enforce its rights and the rights of the Transition Bondholders materially and adversely affected by such appropriate Proceedings as the Trustee shall deem most effective to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy or legal or equitable right vested in the Trustee by this Indenture or by law, including foreclosing or otherwise enforcing the Lien on the Trust Estate securing the Transition Bonds or applying to the PUCT or a court of competent jurisdiction for sequestration of revenues arising with respect to such Transition Property.

(d) In case there shall be pending, relative to the Issuer or any other obligor upon the Transition Bonds or any Person having or claiming an ownership interest in the Trust Estate, Proceedings under Title 11 of the United States Code or any other applicable federal or State bankruptcy, insolvency or other similar law, or in case a receiver, assignee or trustee in bankruptcy or reorganization, liquidator, sequestrator or similar official shall have been appointed for or taken possession of the Issuer or its property or such other obligor or Person, or in case of any other comparable judicial Proceedings relative to the Issuer or other obligor upon the Transition Bonds, or to the creditors or property of the Issuer or such other obligor, the Trustee, irrespective of whether the principal of the Transition Bonds shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand pursuant to the provisions of this Section, shall be entitled and empowered to the extent permitted by applicable law, by intervention in such Proceedings or otherwise:

(i) to file and prove a claim or claims for the whole amount of Principal, premium, if any, and Interest owing and unpaid in respect of the Transition Bonds and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for reasonable compensation to the Trustee and each predecessor Trustee, and their respective agents, attorneys and counsel, and for reimbursement of all expenses and liabilities incurred, and all advances made, by the Trustee and each predecessor Trustee, except as a result of negligence or bad faith) and of the Transition Bondholders allowed in such Proceedings;

(ii) unless prohibited by applicable law and regulations, to vote on behalf of the Holders of the Transition Bonds in any election of a trustee, a standby trustee or Person performing similar functions in any such Proceedings;

(iii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute all amounts received with respect to the claims of the Transition Bondholders and of the Trustee on their behalf;

(iv) to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee or the Holders of the Transition Bonds allowed in any judicial Proceedings relative to the Issuer, its creditors and its property; and

(v) to participate as a member, voting or otherwise, of any official committee of creditors appointed in such matter,

and any trustee, receiver, liquidator, custodian or other similar official in any such Proceeding is hereby authorized by each of such Transition Bondholders to make payments to the Trustee, and, in the event that the Trustee shall consent to the making of payments directly to such Transition Bondholders, to pay to the Trustee such amounts as shall be sufficient to cover reasonable compensation to the Trustee, each predecessor Trustee and their respective agents, attorneys and counsel, and all other expenses and liabilities incurred, and all advances made, by the Trustee and each predecessor Trustee except as a result of negligence or bad faith.

(e) Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or vote for or accept or adopt on behalf of any Transition Bondholder any plan of reorganization, arrangement, adjustment or composition affecting the Transition Bonds or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Transition Bondholder in any such Proceeding except, as aforesaid, to vote for the election of a trustee in bankruptcy or similar Person.

(f) All rights of action and of asserting claims under this Indenture, or under the Transition Bonds, may be enforced by the Trustee without the possession of any of the Transition Bonds or the production thereof in any trial or other Proceedings relative thereto, and any such action or Proceedings instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment, subject to the payment of the expenses, disbursements and compensation of the Trustee, each predecessor Trustee and their respective agents and attorneys, shall be for the ratable benefit of the Holders of the Transition Bonds.

(g) In any Proceedings brought by the Trustee (and also any Proceedings involving the interpretation of any provision of this Indenture to which the Trustee shall be a party), the Trustee shall be held to represent all the Holders of the Transition Bonds, and it shall not be necessary to make any Transition Bondholder a party to any such Proceedings.

SECTION 5.04. REMEDIES; PRIORITIES. (a) If an Event of Default other than the Event of Default described in Section 5.01(vi) occurs and is continuing, the Trustee shall do one or more of the following at the written direction of the holders of a majority of the Outstanding Amount of the Transition Bonds or may do one or more of the following in reliance upon Sections 6.01 and 6.02 of this Indenture (subject, in either event, to Section 5.05):

(i) institute Proceedings in its own name and as trustee of an express trust for the collection of all amounts then payable on the Transition Bonds or under this Indenture with respect thereto, whether by declaration or otherwise, enforce any judgment obtained and collect from the Issuer or the Servicer moneys adjudged due;

(ii) institute Proceedings from time to time for the complete or partial foreclosure of this Indenture with respect to the Trust Estate;

(iii) exercise any remedies of a secured party under the UCC or Section 39.309(f) of the Texas Electric Choice Plan or any other applicable law and take any other appropriate action to protect and enforce the rights and remedies of the Trustee and the Holders of the Transition Bonds;

(iv) sell the Trust Estate or any portion thereof or rights or interest therein, at one or more public or private sales called and conducted in any manner permitted by law; and

(v) exercise all rights, remedies, powers, privileges and claims of the Issuer against the Administrator, the Seller, CenterPoint Houston and the Servicer under or in connection with, and pursuant to the terms of, the Administration Agreement or the Sale Agreement, Intercreditor Agreement or Servicing Agreement;

provided, however, that the Trustee may not sell or otherwise liquidate any portion of the Trust Estate following an Event of Default unless the Final Payment Date of the Transition Bonds has occurred or the Transition Bonds have been declared due and payable and (A) the Holders of 100% of the Outstanding Amount of the Transition Bonds consent thereto, (B) the proceeds of such sale or liquidation distributable to the Transition Bondholders are sufficient to discharge in full all amounts upon such Transition Bonds for Principal, premium, if any, and Interest on all Outstanding Transition Bonds or (C) the Trustee determines that the Trust Estate will not continue to provide sufficient funds for all payments on the Transition Bonds as they would have become due if the Transition Bonds had not been declared due and payable, and the Trustee obtains the written consent of Holders of 66-2/3% of the Outstanding Amount of the Transition Bonds. In determining such sufficiency or insufficiency with respect to clause (B) and (C), the Trustee may, but need not, obtain and conclusively rely upon an opinion of an Independent investment banking firm or Independent registered public accounting firm of national reputation as to the feasibility of such proposed action and as to the sufficiency of the Trust Estate for such purpose.

If an Event of Default occurs and is continuing, the amounts on deposit in the Collection Account shall continue to be distributed in accordance with Sections 8.02(d) and (e) (including the last paragraph of Section 8.02(e), upon acceleration in accordance with Section 5.02).

(b) If an Event of Default under Section 5.01(vi) occurs and is continuing, the Trustee, for the benefit of the Transition Bondholders, shall be entitled and empowered to the extent permitted by applicable law to institute or participate in Proceedings reasonably necessary to compel performance of or to enforce the pledge of the State of Texas in Section 39.310 of the Texas Electric Choice Plan and to collect any monetary damages incurred by the Transition Bondholders or the Trustee as a result of any such Event of Default, and may prosecute any such Proceeding to final judgment or decree. Such remedy shall be the only remedy that the Trustee may exercise if the only Event of Default that has occurred and is continuing is an Event of Default under Section 5.01(vi).

(c) If the Trustee collects any money pursuant to this Article V, it shall pay out such money in accordance with the priorities set forth in Section 8.02(d) and (e).

SECTION 5.05. OPTIONAL PRESERVATION OF THE TRUST ESTATE. If the Transition Bonds have been declared to be due and payable under Section 5.02 following an Event of Default and such declaration and its consequences have not been rescinded and annulled, the Trustee may, but need not, elect, as provided in Section 5.11(iii), to maintain possession of the Trust Estate in accordance with Section 5.04(a). It is the desire of the parties hereto and the Transition Bondholders that there be at all times sufficient funds for the payment of Principal of and premium, if any, and Interest on the Transition Bonds, and the Trustee shall

take such desire into account when determining whether or not to maintain possession of the Trust Estate or sell or liquidate the same. In determining whether to maintain possession of the Trust Estate or sell or liquidate the same, the Trustee may, but need not, obtain and conclusively rely upon an opinion of an Independent investment banking or accounting firm of national reputation as to the feasibility of such proposed action and as to the sufficiency of the Trust Estate for such purpose.

**SECTION 5.06. LIMITATION OF PROCEEDINGS.** No Holder of any Transition Bond shall have any right to institute any Proceeding, judicial or otherwise, or to avail itself of the remedies provided in Section 39.309(f) of the Texas Electric Choice Plan, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

- (i) such Holder has previously given written notice to the Trustee of a continuing Event of Default;
- (ii) the Holders of not less than a majority of the Outstanding Amount of the Transition Bonds have made written request to the Trustee to institute such Proceeding in respect of such Event of Default in its own name as Trustee hereunder;
- (iii) such Holder or Holders have offered to the Trustee security or indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in complying with such request;
- (iv) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute such Proceedings; and
- (v) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority of the Outstanding Amount of the Transition Bonds,

it being understood and intended that no one or more Holders of the Transition Bonds shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders of the Transition Bonds or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided.

In the event the Trustee shall receive conflicting or inconsistent requests and indemnity from two or more groups of Holders of the Transition Bonds, each representing less than a majority of the Outstanding Amount of the Transition Bonds, the Trustee may determine what action, if any, shall be taken, notwithstanding any other provisions of this Indenture.

**SECTION 5.07. UNCONDITIONAL RIGHTS OF TRANSITION BONDHOLDERS TO RECEIVE PRINCIPAL, PREMIUM, IF ANY, AND INTEREST.** Notwithstanding any other provisions in this Indenture, the Holder of any Transition Bond shall have the right, which is absolute and unconditional, and shall not be impaired without the consent of each such Holder, (a) to receive payment of (i) the Interest, if any, on such Transition Bond on or after the due dates thereof expressed in such Transition Bond or in this Indenture, (ii) the unpaid Principal, if

any, of such Transition Bonds on or after the Final Maturity Date therefor or (iii) in the case of redemption, the unpaid Principal, if any, of and premium, if any, and Interest, if any, on such Transition Bond on or after the Redemption Date therefor and (b) to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

SECTION 5.08. RESTORATION OF RIGHTS AND REMEDIES. If the Trustee or any Transition Bondholder has instituted any Proceeding to enforce any right or remedy under this Indenture and such Proceeding has been discontinued or abandoned for any reason or has been determined adversely to the Trustee or to such Transition Bondholder, then and in every such case the Issuer, the Trustee and the Transition Bondholders shall, subject to any determination in such Proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Trustee and the Transition Bondholders shall continue as though no such Proceeding had been instituted.

SECTION 5.09. RIGHTS AND REMEDIES CUMULATIVE. No right or remedy herein conferred upon or reserved to the Trustee or to the Transition Bondholders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 5.10. DELAY OR OMISSION NOT A WAIVER. No delay or omission by the Trustee or any Transition Bondholder to exercise any right or remedy accruing upon any Default or Event of Default shall impair any such right or remedy or constitute a waiver of any such Default or Event of Default or an acquiescence therein. Every right and remedy given by this Article V or by law to the Trustee or to the Transition Bondholders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Transition Bondholders, as the case may be.

SECTION 5.11. CONTROL BY TRANSITION BONDHOLDERS. The Majority Holders (or, if less than all Tranches are affected, the Holders of a majority of the Outstanding Amount of the Transition Bonds of the affected Tranche or Tranches) shall have the right to direct the time, method and place of conducting any Proceeding for any remedy available to the Trustee with respect to the Transition Bonds (or the Transition Bonds of such affected Tranche or Tranches) or exercising any trust or power conferred on the Trustee with respect to the Transition Bonds (or the Transition Bonds of such affected Tranche or Tranches); provided that

- (i) such direction shall not be in conflict with any rule of law or with this Indenture;
- (ii) any direction to the Trustee to sell or liquidate the Trust Estate shall be by the Holders of the Transition Bonds representing not less than 100% of the Outstanding Amount of the Transition Bonds;

(iii) if the conditions set forth in Section 5.05 have been satisfied and the Trustee elects to retain the Trust Estate pursuant to such Section and elects not to sell or liquidate the same, then any direction to the Trustee by Holders of the Transition Bonds representing less than 100% of the Outstanding Amount of the Transition Bonds to sell or liquidate the Trust Estate shall be of no force and effect; and

(iv) the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction;

provided, however, that, subject to Section 6.01, the Trustee need not take any action that it determines might involve it in liability for which it reasonably believes it will not be indemnified to its reasonable satisfaction against the costs, expenses and liabilities which might be incurred by it in complying with this request. The Trustee also need not take any action that it determines might materially and adversely affect the rights of any Transition Bondholders not consenting to such action.

SECTION 5.12. WAIVER OF PAST DEFAULTS. Prior to the declaration of the acceleration of the maturity of the Transition Bonds or Tranche affected as provided in Section 5.02, the Holders of a majority of the Outstanding Amount of the Transition Bonds or Tranche affected thereby, by written notice to the Trustee, may waive any past Default or Event of Default and its consequences except a Default (i) in payment of Principal of or premium, if any, or Interest on any of the Transition Bonds or (ii) in respect of a covenant or provision hereof which cannot be modified or amended without the consent of the Holder of each Transition Bond or Tranche affected. In the case of any such waiver, the Issuer, the Trustee and the Holders of the Transition Bonds shall be restored to their former positions and rights hereunder, respectively; but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereto.

Upon any such waiver, such Default shall cease to exist and be deemed to have been cured and not to have occurred, and any Event of Default arising therefrom shall be deemed to have been cured and not to have occurred, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereto.

SECTION 5.13. UNDERTAKING FOR COSTS. All parties to this Indenture agree, and each Holder of any Transition Bond by such Holder's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to (a) any suit instituted by the Trustee, (b) any suit instituted by any Transition Bondholder, or group of Transition Bondholders, in each case holding in the aggregate more than 10% of the Outstanding Amount of the Transition Bonds or (c) any suit instituted by any Transition Bondholder for the enforcement of the payment of (i) Interest on any Transition Bond on or after the due dates expressed in such Transition Bond and

in this Indenture, (ii) the unpaid Principal, if any, of any Transition Bond on or after the Final Maturity Date or Tranche Final Maturity Date, or (iii) in the case of redemption, the unpaid Principal of and premium, if any, and Interest on any Transition Bond on or after the Redemption Date therefor.

SECTION 5.14. WAIVER OF STAY OR EXTENSION LAWS. The Issuer covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead or in any manner whatsoever, claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, that may affect the covenants or the performance of this Indenture; and the Issuer (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

SECTION 5.15. ACTION ON TRANSITION BONDS. The Trustee's right to seek and recover judgment on the Transition Bonds or under this Indenture shall not be affected by the seeking, obtaining or application of any other relief under or with respect to this Indenture. Neither the Lien of this Indenture nor any rights or remedies of the Trustee or the Transition Bondholders shall be impaired by the recovery of any judgment by the Trustee against the Issuer or by the levy of any execution under such judgment upon any portion of the Trust Estate or upon any of the other assets of the Issuer.

## **ARTICLE VI THE TRUSTEE**

### SECTION 6.01. DUTIES AND LIABILITIES OF TRUSTEE.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent Person would exercise or use under the circumstances in the conduct of such Person's own affairs.

(b) Except during the continuance of an Event of Default:

(i) the Trustee is hereby authorized and undertakes to execute, deliver and perform the Basic Documents to the extent called for by such documents and otherwise to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(i) this subsection (c) does not limit the effect of subsection (b) of this Section 6.01;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(iii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it hereunder.

(d) Every provision of this Indenture that in any way relates to the Trustee is subject to subsections (a), (b) and (c) of this Section 6.01.

(e) The Trustee shall not be liable for interest on any money received by it except as provided in this Indenture.

(f) Money held in trust by the Trustee need not be segregated from other funds held by the Trustee except to the extent required by law or the terms of this Indenture, the Administration Agreement or the Sale Agreement, Intercreditor Agreement or Servicing Agreement.

(g) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any liability, financial or otherwise, in the performance of any of its duties hereunder or in the exercise of any of its rights or powers if it shall have reasonable grounds to believe that repayments of such funds or indemnity reasonably satisfactory to it against such risk or liability is not reasonably assured to it.

(h) Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section 6.01 and to the provisions of the TIA.

(i) Under no circumstances shall the Trustee be liable for any indebtedness of the Issuer, the Seller, the Administrator or the Servicer evidenced by or arising under the Transition Bonds or any Basic Document.

(j) On or before March 15<sup>th</sup> of each fiscal year ending December 31, the Trustee shall (i) deliver, at the expense of the issuer, to the Issuer a report (in form and substance reasonably satisfactory to the Issuer and addressed to the Issuer and signed by an authorized officer of the Trustee) regarding the Trustee's assessment of compliance, during the immediately preceding fiscal year ending December 31, with each of the applicable servicing criteria specified on Exhibit A hereto as required under Rules 13a-18 and 15d-18 of the Exchange Act and Item 1122 of Regulation AB and (ii) deliver to the Issuer a report of an Independent registered public accounting firm reasonably acceptable to the Issuer that attests to and reports on, in accordance with Rules 1-02(a)(3) and 2-02(g) of Regulation S-X under the Securities Act and the Exchange Act, the assessment of compliance made by the Trustee and delivered pursuant to clause (i) of this subsection (j).

SECTION 6.02. RIGHTS OF TRUSTEE.

(a) The Trustee may rely conclusively and shall be fully protected in acting or refraining from acting in accordance with any document believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require an Issuer Officer's Certificate or an Issuer Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on an Issuer Officer's Certificate or an Issuer Opinion of Counsel.

(c) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys or a custodian or nominee, and the Trustee shall not be responsible for any misconduct or negligence on the part of, or for the supervision of, any such agent, attorney, custodian or nominee appointed with due care by it thereunder.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers; provided, however, that the Trustee's conduct does not constitute willful misconduct, negligence or bad faith.

(e) The Trustee may consult with counsel, and the advice or opinion of counsel with respect to legal matters relating to this Indenture and the Transition Bonds shall be full and complete authorization and protection from liability in respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(f) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by or pursuant to this Indenture at the request, order or direction of any of the Holders unless such Holders shall have offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities that might be incurred by it in compliance with such request, order or direction.

(g) In the event that the Trustee is also acting in the capacity of Paying Agent or Transition Bond Registrar hereunder, the rights, protections, immunities and indemnities afforded to the Trustee pursuant to this Article VI shall also be afforded to the Trustee in its capacity as Paying Agent or Transition Bond Registrar

SECTION 6.03. INDIVIDUAL RIGHTS OF TRUSTEE. The Trustee in its individual or any other capacity may become the owner or pledgee of Transition Bonds and may otherwise deal with the Issuer or its affiliates with the same rights it would have if it were not Trustee. Any Paying Agent, Transition Bond Registrar, co-registrar or co-paying agent may do the same with like rights. However, the Trustee must comply with Sections 6.11 and 6.12.

SECTION 6.04. TRUSTEE'S DISCLAIMER. The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Transition Bonds. The Trustee shall not be accountable for the Issuer's use of the proceeds from the Transition Bonds, and the Trustee shall not be responsible for any statement of the Issuer in the Indenture or in any document issued in connection with the sale of the Transition Bonds or in the

Transition Bonds other than the Trustee's certificate of authentication. The Trustee shall not be responsible for the form, character, genuineness, sufficiency, value or validity of any of the Trust Estate, or for or in respect of the validity or sufficiency of the Transition Bonds (other than the certificate of authentication for the Transition Bonds) or the Basic Documents and the Trustee shall in no event assume or incur any liability, duty or obligation to any Holder of a Transition Bond, other than as expressly provided for in this Indenture. The Trustee shall not be liable for the default or misconduct of the Issuer, the Seller, the Administrator, the Servicer or any Manager under any Basic Document or otherwise and the Trustee shall have no obligation or liability to perform the obligations of the Issuer.

SECTION 6.05. NOTICE OF DEFAULTS. If a Default occurs and is continuing with respect to the Transition Bonds and if it is actually known to a Responsible Officer of the Trustee, the Trustee shall mail to the PUCT, each Rating Agency and to each Holder of the Transition Bonds notice of the Default within 10 Business Days after it is actually known to a Responsible Officer of the Trustee. Except in the case of a Default in payment of Principal or premium, if any, or Interest on any Transition Bond, the Trustee may withhold the notice if and so long as a Responsible Officer of the Trustee in good faith determines that withholding the notice is in the interests of Transition Bondholders.

SECTION 6.06. REPORTS BY TRUSTEE TO HOLDERS.

(a) If applicable and if so long as Transition Bonds are Outstanding, within the prescribed period of time for tax reporting purposes after the end of each calendar year, the Transition Bond Registrar or, in its absence or failure the Paying Agent, shall deliver to each relevant current or former Holder of Transition Bonds such information as may be required to enable such Holder to prepare its federal and State income tax returns.

(b) With respect to each Tranche of the Transition Bonds, on or prior to each Payment Date therefor, upon receipt by the Trustee from the Servicer of the "Semiannual Servicer's Certificate," the form of which is attached hereto as Schedule 1, the Transition Bond Registrar or, in its absence or failure the Paying Agent, shall deliver such Semiannual Servicer's Certificate to each Holder of Transition Bonds, which will include (to the extent applicable) the following information (and any other information so specified in the Supplement) as to the Transition Bonds and Tranche with respect to such Payment Date or the period since the previous Payment Date, as applicable:

(i) the amount to be paid to Holders of the Transition Bonds and Tranche in respect of Principal, such amount also to be expressed as a dollar amount per thousand;

(ii) the amount to be paid to Holders of the Transition Bonds and Tranche in respect of Interest, such amount also to be expressed as a dollar amount per thousand;

(iii) the Transition Bond Balance, after giving effect to the payments to be made on such Payment Date, and the Projected Transition Bond Balance, in each case for such Tranche and as of such Payment Date;

(iv) the amount on deposit in the Capital Subaccount as of such Payment Date;

- (v) the amount, if any, on deposit in the Excess Funds Subaccount as of such Payment Date;
- (vi) the amount to be paid to the Trustee on such Payment Date;
- (vii) the amount to be paid to the Servicer on such Payment Date; and
- (viii) any other transfers and payments made pursuant to this Indenture.

(c) If any Transition Bonds are listed on the Luxembourg Stock Exchange and rules of such exchange so require, the Issuer's listing agent shall arrange for publication in accordance with such rules a notice that such certificate shall be available with the Issuer's listing agent in Luxembourg appointed pursuant to the second paragraph of Section 3.02.

(d) The Transition Bond Registrar's or Paying Agent's responsibility for disbursing the information described in subsection (b) above to Holders of the Transition Bonds is limited to the availability, timeliness and accuracy of the information provided by the Servicer pursuant to Sections 3, 4 and [Annex 1] of the Servicing Agreement and pursuant to the Intercreditor Agreement.

**SECTION 6.07. COMPENSATION AND INDEMNITY. Subject in all respects to the provisions of Article VIII hereof, the Issuer shall pay to the Trustee from time to time reasonable compensation for its services as set forth in the fee schedule between the Trustee and CenterPoint Houston dated October 24, 2007. To the extent permitted by law, the Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Issuer shall reimburse the Trustee for all reasonable out-of-pocket expenses, disbursements and advances incurred or made by it, including costs of collection, in addition to the compensation for its services. Such expenses shall include the reasonable compensation and expenses, disbursements and advances of the Trustee's agents, counsel, accountants and experts. The Issuer shall indemnify and hold harmless the Trustee and its officers, directors, employees and agents from and against any and all Losses or other amounts whatsoever (including reasonable counsel fees and expenses) directly or indirectly incurred by the Trustee in connection with the administration of this trust, the enforcement of this trust and all of the Trustee's rights, powers and duties under this Indenture (including this Section 6.07) and the performance by the Trustee of the duties and obligations of the Trustee under or pursuant to this Indenture, the Administration Agreement and the Sale Agreement, Servicing Agreement and Intercreditor Agreement and any document related thereto; provided, however, that notwithstanding the foregoing, the failure to pay to the Trustee by the Issuer (including without limitation from Collections deposited into the Collection Account or through the Transition Charge Adjustment Process) any amounts in respect of indemnification hereunder in excess of an aggregate amount equal to any Indemnity Amounts payable to the Trustee in accordance with Section 8.02(d) of this Indenture shall not constitute a Default or Event of Default under Section 5.01 of this Indenture. The Trustee shall notify the Issuer promptly of any claim for which it may seek indemnity. Failure by the Trustee so to notify the Issuer shall not relieve the Issuer of its obligations hereunder. The Issuer shall defend the claim and the Trustee may have separate counsel and the Issuer shall pay the reasonable fees and**

expenses of such counsel. Notwithstanding the foregoing, the Issuer need not reimburse any expense or indemnify against any Loss incurred by the Trustee (i) through the Trustee's own willful misconduct, negligence or bad faith or (ii) to the extent the Trustee was reimbursed for or indemnified against any such Loss by the Seller or the Servicer pursuant to the Administration Agreement or the Sale Agreement, Intercreditor Agreement or Servicing Agreement. The obligations of the Issuer under this Section shall survive the termination of this Agreement and the earlier resignation or removal of the Trustee.

When the Trustee incurs expenses after the occurrence of a Default specified in Section 5.01(iv) or (v) with respect to the Issuer, the expenses are intended to constitute expenses of administration under Title 11 of the United States Code or any other applicable federal or State bankruptcy, insolvency or similar law.

SECTION 6.08. REPLACEMENT OF TRUSTEE. The Trustee may resign at any time upon 30 days' written notice to the Issuer. The Issuer shall remove the Trustee by written notice if:

- (i) the Trustee fails to comply with Section 6.11;
- (ii) the Trustee is adjudged a bankrupt or insolvent;
- (iii) a receiver or other public officer takes charge of the Trustee or its property;
- (iv) the Trustee otherwise becomes incapable of acting; or

(v) the Trustee fails to provide to the Issuer any information reasonably requested by the Issuer pertaining to the Trustee and necessary for the Issuer or CenterPoint Houston or its parent entity to comply with its reporting obligations under the Exchange Act and Regulation AB and such failure is not resolved to the Issuer's and the Trustee's mutual satisfaction within a reasonable period of time.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason (the Trustee in such event being referred to herein as the "Retiring Trustee"), the Issuer shall promptly appoint a successor Trustee.

In addition, the Majority Holders may remove the Trustee by so notifying the Issuer and the Trustee in writing and such Holders may appoint a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the Retiring Trustee and to the Issuer. Thereupon the resignation or removal of the Retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture and the Intercreditor Agreement. No resignation or removal of the Trustee will become effective until the acceptance of the appointment by a successor Trustee. The successor Trustee shall mail a notice of its succession to the Transition Bondholders. The Retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee.

If a successor Trustee does not take office within 60 days after the Retiring Trustee resigns or is removed, the Retiring Trustee at the expense of the Issuer, the Issuer or the Majority Holders may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 6.11, any Transition Bondholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

Notwithstanding the replacement of the Trustee pursuant to this Section 6.08, the Issuer's obligations under Section 6.07 shall continue for the benefit of the Retiring Trustee.

**SECTION 6.09. SUCCESSOR TRUSTEE BY MERGER.** If the Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation or banking association, the resulting, surviving or transferee corporation or banking association shall, without any further act, be the successor Trustee. Notice of any such event shall be promptly given to the PUCT and to each Rating Agency by the successor Trustee and any agent in Luxembourg appointed pursuant to the second paragraph of Section 3.02.

In case at the time such successor or successors by merger, conversion, consolidation or transfer shall succeed to the trusts created by this Indenture any of the Transition Bonds shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any Retiring Trustee, and deliver such Transition Bonds so authenticated; and in case at that time any of the Transition Bonds shall not have been authenticated, any successor to the Trustee may authenticate such Transition Bonds either in the name of any Retiring Trustee hereunder or in the name of the successor to the Trustee; and in all such cases such certificates shall have the full force and effect granted by the Transition Bonds or by this Indenture and this force and effect shall be equal to any certificate issued by the Trustee.

**SECTION 6.10. APPOINTMENT OF CO-TRUSTEE OR SEPARATE TRUSTEE.**

(a) Notwithstanding any other provisions of this Indenture, at any time, for the purpose of meeting any legal requirement of any jurisdiction in which any part of the Trust Estate may at the time be located, the Trustee shall have the power and may execute and deliver all instruments to appoint one or more Persons to act as a co-trustee or co-trustees, or separate trustee or separate trustees, of all or any part of the Trust Estate, and to vest in such Person or Persons, in such capacity and for the benefit of the Transition Bondholders, such title to the Trust Estate, or any part hereof, and, subject to the other provisions of this Section 6.10, such powers, duties, obligations, rights and trusts as the Trustee may consider necessary or desirable. No co-trustee or separate trustee hereunder shall be required to meet the terms of eligibility as a successor trustee under Section 6.11 and no notice to Transition Bondholders of the appointment of any co-trustee or separate trustee shall be required under Section 6.08 hereof. Notice of any such appointment shall be promptly given to each Rating Agency and the PUCT by the Trustee.

(b) Every separate trustee and co-trustee shall, to the extent permitted by law, be appointed and act subject to the following provisions and conditions:

(i) all rights, powers, duties and obligations conferred or imposed upon the Trustee shall be conferred or imposed upon and exercised or performed by the Trustee and such separate trustee or co-trustee jointly (it being understood that such separate trustee or co-trustee is not authorized to act separately without the Trustee joining in such act), except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed, the Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations (including the holding of title to the Trust Estate or any portion thereof in any such jurisdiction) shall be exercised and performed singly by such separate trustee or co-trustee, but solely at the direction of the Trustee;

(ii) no trustee hereunder shall be personally liable by reason of any act or omission of any other trustee hereunder; and

(iii) the Trustee may at any time accept the resignation of or remove any separate trustee or co-trustee.

(c) Any notice, request or other writing given to the Trustee shall be deemed to have been given to each of the then separate trustees and co-trustees, as effectively as if given to each of them. Every instrument appointing any separate trustee or co-trustee shall refer to this Indenture and the conditions of this Article VI. Each separate trustee and co-trustee, upon its acceptance of the trusts conferred, shall be vested with the estates or property specified in its instrument of appointment, either jointly with the Trustee or separately, as may be provided therein, subject to all the provisions of this Indenture, specifically including every provision of this Indenture relating to the conduct of, affecting the liability of, or affording protection to the Trustee. Every such instrument shall be filed with the Trustee.

(d) Any separate trustee or co-trustee may at any time constitute the Trustee, its agent or attorney-in-fact with full power and authority, to the extent not prohibited by law, to do any lawful act under or in respect of this Agreement on its behalf and in its name. If any separate trustee or co-trustee shall die, become incapable of acting, resign or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Trustee, to the extent permitted by law, without the appointment of a new or successor trustee.

SECTION 6.11. ELIGIBILITY; DISQUALIFICATION. The Trustee and any co-trustee shall at all times satisfy the requirements of TIA Section 310(a)(1) and (a)(5) and Section 26(a)(1) of the Investment Company Act of 1940, as amended. In addition, the Trustee and any co-trustee shall have a combined capital and surplus of at least \$50,000,000 as set forth in its most recent published annual report of condition and it shall have a long term debt rating of "Baa3" or better by Moody's, "BBB-" or better by S&P and, if Fitch provides a rating thereon, "BBB-" or better by Fitch. The Trustee and any co-trustee shall comply with TIA Section 310(b), including the optional provision permitted by the second sentence of TIA Section 310(b), including the optional provision permitted by the second sentence of TIA Section 310(b)(9); provided, however, that there shall be excluded from the operation of TIA Section 310(b)(1) any indenture or indentures under which other securities of the Issuer are outstanding if the requirements for such exclusion set forth in TIA Section 310(b)(1) are met.

SECTION 6.12. PREFERENTIAL COLLECTION OF CLAIMS AGAINST ISSUER. The Trustee shall comply with TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated.

SECTION 6.13. REPRESENTATIONS AND WARRANTIES OF THE TRUSTEE. The Trustee hereby represents and warrants that:

(a) the Trustee is a banking corporation validly existing in good standing under the laws of the State of New York; and

(b) the Trustee has full power, authority and legal right to execute, deliver and perform this Indenture and all the Basic Documents to which the Trustee is a party and has taken all necessary action to authorize the execution, delivery and performance by it of this Indenture and such Basic Documents.

SECTION 6.14. RIGHTS OF THE AUTHENTICATING AGENT, TRANSITION BOND REGISTRAR AND PAYING AGENT.

(a) Each of the authenticating agent, Transition Bond Registrar and Paying Agent undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. The authenticating agent, Transition Bond Registrar and Paying Agent shall not have any duties or responsibilities except those expressly set forth in this Indenture or be a trustee for or have any fiduciary obligation to any party hereto.

(b) In the absence of bad faith on the part of the authenticating agent, Transition Bond Registrar or Paying Agent, respectively, such party may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to such party that conform to the requirements of this Indenture.

(c) None of the authenticating agent, Transition Bond Registrar and Paying Agent shall be liable for any error of judgment made in good faith by an officer or officers of that party, unless it shall be conclusively determined by a court of competent jurisdiction that such party was negligent.

(d) None of the authenticating agent, Transition Bond Registrar or Paying Agent shall be liable with respect to any action taken or omitted to be taken by that party in good faith in accordance with any direction of the Issuer or the Trustee given under this Indenture.

(e) None of the provisions of this Indenture shall require any of the authenticating agent, Transition Bond Registrar or Paying Agent to expend or risk its own funds or otherwise to incur any liability, financial or otherwise, in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers if it shall have reasonable grounds for believing that repayment of such funds or indemnity satisfactory to it against such risk or liability is not assured to it.

(f) Each of the authenticating agent, Transition Bond Registrar and Paying Agent may conclusively rely and shall be fully protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(g) Each of the authenticating agent, Transition Bond Registrar and Paying Agent may consult with counsel and the advice or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken or omitted by that party hereunder in good faith and in accordance with such advice or opinion of counsel.

(h) None of the authenticating agent, Transition Bond Registrar or Paying Agent shall be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, entitlement order, approval or other paper or document.

(i) None of the authenticating agent, Transition Bond Registrar or Paying Agent shall have any obligation to invest and reinvest any cash held in the accounts in the absence of timely and specific written investment direction from the Issuer or, with respect to any REP Deposit Account, the REP or the Servicer. In no event shall any of the authenticating agent, Transition Bond Registrar or Paying Agent be liable for the selection of investments or for investment losses incurred thereon. None of the authenticating agent, Transition Bond Registrar or Paying Agent shall have any liability in respect of losses incurred as a result of the liquidation of any investment prior to its stated maturity or the failure of the Issuer to provide timely written investment direction.

(j) Each of the authenticating agent, Transition Bond Registrar and Paying Agent may at any time resign by giving 30 days' written notice of resignation to the Issuer and the Trustee. Upon receiving such notice of resignation, the Issuer shall promptly appoint a successor and, upon the acceptance by the successor of such appointment, release the resigning party from its obligations hereunder by written instrument, a copy of which instrument shall be delivered to the Issuer, the Trustee, the resigning party and the successor. If no successor shall have been so appointed and have accepted appointment within 45 days after the giving of such notice of resignation, the resigning party may petition any court of competent jurisdiction for the appointment of a successor.

(k) Any corporation into which any of the authenticating agent, Transition Bond Registrar or Paying Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the authenticating agent, Transition Bond Registrar or Paying Agent, respectively, shall be a party, or any corporation succeeding to the business of the authenticating agent, Transition Bond Registrar or Paying Agent, respectively, shall be the successor of the authenticating agent, Transition Bond Registrar or Paying Agent, respectively, hereunder without the execution or filing of any paper with any party hereto or any further act on the part of any of the parties hereto except where an instrument of transfer or assignment is required by law to effect such succession, anything herein to the contrary notwithstanding.

(l) The Issuer shall indemnify, defend and hold harmless each of the authenticating agent, Transition Bond Registrar and Paying Agent and its respective officers, directors, employees, representatives and agents, from and against and reimburse each such party for any and all claims, expenses, obligations, liabilities, losses, damages, injuries (to person, property, or natural resources), penalties, stamp or other similar taxes, actions, suits, judgments, reasonable costs and expenses (including reasonable attorney's and agent's fees and expenses) of whatever kind or nature regardless of their merit, demanded, asserted or claimed against such party directly or indirectly relating to, or arising from, claims against such party by reason of its participation in the transactions contemplated hereby, including without limitation all reasonable costs required to be associated with claims for damages to persons or property, and reasonable attorneys' and consultants' fees and expenses and court costs except to the extent caused by such party's willful misconduct, negligence or bad faith. The provisions of this Section 6.14(l) shall survive the termination of this Agreement or the earlier resignation or removal of the authenticating agent, Transition Bond Registrar or Paying Agent, as applicable.

SECTION 6.15. COMPLIANCE WITH APPLICABLE ANTI-TERRORISM AND MONEY LAUNDERING REGULATIONS. In order to comply with the laws, rules, regulations and executive orders in effect from time to time applicable to banking institutions, including those relating to the funding of terrorist activities and money laundering ("Applicable Law"), the Trustee is required to obtain, verify and record certain information relating to individuals and entities which maintain a business relationship with the Trustee. Accordingly, the Issuer agrees to provide to the Trustee, upon its reasonable request from time to time such identifying information and documentation as may be available to it in order to enable the Trustee to comply with Applicable Law.

## ARTICLE VII

### TRANSITION BONDHOLDERS' LISTS AND REPORTS

SECTION 7.01. ISSUER TO FURNISH TRUSTEE NAMES AND ADDRESSES OF TRANSITION BONDHOLDERS. The Issuer shall furnish or cause to be furnished to the Trustee (a) not more than five days after the earlier of (i) each Record Date and (ii) six months after the last Record Date, a list, in such form as the Trustee may reasonably require, of the names and in the event the Trustee is acting as the Transition Bond Registrar the addresses of the Holders of the Transition Bonds as of such Record Date, and (b) at such other times as the Trustee may request in writing, within 30 days after receipt by the Issuer of any such request, a list of similar form and content as of a date not more than 10 days prior to the time such list is furnished; provided, however, that so long as the Trustee is the Transition Bond Registrar, no such list shall be required to be furnished. In addition, the Issuer shall furnish such list to any listing, transfer or paying agent appointed under the second paragraph of Section 3.02 to the extent such information is required by the rules and regulations of the Luxembourg Stock Exchange.

SECTION 7.02. PRESERVATION OF INFORMATION; COMMUNICATIONS TO TRANSITION BONDHOLDERS.

(a) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of the Holders of Transition Bonds contained in the most recent list furnished to the Trustee as provided in Section 7.01 and the names and addresses of Holders of Transition Bonds received by the Trustee in its capacity as Transition Bond Registrar. The Trustee may destroy any list furnished to it as provided in such Section 7.01 upon receipt of a new list so furnished.

(b) Transition Bondholders may communicate with other Transition Bondholders pursuant to Section 312(b) of the TIA, with respect to their rights under this Indenture or under the Transition Bonds. In addition, upon the written request of any Holder or group of Holders of Transition Bonds, each of whom has held its Transition Bonds for at least six months, the Trustee shall afford the Holder or Holders making such request a copy of a current list of Holders of the Transition Bonds, for purposes of communicating with other Holders with respect to their rights hereunder. The Trustee may elect not to afford the requesting Holders access to the list of Holders of the Transition Bonds if it agrees to mail the desired communication or proxy, on behalf and at the expense of the requesting Holders, to all Holders of the Transition Bonds.

(c) The Issuer, the Trustee and the Transition Bond Registrar shall have the protection of Section 312(c) of the TIA.

SECTION 7.03. REPORTS BY ISSUER.

(a) The Issuer shall:

(i) so long as the Issuer is required to file such documents with the Commission, provide to the Trustee and, so long as any Transition Bonds are listed on the Luxembourg Stock Exchange and its rules so require, with the listing agent of the Issuer in Luxembourg appointed pursuant to the second paragraph of Section 3.02, within 15 days after the Issuer is required to file the same with the Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may from time to time by rules and regulations prescribe) which the Issuer may be required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act;

(ii) provide to the Trustee, file with the Commission and, so long as any Transition Bonds are listed on the Luxembourg Stock Exchange and its rules so require, provide to the listing agent of the Issuer in Luxembourg appointed pursuant to the second paragraph of Section 3.02, in accordance with rules and regulations prescribed from time to time by the Commission or the Luxembourg Stock Exchange, respectively, such additional information, documents and reports with respect to compliance by the Issuer with the conditions and covenants of this Indenture as may be required from time to time by such rules and regulations; and

(iii) supply to the Trustee (and the Trustee shall transmit by mail to all Transition Bondholders described in TIA Section 313(c)) and, so long as any

Transition Bonds are listed on the Luxembourg Stock Exchange and its rules so require, to the listing agent of the Issuer in Luxembourg appointed pursuant to the second paragraph of Section 3.02, such summaries of any information, documents and reports required to be filed by the Issuer pursuant to clauses (i) and (ii) of this Section 7.03(a) as may be required by rules and regulations prescribed from time to time by the Commission.

(b) Unless the Issuer otherwise determines, the fiscal year of the Issuer shall end on December 31 of each year.

SECTION 7.04. REPORTS BY TRUSTEE. If required by TIA Section 313(a), within 60 days after the end of each fiscal year of the Issuer, commencing with the year after the issuance of the Transition Bonds, the Trustee shall mail to each Holder of the Transition Bonds as required by TIA Section 313(c) a brief report dated as of such date that complies with TIA Section 313(a). The Trustee also shall comply with TIA Section 313(b); provided, however, that the initial report so issued shall be delivered not more than 12 months after the issuance of the Transition Bonds.

A copy of each report at the time of its mailing to Transition Bondholders shall be filed by the Trustee with the Commission and each stock exchange, if any, on which the Transition Bonds are listed (to the extent required by the rules of such exchange). The Issuer shall notify the Trustee if and when the Transition Bonds are listed on any stock exchange.

SECTION 7.05. PROVISION OF SERVICER REPORTS. Upon the written request of any Transition Bondholder, the PUCT or any Rating Agency to the Trustee addressed to the Corporate Trust Office, the Transition Bond Registrar, or in its absence or failure the Paying Agent, shall provide such requesting party, the Trustee and the Paying Agent or Transition Bond Registrar, as applicable, with a copy of any Semiannual Servicer's Certificate, Annual Accountant's Report and any other report of the Servicer referred to in the Servicing Agreement. If any Transition Bonds are listed on the Luxembourg Stock Exchange and its rules so require, the Transition Bond Registrar, or in its absence or failure the Paying Agent, at the written direction of the Issuer shall also arrange for publication in accordance with such rules of a notice that a copy of such Semiannual Servicer's Certificate, Annual Accountant's Report or other report shall be available with the Issuer's listing agent in Luxembourg appointed pursuant to the second paragraph of Section 3.02.

## ARTICLE VIII

### ACCOUNTS, DISBURSEMENTS AND RELEASES

SECTION 8.01. COLLECTION OF MONEY. Except as otherwise expressly provided herein, the Trustee may demand payment or delivery of, and shall receive and collect, directly and without intervention or assistance of any fiscal agent or other intermediary, all money and other property payable to or receivable by the Trustee pursuant to this Indenture. The Trustee shall apply all such money received by it as provided in this Indenture. Except as otherwise expressly provided in this Indenture, if any default occurs in the making of any payment or performance under any agreement or instrument that is part of the Trust Estate, the Trustee may

take such action as may be appropriate to enforce such payment or performance, including the institution and prosecution of appropriate Proceedings. Any such action shall be without prejudice to any right to claim a Default or Event of Default under this Indenture and any right to proceed thereafter as provided in Article V.

#### SECTION 8.02. COLLECTION ACCOUNT.

(a)(i) On or prior to the Issuance Date for the Transition Bonds issued hereunder, the Issuer shall open, at the Paying Agent's Corporate Trust Office, or at another Eligible Institution, one or more segregated non-interest-bearing trust accounts in the Trustee's name for the deposit of Collections for the Transition Bonds and all other amounts received with respect to the Trust Estate (the "Collection Account"). The Collection Account shall initially be divided into subaccounts, which need not be separate accounts: a general subaccount (the "General Subaccount"), a capital subaccount (the "Capital Subaccount"), an excess funds subaccount (the "Excess Funds Subaccount") and one or more class subaccounts for any Tranche of the Transition Bonds as specified in the Supplement (each, a "Tranche Subaccount"). On or prior to the Issuance Date for the Transition Bonds, the Member shall deposit into the Capital Subaccount an amount equal to the Required Capital Amount. Unless otherwise provided herein, all amounts in the Collection Account not allocated to any other subaccount shall be allocated to the General Subaccount. Unless otherwise provided herein, prior to the initial Payment Date, all amounts in the Collection Account (other than funds deposited into the Capital Subaccount, up to the Required Capital Amount) shall be allocated to the General Subaccount. Prior to depositing funds or U.S. Government Obligations in the Collection Account pursuant to Section 4.01 or 4.02, the Issuer shall establish defeasance subaccounts (each a "Defeasance Subaccount") for which funds shall be deposited, as subaccounts of the Collection Account. All references to the Collection Account shall be deemed to include reference to all subaccounts contained therein. Withdrawals from and deposits to each of the foregoing subaccounts of any Collection Account shall be made as set forth in Section 4.03 and Section 8.02(d) and (e). Each Collection Account shall at all times be maintained as an Eligible Securities Account and only the Trustee shall have access to that Collection Account for the purpose of making deposits in and withdrawals from that Collection Account in accordance with this Indenture. Funds in a Collection Account shall not be commingled with any other moneys, including moneys in any other Collection Account. All moneys deposited from time to time in a Collection Account, all deposits therein pursuant to this Indenture, and all investments made in Eligible Investments with such moneys, including all income or other gain from such investments, shall be held by the Trustee in that Collection Account as part of the Trust Estate as herein provided.

(ii) The Trustee also agrees that (A) the Collection Account is, or on the date of its creation will be, and shall at all times be maintained by the Trustee as, a "securities account" (within the meaning of Section 8-501 of the New York UCC), (B) the "securities intermediary's jurisdiction" (within the meaning of Article 8 of the New York UCC) of the Trustee is the State of New York, (C) all

cash and other property in each of the Accounts shall be treated by the Trustee as a “financial asset” (as defined in Section 8-102(a)(9) of the New York UCC), (E) the “entitlement holder” (as such term is defined in Section 8-102(a)(7) of the New York UCC or, with respect to Book-Entry Securities, in the applicable Federal Book-Entry Regulations) shall be the Trustee for the benefit of the Transition Bondholders, (E) any financial asset in registered form or payable to, or to the order of, a Person, and credited to any of the Accounts shall be registered in the name of, payable to the order of, or specially indorsed to, the Trustee or in blank, or credited to another securities account maintained in the name of the Trustee, and in no case will any financial assets credited to any of the Accounts be registered in the name of, payable to or to the order of, or specially indorsed to the Issuer, except to the extent the foregoing have been specially indorsed by the Issuer, to the Trustee or in blank, (F) the Trustee shall not change the entitlement holder, and (G) the Trustee shall at all times act as a “securities intermediary” (within the meaning of Section 8-102(a)(14) of the New York UCC or, with respect to Book-Entry Securities, in the applicable Federal Book-Entry Regulations) and shall credit to each of the Accounts each financial asset to be held in or credited to each of the Accounts pursuant to this Indenture.

(iii) Each of the Accounts shall remain at all times with a securities intermediary (within the meaning of Section 8-102(a)(14) of the New York UCC or, with respect to Book-Entry Securities, in the applicable Federal Book-Entry Regulations) having a combined capital and surplus of at least \$50,000,000 and having a long-term debt rating of at least “A2” by Moody’s and at least “AA-” by S&P.

(iv) The Trustee shall have sole dominion and exclusive control over all property in the Collection Account and shall apply such amounts therein as provided in this Section 8.02. The Trustee at the written direction of the Servicer shall also pay from the Collection Account any amounts requested to be paid by or to the Servicer pursuant to the Servicing Agreement.

(v) Collections shall be deposited in the General Subaccount as provided in the Servicing Agreement. All deposits to and withdrawals from the Collection Account, all allocations to the subaccounts of the Collection Account and any amounts to be paid to the Servicer under Section 8.02(d) shall be made by the Trustee in accordance with the written instructions provided by the Servicer in the Semiannual Servicer’s Certificate or upon other written notice provided by the Servicer pursuant to the Servicing Agreement, as applicable.

(vi) There are no other agreements entered into between the Trustee and the Issuer with respect to the Accounts, other than this Indenture. In the event of any conflict between this Section 8.02 (or any portion thereof), any other provision of this Indenture or any other agreement now existing or hereafter entered into, the terms of this Section 8.02 shall prevail.

(b) So long as no Default or Event of Default has occurred and is continuing, the Trustee upon written direction of the Servicer will, invest and reinvest all or a portion of the funds in the Collection Account (other than as set forth in Section 8.06) in Eligible Investments; provided, however, that (i) such Eligible Investments shall not mature later than the next Payment Date (except as otherwise provided in the Supplement), (ii) such Eligible Investments shall not be sold, liquidated or otherwise disposed of at a loss prior to the maturity thereof, and (iii) no funds in the Defeasance Subaccount for the Transition Bonds shall be invested in Eligible Investments or otherwise, except that U.S. Government Obligations deposited by the Issuer with the Trustee pursuant to Sections 4.01 or 4.02 shall remain as such. All income or other gain from investments of moneys deposited in the Collection Account shall be deposited by the Trustee in the Collection Account, and any loss resulting from such investments shall be charged to the Collection Account. The Servicer shall not direct the Trustee to make any investment of any funds or to sell any investment held in the Collection Account unless the security interest granted and perfected in such account will continue to be perfected in such investment or the proceeds of such sale, in either case without any further action by any Person, and, in connection with any direction to the Trustee to make any such investment or sale, if requested by the Trustee, the Issuer shall deliver to the Trustee an Issuer Opinion of Counsel, acceptable to the Trustee, to such effect. Subject to Section 6.01(c), the Trustee shall not in any way be held liable for the selection of Eligible Investments or for investment Losses incurred thereon except for Losses attributable to the Trustee's failure to make payments on such Eligible Investments issued by the Trustee, in its commercial capacity as principal obligor and not as Trustee, in accordance with their terms. The Trustee shall have no liability in respect of Losses incurred as a result of the liquidation of any Eligible Investment prior to its stated maturity or the failure of the Issuer to provide timely and specific written investment direction. The Trustee shall have no obligation to invest or reinvest any amounts held hereunder in the absence of written investment direction pursuant to an Issuer Order.

(c) Any Collections remitted by the Servicer to the Trustee with respect to the Transition Bonds, any Indemnity Amounts remitted to the Trustee by the Seller, the Issuer or the Servicer, any other amount otherwise received by the Trustee or the Issuer, and any other proceeds of the Trust Estate received by the Servicer, the Issuer or the Trustee shall be deposited in the General Subaccount, except that the Trustee shall deposit in the Capital Subaccount the Required Capital Amount. All investment earnings on amounts in the General Subaccount, the Capital Subaccount and the Excess Funds Subaccount will be deposited into the General Subaccount, the Capital Subaccount and the Excess Funds Subaccount, respectively.

(d) On each Payment Date or other date specified in the Supplement, the Paying Agent pursuant to the written direction provided in the Semiannual Servicer's Certificate shall allocate or apply all amounts on deposit in the General Subaccount of the Collection Account in the following priority unless otherwise set forth in the Supplement (provided, that the Supplement may not modify the Pro Rata payment of amounts described herein as being paid Pro Rata):

(i) fees and expenses (including reasonable legal fees and expenses) and Indemnity Amounts owed to the Trustee for such Payment Date shall be paid to the Trustee; provided that the Indemnity Amounts paid during any calendar year pursuant to this clause (i) may not exceed the amount fixed therefor in the Supplement;

(ii) the Servicing Fee, which will be a fixed percentage of the initial principal amount of the Transition Bonds specified in the Servicing Agreement, and all unpaid Servicing Fees from prior Payment Dates shall be paid to the Servicer;

(iii) the administration fee payable under the Administration Agreement for such Payment Date shall be paid to the Administrator and fees of the Issuer's independent managers in connection with his acting as manager under the Issuer LLC Agreement shall be paid to such independent manager;

(iv) all ordinary periodic Operating Expenses (such as accounting and audit fees, rating agency fees, legal fees and Servicer expenses under Sections 3.10 and 5.05 or equivalent provisions of the Servicing Agreement) other than those referred to in clauses (i), (ii) and (iii) above shall be paid to the Persons entitled thereto;

(v) an amount equal to the Interest payable on the Transition Bonds on such Payment Date;

(vi) an amount equal to any Principal of that Tranche of the Transition Bonds payable as a result of acceleration pursuant to Section 5.02 shall be allocated to that Tranche and, if there are insufficient funds to make that allocation in full, on a Pro Rata basis, (B) an amount equal to any Principal of that Tranche payable on a Final Maturity Date or Tranche Final Maturity Date for that Tranche and any Principal of and premium, if any, on that Tranche of the Transition Bonds payable on a Redemption Date shall be allocated to that Tranche and, if there are insufficient funds to make that allocation in full, on a Pro Rata basis;

(vii) an amount equal to Principal scheduled to be paid on that Tranche of the Transition Bonds on such Payment Date according to the Expected Amortization Schedule shall be allocated to the corresponding Tranche and if there are insufficient funds to make that allocation in full, on a Pro Rata basis;

(viii) all remaining unpaid Operating Expenses and any other amounts due and owing pursuant to the Basic Documents (including all remaining Indemnity Amounts) shall be paid to the Persons entitled thereto without duplication of any other payment from any other source;

(ix) any amount necessary to replenish amounts drawn from the Capital Subaccount shall be allocated to the Capital Subaccount;

(x) so long as no Event of Default has occurred and is continuing, the investment earnings on amounts in the Capital Subaccount shall be released to the Issuer; and

(xi) the balance, if any, shall be allocated to the Excess Funds Subaccount.

The amounts paid during any calendar year in respect of the Trustee's fees and expenses in clause (i) above, the Servicing Fee in clause (ii), the administration and independent managers' fees in clause (iii), the ordinary periodic Operating Expenses in clause (iv) and the

remaining Operating Expenses in clause (viii) above may not exceed in the aggregate an amount specified in the Supplement unless the PUCT approves a different aggregate amount of such payments.

Following repayment of all Transition Bonds, the balance, if any, shall be released to the Issuer free from the Lien of the Indenture.

“Pro Rata” means with respect to any Tranche of the Transition Bonds a ratio:

(1) in the case of clause (d)(v) above, the numerator of which is the aggregate amount of Interest payable with respect to such Tranche on such Payment Date and the denominator of which is the sum of the aggregate amounts of Interest payable with respect to all Outstanding Tranches on such Payment Date; and

(2) in the case of all other clauses in (d) above, the numerator of which is the aggregate amount of Principal to be paid or payable pursuant to each such clause with respect to such Tranche on such Payment Date and the denominator of which is the sum of the aggregate amounts of Principal to be paid or payable pursuant to each such clause with respect to all Outstanding Tranches on such Payment Date, unless and to the extent, with respect to either clause (1) or (2) of this definition, the Supplement provides otherwise.

If, on any Payment Date for the Transition Bonds, funds on deposit in the General Subaccount are insufficient to make the payments or transfers contemplated by clauses (i) through (ix) above, the Paying Agent shall draw from amounts on deposit in the following subaccounts in the following order up to the amount of such shortfall, in order to make such payments and transfers:

- (i) from the Excess Funds Subaccount for allocations and payments contemplated by clauses (i) through (ix); and
- (ii) from the Capital Subaccount for allocations and payments contemplated by clauses (i) through (viii).

(e) Upon an acceleration of the maturity of the Transition Bonds pursuant to Section 5.02, the aggregate amount of Principal of and Interest accrued on each Transition Bond shall be payable, without priority of interest over principal or of principal over interest and without regard to Tranche.

#### SECTION 8.03. RELEASE OF TRUST ESTATE.

(a) All money and other property withdrawn from the Collection Account by the Paying Agent for payment to the Issuer as provided in this Indenture in accordance with Section 8.02 hereof shall be deemed released from the Indenture when so withdrawn and applied in accordance with the provisions of Article VIII, without further notice to, or release or consent by, the Trustee.

(b) Other than as provided for in Section 8.03(a), the Trustee or the Paying Agent, as applicable, shall release property from the Lien of this Indenture only as and to the extent

permitted by the Basic Documents and only upon receipt of an Issuer Request accompanied by an Issuer Officer's Certificate, an Issuer Opinion of Counsel and Independent Certificates in accordance with TIA Sections 314(c) and 314(d)(1) or an Issuer Opinion of Counsel in lieu of such Independent Certificates to the effect that the TIA does not require any such Independent Certificate.

(c) Subject to the payment of its fees and expenses pursuant to Section 6.07, the Trustee may, and when required by the provisions of this Indenture shall, execute instruments to release property from the Lien of this Indenture, or convey the Trustee's interest in the same, in a manner and under circumstances that are not inconsistent with the provisions of this Indenture. No party relying upon an instrument executed by the Trustee as provided in this Article VIII shall be bound to ascertain the Trustee's authority, inquire into the satisfaction of any conditions precedent or see to the application of any moneys.

(d) Subject to Section 8.03(b), the Trustee shall, at such time as there are no Transition Bonds Outstanding and all sums due the Trustee pursuant to Section 6.07 have been paid, release any remaining portion of the Trust Estate that secured the Transition Bonds from the Lien of this Indenture and release to the Issuer or any other Person entitled thereto any funds or investments then on deposit in or credited to the Collection Account for the Transition Bonds.

**SECTION 8.04. ISSUER OPINION OF COUNSEL.** The Trustee shall receive at least five days' notice when requested by the Issuer to take any action pursuant to Section 8.03, accompanied by copies of any instruments involved, and the Trustee may also require, as a condition to such action, an Issuer Opinion of Counsel, in form and substance satisfactory to the Trustee, stating the legal effect of any such action, outlining the steps required to complete the same, and concluding that all conditions precedent to the taking of such action have been complied with and such action will not materially and adversely impair the security for the Transition Bonds or the rights of the Transition Bondholders in contravention of the provisions of this Indenture; provided, however, that such Issuer Opinion of Counsel shall not be required to express an opinion as to the fair value of the Trust Estate. Counsel rendering any such opinion may rely, without independent investigation, on the accuracy and validity of any certificate or other instrument delivered to the Trustee in connection with any such action.

**SECTION 8.05. REPORTS BY INDEPENDENT ACCOUNTANTS.** The Issuer shall appoint a firm of Independent certified public accountants of recognized national reputation for purposes of preparing and delivering the reports or certificates of such accountants required by this Indenture and the Supplement. Upon any resignation by such firm, the Issuer shall promptly appoint a successor thereto that shall also be a firm of Independent certified public accountants of recognized national reputation. If the Issuer shall fail to appoint a successor to a firm of Independent certified public accountants that has resigned within 15 days after such resignation, the Trustee shall promptly notify the Issuer of such failure in writing. If the Issuer shall not have appointed a successor within 10 days thereafter, the Trustee shall promptly appoint a successor firm of Independent certified public accountants of recognized national reputation. The fees of such firm of Independent certified public accountants and its successor shall be payable by the Issuer.

**SECTION 8.06. REP DEPOSIT ACCOUNT.** Pursuant to the written direction of the Servicer, the Issuer shall open, at the Trustee's Corporate Trust Office, or at another Eligible Institution, one or more segregated non-interest-bearing trust accounts in the Trustee's name (each a "REP Deposit Account"), each such account for the benefit of one Depositing REP with respect to the Transition Bonds. Pursuant to and in accordance with the Financing Order, amounts received from any REP as a security deposit with respect to the Transition Bonds shall be deposited into the applicable REP Deposit Account. The REP Deposit Accounts shall at all times be maintained in an Eligible Securities Account and only the Trustee shall have access to the REP Deposit Accounts for the purpose of making deposits in and withdrawals from the REP Deposit Accounts in accordance with this Indenture, the Servicing Agreement and the Financing Order. Funds in the REP Deposit Accounts shall not be commingled by the Issuer with any other moneys, and shall not be commingled by the Trustee. All or a portion of the funds in the REP Deposit Accounts shall be invested in Eligible Investments and reinvested by the Trustee pursuant to the written direction of the Servicer or the REP making the deposit. All income or other gain from investments of moneys deposited in any REP Deposit Account shall be deposited by the Trustee into such REP Deposit Account, and any loss resulting from such investments shall be charged to such REP Deposit Account. In addition, each Depositing REP shall be responsible for the payment of income taxes with respect to such investments. The Trustee shall not in any way be held liable for the selection of Eligible Investments for the REP Deposit Accounts or for investment losses incurred thereon. The Trustee shall have no obligation to invest or reinvest any amounts held hereunder in the absence of timely and specific written investment direction from the Servicer and appropriate documents from the applicable REP. The Trustee shall release property from any REP Deposit Account only as and to the extent directed by the Servicer pursuant to the Financing Order and the Servicing Agreement.

**ARTICLE IX**  
**SUPPLEMENTAL INDENTURES**

**SECTION 9.01. SUPPLEMENTAL INDENTURES WITHOUT CONSENT OF TRANSITION BONDHOLDERS.**

(a) Without the consent of the Holders of any Transition Bonds but with prior notice to the Rating Agencies, the Issuer and the Trustee, when authorized by an Issuer Order, with the consent of the PUCT pursuant to Section 9.07 if such supplemental indenture increases ongoing qualified costs as defined in the Financing Order (which consent shall not be required with regard to the first Supplement), at any time and from time to time, may enter into one or more indentures supplemental hereto (which shall conform to the provisions of the Trust Indenture Act as in force at the date of the execution thereof), in form satisfactory to the Trustee, for any of the following purposes:

(i) to correct or amplify the description of the Trust Estate, or to better assure, convey and confirm unto the Trustee the Trust Estate, or to subject additional property to the Lien of this Indenture;

(ii) to evidence the succession, in compliance with the applicable provisions hereof, of another Person to the Issuer, and the assumption by any applicable successor of the covenants of the Issuer contained herein and in the Transition Bonds;

(iii) to add to the covenants of the Issuer, for the benefit of the Transition Bondholders, or to surrender any right or power herein conferred upon the Issuer;

(iv) to convey, transfer, assign, mortgage or pledge any property to the Trustee for the benefit of the Holders and the Trustee;

(v) to cure any ambiguity, to correct or supplement any provision herein or in any Supplemental Indenture which may be inconsistent with any other provision herein or in any Supplemental Indenture, to make any other provisions with respect to matters or questions arising under this Indenture or in any Supplemental Indenture, to change in any manner or eliminate any provisions of this Indenture or to modify in any manner the rights of the Transition Bondholders under this Indenture; provided, however, that (i) such action shall not, as evidenced by an Issuers' Opinion of Counsel, adversely affect in any material respect the interests of any Transition Bondholder and (ii) the Rating Agency Condition shall have been satisfied with respect thereto;

(vi) to evidence and provide for the acceptance of the appointment hereunder by a successor Trustee with respect to the Transition Bonds and to add to or change any of the provisions of this Indenture as shall be necessary to facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Article VI;

(vii) to modify, eliminate or add to the provisions of this Indenture to such extent as shall be necessary to effect the qualification of this Indenture under the TIA or under any similar federal statute hereafter enacted and to add to this Indenture such other provisions as may be expressly required by the TIA;

(viii) to qualify the Transition Bonds for registration with a Clearing Agency; or

(ix) to satisfy any Rating Agency requirements.

The Trustee is hereby authorized to join in the execution of any such Supplemental Indenture and to make any further appropriate agreements and stipulations that may be therein contained.

(b) The Issuer and the Trustee, when authorized by an Issuer Order, may, also without the consent of any of the Holders of the Transition Bonds, with the consent of the PUCT pursuant to Section 9.07 if such indenture or supplemental indenture increases ongoing qualified costs as defined in the Financing Order, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture or of modifying in any manner the rights of the Holders of the Transition Bonds under this Indenture; provided, however, that (i) as evidenced by an Issuer's Opinion of Counsel, such action shall not adversely affect in any material respect the interests of any Transition Bondholder and (ii) the Rating Agency Condition shall have been satisfied with respect thereto;

(c) The Trustee may, but shall not be required to, enter into any indenture supplemental hereto or to consent to or enter into any amendment of the Basic Documents unless it shall have received an Opinion of Counsel, addressed to the Trustee, satisfactory to it, that such supplement or amendment is authorized or permitted by this Article IX.

SECTION 9.02. SUPPLEMENTAL INDENTURES WITH CONSENT OF TRANSITION BONDHOLDERS. The Issuer and the Trustee, when authorized by an Issuer Order, also may, with the consent of the PUCT pursuant to Section 9.07 if the indenture or supplemental indenture increases ongoing qualified costs as defined in the Financing Order, prior notice to the Rating Agencies and the consent of the Holders of not less than a majority of the Outstanding Amount of the Transition Bonds of the Tranches to be affected, by Act of such Holders delivered to the Issuer and the Trustee, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture or of modifying in any manner the rights of the Holders of the Transition Bonds under this Indenture; provided, however, that no such Supplemental Indenture shall, without the consent of the Holder of each Outstanding Transition Bond of the Tranches affected thereby:

(i) change the date of payment of any installment of Principal of or premium, if any, or Interest on any Transition Bond of such Tranche, or reduce the principal amount thereof, the Bond Rate thereon or the redemption price or the premium, if any, with respect thereto, change the provisions of this Indenture and the Supplement relating to the application of collections on, or the proceeds of the sale of, the Trust Estate to payment of Principal of or premium, if any, or Interest on the Transition Bonds of such Tranche, or change the currency in which any Transition Bond or the Interest thereon is payable;

(ii) impair the right to institute suit for the enforcement of the provisions of this Indenture requiring the application of funds available therefor, as provided in Article V, to the payment of any such amount due on the Transition Bonds on or after the respective due dates thereof (or, in the case of redemption, on or after the Redemption Date);

(iii) reduce the percentage of the Outstanding Amount of the Transition Bonds or of a Tranche thereof, the consent of the Holders of which is required for any such Supplemental Indenture, or the consent of the Holders of which is required for any waiver of compliance with provisions of this Indenture or defaults hereunder and their consequences provided for in this Indenture or modify or alter the provisions of the proviso to the definition of the term "Outstanding";

(iv) reduce the percentage of the Outstanding Amount of the Transition Bonds of such Tranche required to direct the Trustee to direct the Issuer to sell or liquidate the Trust Estate pursuant to Section 5.04 or to preserve the Trust Estate pursuant to Section 5.05;

(v) modify any provision of this Section 9.02 except to increase any percentage specified herein or to provide that those provisions of this Indenture or the other Basic Documents referenced in this Section cannot be modified or waived without the consent of the Holder of each Outstanding Transition Bond affected thereby;

(vi) modify any of the provisions of this Indenture in such manner so as to affect the amount of any payment of Interest, Principal or premium, if any, payable on any Transition Bond of such Tranche on any Payment Date or change the Redemption Dates, Expected Amortization Schedules or Final Maturity Dates or Tranche Final Maturity Dates of any Transition Bonds of such Tranche;

(vii) decrease the Required Capital Amount;

(viii) modify or alter the provisions of this Indenture regarding the voting of the Transition Bonds held by the Issuer, CenterPoint Houston, an Affiliate of either of them or any obligor on the Transition Bonds;

(ix) decrease the percentage of the aggregate principal amount of the Transition Bonds or Tranche required to amend the sections of this Indenture which specify the applicable percentage of the aggregate principal amount of the Transition Bonds necessary to amend any Basic Document; or

(x) permit the creation of any Lien ranking prior to or on a parity with the Lien of this Indenture with respect to any part of the Trust Estate or, except as otherwise permitted or contemplated herein, terminate the Lien of this Indenture on any property at any time subject hereto or deprive the Holder of any Transition Bond of the security provided by the Lien of this Indenture.

It shall not be necessary for the PUCT or any Act of Transition Bondholders under this Section 9.02 to approve the particular form of any proposed Supplemental Indenture, but it shall be sufficient if the PUCT or such Act of Transition Bondholders shall approve the substance thereof.

Promptly after the execution by the Issuer and the Trustee of any Supplemental Indenture pursuant to this Section 9.02, the Trustee shall mail to the PUCT and the Holders of the Transition Bonds to which such amendment or Supplemental Indenture relates a notice setting forth in general terms the substance of such Supplemental Indenture. Any failure of the Trustee to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture. If any Transition Bonds are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, the Issuer's listing agent shall arrange for publication in accordance with such rules of a notice that the notice regarding the Supplemental Indenture shall be available with the Issuer's listing agent in Luxembourg appointed pursuant to the second paragraph of Section 3.02.

**SECTION 9.03. EXECUTION OF SUPPLEMENTAL INDENTURES.** In executing, or permitting the additional trusts created by any Supplemental Indenture permitted by this Article IX or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and subject to Sections 6.01 and 6.02, shall be fully protected in relying upon, an Issuer Opinion of Counsel stating that the execution of such Supplemental Indenture is

authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such Supplemental Indenture that affects the Trustee's own rights, duties, liabilities or immunities under this Indenture or otherwise.

SECTION 9.04. EFFECT OF SUPPLEMENTAL INDENTURE. Upon the execution of any Supplemental Indenture pursuant to the provisions hereof, this Indenture shall be deemed to be modified and amended in accordance therewith with respect to each Tranche of the Transition Bonds affected thereby, and the respective rights, limitations of rights, obligations, duties, liabilities and immunities under this Indenture of the Trustee, the Issuer and the Holders of the Transition Bonds shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.05. CONFORMITY WITH TRUST INDENTURE ACT. Every amendment of this Indenture and every Supplemental Indenture executed pursuant to this Article IX shall conform to the requirements of the TIA as then in effect so long as this Indenture shall then be qualified under the TIA.

SECTION 9.06. REFERENCE IN TRANSITION BONDS TO SUPPLEMENTAL INDENTURES. Transition Bonds authenticated and delivered after the execution of any Supplemental Indenture pursuant to this Article IX may, and if required by the Trustee shall, bear a notation in form approved by the Trustee as to any matter provided for in such Supplemental Indenture. If the Issuer or the Trustee shall so determine, new Transition Bonds so modified as to conform, in the opinion of the Trustee and the Issuer, to any such Supplemental Indenture may be prepared and executed by the Issuer and authenticated and delivered by the Trustee in exchange for Outstanding Transition Bonds.

SECTION 9.07. PUCT CONSENT. To the extent the consent of the PUCT is required to effect any amendment to, modification of, or supplemental indenture to this Indenture or any provision of this Indenture,

(a) The Issuer may request the consent of the PUCT by delivering to the PUCT's executive director and general counsel a written request for such consent, which request shall contain:

- (i) a reference to Docket No. 34448 and a statement as to the possible effect of the amendment, modification or supplemental indenture on ongoing qualified costs;
- (ii) an Officer's Certificate stating that the proposed amendment, modification or supplemental indenture, as the case may be, has been approved by all parties to this Indenture; and
- (iii) a statement identifying the person to whom the PUCT or its staff is to address its consent to the proposed amendment, modification or supplemental indenture or request additional time;

(b) The PUCT shall, within 30 days of receiving the request for consent complying with Section 9.07(a) above, either

(i) provide notice of its consent or lack of consent to the person specified in Section 9.07(a)(iii) above, or

(ii) be conclusively deemed to have consented to the proposed amendment, modification or supplemental indenture,

unless, within 30 days of receiving the request for consent complying with Section 9.07(a) above, the PUCT or its staff delivers to the office of the person specified in Section 9.07(a)(iii) above a written statement requesting an additional amount of time not to exceed 30 days in which to consider whether to consent to the proposed amendment, modification or supplemental indenture. If the PUCT or its staff requests an extension of time in the manner set forth in the preceding sentence, then the PUCT shall either provide notice of its consent or lack of consent to the person specified in Section 9.07(a)(iii) above no later than the last day of such extension of time or be conclusively deemed to have consented to the proposed amendment, modification or supplemental indenture on the last day of such extension of time. Any amendment, modification or supplemental indenture requiring the consent of the PUCT shall become effective on the later of (i) the date proposed by the parties to such amendment, modification or supplemental indenture and (ii) the first day after the expiration of the 30-day period provided for in Section 9.07(b)(ii), or, if such period has been extended pursuant thereto, the first day after the expiration of such period as so extended.

## ARTICLE X

### REDEMPTION OF TRANSITION BONDS

**SECTION 10.01. MANDATORY REDEMPTION BY ISSUER.** The Issuer shall redeem all Transition Bonds that have been called for redemption pursuant to this Indenture on the Redemption Date or Dates, if any, in the amounts required, if any, and at the redemption price specified in the Supplement, which in any case shall be not less than the outstanding Principal amount of the Bonds to be redeemed, plus accrued Interest thereon to, but excluding, such Redemption Date. If the Issuer is required to redeem the Transition Bonds pursuant to this Section 10.01, it shall furnish written notice of such requirement to the Trustee not later than 25 days prior to the Redemption Date for such redemption and shall deposit with the Trustee the redemption price of the Transition Bonds to be redeemed plus all other amounts due and payable hereunder whereupon all such Transition Bonds shall be due and payable on the Redemption Date upon the furnishing of a notice complying with Section 10.02 hereof to each Holder of the Transition Bonds pursuant to this Section 10.01.

**SECTION 10.02. FORM OF REDEMPTION NOTICE.** Unless otherwise specified in the Supplement relating to the Transition Bonds, notice of redemption under Section 10.01 hereof shall be given by the Trustee by first-class mail, postage prepaid, mailed not less than five days nor more than 45 days prior to the applicable Redemption Date to each Holder of the Transition Bonds to be redeemed, as of the close of business on the Record Date preceding the applicable Redemption Date at such Holder's address appearing in the Transition Bond Register.

All notices of redemption shall state:

(1) the Redemption Date;

(2) if less than all Outstanding Transition Bonds are to be redeemed, the identification (and in the case of partial redemption of any Transition Bonds, the principal amounts) of the particular Transition Bonds to be redeemed;

(3) the redemption price;

(4) the place where such Transition Bonds are to be surrendered for payment of the redemption price and accrued interest (which shall be the office or agency of the Issuer to be maintained as provided in the first paragraph of Section 3.02 hereof);

(5) the CUSIP number, if applicable; and

(6) the principal amount of the Transition Bonds to be redeemed.

Notice of redemption of the Transition Bonds to be redeemed shall be given by the Trustee in the name and at the expense of the Issuer. For so long as any Transition Bonds are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, the Issuer's listing agent shall arrange that such notice will also be given by publication pursuant to such rules at least ten (10) days prior to the Redemption Date. Failure to give notice of redemption, or any defect therein, to any Holder of any Transition Bond selected for redemption shall not impair or affect the validity of the redemption of any other Transition Bond.

**SECTION 10.03. PAYMENT OF REDEMPTION PRICE.** If notice of redemption has been duly mailed, or duly waived by the Holders of all Transition Bonds called for redemption, and the redemption moneys have been duly deposited with the Trustee, then the Transition Bonds called for redemption shall be payable on the applicable Redemption Date at the applicable redemption price. No further Interest will accrue on the principal amount of any Transition Bonds called for redemption after the Redemption Date for such redemption if payment of the redemption price thereof has been duly provided for, and the Holder of such Transition Bonds will have no rights with respect thereto, except to receive payment of the redemption price thereof and unpaid Interest accrued to the Redemption Date. Payment of the redemption price together with accrued Interest shall be made by the Trustee to or upon the order of the Holders of the Transition Bonds called for redemption upon surrender of such Transition Bonds, and the Transition Bonds so redeemed shall cease to be of further effect and the Lien of this Indenture shall be released with respect to such Transition Bonds.

## **ARTICLE XI**

### **MISCELLANEOUS**

**SECTION 11.01. COMPLIANCE CERTIFICATES AND OPINIONS, ETC.** Upon any application or request by the Issuer to the Trustee to take any action under any provision of this Indenture, the Issuer shall furnish to the Trustee (i) an Issuer Officer's Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have

been complied with, (ii) an Issuer Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with and (iii) (if required by the TIA) an Independent Certificate from a firm of certified public accountants meeting the applicable requirements of this Section 11.01, except that, in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

- (i) a statement that each signatory of such certificate or opinion has read or has caused to be read such covenant or condition and the definitions herein relating thereto;
- (ii) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;
- (iii) a statement that, in the opinion of each such signatory, such signatory has made such examination or investigation as is necessary to enable such signatory to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (iv) a statement as to whether, in the opinion of each such signatory, such condition or covenant has been complied with.

**SECTION 11.02. FORM OF DOCUMENTS DELIVERED TO TRUSTEE.** In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents. Any certificate or opinion of the Issuer may be based, insofar as it relates to legal matters, upon, in the absence of bad faith, an Opinion of Counsel.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Whenever in this Indenture, in connection with any application or certificate or report to the Trustee, it is provided that the Issuer shall deliver any document as a condition of the granting of such application, or as evidence of the Issuer's compliance with any term hereof, it is intended that the truth and accuracy, at the time of the granting of such application or at the effective date of such certificate or report (as the case may be), of the facts and opinions stated in such document shall in such case be conditions precedent to the right of the Issuer to have such application granted or to the sufficiency of such certificate or report. The foregoing shall not, however, be construed to affect the Trustee's right to rely conclusively upon the truth and accuracy of any statement or opinion contained in any such document as provided in Article VI.

SECTION 11.03. ACTS OF TRANSITION BONDHOLDERS.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Transition Bondholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Transition Bondholders in person or by agents duly appointed in writing; and except as herein otherwise expressly provided such action shall become effective when such instrument or instruments are delivered to the Trustee, and, where it is hereby expressly required, to the Issuer. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Transition Bondholders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 6.01) conclusive in favor of the Trustee and the Issuer, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved in any manner that the Trustee deems sufficient.

(c) The ownership of the Transition Bonds shall be proved by the Transition Bond Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other action by the Holder of any Transition Bonds shall bind the Holder of every Transition Bond issued upon the registration thereof or in exchange therefor or in lieu thereof, in respect of anything done, omitted or suffered to be done by the Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Transition Bond.

SECTION 11.04. NOTICES, ETC., TO TRUSTEE, PAYING AGENT, TRANSITION BOND REGISTRAR, ISSUER, PUCT AND RATING AGENCIES.

Any request, demand, authorization, direction, notice, consent, waiver or Act of Transition Bondholders or other documents provided or permitted by this Indenture to be made upon, given or furnished to or filed with:

(a) the Trustee, the Paying Agent or the Transition Bond Registrar by any Transition Bondholder or by the Issuer shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing, delivered personally, via facsimile transmission, by reputable overnight courier or by first-class mail, postage prepaid, to the Trustee, the Paying Agent or the Transition Bond Registrar, as applicable, at its Corporate Trust Office, or

(b) the Issuer by the Trustee, the Paying Agent, the Transition Bond Registrar or any Transition Bondholder shall be sufficient for every purpose hereunder if in writing, delivered personally, via facsimile transmission, by reputable overnight courier or by first-class mail, postage prepaid, to the Issuer addressed to: CenterPoint Energy Transition Bond Company III, LLC, 1111 Louisiana Street, Suite 4689A, Houston, Texas 77002, Attention: Manager, or at any other address previously furnished in writing to the Trustee by the Issuer. The Issuer shall promptly transmit any notice received by it from the Transition Bondholders to the Trustee, the Paying Agent and the Transition Bond Registrar.

Notices required to be given to the Rating Agencies by the Issuer, the Trustee, the Paying Agent, the Transition Bond Registrar or a Manager shall be in writing, delivered personally, via facsimile transmission, by reputable overnight courier or by first-class mail, postage prepaid, to: (i) in the case of Moody's: Moody's Investors Service, Inc., Attention: ABS Monitoring Department, 99 Church Street, New York, New York 10007; (ii) in the case of Standard & Poor's: Standard & Poor's, a division of The McGraw-Hill Companies, 55 Water Street New York, NY 10041, Attention: Asset Backed Surveillance Department; and (iii) in the case of Fitch: Fitch, Inc., 1 State Street Plaza, New York, New York 10004, Attention: ABS Surveillance or, if the foregoing addresses shall change at their current address.

Notices required to be given to the PUCT shall be in writing, delivered personally, via facsimile transmission, by reputable overnight courier or by first-class mail, postage prepaid, to Public Utility Commission of Texas, 1701 N. Congress Avenue, Austin, Texas 78711-3326, Attention: Executive Director and General Counsel.

SECTION 11.05. NOTICES TO TRANSITION BONDHOLDERS; WAIVER. Where this Indenture provides for notice to Transition Bondholders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and delivered by first-class mail, postage prepaid, to each Transition Bondholder affected by such event, at the address of such Transition Bondholder as it appears on the Transition Bond Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. In any case where notice to Transition Bondholders is given by mail, neither the failure to mail such notice nor any defect in any notice so mailed to any particular Transition Bondholder shall affect the sufficiency of such notice with respect to other Transition Bondholders, and any notice that is mailed in the manner herein provided shall conclusively be presumed to have been duly given.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by any Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Transition Bondholders shall be filed with the Trustee but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such a waiver.

In case it shall be impractical to deliver notice in accordance with the first paragraph of this Section 11.05 to the Holders of the Transition Bonds when such notice is required to be given pursuant to any provision of this Indenture, then any manner of giving such notice as shall be satisfactory to the Trustee shall be deemed to be a sufficient giving of such notice.

Where this Indenture provides for notice to the Rating Agencies, failure to give such notice shall not affect any other rights or obligations created hereunder, and shall not under any circumstance constitute a Default or Event of Default.

SECTION 11.06. ALTERNATE PAYMENT AND NOTICE PROVISIONS. Notwithstanding any provision of this Indenture or any of the Transition Bonds to the contrary, the Issuer may enter into any agreement with any Holder of a Transition Bond providing for a method of payment, or notice by the Trustee or any Paying Agent to such Holder, that is different from the methods provided for in this Indenture for such payments or notices. The Issuer will furnish to the Trustee a copy of each such agreement and the Trustee will cause payments to be made and notices to be given in accordance with such agreements.

SECTION 11.07. NOTICES TO LUXEMBOURG STOCK EXCHANGE.

(a) For so long as any Transition Bonds are listed on the Luxembourg Stock Exchange and to the extent the rules of such exchange so require, the Issuer shall notify the Luxembourg Stock Exchange and any agent appointed pursuant to the second paragraph of Section 3.02 if any rating assigned to such Transition Bonds is reduced or withdrawn and shall arrange for such notice to be published pursuant to the rules of such exchange.

(b) For so long as any Transition Bonds are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, the Trustee shall make available to the Holders of such Transition Bonds and shall deposit in accordance with the written direction of the Issuer on file with the Issuer's listing agent in Luxembourg appointed pursuant to the second paragraph of Section 3.02 copies of any documents executed in connection with this Indenture reasonably requested by the Issuer's listing agent and the reports of Independent certified public accountants obtained with respect to the Issuer pursuant to this Indenture.

SECTION 11.08. CONFLICT WITH TRUST INDENTURE ACT. If any provision hereof limits, qualifies or conflicts with another provision hereof that is required to be included in this Indenture by any of the provisions of the TIA, such required provision shall control.

The provisions of TIA Sections 310 through 317 that impose duties on any Person (including the provisions automatically deemed included herein unless expressly excluded by this Indenture) are a part of and govern this Indenture, whether or not physically contained herein.

SECTION 11.09. EFFECT OF HEADINGS AND TABLE OF CONTENTS. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 11.10. SUCCESSORS AND ASSIGNS. All covenants and agreements in this Indenture and the Transition Bonds by the Issuer shall bind its successors and permitted assigns, whether so expressed or not.

All agreements of the Trustee in this Indenture shall bind its successors.

The Trustee shall provide written notice to the Rating Agencies of any assignment of its obligations under this Agreement.

SECTION 11.11. SEPARABILITY. In case any provision in this Indenture or in the Transition Bonds shall be invalid, illegal or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 11.12. BENEFITS OF INDENTURE. Nothing in this Indenture or in the Transition Bonds, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, and the Transition Bondholders, and any other party secured hereunder, and any other Person with an ownership interest in any part of the Trust Estate, any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 11.13. LEGAL HOLIDAYS. In any case where the date on which any payment is due shall not be a Business Day, then (notwithstanding any other provision of the Transition Bonds or this Indenture) payment need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date on which nominally due, and no interest shall accrue for the period from and after any such nominal date.

SECTION 11.14. GOVERNING LAW. **THIS INDENTURE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.**

SECTION 11.15. COUNTERPARTS. This Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

SECTION 11.16. ISSUER OBLIGATION. No recourse may be taken, directly or indirectly, with respect to the obligations of the Issuer or the Trustee on the Transition Bonds or under this Indenture or any certificate or other writing delivered in connection herewith or therewith, against (i) the Member or any Manager, employee or agent of the Issuer or (ii) any stockholder, officer, director, employee or agent of the Trustee (it being understood that none of the Trustee's obligations are in its individual capacity).

SECTION 11.17. NO PETITION. The Trustee, by entering into this Indenture, and each Holder, by accepting a Transition Bond (or interest therein) issued hereunder, hereby covenant and agree that they shall not, prior to the date that is one year and one day after the termination of this Indenture, acquiesce, petition or otherwise invoke or cause the Issuer or any Manager to invoke the process of any court or government authority for the purpose of commencing or sustaining a case against the Issuer under any insolvency law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Issuer or any substantial part of its respective property, or ordering the dissolution, winding up or liquidation of the affairs of the Issuer. Nothing in this Section 11.17 shall preclude, or be deemed to estop, such Holder (A) from taking or omitting to take any action prior to such date in (i) any case or proceeding voluntarily filed or commenced by or on behalf of the Issuer under or pursuant to any such law or (ii) any involuntary case or proceeding pertaining to the Issuer that is filed or commenced by or on behalf of a person other than such Holder and is not joined in by such Holder (or any person to which such Holder shall have assigned, transferred or otherwise conveyed any part of the obligations of the Issuer hereunder) under or pursuant to any such law, or (B) from commencing or prosecuting any legal action that is not an involuntary case or proceeding under or pursuant to any such law against the Issuer or any of its properties.

SECTION 11.18. INTERCREDITOR AGREEMENT. The Trustee is hereby authorized, upon receipt of an Issuer Request, to execute and deliver the Intercreditor Agreement provided to it by the Issuer that does not materially and adversely affect any Holder's rights in and to any

Trust Estate, or otherwise hereunder. Such request shall be accompanied by an Officer's Certificate, upon which the Trustee may rely conclusively with no duty of independent investigation or inquiry, to the effect that the Intercreditor Agreement does not materially and adversely affect any Holder's rights in and to the Trust Estate or otherwise hereunder. The Intercreditor Agreement shall be binding on the Holders.

IN WITNESS WHEREOF, the Issuer and the Trustee have caused this Indenture to be duly executed by their respective managers or officers thereunto duly authorized, all as of the day and year first above written.

CENTERPOINT ENERGY TRANSITION BOND COMPANY  
III, LLC

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

DEUTSCHE BANK TRUST COMPANY AMERICAS, not in  
its individual capacity but solely as Trustee

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

DEUTSCHE BANK TRUST COMPANY AMERICAS

hereby agrees to act as Paying Agent, Transition Bond Registrar, authenticating agent and agent under Section 3.02 hereof, all as set forth in this Indenture.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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SCHEDULE 1

SEMIANNUAL SERVICER'S CERTIFICATE

[INTENTIONALLY OMITTED]

STATUTORY TRUE-SALE OPINION

[INTENTIONALLY OMITTED]

STATE LAW SECURITY INTEREST OPINION

[INTENTIONALLY OMITTED]

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SCHEDULE 2c

UCC OPINION

[INTENTIONALLY OMITTED]

EXHIBIT A

SERVICING CRITERIA TO BE ADDRESSED BY INDENTURE TRUSTEE IN  
ASSESSMENT OF COMPLIANCE

Reg AB Reference	Servicing Criteria	Applicable Trustee Responsibility
<b>General Servicing Considerations</b>		
1122(d)(1)(i)	Policies and procedures are instituted to monitor any performance or other triggers and events of default in accordance with the transaction agreements.	
1122(d)(1)(ii)	If any material servicing activities are outsourced to third parties, policies and procedures are instituted to monitor the third party's performance and compliance with such servicing activities.	
1122(d)(1)(iii)	Any requirements in the transaction agreements to maintain a back-up servicer for the pool assets are maintained.	
1122(d)(1)(iv)	A fidelity bond and errors and omissions policy is in effect on the party participating in the servicing function throughout the reporting period in the amount of coverage required by and otherwise in accordance with the terms of the transaction agreements.	
<b>Cash Collection and Administration</b>		
1122(d)(2)(i)	Payments on pool assets are deposited into the appropriate custodial bank accounts and related bank clearing accounts no more than two (2) business days of receipt, or such other number of days specified in the transaction agreements.	X; "Custodial bank accounts and related bank clearing accounts" apply only to trust accounts.
1122(d)(2)(ii)	Disbursements made via wire transfer on behalf of an obligor or to an investor are made only by authorized personnel.	X
1122(d)(2)(iii)	Advances of funds or guarantees regarding collections, cash flows or distributions, and any interest or other fees charged for such advances, are made, reviewed and approved as specified in the transaction agreements.	

Reg AB Reference	Servicing Criteria	Applicable Trustee Responsibility
1122(d)(2)(iv)	The related accounts for the transaction, such as cash reserve accounts or accounts established as a form of overcollateralization, are separately maintained (e.g., with respect to commingling of cash) as set forth in the transaction agreements.	X
1122(d)(2)(v)	Each custodial account is maintained at a federally insured depository institution as set forth in the transaction agreements. For purposes of this criterion, “federally insured depository institution” with respect to a foreign financial institution means a foreign financial institution that meets the requirements of Rule 13k-1(b)(1) of the Exchange Act.	
1122(d)(2)(vi)	Unissued checks are safeguarded so as to prevent unauthorized access.	
1122(d)(2)(vii)	Reconciliations are prepared on a monthly basis for all asset-backed securities related bank accounts, including custodial accounts and related bank clearing accounts. These reconciliations are (A) mathematically accurate; (B) prepared within thirty (30) calendar days after the bank statement cutoff date, or such other number of days specified in the transaction agreements; (C) reviewed and approved by someone other than the person who prepared the reconciliation; and (D) contain explanations for reconciling items. These reconciling items are resolved within ninety (90) calendar days of their original identification, or such other number of days specified in the transaction agreements.	

#### Investor Remittances and Reporting

1122(d)(3)(i)	Reports to investors, including those to be filed with the Commission, are maintained in accordance with the transaction agreements and applicable Commission requirements. Specifically, such reports (A) are prepared in accordance with timeframes and other terms set forth in the transaction agreements; (B) provide information calculated in accordance with the terms specified in the transaction agreements; (C) are filed with the Commission as required by its rules and regulations; and (D) agree with investors’ or the trustee’s records as to the total unpaid principal balance and number of pool assets serviced by the servicer.	
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Reg AB Reference	Servicing Criteria	Applicable Trustee Responsibility
1122(d)(3)(ii)	Amounts due to investors are allocated and remitted in accordance with timeframes, distribution priority and other terms set forth in the transaction agreements.	X; Amounts based on instructions provided in the Semiannual Servicer's Certificate
1122(d)(3)(iii)	Disbursements made to an investor are posted within two (2) business days to the servicer's investor records, or such other number of days specified in the transaction agreements.	X
1122(d)(3)(iv)	Amounts remitted to investors per the investor reports agree with canceled checks, or other form of payment, or custodial bank statements.	X

**Pool Asset Administration**

1122(d)(4)(i)	Collateral or security on pool assets is maintained as required by the transaction agreements or related pool asset documents.	
1122(d)(4)(ii)	Pool assets and related documents are safeguarded as required by the transaction agreements.	
1122(d)(4)(iii)	Any additions, removals or substitutions to the asset pool are made, reviewed and approved in accordance with any conditions or requirements in the transaction agreements.	
1122(d)(4)(iv)	Payments on pool assets, including any payoffs, made in accordance with the related pool asset documents are posted to the servicer's obligor records maintained no more than two (2) business days after receipt, or such other number of days specified in the transaction agreements, and allocated to principal, interest or other items (e.g., escrow) in accordance with the related pool asset documents.	
1122(d)(4)(v)	The servicer's records regarding the pool assets agree with the servicer's records with respect to an obligor's unpaid principal balance.	
1122(d)(4)(vi)	Changes with respect to the terms or status of an obligor's pool assets (e.g., loan modifications or re-agings) are made, reviewed and approved by authorized personnel in accordance with the transaction agreements and related pool asset documents.	

Reg AB Reference	Servicing Criteria	Applicable Trustee Responsibility
1122(d)(4)(vii)	Loss mitigation or recovery actions (e.g., forbearance plans, modifications and deeds in lieu of foreclosure, foreclosures and repossessions, as applicable) are initiated, conducted and concluded in accordance with the timeframes or other requirements established by the transaction agreements.	
1122(d)(4)(viii)	Records documenting collection efforts are maintained during the period a pool asset is delinquent in accordance with the transaction agreements. Such records are maintained on at least a monthly basis, or such other period specified in the transaction agreements, and describe the entity's activities in monitoring delinquent pool assets including, for example, phone calls, letters and payment rescheduling plans in cases where delinquency is deemed temporary (e.g., illness or unemployment).	
1122(d)(4)(ix)	Adjustments to interest rates or rates of return for pool assets with variable rates are computed based on the related pool asset documents.	
1122(d)(4)(x)	Regarding any funds held in trust for an obligor (such as escrow accounts): (A) such funds are analyzed, in accordance with the obligor's pool asset documents, on at least an annual basis, or such other period specified in the transaction agreements; (B) interest on such funds is paid, or credited, to obligors in accordance with applicable pool asset documents and state laws; and (C) such funds are returned to the obligor within thirty (30) calendar days of full repayment of the related pool assets, or such other number of days specified in the transaction agreements.	X; The Servicer, and not the Trustee, is responsible for analyzing the adequacy of REP security and directing the return of such security to the REPs
1122(d)(4)(xi)	Payments made on behalf of an obligor (such as tax or insurance payments) are made on or before the related penalty or expiration dates, as indicated on the appropriate bills or notices for such payments, provided that such support has been received by the servicer at least thirty (30) calendar days prior to these dates, or such other number of days specified in the transaction agreements.	
1122(d)(4)(xii)	Any late payment penalties in connection with any payment to be made on behalf of an obligor are paid from the servicer's funds and not charged to the obligor, unless the late payment was due to the obligor's error or omission.	

<b>Reg AB Reference</b>	<b>Servicing Criteria</b>	<b>Applicable Trustee Responsibility</b>
1122(d)(4)(xiii)	Disbursements made on behalf of an obligor are posted within two (2) business days to the obligor's records maintained by the servicer, or such other number of days specified in the transaction agreements.	
1122(d)(4)(xiv)	Delinquencies, charge-offs and uncollectible accounts are recognized and recorded in accordance with the transaction agreements.	
1122(d)(4)(xv)	Any external enhancement or other support, identified in Item 1114(a)(1) through (3) or Item 1115 of Regulation AB, is maintained as set forth in the transaction agreements.	

APPENDIX A  
MASTER DEFINITIONS

The definitions contained in this Appendix A are applicable to the singular as well as the plural forms of such terms.

“Accounts” means, collectively, the Collection Account (and each sub-account thereof, including, without limitation, the General Subaccount, the Capital Subaccount, the Defeasance Subaccount, the Excess Funds Subaccount and each Tranche Subaccount) and each REP Deposit Account.

“Act” has the meaning specified in Section 11.03 of the Indenture.

“Adjustment Date” has the meaning specified in the Servicing Agreement.

“Administration Agreement” means the Administration Agreement dated as of February [ ], 2008, between CenterPoint Houston, as Administrator, and the Issuer, as the same may be amended and supplemented from time to time.

“Administrator” means CenterPoint Houston as administrator under the Administration Agreement and each successor to or assignee of CenterPoint Houston in the same capacity.

“Affiliate” means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, control, when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms controlling and controlled have meanings correlative to the foregoing.

“Annual Accountant’s Report” has the meaning assigned to that term in the Servicing Agreement.

“Applicable Law” has the meaning specified in Section 6.15 of the Indenture.

“Authorized Denominations” means, with respect to any Tranche of the Transition Bonds, \$1,000 and integral multiples thereof, or such other denominations as may be specified in the Supplement therefor.

“Authorized Officer” means (i) with respect to any Person that is a corporation or a limited liability company, any manager, the Chairman of the Board, the Chief Executive Officer, the President, any Vice Chairman, any Executive Vice President, Senior Vice President or Vice President, the Treasurer or any Assistant Treasurer, the Secretary or any Assistant Secretary of such Person, (ii) with respect to any Person that is a partnership, the President, any Vice President, Treasurer or Secretary (or Assistant Secretary) of a general partner or managing partner of such Person; provided that in respect of the Issuer, Authorized Officer means any Manager or the Member and, with respect to the Member, any officer who is authorized to act for the Member in matters relating to the Issuer and who is identified on the list of Authorized Officers delivered by the Member to the Trustee as of the date hereof (as such list may be modified or supplemented from time to time thereafter).

“Bankruptcy Code” means Title 11 of the United States Code (11 U.S.C. Section 101 et seq.), as amended from time to time.

“Basic Documents” means the Issuer LLC Agreement, the Issuer Certificate of Formation, the Sale Agreement, the Servicing Agreement, the Intercreditor Agreement, the Administration Agreement, the Indenture, any Supplemental Indentures, the DTC Agreement, the Underwriting Agreement and the Bill of Sale.

“Bill of Sale” means the bill of sale issued by the Seller to the Issuer pursuant to the Sale Agreement evidencing the sale of the Transition Property by the Seller to the Issuer.

“Bond Rate” means, with respect to each Tranche of the Transition Bonds, the rate at which interest accrues on the principal balance of the Transition Bonds or such Tranche, as specified in the Supplement.

“Book-Entry Security” means a security maintained in the form of entries (including, without limitation, the security entitlements in, and the financial assets based on, such security) in the commercial book-entry system of the Federal Reserve System.

“Book-Entry Transition Bonds” means beneficial interests in the Transition Bonds, ownership and transfers of which shall be made through book entries by a Clearing Agency as described in Section 2.11 of the Indenture.

“Business Day” means any day other than a Saturday or Sunday or a day on which banking institutions in the City of Houston, Texas, or in the City of New York, New York, are required or authorized by law or executive order to remain closed.

“Calculation Date” means, with respect to the Transition Bonds, the date on which the calculations and filings set forth in [Annex 1] to the Servicing Agreement will be made each year.

“Capital Subaccount” has the meaning specified in Section 8.02(a) of the Indenture.

“CenterPoint Houston” means CenterPoint Energy Houston Electric, LLC, a Texas limited liability company, or its successors.

“Clearing Agency” means an organization registered as a “clearing agency” pursuant to Section 17A of the Exchange Act.

“Clearing Agency Participant” means a broker, dealer, bank, other financial institution or other Person for whom from time to time a Clearing Agency effects book-entry transfers and pledges of securities deposited with the Clearing Agency.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, and Treasury Regulations promulgated thereunder.

“Collection Account” has the meaning specified in Section 8.02(a) of the Indenture.

“Collections” means amounts collected in respect of Transition Charges.

“Commission” means the U.S. Securities and Exchange Commission, and any successor thereof.

“Corporate Trust Office” means the principal office of the Trustee at which at any particular time its corporate trust business shall be administered, which office as of the date of the execution of this Indenture is located at Deutsche Bank Trust Company Americas, Attn: Structured Finance Services, Trust & Securities Services, 60 Wall Street, 26th floor, Mail Stop NYC60 2606, New York, NY 10005, with a copy to Deutsche Bank National Trust Company, Attn: Structured Finance Services, MS 01 0105 25 Deforest Ave, Summit, New Jersey 07901, Ref: CenterPoint Energy Transition Bond Company III, LLC, or at such other address as the Trustee may designate from time to time by notice to the Transition Bondholders and the Issuer, or the principal corporate trust office of any successor Trustee (the address of which the successor Trustee will provide to the Transition Bondholders and the Issuer) and for purposes of surrender and presentment at the office of DB Services Tennessee, 648 Grassmere Park Road, Nashville, TN 37211, Attn: Transfer Unit.

“Covenant Defeasance Option” has the meaning specified in Section 4.01(b) of the Indenture.

“Customers” means all existing and future retail electric customers located within CenterPoint Houston’s service territory as it existed on May 1, 1999, except for (A) certain categories of existing customers whose load had been lawfully served (i) by a fully operational qualifying facility before September 1, 2001 if the facility was supported by substantially complete filings for site-specific environmental permits on or before December 31, 1999, or (ii) by an on-site power production facility with a rated capacity of 10 megawatts or less or (B) customers in a multiple certificated service territory who requested to switch providers on or before May 1, 1999 or were not taking service from the CenterPoint Houston on, and do not do so after, May 1, 1999.

“Default” means any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

“Defeasance Subaccount” has the meaning specified in Section 8.02(a) of the Indenture.

“Definitive Transition Bonds” has the meaning specified in Section 2.11 of the Indenture.

“Depositing REP” means a retail electric provider, as that term is defined in the Texas Electric Choice Plan, who provides the Trustee with a cash deposit pursuant to the Financing Order.

“DTC” means The Depository Trust Company.

“DTC Agreement” means the Letter of Representations among the Issuer, the Transition Bond Registrar and DTC or other applicable Clearing Agency, relating to the Clearing Agency’s rights and obligations (in its capacity as Clearing Agency) with respect to any Book-Entry Transition Bonds, as the same may be amended and supplemented from time to time.

“Eligible Guarantor Institution” means a firm or other entity identified in Rule 17Ad-15 under the Exchange Act as “an eligible guarantor institution,” including (as such terms are defined therein):

- (a) a bank;
- (b) a broker, dealer, municipal securities broker or dealer or government securities broker or dealer;
- (c) a credit union;
- (d) a national securities exchange, registered securities association or clearing agency; or
- (e) a savings association that is a participant in a securities transfer association.

“Eligible Institution” means:

- (a) the corporate trust department of the Trustee, so long as any of the securities of the Trustee have a credit rating from each Rating Agency in one of its generic rating categories which signifies investment grade, or
- (b) the trust department of a depository institution organized under the laws of the United States of America or any State (or any domestic branch of a foreign bank), which
  - (i) has either
    - (A) with respect to any Eligible Investment having a maturity of greater than one month, a long-term unsecured debt rating of “AA-” by Standard & Poor’s, “A2” by Moody’s and, if Fitch provides a rating thereon, the equivalent of the lower of those two ratings by Fitch or
    - (B) with respect to any Eligible Investment having a maturity of one month or less, a certificate of deposit rating of “A-1+” by Standard & Poor’s, “P-1” by Moody’s and, if Fitch provides a rating thereon, “F-1+” by Fitch, or any other long-term, short-term or certificate of deposit rating acceptable to the Rating Agencies, and
  - (ii) whose deposits are insured by the FDIC.

“Eligible Investments” mean Book-Entry Securities, negotiable instruments or securities represented by instruments in bearer or registered form which evidence and may include investments for which the trustee and/or its affiliates acts as an investment manager or advisor:

- (a) direct obligations of, and obligations fully and unconditionally guaranteed as to timely payment by, the United States of America;

(b) demand deposits, time deposits or certificates of deposit of any depository institution or trust company incorporated under the laws of the United States of America or any State thereof (or any domestic branch of a foreign bank) and subject to supervision and examination by federal or State banking or depository institution authorities; provided, however, that at the time of the investment or contractual commitment to invest therein, the commercial paper or other short-term unsecured debt obligations (other than such obligations the rating of which is based on the credit of a Person other than such depository institution or trust company) thereof shall have either (i) a long-term unsecured debt rating from Moody's, Standard & Poor's and, if Fitch provides a rating thereon, Fitch of at least "Aa3," "AA" and "AA," respectively, or (ii) a certificate of deposit rating from Moody's and Standard & Poor's of at least "P-1" and "A-1+," respectively, and, if Fitch provides a rating thereon, "F-1+" by Fitch;

(c) commercial paper or other short term obligations of any Person organized under the laws of any State (other than CenterPoint Houston, Reliant Energy, Inc. or any of their affiliates) whose ratings, at the time of the investment or contractual commitment to invest therein, from Moody's and Standard & Poor's shall be at least "P-1" and "A-1+," respectively and, if Fitch provides a rating thereon, "F-1+" by Fitch;

(d) investments in money market funds having a rating from Moody's, Standard & Poor's and, if Fitch provides a rating thereon, Fitch of "Aaa," "AAA" and "AAA," respectively (including funds for which the Trustee or any of its Affiliates act as investment manager or advisor);

(e) bankers' acceptances issued by any depository institution or trust company referred to in clause (b) above;

(f) repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or any agency or instrumentality thereof the obligations of which are backed by the full faith and credit of the United States of America, in either case entered into with a depository institution or trust company (acting as principal) described in clause (b) above;

(g) repurchase obligations with respect to any security or whole loan entered into with

(i) a depository institution or trust company (acting as principal) described in clause (b) above (any depository institution or trust company being referred to in this definition as a "financial institution"),

(ii) a broker/dealer (acting as principal) registered as a broker or dealer under Section 15 of the Exchange Act (any broker/dealer being referred to in this definition as a "broker/dealer"), the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by Standard & Poor's and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of entering into this repurchase obligation, or

(iii) an unrated broker/dealer, acting as principal, that is a wholly-owned subsidiary of a non-bank or bank holding company the unsecured short-term debt obligations of which are rated at least “P-1” by Moody’s, “A-1+” by Standard & Poor’s and, if Fitch provides a rating thereon, “F-1+” by Fitch at the time of purchase so long as the obligations of such unrated broker/dealer are unconditionally guaranteed by such non-bank or bank holding company; or

(h) any other investment permitted by each of the Rating Agencies;

provided, that (a) any Book-Entry Security, instrument or security having a maturity of one month or less that would be an Eligible Investment but for its failure, or the failure of the obligor thereon, to have the rating specified above shall be an eligible investment if such Book-Entry Security, instrument or security, or the obligor thereon, has a short-term unsecured debt rating of at least “P-1” by Moody’s, “A-1+” by S&P and, if Fitch provides a rating thereon, “F-1+” by Fitch, and (b) any Book-Entry Security, instrument or security having a maturity of greater than one month that would be an eligible investment but for its failure, or the failure of the obligor thereon, to have the rating specified above shall be an eligible investment if such Book-Entry Security, instrument or security, or the obligor thereon, has a long-term unsecured debt rating of at least “AA-” by S&P or “Aa3” by Moody’s (and, if Fitch provides a rating thereon, “AA-” by Fitch) and a short-term unsecured debt rating of at least “P-1” by Moody’s or the equivalent thereof by S&P (and Fitch, if Fitch provides a rating thereon);

provided, further, that unless otherwise permitted by the applicable Rating Agencies, upon the failure of any Eligible Institution to maintain any applicable rating set forth in this definition or the definition of Eligible Institution, the related investments at that institution shall be reinvested in Eligible Investments at a successor Eligible Institution within 10 days.

“Eligible Securities Account” means either:

(a) a segregated non-interest-bearing trust account with an Eligible Institution or

(b) a segregated non-interest-bearing trust account with the corporate trust department of a depository institution organized under the laws of the United States of America or any State (or any domestic branch of a foreign bank), having corporate trust powers and acting as trustee for funds deposited in such account, so long as any of the unsecured securities of such depository institution shall have a credit rating from each Rating Agency in one of its generic rating categories which signifies investment grade.

“Event of Default” has the meaning specified in Section 5.01 of the Indenture.

“Excess Funds Subaccount” has the meaning specified in Section 8.02(a) of the Indenture.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Expected Amortization Schedule” means with respect to each Tranche of Transition Bonds, the expected amortization schedule for principal thereof, as specified in the Supplement.

“Expected Final Payment Date” means with respect to each Tranche of Transition Bonds, the date when all interest and principal is scheduled to be paid for that Tranche in accordance with the Expected Amortization Schedule, as specified in the Supplement.

“FDIC” means the Federal Deposit Insurance Corporation or any successor.

“Federal Book-Entry Regulations” means (a) the federal regulations contained in Subpart B (“Treasury/Reserve Automated Debt Entry System (TRADES)”) governing Book-Entry Securities consisting of U.S. Treasury bonds, notes and bills, and Subpart D (“Additional Provisions”) of 31 C.F.R. part 357, Section 357.10 through Section 357.14 and Section 357.41 through Section 357.44 (including related defined terms in 31 C.F.R. Section 357.2); and (b) to the extent substantially identical to the federal regulations referred to in clause (a) above (as in effect from time to time), the federal regulations governing other Book-Entry Securities.

“Final Maturity Date” means, for each Tranche of the Transition Bonds, the date by which all Principal and Interest on that Tranche is required to be paid, as specified in the Supplement.

“Financing Order” means the Financing Order issued by the PUCT on September 18, 2007, in Docket No. 34448.

“Fitch” means Fitch Ratings or any successor thereto.

“General Subaccount” has the meaning specified in Section 8.02(a) of the Indenture.

“Grant” means mortgage, pledge, bargain, sell, warrant, alienate, remise, release, convey, assign, transfer, deliver, create and grant a lien upon and a security interest in and right of set-off against, deposit, set over and confirm pursuant to this Indenture. A Grant of the Trust Estate or of any other agreement or instrument shall include all rights, powers and options (but none of the obligations) of the Granting party thereunder, including the immediate and continuing right to claim for, collect, receive and give receipt for principal, interest and other payments in respect of the Trust Estate and all other moneys payable thereunder, to give and receive notices and other communications, to make waivers or other agreements, to exercise all rights and options, to bring Proceedings in the name of the Granting party or otherwise and generally to do and receive anything that the Granting party is or may be entitled to do or receive thereunder or with respect thereto.

“Holder” or “Transition Bondholder” means the Person in whose name a Transition Bond of any Tranche is registered on the Transition Bond Register.

“Indemnity Amounts” means any indemnification obligations payable by the Servicer pursuant to the Servicing Agreement, the Seller pursuant to the Sale Agreement or the Issuer pursuant to Section 6.07 of the Indenture.

“Indenture” means this Indenture dated as of February [ ], 2008, between the Issuer and the Trustee, as the same may be amended and supplemented from time to time by one or more Supplemental Indentures, and shall include the forms and terms of the Transition Bonds established thereunder.

“Independent” means, when used with respect to any specified Person, that the Person

(a) is in fact independent of the Issuer, any other obligor upon the Transition Bonds, CenterPoint Houston and any Affiliate of any of the foregoing Persons,

(b) does not have any direct financial interest or any material indirect financial interest in the Issuer, any such other obligor, CenterPoint Houston or any Affiliate of any of the foregoing Persons and

(c) is not connected with the Issuer, any such other obligor, CenterPoint Houston or any Affiliate of any of the foregoing Persons as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions.

“Independent Certificate” means a certificate or opinion to be delivered to the Trustee made by an Independent appraiser from a nationally reputable appraisal firm or other expert appointed by an Issuer Order in the exercise of reasonable care, and such opinion or certificate shall state that the signer has read the definition of “Independent” in this Appendix A and that the signer is Independent within the meaning thereof.

“Intercreditor Agreement” means the intercreditor agreement that CenterPoint Houston, as Seller, enters into with the Trustee, the Issuer, CenterPoint Energy Transition Bond Company, LLC, CenterPoint Energy Transition Bond Company II, LLC, Deutsche Bank Trust Company Americas, as successor in interest to Bankers Trust Co., as trustee under that certain indenture dated as of October 24, 2001, related to the transition bonds issued by CenterPoint Energy Transition Bond Company, LLC, Wilmington Trust Company, as trustee under that certain indenture dated as of December 16, 2005, related to the transition bonds issued by CenterPoint Energy Transition Bond Company II, LLC, and other parties.

“Interest” means, for any Payment Date for any Tranche of the Transition Bonds, the sum, without duplication, of:

(a) an amount equal to the amount of interest accrued at the applicable interest rates from the prior Payment Date or, with respect to the first Payment Date, the amount of interest accrued since the Issuance Date, with respect to that Tranche;

(b) any unpaid interest plus, to the extent permitted by law, any interest accrued on this unpaid interest at the applicable interest rate;

(c) if the Transition Bonds have been declared due and payable, all accrued and unpaid interest thereon; and

(d) with respect to a Tranche to be redeemed prior to the next Payment Date, the amount of interest that will be payable as interest on such Tranche upon such redemption.

“Issuance Date” means the date on which the Transition Bonds are to be originally issued in accordance with Section 2.10 of the Indenture and the Supplement.

“Issuer” means CenterPoint Energy Transition Bond Company III, LLC, a Delaware limited liability company, or any successor thereto pursuant to Section 3.11 of the Indenture.

“Issuer Certificate of Formation” means the Certificate of Formation of the Issuer that was filed with the Delaware Secretary of State on August 30, 2007 as amended and restated on [ ], as the same may be amended and restated from time to time.

“Issuer LLC Agreement” means the Limited Liability Company Agreement between the Issuer and CenterPoint Houston, as sole Member, effective as of August 31, 2007, as amended and restated on February [ ], 2008, as the same may be amended and supplemented from time to time.

“Issuer Opinion of Counsel” means one or more written opinions of counsel who may, except as otherwise expressly provided in the Indenture, be employees of or counsel to the Issuer and who shall be satisfactory to the Trustee and the PUCT, and which opinion or opinions shall be addressed to the Trustee, as Trustee, and shall be in a form reasonably satisfactory to the Trustee.

“Issuer Officer’s Certificate” means a certificate on behalf of the Issuer signed by any Authorized Officer of the Issuer and delivered to the Trustee.

“Issuer Order” or “Issuer Request” means a written order or request signed in the name of the Issuer by any one of its Authorized Officers and delivered to the Trustee.

“Legal Defeasance Option” has the meaning specified in Section 4.01(b) of the Indenture.

“Lien” means a security interest, lien, charge, pledge, equity or encumbrance of any kind.

“Losses” means collectively, any and all liabilities, obligations, losses, damages, payments, costs or expenses of any kind whatsoever.

“Majority Holders” means the Holders of a majority of the Outstanding Amount of the Transition Bonds.

“Manager” means any manager of the Issuer.

“Member” means CenterPoint Houston, as the sole member of the Issuer, or any successor thereto.

“Moody’s” means Moody’s Investors Service, Inc., or any successor thereto.

“Officer’s Certificate” means, in respect of any Person, an officer’s certificate signed by an Authorized Officer of such Person; provided that unless otherwise specified, any reference in the Indenture to an Officer’s Certificate shall be to an Officer’s Certificate of any Authorized Officer of the Issuer.

“Operating Expenses” means, with respect to the Issuer, all fees, costs and expenses owed by the Issuer with respect to the Transition Bonds, including all amounts owed by the Issuer to the Trustee, the Servicing Fee (but excluding costs and expenses incurred by the Servicer except as specifically set forth in Section 6.08 of the Servicing Agreement), the fees and expenses payable by the Issuer to the Administrator under the Administration Agreement (but excluding any costs and expenses incurred by the Administrator in carrying out its duties under the Administration Agreement other than costs and expenses for services provided by unaffiliated third parties incurred by the Administrator in accordance with Sections 2 and 3 of the Administration Agreement), the fees and expenses payable by the Issuer to the independent manager of the Issuer, legal fees and expenses of the Servicer pursuant to the Servicing Agreement, and legal and accounting fees, costs and expenses of the Issuer.

“Opinion of Counsel” means one or more written opinions of counsel who may be an employee of or counsel to CenterPoint Houston or the Issuer, which counsel shall be reasonably acceptable to the Trustee, the PUCT, the Issuer or the Rating Agencies and which shall be in form reasonably satisfactory to the Trustee or the PUCT, if applicable.

“Outstanding” or “outstanding” with respect to Transition Bonds means, as of the date of determination, all Transition Bonds theretofore authenticated and delivered under the Indenture except:

(a) Transition Bonds theretofore canceled by the Transition Bond Registrar or delivered to the Transition Bond Registrar for cancellation;

(b) Transition Bonds or portions thereof the payment for which money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent in trust for the Holders of such Transition Bonds; provided, however, that if such Transition Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefor, satisfactory to the Trustee; and

(c) Transition Bonds in exchange for or in lieu of other Transition Bonds which have been authenticated and delivered pursuant to the Indenture unless proof satisfactory to the Trustee is presented that any such Transition Bonds are held by a bona fide purchaser;

provided that in determining whether the Holders of the requisite Outstanding Amount of the Transition Bonds or Tranche thereof have given any request, demand, authorization, direction, notice, consent or waiver hereunder or under any Basic Document, Transition Bonds owned by the Issuer, any other obligor upon the Transition Bonds, CenterPoint Houston or any Affiliate of any of the foregoing Persons shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be fully protected in relying upon any such request, demand, authorization, direction, notice,

consent or waiver, only Transition Bonds that a Responsible Officer of the Trustee knows to be so owned shall be so disregarded. Transition Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Transition Bonds and that the pledgee is not the Issuer, any other obligor upon the Transition Bonds, the Servicer or any Affiliate of any of the foregoing Persons.

"Outstanding Amount" means the aggregate principal amount of all Outstanding Transition Bonds or, if the context requires, all Outstanding Transition Bonds or Tranche Outstanding at the date of determination.

"Paying Agent" means the entity so designated in Section 3.03 of the Indenture or any other Person that meets the eligibility standards for the Trustee specified in Section 6.11 of the Indenture and is authorized by the Issuer to make the payments of Principal of or premium, if any, or Interest on the Transition Bonds on behalf of the Issuer.

"Payment Date" means, with respect to each Tranche of the Transition Bonds, each date or dates specified as Payment Dates for such Tranche in the Supplement, provided that if any such date is not a Business Day, the Payment Date shall be the Business Day immediately succeeding such date.

"Person" means any individual, corporation, estate, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), business trust, limited liability company, unincorporated organization or government or any agency or political subdivision thereof.

"Predecessor Transition Bond" means, with respect to any particular Transition Bond, every previous Transition Bond evidencing all or a portion of the same debt as that evidenced by such particular Transition Bond; and, for the purpose of this definition, any Transition Bond authenticated and delivered under Section 2.06 of the Indenture in lieu of a mutilated, lost, destroyed or stolen Transition Bond shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Transition Bond.

"Principal" means, with respect to any Payment Date and each Tranche of the Transition Bonds the sum, without duplication, of:

- (a) the amount of principal scheduled to be paid on such Payment Date in accordance with the Expected Amortization Schedule;
- (b) the amount of principal due on the Final Maturity Date of any Tranche if such Payment Date is the Final Maturity Date;
- (c) the amount of principal due as a result of the occurrence and continuance of an Event of Default and acceleration of the Transition Bonds;
- (d) the amount of principal and premium, if any, due as a result of a redemption of the Transition Bonds prior to such Payment Date; and

(e) any unpaid and previously scheduled payments of principal and overdue payments of principal.

“Pro Rata” has the meaning specified for such term in Section 8.02(d) of the Indenture.

“Proceeding” means any suit in equity, action at law or other judicial or administrative proceeding.

“Projected Transition Bond Balance” means, as of any date, the anticipated Outstanding Amount of the Transition Bonds after giving effect to payment of the sum of the amounts provided for in the Expected Amortization Schedules for the Transition Bonds to be paid on or before such date.

“PUCT” means the Public Utility Commission of Texas or any successor entity thereto.

“Qualified Costs” has the meaning assigned to that term in the Texas Electric Choice Plan and the Financing Order.

“Rating Agency” means any rating agency rating the Transition Bonds of any Tranche at the time of issuance thereof at the request of the Issuer, which initially shall be [Moody’s, Fitch and S&P]. If no such organization or successor is any longer in existence, “Rating Agency” shall be a nationally recognized statistical rating organization or other comparable Person designated by the Issuer, written notice of which designation shall be given to the Trustee and the Servicer.

“Rating Agency Condition,” with respect to the issuance of the Transition Bonds, has the meaning set forth in Section 2.10(7) of the Indenture and, with respect to any other action, means the notification in writing to each Rating Agency of such action, and confirmation from S&P to the Trustee and the Issuer that such action will not result in a reduction or withdrawal of the then current rating by such Rating Agency of any outstanding Tranche of the Transition Bonds.

“Record Date” means, with respect to any Payment Date for a Tranche, the date set forth as such in the Supplement therefor.

“Redemption Date” means, with respect to each Tranche of the Transition Bonds, the date for the redemption of the Transition Bonds or Tranche pursuant to Section 10.01 of the Indenture or the Supplement for such Tranche, which in each case shall be a Payment Date.

“Regulation AB” means the rules of the SEC promulgated under Subpart 229.1100 – Asset Backed Securities (Regulation AB), 17 C.F.R. §§229.1100-229.1123, as such may be amended from time to time.

“REP” means a retail electric provider under the Financing Order.

“REP Deposit Account” has the meaning specified in Section 8.06 of the Indenture.

“Required Capital Amount” means a capital contribution in an amount equal to the amount specified in the Supplement, representing a capital contribution from CenterPoint Houston.

“Responsible Officer” means, with respect to the Trustee, any officer within the Corporate Trust Office of the Trustee, including any Vice President, Director, Managing Director, associate, Assistant Vice President, Vice President, Secretary, Assistant Secretary, or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also, with respect to a particular matter, any other officer to whom such matter is referred because of such officer’s knowledge of and familiarity with the particular subject.

“Retiring Trustee” means a Trustee that resigns or vacates the office of Trustee for any reason.

“Sale Agreement” means the Transition Property Sale Agreement for the Transition Property between the Seller and the Issuer, as the same may be amended and supplemented from time to time.

“Securities Act” means the Securities Act of 1933, as amended.

“Seller” means CenterPoint Houston, or its successor, in its capacity as seller of the Transition Property to the Issuer pursuant to the Sale Agreement.

“Semiannual Servicer’s Certificate” means the statement prepared by the Servicer and delivered to the Trustee with respect to the Transition Bonds on or prior to each Payment Date therefor, the form of which is attached hereto as Schedule 1.

“Servicer” means CenterPoint Houston and each successor to or assignee of CenterPoint Houston, in its capacity as Servicer under the Servicing Agreement for the Transition Bonds.

“Servicer Default” means the occurrence and continuation of one of the events specified in the Servicing Agreement.

“Servicing Agreement” means the Transition Property Servicing Agreement between the Issuer and the Servicer for the Transition Property and acknowledged by the Trustee, as the same may be amended and supplemented from time to time.

“Servicing Fee” means the fee payable by the Issuer to the Servicer on each Payment Date with respect to the Transition Bonds in the amount to be specified in the Servicing Agreement.

“Standard & Poor’s” or “S&P” means Standard & Poor’s, a division of The McGraw-Hill Companies, or any successor thereto.

“State” means any one of the 50 states of the United States of America or the District of Columbia.

“Successor Servicer” means a successor Servicer appointed by the Trustee pursuant to the Servicing Agreement which will succeed to all the rights and duties of the Servicer under the Servicing Agreement.

“Supplement” means a Supplemental Indenture that authorizes the Transition Bonds.

“Supplemental Indenture” means a supplemental indenture entered into by the Issuer and the Trustee pursuant to Article IX of the Indenture.

“Texas Electric Choice Plan” means the Act of May 29, 2007, H.B. 624 §§ 2-4, 80th Leg., R.S. (to be codified as an amendment to Texas Utilities Code Sections 39.301-.303).

“Tranche” means any one of the groupings of the Transition Bonds differentiated by amortization, interest rate or sinking fund schedule, as specified in the Supplement.

“Tranche Final Maturity Date” means the Final Maturity Date of a Tranche, as specified in the Supplement.

“Tranche Subaccount” has the meaning specified in Section 8.02(a) of the Indenture.

“Transition Bond” means any of the transition bonds issued by the Issuer pursuant to the Indenture and the Supplement and also has the meaning given such term in the Texas Electric Choice Plan.

“Transition Bond Balance” means, as of any date, the aggregate Outstanding Amount of all the Transition Bonds on such date.

“Transition Bond Owner” means, with respect to a Book-Entry Transition Bond, the Person who is the beneficial owner of such Book-Entry Transition Bond, as reflected on the books of the Clearing Agency, or on the books of a Person maintaining an account with such Clearing Agency (directly as a Clearing Agency Participant or as an indirect participant, in each case in accordance with the rules of such Clearing Agency).

“Transition Bond Register” has the meaning specified in Section 2.05 of the Indenture.

“Transition Bond Registrar” means Deutsche Bank Trust Company Americas, in its capacity as keeper of the Transition Bond Register, or any other Person appointed to act in such capacity by the Issuer pursuant to Section 2.05 of the Indenture.

“Transition Charge Adjustment Process” means the process by which Transition Charges are adjusted pursuant to the Servicing Agreement, the Financing Order and the Texas Electric Choice Plan.

“Transition Charges” means the nonbypassable amounts to be charged for the use or availability of electric services, approved by the PUCT in the Financing Order to recover Qualified Costs, that may be collected by CenterPoint Houston, its successors, assignees or other collection agents as provided for in the Financing Order.

“Transition Property” means the rights and interests of the Seller or its successor under the Financing Order once those rights are first transferred to the Issuer or pledged in connection with the issuance of the Transition Bonds, including the irrevocable right to impose, collect and receive through Transition Charges payable by retail electric customers within the Seller’s certificated service area as it existed on May 1, 1999, an amount sufficient to cover the Qualified Costs of the Seller authorized in the Financing Order, the right to receive Transition Charges in amounts and at times sufficient to pay principal and interest and make other deposits in connection with the Transition Bonds and all revenues and collections resulting from Transition Charges.

“Trust Estate” means all Trust Estate securing all Transition Bonds issued under the Indenture.

“Trust Indenture Act or TIA” means the Trust Indenture Act of 1939, as amended, as in force on the date hereof, unless otherwise specifically provided.

“Trustee” means Deutsche Bank Trust Company Americas, as trustee, or its successor or any successor Trustee under the Indenture.

“UCC” means, unless the context otherwise requires, the Uniform Commercial Code, as in effect in the relevant jurisdiction, as amended from time to time.

“Underwriters” means the underwriters who purchase Transition Bonds or Tranche from the Issuer and sell such Transition Bonds in a public offering.

“Underwriting Agreement” means the underwriting agreement dated as of February [ ], 2008 entered into by the Issuer, CenterPoint Houston and the underwriters parties thereto in connection with the issuance of the Transition Bonds in accordance with the Financing Order.

“U.S. Government Obligations” means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable at the issuer’s option.

[Letterhead of Baker Botts L.L.P.]

January 25, 2008

CenterPoint Energy Transition Bond Company III, LLC  
1111 Louisiana, Suite 4689A  
Houston, Texas 77002

CenterPoint Energy Houston Electric, LLC  
1111 Louisiana  
Houston, Texas 77002

Ladies and Gentlemen:

We have acted as counsel for CenterPoint Energy Transition Bond Company III, LLC, a Delaware limited liability company (the "Company"), in connection with the preparation of Amendment No. 3 to the Registration Statement on Form S-3 (the "Registration Statement") filed by the Company and CenterPoint Energy Houston Electric, LLC, a Texas limited liability company ("CenterPoint Houston"), with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended, on January 25, 2008 relating to the proposed issuance of up to \$488,700,000 in aggregate principal amount of transition bonds (the "Transition Bonds") of the Company to be offered as described in the form of the prospectus supplement (the "Prospectus Supplement") and the prospectus (the "Prospectus") included as part of the Registration Statement and in connection with the matters set forth herein. Capitalized terms used in this letter and not defined herein have the meanings given to such terms in the Prospectus Supplement and Prospectus. At your request, this opinion is being furnished to you for filing as Exhibit 5.1 to the Registration Statement.

In our capacity as your counsel, we have examined originals or copies, certified or otherwise identified to our satisfaction, of such records of the Company and such agreements, certificates of public officials, certificates of officers or other representatives of the Company and others and such other documents, certificates and records as we have deemed necessary or appropriate as a basis for the opinions set forth herein, including:

(a) The Certificate of Formation of the Company, dated as of August 30, 2007, as filed in the office of the Secretary of State of the State of Delaware (the "Secretary of State") on August 30, 2007;

(b) The Limited Liability Company Agreement of the Company, effective as of August 31, 2007, executed by CenterPoint Houston, as sole member;

(c) A form of Amended and Restated Certificate of Formation of the Company (the "Certificate"), to be executed by CenterPoint Houston, as sole member, attached as an exhibit to the Registration Statement;

(d) A form of Amended and Restated Limited Liability Company Agreement of the Company (the "Agreement"), to be entered into by CenterPoint Houston, as sole member, and the managers named therein, attached as an exhibit to the Registration Statement;

(e) The Registration Statement;

(f) A form of Indenture and First Supplemental Indenture (as so supplemented, the "Indenture") to be entered into between the Company and Deutsche Bank Trust Company Americas, as trustee, attached as an exhibit to the Registration Statement, pursuant to which the Transition Bonds are to be issued; and

(g) A Certificate of Good Standing for the Company, dated January 24, 2008, obtained from the Secretary of State.

In our examination, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified, conformed or photostatic copies and the authenticity of the originals of such latter documents. In making our examination of documents, we have assumed that the parties thereto, other than the Company and CenterPoint Houston, had or will have the power, limited liability company or other, to enter into and perform all obligations thereunder and have also assumed the due authorization by all requisite action, limited liability company or other, and execution and delivery by such parties of such documents and the validity and binding effect thereof on such parties. As to any facts material to the opinions expressed herein which we have not independently established or verified, we have relied upon statements and representations of managers, officers and other representatives of the Company, CenterPoint Houston and others. We have not reviewed any document (other than the documents listed in paragraphs (a) through (g) above) that is referred to in or incorporated by reference into the documents reviewed by us. We have assumed that there exists no provision in any document that we have not reviewed that is inconsistent with the opinions stated herein. We have conducted no independent factual investigation of our own but rather have relied solely upon the foregoing documents, the statements and information set forth therein and the additional matters recited or assumed herein, all of which we have assumed to be true, complete and accurate in all material respects.

The opinions expressed below are based on the following assumptions:

(a) the Registration Statement will become effective;

- (b) the proposed transactions are consummated as contemplated in the Registration Statement;
- (c) prior to the issuance of the Transition Bonds:
  - (i) all necessary orders, approvals and authorizations for the Company's purchase of the transition property (as such term is used in the Prospectus Supplement and the Prospectus) from CenterPoint Houston in exchange for the net proceeds of Transition Bonds will have been obtained by the Company;
  - (ii) the Amended and Restated Limited Liability Company Agreement of the Company will have been executed and delivered by an authorized representative of CenterPoint Houston as sole member of the Company;
  - (iii) the Indenture will have been executed and delivered by the Company's authorized representative and Deutsche Bank Trust Company Americas, as trustee;
  - (iv) the maturity dates, the bond rates, the redemption provisions and the other terms of the Transition Bonds being offered will be fixed in accordance with the terms of the Indenture;
  - (v) the Sale Agreement between the Company and CenterPoint Houston, as Seller, will have been executed and delivered;
  - (vi) the Servicing Agreement between the Company and CenterPoint Houston, as Servicer, will have been executed and delivered;
  - (vii) the Underwriting Agreement among the Company, CenterPoint Houston and the underwriters of the Transition Bonds (the "Underwriting Agreement") will have been executed and delivered; and
  - (viii) the Manager or Managers of the Company have will taken all necessary action to approve and establish the terms of the Transition Bonds and the issuance thereof and to approve the terms of the offering of the Transition Bonds and related matters;
- (d) the Indenture will be qualified in accordance with the provisions of the Trust Indenture Act of 1939, as amended;
- (e) the Agreement constitutes the entire agreement among the parties thereto with respect to the subject matter thereof, including with respect to the

admission of members to, and the creation, operation, dissolution and termination of, the Company, and that the Agreement and the Certificate are in full force and effect and have not been amended and no amendment of the Agreement or the Certificate is pending or has been proposed;

- (f) except to the extent provided in paragraph 1 below, that each of the parties to the documents examined by us has been duly created, organized or formed, as the case may be, and is validly existing in good standing under the laws of the jurisdiction governing its creation, organization or formation;
- (g) the legal capacity of natural persons who are parties to the documents examined by us;
- (h) except to the extent provided in paragraph 2 below, that each of the parties to the documents examined by us has the power and authority to execute and deliver, and to perform its obligations under, such documents; and
- (i) except to the extent provided in paragraph 3 below, that each of the parties to the documents examined by us has duly authorized, executed and delivered such documents.

Based on and subject to the foregoing, we are of the opinion that:

1. The Company has been duly formed and is validly existing and in good standing as a limited liability company under the Delaware Limited Liability Company Act (the "Act").
2. Under the Act and the Agreement, the Company has all necessary limited liability company power and authority to execute and deliver the Indenture and to issue the Transition Bonds, and to perform its obligations under the Indenture and the Transition Bonds.
3. Under the Act and the Agreement, the execution and delivery by the Company of the Indenture and the Transition Bonds, and the performance by the Company of its obligations under the Indenture and the Transition Bonds, have been duly authorized by all necessary limited liability company action on the part of the Company.
4. When properly executed, authenticated and issued in accordance with the Indenture and delivered against payment of the purchase price provided for in the Underwriting Agreement, and upon satisfaction of all other conditions contained in the Indenture and the Underwriting Agreement, the Transition Bonds will constitute valid and binding obligations of the Company and will be enforceable against the Company in accordance with their terms, except to the extent that enforcement thereof may be limited by (1) bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws now or hereafter in

effect relating to creditor's rights generally and (2) general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity).

The opinions set forth above are limited in all respects to matters of Texas law and the Delaware Limited Liability Company Act as in effect on the day hereof. We consent to the filing of this opinion as an Exhibit to the Registration Statement and to the references to this Firm under the heading "Legal Matters" in the Prospectus and the Prospectus Supplement. In giving this consent, we do not thereby admit that we are included in the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the rules and regulations of the Commission.

Very truly yours,

/s/ Baker Botts L.L.P.

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January 25, 2008

001747.4583

CenterPoint Energy Transition Bond Company III, LLC  
1111 Louisiana, Suite 4689A  
Houston, Texas 77002CenterPoint Energy Houston Electric, LLC  
1111 Louisiana  
Houston, Texas 77002

Ladies and Gentlemen:

We have acted as counsel to CenterPoint Energy Transition Bond Company III, LLC, a Delaware limited liability company (the "Company"), and CenterPoint Energy Houston Electric, LLC, a Texas limited liability company ("CenterPoint Houston"), with respect to certain legal matters in connection with the Registration Statement on Form S-3 (Registration No. 333-147114) (the "Registration Statement") filed by the Company and CenterPoint Houston with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"), relating to the registration under the Act of the offering and issuance of up to \$488,700,000 aggregate principal amount of the Company's transition bonds (which amount may be increased pursuant to one or more registration statements filed pursuant to Rule 462 promulgated under the Act) (the "Transition Bonds") to be offered as described in the form of the prospectus and prospectus supplement included as part of the Registration Statement.

At your request, this opinion of counsel is being furnished to you for filing as Exhibit 8.1 to the Registration Statement. In providing this opinion, we have examined and are relying upon the truth and accuracy at all relevant times of the statements and representations contained in the Registration Statement, the Exhibits filed with the Registration Statement and other information provided to us by the Company. In giving such opinion, we have assumed that the issuance of the Transition Bonds by the Company will be consummated in the manner contemplated by the Registration Statement and in accordance with the form of indenture filed as Exhibit 4.1 to the Registration Statement. We also have examined such statutes and other instruments and documents that we deem necessary for purposes of the opinion hereinafter expressed.

Subject to the assumptions set forth above and to the qualifications and limitations set forth in the discussion in the Registration Statement under the heading "Material U.S. Federal Income Tax Consequences for the Transition Bondholders," such discussion constitutes our opinion with respect to the material United States federal income tax consequences of the ownership and disposition of the Transition Bonds by the holders addressed therein.

The opinion set forth above is limited in all respects to the tax matters specifically covered hereby. We hereby consent to the filing of this opinion with the Commission as Exhibit 8.1 to the Registration Statement and to the references to our Firm under the heading "Material

U.S. Federal Income Tax Consequences for the Transition Bondholders” and under the heading “Legal Matters” in the Registration Statement. In giving such consent, we do not hereby admit that we are in the category of persons whose consent is required under Section 7 of the Act or the rules and regulations of the Commission thereunder.

Very truly yours,

/s/ BAKER BOTTS L.L.P.

TRANSITION PROPERTY SALE AGREEMENT

between

CENTERPOINT ENERGY TRANSITION BOND COMPANY III, LLC

Issuer

and

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

Seller

Dated as of \_\_\_\_\_, 2008

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APPENDIX A DEFINITIONS

SCHEDULE 1

TRANSITION PROPERTY SALE AGREEMENT (this "Agreement") dated as of \_\_\_\_\_, 2008, between CENTERPOINT ENERGY TRANSITION BOND COMPANY III, LLC, a Delaware limited liability company (the "Issuer"), and CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, a Texas limited liability company, as seller (the "Seller").

WHEREAS, the Issuer desires to purchase the Transition Property created pursuant to the Texas Electric Choice Plan and the Financing Order;

WHEREAS, the Seller is willing to sell its rights and interests under the Financing Order to the Issuer whereupon such rights and interests will become the Transition Property;

WHEREAS, the Issuer, in order to finance the purchase of the Transition Property, will issue the Transition Bonds under the Indenture; and

WHEREAS, the Issuer, to secure its obligations under the Transition Bonds and the Indenture, will pledge its right, title and interest in the Transition Property and this Agreement to the Indenture Trustee for the benefit of the Transition Bondholders.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained and intending to be legally bound hereby, the parties hereto agree as follows:

## ARTICLE I

### DEFINITIONS

Section 1.01 *Definitions*. Capitalized terms used herein and not otherwise defined herein have the meanings assigned to them in Appendix A to this Agreement.

Section 1.02 *Other Definitional Provisions*.

(a) "Agreement" means this Transition Property Sale Agreement, as the same may be amended and supplemented from time to time.

(b) Non-capitalized terms used herein which are defined in the Texas Electric Choice Plan, as the context requires, have the meanings assigned to such terms in the Texas Electric Choice Plan, but without giving effect to amendments to the Texas Electric Choice Plan after the date hereof which have a material adverse effect on the Issuer or the Transition Bondholders.

(c) All terms defined in this Agreement shall have such defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein.

(d) The words "hereof," "herein," "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement; Section, Schedule and Exhibit references contained in this Agreement are references to Sections, Schedules and Exhibits in or to this Agreement unless otherwise specified; and the term "including" shall mean "including without limitation."

(e) The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms.

## ARTICLE II

### CONVEYANCE OF THE TRANSITION PROPERTY

#### Section 2.01 *Conveyance of the Transition Property.*

(a) In consideration of the Issuer's payment to or upon the order of the Seller of \$[ ] (the "Purchase Price"), subject to the satisfaction or waiver of the conditions specified in Section 2.02, the Seller does hereby irrevocably sell, transfer, assign, set over and otherwise convey to the Issuer, without recourse (subject to the obligations of the Seller herein) or warranty, except as set forth herein, all right, title and interest of the Seller in, to and under the Financing Order as identified in the Bill of Sale delivered pursuant to Section 2.02(i) on or prior to the Transfer Date whereupon such rights and interests under the Financing Order shall become the Transition Property (such sale, transfer, assignment, setting over and conveyance of the Transition Property to include, to the fullest extent permitted by the Texas Electric Choice Plan, the right to impose, collect and receive the Transition Charges, as the same may be adjusted from time to time). Such sale, transfer, assignment, setting over and conveyance of the Transition Property is hereby expressly stated to be a sale or other absolute transfer and, pursuant to Section 39.308 of the Texas Electric Choice Plan and other applicable law, is a true sale and is not a secured transaction and title, legal and equitable, has passed to the Issuer. The preceding sentence is the statement referred to in Section 39.308 of the Texas Electric Choice Plan. The Seller agrees and confirms that upon payment of the Purchase Price and the execution and delivery of this Agreement and the Bill of Sale, the sale, transfer and assignment hereunder shall be effective and the Seller shall have no right, title or interest in, to or under the Transition Property.

(b) Subject to the satisfaction or waiver of conditions specified in Section 2.02, the Issuer does hereby purchase the Transition Property from the Seller for the consideration set forth in Section 2.01(a).

(c) The Seller and the Issuer each acknowledge and agree that the purchase price for the Transition Property sold pursuant to this Agreement is equal to its fair market value at the time of sale.

(d) Notwithstanding the foregoing, in the event that the sale, transfer, assignment, setting over and conveyance of the Transition Property is determined by any court of competent jurisdiction not to be a true sale as contemplated by the parties and as provided in Section 39.308 of the Texas Electric

Choice Plan, then such sale, transfer, assignment, setting over and conveyance shall be treated as a pledge of and grant of a security interest in the Transition Property under Section 39.309 of the Texas Electric Choice Plan and under Articles 8 and 9 of the Uniform Commercial Code as enacted in the State of Texas and each other applicable jurisdiction (the "UCC"), and the Seller shall be deemed to have granted, and does hereby grant, as of the date hereof, a security interest to the Issuer on behalf of itself and the Indenture Trustee in the Transition Property to secure a payment obligation incurred by the Seller in the amount paid by the Issuer for the Transition Property.

Section 2.02 *Conditions to Conveyance of the Transition Property* . The obligation of the Seller to sell, and the obligation of the Issuer to purchase the Transition Property on the Transfer Date shall be subject to and conditioned upon the satisfaction or waiver of each of the following conditions:

- (i) on or prior to the Transfer Date, the Seller shall deliver to the Issuer a duly executed Bill of Sale identifying the Transition Property, substantially in the form of Exhibit A hereto;
- (ii) as of the Transfer Date, the representations and warranties of the Seller in this Agreement shall be true and correct in all material respects and no material breach by the Seller of its covenants in this Agreement shall exist and the Seller shall have delivered to the Issuer and the Indenture Trustee an Officer's Certificate to such effect and no Servicer Default shall have occurred and be continuing;
- (iii) as of the Transfer Date:
  - (A) the Issuer shall have sufficient funds available to pay the Purchase Price, and
  - (B) all conditions set forth in the Indenture to the issuance of the Transition Bonds intended to provide such funds shall have been satisfied or waived;
- (iv) on or prior to the Transfer Date, the Seller shall have taken all actions required under the Texas Electric Choice Plan, the Financing Order and other applicable law for the Issuer to have ownership of the Transition Property, free and clear of all Liens other than Liens created by the Issuer pursuant to the Indenture; and the Issuer, or the Servicer on behalf of the Issuer, shall have taken any action required for the Issuer to grant the Indenture Trustee a first priority perfected security interest in the Trust Estate and maintain such security interest as of such date (including all actions required under the Texas Electric Choice Plan, the Financing Order and the UCC);
- (v) the Seller shall have delivered to each Rating Agency and to the Issuer any Opinions of Counsel requested by the Rating Agencies;
- (vi) the Seller shall have delivered to the Indenture Trustee and the Issuer an Officer's Certificate confirming the satisfaction of each relevant condition precedent specified in this Section 2.02; and

(vii) the Seller shall have received the Purchase Price in funds immediately available on the Transfer Date.

### ARTICLE III

#### REPRESENTATIONS AND WARRANTIES OF SELLER

As of the Transfer Date, the Seller makes the following representations and warranties on which the Issuer has relied and will rely in acquiring the Transition Property. The following representations and warranties are made under existing law as in effect as of the Transfer Date. The Seller shall not be in breach of any representation or warranty herein as a result of a change in law occurring after the Transfer Date, including by means of legislative enactment, constitutional amendment or voter initiative. The representations and warranties shall survive the sale of the Transition Property to the Issuer and the pledge thereof on the Transfer Date to the Indenture Trustee pursuant to the Indenture.

Section 3.01 *Organization and Good Standing*. The Seller is a limited liability company duly organized and in good standing under the laws of the State of Texas, with limited liability company power and authority to own its properties and to conduct its business as currently owned or conducted.

Section 3.02 *Due Qualification*. The Seller is duly qualified to do business as a foreign limited liability company in good standing, and has obtained all necessary licenses and approvals, in all jurisdictions in which the ownership or lease of property or the conduct of its business requires such qualifications, licenses or approvals (except where the failure to so qualify or obtain such licenses and approvals would not be reasonably likely to have a material adverse effect on the Seller's business, operations, assets, revenues or properties).

Section 3.03 *Power and Authority*. The Seller has the limited liability company power and authority to obtain the Financing Order and to execute and deliver this Agreement and to carry out its terms; the Seller has the limited liability company power and authority to own the rights and interests under the Financing Order, and to sell and assign the rights and interests under the Financing Order to the Issuer, whereupon (subject to the effectiveness of the Issuance Advice Letter) such rights and interests will become the Transition Property; and the execution, delivery and performance of this Agreement have been duly authorized by the Seller by all necessary limited liability company action.

Section 3.04 *Binding Obligation*. This Agreement constitutes a legal, valid and binding obligation of the Seller, enforceable against the Seller in accordance with its terms, subject to bankruptcy, receivership, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' or secured parties' rights generally from time to time in effect and to general principles of equity (including concepts of materiality, reasonableness, good faith and fair dealing), regardless of whether considered in a proceeding in equity or at law.

Section 3.05 *No Violation*. The consummation of the transactions contemplated by this Agreement and the fulfillment of the terms hereof do not: (i) conflict with or result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time) a

default under, the articles of organization or limited liability company regulations of the Seller, or any indenture, mortgage, credit agreement or other agreement or instrument to which the Seller is a party or by which it or its properties is bound; (ii) result in the creation or imposition of any Lien upon any of the Seller's properties pursuant to the terms of any such indenture, agreement or other instrument (except for any Lien created in favor of the Transition Bondholders pursuant to Section 39.309 of the Texas Electric Choice Plan or any Lien created by the Issuer under the Basic Documents); or (iii) violate any existing law or any existing order, rule or regulation applicable to the Seller of any Governmental Authority having jurisdiction over the Seller or its properties.

Section 3.06 *No Proceedings*. Except as disclosed in the Issuer's prospectus dated \_\_\_\_\_, 2008 and the related prospectus supplement dated \_\_\_\_\_, 2008 relating to the Transition Bonds (together, the "Prospectus"), there are no proceedings pending and, to the Seller's knowledge, (x) there are no proceedings threatened and (y) there are no investigations pending or threatened before any Governmental Authority having jurisdiction over the Seller or its properties involving or relating to the Seller or the Issuer or, to the Seller's knowledge, any other Person:

- (i) asserting the invalidity of this Agreement, any of the other Basic Documents, the Transition Bonds, the Texas Electric Choice Plan or the Financing Order;
- (ii) seeking to prevent the issuance of the Transition Bonds or the consummation of any of the transactions contemplated by this Agreement or any of the other Basic Documents;
- (iii) seeking any determination or ruling that could reasonably be expected to materially and adversely affect the performance by the Seller of its obligations under, or the validity or enforceability of, this Agreement, any of the other Basic Documents or the Transition Bonds; or
- (iv) challenging the Seller's treatment of the Transition Bonds as debt of CenterPoint Energy, Inc. for federal or state income, gross receipts or franchise tax purposes.

Section 3.07 *Approvals*. Except for filings under the UCC and the Texas Electric Choice Plan, no approval, authorization, consent, order or other action of, or filing with, any Governmental Authority is required under an applicable law, rule or regulation in connection with the execution and delivery by the Seller of this Agreement, the performance by the Seller of the transactions contemplated hereby or the fulfillment by the Seller of the terms hereof, except those that have been obtained or made and those that the Seller, in its capacity as Servicer under the Servicing Agreement, is required to make in the future pursuant to the Servicing Agreement.

Section 3.08 *The Transition Property*.

(a) Information. Subject to Section 3.14, all written information, as amended or supplemented from time to time prior to the date this representation is made, provided by the Seller to the Issuer with respect to the Transition Property (including the Financing Order and the Issuance Advice Letter) is correct in all material respects.

(b) Effect of Transfer. It is the intention of the parties hereto that (other than for United States federal income tax purposes and, to the extent consistent with applicable state tax laws, state income and franchise tax purposes) the sale, transfer, assignment, setting over and conveyance herein contemplated constitutes a sale or other absolute transfer of all right, title and interest of the Seller in, to and under the Financing Order from the Seller to the Issuer whereupon (subject to the effectiveness of the Issuance Advice Letter) such rights and interests shall become the Transition Property; upon execution and delivery of this Agreement and the Bill of Sale and payment of the Purchase Price, the Seller will have no right, title or interest in, to or under the Transition Property; and that such Transition Property would not be a part of the estate of the Seller as debtor in the event of the filing of a bankruptcy petition by or against the Seller under any bankruptcy law.

(c) Transfer Filings.

(i) The Seller is the sole owner of the rights and interests under the Financing Order to be sold to the Issuer on the Transfer Date.

(ii) On the Transfer Date, immediately upon the sale hereunder, the Transition Property will have been validly sold, assigned, transferred, set over and conveyed to the Issuer free and clear of all Liens (except for any Lien created in favor of the Transition Bondholders pursuant to Section 39.309 of the Texas Electric Choice Plan or any Lien created by the Issuer under the Basic Documents).

(iii) All actions or filings (including filings with the Texas Secretary of State in accordance with the rules prescribed under the Texas Electric Choice Plan and the UCC) necessary in any jurisdiction to give the Issuer a perfected ownership interest (subject to any Lien created in favor of the Transition Bondholders pursuant to Section 39.309 of the Texas Electric Choice Plan or any Lien created by the Issuer under the Basic Documents) in the Transition Property and to grant to the Indenture Trustee a first priority perfected security interest in the Transition Property, free and clear of all Liens of the Seller or anyone else (except for any Lien created in favor of the Transition Bondholders pursuant to Section 39.309 of the Texas Electric Choice Plan or any Lien created by the Issuer under the Basic Documents), have been taken or made.

Section 3.09 *Solvency*. After giving effect to the sale of the Transition Property hereunder, the Seller:

(i) is solvent and expects to remain solvent,

(ii) is adequately capitalized to conduct its business and affairs considering its size and the nature of its business and intended purposes,

(iii) is not engaged and does not expect to engage in a business for which its remaining property represents an unreasonably small portion of its capital,

(iv) reasonably believes that it will be able to pay its debts as they come due, and

(v) is able to pay its debts as they come due and does not intend to incur, or believes that it will incur, indebtedness that it will not be able to repay at its maturity.

*Section 3.10 The Financing Order.*

(a) The Financing Order was issued by the Texas Commission on September 18, 2007 in accordance with the Texas Electric Choice Plan; the Financing Order and the process by which it was issued comply with all applicable laws, rules and regulations of the State of Texas and the federal laws of the United States, and the Financing Order is final, non-appealable and in full force and effect.

(b) As of the date of issuance of the Transition Bonds, the Transition Bonds will be entitled to the protections provided by the Texas Electric Choice Plan and the Financing Order, and the Financing Order and the Transition Charges authorized therein will have become irrevocable and not subject to reduction, impairment or adjustment by further action of the Texas Commission, except as permitted by Section 39.307 of the Texas Electric Choice Plan, and the Issuance Advice Letter has been filed in accordance with the Financing Order. The Texas Commission has not issued any order prior to noon on the fourth business day after submission of the Issuance Advice Letter that the Transition Bonds do not comply with Ordering Paragraph Five of the Financing Order and the initial Transition Charges and the final terms of the Transition Bonds set forth in the Issuance Advice Letter have become effective.

*Section 3.11 State Action.*

(a) Under the Texas Electric Choice Plan, the State of Texas has pledged that it will not take or permit any action that would impair the value of the Transition Property or, except as permitted in Section 39.307 of the Texas Electric Choice Plan, reduce, alter or impair the Transition Charges until the principal, interest and premium, if any, and any other charges incurred and contracts to be performed in connection with the Transition Bonds, have been paid and performed in full.

(b) Under the laws of the State of Texas and the federal laws of the United States, the State of Texas could not constitutionally take any action of a legislative character, including the repeal or amendment of the Texas Electric Choice Plan, which would substantially limit, alter or impair the Transition Property or other rights vested in the Transition Bondholders pursuant to the Financing Order, or substantially limit, alter, impair or reduce the value or amount of the Transition Property, unless such action is a reasonable exercise of the State of Texas' sovereign powers and of a character reasonable and appropriate to the important public purpose justifying such action, and, under the takings clauses of the State of Texas and United States Constitutions, the State of Texas could not repeal or amend the Texas Electric Choice Plan or take any other action in contravention of its pledge quoted above without paying just compensation to the Transition Bondholders, as determined by a court of competent jurisdiction, if doing so

would constitute a permanent appropriation of a substantial property interest of the Transition Bondholders in the Transition Property and deprive the Transition Bondholders of their reasonable expectations arising from their investments in the Transition Bonds; however, there is no assurance that, even if a court were to award just compensation, it would be sufficient to pay the full amount of principal of and interest on the Transition Bonds.

Section 3.12 *No Court Order*. There is no order by any court providing for the revocation, alteration, limitation or other impairment of the Texas Electric Choice Plan, the Financing Order, the Issuance Advice Letter, the Transition Property or the Transition Charges or any rights arising under any of them or that seeks to enjoin the performance of any obligations under the Financing Order.

Section 3.13 *Approvals Concerning the Transition Property*. Under the laws of the State of Texas and the federal laws of the United States, no other approval, authorization, consent, order or other action of, or filing with any Governmental Authority is required in connection with the creation or transfer of the Seller's rights and interests under the Financing Order and the Issuer's purchase of the Transition Property from the Seller, except those that have been obtained or made.

Section 3.14 *Assumptions*. Based on information available to the Seller on the date hereof, the assumptions used in calculating the Transition Charges in the Issuance Advice Letter are reasonable and made in good faith; however, notwithstanding the foregoing, **THE SELLER MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, THAT AMOUNTS ACTUALLY COLLECTED ARISING FROM THE TRANSITION CHARGES WILL IN FACT BE SUFFICIENT TO MEET THE PAYMENT OBLIGATIONS ON THE TRANSITION BONDS OR THAT THE ASSUMPTIONS USED IN CALCULATING SUCH TRANSITION CHARGES WILL IN FACT BE REALIZED.**

Section 3.15 *Creation of the Transition Property*.

(a) Upon the effectiveness of the Issuance Advice Letter, the transfer of the Seller's rights and interests under the Financing Order related to the Transition Bonds and the Issuer's purchase of the Transition Property from the Seller pursuant to this Agreement, the Transition Property will constitute a present property right.

(b) Upon the effectiveness of the Issuance Advice Letter, the transfer of the Seller's rights and interests under the Financing Order and the Issuer's purchase of the Transition Property from the Seller pursuant to this Agreement, the Transition Property includes:

- (1) the right to impose, collect and receive the Transition Charges, including the right to receive Transition Charges in amounts and at times sufficient to pay principal and interest on the Transition Bonds,
- (2) all rights and interest of the Seller under the Financing Order,

- (3) the rights to file for periodic adjustments of the Transition Charges as provided in the Financing Order, and
- (4) all revenues and collections resulting from the Transition Charges.

(c) Upon the effectiveness of the Issuance Advice Letter, the transfer of the Seller's rights and interests under the Financing Order and the Issuer's purchase of the Transition Property from the Seller on such Transfer Date pursuant to this Agreement, the Transition Property will not be subject to any Lien created by a previous indenture.

Section 3.16 *Prospectus*. As of the date hereof, the information describing the Seller under the caption "The Seller, Initial Servicer and Sponsor of the Transition Property" in the Prospectus is true and correct in all material respects.

Section 3.17 *Nature of Representations and Warranties*. The representations and warranties set forth in Section 3.08 and Section 3.10 through Section 3.16, insofar as they involve conclusions of law, are made not on the basis that the Seller purports to be a legal expert or to be rendering legal advice, but rather to reflect the parties' good faith understanding of the legal basis on which the parties are entering into this Agreement and the other Basic Documents and the basis on which the Transition Bondholders are purchasing the Transition Bonds, and to reflect the parties' agreement that, if such understanding turns out to be incorrect or inaccurate, the Seller will be obligated to indemnify the Issuer and its permitted assigns (to the extent required by and in accordance with Section 5.01), and that the Issuer and its permitted assigns will be entitled to enforce any rights and remedies under the Basic Documents on account of such inaccuracy to the same extent as if the Seller had breached any other representations or warranties hereunder.

## ARTICLE IV

### COVENANTS OF THE SELLER

Section 4.01 *Seller's Existence*. Subject to Section 5.02, so long as any of the Transition Bonds are outstanding, the Seller (i) shall keep in full force and effect its existence and remain in good standing under the laws of the state of its organization, and shall obtain and preserve its qualification to do business in each jurisdiction in which such qualification is or will be necessary to protect the validity and enforceability of this Agreement and each other instrument or agreement to which the Seller is a party necessary to the proper administration of this Agreement and the transactions contemplated hereby and (ii) hereby agrees to continue to operate its transmission and distribution system in order to provide electric services to retail electric customers in the Seller's certificated service area, provided that this clause (ii) shall not prohibit Seller from selling, assigning or otherwise divesting its transmission and distribution system or any part thereof in accordance with this Agreement and the Financing Order.

Section 4.02 *No Liens or Conveyances*. Except for the conveyances hereunder or any Lien under Section 39.309 of the Texas Electric Choice Plan for the benefit of the Issuer, the Indenture Trustee and the Transition Bondholders, the Seller shall not sell, pledge, assign or transfer to any other Person, or grant, create, incur, assume or suffer to exist any Lien on, any of

the Transition Property, whether now existing or hereafter created, or any interest therein. The Seller shall not at any time assert any Lien against or with respect to the Transition Property, and shall defend the right, title and interest of the Issuer and the Indenture Trustee, as assignee of the Issuer, in, to and under the Transition Property against all claims of third parties claiming through or under the Seller.

Section 4.03 *Delivery of Collections*. In the event that the Seller receives any payment under the terms and provisions of the Intercreditor Agreement in respect of the Transition Charges or the proceeds thereof other than in its capacity as the Servicer, the Seller shall pay the Servicer all payments received by the Seller in respect thereof, in accordance with the Intercreditor Agreement, as soon as practicable after receipt thereof by the Seller.

Section 4.04 *Notice of Liens*. The Seller shall notify the Issuer and the Indenture Trustee promptly after becoming aware of any Lien on the Transition Property, other than the conveyance hereunder, any Lien created in favor of the Transition Bondholders pursuant to Section 39.309 of the Texas Electric Choice Plan or any Lien created by the Issuer under the Indenture.

Section 4.05 *Compliance With Law*. The Seller shall comply with its organizational or governing documents and all laws, treaties, rules, regulations and determinations of any Governmental Authority applicable to the Seller, except to the extent that failure to so comply would not materially adversely affect the Issuer's or the Indenture Trustee's interests in the Transition Property or under any of the Basic Documents or the Seller's performance of its obligations hereunder.

Section 4.06 *Covenants Related to the Transition Property*.

(a) So long as any of the Transition Bonds are outstanding, the Seller shall:

(i) treat the Transition Bonds as debt of the Issuer and not of the Seller, except for financial reporting or tax purposes,

(ii) disclose in its financial statements that it is not the owner of the Transition Property and that the assets of the Issuer are not available to pay creditors of the Seller or any of its Affiliates (other than the Issuer),

(iii) disclose the effects of all transactions between the Seller and the Issuer in accordance with generally accepted accounting principles, and

(iv) not own or purchase any Transition Bonds.

(b) So long as any of the Transition Bonds is outstanding,

(i) in all proceedings relating directly or indirectly to the Transition Property, the Seller shall: (A) affirmatively certify and confirm that it has sold all of its rights and interests under the Financing Order to the Issuer (other than for financial reporting or tax purposes), and (B) not make any statement or reference in respect of the Transition Property that is inconsistent with the ownership thereof by the Issuer (other than for financial reporting or tax purposes); and

(ii) the Seller shall not take any action in respect of the Transition Property except solely in its capacity as the Servicer thereof pursuant to the Servicing Agreement or as contemplated by the Basic Documents, including the Intercreditor Agreement.

(c) The Seller agrees that upon the sale by the Seller of all of its rights and interests under the Financing Order to the Issuer pursuant to this Agreement, any payment to the Servicer by any Person responsible for remitting Transition Charges to the Servicer under the terms of the Financing Order or the Texas Electric Choice Plan or applicable tariff shall discharge such Person's obligations in respect of the Transition Property to the extent of such payment, notwithstanding any objection or direction to the contrary by the Seller.

Section 4.07 *Protection of Title*. The Seller shall execute and file such filings, and cause to be executed and filed such filings, in such manner and in such places as may be required by law fully to preserve, maintain and protect the interests of the Issuer and the Indenture Trustee in the Transition Property, including all filings required under the Texas Electric Choice Plan and the UCC relating to the transfer of the ownership of the rights and interests under the Financing Order by the Seller to the Issuer and the pledge of the Transition Property by the Issuer to the Indenture Trustee. The Seller shall deliver (or cause to be delivered) to the Issuer and the Indenture Trustee file-stamped copies of, or filing receipts for, any document filed as provided above, as soon as available following such filing. The Seller shall institute any action or proceeding reasonably necessary to compel performance by the Texas Commission or the State of Texas of any of their obligations or duties under the Texas Electric Choice Plan, the Financing Order or the Issuance Advice Letter relating to the transfer of the rights and interests under the Financing Order by the Seller to the Issuer, and the Seller agrees to take such legal or administrative actions, including defending against or instituting and pursuing legal actions and appearing or testifying at hearings or similar proceedings, in each case as may be reasonably necessary:

(a) to protect the Issuer and the Transition Bondholders from claims, state actions or other actions or proceedings of third parties which, if successfully pursued, would result in a breach of any representation set forth in Article III; or

(b) so long as the Seller is also the Servicer, to block or overturn any attempts to cause a repeal of, modification of or supplement to the Texas Electric Choice Plan, the Financing Order, the Issuance Advice Letter or the rights of Transition Bondholders by legislative enactment or constitutional amendment that would be materially adverse to the Issuer, the Indenture Trustee or the Transition Bondholders.

The costs of any such actions or proceedings shall be reimbursed by the Issuer to the Seller from amounts on deposit in the Collection Account as an Operating Expense (as such terms are defined in the Indenture) in accordance with the terms of the Indenture. The Seller's obligations pursuant to this Section 4.07 shall survive and continue notwithstanding that the payment of

Operating Expenses pursuant to the Indenture may be delayed (it being understood that the Seller may be required to advance its own funds to satisfy its obligation hereunder). The Seller designates the Issuer as its agent and attorney-in-fact to execute any filings of financing statements, continuation statements or other instruments required of the Seller pursuant to this Section 4.07, it being understood that the Issuer shall have no obligation to execute any such instruments.

Section 4.08 *Taxes*. So long as any of the Transition Bonds is outstanding, the Seller shall pay all material taxes, assessments and governmental charges imposed upon it or any of its properties or assets or with respect to any of its franchises, businesses, income or property before any penalty accrues thereon if the failure to pay any such taxes, assessments and governmental charges would, after any applicable grace periods, notices or other similar requirements, result in a Lien on the Transition Property; provided that no such tax need be paid if the Seller or any of its Affiliates is contesting the same in good faith by appropriate proceedings promptly instituted and diligently conducted and if the Seller or such Affiliate has established appropriate reserves as shall be required in conformity with generally accepted accounting principles.

Section 4.09 *Filings Pursuant to Financing Order*. The Seller shall comply with all filing requirements imposed upon the Seller in its capacity as such by the Financing Order, including making any such post-closing filings.

## ARTICLE V

### ADDITIONAL UNDERTAKINGS OF SELLER

The Seller hereby undertakes the obligations contained in this Article V and acknowledges that the Issuer shall have the right to assign its rights with respect to such obligations to the Indenture Trustee for the benefit of the Transition Bondholders.

#### SECTION 5.01 LIABILITY OF THE SELLER; INDEMNITIES.

(a) **THE SELLER SHALL BE LIABLE IN ACCORDANCE HERewith ONLY TO THE EXTENT OF THE OBLIGATIONS SPECIFICALLY UNDERTAKEN BY THE SELLER UNDER THIS AGREEMENT.**

(b) **THE SELLER SHALL INDEMNIFY THE ISSUER AND THE INDENTURE TRUSTEE, FOR ITSELF AND ON BEHALF OF THE TRANSITION BONDHOLDERS, AND EACH OF THEIR RESPECTIVE OFFICERS, DIRECTORS, MANAGERS, EMPLOYEES AND AGENTS FOR, AND DEFEND AND HOLD HARMLESS EACH SUCH PERSON FROM AND AGAINST, ANY AND ALL TAXES (OTHER THAN ANY TAXES IMPOSED ON TRANSITION BONDHOLDERS SOLELY AS A RESULT OF THEIR OWNERSHIP OF TRANSITION BONDS) THAT MAY AT ANY TIME BE IMPOSED ON OR ASSERTED AGAINST ANY SUCH PERSON UNDER EXISTING LAW AS OF THE TRANSFER DATE AS A RESULT OF THE SALE AND ASSIGNMENT OF THE SELLER'S RIGHTS AND INTERESTS UNDER THE FINANCING ORDER BY THE SELLER TO THE ISSUER, THE ACQUISITION OR HOLDING OF THE TRANSITION PROPERTY BY THE ISSUER OR THE ISSUANCE AND SALE BY THE ISSUER OF THE TRANSITION BONDS, INCLUDING ANY SALES, GROSS RECEIPTS, TANGIBLE PERSONAL PROPERTY, PRIVILEGE,**

FRANCHISE OR LICENSE TAXES, BUT EXCLUDING ANY TAXES IMPOSED AS A RESULT OF A FAILURE OF SUCH PERSON TO PROPERLY WITHHOLD OR REMIT TAXES IMPOSED WITH RESPECT TO PAYMENTS ON ANY TRANSITION BOND, IN THE EVENT AND TO THE EXTENT SUCH TAXES ARE NOT RECOVERABLE AS QUALIFIED COSTS, IT BEING UNDERSTOOD THAT THE TRANSITION BONDHOLDERS SHALL BE ENTITLED TO ENFORCE THEIR RIGHTS AGAINST THE SELLER UNDER THIS SECTION 5.01(B) SOLELY THROUGH A CAUSE OF ACTION BROUGHT FOR THEIR BENEFIT BY THE INDENTURE TRUSTEE IN ACCORDANCE WITH THE TERMS OF THE INDENTURE.

(c) THE SELLER SHALL INDEMNIFY THE ISSUER AND THE INDENTURE TRUSTEE, FOR ITSELF AND ON BEHALF OF THE TRANSITION BONDHOLDERS, AND EACH OF THEIR RESPECTIVE OFFICERS, DIRECTORS, MANAGERS, EMPLOYEES AND AGENTS FOR, AND DEFEND AND HOLD HARMLESS EACH SUCH PERSON FROM AND AGAINST, ANY AND ALL AMOUNTS OF PRINCIPAL OF AND INTEREST ON THE TRANSITION BONDS NOT PAID WHEN DUE OR WHEN SCHEDULED TO BE PAID IN ACCORDANCE WITH THEIR TERMS AND THE AMOUNT OF ANY DEPOSITS TO THE ISSUER REQUIRED TO HAVE BEEN MADE IN ACCORDANCE WITH THE TERMS OF THE BASIC DOCUMENTS WHICH ARE NOT MADE WHEN SO REQUIRED, IN EACH CASE AS A RESULT OF THE SELLER'S BREACH OF ANY OF ITS REPRESENTATIONS, WARRANTIES OR COVENANTS CONTAINED IN THIS AGREEMENT.

(d) THE SELLER SHALL INDEMNIFY THE ISSUER AND THE INDENTURE TRUSTEE, FOR ITSELF AND ON BEHALF OF THE TRANSITION BONDHOLDERS, AND EACH OF THEIR RESPECTIVE OFFICERS, DIRECTORS, MANAGERS, EMPLOYEES AND AGENTS FOR, AND DEFEND AND HOLD HARMLESS EACH SUCH PERSON FROM AND AGAINST, ANY AND ALL LIABILITIES, OBLIGATIONS, CLAIMS, ACTIONS, SUITS OR PAYMENTS OF ANY KIND WHATSOEVER THAT MAY BE IMPOSED ON OR ASSERTED AGAINST ANY SUCH PERSON (OTHER THAN ANY LIABILITIES, OBLIGATIONS OR CLAIMS FOR OR PAYMENTS OF PRINCIPAL OF OR INTEREST ON THE TRANSITION BONDS) TOGETHER WITH ANY REASONABLE COSTS AND EXPENSES INCURRED BY SUCH PERSON, IN EACH CASE AS A RESULT OF THE SELLER'S BREACH OF ANY OF ITS REPRESENTATIONS, WARRANTIES OR COVENANTS CONTAINED IN THIS AGREEMENT.

(e) THE INDEMNIFICATION OBLIGATIONS OF THE SELLER UNDER THIS SECTION 5.01 SHALL RANK *PARI PASSU* WITH ALL OTHER GENERAL UNSECURED OBLIGATIONS OF THE SELLER.

(f) INDEMNIFICATION UNDER THIS SECTION 5.01 SHALL SURVIVE THE RESIGNATION OR REMOVAL OF THE INDENTURE TRUSTEE AND THE TERMINATION OF THIS AGREEMENT AND SHALL INCLUDE REASONABLE FEES AND EXPENSES OF INVESTIGATION AND LITIGATION (INCLUDING REASONABLE ATTORNEYS' FEES AND EXPENSES). THE SELLER SHALL NOT INDEMNIFY ANY PARTY UNDER THIS SECTION 5.01 FOR ANY CHANGES IN LAW AFTER THE TRANSFER DATE, INCLUDING BY MEANS OF LEGISLATIVE ENACTMENT, CONSTITUTIONAL AMENDMENT OR VOTER INITIATIVE, OR FOR ANY LIABILITY RESULTING SOLELY FROM A DOWNGRADE IN ANY RATING OF THE TRANSITION BONDS BY ANY RATING AGENCY. THE SELLER SHALL NOT INDEMNIFY THE INDENTURE TRUSTEE OR ITS OFFICERS, DIRECTORS, MANAGERS, EMPLOYEES OR AGENTS UNDER THIS SECTION 5.01 AGAINST ANY LIABILITY, OBLIGATION, CLAIM, ACTION, SUIT OR PAYMENT OF ANY KIND ARISING OUT OF THE WILLFUL MISCONDUCT, NEGLIGENCE OR BAD FAITH OF ANY SUCH PERSON.

**NOTWITHSTANDING THE FOREGOING, IN NO EVENT SHALL ANY SUCH FOREGOING INDEMNITY EXTEND TO THE COLLECTIBILITY OF THE TRANSITION CHARGES FROM ANY PERSON RESPONSIBLE FOR REMITTING TRANSITION CHARGES TO THE SERVICER UNDER THE TERMS OF THE FINANCING ORDER, THE TEXAS ELECTRIC CHOICE PLAN OR AN APPLICABLE TARIFF, OR THE CREDITWORTHINESS OF ANY SUCH PERSON. THE REMEDIES PROVIDED IN THIS AGREEMENT ARE THE SOLE AND EXCLUSIVE REMEDIES AGAINST THE SELLER FOR BREACH OF ITS REPRESENTATIONS, WARRANTIES OR COVENANTS IN THIS AGREEMENT.**

Section 5.02 *Merger or Consolidation of, or Assumption of the Obligations of, the Seller.*

Any Person:

(a) into which the Seller may be merged, converted or consolidated and which succeeds to all or substantially all of the electric transmission and distribution business of the Seller (or, if the transmission and distribution business is split, which provides distribution service directly to a majority of the retail electric customers in the Seller's certificated service area as it existed on May 1, 1999),

(b) which results from the division of the Seller into two or more Persons and which succeeds to all or substantially all of the electric transmission and distribution business of the Seller (or, if the transmission and distribution business is split, which provides distribution service directly to a majority of the retail electric customers in the Seller's certificated service area as it existed on May 1, 1999),

(c) which may result from any merger, conversion or consolidation to which the Seller shall be a party and which succeeds to all or substantially all of the electric transmission and distribution business of the Seller (or, if the transmission and distribution business is split, which provides distribution service directly to a majority of the retail electric customers in the Seller's certificated service area as it existed on May 1, 1999),

(d) which may purchase or otherwise succeed to the properties and assets of the Seller substantially as a whole and which purchases or otherwise succeeds to all or substantially all of the electric transmission and distribution business of the Seller (or, if the transmission and distribution business is split, which provides distribution service directly to a majority of the retail electric customers in the Seller's certificated service area as it existed on May 1, 1999), or

(e) which may otherwise purchase or succeed to all or substantially all of the electric transmission and distribution business of the Seller (or, if the transmission and distribution business is split, which provides distribution service directly to a majority of the retail electric customers in the Seller's certificated service area as it existed on May 1, 1999),

which Person in any of the foregoing cases executes an agreement of assumption to perform every obligation of the Seller under this Agreement, shall be the successor to the Seller hereunder without the execution or filing of any document or any further act by any of the parties to this Agreement; provided, however, that

(i) immediately after giving effect to such transaction, no representation or warranty made pursuant to Article III shall have been breached in any material respect and no Servicer Default, and no event that, after notice or lapse of time, or both, would become a Servicer Default, shall have occurred and be continuing,

(ii) the Rating Agencies shall have received prior written notice of such transaction,

(iii) the Seller shall have delivered to the Issuer and the Indenture Trustee an Officer's Certificate and an Opinion of Counsel each stating that such consolidation, conversion, merger, division or succession and such agreement of assumption comply with this Section 5.02 and that all conditions precedent, if any, provided for in this Agreement relating to such transaction have been complied with,

(iv) the Seller shall have delivered to the Issuer and the Indenture Trustee an Opinion of Counsel either

(A) stating that, in the opinion of such counsel, all filings to be made by the Seller, including filings with the Texas Commission pursuant to the Texas Electric Choice Plan and the UCC, that are necessary fully to preserve and protect the respective interests of the Issuer and the Indenture Trustee in the Transition Property have been executed and filed, and reciting the details of such filings, or

(B) stating that, in the opinion of such counsel, no such action is necessary to preserve and protect such interests, and

(v) the Seller shall have delivered to the Issuer, the Indenture Trustee and the Rating Agencies an opinion of independent tax counsel (as selected by, and in form and substance satisfactory to the Seller, and which may be based on a ruling from the Internal Revenue Service) to the effect that, for federal income tax purposes, such transaction will not result in a material adverse federal income tax consequence to the Issuer, the Indenture Trustee or the Transition Bondholders.

The Seller shall not consummate any transaction referred to in clauses (a), (b), (c), (d) or (e) above except upon execution of the above described agreement of assumption and compliance with clauses (i), (ii), (iii), (iv) and (v) above. When any Person acquires the properties and assets of the Seller substantially as a whole and succeeds to all or substantially all of the electric transmission and distribution business of the Seller (or, if the transmission and distribution business is split, which provides distribution service directly to a majority of the retail electric customers in the Seller's certificated service area as it existed on May 1, 1999), or otherwise becomes the successor to the Seller in accordance with the terms of this Section 5.02, then upon the satisfaction of all of the other conditions of this Section 5.02, the Seller shall automatically and without further notice be released from its obligations hereunder.

Section 5.03 *Limitation on Liability of the Seller and Others*. The Seller and any manager, officer, employee or agent of the Seller may rely in good faith on the advice of counsel or on any document of any kind, prima facie properly executed and submitted by any Person, respecting any matters arising hereunder. Subject to Section 4.07, the Seller shall not be under any obligation to appear in, prosecute or defend any legal action that is not incidental to its obligations under this Agreement, and that in its opinion may involve it in any expense or liability.

## ARTICLE VI

### MISCELLANEOUS PROVISIONS

#### Section 6.01 *Amendment*.

(a) This Agreement may be amended in writing by the Seller and the Issuer, provided that (i) the Rating Agency Condition has been satisfied in connection therewith, (ii) the Indenture Trustee has consented thereto and (iii) in the case of any amendment that increases ongoing qualified costs as defined in the Financing Order, the Texas Commission has consented thereto or shall be conclusively deemed to have consented thereto. Promptly after the execution of any such amendment or consent, the Issuer shall furnish written notification of the substance of such amendment or consent to each of the Rating Agencies. With respect to the Texas Commission's consent to any amendment to this Agreement,

(i) the Seller may request the consent of the Texas Commission by delivering to the Texas Commission's executive director and general counsel a written request for such consent, which request shall contain:

(A) a reference to Docket No. 34448 and a statement as to the possible effect of the amendment on ongoing qualified costs;

(B) an Officer's Certificate stating that the proposed amendment has been approved by all relevant parties; and

(C) a statement identifying the person to whom the Texas Commission or its staff is to address its consent to the proposed amendment or request additional time;

(ii) The Texas Commission shall, within 30 days of receiving the request for consent complying with Section 6.01(a)(i) above, either

(A) provide notice of its consent or lack of consent to the person specified in Section 6.01(a)(i)(C) above, or

(B) be conclusively deemed to have consented to the proposed amendment,

unless, within 30 days of receiving the request for consent complying with Section 6.01(a)(i) above, the Texas Commission or its staff delivers to the office of the person specified in Section 6.01(a)(i)(C) above a written statement requesting an additional amount of time not to exceed 30 days in which to consider whether to consent to the proposed amendment. If the Texas Commission or its staff requests an extension of time in the manner set forth in the preceding sentence, then the Texas Commission shall either provide notice of its consent or lack of consent to the person specified in 6.01(a)(i)(C) above no later than the last day of such extension of time or be conclusively deemed to have consented to the proposed amendment as of the last day of such extension of time.

Any amendment requiring the consent of the Texas Commission as provided in this Section 6.01(a) shall become effective on the later of (i) the date proposed by the parties to such amendment and (ii) the first day after the expiration of the 30 day period provided for in Section 6.01(a)(ii), or, if such period has been extended pursuant thereto, the first day after the expiration of such period as so extended.

(b) Prior to the execution of any amendment to this Agreement, the Issuer and the Indenture Trustee shall be entitled to receive and rely upon an Opinion of Counsel stating that the execution of such amendment is authorized or permitted by this Agreement. The Issuer and the Indenture Trustee may, but shall not be obligated to, enter into any such amendment that affects their own rights, duties or immunities under this Agreement or otherwise. Following delivery of a notice to the Texas Commission by the Seller under Section 6.01(a) above, the Seller and Issuer may at any time withdraw from the Texas Commission further consideration of any notification of a proposed amendment.

Section 6.02 *Notices*. Unless otherwise specifically provided herein, all demands, notices and communications upon or to the Seller, the Issuer, the Indenture Trustee, the Texas Commission or the Rating Agencies under this Agreement shall be in writing, delivered personally, via facsimile, reputable overnight courier or by certified mail, return-receipt requested, and shall be deemed to have been duly given upon receipt

(a) in the case of the Seller, to CenterPoint Energy Houston Electric, LLC, 1111 Louisiana Street, Houston, Texas 77002, Attention: Treasurer,

(b) in the case of the Issuer, to CenterPoint Energy Transition Bond Company III, LLC, 1111 Louisiana Street, Suite 4689A, Houston, Texas 77002, Attention: Manager,

(c) in the case of Moody's, to Moody's Investors Service, Inc., ABS Monitoring Department, 99 Church Street, New York, New York 10007,

(d) in the case of Standard & Poor's, to Standard & Poor's, a Division of the McGraw-Hill Companies, 55 Water Street, New York, New York 10041, Attention: Asset Backed Surveillance Department,

- (e) in the case of Fitch, to Fitch Ratings, 1 State Street Plaza, New York, New York 10004, Attention: ABS Surveillance,
- (f) in the case the Indenture Trustee, at the address provided for notices or communications to the Indenture Trustee in the Indenture, and
- (g) in the case of the Texas Commission, to 1701 N. Congress Avenue, Austin, Texas 78711-3326, Attention: Executive Director and General Counsel;

or, as to each of the foregoing, at such other address as shall be designated by written notice to the other parties.

Section 6.03 *Assignment by the Seller*. Notwithstanding anything to the contrary contained herein, except as provided in Section 5.02, this Agreement may not be assigned by the Seller.

Section 6.04 *Assignment to the Indenture Trustee*. The Seller hereby acknowledges and consents to any pledge, assignment and grant of a security interest by the Issuer to the Indenture Trustee pursuant to the Indenture for the benefit of the Transition Bondholders of all right, title and interest of the Issuer in, to and under the Transition Property and the proceeds thereof and the assignment of any or all of the Issuer's rights hereunder to the Indenture Trustee. Notwithstanding such assignment, in no event shall the Indenture Trustee have any liability for the representations, warranties, covenants, agreements or other obligations of the Issuer hereunder or in any of the certificates, notices or agreements delivered pursuant hereto, as to all of which recourse shall be had solely to the assets of the Issuer.

Section 6.05 *Limitations on Rights of Others*. The provisions of this Agreement are solely for the benefit of the Seller, the Issuer and the Indenture Trustee, on behalf of itself and the Transition Bondholders, and nothing in this Agreement, whether express or implied, shall be construed to give to any other Person any legal or equitable right, remedy or claim in the Trust Estate or under or in respect of this Agreement or any covenants, conditions or provisions contained herein.

Section 6.06 *Severability*. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 6.07 *Separate Counterparts*. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 6.08 *Headings*. The headings of the various Articles and Sections herein are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

Section 6.09 *Governing Law*. **THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.**

Section 6.10 *Nonpetition Covenants*. (a) Notwithstanding any prior termination of this Agreement or the Indenture, the Seller shall not, prior to the date which is one year and one day after the termination of the Indenture, petition or otherwise invoke or cause the Issuer to invoke the process of any Governmental Authority for the purpose of commencing or sustaining a case against the Issuer under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Issuer or any substantial part of the property of the Issuer, or ordering the winding-up or liquidation of the affairs of the Issuer.

(b) Notwithstanding any prior termination of this Agreement or the Indenture, the Issuer shall not, prior to the date which is one year and one day after the termination of the Indenture, petition or otherwise invoke or cause the Seller to invoke the process of any Governmental Authority for the purpose of commencing or sustaining a case against the Seller under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Seller or any substantial part of the property of the Seller, or ordering the winding-up or liquidation of the affairs of the Seller.

[Rest of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first above written.

CENTERPOINT ENERGY TRANSITION BOND COMPANY  
III, LLC,  
as Issuer,

By: \_\_\_\_\_  
Name:  
Title:

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC,  
as Seller,

By: \_\_\_\_\_  
Name:  
Title:

## APPENDIX A - DEFINITIONS

The definitions contained in this Appendix A are applicable to the singular as well as the plural forms of such terms.

“Administration Agreement” means the Administration Agreement, dated as of \_\_\_\_\_, 2008, between the Issuer and the Seller, as the same may be amended and supplemented from time to time.

“Affiliate” means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, control, when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms controlling and controlled have meanings correlative to the foregoing.

“Agreement” or this “Sale Agreement” means this Transition Property Sale Agreement, as the same may be amended and supplemented from time to time.

“Basic Documents” means the Certificate of Formation of the Issuer which was filed with the Secretary of State of the State of Delaware on August 30, 2007, as amended and restated on \_\_\_\_\_, 2008, the Amended and Restated Limited Liability Company Agreement of the Issuer dated as of \_\_\_\_\_, 2008, this Sale Agreement, the Bill of Sale, the Servicing Agreement, the Intercreditor Agreement, the Administration Agreement, the Indenture and the Series Supplement.

“Bill of Sale” means the Bill of Sale, dated as of \_\_\_\_\_, 2008, issued by the Seller to the Issuer pursuant to the Sale Agreement evidencing the sale of the Transition Property by the Seller to the Issuer.

“Business Day” means any day other than a Saturday or Sunday or a day on which banking institutions in the City of Houston, Texas, or in the City of New York, New York, are required or authorized by law or executive order to remain closed.

“CenterPoint Houston” means CenterPoint Energy Houston Electric, LLC, a Texas limited liability company, or its successor.

“Financing Order” means the Financing Order issued by the Texas Commission on September 18, 2007 in Docket No. 34448 pursuant to the Texas Electric Choice Plan.

“Fitch” means Fitch Ratings, or its successor.

“Governmental Authority” means any court or any federal or state regulatory body, administrative agency or governmental instrumentality.

“Indenture” means the Indenture, dated as of \_\_\_\_\_, 2008, among the Issuer and the Indenture Trustee, and the Series Supplement (including the forms and terms of the Transition Bonds), as the same may be amended and supplemented with respect to the Transition Bonds from time to time.

“Indenture Trustee” means Deutsche Bank Trust Company Americas, or its successor or any successor Indenture Trustee under the Indenture.

“Intercreditor Agreement” means the Intercreditor Agreement dated as of \_\_\_\_\_, 2008, among the Indenture Trustee, the Issuer, the Seller, CenterPoint Energy Transition Bond Company, LLC, CenterPoint Energy Transition Bond Company II, LLC and the other parties thereto, each in the capacities stated therein, as the same may be amended and supplemented from time to time.

“Issuance Advice Letter” means the issuance advice letter submitted to the Texas Commission on \_\_\_\_\_, 2008 by the Seller pursuant to the Financing Order in connection with the issuance of the Transition Bonds.

“Issuer” means CenterPoint Energy Transition Bond Company III, LLC, a Delaware limited liability company, or its successor under the Indenture.

“Lien” means a security interest, lien, charge, pledge, equity or encumbrance of any kind.

“Moody’s” means Moody’s Investors Service, Inc., or any successor thereto.

“Officer’s Certificate” means a certificate signed, in the case of the Seller, by any manager, the chairman of the board, the chief executive officer, the president, any vice chairman, any executive vice president, senior vice president or vice president, the treasurer, assistant treasurer, the secretary or any assistant secretary of the Seller.

“Opinion of Counsel” means one or more written opinions of counsel who may be an employee of or counsel to the Issuer or the Seller, which counsel shall be reasonably acceptable to the Indenture Trustee, the Issuer or the Rating Agencies, as applicable, and which shall be in form reasonably satisfactory to the Indenture Trustee, if applicable.

“Person” means any individual, corporation, estate, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), business trust, limited liability company, unincorporated organization or government or any agency or political subdivision thereof.

“proceeding” means any suit in equity, action at law or other judicial or administrative proceeding.

“Prospectus” has the meaning specified in Section 3.06 hereof.

“Purchase Price” has the meaning specified in Section 2.01(a) hereof.

“Qualified Costs” has the meaning assigned to that term in the Texas Electric Choice Plan and the Financing Order.

“Rating Agency” means any rating agency rating the Transition Bonds at the time of issuance thereof at the request of the Issuer, which initially shall be Moody’s, Fitch and S&P. If no such organization or successor is any longer in existence, “Rating Agency” shall be a nationally recognized statistical rating organization or other comparable Person designated by the Issuer, written notice of which designation shall be given to the Indenture Trustee, the Texas Commission and the Servicer.

“Rating Agency Condition” means, with respect to any action, the notification in writing to each Rating Agency of such action, and confirmation from S&P to the Indenture Trustee and the Issuer that such action will not result in a reduction or withdrawal of the then current rating by such Rating Agency of any outstanding class or tranche of Transition Bonds.

“Seller” means CenterPoint Houston, or its successor, in its capacity as seller of the Transition Property to the Issuer pursuant to the Sale Agreement.

“Series Supplement” means the First Supplemental Indenture, dated as of \_\_\_\_\_, 2008, among the Issuer and the Indenture Trustee, which specifies the terms of the Transition Bonds.

“Servicer” means CenterPoint Houston, in its capacity as the servicer under the Servicing Agreement, and each successor to or assignee of CenterPoint Houston (in the same capacity) pursuant to the relevant sections of the Servicing Agreement.

“Servicer Default” means the occurrence and continuation of one of the events specified in Section 6.01 of the Servicing Agreement.

“Servicing Agreement” means the Transition Property Servicing Agreement, dated as of \_\_\_\_\_, 2008, between the Issuer and the Servicer and acknowledged by the Indenture Trustee, as the same may be amended and supplemented from time to time.

“Standard & Poor’s” or “S&P,” means Standard & Poor’s, a division of The McGraw-Hill Companies, or its successor.

“Texas Commission” means the Public Utility Commission of Texas or any successor.

“Texas Electric Choice Plan” means the Act of May 21, 1999, 76th Leg. R.S. ch. 405, 1999 (codified at Texas Utilities Code Section 39.001 *et seq.*), as amended by Act of May 29, 2007, H.B. 624 §§ 2-4, 80th Leg., R.S. (to be codified as an amendment to Texas Utilities Code Sections 39.301-39.303).

“Transfer Date” means the date on which the Transition Bonds are to be originally issued in accordance with Section 2.10 of the Indenture.

“Transition Bond” means any of the 2008 Senior Secured Transition Bonds issued by the Issuer pursuant to the Indenture and the Series Supplement.

“Transition Bondholder” means a Person in whose name a Transition Bond is registered on the Transition Bond Register.

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“Transition Bond Register” has the meaning specified in Section 2.05 of the Indenture.

“Transition Charges” means the nonbypassable amounts to be charged for the use or availability of electric services, approved by the Texas Commission in the Financing Order to recover Qualified Costs that may be collected by the Seller, its successors, assignees or other collection agents as provided for in the Financing Order.

“Transition Property” means the rights and interests of the Seller or its successor under the Financing Order, once those rights are first transferred to the Issuer or pledged in connection with the issuance of the Transition Bonds, including the right to impose, collect and receive through Transition Charges payable by retail electric customers within Seller’s certificated service area as it existed on May 1, 1999, an amount sufficient to cover the Qualified Costs of the Seller authorized in the Financing Order, the right to receive Transition Charges in amounts and at times sufficient to pay principal and interest and make other deposits in connection with the Transition Bonds and all revenues and collections resulting from Transition Charges.

“Trust Estate” has the meaning specified in the Series Supplement.

“UCC” means, unless the context otherwise requires, the Uniform Commercial Code, as in effect in the relevant jurisdiction, as amended from time to time.

EXHIBIT A

BILL OF SALE

1. This Bill of Sale is being delivered pursuant to the Transition Property Sale Agreement, dated as of \_\_\_\_\_, 2008 (the "Sale Agreement"), between CenterPoint Energy Houston Electric, LLC (the "Seller") and CenterPoint Energy Transition Bond Company III, LLC (the "Issuer"). All capitalized terms used but not defined herein have the respective meanings ascribed thereto in the Sale Agreement.

2. In consideration of the Issuer's payment to the Seller of \$[ ], receipt of which is hereby acknowledged, the Seller does hereby irrevocably sell, transfer, assign, set over and otherwise convey to the Issuer, without recourse or warranty, except as set forth in the Sale Agreement, all right, title and interest of the Seller in, to and under the Transition Property identified on Schedule 1 hereto (such sale, transfer, assignment, setting over and conveyance of the Transition Property includes, to the fullest extent permitted by the Texas Electric Choice Plan, the right to impose, collect and receive the Transition Charges related to the Transition Property, as the same may be adjusted from time to time). Such sale, transfer, assignment, setting over and conveyance is hereby expressly stated to be a sale or other absolute transfer and, pursuant to Section 39.308 of the Texas Electric Choice Plan and other applicable law, is a true sale and is not a secured transaction and title, legal and equitable, has passed to the Issuer. The preceding sentence is the statement referred to in Section 39.308 of the Texas Electric Choice Plan. The Seller agrees and confirms that, after giving effect to the sale evidenced by this Bill of Sale, the Seller has no right, title or interest in, to or under the Transition Property.

3. The Issuer does hereby purchase the Transition Property identified on Schedule 1 hereto from the Seller for the consideration set forth in paragraph 2 above.

4. The Seller and the Issuer each acknowledge and agree that the purchase price for the Transition Property sold pursuant to this Bill of Sale and the Sale Agreement is equal to its fair market value on the date hereof.

5. The Seller confirms that each of the representations and warranties on the part of the Seller contained in the Sale Agreement are true and correct in all respects on the date hereof as if made on the date hereof.

6. This Bill of Sale may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

**7. THIS BILL OF SALE SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.**

Exhibit A-1

IN WITNESS WHEREOF, the Seller and the Issuer have duly executed this Bill of Sale as of the [        ] day of \_\_\_\_\_ 2008.

CENTERPOINT ENERGY TRANSITION BOND COMPANY  
III, LLC,  
as Issuer,

By: \_\_\_\_\_  
Name:  
Title:

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC,  
as Seller,

By: \_\_\_\_\_  
Name:  
Title:

Exhibit A-2

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SCHEDULE 1  
to  
BILL OF SALE

Transition Property

All of the Seller's rights, title and interest in, to and under the Financing Order issued by the Texas Commission on September 18, 2007 (PUC Docket No. 34448), pursuant to the Texas Electric Choice Plan, including rights to impose, collect and receive the "transition charges" (as defined in the Texas Electric Choice Plan) approved in such Financing Order.

TRANSITION PROPERTY SERVICING AGREEMENT

between

CENTERPOINT ENERGY TRANSITION BOND COMPANY III, LLC

Issuer

and

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

Servicer

Dated as of February [ ], 2008

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TRANSITION PROPERTY SERVICING AGREEMENT dated as of February [ ], 2008 (this "Agreement") between CENTERPOINT ENERGY TRANSITION BOND COMPANY III, LLC, a Delaware limited liability company (the "Issuer"), and CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, a Texas limited liability company ("CenterPoint Houston"), as the servicer of the Transition Property hereunder (together with each successor to CenterPoint Houston in such capacity pursuant to Section 6.03 or 7.04, the "Servicer").

WHEREAS, pursuant to the Texas Electric Choice Plan and the Financing Order, the Seller and the Issuer are concurrently entering into the Sale Agreement dated as of the date hereof pursuant to which the Seller is selling and the Issuer is purchasing the Transition Property created pursuant to the Texas Electric Choice Plan and the Financing Order;

WHEREAS the Servicer is willing to service the Transition Property purchased from the Seller by the Issuer;

WHEREAS the Issuer, in connection with ownership of the Transition Property, desires to engage the Servicer to carry out the functions described herein;

WHEREAS, the Transition Charges may not be itemized on Customers' bills and the TC Collections initially will be commingled with other funds Servicer collects from Customers and REPs;

WHEREAS, the Financing Order calls for the Servicer to execute a servicing agreement with the Issuer pursuant to which the Servicer will be required, among other things, to impose and collect the Transition Charges for the benefit and account of the Issuer, to make periodic Transition Charge Adjustments required or allowed by the Financing Order, and to account for and remit the Transition Charges to or for the account of the Issuer in accordance with the remittance procedures contained in this Agreement without any charge, deduction or surcharge of any kind (other than the Servicing Fee specified in this Agreement);

WHEREAS, a number of parties may have an interest in such commingled collections, and such parties have entered into an Intercreditor Agreement as of the date hereof that allows the party acting as the Utility (as defined therein) to allocate the collected, commingled funds according to each interested party's interest; and

WHEREAS, the Financing Order provides that the PUCT, acting through its authorized legal representative and for the benefit of Texas ratepayers, will enforce the Servicer's obligations imposed under this Agreement pursuant to the Financing Order to the extent permitted by law.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained and intending to be legally bound hereby, the parties hereto agree as follows:

**ARTICLE I**

**DEFINITIONS**

SECTION 1.01 DEFINITIONS. Capitalized terms used but not otherwise defined in this Agreement have the respective meanings set forth in Appendix A hereto.

SECTION 1.02. OTHER DEFINITIONAL PROVISIONS.

(a) The words “hereof,” “herein,” “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement; Section, Appendix, Annex, Exhibit and Schedule references contained in this Agreement are references to Sections, Appendices, Annexes, Exhibits and Schedules in or to this Agreement unless otherwise specified; and the term “including” shall mean “including without limitation.”

(b) The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms.

(c) All terms defined in this Agreement have the same defined meanings when used in any certificate or other document made or delivered pursuant to this Agreement unless otherwise defined therein.

**ARTICLE II**

**APPOINTMENT AND AUTHORIZATION OF SERVICER**

SECTION 2.01. APPOINTMENT OF THE SERVICER; ACCEPTANCE OF APPOINTMENT. The Issuer hereby appoints the Servicer, and the Servicer hereby accepts such appointment, to perform the Servicer’s obligations pursuant to this Agreement on behalf of and for the benefit of the Issuer or any assignee thereof in accordance with the terms of this Agreement and applicable law. This appointment and the Servicer’s acceptance thereof may not be revoked except in accordance with the express terms of this Agreement.

SECTION 2.02. AUTHORIZATION. With respect to all or any portion of the Transition Property, the Servicer shall be, and hereby is, authorized and empowered by the Issuer to:

(a) execute and deliver, on behalf of itself or the Issuer, as the case may be, any and all instruments, documents or notices, and

(b) on behalf of itself or the Issuer, as the case may be, make any filing and participate in Proceedings related to the duties of the Servicer hereunder with any governmental authorities, including with the PUCT.

The Issuer shall furnish the Servicer with all executed documents as have been prepared by the Servicer for execution by the Issuer, and with such other documents as may be in the Issuer’s possession, as necessary or appropriate to enable the Servicer to carry out its servicing

and administrative duties hereunder. Upon the written request of the Servicer, the Issuer shall furnish the Servicer with any powers of attorney or other documents necessary or appropriate to enable the Servicer to carry out its duties hereunder.

SECTION 2.03. DOMINION AND CONTROL OVER TRANSITION PROPERTY. Notwithstanding any other provision contained herein, the Servicer and the Issuer agree that the Issuer shall have dominion and control over the Transition Property, and the Servicer, in accordance with the terms hereof, is acting solely as the servicing agent of and custodian for the Issuer with respect to the Transition Property and Transition Property Documentation. The Servicer hereby agrees that it shall not take any action that is not authorized by this Agreement, the Texas Electric Choice Plan, PUCT Regulations or the Financing Order, that is not consistent with its customary procedures and practices, or that shall impair the rights of the Issuer with respect to the Transition Property, in each case unless such action is required by law or court or regulatory order.

### ARTICLE III

#### BILLING AND OTHER SERVICES

SECTION 3.01. DUTIES OF THE SERVICER. The Servicer, as agent for the Issuer (to the extent provided herein), shall have the following duties:

(a) Duties of Servicer Generally. The Servicer shall manage, service, administer and make collections in respect of the Transition Property. The Servicer's duties will include:

(i) calculating and billing the Transition Charges;

(ii) obtaining meter reads and providing such metering information to the REPs, as necessary (unless another entity assumes metering responsibilities in accordance with the Financing Order, applicable tariffs or the Texas Electric Choice Plan);

(iii) collecting payments of Transition Charges and payments with respect to Transition Property from all persons or entities responsible for remitting Transition Charges and other payments with respect to Transition Property to the Servicer under the Financing Order, the Texas Electric Choice Plan, PUCT Regulations or applicable tariffs; provided, however, the Issuer and the Servicer acknowledge and agree that pursuant to the Intercreditor Agreement, payments in respect of Transition Charges and Transition Property may be deposited initially into an account held and processed by CenterPoint Houston in its capacity as the Utility for the benefit of the Servicer, and that CenterPoint Houston in its individual capacity may be replaced as the holder of such account by a Successor Servicer or Designated Account Holder as those terms are defined and as set forth more fully in the Intercreditor Agreement;

(iv) posting all TC Collections remitted to the Servicer and posting all late-payment penalties assessed against REPs (as described in Section 3.05(c)(ii));

(v) responding to inquiries by Customers, REPs, the PUCT or any other State, local or federal governmental authority with respect to the Transition Property and the Transition Charges;

(vi) accounting for TC Collections and late-payment penalties received from REPs, investigating and resolving delinquencies (including, where permitted by the Financing Order, Schedule TC3 and/or PUCT Regulations, terminating transmission and distribution service for nonpayment of charges), processing and depositing collections, making periodic remittances to the Trustee and furnishing periodic reports to the Issuer, the PUCT, the Trustee and each Rating Agency;

(vii) providing certified calculations and other information reasonably requested by agents appointed by the Servicer to collect the charges to enable the agents to perform collection services properly under the Intercreditor Agreement and monitoring the collections of the agents for compliance with the Intercreditor Agreement;

(viii) providing information reasonably requested by CenterPoint Houston in connection with the allocation of collections between Transition Charges and Transition Property on one hand, and other charges and fees on the other;

(ix) monitoring payments by each REP, reviewing reports provided by each REP and monitoring compliance by each REP with the credit standards and deposit obligations set forth in the Financing Order;

(x) notifying each REP of any defaults by such REP in its payment obligations and other obligations (including its credit standards) under Schedule TC3, and enforcing against such REP at the earliest date permitted by the Financing Order and Schedule TC3 any remedies provided by such Schedule TC3, the Financing Order or other applicable law and regulations;

(xi) making all filings with the PUCT and taking all other actions necessary to perfect the Issuer's ownership interests in and the Trustee's Lien on the Trust Estate;

(xii) selling, as the agent for the Issuer, as its interest may appear, defaulted or written-off accounts in accordance with the Servicer's usual and customary practices;

(xiii) taking action in connection with Transition Charge Adjustments and PBRAF Adjustments as is set forth herein;

(xiv) any other duties specified for a servicer under the Financing Order, Schedule TC3, the Texas Electric Choice Plan or other applicable law; and

(xv) reconciling, within 30 calendar days after bank statement cutoff date or such later time as is consistent with the Servicer's usual and customary practices that does not materially impair the ability of the Servicer to correct errors, all bank account debits and credits for bank accounts that are held in the name of the Servicer (as Servicer hereunder) or of the Issuer that relate to the Trust Estate or the Transition Bonds.

Anything to the contrary notwithstanding, the duties of the Servicer set forth in this Agreement shall be qualified in their entirety by, and the Servicer shall at all times comply with, the Financing Order, the Texas Electric Choice Plan and any PUCT Regulations, orders or directions and the federal securities laws and the rules and regulations promulgated thereunder, including Regulation AB, as in effect at the time such duties are to be performed. Without limiting the generality of this Section 3.01(a), in furtherance of the foregoing, the Servicer hereby agrees that it shall also have, and shall comply with, the duties and responsibilities relating to data acquisition, usage and bill calculation, billing, customer service functions, collections, payment processing and remittance set forth in the Issuer Annex hereto, as it may be amended from time to time. For the avoidance of doubt, the term “usage” when used herein refers to both kilowatt hour consumption and kilowatt demand.

(b) Reporting Functions.

(i) Notification of Laws and Regulations. The Servicer shall immediately notify the Issuer, the PUCT, the Trustee and each Rating Agency in writing of any laws or PUCT Regulations, orders or directions hereafter promulgated that have a material adverse effect on the Servicer’s ability to perform its duties under this Agreement.

(ii) Other Information. Upon the reasonable request of the Issuer, the Trustee, the PUCT or any Rating Agency, the Servicer shall provide to the Issuer, the Trustee, the PUCT or such Rating Agency, as the case may be, any public financial information in respect of the Servicer, or any material information regarding the Transition Property to the extent it is reasonably available to the Servicer, that may be reasonably necessary and permitted by law for the Issuer, the Trustee, the PUCT or such Rating Agency to monitor the performance by the Servicer hereunder. In addition, so long as any of the Transition Bonds are Outstanding, the Servicer shall provide to the Issuer, to the PUCT and to the Trustee, within a reasonable time after written request therefor, any information available to the Servicer or reasonably obtainable by it that is necessary to calculate the Transition Charges applicable to each Customer Class.

(iii) Preparation of Reports. The Servicer shall prepare and deliver such additional reports as required under this Agreement, including a copy of each Semi-Annual Servicer’s Certificate described in Section 6.13, the annual Servicer’s Regulation AB Compliance Certificate and Certificate of Compliance described in Section 3.03, and the Annual Accountant’s Report described in Section 3.04. In addition, the Servicer shall prepare, procure, deliver and/or file, or cause to be prepared, procured, delivered or filed, any reports, attestations, exhibits, certificates or other documents required to be delivered or filed with the SEC (and/or any other Governmental Authority) by the Issuer or the Sponsor under the federal securities or other applicable laws or in accordance with the Basic Documents, including, but without limiting the generality of foregoing, filing with the SEC, if applicable, a copy or copies of (i) the Semi-Annual Servicer’s Certificates described in Section 6.13 (under Form 10-D or any other applicable form), (iii) the annual statements of compliance, attestation reports and other certificates described in Section 3.03, and (iv) the Annual Accountant’s Report (and any attestation required under Regulation AB) described in Section 3.04. In addition, the appropriate officer or officers of the Servicer shall (in its separate capacity as Servicer) sign the Sponsor’s annual report

on Form 10-K (and any other applicable SEC or other reports, attestations, certifications and other documents), to the extent that the Servicer's signature is required by, and consistent with, the federal securities law and/or any other applicable law.

(c) Opinions of Counsel.

The Servicer shall deliver to the Issuer and the Trustee:

(i) promptly after the execution and delivery of this Agreement and of each amendment hereto, and promptly after the execution of the Sale Agreement and of each amendment thereto, an Opinion of Counsel from Independent counsel of the Issuer either

(A) to the effect that, in the opinion of such counsel, all filings, including filings with the PUCT and the Secretary of State of the State of Texas and all filings pursuant to the UCC, that are necessary under the UCC and the Texas Electric Choice Plan to fully preserve, protect and perfect the Liens of the Trustee in the Transition Property have been authorized, executed and filed, and reciting the details of such filings or referring to prior Opinions of Counsel in which such details are given, or

(B) to the effect that, in the opinion of such counsel, no such action shall be necessary to preserve and protect such Liens; and

(ii) within ninety (90) days after the beginning of each calendar year beginning with the first calendar year beginning more than three (3) months after the date hereof, an Opinion of Counsel from Independent counsel of the Issuer, dated as of a date during such ninety (90)-day period, either

(A) to the effect that, in the opinion of such counsel, all filings, including filings with the PUCT and the Secretary of State of the State of Texas and all filings pursuant to the UCC, have been executed and filed that are necessary under the UCC and the Texas Electric Choice Plan to fully preserve, protect and perfect the Liens of the Trustee in the Transition Property, and reciting the details of such filings or referring to prior Opinions of Counsel in which such details are given, or

(B) to the effect that, in the opinion of such counsel, no such action shall be necessary to preserve, protect and perfect such Liens.

Each Opinion of Counsel referred to in clause (i) or (ii) above shall specify any action necessary (as of the date of such opinion) to be taken in the following year to preserve and protect such interest or Lien.

SECTION 3.02. SERVICING AND MAINTENANCE STANDARDS. The Servicer shall, on behalf of the Issuer:

(a) manage, service, administer and make collections in respect of the Transition Property with reasonable care and in material compliance with applicable law,

including all applicable PUCT Regulations and guidelines, using the same degree of care and diligence that the Servicer exercises with respect to billing and collection activities that the Servicer conducts for itself and others;

(b) follow standards, policies and procedures in performing its duties as Servicer that are customary in the electric transmission and distribution industry or that the PUCT has mandated and that are consistent with the terms and provisions of the Financing Order, Schedule TC3 and existing law;

(c) use all reasonable efforts, consistent with its customary servicing procedures, to enforce and maintain the Issuer's and the Trustee's rights in respect of the Transition Property;

(d) calculate Transition Charges and PBRAFs in compliance with the Texas Electric Choice Plan, the Financing Order, any PUCT order related to Transition Charge allocation and any applicable tariffs;

(e) provide all reports to such parties to the Intercreditor Agreement regarding the Transition Charges and PBRAFs as are necessary to effect collection, allocation and remittance of payments in respect of Transition Charges and other collected funds in accordance with this Agreement and the Intercreditor Agreement; and

(f) make all filings required under the Texas Electric Choice Plan or the UCC to maintain the perfected security interest of the Trustee in the Trust Estate and use all reasonable efforts to otherwise enforce and maintain the Trustee's rights in respect of the Transition Property and the Trust Estate.

except where the failure to comply with any of the foregoing would not materially and adversely affect the Issuer's or the Trustee's respective interests in the Transition Property.

The Servicer shall follow such customary and usual practices and procedures as it shall deem necessary or advisable in its servicing of all or any portion of the Transition Property, which, in the Servicer's judgment, may include the taking of legal action pursuant to Section 5.02(d) and 5.02(e) hereof or otherwise.

The Servicer shall petition the PUCT for adjustments to the Transition Charges and PBRAF that the servicer determines to be necessary in accordance with the Financing Order.

### SECTION 3.03. ANNUAL REPORTS ON COMPLIANCE WITH REGULATION AB.

(a) The Servicer shall deliver to the Issuer, the PUCT, the Trustee and the Rating Agencies, on or before the earlier of (i) March 31 of each year beginning March 31, 2009, or (ii) with respect to each calendar year during which CenterPoint Houston's annual report on Form 10-K is required to be filed in accordance with the Exchange Act and the rules and regulations thereunder, the date on which the annual report on Form 10-K is required to be filed in accordance with the Exchange Act and the rules and regulations thereunder, certificates from a Responsible Officer of the Servicer (A) containing, and certifying as to, the statements of compliance required by Item 1123 (or any successor or similar items or rule) of Regulation AB,

as then in effect (the “Regulation AB Compliance Certificate”), and (B) containing, and certifying as to, the statements and assessment of compliance required by Item 1122(a) (or any successor or similar items or rule) of Regulation AB, as then in effect (the “Certificate of Compliance”). These certificates may be in the form of, or shall include the forms attached hereto as, Exhibit B-1 and Exhibit B-2 hereto, with, in the case of Exhibit B-1, such changes as may be required to conform to applicable securities law.

(b) The Servicer shall use commercially reasonable efforts to obtain from each other party participating in the servicing function any additional certifications as to the statements and assessment required under Item 1122 or Item 1123 of Regulation AB to the extent required in connection with the filing of the annual report on Form 10-K referred to above; provided, however, that a failure to obtain such certifications shall not be a breach of the Servicer’s duties hereunder. The parties acknowledge that the Trustee’s certifications shall be limited to the Item 1122 certifications described in Exhibit A of the Indenture.

#### SECTION 3.04. ANNUAL REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRM REPORT.

(a) The Servicer shall cause a registered independent public accounting firm (which may also provide other services to the Servicer or the Seller) to prepare annually, and the Servicer shall deliver annually to the Issuer, the PUCT, the Trustee and each Rating Agency, on or before the earlier of (a) March 31 of each year, beginning March 31, 2009, to and including the March 31 succeeding the retirement of all Transition Bonds or (b) with respect to each calendar year during which the Sponsor’s annual report on Form 10-K is required to be filed in accordance with the Exchange Act and the rules and regulations thereunder, the date on which the annual report on Form 10-K is required to be filed in accordance with the Exchange Act and the rules and regulations thereunder, a report addressed to the Servicer (the “Annual Accountant’s Report”), which may be included as part of the Servicer’s customary auditing activities, to the effect that such firm has performed certain procedures, agreed between the Servicer and such accountants, in connection with the Servicer’s compliance with its obligations under this Agreement during the preceding calendar year ended December 31 (or, in the case of the first Annual Accountant’s Report, the period of time from the Sale Date through December 31, 2008), identifying the results of such procedures and including any exceptions noted. In the event such accounting firm requires the Trustee or the Issuer to agree or consent to the procedures performed by such firm, the Issuer shall direct the Trustee in writing to so agree; it being understood and agreed that the Trustee shall deliver such letter of agreement or consent in conclusive reliance upon the direction of the Issuer, and the Trustee shall not make any independent inquiry or investigation as to, and shall have no obligation or liability in respect of, the sufficiency, validity or correctness of such procedures.

(b) The Annual Accountant’s Report shall also indicate that the accounting firm providing such report is independent of the Servicer in accordance with the Rules of the Public Company Accounting Oversight Board, and shall include the attestation report required under Item 1122(b) of Regulation AB (or any successor or similar items or rule), as then in effect. The Annual Accountant’s Report shall also indicate that the accounting firm providing such report is independent of the Servicer within the meaning of the Code of Professional Ethics of the American Institute of Certified Public Accountants.

SECTION 3.05. MONITORING OF THIRD-PARTY COLLECTORS. From time to time, until the Retirement of the Transition Bonds, the Servicer shall, in accordance with the Servicing Standard, take all actions with respect to Third-Party Collectors required to be taken by the Servicer as set forth, if applicable, in any agreement with the Servicer, the Financing Order, the Tariff and any other PUCT Regulations in effect from time to time and implement such additional procedures and policies as are necessary to ensure that the obligations of all Third-Party Collectors in connection with Transition Charges are properly enforced in accordance with, if applicable, the terms of any agreement with the Servicer, the Financing Order, the Tariff and any other PUCT Regulations in effect from time to time. Such procedures and policies shall include the following:

(a) Maintenance of Records and Information. In addition to any actions required by the Tariff, PUCT Regulations or other applicable law, the Servicer shall:

- (i) maintain adequate records for promptly identifying and contacting each Third-Party Collector;
- (ii) maintain records of end-user Customers which are billed by Third-Party Collectors to permit prompt transfer of billing responsibilities in the event of default by such Third-Party Collectors;
- (iii) maintain adequate records for enforcing compliance by all Third-Party Collectors with their obligations with respect to Transition Charges, including compliance with all Remittance Requirements and REP Credit Requirements;
- (iv) provide to each Third-Party Collector such information necessary for such Third-Party Collector to confirm the Servicer's calculation of Transition Charges and remittances, including, if applicable, charge-off amounts; and
- (v) cause payments in respect of Transition Property to be posted to such records as Servicer maintains that identify obligations of end-user Customers and Third-Party Collectors, generally within two Business Days of receipt of same, subject to extension of time to segregate and identify payments where necessary because of the manner of payment or aggregation of payments with other payment, and reflect such payments in such records as the Servicer maintains that identify allocation of funds to obligations under the Transition Bonds.

The Servicer shall update the records described above no less frequently than quarterly.

(b) Credit and Collection Policies. The Servicer shall, to the fullest extent permitted under the Financing Order, Utilities Code and PUCT regulations, apply such terms with respect to credit and collection policies applicable to Bills submitted to Third-Party Collectors as may be reasonably necessary to prevent the then-current rating of the Transition Bonds from being downgraded, withdrawn or suspended. The Servicer shall periodically review the need for modified or additional terms based upon, among other things, (i) the amount of TC Collections received through REPs relative to the Periodic Billing Requirement, (ii) the historical payment and default experience of each REP and (iii) such other credit and collection policies to which the REPs are subject, and if permitted by the Financing Order and applicable law, will set out any such modified or additional terms in a supplemental tariff filed with the PUCT.

(c) Monitoring of Performance and Payment by REPs. In addition to any actions required by the Tariff, PUCT Regulations or other applicable law, the Servicer shall undertake to do the following:

(i) The Servicer shall use all reasonable efforts, subject to applicable law, to collect all amounts owed in respect of Transition Charges and late-payment penalties (as set forth in Section 3.05(c)(ii) below) as and when the same shall become due) to the extent permitted by the Financing Order, shall follow procedures no less stringent as it follows with respect to collection activities that the Servicer conducts for itself or others. The Servicer shall not change the amount of or reschedule the due date of any scheduled payment of Transition Charges, except as contemplated in this Agreement or as required by law or court or PUCT order. The Servicer shall enforce at the earliest possible date the obligations with respect to the Transition Charges of each REP and each other Person owing or collecting Transition Charges, provided that any REP shall be entitled to hold back from its payment of Transition Charges to the Servicer an allowance for charge-offs according to the procedure and calculations set forth in the Financing Order, Schedule TC3 and the Issuer Annex.

(ii) Each REP must pay Transition Charges within 35 days following the date of each billing by the Servicer to such REP ("REP Billing Day"), without regard to whether or when the REP receives payment from its retail customers. The Servicer shall accept payment by electronic funds transfer, wire transfer, and/or check. Payment will be considered received the date the electronic funds transfer or wire transfer is received by the Servicer or, if payment is made by check, the date the check clears. The Servicer shall assess and collect a 5% late-payment penalty (the "Penalty") on all Transition Charges billed to an REP but not paid by that REP by the close of business on the 35th day after the REP Billing Day. Any and all such Penalty payments shall be paid to the Trustee for deposit in the Collection Account and shall be applied against transition charge obligations. An REP shall not be obligated to pay the overdue Transition Charges of another REP. If an REP agrees to assume the responsibility for the payment of overdue Transition Charges as a condition of receiving the customers of another REP that has decided to terminate service to those customers for any reason, the new REP shall not be assessed the Penalty upon such Transition Charges; provided, however, that the prior REP shall not be relieved of the previously assessed Penalties.

(iii) The Servicer shall work with REPs to resolve any disputes using the dispute resolution procedures established in Schedule TC3 and any PUCT Regulations, in accordance with the Servicing Standard.

(d) Enforcement of REP Obligations. The Servicer shall, in accordance with the terms of Schedule TC3, ensure that each REP remits all Transition Charges which it is obligated to remit to the Servicer. If an REP fails to remit payment in full of all Transition Charges which it is obligated to remit by the day that is 45 calendar days after the REP Billing Day, the Servicer

shall, in addition to assessing the Penalty against such REP described in Section 3.05(c)(ii) of this Agreement, direct the Trustee by written instruction to deliver to Servicer from such REP's REP Deposit (by making a withdrawal from a deposit account, a demand under a surety bond or a guarantee, and/or a draw under a letter of credit, as applicable) the lesser of the amount of Transition Charges such REP has failed to remit or the amount of the REP Deposit. Upon receipt of same, Servicer shall cause the amount received from the Trustee to be deposited in the Collection Account. The Servicer shall notify the REP of such withdrawal, demand and/or draw from the REP Deposit to the Collection Account and instruct the REP to remit, or otherwise restore, immediately the amount of such withdrawal, demand and/or draw to the Trustee for replenishment of such REP's REP Deposit. The Servicer shall avail itself of such legal remedies as may be appropriate to collect any remaining unpaid Transition Charges and associated penalties due to the Servicer after application of the REP Deposit, in accordance with the Financing Order and Schedule TC3.

(i) If an REP is in default pursuant to Section 9 of Schedule TC3 and Finding of Fact 52 of the Financing Order (such default an "REP Default"), the Servicer shall perform such duties as are required of the Servicer therein, including but not limited to the following:

(A) in the event the REP in REP Default seeks to implement alternative arrangements with the Servicer regarding the billing and collection of Transition Charges pursuant to Section 9 of Schedule TC3 and Finding of Fact 52 of the Financing Order, the Servicer shall consider proposals from such REP but shall not accept any proposal, and no proposal shall be deemed mutually suitable and agreeable, other than the options set forth in Section 9 of Schedule TC3 unless (i) the Servicer is directed promptly in writing by the Trustee to accept a proposal of such REP following the written direction of such approval of such proposal by the Majority Holders, (ii) such proposal would not materially and adversely affect the interests of the Transition Bondholders and (iii) the Rating Agency Condition has been satisfied; and

(B) in the event the REP in REP Default fails to immediately select and implement an alternative method of billing and collecting Transition Charges as specified in Section 9 of Schedule TC3 and Finding of Fact 52 of the Financing Order or fails to adequately meet its responsibilities thereunder, the Servicer shall immediately allow the appropriate Provider of Last Resort or another qualified REP of a Customer's choosing to immediately assume responsibility for the billing and collection of Transition Charges from such Customer.

(ii) In the event the appropriate Provider of Last Resort defaults or is ineligible to provide billing and collection of Transition Charges when requested by a Customer or the Servicer, as applicable, the Servicer shall assume responsibility for billing and collection of Transition Charges until a new Provider of Last Resort is named by the PUCT or the Customer requests the services of another REP, in accordance with Schedule TC3 and PUCT Regulations. In any case, the Servicer shall enforce the obligations, and exercise its remedies against, each REP including any Provider of Last Resort, as permitted under the Financing Order and Schedule TC3.

(iii) In addition to the obligations set forth in 3.05(g) below, the Servicer shall have the rights and obligations to terminate electric service for non-payment of Transition Charges under the circumstances set forth in Schedule TC3 and PUCT Regulations.

(e) Maintenance of REP Deposit Accounts. In the event an REP provides any of (A) a cash deposit to the Trustee in the form of up to two months' maximum expected transition charge collections, (B) a surety bond or affiliate guarantee or (C) a letter of credit (each, an "REP Deposit") pursuant to the Financing Order and Schedule TC3,

(i) the Servicer shall agree with the REP as to the size of the initial REP Deposit,

(ii) no more frequently than quarterly, upon the request of either the REP or the Servicer, the Servicer shall cooperate with the REP as required by the Financing Order and Schedule TC3 to ensure that the REP Deposit accurately reflects up to two months' maximum transition charge collections. Within 10 days following the review by the REP and Servicer of the size of the REP Deposit, either the REP shall remit to the Trustee the amount of any shortfall in the REP Deposit as confirmed to the Trustee by the Servicer or the Servicer shall instruct the Trustee to remit or release to the REP any portion of the REP Deposit no longer required to be on deposit, and

(iii) The Servicer shall instruct the Trustee in writing to remit to the REP the REP Deposit, plus any investment earnings thereon, except such portion of the REP Deposit as was utilized in satisfaction of the REP's obligations to remit billed Transition Charges within 30 days of the date on which the REP Deposit is no longer required under the Financing Order or Schedule TC3.

(f) In the event an REP disputes any amount of billed Transition Charges, the Servicer shall require the REP to pay the disputed amount under protest within the time for payment set forth in Section 3.05(c)(ii) of this Agreement. The Servicer shall attempt to resolve informally the dispute with the REP, or any dispute related to the date of receipt of Transition Charge payments, Penalties, or the size of the required REP Deposit. If the REP and the Servicer cannot reach an informal resolution to the dispute, either party may file a complaint with the PUCT as set forth in the Financing Order and Schedule TC3. If the REP prevails in the informal dispute process or before the PUCT, the Servicer shall provide the REP with a refund of the disputed amount paid to the Servicer plus interest at a rate approved by the PUCT. As provided in the Financing Order, Schedule TC3 and Section 4.01(b)(i)(C) of this Agreement, interest paid by the Servicer shall be recoverable through Transition Charges if the Servicer's claim to the funds is not clearly unfounded. In addition, as provided in the Financing Order and Schedule TC3, the Servicer shall not be required to pay interest to the REP if the Servicer has received inaccurate metering data from another entity providing competitive metering services pursuant to the Texas Electric Choice Plan.

(g) The Servicer shall adhere to the instructions of an REP that bills Customers for Transition Charges to terminate transmission and distribution service to a Customer for nonpayment by the Customer pursuant to the Financing Order and Schedule TC3.

(h) Affiliated Third-Party Collectors. In performing its obligations under this Section 3.05, the Servicer shall deal with any Third-Party Collectors which are Affiliates of the Servicer on terms which are no more favorable in the aggregate to such affiliated Third-Party Collector than those used by the Servicer in its dealings with Third-Party Collectors that are not affiliates of the Servicer.

#### ARTICLE IV

#### SERVICES RELATED TO TRANSITION CHARGE ADJUSTMENTS AND PBRAF ADJUSTMENTS

SECTION 4.01. TRANSITION CHARGE ADJUSTMENTS. From time to time, until the Retirement of the Transition Bonds, the Servicer shall identify the need for annual Transition Charge Adjustments and interim Transition Charge Adjustments and shall take all reasonable action to obtain and implement such Transition Charge Adjustments, all in accordance with the following:

(a) Expected Amortization Schedule. The Expected Amortization Schedule for the Transition Bonds is provided in the Supplement.

(b) Transition Charge Adjustments.

(i) Annual Transition Charge Adjustments and Filings. Prior to each Calculation Date, the Servicer shall calculate

(A) the PBRAF Adjustments to be made in accordance with the methodology set forth in Schedule TC3, as may be modified from time to time by order from the PUCT,

(B) the Transition Bond Balance as of each Calculation Date (a written copy of which shall be delivered by the Servicer to the Trustee and the PUCT within five business days following such Calculation Date), and

(C) the Transition Charge Adjustment with respect to the Transition Property for the twelve-month period preceding and including the next upcoming Adjustment Date, such that the Servicer projects that TC Collections therefrom will be sufficient so that:

1. the Transition Bond Balance on the Payment Date immediately preceding the next Adjustment Date will equal the Projected Transition Bond Balance as of such date or, if earlier with respect to any Tranche of Transition Bonds, by the Expected Final Payment Date therefor, taking into account any amounts on deposit in the Excess Funds Subaccount,
2. the amount on deposit in the Capital Subaccount on the Payment Date immediately preceding the next Adjustment Date, or if earlier with respect to the Transition Bonds or any Tranche thereof, by the Expected Final Payment Date therefor, will equal the Required Capital Amount, taking

into account any amounts on deposit in the Excess Funds Subaccount and taking into account any prior withdrawals of interest or earnings on deposits in the Capital Subaccount used to meet payment obligations on the Transition Bonds,

3. the TC Collections will provide for amortization of the remaining outstanding principal amount of the Transition Bonds in accordance with the Expected Amortization Schedule therefor and payment of interest on the Transition Bonds when due,
4. the Servicer can reconcile past overpayments and underpayments by all REPs of Transition Charges arising out of hold-backs for charge-offs in accordance with Section 6 of the Issuer Annex,
5. the Servicer can recover out of TC Collections the interest paid to all REPs arising out of a dispute between the Servicer and any REP resolved pursuant to Section 3.05(f) of this Agreement for which the Servicer's claim to the funds in dispute was not clearly unfounded, and
6. the fees and expenses of the Servicer, the Trustee, the independent manager of the Issuer and the Administrator and other fees, expenses, charges and costs authorized in the Financing Order will be paid.

(ii) Prior to each Calculation Date, the Servicer shall make annual reconciliation filings with the PUCT for that Calculation Date. The Servicer shall promptly thereafter provide notice and a copy of such filings to each Rating Agency. The Servicer's Calculation Date filings shall include:

(A) any PBRAF Adjustments to take effect on the next Adjustment Date (in which case, the Servicer shall provide notice of such filing to all parties in PUCT Docket No. 34448 and shall participate in a contested case proceeding at the PUCT, the purpose of which will be to determine whether any proposed adjustment complies with the Financing Order, as set forth therein), and

(B) a tariff supplement setting forth Transition Charge Adjustments to become effective on the next Adjustment Date and supporting data, including the calculation of the Transition Charge Adjustments.

(c) Interim Transition Charge Adjustments and Filings. The Servicer shall calculate any interim Transition Charge Adjustments to be requested between Calculation Dates to correct under-collection or over-collection of Transition Charges, as set forth in the Financing Order and Schedule TC3, in order to provide for the timely payment of the Transition Bonds. As provided for in the Financing Order, the Servicer shall file for interim Transition Charge Adjustments:

(i) to correct any undercollection or overcollection in order to assure timely payment of the Transition Bonds based on Rating Agency and Bondholder considerations;

(ii) the Servicer determines that expected collection of Transition Charges for the upcoming payment date would result in a difference that is greater than 5% in absolute value, between (i) the actual outstanding principal balances of the Transition Bonds plus amounts on deposit in the Excess Funds Subaccount and (ii) the outstanding principal balances anticipated in the target amortization schedule; or

(iii) to meet a Rating Agency requirement that any tranche of the Transition Bonds be paid in full by its expected maturity date.

In the event an interim Transition Charge Adjustment is necessary, the interim Transition Charge Adjustment should be filed on the fifteenth day of the current month for implementation in the first billing cycle of the following month. In no event would such interim Transition Charge Adjustments occur more frequently than every three months if quarterly Transition Bond payments are required or every six months if Semi-Annual Transition Bond payments are required; provided, however, that interim Transition Charge Adjustments for any Transition Bonds remaining outstanding during the fourteenth and fifteenth year after the Transition Bonds are issued shall occur quarterly.

(d) On each Adjustment Date and Interim Adjustment Date, the Servicer shall

(i) take all reasonable actions and make all reasonable efforts in order to effectuate all adjustments approved by the PUCT to the Transition Charges and/or PBRAFs, and

(ii) promptly send to the Trustee copies of all material notices and documents relating to such adjustments.

(e) Reports.

(i) For each Calculation Date, the Servicer shall provide to the Issuer, the PUCT, the Trustee and the Rating Agencies a statement indicating:

(A) the Transition Bond Balance and the Projected Transition Bond Balance as of the immediately preceding Payment Date,

(B) the amount on deposit in the Capital Subaccount and the Required Capital Amount as of the immediately preceding Payment Date;

(C) the amount on deposit in the Excess Funds Subaccount as of the immediately preceding Payment Date;

(D) the Projected Transition Bond Balance and the Servicer's projection of the Transition Bond Balance on the Payment Date immediately preceding the next succeeding Adjustment Date;

(E) the required Capital Subaccount balance and the Servicer's projection of the amount on deposit in the Capital Subaccount for the Payment Date immediately preceding the next succeeding Adjustment Date; and

(F) the Servicer's projection of the amount on deposit in the Excess Funds Subaccount for the Payment Date immediately preceding the next succeeding Adjustment Date.

(ii) Reports to Customers.

(A) After each revised Transition Charge has gone into effect pursuant to a Transition Charge Adjustment, the Servicer shall, to the extent and in the manner and time frame required by applicable PUCT Regulations, if any, cause to be prepared and delivered to Customers any required notices announcing such revised Transition Charges.

(B) The Servicer shall comply with the requirements of the Financing Order and Tariff with respect to the identification of Transition Charges on Bills. In addition, at least once each year, the Servicer shall (to the extent that it does not separately identify the Transition Charges as being owned by the Issuer in the Bills regularly sent to Customers or REPs) cause to be prepared and delivered to such Customers and REPs a notice stating, in effect, that the Transition Property and the Transition Charges are owned by the Issuer and not the Seller. Unless prohibited by applicable PUCT Regulations, the Servicer shall use reasonable efforts to cause each REP, at least once each year, to include similar notices in the bills sent by such REP to Customers indicating additionally that the Transition Charges are not owned by such REP (to the extent that such REP does not include such information in the Bills regularly sent to Customers). Such notice shall be included either as an insert to or in the text of the Bills delivered to such Customers or shall be delivered to Customers by electronic means or such other means as the Servicer or the REPs may from time to time use to communicate with its respective Customers.

(C) Except to the extent that applicable PUCT Regulations make the REPs responsible for such costs, or the REPs have otherwise agreed to pay such costs, the Servicer shall pay from its own funds all costs of preparation and delivery incurred in connection with clauses (A) and (B) above, including printing and postage costs.

(iii) REP Reports. The Servicer shall provide to the Rating Agencies, upon request, any publicly available reports filed by the Servicer with the PUCT (or otherwise made publicly available by the Servicer) relating to REPs and any other non-confidential and non-proprietary information relating to REPs reasonably requested by the Rating Agencies to the extent such information is reasonably available to the Servicer.

SECTION 4.02. LIMITATION OF LIABILITY

(a) The Issuer and the Servicer expressly agree and acknowledge that:

(i) In connection with any Transition Charge Adjustment, the Servicer is acting solely in its capacity as the servicing agent hereunder.

(ii) Neither the Servicer nor the Issuer nor the Trustee is responsible in any manner for, and shall have no liability whatsoever as a result of, any action, decision, ruling or other determination made or not made, or any delay (other than any delay resulting from the Servicer's failure to make any filings required by Section 4.01 in a timely and correct manner or any breach by the Servicer of its duties under this Agreement that adversely affects the Transition Property or the Transition Charge Adjustments), by the PUCT in any way related to the Transition Property or in connection with any Transition Charge Adjustment, the subject of any filings under Section 4.01, any proposed Transition Charge Adjustment, or the approval of any revised Transition Charges and the scheduled adjustments thereto.

(iii) Except to the extent that the Servicer is liable under Section 6.02, the Servicer shall have no liability whatsoever relating to the calculation of any revised Transition Charges and the scheduled adjustments thereto, including as a result of any inaccuracy of any of the assumptions made in such calculation regarding expected energy usage volume and the weighted average days outstanding, write-offs and estimated expenses and fees of the Issuer, so long as the Servicer has acted in good faith and has not acted in a negligent manner in connection therewith, nor shall the Servicer have any liability whatsoever as a result of any Person, including the Transition Bondholders, not receiving any payment, amount or return anticipated or expected or in respect of any Transition Bond generally.

(b) Notwithstanding the foregoing, this Section 4.02 shall not relieve the Servicer of liability for any misrepresentation by the Servicer under Section 6.01 or for any breach by the Servicer of its other obligations under this Agreement.

## **ARTICLE V**

### **THE TRANSITION PROPERTY**

**SECTION 5.01. CUSTODY OF TRANSITION PROPERTY RECORDS.** To assure uniform quality in servicing the Transition Property and to reduce administrative costs, the Servicer shall keep on file, in accordance with its customary procedures, all Transition Property Documentation, it being understood that the Servicer is acting only as the servicing agent and custodian for the Issuer with respect to the Transition Property Documentation.

**SECTION 5.02. DUTIES OF SERVICER AS CUSTODIAN.**

(a) Safekeeping. The Servicer shall maintain accurate and complete accounts, records and computer systems pertaining to the Transition Property and the Transition Property Documentation in accordance with its standard accounting procedures and in sufficient detail to permit reconciliation between payments or recoveries on (or with respect to) Transition Charges and the TC Collections from time to time remitted to the Trustee pursuant to Section 6.12 and to enable the Issuer to comply with this Agreement and the Indenture. The Servicer shall conduct, or cause to be conducted, periodic audits of the Transition Property Documentation held by it under this Agreement and of the related accounts, records and computer systems, in such a manner as shall enable the Issuer and the Trustee, as pledgee of the Issuer, to verify the accuracy

of the Servicer's record keeping. The Servicer shall promptly report to the Issuer, to the PUCT, and to the Trustee any failure on the Servicer's part to hold the Transition Property Documentation and maintain its accounts, records and computer systems as herein provided and promptly take appropriate action to remedy any such failure. Nothing herein shall be deemed to require an initial review or any periodic review by the Issuer or the Trustee of the Transition Property Documentation. The Servicer's duties to hold the Transition Property Documentation on behalf of the Issuer set forth in this Section 5.02, to the extent such Transition Property Documentation has not been previously transferred to a Successor Servicer, shall terminate one year and one day after the earlier of the date on which (i) the Servicer is succeeded by a Successor Servicer pursuant to the provisions of this Agreement or (ii) no Transition Bonds are Outstanding.

(b) Maintenance of and Access to Records. The Servicer shall maintain the Transition Property Documentation at 1111 Louisiana Street, Houston, Texas or at such other office as shall be specified to the Issuer, to the PUCT and to the Trustee by written notice not later than 30 days prior to any change in location. The Servicer shall permit the Issuer and the Trustee or their respective duly authorized representatives, attorneys, agents or auditors at any time during normal business hours to inspect, audit and make copies of and abstracts from the Servicer's records regarding the Transition Property, the Transition Charges and the Transition Property Documentation. The failure of the Servicer to provide access to such information as a result of an obligation or applicable law (including PUCT Regulations) prohibiting disclosure of information regarding customers shall not constitute a breach of this Section 5.02(b).

(c) Release of Documents. Upon written instruction from the Trustee in accordance with the Indenture, the Servicer shall release any Transition Property Documentation to the Trustee, the Trustee's agent or the Trustee's designee, as the case may be, and to the PUCT at such place or places as the Trustee may designate, as soon as practicable.

(d) Defending Transition Property Against Claims. The Servicer shall, subject to applicable law, institute any action or Proceeding necessary to compel performance by each REP and each party to the Intercreditor Agreement (and in the case of each REP at the earliest possible time) of any of their respective obligations or duties under the Texas Electric Choice Plan, the Financing Order or the Intercreditor Agreement with respect to the Transition Property, and the Servicer agrees, subject to applicable law, to take such legal or administrative actions, including defending against or instituting and pursuing legal actions and appearing or testifying at hearings or similar proceedings as may be reasonably necessary to block or overturn any attempts to cause a repeal of, modification of, or supplement to, the Texas Electric Choice Plan or the Financing Order, the Issuance Advice Letter or the rights of Transition Bondholders by legislative enactment or constitutional amendment that would be materially adverse to the Issuer, the Trustee or the Transition Bondholders. The costs of any such action shall be payable from TC Collections as an Operating Expense (and shall not be deemed to constitute a portion of the Servicing Fee) in accordance with the Indenture. The Servicer's obligations pursuant to this Section 5.02 shall survive and continue notwithstanding the fact that the payment of Operating Expenses pursuant to the Indenture may be delayed (it being understood that the Servicer may be required initially to advance its own funds to satisfy its obligations hereunder).

(e) Additional Litigation to Defend Transition Property. In addition to the above, the Servicer shall, at its own expense, institute any action or proceeding necessary to compel performance by the PUCT or the State of Texas of any of their respective obligations or duties under the Texas Electric Choice Plan or the Financing Order with respect to the Transition Property, and to compel performance by REPs with any of their respective obligations or duties under the Tariff or any agreement with the Servicer entered into pursuant to the Tariff. In any proceedings related to the exercise of the power of eminent domain by any municipality to acquire a portion of CenterPoint Houston's electric distribution facilities, the Servicer shall assert that the court ordering such condemnation must treat such municipality as a successor to CenterPoint Houston under the Texas Electric Choice Plan and Financing Order.

SECTION 5.03. CUSTODIAN'S INDEMNIFICATION. The Servicer as custodian shall indemnify the Issuer, the Independent Managers and the Trustee (for itself and for the benefit of the Transition Bondholders) and each of their respective officers, directors, employees and agents for, and defend and hold harmless each such Person from and against, any and all liabilities, obligations, losses, damages, payments and claims, and reasonable costs or expenses, of any kind whatsoever (collectively, "Losses") that may be imposed on, incurred by or asserted against each such Person as the result of any negligent act or omission in any way relating to the maintenance and custody by the Servicer, as custodian, of the Transition Property Documentation; provided, however, that the Servicer shall not be liable for any portion of any such amount resulting from the willful misconduct, bad faith or negligence of the Issuer, the Independent Managers or the Trustee, as the case may be.

Indemnification under this Section 5.03 shall survive resignation or removal of the Trustee or any Independent Manager and shall include reasonable out-of-pocket fees and expenses of investigation and litigation (including reasonable attorney's fees and expenses).

SECTION 5.04. EFFECTIVE PERIOD AND TERMINATION. The Servicer's appointment as custodian shall become effective as of the Issuance Date and shall continue in full force and effect until terminated pursuant to this Section 5.04. If the Servicer shall resign as Servicer in accordance with the provisions of this Agreement or if all of the rights and obligations of the Servicer shall have been terminated under Section 7.01, the appointment of the Servicer as custodian shall be terminated effective as of the date on which the termination or resignation of the Servicer is effective. Additionally, if not sooner terminated as provided above, the Servicer's obligations as custodian shall terminate one year and one day after the date on which no Transition Bonds are Outstanding.

## ARTICLE VI

### THE SERVICER

SECTION 6.01. REPRESENTATIONS AND WARRANTIES OF THE SERVICER. The Servicer makes the following representations and warranties as of the Sale Date, on which the Issuer has relied in acquiring the Transition Property. The representations and warranties shall survive the execution and delivery of this Agreement, the sale of any of the Transition Property to the Issuer and the pledge thereof to the Trustee pursuant to the Indenture.

(a) Organization and Good Standing. The Servicer is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Texas, with the limited liability company power and authority to own its properties and to conduct its business as such properties are currently owned and such business is presently conducted and to execute, deliver and carry out the terms of this Agreement and the Intercreditor Agreement and has the power, authority and legal right to service the Transition Property and to hold the Transition Property Documentation as custodian.

(b) Due Qualification. The Servicer is duly qualified to do business and is in good standing, and has obtained all necessary licenses and approvals, in all jurisdictions in which the ownership or lease of property or the conduct of its business (including the servicing of the Transition Property as required by this Agreement and the Intercreditor Agreement) requires such qualifications, licenses or approvals (except where the failure to so qualify would not be reasonably likely to have a material adverse effect on the Servicer's business, operations, assets, revenues or properties or adversely affect the servicing of the Transition Property).

(c) Power and Authority. The Servicer has the limited liability company power and authority to execute and deliver this Agreement and the Intercreditor Agreement and to carry out the terms of each; and the execution, delivery and performance of this Agreement and the Intercreditor Agreement have been duly authorized by the Servicer by all necessary limited liability company action.

(d) Binding Obligation. This Agreement and the Intercreditor Agreement both constitute legal, valid and binding obligations of the Servicer enforceable against the Servicer in accordance with their terms subject to applicable bankruptcy, receivership, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' or secured parties' rights generally from time to time in effect and to general principles of equity (including concepts of materiality, reasonableness, good faith and fair dealing), regardless of whether considered in a Proceeding in equity or at law.

(e) No Violation. The consummation of the transactions contemplated by this Agreement and the Intercreditor Agreement (to the extent applicable to the Servicer's responsibilities thereunder) and the fulfillment of the terms of each will not conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time) a default under, the articles of organization or limited liability company regulations of the Servicer, or any material agreement to which the Servicer is a party or by which it is bound or result in the creation or imposition of any Lien upon any of its properties pursuant to the terms of any such agreement (other than any Lien that may be granted under the Basic Documents or any Lien created pursuant to Section 39.309 of the Texas Electric Choice Plan); or violate any existing law or any existing order, rule or regulation applicable to the Servicer of any Governmental Authority having jurisdiction over the Servicer or its properties.

(f) Approvals. No approval, authorization, consent, order or other action of, or filing with, any Governmental Authority is required under an applicable law, rule or regulation in connection with the execution and delivery by the Servicer of this Agreement or the Intercreditor Agreement, the performance by the Servicer of the transactions contemplated hereby or thereby or the fulfillment by the Servicer of the terms of each, except those that have

been obtained or made or that are required by this Agreement to be made in the future by the Servicer, including the Issuance Advice Letter, filings with the PUCT for adjusting Transition Charges and PBRAFs pursuant to Section 4.01 and the Issuer Annex and filings with the Secretary of State of the State of Texas under the Texas Electric Choice Plan and Article 9 of the UCC.

(g) No Proceedings. Except as disclosed by the Servicer on Schedule A hereto, there are no Proceedings pending or, to the Servicer's knowledge, threatened before any Governmental Authority having jurisdiction over the Servicer or its properties:

(i) asserting the invalidity of this Agreement or any of the other Basic Documents;

(ii) seeking any determination or ruling that might materially and adversely affect the Transition Property or the performance by the Servicer of its obligations under, or the validity or enforceability against the Servicer of, this Agreement;

(iii) relating to the Servicer and which might materially and adversely affect the federal income tax or State income, gross receipts or franchise tax attributes of the Transition Property or the Transition Bonds; or

(iv) seeking to prevent the issuance of the Transition Bonds or the consummation of any of the transactions contemplated by this Agreement or any of the other Basic Documents.

(h) Reports and Certificates. Each report and certificate delivered in connection with any filing made to the PUCT by the Servicer on behalf of the Issuer with respect to Transition Charges, Transition Charge Adjustments or PBR AF Adjustments will be true and correct in all material respects; provided, however, that to the extent any such report or certificate is based in part upon or contains assumptions, forecasts or other predictions of future events, the representation and warranty of the Servicer with respect thereto will be limited to the representation and warranty that such assumptions, forecasts or other predictions of future events are reasonable based upon historical performance.

#### SECTION 6.02. INDEMNITIES OF THE SERVICER; RELEASE OF CLAIMS.

(a) **THE SERVICER SHALL BE LIABLE IN ACCORDANCE HEREWITH ONLY TO THE EXTENT OF THE OBLIGATIONS SPECIFICALLY UNDERTAKEN BY THE SERVICER UNDER THIS AGREEMENT AND THE INTERCREDITOR AGREEMENT.**

(b) **THE SERVICER SHALL INDEMNIFY THE ISSUER AND THE TRUSTEE (FOR ITSELF AND ON BEHALF OF THE TRANSITION BONDHOLDERS) AND EACH OF THEIR RESPECTIVE TRUSTEES, MEMBERS, MANAGERS, OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS FOR, AND DEFEND AND HOLD HARMLESS EACH SUCH PERSON FROM AND AGAINST, ANY AND ALL LOSSES THAT MAY BE IMPOSED UPON, INCURRED BY OR ASSERTED AGAINST ANY SUCH PERSON AS A RESULT OF:**

(i) THE SERVICER'S WILLFUL MISCONDUCT, BAD FAITH OR NEGLIGENCE IN THE PERFORMANCE OF ITS DUTIES OR OBSERVANCE OF ITS COVENANTS UNDER THIS AGREEMENT OR THE SERVICER'S RECKLESS DISREGARD OF ITS OBLIGATIONS AND DUTIES UNDER THIS AGREEMENT OR THE INTERCREDITOR AGREEMENT;

(ii) THE SERVICER'S BREACH OF ANY OF ITS REPRESENTATIONS OR WARRANTIES IN THIS AGREEMENT OR THE INTERCREDITOR AGREEMENT; OR

(iii) LITIGATION AND RELATED EXPENSES RELATING TO ITS STATUS AND OBLIGATIONS AS SERVICER (OTHER THAN ANY PROCEEDINGS THE SERVICER IS REQUIRED TO INSTITUTE UNDER THIS AGREEMENT);

**PROVIDED, HOWEVER,** THAT THE SERVICER SHALL NOT BE LIABLE FOR ANY LOSSES RESULTING FROM THE BAD FAITH, WILLFUL MISCONDUCT OR NEGLIGENCE OF ANY PERSON INDEMNIFIED PURSUANT TO THIS SECTION 6.02 (EACH, AN "INDEMNIFIED PERSON") OR RESULTING FROM A BREACH OF A REPRESENTATION OR WARRANTY MADE BY SUCH INDEMNIFIED PERSON TO THE SERVICER IN ANY BASIC DOCUMENT THAT GIVES RISE TO THE SERVICER'S BREACH.

(c) PROMPTLY AFTER RECEIPT BY AN INDEMNIFIED PERSON OF WRITTEN NOTICE OF ITS INVOLVEMENT IN ANY ACTION, PROCEEDING OR INVESTIGATION, SUCH INDEMNIFIED PERSON SHALL, IF A CLAIM FOR INDEMNIFICATION IN RESPECT THEREOF IS TO BE MADE AGAINST THE SERVICER UNDER THIS SECTION 6.02, NOTIFY THE SERVICER IN WRITING OF SUCH INVOLVEMENT. FAILURE BY AN INDEMNIFIED PERSON TO SO NOTIFY THE SERVICER SHALL RELIEVE THE SERVICER FROM THE OBLIGATION TO INDEMNIFY AND HOLD HARMLESS SUCH INDEMNIFIED PERSON UNDER THIS SECTION 6.02 ONLY TO THE EXTENT THAT THE SERVICER SUFFERS ACTUAL PREJUDICE AS DETERMINED BY A COURT OF COMPETENT JURISDICTION AS A RESULT OF SUCH FAILURE. WITH RESPECT TO ANY ACTION, PROCEEDING OR INVESTIGATION BROUGHT BY A THIRD PARTY FOR WHICH INDEMNIFICATION MAY BE SOUGHT BY AN INDEMNIFIED PERSON UNDER THIS SECTION 6.02, THE SERVICER SHALL BE ENTITLED TO ASSUME THE DEFENSE OF ANY SUCH ACTION, PROCEEDING OR INVESTIGATION UNLESS (X) SUCH ACTION, PROCEEDING OR INVESTIGATION EXPOSES THE INDEMNIFIED PERSON TO A RISK OF CRIMINAL LIABILITY OR FORFEITURE, (Y) THE SERVICER AND SUCH INDEMNIFIED PERSON HAVE A CONFLICT OF INTEREST IN THEIR RESPECTIVE DEFENSES OF SUCH ACTION, PROCEEDING OR INVESTIGATION OR (Z) THERE EXISTS AT THE TIME THE SERVICER WOULD ASSUME SUCH DEFENSE AN ONGOING SERVICER DEFAULT. UPON ASSUMPTION BY THE SERVICER OF THE DEFENSE OF ANY SUCH ACTION, PROCEEDING OR INVESTIGATION, THE INDEMNIFIED PERSON SHALL HAVE THE RIGHT TO PARTICIPATE IN SUCH ACTION OR PROCEEDING AND TO

RETAIN ITS OWN COUNSEL (INCLUDING LOCAL COUNSEL), AND THE SERVICER SHALL BEAR THE REASONABLE FEES, COSTS AND EXPENSES OF SUCH SEPARATE COUNSEL. THE INDEMNIFIED PERSON SHALL NOT SETTLE OR COMPROMISE OR CONSENT TO THE ENTRY OF ANY JUDGMENT WITH RESPECT TO ANY PENDING OR THREATENED CLAIM, ACTION, SUIT OR PROCEEDING IN RESPECT OF WHICH INDEMNIFICATION MAY BE SOUGHT UNDER THIS SECTION 6.02 (WHETHER OR NOT THE SERVICER IS AN ACTUAL OR POTENTIAL PARTY TO SUCH CLAIM OR ACTION) UNLESS THE SERVICER AGREES IN WRITING TO SUCH SETTLEMENT, COMPROMISE OR CONSENT AND SUCH SETTLEMENT, COMPROMISE OR CONSENT INCLUDES AN UNCONDITIONAL RELEASE OF THE SERVICER FROM ALL LIABILITY ARISING OUT OF SUCH CLAIM, ACTION, SUIT OR PROCEEDING.

(d) THE SERVICER SHALL INDEMNIFY THE TRUSTEE AND ITS RESPECTIVE TRUSTEES, OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS FOR, AND DEFEND AND HOLD HARMLESS EACH SUCH PERSON FROM AND AGAINST, ANY AND ALL LOSSES THAT MAY BE IMPOSED UPON, INCURRED BY OR ASSERTED AGAINST ANY SUCH PERSON AS A RESULT OF THE ACCEPTANCE OR PERFORMANCE OF THE TRUSTS AND DUTIES CONTAINED HEREIN AND IN THE INDENTURE, EXCEPT TO THE EXTENT THAT ANY SUCH LOSS (I) SHALL BE DUE TO THE WILLFUL MISCONDUCT, BAD FAITH OR NEGLIGENCE OF THE TRUSTEE OR (II) SHALL ARISE FROM THE TRUSTEE'S BREACH OF ANY OF ITS REPRESENTATIONS OR WARRANTIES SET FORTH IN THE INDENTURE; PROVIDED, HOWEVER, THAT THE FOREGOING INDEMNITY IS EXTENDED TO THE TRUSTEE SOLELY IN ITS INDIVIDUAL CAPACITY AND NOT FOR THE BENEFIT OF THE TRANSITION BONDHOLDERS OR ANY OTHER PERSON. SUCH AMOUNTS WITH RESPECT TO THE TRUSTEE SHALL BE DEPOSITED AND DISTRIBUTED IN ACCORDANCE WITH THE INDENTURE.

(e) THE SERVICER'S INDEMNIFICATION OBLIGATIONS UNDER SECTION 6.02(b) AND (d) FOR EVENTS OCCURRING PRIOR TO THE REMOVAL OR RESIGNATION OF THE TRUSTEE OR THE TERMINATION OF THIS AGREEMENT SHALL SURVIVE THE RESIGNATION OR REMOVAL OF THE TRUSTEE OR THE TERMINATION OF THIS AGREEMENT AND SHALL INCLUDE REASONABLE COSTS, FEES AND EXPENSES OF INVESTIGATION AND LITIGATION (INCLUDING THE ISSUER'S AND THE TRUSTEE'S REASONABLE ATTORNEYS' FEES AND EXPENSES).

(f) EXCEPT TO THE EXTENT EXPRESSLY PROVIDED FOR IN THIS AGREEMENT, THE SALE AGREEMENT OR THE FORMATION DOCUMENTS (INCLUDING THE SERVICER'S CLAIMS WITH RESPECT TO THE SERVICING FEES AND THE SELLER'S CLAIM FOR PAYMENT OF THE PURCHASE PRICE OF TRANSITION PROPERTY), THE SERVICER HEREBY RELEASES AND DISCHARGES THE ISSUER (INCLUDING ITS MEMBERS, MANAGERS, EMPLOYEES AND AGENTS, IF ANY), AND THE TRUSTEE (INCLUDING ITS RESPECTIVE OFFICERS, DIRECTORS AND AGENTS) (COLLECTIVELY, THE "RELEASED PARTIES") FROM ANY AND ALL ACTIONS, CLAIMS AND DEMANDS

**WHATSOEVER, WHICH THE SERVICER, IN ITS CAPACITY AS SERVICER, SHALL OR MAY HAVE AGAINST ANY SUCH PERSON RELATING TO THE TRANSITION PROPERTY OR THE SERVICER'S ACTIVITIES WITH RESPECT THERETO OTHER THAN ANY ACTIONS, CLAIMS AND DEMANDS ARISING OUT OF THE WILLFUL MISCONDUCT, BAD FAITH OR NEGLIGENCE OF THE RELEASED PARTIES.**

**(g) THE SERVICER AND THE ISSUER HEREBY ACKNOWLEDGE THAT, NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, THE TRUSTEE IS A THIRD-PARTY BENEFICIARY OF THIS SECTION 6.02 AND IS ENTITLED TO THE BENEFITS OF THE INDEMNITY FROM THE SERVICER CONTAINED HEREIN AND TO BRING ANY ACTION TO ENFORCE SUCH INDEMNIFICATION DIRECTLY AGAINST THE SERVICER.**

**(h) THE SERVICER SHALL INDEMNIFY THE PUCT (FOR THE BENEFIT OF CUSTOMERS), THE ISSUER, THE TRUSTEE (FOR ITSELF AND ON BEHALF OF THE TRANSITION BONDHOLDERS), AND EACH OF THEIR RESPECTIVE TRUSTEES, MEMBERS, MANAGERS, OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS FOR, AND DEFEND AND HOLD HARMLESS EACH SUCH PERSON FROM AND AGAINST, ANY AND ALL LOSSES THAT MAY BE IMPOSED UPON, INCURRED BY OR ASSERTED AGAINST ANY SUCH PERSON AS A RESULT OF ANY INCREASE IN THE SERVICING FEE THAT BECOMES PAYABLE PURSUANT TO SECTION 6.07(b) OF THIS AGREEMENT AS A RESULT OF A DEFAULT RESULTING FROM THE SERVICER'S WILLFUL MISCONDUCT, BAD FAITH OR NEGLIGENCE IN PERFORMANCE OF ITS DUTIES OR OBSERVANCE OF ITS COVENANTS UNDER THIS AGREEMENT. THE INDEMNIFICATION OBLIGATION SET FORTH IN THIS PARAGRAPH MAY BE ENFORCED BY THE PUCT BUT IS NOT ENFORCEABLE BY ANY REP OR ANY CUSTOMER. ANY INDEMNITY PAYMENTS MADE TO THE PUCT UNDER THIS PARAGRAPH FOR THE BENEFIT OF CUSTOMERS SHALL BE REMITTED TO THE TRUSTEE PROMPTLY FOR DEPOSIT INTO THE COLLECTION ACCOUNT.**

SECTION 6.03. MERGER OR CONSOLIDATION OF, OR ASSUMPTION OF THE OBLIGATIONS OF, THE SERVICER. Any Person:

(a) into which the Servicer may be merged, converted or consolidated and which succeeds to all or substantially all of the electric transmission and distribution business of the Servicer (or, if the Servicer's transmission and distribution business is split, which provides distribution service directly to a majority of the retail electric customers in the Seller's certificated service area as it existed on May 1, 1999),

(b) which results from the division of the Servicer into two or more Persons and which succeeds to all or substantially all of the electric transmission and distribution business of the Servicer (or, if the Servicer's transmission and distribution business is split, which provides distribution service directly to a majority of the retail electric customers in the Seller's certificated service area as it existed on May 1, 1999),

(c) which may result from any merger, conversion or consolidation to which the Servicer shall be a party and which succeeds to all or substantially all of the electric transmission and distribution business of the Servicer (or, if the Servicer's transmission and distribution business is split, which provides distribution service directly to a majority of the retail electric customers in the Seller's certificated service area as it existed on May 1, 1999),

(d) which may purchase or otherwise succeed to the properties and assets of the Servicer substantially as a whole and which purchases or otherwise succeeds to all or substantially all of the electric transmission and distribution business of the Servicer (or, if the Servicer's transmission and distribution business is split, which provides distribution service directly to a majority of the retail electric customers in the Seller's certificated service area as it existed on May 1, 1999), or

(e) which may otherwise purchase or succeed to all or substantially all of the electric transmission and distribution business of the Servicer (or, if the Servicer's transmission and distribution business is split, which provides distribution service directly to a majority of the retail electric customers in the Seller's certificated service area as it existed on May 1, 1999),

which Person in any of the foregoing cases executes an agreement of assumption to perform every obligation of the Servicer under this Agreement, shall be the successor to the Servicer under this Agreement without the execution or filing of any document or any further act by any of the parties to this Agreement; provided, however, that:

(i) immediately after giving effect to such transaction, the representations and warranties made pursuant to Section 6.01 shall be true and correct and no Servicer Default, and no event that, after notice or lapse of time, or both, would become a Servicer Default, shall have occurred and be continuing;

(ii) the Servicer shall have delivered to the Issuer, the PUCT and the Trustee an Officers' Certificate and an Opinion of Counsel each stating that such consolidation, merger, conversion, division or succession and such agreement of assumption comply with this Section 6.03 and that all conditions precedent, if any, provided for in this Agreement relating to such transaction have been complied with;

(iii) the Servicer shall have delivered to the Issuer, the PUCT, the Trustee and the Rating Agencies an Opinion of Counsel either

(A) stating that, in the opinion of such counsel, all filings to be made by the Servicer, including filings with the PUCT pursuant to the Texas Electric Choice Plan and the UCC, that are necessary fully to preserve and protect the interests of each of the Issuer and the Trustee in the Transition Property have been executed and filed and are in full force and effect, and reciting the details of such filings or

(B) stating that, in the opinion of such counsel, no such action is necessary to preserve and protect such interests;

(iv) the Rating Agencies shall have received prior written notice of such transaction and, if such Person is not an Affiliate of CenterPoint Houston, the Rating Agency Condition shall be satisfied; and

(v) the Servicer shall have delivered to the Issuer, the PUCT, the Trustee and the Rating Agencies an opinion of Independent tax counsel (as selected by, and in form and substance satisfactory to, the Servicer, and which may be based on a ruling from the Internal Revenue Service) to the effect that, for federal income tax purposes, such transaction will not result in a material adverse federal income tax consequence to the Issuer or the Transition Bondholders.

The Servicer shall not consummate any transaction referred to in clauses (a), (b), (c), (d) or (e) above except upon execution of the above-described agreement of assumption and compliance with clauses (i), (ii), (iii), (iv) and (v) above. When any Person acquires the properties and assets of the Servicer substantially as a whole or otherwise becomes the successor to the Servicer in accordance with the terms of this Section 6.03, then upon the satisfaction of all of the other conditions of this Section 6.03, the Servicer shall automatically and without further notice be released from its obligations hereunder.

**SECTION 6.04. ASSIGNMENT OF THE SERVICER'S OBLIGATIONS.** Upon written notice to the Trustee, the PUCT and the Rating Agencies, the Servicer may assign a portion of its obligations hereunder to an assignee (A) in accordance with the Intercreditor Agreement with respect to the obligations to maintain and process any account into which initial collections may be deposited and process payments in respect of Transition Charges or (B) subject to the satisfaction of Section 6.03.

**SECTION 6.05. LIMITATION ON LIABILITY OF THE SERVICER AND OTHERS.** The Servicer shall not be liable to the Issuer, its managers, the Transition Bondholders, the Trustee or any other person, except as provided under this Agreement, for any action taken or for refraining from the taking of any action pursuant to this Agreement or for errors in judgment; provided, however, that this provision shall not protect the Servicer against any liability that would otherwise be imposed by reason of willful misconduct, bad faith or negligence in the performance of its duties or by reason of reckless disregard of its obligations and duties under this Agreement or the Intercreditor Agreement. The Servicer and any director or officer or employee or agent of the Servicer may rely in good faith on the advice of counsel reasonably acceptable to the Trustee or on any document of any kind, reasonably believed to be genuine and to have been signed by the proper party respecting any matters arising under this Agreement.

Except as provided in this Agreement (including but not limited to Section 5.02(d) of this Agreement), the Servicer shall not be under any obligation to appear in, prosecute or defend any Proceeding that is not directly related to one of the Servicer's enumerated duties in this Agreement or related to its obligation to pay indemnification, and that in its reasonable opinion may cause it to incur any expense or liability; provided, however, that the Servicer may, in respect of any Proceeding, undertake any reasonable action that is not specifically identified in this Agreement as a duty of the Servicer but that the Servicer may deem necessary or desirable in respect of this Agreement and the rights and duties of the parties to this Agreement and the interests of the Transition Bondholders under this Agreement. The Servicer's costs and expenses

incurred in connection with any such Proceeding shall be payable from TC Collections as an Operating Expense (and shall not be deemed to constitute a portion of the Servicing Fee) in accordance with the Indenture. The Servicer's obligations pursuant to this Section 6.05 shall survive and continue notwithstanding the fact that the payment of Operating Expenses pursuant to the Indenture may be delayed (it being understood that the Servicer may be required initially to advance its own funds to satisfy its obligations hereunder).

**SECTION 6.06. CENTERPOINT HOUSTON NOT TO RESIGN AS SERVICER.** Subject to the provisions of Sections 6.03 and 6.04, CenterPoint Houston shall not resign from the obligations and duties imposed on it as Servicer under this Agreement unless the Servicer delivers to the Issuer, the Trustee, the PUCT and each Rating Agency written notice of such resignation at the earliest practicable time and, concurrently therewith or promptly thereafter, an opinion of Independent legal counsel that the Servicer's performance of its duties under this Agreement shall no longer be permissible under applicable law. No such resignation shall become effective until a Successor Servicer shall have assumed the servicing obligations and duties hereunder of the Servicer in accordance with Section 7.04.

**SECTION 6.07. SERVICING FEE.** (a) The Issuer agrees to pay the Servicer on each Payment Date, solely to the extent amounts are available therefor in accordance with the Indenture, the Servicing Fee with respect to the Transition Bonds. For so long as:

- (i) CenterPoint Houston or one of its Affiliates is the Servicer,
- (ii) a successor to CenterPoint Houston or one of its Affiliates is the Servicer due to the operation of the provisions of Section 6.03, or
- (iii) any Person is the Successor Servicer hereunder pursuant to the provisions of Section 6.03 if the predecessor Servicer was CenterPoint Houston or one of its Affiliates,

the amount of the Servicing Fee paid to the Servicer annually shall equal 0.05% of the Transition Bond Balance on the Issuance Date and shall be prorated based on the fraction of a calendar year during which the Servicer provides any of the services set forth in this Agreement.

(b) In the event that a Successor Servicer not an Affiliate of CenterPoint Houston is appointed in accordance with Section 7.04, the amount of Servicing Fee paid to the Servicer annually shall be agreed upon by the Successor Servicer and the Trustee but shall in no event exceed 0.60% of the Transition Bond Balance on the Issuance Date without the consent of the PUCT and shall be prorated based on the fraction of a calendar year during which the Successor Servicer provides any of the services set forth in this Agreement. The foregoing fees set forth in Section 6.07(a) and this Section 6.07(b) constitute a fair and reasonable price for the obligations to be performed by the Servicer. The Servicer and any Successor Servicer agrees to pay from amounts received as the Servicing Fee all fees due and owing pursuant to the Intercreditor Agreement, and neither the Servicer nor any Successor Servicer shall seek or be entitled to any other or additional reimbursement therefor. The Trustee shall not be responsible or liable for the Servicing Fee or any fees arising from the Intercreditor Agreement or for any increase or differential in such fees.

SECTION 6.08. SERVICER EXPENSES. Except as otherwise expressly provided in Sections 5.02(d) and 6.05, the Servicer shall be required to pay all expenses incurred by it in connection with its activities hereunder and under the Intercreditor Agreement, including fees and disbursements of independent accountants and counsel, taxes imposed on the Servicer and expenses incurred in connection with reports to Transition Bondholders.

SECTION 6.09. COMPLIANCE WITH APPLICABLE LAW. The Servicer covenants and agrees, in servicing the Transition Property, to comply in all material respects with all laws applicable to, and binding upon, the Servicer and relating to such Transition Property the noncompliance with which would have a material adverse effect on the value of the Transition Property; provided, however, that the foregoing is not intended to, and shall not, impose any liability on the Servicer for noncompliance with any Requirement of Law that the Servicer is contesting in good faith in accordance with its customary standards and procedures.

SECTION 6.10. APPOINTMENTS. The Servicer, with written notice to the Trustee and the PUCT, may at any time appoint a subservicer or agent to perform all or any portion of its obligations as Servicer hereunder; provided, however, that the Rating Agency Condition shall have been satisfied in connection therewith; provided further that the Servicer shall remain obligated and be liable to the Issuer for the servicing and administering of the Transition Property in accordance with the provisions hereof without diminution of such obligation and liability by virtue of the appointment of such subservicer or agent and to the same extent and under the same terms and conditions as if the Servicer alone were servicing and administering the Transition Property. The fees and expenses of the subservicer or agent shall be as agreed between the Servicer and its subservicer or agent from time to time, and none of the Issuer, the Trustee or the Transition Bondholders shall have any responsibility therefor. Any such appointment shall not constitute a Servicer resignation under Section 6.06. The Designated Account Holder shall constitute a subservicer for purposes of this Section 6.10.

SECTION 6.11. NO SERVICER ADVANCES. The Servicer shall not make any advances of interest on or principal of the Transition Bonds.

SECTION 6.12. REMITTANCES.

(a) The Servicer shall collect and remit to the Trustee on a daily basis, for deposit in the Collection Account in accordance with Section 6.12(c) below, the Transition Charges plus any Accrued Interest thereon from the date or dates such Transition Charges were actually received (the "Daily Remittance"). The Daily Remittance shall be made as soon as reasonably practicable but in no event later than the second Business Day after the Servicer receives those TC Collections

(b) The Servicer agrees and acknowledges that it will hold all TC Collections and other Transition Property collected by it for the benefit of the Issuer and the Trustee and that all amounts will be remitted by the Servicer in accordance with this Agreement without any surcharge, fee, offset, charge or other deduction other than as expressly permitted in the Financing Order and without making any claim to reduce its obligation to remit all TC Collections and any other proceeds of the Transition Property collected by it.

(c) On or before each remittance by the Servicer to the Trustee, the Servicer shall prepare and furnish to the Issuer, the PUCT and the Trustee a statement setting forth the aggregate amount remitted or to be remitted by the Servicer to the Trustee for deposit on such date pursuant to the Indenture.

(d) On or before each Payment Date, the Servicer shall prepare and furnish to the Issuer and the Trustee a statement setting forth the transfers and payments to be made on that Payment Date and the amounts thereof.

(e) On or before each Payment Date for the Transition Bonds, the Servicer shall prepare and furnish to the Issuer, the PUCT and the Trustee a statement setting forth the amounts to be paid to the Holders of Transition Bonds.

SECTION 6.13. **SERVICER'S CERTIFICATE.** Not later than two (2) Business Days prior to each Payment Date, the Servicer shall deliver a written report, for the Transition Bonds, substantially in the form of Exhibit A hereto (the "Semi-Annual Servicer's Certificate") to the Issuer, the PUCT, the Trustee and the Rating Agencies setting forth the transfers and payments to be made in respect of such Payment Date pursuant to the Indenture and the amounts thereof and the amounts to be paid to Holders of Transition Bonds pursuant to the Indenture.

SECTION 6.14. **PROTECTION OF TITLE.** The Servicer shall execute and file all filings, including filings with the Secretary of State of the State of Texas pursuant to the Texas Electric Choice Plan and Article 9 of the UCC, and cause to be executed and filed all filings, all in such manner and in such places as may be required by law fully to preserve, maintain and protect the interests of the Issuer and the Trustee in the Transition Property, including all filings required under the Texas Electric Choice Plan and Article 9 of the UCC relating to the transfer of the ownership or security interest in the Transition Property by the Seller to the Issuer or any security interest granted by the Issuer in the Transition Property. The Servicer shall deliver (or cause to be delivered) to the Issuer, the PUCT and the Trustee file-stamped copies of, or filing receipts for, any document filed as provided above, as soon as available following such filing.

SECTION 6.15. **MAINTENANCE OF OPERATIONS.** To the extent that any interest in the Transition Property is assigned, sold, or transferred to an assignee, CenterPoint Houston shall enter into a contract with that assignee that requires CenterPoint Houston to continue to operate its transmission and distribution system in order to provide electric services to CenterPoint Houston's customers; provided, however, that this provision shall not prohibit CenterPoint Houston from selling, assigning, or otherwise divesting its transmission and distribution systems or any part thereof so long as the entity or entities acquiring such system agree to continue operating the facilities to provide electric service to CenterPoint Houston's customers.

## **ARTICLE VII**

### **SERVICER DEFAULT**

SECTION 7.01. **SERVICER DEFAULT.** If any one of the following events (a "Servicer Default") occurs and is continuing:

(a) any failure by the Servicer to remit to the Trustee, on behalf of the Issuer, any required remittance by the date that such remittance must be made that continues unremedied for a period of five Business Days;

(b) any failure by the Servicer duly to observe or perform in any material respect any other covenant or agreement of the Servicer set forth in this Agreement (other than as provided in Section 7.01(a) or (c)) or any other Basic Document to which it is a party in such capacity, which failure

(i) materially and adversely affects the Transition Property or the timely collection of the Transition Charges or the rights of the Trustee or the Transition Bondholders, and

(ii) continues unremedied for a period of 60 days after the earlier to occur of (A) the Trustee, the PUCT or the Issuer delivers written notice of such failure to the Servicer or (B) an officer of the Servicer discovers such failure;

(c) any failure by the Servicer duly to perform its obligations under Section 4.01 of this Agreement in the time and manner set forth therein, which failure continues unremedied for a period of five business days;

(d) any representation or warranty made by the Servicer in this Agreement or any Basic Document proves to have been incorrect when made, which has a material adverse effect on the Transition Property or the Issuer's ownership interest therein, the security interest of the Trustee in the Transition Property, the Issuer, the Transition Bondholders or the investment of the Transition Bondholders in the Transition Bonds, and which material adverse effect continues unremedied for a period of 60 days after the date on which written notice thereof shall have been given to the Servicer (with a copy to the Trustee) by the Issuer, the PUCT or the Trustee or after discovery of such failure by an officer of the Servicer, as the case may be; or

(e) an Insolvency Event occurs with respect to the Servicer;

then, so long as the Servicer Default shall not have been remedied, and in no other circumstances, the Trustee may, or shall upon the written instruction of the Majority Holders, terminate all the rights and obligations (other than the indemnification obligations set forth in Section 6.02 hereof and the obligation under Section 7.04 to continue performing its functions as Servicer until a Successor Servicer is appointed) of the Servicer under this Agreement by notice then given in writing to the Servicer (a "Termination Notice") and the Trustee shall comply with the provisions of the Intercreditor Agreement. The Servicer shall notify each Rating Agency promptly upon the Servicer's receipt of a Termination Notice.

In addition, upon a Servicer Default, the Issuer and the Trustee shall be entitled to (x) apply to a state district court located in Travis County, Texas, for sequestration and payment to the Trustee of revenues arising with respect to the Transition Property, (y) foreclose on or otherwise enforce the Lien on and security interests in the Transition Property and (z) apply to the PUCT for an order that amounts arising from the Transition Charges be transferred to a separate account for the benefit of the Transition Bondholders, in accordance with the Texas Electric Choice Plan.

On or after the receipt by the Servicer of a Termination Notice, all authority and power of the Servicer under this Agreement, whether with respect to the Transition Property, the related Transition Charges or otherwise, shall, upon appointment of a Successor Servicer pursuant to Section 7.04 and pursuant to the provisions of the Intercreditor Agreement, without further action, pass to and be vested in such Successor Servicer and, without limitation, the Trustee is hereby authorized and empowered to execute and deliver, on behalf of the predecessor Servicer, as attorney-in-fact or otherwise, any and all documents and other instruments, and to do or accomplish all other acts or things necessary or appropriate to effect the purposes of such Termination Notice, whether to complete the transfer of the Transition Property Documentation and related documents, or otherwise. The predecessor Servicer shall cooperate with the Successor Servicer, the Trustee and the Issuer in effecting the termination of the responsibilities and rights of the predecessor Servicer under this Agreement and the Intercreditor Agreement, including the transfer to the Successor Servicer for administration by it of all cash amounts that shall at the time be held by the predecessor Servicer for remittance, or shall thereafter be received by it with respect to the Transition Property or the related Transition Charges. As soon as practicable after receipt by the Servicer of such Termination Notice, the Servicer shall deliver the Transition Property Documentation to the Successor Servicer. All reasonable costs and expenses (including attorneys' fees and expenses) incurred in connection with transferring the Transition Property Documentation to the Successor Servicer and amending this Agreement or the Intercreditor Agreement to reflect such succession as Servicer pursuant to this Section shall be paid by the predecessor Servicer upon presentation of documentation of such costs and expenses. All costs and expenses (including attorneys' fees and expenses) incurred in connection with transferring the Transition Property Documentation to the Successor Servicer and amending this Agreement or the Intercreditor Agreement to reflect the succession as Servicer other than pursuant to this Section shall be paid by the party incurring such costs and expenses. Termination of CenterPoint Houston's rights as a Servicer shall not terminate CenterPoint Houston's rights or obligations in its individual capacity under the Sale Agreement or the Intercreditor Agreement (except rights thereunder deriving from its rights as the Servicer hereunder).

**SECTION 7.02. NOTICE OF SERVICER DEFAULT.** The Servicer shall deliver to the Issuer, to the Trustee, to the PUCT, and to each Rating Agency promptly after having obtained actual knowledge thereof, but in no event later than two Business Days thereafter, written notice in an Officers' Certificate of any event or circumstance which, with the giving of notice or the passage of time, would become a Servicer Default under Section 7.01.

**SECTION 7.03. WAIVER OF PAST DEFAULTS.** The Trustee, with the written consent of the Majority Holders, may waive in writing in whole or in part any default by the Servicer in the performance of its obligations hereunder and its consequences, except a default in making any required remittances to the Trustee of TC Collections from Transition Property in accordance with Section 6.12 of this Agreement. Upon any such waiver of a past default, such default shall cease to exist, and any Servicer Default arising therefrom shall be deemed to have been remedied for every purpose of this Agreement. No such waiver shall extend to any subsequent or other default or impair any right consequent thereto.

SECTION 7.04. APPOINTMENT OF SUCCESSOR.

(a) Upon the Servicer's receipt of a Termination Notice pursuant to Section 7.01 or the Servicer's resignation in accordance with the terms of this Agreement, the Servicer shall continue to perform its functions as Servicer under this Agreement and shall be entitled to receive the requisite portion of the Servicing Fee, until a Successor Servicer shall have assumed in writing the obligations of the Servicer hereunder as described below. In the event of the Servicer's removal or resignation hereunder, the Trustee may, and at the written direction and with the consent of the Majority Holders, shall, appoint a Successor Servicer, and the Successor Servicer shall accept its appointment by a written assumption in form acceptable to the Issuer and the Trustee. In no event shall the Trustee be liable for its appointment of a Successor Servicer appointed with due care. If, within 30 days after the delivery of the Termination Notice, a new Servicer shall not have been appointed and accepted such appointment, the Trustee may petition the PUCT or a court of competent jurisdiction to appoint a Successor Servicer under this Agreement. A Person shall qualify as a Successor Servicer only if:

(i) such Person is permitted under PUCT Regulations to perform the duties of the Servicer pursuant to the Texas Electric Choice Plan, the Financing Order and this Agreement,

(ii) either (A) the PUCT has approved the appointment of the Successor Servicer or (B) 45 days have lapsed since the PUCT received notice of appointment of the Successor Servicer and the PUCT has neither approved nor disapproved that appointment,

(iii) the Rating Agency Condition shall have been satisfied, and

(iv) such Person enters into a servicing agreement with the Issuer having substantially the same provisions as this Agreement and into the Intercreditor Agreement (as Additional TC Servicer).

(b) Upon appointment, the Successor Servicer shall be the successor in all respects to the predecessor Servicer under this Agreement and shall be subject to all the responsibilities, duties and liabilities arising thereafter relating thereto placed on the predecessor Servicer and shall be entitled to the Servicing Fee and all the rights granted to the predecessor Servicer by the terms and provisions of this Agreement.

(c) The Successor Servicer may not resign unless it is prohibited from serving as such by law.

SECTION 7.05. COOPERATION WITH SUCCESSOR. The predecessor Servicer covenants and agrees with the Issuer that it will, on an ongoing basis, cooperate with the Successor Servicer and provide whatever information is, and take whatever actions are, reasonably necessary to assist the Successor Servicer in performing its obligations hereunder.

## ARTICLE VIII

### MISCELLANEOUS PROVISIONS

SECTION 8.01. AMENDMENT. (a) This Agreement may be amended by the Servicer and the Issuer, with the prior written consent of the Trustee, the consent of the PUCT pursuant to Section 8.12 if the contemplated amendment increases ongoing qualified costs as defined in the Financing Order and the satisfaction of the Rating Agency Condition. Promptly after the execution of any such amendment or consent, the Issuer shall furnish written notification of the substance of such amendment or consent to each of the Rating Agencies.

Prior to the execution of any amendment to this Agreement, the Issuer and the Trustee shall be entitled to receive and conclusively rely upon an Opinion of Counsel stating that the execution of such amendment is authorized or permitted by this Agreement and the Opinion of Counsel referred to in Section 3.01(c). The Issuer and the Trustee may, but shall not be obligated to, enter into any such amendment which affects their own rights, duties or immunities under this Agreement or otherwise.

(b) Notwithstanding Section 8.01(a) or anything to the contrary in this Agreement, the Servicer and the Issuer may amend the Issuer Annex in writing with prior written notice given to the Trustee and the Rating Agencies, but without the consent of the Trustee, any Rating Agency or any Holder, solely to address changes to the Servicer's method of calculating TC Collections as a result of changes to the Servicer's current computerized customer information system; provided that any such amendment shall not have a material adverse effect on the Holders of then Outstanding Transition Bonds.

SECTION 8.02. NOTICES. All demands, notices and communications upon or to the Servicer, the Issuer, the PUCT, the Trustee or the Rating Agencies under this Agreement shall be in writing, delivered personally, via facsimile, by reputable overnight courier or by first class mail, and shall be deemed to have been duly given upon receipt

(a) in the case of the Servicer, to CenterPoint Energy Houston Electric, LLC, 1111 Louisiana Street, Houston, Texas 77002, Attention: Treasurer;

(b) in the case of the Issuer, to CenterPoint Energy Transition Bond Company III, LLC, 1111 Louisiana Street, Suite 4689A, Houston, Texas 77002, Attention: Manager;

(c) in the case of the Trustee, at its Corporate Trust Office;

(d) in the case of Moody's, to Moody's Investors Service, Inc., ABS Monitoring Department, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007;

(e) in the case of Standard & Poor's, to Standard & Poor's, a division of The McGraw-Hill Companies, 55 Water Street, New York, New York 10041, Attention: Asset Backed Surveillance Department; and

(f) in the case of Fitch, to Fitch Ratings, 1 State Street Plaza, New York, New York 10004, Attention: ABS Surveillance;

(g) in the case of the PUCT, to 1701 N. Congress Avenue, Austin, Texas 78711-3326, Attention: Executive Director and General Counsel;

or, as to each of the foregoing, at such other address as shall be designated by written notice to the other parties.

SECTION 8.03. ASSIGNMENT. Notwithstanding anything to the contrary contained herein, except as provided in Sections 6.03 and 6.04 and as provided in the provisions of this Agreement concerning the resignation or termination of the Servicer, this Agreement may not be assigned by the Servicer. Any purported assignment not in compliance with this Agreement shall be void.

SECTION 8.04. LIMITATIONS ON RIGHTS OF OTHERS. The provisions of this Agreement are solely for the benefit of the Servicer, the Issuer and, to the extent provided herein or in the other Basic Documents, Customers and the other Persons expressly referred to herein and the Trustee, on behalf of itself and the Transition Bondholders, and nothing in this Agreement, whether express or implied, shall be construed to give to any other Person any legal or equitable right, remedy or claim in the Trust Estate or under or in respect of this Agreement or any covenants, conditions or provisions contained herein. Notwithstanding anything to the contrary contained herein, for the avoidance of doubt, any right, remedy or claim to which any Customer may be entitled pursuant to the Financing Order and this Agreement may be asserted or exercised only by the PUCT (or by the Attorney General of the State of Texas in the name of the PUCT) for the benefit of such Customer.

SECTION 8.05. SEVERABILITY. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 8.06. SEPARATE COUNTERPARTS. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

SECTION 8.07. HEADINGS. The headings of the various Articles and Sections herein are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

SECTION 8.08. GOVERNING LAW. **THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.**

SECTION 8.09. ASSIGNMENT TO THE TRUSTEE. The Servicer hereby acknowledges and consents to any pledge, assignment and grant of a security interest by the Issuer to the Trustee pursuant to the Indenture for the benefit of any Transition Bondholders of all right, title and interest of the Issuer in, to and under the Transition Property owned by the Issuer and the proceeds thereof and the assignment of any or all of the Issuer's rights hereunder and under the Intercreditor Agreement to the Trustee. Notwithstanding such assignment, in no event shall the Trustee have any liability for the representations, warranties, covenants, agreements or other obligations of the Issuer, hereunder or in any of the certificates, notices or agreements delivered pursuant hereto, as to all of which recourse shall be had solely to the assets of the Issuer.

SECTION 8.10. NONPETITION COVENANTS. Notwithstanding any prior termination of this Agreement or the Indenture, but subject to a court's rights to order the sequestration and payment of revenues arising with respect to the Transition Property pursuant to Section 39.309(f) of the Texas Electric Choice Plan, the Servicer shall not, prior to the date which is one year and one day after the termination of the Indenture, petition or otherwise invoke or cause the Issuer to invoke the process of any Governmental Authority for the purpose of commencing or sustaining a case against the Issuer under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Issuer or any substantial part of the property of the Issuer, or ordering the winding up or liquidation of the affairs of the Issuer.

SECTION 8.11. TERMINATION. This Agreement shall terminate when all Transition Bonds have been retired or redeemed in full.

SECTION 8.12. PUCT CONSENT. Except as specifically set forth in Section 7.04, to the extent the consent of the PUCT is required to effect any amendment to or modification of this Agreement or any provision of this Agreement,

(a) the Servicer may request the consent of the PUCT by delivering to the PUCT's executive director and general counsel a written request for such consent, which request shall contain:

(i) a reference to Docket No. 34448 and a statement as to the possible effect of the amendment on ongoing qualified costs;

(ii) an Officer's Certificate stating that the proposed amendment or modification has been approved by all parties to this Agreement; and

(iii) a statement identifying the person to whom the PUCT or its staff is to address its consent to the proposed amendment or modification or request additional time;

(b) The PUCT shall, within 30 days of receiving the request for consent complying with Section 8.12(a) above, either

(i) provide notice of its consent or lack of consent to the person specified in Section 8.12(a)(iii) above, or

(ii) be conclusively deemed, on the 31st day after receiving the request for consent, to have consented to the proposed amendment or modification,

unless, within 30 days of receiving the request for consent complying with Section 8.12(a) above, the PUCT or its staff delivers to the office of the person specified in Section 8.12(a)(iii) above a written statement requesting an additional amount of time not to exceed thirty days in which to consider whether to consent to the proposed amendment or modification. If the PUCT or its staff requests an extension of time in the manner set forth in the preceding sentence, then the PUCT shall either provide notice of its consent or lack of consent to the person specified in Section 8.12(a)(iii) above no later than the last day of such extension of time or be conclusively deemed to have consented to the proposed amendment or modification on the last day of such extension of time.

Any amendment or modification requiring the consent of the PUCT as provided in this Section 8.12 shall become effective on the later of (i) the date proposed by the parties to such amendment or modification and (ii) the first day after the expiration of the 30-day period provided for in this Section 8.12(b)(ii), or, if such period has been extended pursuant thereto, the first day after the expiration of such period as so extended.

**SECTION 8.13. EFFECT OF SUBSEQUENT PUCT REGULATIONS.** Notwithstanding anything to the contrary contained in this Agreement (including the Issuer Annex hereto), to the extent the PUCT promulgates any PUCT Regulation permitted by the Financing Order or the Texas Electric Choice Plan whose effect is to modify or supplement any provision of this Agreement relating to REP standards, this Agreement shall be deemed to have been so modified or supplemented on the effective date of such regulation, and all other provisions contained herein shall be deemed modified accordingly without the necessity of any further action by any party hereto. The Servicer will notify the Issuer, the Rating Agencies and the Trustee of any such PUCT Regulation and the corresponding modification of or supplement to this Agreement promptly upon obtaining knowledge thereof.

**SECTION 8.14. LIMITATION OF LIABILITY.** It is expressly understood and agreed by the parties hereto that this Agreement is executed and delivered by the Trustee, not individually or personally but solely as Trustee in the exercise of the powers and authority conferred and vested in it, and that the Trustee, in acting hereunder, is entitled to all rights, benefits, protections, immunities and indemnities accorded to it under the Indenture.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective officers as of the day and year first above written.

CENTERPOINT ENERGY TRANSITION BOND COMPANY  
III, LLC

By: \_\_\_\_\_  
Name:  
Title:

CENTERPOINT ENERGY HOUSTON  
ELECTRIC, LLC, as Servicer

By: \_\_\_\_\_  
Name:  
Title:

Acknowledged and Accepted:  
Deutsche Bank Trust Company Americas,  
not in its individual capacity but solely as  
Trustee on behalf of the Holders  
of the Transition Bonds

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

SCHEDULE A  
TO  
TRANSITION PROPERTY SERVICING AGREEMENT

Proceedings pending or, to the Servicer's best knowledge, threatened before any court, federal or State regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the Servicer or its properties seeking any determination or ruling that might materially and adversely affect the Transition Property or the performance by the Servicer of its obligations under, or the validity or enforceability against the Servicer of, this Agreement:

[None]

**EXHIBIT A**

**FORM OF SEMI-ANNUAL SERVICER'S CERTIFICATE  
CenterPoint Energy Transition Bond Company III, LLC  
\$[ ] 2008 Senior Secured Transition Bonds**

**Semiannual Servicer's Certificate  
CenterPoint Energy Transition Bond Company III, LLC  
\$[ ] 2008 Senior Secured Transition Bonds**

Pursuant to Section 6.13 of the Transition Property Servicing Agreement (the "Agreement"), dated as of [ ], between CenterPoint Energy Houston Electric, LLC, as Servicer, and CenterPoint Energy Transition Bond Company III, LLC, as Issuer, the Servicer does hereby certify as follows:

Capitalized terms used in this Semiannual Servicer's Certificate have their respective meanings as set forth in the Agreement. References herein to certain sections and subsections are references to the respective sections and subsections of the Agreement.

Collection Periods: [ ] through [ ]  
Payment Date: [ ]  
Today's Date: [ ]

**1. Collections Allocable and Aggregate Amounts Available for Current Payment Date:**

i.	Remittances for the [ ] through [ ] Collection Period	0.00
ii.	Remittances for the [ ] through [ ] Collection Period	0.00
iii.	Remittances for the [ ] through [ ] Collection Period	0.00
iv.	Remittances for the [ ] through [ ] Collection Period	0.00
v.	Remittances for the [ ] through [ ] Collection Period	0.00
vi.	Remittances for the [ ] through [ ] Collection Period	0.00
vii.	Net Earnings on General Subaccount	<u>0.00</u>
viii.	General Subaccount Balance (sum of i through vii above)	<u>0.00</u>
ix.	Excess Funds Subaccount Balance as of Current Payment Date	0.00
x.	Capital Subaccount Balance as of Current Payment Date	<u>0.00</u>
xi.	Collection Account Balance (sum of viii through x above)	<u><u>0.00</u></u>

**2. Outstanding Amounts as of Prior Payment Date:**

i.	Tranche A-1 Principal Balance	0.00
ii.	Tranche A-2 Principal Balance	0.00
iii.	Tranche A-3 Principal Balance	0.00
iv.	Tranche A-4 Principal Balance	<u>0.00</u>
v.	Aggregate Principal Balance of all Series A Transition Bonds	<u><u>0.00</u></u>

**3. Required Funding/Payments as of Current Payment Date:**

	<u>Principal</u>	<u>Projected Principal Balance</u>	<u>Semiannual Principal Due</u>
i.	Tranche A-1	0.00	0.00
ii.	Tranche A-2	0.00	0.00
iii.	Tranche A-3	0.00	0.00
iv.	Tranche A-4	<u>0.00</u>	<u>0.00</u>
v.	For all Series A Transition Bonds	<u><u>0.00</u></u>	<u><u>0.00</u></u>

Exhibit A

		<u>Transition Bond Interest Rate</u>	<u>Days in Interest Period (1)</u>	<u>Interest Due</u>
vii.	Required Tranche A-1 Interest	%	0	0.00
viii.	Required Tranche A-2 Interest	%	0	0.00
ix.	Required Tranche A-3 Interest	%	0	0.00
x.	Required Tranche A-4 Interest	%	0	0.00

(1) On 30/360 Day basis.

		<u>Required Level (Including Replenishment of Amounts Previously Withdrawn for 4.i.-4.vii.)</u>	<u>Funding Required</u>
xi.	Capital Subaccount		0.00

**4. Allocation of Remittances as of Current Payment Date Pursuant to Section 8.02(d) of Indenture:**

i.	Trustee Fees and Expenses	0.00
ii.	Servicing Fee	0.00
iii.	Administration Fee and Independent Manager Fee	0.00
iv.	Operating Expenses	0.00
v.	Semiannual Interest (including any past-due Semiannual Interest for prior periods)	

	<u>Aggregate</u>	<u>Per \$1,000 of Original Principal Amount</u>
1. Tranche A-1 Interest Payment	0.00	0.00
2. Tranche A-2 Interest Payment	0.00	0.00
3. Tranche A-3 Interest Payment	0.00	0.00
4. Tranche A-4 Interest Payment	0.00	0.00
vi. Principal Due and Payable as a result of (A) Event of Default or (B) on Final Maturity Date		

	<u>Aggregate</u>	<u>Per \$1,000 of Original Principal Amount</u>
1. Tranche A-1 Principal Payment	0.00	0.00
2. Tranche A-2 Principal Payment	0.00	0.00
3. Tranche A-3 Principal Payment	0.00	0.00
4. Tranche A-4 Principal Payment	0.00	0.00

Exhibit A

(C) Principal Scheduled to be Paid on Current Payment Date

	<u>Aggregate</u>	<u>Per \$1,000 of Original Principal Amount</u>
1. Tranche A-1 Principal Payment	0.00	0.00
2. Tranche A-2 Principal Payment	0.00	0.00
3. Tranche A-3 Principal Payment	0.00	0.00
4. Tranche A-4 Principal Payment	0.00	0.00
vii. Operating Expenses not Paid under Clause (iv) above	0.00	
viii. Replenishment of Any Amounts Drawn from Capital Subaccount	0.00	
ix. Net Earnings in Capital Subaccount Released to Issuer		0.00
x. Deposit to Excess Funds Subaccount		0.00
xi. Released to Issuer upon Series Retirement: Collection Account		<u>0.00</u>
xii. Aggregate Remittances as of Current Payment Date		<u>0.00</u>

**5. Subaccount Release or Withdrawals as of Current Payment Date Pursuant to Section 8.02(d) of Indenture:**

i. Capital Subaccount Release (available for 4.ix.)	0.00
ii. Excess Funds Subaccount Withdrawal (available for 4.i. through 4.viii.)	0.00
iii. Capital Subaccount Withdrawal (available for 4.i. through 4.vii.)	<u>0.00</u>
iv. Total Release or Withdrawals	<u>0.00</u>

**6. Outstanding Amounts and Collection Account Balance as of Current Payment Date (after giving effect to payments to be made on such Payment Date):**

i. Tranche A-1 Principal Balance	
ii. Tranche A-2 Principal Balance	
iii. Tranche A-3 Principal Balance	
iv. Tranche A-4 Principal Balance	
v. Aggregate Principal Balance for all Series A Transition Bonds	<u>0.00</u>
vi. Excess Funds Subaccount Balance	0.00
vii. Capital Subaccount Balance	
viii. Aggregate Collection Account Balance	<u>0.00</u>

**7. Shortfalls In Interest and Principal Payments as of Current Payment Date (after giving effect to payments to be made on such Payment Date):**

i. Semiannual Interest	
1. Tranche A-1 Bond Interest Payment	0.00
2. Tranche A-2 Bond Interest Payment	0.00
3. Tranche A-3 Bond Interest Payment	0.00
4. Tranche A-4 Bond Interest Payment	0.00
ii. Semiannual Principal	
1. Tranche A-1 Principal Payment	0.00
2. Tranche A-2 Principal Payment	0.00
3. Tranche A-3 Principal Payment	0.00
4. Tranche A-4 Principal Payment	0.00

Exhibit A

**8. Shortfall in Required Subaccount Level as of Current Payment Date (after giving effect to payments to be made on such Payment Date):**

i. Capital Subaccount 0.00

IN WITNESS HEREOF, the undersigned has duly executed and delivered this Semiannual Servicer's Certificate this     day of  
, 20     .

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, as Servicer

by: \_\_\_\_\_  
[Name]  
[Title]

Exhibit A

EXHIBIT B-1

FORM OF SERVICER'S REGULATION AB COMPLIANCE CERTIFICATE

The undersigned hereby certifies that he/she is the duly elected and acting [ ] of CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, as servicer (the "Servicer") under the Transition Property Servicing Agreement dated as of February [ ], 2008 (the "Servicing Agreement") between the Servicer and CENTERPOINT ENERGY TRANSITION BOND COMPANY III, LLC (the "Issuer") and further that:

1. The undersigned is responsible for assessing the Servicer's compliance with the servicing criteria set forth in Item 1122(d) of Regulation AB (the "Servicing Criteria").

2. With respect to each of the Servicing Criteria, the undersigned has made the following assessment of the Servicing Criteria in accordance with Item 1122(d) of Regulation AB, with such discussion regarding the performance of such Servicing Criteria during the fiscal year ended \_\_\_\_\_, \_\_\_\_\_ and covered by CenterPoint Houston's annual report on Form 10-K (such fiscal year, the "Assessment Period"):

Regulation AB Reference	Servicing Criteria	Applicable Servicing Criteria
<b>General Servicing Considerations</b>		
1122(d)(1)(i)	Policies and procedures are instituted to monitor any performance or other triggers and events of default in accordance with the transaction agreements.	Applicable; assessment below.
1122(d)(1)(ii)	If any material servicing activities are outsourced to third parties, policies and procedures are instituted to monitor the third party's performance and compliance with such servicing activities.	Not applicable; no servicing activities were outsourced.
1122(d)(1)(iii)	Any requirements in the transaction agreements to maintain a back-up servicer for pool assets are maintained.	Not applicable; documents do not provide for a back-up servicer.
1122(d)(1)(iv)	A fidelity bond and errors and omissions policy is in effect on the party participating in the servicing function throughout the reporting period in the amount of coverage required by and otherwise in accordance with the terms of the transaction agreements.	Not applicable; PUCT rules impose credit standards on retail electric providers who handle customer collections and govern performance requirements of utilities.

Regulation AB Reference	Servicing Criteria	Applicable Servicing Criteria
	<b>Cash Collection and Administration</b>	
1122(d)(2)(i)	Payments on pool assets are deposited into the appropriate custodial bank accounts and related bank clearing accounts no more than two business days of receipt, or such other number of days specified in the transaction agreements.	Applicable
1122(d)(2)(ii)	Disbursements made via wire transfer on behalf of an obligor or to an investor are made only by authorized personnel.	Not applicable; no disbursements on behalf of obligors or to investors are made by Servicer by means of wire transfer
1122(d)(2)(iii)	Advances of funds or guarantees regarding collections, cash flows or distributions, and any interest or other fees charged for such advances, are made, reviewed and approved as specified in the transaction agreements.	Applicable, but no current assessment required; no advances by the Servicer are permitted under the transaction agreements.
1122(d)(2)(iv)	The related accounts for the transaction, such as cash reserve accounts or accounts established as a form of overcollateralization, are separately maintained (e.g., with respect to commingling of cash) as set forth in the transaction agreements.	Applicable, but no current assessment is required since transaction accounts are maintained by and in the name of the Trustee.
1122(d)(2)(v)	Each custodial account is maintained at a federally insured depository institution as set forth in the transaction agreements. For purposes of this criterion, “federally insured depository institution” with respect to a foreign financial institution means a foreign financial institution that meets the requirements of Rule 13k-1(b)(1) of the Exchange Act.	Applicable, but no current assessment required; all “custodial accounts” are maintained by the Trustee.
1122(d)(2)(vi)	Unissued checks are safeguarded so as to prevent unauthorized access.	Not applicable; all transfers made by wire transfer.

Regulation AB Reference	Servicing Criteria	Applicable Servicing Criteria
1122(d)(2)(vii)	<p>Reconciliations are prepared on a monthly basis for all asset-backed securities related bank accounts, including custodial accounts and related bank clearing accounts. These reconciliations are (A) mathematically accurate; (B) prepared within 30 calendar days after the bank statement cutoff date, or such other number of days specified in the transaction agreements; (C) reviewed and approved by someone other than the person who prepared the reconciliation; and (D) contain explanations for reconciling items. These reconciling items are resolved within 90 calendar days of their original identification, or such other number of days specified in the transaction agreements.</p>	<p>Applicable; assessment below. Reconciliations as to REP accounts are limited to confirming that the funds in any REP's account known to Servicer are at least in the amount required by Servicer.</p>
<b>Investor Remittances and Reporting</b>		
1122(d)(3)(i)	<p>Reports to investors, including those to be filed with the Commission, are maintained in accordance with the transaction agreements and applicable Commission requirements. Specifically, such reports (A) are prepared in accordance with timeframes and other terms set forth in the transaction agreements; (B) provide information calculated in accordance with the terms specified in the transaction agreements; (C) are filed with the Commission as required by its rules and regulations; and (D) agree with investors' or the trustee's records as to the total unpaid principal balance and number of pool assets serviced by the Servicer.</p>	<p>Applicable; assessment below.</p>
1122(d)(3)(ii)	<p>Amounts due to investors are allocated and remitted in accordance with timeframes, distribution priority and other terms set forth in the transaction agreements.</p>	<p>Not applicable; trustee allocates among, and remits to, investors.</p>

<u>Regulation AB Reference</u>	<u>Servicing Criteria</u>	<u>Applicable Servicing Criteria</u>
1122(d)(3)(iii)	Disbursements made to an investor are posted within two business days to the Servicer's investor records, or such other number of days specified in the transaction agreements.	Not applicable; disbursements are made by Trustee and Trustee maintains investor records
1122(d)(3)(iv)	Amounts remitted to investors per the investor reports agree with cancelled checks, or other form of payment, or custodial bank statements.  Pool Asset Administration	Applicable; assessment below, based on Semi-Annual Servicer's Certificate.
1122(d)(4)(i)	Collateral or security on pool assets is maintained as required by the transaction agreements or related pool asset documents.	Applicable; assessment below.
1122(d)(4)(ii)	Pool assets and related documents are safeguarded as required by the transaction agreements.	Applicable; assessment below.
1122(d)(4)(iii)	Any additions, removals or substitutions to the asset pool are made, reviewed and approved in accordance with any conditions or requirements in the transaction agreements.	Not applicable; no removals or substitutions of transition property are contemplated or allowed under the transaction documents.
1122(d)(4)(iv)	Payments on pool assets, including any payoffs, made in accordance with the related pool asset documents are posted to the Servicer's obligor records maintained no more than two business days after receipt, or such other number of days specified in the transaction agreements, and allocated to principal, interest or other items (e.g., escrow) in accordance with the related pool asset documents.	Applicable; assessment below. Payments received from REPs are posted to Servicer's records and funds transferred to Trustee.
1122(d)(4)(v)	The Servicer's records regarding the pool assets agree with the Servicer's records with respect to an obligor's unpaid principal balance.	Not applicable; because underlying obligation (transition charge) is not an interest bearing instrument

Exhibit B-1

Regulation AB Reference	Servicing Criteria	Applicable Servicing Criteria
1122(d)(4)(vi)	Changes with respect to the terms or status of an obligor's pool asset (e.g., loan modifications or re-agings) are made, reviewed and approved by authorized personnel in accordance with the transaction agreements and related pool asset documents.	Applicable; assessment below. The only changes relate to true-up under the financing order.
1122(d)(4)(vii)	Loss mitigation or recovery actions (e.g., forbearance plans, modifications and deeds in lieu of foreclosure, foreclosures and repossessions, as applicable) are initiated, conducted and concluded in accordance with the timeframes or other requirements established by the transaction agreements.	Applicable, to the extent required by the transaction agreements; assessment below.
1122(d)(4)(viii)	Records documenting collection efforts are maintained during the period pool asset is delinquent in accordance with the transaction agreements. Such records are maintained on at least a monthly basis, or such other period specified in the transaction agreements, and describe the entity's activities in monitoring delinquent pool assets including, for example, phone calls, letters and payment rescheduling plans in cases where delinquency is deemed temporary (e.g., illness or unemployment).	Applicable, but does not require assessment since no explicit documentation requirement with respect to delinquent accounts are imposed under the transactional documents due to availability of "true-up" mechanism.
1122(d)(4)(ix)	Adjustments to interest rates or rates of return for pool assets with variable rates are computed based on the related pool asset documents.	Not applicable; transition charges are not interest bearing instruments.

Exhibit B-1

Regulation AB Reference	Servicing Criteria	Applicable Servicing Criteria
1122(d)(4)(x)	Regarding any funds held in trust for an obligor (such as escrow accounts): (A) such funds are analyzed, in accordance with the obligor's pool asset documents, on at least an annual basis, or such other period specified in the transaction agreements; (B) interest on such funds is paid, or credited, to obligors in accordance with applicable pool asset documents and state laws; and (C) such funds are returned to the obligor within 30 calendar days of full repayment of the related pool assets, or such other number of days specified in the transaction agreements.	Not applicable; Servicer does not maintain REP deposit accounts.
1122(d)(4)(xi)	Payments made on behalf of an obligor (such as tax or insurance payments) are made on or before the related penalty or expiration dates, as indicated on the appropriate bills or notices for such payments, provided that such support has been received by the Servicer at least 30 calendar days prior to these dates, or such other number of days specified in the transaction agreements.	Not applicable; Servicer does not make payments on behalf of obligors.
1122(d)(4)(xii)	Any late payment penalties in connection with any payment to be made on behalf of an obligor are paid from the Servicer's funds and not charged to the obligor, unless the late payment was due to the obligor's error or omission.	Not applicable; Servicer cannot make advances of its own funds on behalf of customers under the transaction documents.
1122(d)(4)(xiii)	Disbursements made on behalf of an obligor are posted within two business days to the obligor's records maintained by the Servicer, or such other number of days specified in the transaction agreements.	Not applicable; Servicer cannot make advances of its own funds on behalf of customers to pay principal or interest on the bonds.
1122(d)(4)(xiv)	Delinquencies, charge-offs and uncollectible accounts are recognized and recorded in accordance with the transaction agreements.	Applicable; assessment below.
1122(d)(4)(xv)	Any external enhancement or other support, identified in Item 1114(a)(1) through (3) or Item 1115 of Regulation AB, is maintained as set forth in the transaction agreements.	Not applicable; no external enhancement is required under the transaction documents.

3. To the best of the undersigned's knowledge, based on such review, the Servicer is in compliance in all material respects with the applicable servicing criteria set forth above as of and for the period ending the end of the fiscal year ended \_\_\_\_\_, \_\_\_\_\_ and covered by CenterPoint Houston's annual report on Form 10-K. [If not true, include description of any material instance of noncompliance.]

4. A registered independent public accounting firm has issued to us an attestation report in accordance with Section 1122(b) of Regulation AB on its assessment of compliance with the applicable servicing criteria as of and for the period ending the end of the fiscal year ended \_\_\_\_\_, \_\_\_\_\_ and covered by CenterPoint Houston's annual report on Form 10-K.

Executed as of this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

CENTERPOINT ENERGY HOUSTON  
ELECTRIC, LLC

By: \_\_\_\_\_  
Name:  
Title:

Exhibit B-1  
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**EXHIBIT B-2**  
FORM OF CERTIFICATE OF COMPLIANCE

The undersigned hereby certifies that he/she is the duly elected and acting [\_\_\_\_\_] of CenterPoint Energy Houston Electric, LLC as servicer (the "Servicer") under the Transition Property Servicing Agreement dated as of \_\_\_\_\_, 2008 (the "Servicing Agreement") between the Servicer and CenterPoint Energy Transition Bond Company III, LLC (the "Issuer") and further that:

1. A review of the activities of the Servicer and of its performance under the Servicing Agreement during the twelve months ended [\_\_\_\_\_] [\_\_\_\_\_] has been made under the supervision of the undersigned pursuant to Section 3.03 of the Servicing Agreement; and

2. To the best of the undersigned's knowledge, based on such review, the Servicer has fulfilled all of its obligations in all material respects under the Servicing Agreement throughout the twelve months ended [\_\_\_\_\_] [\_\_\_\_\_] except as set forth on Annex A hereto.

Executed as of this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_

CENTERPOINT ENERGY HOUSTON  
ELECTRIC, LLC

By: \_\_\_\_\_  
Name:  
Title:

**ANNEX A**  
**to Certificate of Compliance**

**LIST OF SERVICER DEFAULTS**

The following Servicer Defaults, or events which with the giving of notice, the lapse of time, or both, would become Servicer Defaults known to the undersigned occurred during the year ended [\_\_\_\_\_]:

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**Nature of Default**

**Status**

---

Exhibit B-2

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ANNEX 1  
TO  
SERVICING AGREEMENT

The Servicer agrees to comply with the following servicing procedures:

**SECTION 1. DEFINITIONS.**

(a) Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in Appendix A of the Transition Property Servicing Agreement (the "Agreement").

**SECTION 2. DATA ACQUISITION.**

(a) Installation, Maintenance of Meters and Data Acquisition. Except to the extent that another entity is responsible for such services, the Servicer shall cause to be installed, replaced and maintained meters in such places and in such condition as will enable the Servicer to obtain usage measurements for each Customer at least once every Billing Period. To the extent another entity is responsible for such services, such other entity may obtain usage measurements for each Customer less frequently than once every Billing Period in accordance with its current practices so long as the PUCT Regulations so permit. To the extent another entity is responsible for such services, but not performing such services, the Servicer shall take all reasonably necessary actions to obtain usage measurements for each Customer at least once every Billing Period.

(b) Cost of Data Acquisition. The Issuer shall not be obligated to pay any costs associated with the data acquisition set forth in this Section 2, nor shall the Issuer be entitled to any credit against the Servicing Fee for any cost savings realized by the Servicer or any REP as a result of new metering and/or billing technologies.

(c) ERCOT. The Servicer shall take all reasonable actions available under PUCT Regulations to obtain timely information from ERCOT (or, if such information is not available from ERCOT, directly from the Applicable MDMA) which is necessary for the Servicer to fulfill its obligations under the Servicing Agreement.

**SECTION 3. USAGE AND BILL CALCULATION.**

The Servicer, from the usage measurements obtained pursuant to Section 2, shall determine each Customer's individual Transition Charges to be included on Bills issued by it to such Customer or to the REP responsible for billing such Customer.

**SECTION 4. BILLING.**

The Servicer shall implement the Transition Charges as of the Issuance Date and shall thereafter bill each Customer or, with respect to Customers billed by a REP, for the respective Customer's outstanding current and past due Transition Charges accruing through the date on which such Transition Charges may no longer be billed under the Tariff, all in accordance with the following:

(a) Frequency of Bills; Billing Practices. In accordance with the Servicer's then-existing policies and practices for its own charges, as such policies and practices may be modified from time to time, the Servicer shall generate and issue a Bill to each Customer, or, where the REP is responsible for billing the Customers, to the REP, for such Customers' Transition Charges once every applicable Billing Period, at the same time, with the same frequency and on the same Bill as that containing the Servicer's own charges to such Customers or REPs, as the case may be.

(b) Format.

(i) Each Bill issued by the Servicer to a Customer shall contain the charge corresponding to the Transition Charges owed by such Customer for the applicable Billing Period. The Transition Charges shall be separately identified if required by and in accordance with the terms of the Financing Order and Tariff.

(ii) Where a REP is responsible for billing the Customers, the Servicer shall deliver to the REP itemized charges for each Customer setting forth such Customer's Transition Charges. If such charges are not separately identified, the Servicer shall provide, and unless prohibited by applicable PUCT Regulations, shall cause each REP to provide, Customers with the annual notice required by Section 4.01(e)(ii) of the Servicing Agreement.

(iii) The Servicer shall conform to such requirements in respect of the format, structure and text of Bills delivered to Customers and REPs in accordance with, if applicable, the Financing Order, Tariff and PUCT Regulations. To the extent that Bill format, structure and text are not prescribed by the Utilities Code or by applicable PUCT Regulations, the Servicer shall, subject to clauses (i) and (ii) above, determine the format, structure and text of all Bills in accordance with its reasonable business judgment, its policies and practices with respect to its own charges and prevailing industry standards.

(c) Delivery. The Servicer shall deliver all Bills issued by it by any means, whether electronic or otherwise, that the Servicer may from time to time use to present its own charges to the REPs or to Servicer's other customers, as applicable. The Servicer or each REP, as applicable, shall pay from its own funds all costs of issuance and delivery of all Bills, including but not limited to printing and postage costs.

#### **SECTION 5. CUSTOMER SERVICE FUNCTIONS.**

The Servicer shall handle all Customer or REP inquiries and other customer service matters according to the same procedures it uses with respect to its own charges.

#### **SECTION 6. COLLECTIONS; PAYMENT PROCESSING; REMITTANCE.**

(a) Collection Efforts, Policies, Procedures.

(i) The Servicer shall use reasonable efforts to collect all Billed TCs from Customers and REPs as and when the same become due and shall follow such collection procedures as it follows with respect to comparable assets that it services for itself or others, including with respect to the following:

- (A) The Servicer shall prepare and deliver overdue notices to Customers and REPs in accordance with applicable PUCT Regulations.
- (B) The Servicer shall apply late payment charges to outstanding Customer and REP balances in accordance with applicable PUCT Regulations and as required by the Financing Order.
- (C) In circumstances where the Servicer bills Customers directly, the Servicer shall deliver final notices of delinquency and possible disconnection in accordance with applicable PUCT Regulations.
- (D) The Servicer shall adhere to and carry out disconnection policies and termination of REP billing in accordance with the Utilities Code, the Financing Order, applicable PUCT Regulations.
- (E) The Servicer may employ the assistance of collection agents to collect any past-due Transition Charges in accordance with applicable PUCT Regulations and the Tariff.
- (F) The Servicer shall apply Customer and REP deposits to the payment of delinquent accounts in accordance with the Tariff, the Financing Order and applicable PUCT Regulations and according to the priorities set forth in Section 6(b)(ii) and (iii) of this Annex I.

(ii) The Servicer shall not waive any late payment charge or any other fee or charge relating to delinquent payments, if any, or waive, vary or modify any terms of payment of any amounts payable by a Customer or REP, in each case unless such waiver or action: (A) would be in accordance with the Servicer's customary practices or those of any successor Servicer with respect to comparable assets that it services for itself and for others; (B) would not materially adversely affect the rights of the Transition Bondholders; and (C) would comply with applicable law.

(iii) The Servicer shall accept payment in respect of Billed TCs in such forms and methods and at such times and places as the Servicer accepts payments of its own charges in accordance with, if applicable, the Financing Order, the Tariff and any other PUCT Regulations.

(b) Payment Processing; Allocation; Priority of Payments.

(i) The Servicer shall post all payments received to customer accounts as promptly as practicable, and, in any event, substantially all payments shall be posted no later than two (2) Business Days after receipt.

(ii) Subject to clause (iii) below, the Servicer shall apply payments received to each Customer's or each REP's account in proportion to the charges contained on the outstanding Bill to such Customer or REP.

(iii) If a Customer or REP does not pay the full amount it has been billed by the Servicer, the amount paid by the Customer or REP will first be apportioned between the Transition Charges

and other fees and charges (including amounts billed and due in respect of transition charges associated with transition bonds issued under other financing orders), other than late fees, and second, any remaining portion of the payment will be allocated to late fees owed to CenterPoint Houston or any successor.

(c) Accounts; Records.

The Servicer shall maintain accounts and records as to the Transition Property accurately and in accordance with its standard accounting procedures and in sufficient detail (i) to permit reconciliation between payments or recoveries with respect to the Transition Property and the amounts from time to time remitted to the Collection Account in respect of the Transition Property and (ii) to permit the TC Collections held by the Servicer to be accounted for separately from the funds with which they may be commingled, so that the dollar amounts of TC Collections commingled with the Servicer's funds may be properly identified and traced.

(d) Charge-Offs.

In accordance with the Financing Order and Schedule TC3, each REP will be permitted to hold back an allowance for charge-offs in its Transition Charge payments to the Servicer. Such charge-off rate will be recalculated each year in connection with the annual Transition Charge Adjustment. Until the first Calculation Date, each REP that has chosen to hold back an allowance for charge-offs in its payments of Billed TCs to the Servicer will remit to the Servicer Transition Charges based on the charge-off percentage in effect for the then most recently established transition charges related to the transition bonds issued by CenterPoint Energy Transition Bond Company, LLC on October 24, 2001 and by CenterPoint Energy Transition Bond Company II, LLC on December 16, 2005. Thereafter, on or about each Calculation Date, the REP and the Servicer will be responsible for reconciling the amounts held back with amounts actually written off as uncollectible in accordance with the terms agreed to by the REP and the Servicer, provided that:

(i) The REP's right to reconciliation for write-offs will be limited to customers whose service has been permanently terminated and whose entire accounts (i.e., all amounts due the REP for its own account as well as the portion representing all Transition Charges) have been written off.

(ii) The REP's recourse will be limited to a credit against future Transition Charge payments unless the REP and the Servicer agree to alternative arrangements, but, in accordance with the Financing Order and Schedule TC3, in no event will the REP have recourse to the Trustee, the Issuer or the Issuer's funds for such payments.

(iii) In accordance with the Financing Order and Schedule TC3, the REP shall provide information on a timely basis to the Servicer so that the Servicer can include the REP's default experience and any subsequent credits into its calculation of the adjusted Transition Charge rates for the next Transition Charge billing period. The REP's rights to credits will not take effect until after such adjusted Transition Charges have been implemented.

(iv) If the REP has held back less than the amount actually written off as uncollectible during the time period, the REP shall be entitled to a credit against future Transition Charge payments over

the twelve-month period immediately following the next Adjustment Date in the amount of the hold-back shortfall and no other remedy. If the REP has held back more than the amount actually written off as uncollectible during the time period, the permitted charge-off percentage shall be adjusted so that it is projected that the REP will remit to the Servicer the amount of such underpayment of TC Collections over the twelve-month period immediately following the next Adjustment Date.

(v) The Servicer will incorporate the REPs' Customer default information and any subsequent credits to the REPs for Transition Charges already paid by the REPs to the Servicer in its calculation of the Transition Charge Adjustments on the Calculation Date. The REPs' right described in this Section 4 to receive a credit against future payments of Billed TCs to the Servicer shall not take effect until after the next Adjustment Date.

(e) Investment of TC Collections Received.

Prior to each Daily Remittance, the Servicer may invest TC Collections received at its own risk and for its own benefit, provided however, that the Servicer shall pay Accrued Interest as provided in Section 6.12 of the Agreement. So long as the Servicer complies with its obligations under Section 6(c), neither such investments nor such funds shall be required to be segregated from the other investment and funds of the Servicer.

(f) Remittances.

(i) The Issuer shall cause to be established the Collection Account in the name of the Trustee in accordance with the Indenture.

(ii) The Servicer shall make remittances to the Collection Account in accordance with Section 6.12 of the Agreement.

(iii) In the event of any change of account or change of institution affecting the Collection Account, the Issuer shall provide written notice thereof to the Servicer not later than five (5) Business Days from the effective date of such change.

APPENDIX A

DEFINITIONS

The definitions contained in this Appendix A are applicable to the singular as well as the plural forms of such terms.

“Accrued Interest” means interest accrued at the Federal Funds Rate on amounts held by the Servicer prior to, on, or after the date such amounts are due and payable to the Trustee under this Agreement.

“Act” has the meaning specified in Section 11.03 of the Indenture.

“Additional TC Servicer” has the meaning specified in the Intercreditor Agreement.

“Adjustment Date” means the date other than an Interim Adjustment Date on which any Transition Charge Adjustment (other than an interim (non-annual) Transition Charge Adjustment) and/or any PBRAF Adjustment, as applicable, becomes effective. The first Adjustment Date will be on or about [            ], and all subsequent Adjustment Dates shall be on or about the same day of the year in subsequent years.

“Administration Agreement” means the Administration Agreement dated as of February [    ], 2008, between CenterPoint Houston, as Administrator, and the Issuer, as the same may be amended and supplemented from time to time.

“Administrator” means CenterPoint Houston as administrator under the Administration Agreement and each successor to or assignee of CenterPoint Houston in the same capacity.

“Affiliate” means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, control, when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms controlling and controlled have meanings correlative to the foregoing.

“Annual Accountant’s Report” has the meaning assigned to that term in Section 3.04 of the Servicing Agreement.

“Applicable MDMA” means with respect to each Customer, the meter data management agent providing meters or meter reading services for that Customer’s account.

“Basic Documents” means the Issuer LLC Agreement, the Issuer Certificate of Formation, the Sale Agreement, the Servicing Agreement, the Intercreditor Agreement, the Administration Agreement, the Indenture, the Supplement, the Underwriting Agreement relating to the 2008 Senior Secured Transition Bonds, and the Bill of Sale.

“Bill” means each of the regular monthly bills, summary bills, opening bills and closing bills issued to Customers by CenterPoint Houston or REPs or to REPs by CenterPoint Houston on its own behalf and in its capacity as Servicer.

“Billed TCs” means the amounts of Transition Charges billed by the Servicer, whether billed directly to Customers by the Servicer or indirectly through REPs.

“Billing Period” means the period of approximately thirty (30) days for which the Servicer renders Bills.

“Bill of Sale” has the meaning assigned to that term in the Sale Agreement.

“Book-Entry Transition Bonds” means beneficial interests in the Transition Bonds, ownership and transfers of which shall be made through book entries by a Clearing Agency as described in Section 2.11 of the Indenture.

“Business Day” means any day other than a Saturday or Sunday or a day on which banking institutions in the City of Houston, Texas, or in the City of New York, New York, are required or authorized by law or executive order to remain closed.

“Calculation Date” means, with respect to the 2008 Senior Secured Transition Bonds, the date on which the calculations and filings set forth in Section 4 and the Issuer Annex will be made each year. The first Calculation Date will be no later than [            ], if the Servicer requests only Transition Charge Adjustments, and no later than [            ], if the Servicer requests any PBRF Adjustments (whether or not the Servicer also requests Transition Charge Adjustments). Subsequent Calculation Dates will be on or about the same applicable day of the year in subsequent years.

“Capital Subaccount” has the meaning specified in Section 8.02(a) of the Indenture.

“CenterPoint Houston” means CenterPoint Energy Houston Electric, LLC, a Texas limited liability company, or its successor.

“Clearing Agency” means an organization registered as a “clearing agency” pursuant to Section 17A of the Exchange Act.

“Clearing Agency Participant” means a broker, dealer, bank, other financial institution or other Person for whom from time to time a Clearing Agency effects book-entry transfers and pledges of securities deposited with the Clearing Agency.

“Collection Account” has the meaning specified in Section 8.02(a) of the Indenture.

“Collection Period” means the period from and including the first day of a calendar month to but excluding the first day of the next calendar month.

“Corporate Trust Office” has the meaning specified in Appendix A to the Indenture.

“Customer Class” means each of the Transition Charge classes specified in the Financing Order.

“Customer” means each Person from whom CenterPoint Houston is authorized to recover Qualified Costs as defined in and pursuant to the Texas Electric Choice Plan, any PUCT Regulation or the Financing Order, but shall not include REPs.

“Daily Remittance” has the meaning specified in Section 6.12(a).

“Default” means any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

“Designated Account Holder” has the meaning specified in the Intercreditor Agreement.

“DTC” means The Depository Trust Company.

“ERCOT” means the Electric Reliability Council of Texas or any successor thereto.

“Event of Default” has the meaning specified in Section 5.01 of the Indenture.

“Excess Funds Subaccount” has the meaning specified in Section 8.02(a) of the Indenture.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Expected Amortization Schedule” means, with respect to the 2008 Senior Secured Transition Bonds, or any Tranche thereof, the expected amortization schedule for principal thereof, as specified in the Supplement.

“Expected Final Payment Date” means, with respect to the 2008 Senior Secured Transition Bonds, or, if applicable, each Tranche thereof, the date when all interest and principal is scheduled to be paid for that Tranche in accordance with the Expected Amortization Schedule, as specified in the Supplement.

“Federal Funds Rate” means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day on such transactions received by the Servicer from three federal funds brokers of recognized standing selected by it.

“Final Maturity Date” means, for the 2008 Senior Secured Transition Bonds, or, if applicable, each Tranche thereof, the date by which all principal and interest on the Transition Bonds is required to be paid, as specified in the Supplement.

“Financing Order” means the Financing Order issued by the PUCT on September 18, 2007 in Docket No. 34448 pursuant to the Texas Electric Choice Plan.

“Fitch” means Fitch Ratings or any successor thereto.

“Formation Documents” means, collectively, the Issuer Certificate of Formation, the Issuer LLC Agreement and any other document pursuant to which the Issuer is formed or governed, as the same may be amended and supplemented from time to time.

“Governmental Authority” means any court or any federal or state regulatory body, administrative agency or governmental instrumentality.

“Holder” or “Transition Bondholder” means the Person in whose name a Transition Bond of any Tranche is registered on the Transition Bond Register.

“Indenture” means the Indenture, dated as of February [ ], 2008, between the Issuer and the Trustee, and the Supplement (including the forms and terms of the 2008 Senior Secured Transition Bonds, established thereunder), as the same may be amended and supplemented with respect to the 2008 Senior Secured Transition Bonds, from time to time.

“Independent” means, when used with respect to any specified Person, that the Person

(a) is in fact independent of the Issuer, any other obligor upon the Transition Bonds, the Servicer and any Affiliate of any of the foregoing Persons,

(b) does not have any direct financial interest or any material indirect financial interest in the Issuer, any such other obligor, the Servicer or any Affiliate of any of the foregoing Persons and

(c) is not connected with the Issuer, any such other obligor, the Servicer or any Affiliate of any of the foregoing Persons as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions.

“Insolvency Event” means, with respect to a specified Person,

(a) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of such Person or any substantial part of its property in an involuntary case under any applicable federal or State bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such Person or for any substantial part of its property, or ordering the winding-up or liquidation of such Person’s affairs, and such decree or order shall remain unstayed and in effect for a period of 90 consecutive days, or

(b) the commencement by such Person of a voluntary case under any applicable federal or State bankruptcy, insolvency or other similar law now or hereafter in effect, or the consent by such Person to the entry of an order for relief in an involuntary case under any such law, or the consent by such Person to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such Person or for any substantial part of its property, or the making by such Person of any general assignment for the benefit of creditors, or the failure by such Person generally to pay its debts as such debts become due, or the taking of action by such Person in furtherance of any of the foregoing.

“Intercreditor Agreement” means the Intercreditor Agreement dated as of February [ ], 2008, among the Issuer, CenterPoint Houston, CenterPoint Energy Transition Bond Company, LLC, CenterPoint Energy Transition Bond Company II, LLC, the Trustee and the other parties thereto, each in the capacities stated therein, as the same may be amended from time to time.

“Interim Adjustment Date” means the effective date of any interim (non-annual) Transition Charge Adjustment.

“Issuance Advice Letter” means the issuance advice letter submitted to the PUCT by CenterPoint Houston pursuant to the Financing Order in connection with the issuance of the 2008 Senior Secured Transition Bonds.

“Issuance Date” means the date on which the 2008 Senior Secured Transition Bonds, are to be originally issued in accordance with the Indenture and the Supplement.

“Issuer” means CenterPoint Energy Transition Bond Company III, LLC, a Delaware limited liability company, or any successor thereto pursuant to the Indenture.

“Issuer Annex” means Annex 1 of the Servicing Agreement.

“Issuer Certificate of Formation” means the Certificate of Formation of the Issuer that was filed with the Delaware Secretary of State on August 30, 2007, as amended and restated on [ ], as the same may be amended and restated from time to time.

“Issuer LLC Agreement” means the Limited Liability Company Agreement between the Issuer and CenterPoint Houston, as sole Member, effective as of August 31, 2007, as amended and restated on [ ], as the same may be amended or supplemented from time to time.

“Lien” means a security interest, lien, charge, pledge, equity or encumbrance of any kind.

“Losses” means collectively, any and all liabilities, obligations, losses, damages, payments, costs or expenses of any kind whatsoever.

“Majority Holders” means the Holders of a majority of the Outstanding Amount of the 2008 Senior Secured Transition Bonds.

“Moody’s” means Moody’s Investors Service Inc., or any successor thereto.

“Officers’ Certificate” means a certificate signed, in the case of CenterPoint Houston, by:

(a) any manager, the chairman of the board, the chief executive officer, the president, the vice chairman or any executive vice president, senior vice president or vice president; and

(b) the treasurer, any assistant treasurer, the secretary or any assistant secretary.

“Operating Expenses” means, with respect to the Issuer, all fees, costs and expenses owed by the Issuer with respect to the 2008 Senior Secured Transition Bonds, including all amounts owed by the Issuer to the Trustee, the Servicing Fee, the fees and expenses relating to the 2008 Senior Secured Transition Bonds, payable by the Issuer to the Administrator under the Administration Agreement, the fees and expenses relating to the 2008 Senior Secured Transition Bonds, payable by the Issuer to the Independent manager of the Issuer, legal fees and expenses of the Servicer pursuant to this Servicing Agreement, and legal and accounting fees, costs and expenses of the Issuer relating to the 2008 Senior Secured Transition Bonds.

“Opinion of Counsel” means one or more written opinions of counsel who may be an employee of or counsel to the Servicer or the Issuer, which counsel shall be reasonably acceptable to the Trustee, the Issuer or the Rating Agencies, as applicable, and which shall be in form reasonably satisfactory to the Trustee, if applicable.

“Outstanding” with respect to Transition Bonds means, as of the date of determination, all Transition Bonds theretofore authenticated and delivered under the Indenture except:

(a) Transition Bonds theretofore canceled by the Transition Bond Registrar or delivered to the Transition Bond Registrar for cancellation;

(b) Transition Bonds or portions thereof the payment for which money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent in trust for the Holders of such Transition Bonds; provided, however, that if such Transition Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefor, satisfactory to the Trustee; and

(c) Transition Bonds in exchange for or in lieu of other Transition Bonds which have been authenticated and delivered pursuant to the Indenture unless proof satisfactory to the Trustee is presented that any such Transition Bonds are held by a bona fide purchaser;

provided that in determining whether the Holders of the requisite Outstanding Amount of the Transition Bonds or any Tranche thereof have given any request, demand, authorization, direction, notice, consent or waiver hereunder or under any Basic Document, Transition Bonds owned by the Issuer, any other obligor upon the Transition Bonds, CenterPoint Houston or any Affiliate of any of the foregoing Persons shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be fully protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Transition Bonds that a Responsible Officer of the Trustee knows to be so owned shall be so disregarded. Transition Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee’s right so to act with respect to such Transition Bonds and that the pledgee is not the Issuer, any other obligor upon the Transition Bonds, the Servicer or any Affiliate of any of the foregoing Persons.

“Outstanding Amount” means the aggregate principal amount of all Outstanding 2008 Senior Secured Transition Bonds, or, if the context requires, all Outstanding Transition Bonds of a Tranche of 2008 Senior Secured Transition Bonds, Outstanding at the date of determination.

“Paying Agent” means the Trustee or any other Person that meets the eligibility standards for the Trustee specified in Section 6.11 of the Indenture and is authorized by the Issuer to make the payments of principal of or premium, if any, or interest on the Transition Bonds on behalf of the Issuer.

“Payment Date” means, with respect to the 2008 Senior Secured Transition Bonds, or, if applicable, each Tranche thereof, the date or dates specified as Payment Dates for Tranche in the Supplement, provided that if any such date is not a Business Day, the Payment Date shall be the Business Day immediately succeeding such date.

“PBRAAF” means the periodic billing requirement allocation factor used to allocate Transition Charges among different classes of Customers, as set forth in Schedule TC3 and any other applicable tariff or order.

“PBRAAF Adjustment” means each adjustment to any PBRAF made in accordance with Section 4.01 of the Servicing Agreement, Schedule TC3 and any other applicable tariff, any order issued by the PUCT pursuant to Section 39.253 of the Texas Electric Choice Plan, and the Issuer Annex.

“Penalty” means a late-fee penalty assessed by the Servicer against an REP or other Person for such REP’s or such other Person’s failure to remit timely payments of Transition Charges as set forth in Section 3.05(c) of this Servicing Agreement.

“Periodic Billing Requirement” means, for any calculation period, the aggregate amount of Transition Charges calculated by the Servicer as necessary to be billed during such period in order to collect the Periodic Payment Requirements on or before the end of the Collection Period immediately preceding the next annual Transition Charge Adjustment Date.

“Periodic Payment Requirement” for any calculation period means the total dollar amount (after giving effect to the allocation and distribution of amounts on deposit in the Excess Funds Subaccount at the time of calculation and which will be available for payments on the Transition Bonds at the end of such calculation period and including any shortfalls in Periodic Payment Requirements for any prior calculation period) sufficient to ensure that, as of the last Payment Date occurring in such calculation period, (1) all accrued and unpaid interest on the Transition Bonds then due shall have been paid in full, (2) the Outstanding Amount of the Transition Bonds is equal to the Projected Transition Bond Balance, (3) the balance on deposit in the Capital Subaccount equals the aggregate Required Capital Level and (4) all other fees and expenses due and owing and required or allowed to be paid under Section 8.02 of the Indenture as of such date shall have been paid in full; provided that, with respect to any annual Transition Charge Adjustment or interim Transition Charge Adjustment occurring after the last Scheduled Final Payment Date for any Transition Bonds, the Periodic Payment Requirements shall be calculated to ensure that sufficient Transition Charges will be collected to retire such Transition Bonds in full as of the earlier of (x) the Payment Date preceding the next annual Transition Charge Adjustment Date and (y) the Final Maturity Date for such Transition Bonds.

“Person” means any individual, corporation, estate, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), business trust, limited liability company, unincorporated organization or government or any agency or political subdivision thereof.

“Proceeding” means any suit in equity, action at law or other judicial or administrative proceeding.

“Projected Transition Bond Balance” means, as of any date, the anticipated Outstanding Amount of 2008 Senior Secured Transition Bonds, after giving effect to payment of the sum of the payment amounts provided for in the Expected Amortization Schedules for the 2008 Senior Secured Transition Bonds, to be paid on or before such date.

“Provider of Last Resort” has the meaning specified in Section 39.106 of the Texas Electric Choice Plan.

“PUCT” means the Public Utility Commission of Texas or any successor entity thereto.

“PUCT Regulation” means any regulation, rule, order or directive promulgated, issued or adopted by the PUCT.

“Qualified Costs” has the meaning assigned to that term in the Texas Electric Choice Plan and the Financing Order.

“Rating Agency” means any rating agency rating the 2008 Senior Secured Transition Bonds, at the time of issuance at the request of the Issuer, which initially shall be Moody’s, Fitch and Standard & Poor’s. If no such organization or successor is any longer in existence, “Rating Agency” shall be a nationally recognized statistical rating organization or other comparable Person designated by the Issuer, written notice of which designation shall be given to the Trustee, the PUCT and the Servicer.

“Rating Agency Condition” means, with respect to any action, the notification in writing to each Rating Agency of such action, and confirmation from S&P to the Trustee and the Issuer that such action will not result in a reduction or withdrawal of the then current rating by such Rating Agency of the 2008 Senior Secured Transition Bonds.

“Redemption Date” means, with respect to the 2008 Senior Secured Transition Bonds, or, if applicable, each Tranche thereof, the date for the redemption of the Transition Bonds of such Tranche pursuant to Section 10.01 of the Indenture or the Supplement, which in each case shall be a Payment Date.

“Regulation AB” means the rules of the SEC promulgated under Subpart 229.1100 – Asset Backed Securities (Regulation AB), 17 C.F.R. §§229.1100-229.1123, as such may be amended from time to time.

“Released Parties” has the meaning specified in Section 6.02(f) of the Servicing Agreement.

“Remittance Requirement” means, with respect to any REP, the requirement that such REP remit Transition Charges to the Servicer within a prescribed number of days of billing by the Servicer in accordance with, if applicable, the Financing Order, the Tariff and any other PUCT Regulations.

“REP” means a retail electric provider under the Financing Order or any other entity which, under the terms of the Financing Order or the Utilities Code, may be obligated to pay, bill or collect the Transition Charges, other than Customers.

“REP Billing Day” has the meaning specified in Section 3.05(c) of the Servicing Agreement.

“REP Credit Requirement” means the credit and collection policies applicable to REPs under the Financing Order, the Tariff and other PUCT Regulations.

“REP Default” has the meaning specified in Section 3.05(d) of the Servicing Agreement.

“REP Deposit” has the meaning specified in Section 3.05(e) of the Servicing Agreement.

“Required Capital Amount” means a capital contribution in an amount equal to the amount specified in the Supplement, representing a capital contribution from CenterPoint Houston.

“Requirement of Law” means any foreign, federal, state or local laws, statutes, regulations, rules, codes or ordinances enacted, adopted, issued or promulgated by any Governmental Authority or common law.

“Responsible Officer” means, with respect to the Trustee, any officer within the Corporate Trust Office of the Trustee, including any Vice President, Director, Managing Officer, associate, Assistant Vice President, Secretary, Assistant Secretary, or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also, with respect to a particular matter, any other officer to whom such matter is referred because of such officer’s knowledge of and familiarity with the particular subject.

“Retirement” means any day on which the final distribution is made to the Trustee in respect of the last Outstanding Amount.

“Retiring Trustee” means a Trustee that resigns or vacates the office of Trustee for any reason.

“Sale Agreement” means the Transition Property Sale Agreement dated as of February [ ], 2008 relating to the Transition Property, between the Seller and the Issuer, as the same may be amended and supplemented from time to time.

“Sale Date” means the date on which the Seller sells, transfers, assigns and conveys to the issuer the Transition Property to which this Agreement relates.

“Schedule TC3” means the tariff on the form entitled “Schedule TC3” approved by the PUCT in the Financing Order and filed by CenterPoint Houston prior to the issuance of any Transition Bonds.

“SEC” means the U.S. Securities and Exchange Commission.

“Seller” means CenterPoint Houston, or its successor, in its capacity as seller of the Transition Property to the Issuer pursuant to the Sale Agreement.

“Semiannual Servicer’s Certificate” means the statement prepared by the Servicer and delivered to the Trustee with respect to the 2008 Senior Secured Transition Bonds, on or prior to each Payment Date therefor, the form of which is attached to the Servicing Agreement as Exhibit A.

“Servicer” means CenterPoint Houston, as the servicer of the Transition Property, and each successor to or assignee of CenterPoint Houston (in the same capacity) pursuant to Section 6.03, 6.04, or 7.04 of the Servicing Agreement.

“Servicer Default” means the occurrence and continuation of one of the events specified in Section 7.01 of the Servicing Agreement.

“Servicing Agreement” or “Agreement” means the Transition Property Servicing Agreement dated as of February [ ], 2008, between the Issuer and the Servicer, and acknowledged by the Trustee, relating to the Transition Property as the same may be amended and supplemented from time to time.

“Servicing Fee” means the fee payable by the Issuer to the Servicer on each Payment Date with respect to the 2008 Senior Secured Transition Bonds, in an amount specified in Section 6.07 of the Servicing Agreement.

“Servicing Standard” means the obligation of the Servicer to calculate, apply, remit and reconcile proceeds of the Transition Property, including TC Collections and REP Deposits for the benefit of the Issuer and the Holders (i) with the same degree of care and diligence as the Servicer applies with respect to payments owed to it for its own account, (ii) in accordance with all applicable procedures and requirements set forth in the Financing Order and Schedule TC3 and (iii) in accordance with the other terms of the Servicing Agreement.

“Standard & Poor’s” or “S&P” means Standard & Poor’s, a division of The McGraw-Hill Companies, or any successor thereto.

“State” means any one of the 50 states of the United States of America or the District of Columbia.

“Successor Servicer” means (i) a successor to CenterPoint Houston pursuant to Section 6.03 of the Servicing Agreement or (ii) a successor Servicer appointed by the Trustee pursuant to Section 7.04 of the Servicing Agreement which in each case will succeed to all the rights and duties of the Servicer under the Servicing Agreement.

“Supplement” means the First Supplemental Indenture dated of even date herewith to the Indenture that authorizes the 2008 Senior Secured Transition Bonds.

“Tariff” means any rate tariff filed with the PUCT pursuant to the Texas Electric Choice Plan to evidence any Transition Charges.

“TC Collections” means amounts constituting good funds collected by the Servicer in respect of Transition Charges and Transition Property.

“Termination Notice” has the meaning specified in Section 7.01 of the Servicing Agreement.

“Texas Electric Choice Plan” means the Act of May 29, 2007, H.B. 624 §§ 2-4, 80th Leg., R.S. (to be codified as an amendment to Texas Utilities Code Sections 39.301-.303).

“Third-Party Collector” means each third party, including each REP, which, pursuant to any Tariff filed with the PUCT, or any agreement with CenterPoint Houston, is obligated to bill, pay or collect Transition Charges.

“Tranche” means any one of the tranches of 2008 Senior Secured Transition Bonds, as specified in the Supplement.

“Transition Bond” means any of the 2008 Senior Secured Transition Bonds, issued by the Issuer pursuant to the Indenture.

“Transition Bond Balance” means, as of any date, the aggregate Outstanding Amount of 2008 Senior Secured Transition Bonds, on such date.

“Transition Bond Owner” means, with respect to a Book-Entry Transition Bond, the Person who is the beneficial owner of such Book-Entry Transition Bond, as reflected on the books of the Clearing Agency, or on the books of a Person maintaining an account with such Clearing Agency (directly as a Clearing Agency Participant or as an indirect participant, in each case in accordance with the rules of such Clearing Agency).

“Transition Bond Register” has the meaning specified in Section 2.05 of the Indenture.

“Transition Bond Registrar” means the Trustee, in its capacity as keeper of the Transition Bond Register, or any successor to the Trustee in such capacity.

“Transition Charge Adjustment” means each adjustment to Transition Charges related to the Transition Property made in accordance with Section 4.01 of the Servicing Agreement and the Issuer Annex.

“Transition Charges” means the nonbypassable amounts to be charged for the use or availability of electric services, approved by the PUCT in the Financing Order to recover Qualified Costs, that shall be collected by CenterPoint Houston, its successors, assignees or by REPs as provided for in the Financing Order.

“Transition Property” means the rights and interests of Seller or its successor under the Financing Order, once those rights are first transferred to the Issuer or pledged in connection with the issuance of the Transition Bonds, including the right to impose, collect and receive through Transition Charges payable by retail electric customers within Seller’s certificated service area as it existed on May 1, 1999, an amount sufficient to cover the Qualified Costs of the Seller authorized in the Financing Order, the right to receive Transition Charges in amounts and at times sufficient to pay principal and interest and make other deposits in connection with the Transition Bonds and all revenues and collections resulting from Transition Charges.

“Transition Property Documentation” means all documents relating to the Transition Property, including copies of the Financing Order and all documents filed with the PUCT in connection with any Transition Charges Adjustment.

“Trust Estate” has the meaning specified in the Supplement.

“Trustee” means Deutsche Bank Trust Company Americas, as trustee, or its successor or any successor Trustee under the Indenture.

“UCC” means, unless the context otherwise requires, the Uniform Commercial Code, as in effect in the relevant jurisdiction, as amended from time to time.

“Underwriting Agreement” has the meaning specified in the Indenture.

“Utilities Code” means the Texas Utilities Code, as amended from time to time.

“Utility” has the meaning specified in the Intercreditor Agreement.

## ADMINISTRATION AGREEMENT

ADMINISTRATION AGREEMENT, dated as of \_\_\_\_\_, 2008 (this "Administration Agreement"), is by and between CENTERPOINT ENERGY TRANSITION BOND COMPANY III, LLC, a Delaware limited liability company, as Issuer (the "Issuer"), and CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, a Texas limited liability company ("CenterPoint Houston"), as Administrator (in such capacity, the "Administrator"). Capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in Appendix A to the Indenture more fully described below.

## WITNESSETH:

WHEREAS, the Issuer is issuing Transition Bonds pursuant to the Indenture, dated as of the date hereof and a First Supplemental Indenture thereto, also dated as of the date hereof (the "First Supplement") (as amended, supplemented or otherwise modified and in effect from time to time, the "Indenture"), between the Issuer and Deutsche Bank Trust Company, as the Trustee;

WHEREAS, the Issuer has entered into certain agreements in connection with the issuance of the Transition Bonds, including (i) the Indenture and the First Supplement, (ii) the Transition Property Servicing Agreement, dated as of the date hereof (the "Servicing Agreement"), between the Issuer and CenterPoint Houston, as Servicer, (iii) the Transition Property Sale Agreement, dated as of the date hereof (the "Sale Agreement"), between the Issuer and CenterPoint Houston, as Seller, and (iv) the Letter of Representations, dated as of \_\_\_\_\_, 2008 (the "Depository Agreement"), among the Issuer, the Trustee and The Depository Trust Company relating to the Transition Bonds (the Indenture, the First Supplement, the Servicing Agreement, the Sale Agreement and the Depository Agreement, as such agreements may be amended and supplemented from time to time, being referred to hereinafter collectively as the "Initial Related Agreements");

WHEREAS, pursuant to the Initial Related Agreements, the Issuer is required to perform certain duties in connection with the Initial Related Agreements, the Transition Bonds and the Trust Estate pledged to the Trustee pursuant to the Indenture;

WHEREAS, the Issuer may from time to time enter into and be required to perform certain duties under additional agreements similar to the Initial Related Agreements (together with the Initial Related Agreements, the "Related Agreements");

WHEREAS, the Issuer has no employees, other than its officers, and does not intend to hire any employees, and consequently desires to have the Administrator perform certain of the duties of the Issuer referred to in the preceding clauses and to provide such additional services consistent with the terms of this Administration Agreement and the Related Agreements as the Issuer may from time to time request; and

WHEREAS, the Administrator has the capacity to provide the services and the facilities required thereby and is willing to perform such services and provide such facilities for the Issuer on the terms set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Duties of the Administrator: Management Services. The Administrator hereby agrees to provide the following corporate management services to the Issuer and to cause third parties to provide professional services required for or contemplated by such services in accordance with the provisions of this Administration Agreement:

(i) furnish the Issuer with ordinary clerical, bookkeeping and other corporate administrative services necessary and appropriate for the Issuer, including, without limitation, the following services:

(A) maintain at the Premises (as defined below) general accounting records of the Issuer (the "Account Records"), subject to year-end audit, in accordance with generally accepted accounting principles, separate and apart from its own accounting records, prepare or cause to be prepared such quarterly and annual financial statements as may be necessary or appropriate and arrange for year-end audits of the Issuer's financial statements by the Issuer's independent accountants;

(B) prepare and, after execution by the Issuer, file with the Securities and Exchange Commission (the "Commission") and any applicable state agencies documents required to be filed with the Commission and any applicable state agencies, including, without limitation, periodic reports required to be filed under the Securities Exchange Act of 1934, as amended;

(C) prepare for execution by the Issuer and cause to be filed such income, franchise or other tax returns of the Issuer as shall be required to be filed by applicable law (the "Tax Returns") and cause to be paid on behalf of the Issuer from the Issuer's funds any taxes required to be paid by the Issuer under applicable law;

(D) prepare or cause to be prepared for execution by the Issuer's Managers minutes of the meetings of the Issuer's Managers and such other documents deemed appropriate by the Issuer to maintain the separate limited liability company existence and good standing of the Issuer (the "Company Minutes") or otherwise required under the Related Agreements (together with the Account Records, the Tax Returns, the Company Minutes, the Issuer LLC Agreement, and the Issuer Certificate of Formation, the "Issuer Documents"); and any other documents deliverable by the Issuer thereunder or in connection therewith; and

(E) hold, maintain and preserve at the Premises (or such other place as shall be required by any of the Related Agreements) executed copies (to the extent applicable) of the Issuer Documents and other documents executed by the Issuer thereunder or in connection therewith;

(ii) take such actions on behalf of the Issuer, as are necessary or desirable for the Issuer to keep in full effect its existence, rights and franchises as a limited liability company under the laws of the state of Delaware and obtain and preserve its qualification to do business in each jurisdiction in which it becomes necessary to be so qualified;

(iii) provide for the issuance and delivery of the Transition Bonds;

(iv) provide for the performance by the Issuer of its obligations under each of the Related Agreements, and prepare, or cause to be prepared, all documents, reports, filings, instruments, notices, certificates and opinions that it shall be the duty of the Issuer to prepare, file or deliver pursuant to the Related Agreements;

(v) enforce each of the rights of the Issuer under the Related Agreements, at the direction of the Trustee;

(vi) provide for the defense, at the direction of the Issuer's Managers, of any action, suit or proceeding brought against the Issuer or affecting the Issuer or any of its assets;

(vii) provide office space (the "Premises") for the Issuer and such reasonable ancillary services as are necessary to carry out the obligations of the Administrator hereunder, including telecopying, duplicating and word processing services;

(viii) obtaining, maintaining or facilitating one or more letters of credit or obtaining, maintaining or facilitating other credit support for the obligations of the Issuer contemplated by any Related Agreement;

(ix) undertake such other administrative services as may be appropriate, necessary or requested by the Issuer; and

(x) provide such other services as are incidental to the foregoing or as the Issuer and the Administrator may agree.

In providing the services under this Section 1 and as otherwise provided under this Administration Agreement, the Administrator will not knowingly take any actions on behalf of the Issuer which (i) the Issuer is prohibited from taking under the Related Agreements, or (ii) would cause the Issuer to be in violation of any federal, state or local law or the Issuer LLC Agreement.

2. Compensation. As compensation for the performance of the Administrator's obligations under this Administration Agreement (including the compensation of Persons serving as Managers, other than the independent managers, and officers of the Issuer, but, for the avoidance of doubt, excluding the performance by CenterPoint Houston of its obligations in its capacity as Servicer), the Administrator shall be entitled to \$100,000 annually (the "Administration Fee"), payable by the Issuer in arrears proportionately on each Payment Date. In addition, the Administrator shall be entitled to be reimbursed by the Issuer for all costs and expenses of services performed by unaffiliated third parties and actually incurred by the Administrator in connection with the performance of its obligations under this Administration

Agreement in accordance with Section 3 (but, for the avoidance of doubt, excluding any such costs and expenses incurred by CenterPoint Houston in its capacity as Servicer), to the extent that such costs and expenses are supported by invoices or other customary documentation and reasonably allocated to the Issuer (“Reimbursable Expenses”).

3. Third Party Services. Any services or fees required for or contemplated by the performance of the above-referenced services by the Administrator to be provided by unaffiliated third parties (including independent auditors’ fees and counsel fees) may, if provided for or otherwise contemplated by any related financing order issued by the PUCT and if the Issuer deems it necessary or desirable, be arranged by the Issuer or by the Administrator at the direction (which may be general or specific) of the Issuer. Costs and expenses associated with the contracting for such third-party services may be paid directly by the Issuer or paid by the Administrator and reimbursed by the Issuer in accordance with Section 2, or otherwise as the Administrator and the Issuer may mutually arrange.

4. Additional Information to be Furnished to the Issuer. The Administrator shall furnish to the Issuer from time to time such additional information regarding the Trust Estate as the Issuer shall reasonably request.

5. Independence of the Administrator. For all purposes of this Administration Agreement, the Administrator shall be an independent contractor and shall not be subject to the supervision of the Issuer with respect to the manner in which it accomplishes the performance of its obligations hereunder. Unless expressly authorized by the Issuer, the Administrator shall have no authority, and shall not hold itself out as having the authority, to act for or represent the Issuer in any way and shall not otherwise be deemed an agent of the Issuer.

6. No Joint Venture. Nothing contained in this Administration Agreement (a) shall constitute the Administrator and the Issuer as partners or co-members of any partnership, joint venture, association, syndicate, unincorporated business or other separate entity, (b) shall be construed to impose any liability as such on either of them or (c) shall be deemed to confer on either of them any express, implied or apparent authority to incur any obligation or liability on behalf of the other.

7. Other Activities of Administrator. Nothing herein shall prevent the Administrator or any of its members, managers, officers, employees, subsidiaries or affiliates from engaging in other businesses or, in its sole discretion, from acting in a similar capacity as an Administrator for any other person or entity even though such person or entity may engage in business activities similar to those of the Issuer.

8. Term of Agreement; Resignation and Removal of Administrator. (a) This Administration Agreement shall continue in force until the payment in full of the Transition Bonds and any other amount which may become due and payable under the Indenture, upon which event this Administration Agreement shall automatically terminate.

(b) Subject to Sections 8(e) and 8(f), the Administrator may resign its duties hereunder by providing the Issuer with at least sixty (60) days’ prior written notice.

(c) Subject to Sections 8(e) and 8(f), the Issuer may remove the Administrator without cause by providing the Administrator with at least sixty (60) days' prior written notice.

(d) Subject to Sections 8(e) and 8(f), at the sole option of the Issuer, the Administrator may be removed immediately upon written notice of termination from the Issuer to the Administrator if any of the following events shall occur:

(i) The Administrator shall default in the performance of any of its duties under this Administration Agreement and, after notice of such default, shall fail to cure such default within ten (10) days (or, if such default cannot be cured in such time, shall (A) fail to give within ten (10) days such assurance of cure as shall be reasonably satisfactory to the Issuer and (B) fail to cure such default within 30 days thereafter);

(ii) a court of competent jurisdiction shall enter a decree or order for relief, and such decree or order shall not have been vacated within sixty (60) days, in respect of the Administrator in any involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or such court shall appoint a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for the Administrator or any substantial part of its property or order the winding-up or liquidation of its affairs; or

(iii) the Administrator shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, shall consent to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the Administrator or any substantial part of its property, shall consent to the taking of possession by any such official of any substantial part of its property, shall make any general assignment for the benefit of creditors or shall fail generally to pay its debts as they become due.

The Administrator agrees that if any of the events specified in clauses (ii) or (iii) of this Section 8(d) shall occur, it shall give written notice thereof to the Issuer and the Trustee as soon as practicable but in any event within seven (7) days after the happening of such event.

(e) No resignation or removal of the Administrator pursuant to this Section shall be effective until a successor Administrator has been appointed by the Issuer, and such successor Administrator has agreed in writing to be bound by the terms of this Administration Agreement in the same manner as the Administrator is bound hereunder.

(f) The appointment of any successor Administrator shall be effective only after satisfaction of the Rating Agency Condition with respect to the proposed appointment.

9. Action upon Termination, Resignation or Removal. Promptly upon the effective date of termination of this Administration Agreement pursuant to Section 8(a), the resignation of the Administrator pursuant to Section 8(b) or the removal of the Administrator pursuant to Section 8(c) or 8(d), the Administrator shall be entitled to be paid a pro-rated portion of the annual fee described in Section 2 hereof through the date of termination and all Reimbursable Expenses incurred by it through the date of such termination, resignation or removal. The

Administrator shall forthwith upon such termination pursuant to Section 8(a) deliver to the Issuer all property and documents of or relating to the Trust Estate then in the custody of the Administrator. In the event of the resignation of the Administrator pursuant to Section 8(b) or the removal of the Administrator pursuant to Section 8(c) or 8(d), the Administrator shall cooperate with the Issuer and take all reasonable steps requested to assist the Issuer in making an orderly transfer of the duties of the Administrator.

10. Administrator's Liability. Except as otherwise provided herein, the Administrator assumes no liability other than to render or stand ready to render the services called for herein, and neither the Administrator nor any of its members, managers, officers, employees, subsidiaries or affiliates shall be responsible for any action of the Issuer or any of the members, managers, officers, employees, subsidiaries or affiliates of the Issuer (other than the Administrator itself). The Administrator shall not be liable for nor shall it have any obligation with regard to any of the liabilities, whether direct or indirect, absolute or contingent of the Issuer or any of the members, managers, officers, employees, subsidiaries or affiliates of the Issuer (other than the Administrator itself).

**11. INDEMNITY.**

**(a) SUBJECT TO THE PRIORITY OF PAYMENTS SET FORTH IN THE INDENTURE, THE ISSUER SHALL INDEMNIFY THE ADMINISTRATOR, ITS MEMBERS, MANAGERS, OFFICERS, EMPLOYEES AND AFFILIATES AGAINST ALL LOSSES, CLAIMS, DAMAGES, PENALTIES, JUDGMENTS, LIABILITIES AND EXPENSES (INCLUDING, WITHOUT LIMITATION, ALL EXPENSES OF LITIGATION OR PREPARATION THEREFOR WHETHER OR NOT THE ADMINISTRATOR IS A PARTY THERETO) WHICH ANY OF THEM MAY PAY OR INCUR ARISING OUT OF OR RELATING TO THIS ADMINISTRATION AGREEMENT AND THE SERVICES CALLED FOR HEREIN; PROVIDED, HOWEVER, THAT SUCH INDEMNITY SHALL NOT APPLY TO ANY SUCH LOSS, CLAIM, DAMAGE, PENALTY, JUDGMENT, LIABILITY OR EXPENSE RESULTING FROM THE ADMINISTRATOR'S NEGLIGENCE OR WILLFUL MISCONDUCT IN THE PERFORMANCE OF ITS OBLIGATIONS HEREUNDER.**

**(b) THE ADMINISTRATOR SHALL INDEMNIFY THE ISSUER, ITS MEMBERS, MANAGERS, OFFICERS AND EMPLOYEES AGAINST ALL LOSSES, CLAIMS, DAMAGES, PENALTIES, JUDGMENTS, LIABILITIES AND EXPENSES (INCLUDING, WITHOUT LIMITATION, ALL EXPENSES OF LITIGATION OR PREPARATION THEREFOR WHETHER OR NOT THE ISSUER IS A PARTY THERETO) WHICH ANY OF THEM MAY INCUR AS A RESULT OF THE ADMINISTRATOR'S NEGLIGENCE OR WILLFUL MISCONDUCT IN THE PERFORMANCE OF ITS OBLIGATIONS HEREUNDER.**

12. Notices. Any notice, report or other communication given hereunder shall be in writing and addressed as follows:

(a) if to the Issuer, to:

CenterPoint Energy Transition Bond Company III, LLC  
1111 Louisiana Street, Suite 4689A  
Houston, Texas 77002  
Attention: Manager

(b) if to the Administrator, to:

CenterPoint Energy Houston Electric, LLC  
1111 Louisiana Street  
Houston, Texas 77002  
Attention: Treasurer

or to such other address as either party shall have provided to the other party in writing. Any notice required to be in writing hereunder shall be deemed given if such notice is mailed by certified mail, postage prepaid, or hand-delivered to the address of such party as provided above.

13. Amendments. This Administration Agreement may be amended from time to time by a written amendment duly executed and delivered by each of the Issuer and the Administrator, provided that (i) the Rating Agency Condition has been satisfied in connection therewith, (ii) the Trustee shall have consented and (iii) in the case of any amendment that increases ongoing qualified costs as defined in the applicable financing order of the PUCT, the PUCT shall have consented thereto or shall be conclusively deemed to have consented thereto. With respect to the PUCT's consent to any amendment to this Administration Agreement,

(a) the Administrator may request the consent of the PUCT by delivering to the PUCT's executive director and general counsel a written request for such consent, which request shall contain:

- (i) a reference to Docket No. 34448 and a statement as to the possible effect of the amendment on ongoing qualified costs;
- (ii) an Officer's Certificate stating that the proposed amendment has been approved by all parties to this Administration Agreement;

and

(iii) a statement identifying the person to whom the PUCT or its staff is to address its consent to the proposed amendment or request additional time;

(b) The PUCT shall, within 30 days of receiving the request for consent complying with Section 13(a) above, either

- (i) provide notice of its consent or lack of consent to the person specified in Section 13(a)(iii) above, or
- (ii) be conclusively deemed to have consented to the proposed amendment,

unless, within 30 days of receiving the request for consent complying with Section 13(a) above, the PUCT or its staff delivers to the office of the person specified in Section 13(a)(iii) above a written statement requesting an additional amount of time not to exceed 30 days in which to consider whether to consent to the proposed amendment. If the PUCT or its staff requests an extension of time in the manner set forth in the preceding sentence, then the PUCT shall either provide notice of its consent or lack of consent to the person specified in Section 13(a)(iii) above no later than the last day of such extension of time or be conclusively deemed to have consented

to the proposed amendment as of the last day of such extension of time. Following delivery of a notice to the PUCT by the Administrator under Section 13(a) above, the Administrator and Issuer may at any time withdraw from the PUCT further consideration of any notification of a proposed amendment.

(c) Any amendment requiring the consent of the PUCT as provided in this Section 13 shall become effective on the later of (i) the date proposed by the parties to such amendment and (ii) the first day after the expiration of the 30 day period provided for in Section 13(b), or, if such period has been extended pursuant thereto, the first day after the expiration of such period as so extended.

14. Successors and Assigns. This Administration Agreement may not be assigned by the Administrator unless such assignment is previously consented to in writing by the Issuer and the Trustee and subject to the satisfaction of the Rating Agency Condition in connection therewith. Any assignment with such consent and satisfaction, if accepted by the assignee, shall bind the assignee hereunder in the same manner as the Administrator is bound hereunder. Notwithstanding the foregoing, this Administration Agreement may be assigned by the Administrator without the consent of the Issuer or the Trustee to a corporation or other organization that is a successor (by merger, consolidation or purchase of assets) to the Administrator; provided that such successor organization executes and delivers to the Issuer an Agreement in which such corporation or other organization agrees to be bound hereunder by the terms of said assignment in the same manner as the Administrator is bound hereunder. Subject to the foregoing, this Administration Agreement shall bind any successors or assigns of the parties hereto.

15. Governing Law. This Administration Agreement shall be construed in accordance with the laws of the State of Texas, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws.

16. Headings. The Section headings hereof have been inserted for convenience of reference only and shall not be construed to affect the meaning, construction or effect of this Administration Agreement.

17. Counterparts. This Administration Agreement may be executed in counterparts, each of which when so executed shall be an original, but all of which together shall constitute but one and the same Administration Agreement.

18. Severability. Any provision of this Administration Agreement that is prohibited or unenforceable in any jurisdiction shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

19. Nonpetition Covenant. Notwithstanding any prior termination of this Administration Agreement, the Administrator covenants that it shall not, prior to the date which is one year and one day after payment in full of the Transition Bonds, acquiesce, petition or

otherwise invoke or cause the Issuer to invoke the process of any court or government authority for the purpose of commencing or sustaining a case against the Issuer under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Issuer or any substantial part of its property, or ordering the winding up or liquidation of the affairs of the Issuer.

IN WITNESS WHEREOF, the parties have caused this Administration Agreement to be duly executed and delivered as of the day and year first above written.

CENTERPOINT ENERGY TRANSITION BOND COMPANY  
III, LLC,  
as Issuer

By: \_\_\_\_\_  
Name:  
Title:

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC,  
as Administrator,

By: \_\_\_\_\_  
Name:  
Title:

## INTERCREDITOR AGREEMENT

INTERCREDITOR AGREEMENT dated as of [\_\_\_\_\_], 2008 among:

CenterPoint Energy Houston Electric, LLC, a Texas limited liability company and a successor to Reliant Energy, Incorporated (in its individual capacity, the "**Company**"),

CenterPoint Energy Transition Bond Company, LLC, a Delaware limited liability company (the "**Initial Transition Bond Issuer**"),

Deutsche Bank Trust Company Americas, successor to Bankers Trust Company, a New York banking corporation, in its capacity as transition bond trustee under Indenture dated October 24, 2001 (the "**Initial Transition Bond Trustee**"),

CenterPoint Energy Houston Electric, LLC, a Texas limited liability company, and successor to Reliant Energy, Incorporated, in its capacity as the initial servicer of the Initial Transition Property referred to below (including any successor in such capacity, the "**Initial TC Servicer**"),

Wilmington Trust Company, a Delaware banking corporation, in its capacity as transition bond trustee under Indenture dated as of December 16, 2005 (the "**Additional Transition Bond Trustee**"),

CenterPoint Energy Houston Electric, LLC, a Texas limited liability company, in its capacity as the initial servicer of the Additional Transition Property referred to below (including any successor in such capacity, the "**Additional TC Servicer**"),

CenterPoint Energy Transition Bond Company II, LLC, a Delaware limited liability company (the "**Additional Transition Bond Issuer**"),

Deutsche Bank Trust Company Americas, a New York banking corporation, in its capacity as transition bond trustee under Indenture dated as of [\_\_\_\_\_], 2008 (the "**Third Transition Bond Trustee**"),

CenterPoint Energy Houston Electric, LLC, a Texas limited liability company, in its capacity as initial servicer of the Transition (III) Property referred to below (the "**Third TC Servicer**"),

CenterPoint Energy Transition Bond Company III, LLC, a Texas limited liability company (the "**Third Transition Bond Issuer**"),

CenterPoint Energy Houston Electric, LLC, a Texas limited liability company and a successor to Reliant Energy, Incorporated, in its capacity as collection agent for the benefit of the Initial TC Servicer, the Additional TC Servicer and the Third TC Servicer (the "**Utility**"),

CenterPoint Energy Houston Electric, LLC, a Texas limited liability company, in its capacity as the collection agent of the Decommissioning Collections referred to below (including any successor in such capacity, the "**Decommissioning Collection Agent**"), and

CenterPoint Energy Houston Electric, LLC, a Texas limited liability company, in its capacity as the collection agent of the System Benefit Fee referred to below (including any successor in such capacity, the “**SBF Collection Agent**”).

WHEREAS, pursuant to the terms of the Transition Property Sale Agreement dated October 24, 2001, among the Initial Transition Bond Issuer and Reliant Energy, Incorporated, in its capacity as Seller (as it may hereafter from time to time be amended, restated or modified, the “**Initial Sale Agreement**”), the Company has sold to the Initial Transition Bond Issuer certain assets known as “Transition Property” which includes the “Transition Charges” (hereinafter, the “**Initial Transition Property**” and the “**Initial Transition Charges**”); and

WHEREAS, pursuant to the terms of the Indenture dated October 24, 2001, among the Initial Transition Bond Issuer, the Initial Transition Bond Trustee, and Bankers Trust Company in its capacity as Securities Intermediary (as it may hereafter from time to time be amended, restated or modified and as supplemented from time to time by one or more Series Supplements, such Series Supplements and Indenture being collectively referred to herein as the “**Initial Indenture**”), the Initial Transition Bond Issuer, among other things, has granted to the Initial Transition Bond Trustee a security interest in certain of its assets, including the Initial Transition Property, to secure the Transition Bonds issued pursuant to the Indenture (the “**Initial Transition Bonds**”); and

WHEREAS, pursuant to the terms of the Transition Property Servicing Agreement dated as of October 24, 2001, between the Initial Transition Bond Issuer and the Initial TC Servicer (as it may hereafter from time to time be amended, restated or modified, the “**Initial Servicing Agreement**”), the Initial TC Servicer has agreed to provide for the benefit of the Initial Transition Bond Issuer servicing functions with respect to the Initial Transition Charges; and

WHEREAS, pursuant to the terms of the Transition Property Sale Agreement dated as of December 16, 2005, among the Additional Transition Bond Issuer and Company, in its capacity as Seller (as it may hereafter from time to time be amended, restated or modified, the “**Additional Sale Agreement**”), the Company has sold to the Additional Transition Bond Issuer certain assets known as “Transition Property” which includes the “Transition Charges” (hereinafter, the “**Additional Transition Property**” and the “**Additional Transition Charges**”); and

WHEREAS, pursuant to the terms of the Indenture dated as of December 16, 2005, among the Additional Transition Bond Issuer, the Additional Transition Bond Trustee, and Deutsche Bank Trust Company Americas, in its capacity as Securities Intermediary (as it may hereafter from time to time be amended, restated or modified and as supplemented from time to time by one or more Series Supplements, such Series Supplements and Indenture being collectively referred to herein as the “**Additional Indenture**”), the Additional Transition Bond Issuer, among other things, has granted to the Additional Transition Bond Trustee a security interest in certain of its assets, including the Additional Transition Property, to secure the Transition Bonds issued pursuant to the Additional Indenture (“**Additional Transition Bonds**”); and

WHEREAS, pursuant to the terms of the Transition Property Servicing Agreement dated as of December 16, 2005, between the Additional Transition Bond Issuer and the Additional TC Servicer (as it may hereafter from time to time be amended, restated or modified, the “**Additional Servicing Agreement**”), the Additional TC Servicer has agreed to provide for the benefit of the Additional Transition Bond Issuer servicing functions with respect to the Additional Transition Charges; and

WHEREAS, pursuant to the terms of the Transition Property Sale Agreement dated as of [\_\_\_\_\_], 2008, among the Third Transition Bond Issuer and Company, in its capacity as Seller (as it may hereafter from time to time be amended, restated or modified, the “**Third Sale Agreement**”), the Company has sold to the Third Transition Bond Issuer certain assets known as “Transition Property” which includes the “Transition Charges” (hereinafter, the “**Transition (III) Property**” and the “**Transition (III) Charges**”); and

WHEREAS, pursuant to the terms of the Indenture dated as of [\_\_\_\_\_], 2008, among the Third Transition Bond Issuer and the Third Transition Bond Trustee (as it may hereafter from time to time be amended, restated or modified and as supplemented from time to time by one or more Supplements, such Supplements and Indenture being collectively referred to herein as the “**Third Indenture**”, and together with the Initial Indenture and the Additional Indenture, the “**Indentures**”), the Third Transition Bond Issuer, among other things, has granted to the Third Transition Bond Trustee a security interest in certain of its assets, including the Transition (III) Property, to secure the Transition Bonds issued pursuant to the Third Indenture (“**Third Transition Bonds**”); and

WHEREAS, pursuant to the terms of the Transition Property Servicing Agreement dated as of [\_\_\_\_\_], 2008, between the Third Transition Bond Issuer and the Third TC Servicer (as it may hereafter from time to time be amended, restated or modified, the “**Third Servicing Agreement**”), the Third TC Servicer has agreed to provide for the benefit of the Third Transition Bond Issuer servicing functions with respect to the Transition (III) Charges; and

WHEREAS, pursuant to the terms of that certain Third Amended and Restated Master Trust Agreement for the South Texas Project dated as of July 10, 2006 (the “**Decommissioning Trust Agreement**”), Mellon Bank, N.A., a national banking association, as Trustee (the “**Decommissioning Trustee**”) of “NRG South Texas LP Decommissioning Master Trust for the South Texas Project” (the “**Decommissioning Trust**”), is designated to receive and hold in trust for the benefit of NRG South Texas LP (or for the benefit of the Decommissioning Trust for the benefit of NRG South Texas LP) all Contributions (as that term is defined in the Decommissioning Trust Agreement) from the Company for decommissioning funds required by federal regulation that are included in the Company’s cost of service and collections; and

WHEREAS, pursuant to the terms of the Decommissioning Funds Collection Agreement dated as of June 9, 2005, between Texas Genco, LP (now known as NRG South Texas LP) and the Decommissioning Collection Agent (as it may hereafter from time to time be amended, restated or modified, the “**Decommissioning Collection Agreement**”), the Decommissioning Collection Agent has agreed to provide for the benefit of the Decommissioning Trust collection functions with respect to collections of nuclear decommissioning charges from retail customers (“**Decommissioning Collections**”); and

WHEREAS, pursuant to Sections 39.901 and 39.903 of the Texas Utilities Code and Substantive Rule 25.451 promulgated thereunder by the Public Utility Commission of Texas, the SBF Collection Agent must provide for the benefit of the System Benefit Fund (as defined in Substantive Rule 25.451) collection functions with respect to the system benefit fee established by Section 39.903 of the Texas Utilities Code (the “**System Benefit Fee**”); and

WHEREAS, the parties hereto wish to agree upon their respective rights relating to such collections and any bank accounts into which the same may be deposited, as well as other matters of common interest to them which arise under or result from the coexistence of the Initial Sale Agreement, the Initial Indenture, the Initial Servicing Agreement, the Additional Sale Agreement, the Additional Indenture, the Additional Servicing Agreement, the Third Sale Agreement, the Third Indenture, the Third Servicing Agreement, the Decommissioning Collection Agreement and the statutory and regulatory obligations relating to the System Benefit Fee;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

SECTION 1. Acknowledgment of Ownership Interests and Security Interests. The Initial Transition Bond Trustee, the Initial Transition Bond Issuer, the Initial TC Servicer, the Third Transition Bond Trustee, the Third Transition Bond Issuer, the Third TC Servicer, the Decommissioning Collection Agent and the SBF Collection Agent hereby acknowledge the ownership interest of the Additional Transition Bond Issuer in the Additional Transition Property, including the Additional Transition Charges and the revenues, collections, claims, rights, payments, money and proceeds arising therefrom, and the security interests in favor of the Additional Transition Bond Trustee for the benefit of itself, the holders of the Additional Transition Bonds and any credit enhancement provider (as defined in the Additional Indenture) in the Additional Transition Property.

The Initial Transition Bond Trustee, the Initial Transition Bond Issuer, the Initial TC Servicer, the Additional Transition Bond Trustee, the Additional Transition Bond Issuer, the Additional TC Servicer, the Decommissioning Collection Agent and the SBF Collection Agent hereby acknowledge the ownership interest of the Third Transition Bond Issuer in the Transition (III) Property, including the Transition (III) Charges and the revenues, collections, claims, rights, payments, money and proceeds arising therefrom, and the security interests in favor of the Third Transition Bond Trustee for the benefit of itself, the holders of the Third Transition Bonds and any credit enhancement provider (as defined in the Third Indenture) in the Transition (III) Property.

The Additional Transition Bond Trustee, the Additional Transition Bond Issuer, the Additional TC Servicer, the Third Transition Bond Trustee, the Third Transition Bond Issuer, the Third TC Servicer, the Decommissioning Collection Agent and the SBF Collection Agent hereby acknowledge the ownership interest of the Initial Transition Bond Issuer in the Initial Transition Property, including the Initial Transition Charges and the revenues, collections, claims, rights, payments, money and proceeds arising therefrom, and the security interests in favor of the Initial Transition Bond Trustee for the benefit of itself, the holders of the Initial Transition Bonds and any credit enhancement provider (as defined in the Initial Indenture) in the Initial Transition Property.

The Initial Transition Bond Trustee, the Initial Transition Bond Issuer, the Initial TC Servicer, the Additional Transition Bond Trustee, the Additional Transition Bond Issuer, the Additional TC Servicer, the Third Transition Bond Trustee, the Third Transition Bond Issuer, the Third TC Servicer and the SBF Collection Agent hereby acknowledge the ownership interest of NRG South Texas LP or the Decommissioning Trustee for the benefit of NRG South Texas LP in the Decommissioning Collections, including the revenues, collections, claims, rights, payments, money and proceeds arising therefrom.

The Initial Transition Bond Trustee, the Initial Transition Bond Issuer, the Initial TC Servicer, the Additional Transition Bond Trustee, the Additional Transition Bond Issuer, the Additional TC Servicer, the Third Transition Bond Trustee, the Third Transition Bond Issuer, the Third TC Servicer and the Decommissioning Collection Agent hereby acknowledge the ownership interest of the SBF Collection Agent for the benefit of the System Benefit Fund in the System Benefit Fees, including the revenues, collections, claims, rights, payments, money and proceeds arising therefrom.

SECTION 2. Deposit Accounts. The Initial Transition Bond Issuer, the Initial Transition Bond Trustee, the Initial TC Servicer, the Additional Transition Bond Issuer, the Additional Transition Bond Trustee, the Additional TC Servicer, the Third Transition Bond Issuer, the Third Transition Bond Trustee, the Third TC Servicer, the Decommissioning Collection Agent and the SBF Collection Agent each acknowledge that collections with respect to Initial Transition Property, the Additional Transition Property, the Transition (III) Property, the Decommissioning Collections and System Benefit Fees may from time to time be deposited into one or more designated accounts of the Utility (the “**Deposit Accounts**”). Subject to Section 4 below, the Utility agrees to:

(i) maintain the Deposit Accounts for the benefit of the Initial TC Servicer, the Initial Transition Bond Trustee, the Initial Transition Bond Issuer, the Additional TC Servicer, the Additional Transition Bond Trustee, the Additional Transition Bond Issuer, the Third TC Servicer, the Third Transition Bond Trustee, the Third Transition Bond Issuer, the Decommissioning Collection Agent for the benefit of NRG South Texas LP (or for the benefit of the Decommissioning Trustee for the benefit of NRG South Texas LP) and the SBF Collection Agent for the benefit of the System Benefit Fund as their respective interests may appear;

(ii) allocate and remit funds from the Deposit Accounts: (a) at the times specified in the respective Indentures and Servicing Agreements to the Initial Transition Bond Trustee in the case of collections relating to the Initial Transition Property, to the Additional Transition Bond Trustee in the case of collections relating to the Additional Transition Property and to the Third Transition Bond Trustee in the case of collections relating to the Transition (III) Property, (b) on a weekly basis to the Decommissioning Trustee in the case of the Decommissioning Collections, and (c) on a monthly basis to the Texas Comptroller of Public Accounts in the case of collections relating to System Benefit Fees; provided that: (a) to the extent the combined amounts of remittance by a retail electric

provider are insufficient to satisfy amounts owed in respect of the Initial Transition Charges, the Additional Transition Charges, the Transition (III) Charges, the Decommissioning Collections, the System Benefit Fees, the transmission and distribution charges and any late-payment penalties associated with any of the foregoing, such allocation and remittances shall be made on a pro rata basis as between the Initial Transition Charges, the Additional Transition Charges, the Transition (III) Charges, the Decommissioning Collections, the System Benefit Fees and the applicable transmission and distribution charges (other than late-payment penalties associated with any of the foregoing); and (b) any remaining allocation and remittances shall be applied pro rata against the late-payment penalties attributable to the Initial Transition Charges, the Additional Transition Charges, the Transition (III) Charges, the Decommissioning Collections, the System Benefit Fees and the applicable transmission and distribution charges; and

(iii) maintain records as to the amounts deposited into the Deposit Accounts, the amounts remitted therefrom and the allocation as provided in clause (ii) above.

The Initial Transition Bond Trustee, the Initial Transition Bond Issuer, the Additional Transition Bond Trustee, the Additional Transition Bond Issuer, the Third Transition Bond Trustee, the Third Transition Bond Issuer, the Decommissioning Collection Agent for the benefit of NRG South Texas LP (or for the benefit of the Decommissioning Trustee for the benefit of NRG South Texas LP) and the SBF Collection Agent shall each have the right to require an accounting from time to time of collections, allocations and remittances by the Utility relating to the Deposit Accounts.

Each of the parties hereto acknowledges the respective security interests of the others in amounts on deposit in the Deposit Accounts to the extent of their respective interests as described in this Agreement.

SECTION 3. Time or Order of Attachment. The acknowledgments contained in Sections 1 and 2 of this Agreement are applicable irrespective of the time or order of attachment or perfection of security or ownership interests or the time or order of filing or recording of financing statements or mortgages or filings under the Texas Electric Choice Plan (as defined in the Initial Indenture).

SECTION 4. Servicing. (a) (i) Pursuant to Section 2 above, the Company, in its role as Initial TC Servicer, Additional TC Servicer and Third TC Servicer, shall allocate and remit funds received from retail electric providers for the Initial Transition Bonds, the Additional Transition Bonds and the Third Transition Bonds, respectively, and shall control the movement of such funds out of the Deposit Accounts (such allocation, remittance and deposits hereafter called the "**Allocation Services**"). The same entity must always act as servicer in the performance of the Allocation Services as to all of the Initial Transition Bonds, the Additional Transition Bonds and the Third Transition Bonds. In the event that the Initial Transition Bond Trustee, Additional Transition Bond Trustee or Third Transition Bond Trustee is entitled to and desires to exercise its right to replace the Company as Initial TC Servicer, Additional TC Servicer or Third TC Servicer, respectively, in its role as the provider of the Allocation Services, the party desiring to exercise such right shall promptly give written notice to the other (the "**Servicer Notice**") and consult with the other with respect to the Person who would replace the Company in such capacities. Any successor in such capacities shall be agreed to by the Initial Transition Bond Trustee, Additional Transition Bond Trustee or Third Transition Bond Trustee

within ten Business Days of the date of the Servicer Notice, and such successor shall be subject to satisfaction of the Rating Agency Condition (as defined below). “**Business Day**” means any day other than a Saturday, Sunday, or any holiday for national banks or any New York banking corporation in Dallas, Texas, New York, New York or Houston, Texas. The Person named as replacement Initial TC Servicer, Additional TC Servicer or Third TC Servicer (as the case may be) in accordance with this Section 4 is referred to herein as the “**Replacement Servicer**”.

(ii) In the event that the Initial Transition Bond Trustee, the Additional Transition Bond Trustee or the Third Transition Bond Trustee is entitled to and desires to exercise its rights to redirect collections relating to the Initial Transition Property, the Additional Transition Property or the Transition (III) Property (as the case may be), any redirection of funds shall be either to (A) the Replacement Servicer or (B) if there is no Replacement Servicer, to the Designated Account with the Designated Account Holder chosen in accordance with the provisions set forth below, on or before the tenth Business Day occurring from and after the date of the Servicer Notice. The “**Designated Account**” shall be an “**Eligible Securities Account**” (as defined in the Initial Indenture, the Additional Indenture and the Third Indenture) and shall be held for the benefit of the Initial Transition Bond Trustee, the Additional Transition Bond Trustee and the Third Transition Bond Trustee as their interests may appear. The “**Designated Account Holder**” shall be a financial institution selected by the Initial Transition Bond Trustee, the Additional Transition Bond Trustee and the Third Transition Bond Trustee, subject to satisfaction of the Rating Agency Condition, to hold and allocate amounts in the Designated Account for the benefit of the Initial Transition Bond Trustee, the Additional Transition Bond Trustee and the Third Transition Bond Trustee as their interests may appear as provided in paragraph (b) below. In the event that the Initial Transition Bond Trustee, the Additional Transition Bond Trustee and the Third Transition Bond Trustee are unable to agree upon a Designated Account Holder on or before the tenth Business Day occurring from and after the date of the Servicer Notice, a Designated Account Holder shall be promptly selected by the independent registered public accounting firm engaged by the Utility at such time, subject to the satisfaction of the Rating Agency Condition.

(b) Upon exercise by the Initial Transition Bond Trustee, the Additional Transition Bond Trustee or the Third Transition Bond Trustee of its rights to redirect collections relating to the Initial Transition Property, the Additional Transition Property or the Transition (III) Property, and in the absence of a Replacement Servicer, the parties agree that all collections relating to the Initial Transition Property, the Additional Transition Property and the Transition (III) Property shall be deposited into the Designated Account and that the Designated Account Holder shall be instructed by the Utility to (i) allocate and remit funds from such Designated Account, in amounts calculated by the Utility, with such calculations provided to the Designated Account Holder on a daily basis to the persons entitled thereto, being the Initial Transition Bond Trustee in the case of all collections relating to the Initial Transition Property, the Additional Transition Bond Trustee in the case of all collections relating to the Additional Transition Property and the Third Transition Bond Trustee in the case of all collections relating to the Transition (III) Property; and (ii) maintain records as to the amounts deposited into such account, the amounts remitted therefrom and the allocation as provided in clause (i). The fees and expenses of the Designated Account Holder shall be payable from amounts deposited into the Designated

Account on a pro rata basis as between collections relating to the Initial Transition Property, Additional Transition Property and Transition (III) Property, provided that that portion of those fees and expenses allocable to collections relating to the Initial Transition Property, the Additional Transition Property and the Transition (III) Property shall be payable by the Initial TC Servicer, the Additional TC Servicer and the Third TC Servicer, respectively, from the servicer fees ("**Servicer Fees**") provided for in the Initial Servicing Agreement, the Additional Servicing Agreement and the Third Servicing Agreement, such payments to be made on the Payment Dates (as defined in the initial Indenture, the Additional Indenture and the Third Indenture) related to such Servicer Fees. The Initial Transition Bond Trustee, the Initial Transition Bond Issuer, the Additional Transition Bond Trustee, the Additional Transition Bond Issuer, the Third Transition Bond Trustee and the Third Transition Bond Issuer shall each have the right to require an accounting from time to time of collections, allocations and remittances by the Designated Account Holder.

(c) If a Replacement Servicer cannot be appointed in accordance with Section 4(a)(i) above, then any of the Initial Transition Bond Trustee, the Additional Transition Bond Trustee or the Third Transition Bond Trustee may exercise its rights under Section 4(a)(ii)(B) above.

(d) Anything in this Agreement to the contrary notwithstanding, any action taken by any of the Initial Transition Bond Trustee, the Additional Transition Bond Trustee or the Third Transition Bond Trustee to appoint a Replacement Servicer or designate the Designated Account pursuant to this paragraph 4 shall be subject to the Rating Agency Condition and the consent, if required by law or the Financing Order (as defined in the Initial Indenture or the Additional Indenture), of the Public Utility Commission of Texas. For the purposes of this Agreement, the "**Rating Agency Condition**" means, with respect to any such action, notification to each rating agency then rating any class or series of the Initial Transition Bonds, the Additional Transition Bonds or the Third Transition Bonds of such action, and the receipt of written notification from each such rating agency, other than, with respect to the Initial Transition Bonds, Additional Transition Bonds and Third Transition Bonds, Moody's and Fitch (each as defined in the Initial Indenture, the Additional Indenture and the Third Indenture), that such action will not result in a reduction or withdrawal of its then current rating on the Initial Transition Bonds, the Additional Transition Bonds or the Third Transition Bonds. The parties hereto acknowledge and agree that the approval or the consent of the rating agencies which is required in order to satisfy the Rating Agency Condition is not subject to any standard of commercial reasonableness, and the parties are bound to satisfy this condition whether or not the rating agencies are unreasonable or arbitrary.

SECTION 5. Sharing of Information. The parties hereto agree to cooperate with each other and make available to each other or any Replacement Servicer any and all records and other data relevant to the Initial Transition Property, the Additional Transition Property and the Transition (III) Property which it may have in its possession or may from time to time receive from the Company or any predecessor Initial TC Servicer, Additional TC Servicer or Third TC Servicer, including, without limitation, any and all computer programs, data files, documents, instruments, files and records and any receptacles and cabinets containing the same. The Company hereby consents to the release of information regarding the Company pursuant to this Section 5.

SECTION 6. No Joint Venture. Nothing herein contained shall be deemed as effecting a joint venture among any of the Initial Transition Bond Issuer, the Initial Transition Bond Trustee, the Additional Transition Bond Issuer, the Additional Transition Bond Trustee, the Third Transition Bond Issuer, the Third Transition Bond Trustee, the Decommissioning Collection Agent, the Decommissioning Trustee, NRG South Texas LP, the SBF Collection Agent and the Company.

SECTION 7. Method of Adjustment and Allocation. Notwithstanding any provision herein to the contrary, for the purpose of this Agreement only, the Additional Transition Bond Issuer, the Additional Transition Bond Trustee, the Third Transition Bond Issuer and the Third Transition Bond Trustee hereby consent and agree to (a) the method of adjustment of the Initial Transition Charge in accordance with Section 7 of Annex I to the Initial Servicing Agreement in the form attached thereto, and (b) the method of calculation and allocation of payments in accordance with Sections 3.02 and 3.03 of the Initial Servicing Agreement in the form attached thereto. Notwithstanding any provision herein to the contrary, for the purpose of this Agreement only, the Initial Transition Bond Issuer, the Initial Transition Bond Trustee, the Third Transition Bond Issuer and the Third Transition Bond Trustee hereby consent and agree to (a) the method of adjustment of the Additional Transition Charge in accordance with Section 7 of Annex I to the Additional Servicing Agreement in the form attached thereto, and (b) the method of calculation and allocation of payments in accordance with Sections 3.02 and 3.03 of the Additional Servicing Agreement in the form attached thereto and irrevocably waive any right to object to or enjoin such adjustment, calculation, payment or allocation. Notwithstanding any provision herein to the contrary, for the purpose of this Agreement only, the Initial Transition Bond Issuer, the Initial Transition Bond Trustee, the Additional Transition Bond Issuer and the Additional Transition Bond Trustee hereby consent and agree to (a) the method of adjustment of the Transition (III) Charge in accordance with Section 4.01 of the Third Servicing Agreement in the form attached thereto, and (b) the method of calculation and allocation of payments in accordance with Section 6 of Annex I to the Third Servicing Agreement in the form attached thereto and irrevocably waive any right to object to or enjoin such adjustment, calculation, payment or allocation. Such consent and agreement shall not relieve the Company of any of its obligations to make payments in accordance with the terms of the Initial Sale Agreement, the Additional Sale Agreement and the Third Sale Agreement.

SECTION 8. Termination. This Agreement shall terminate upon the payment in full of the Initial Transition Bonds, the Additional Transition Bonds and the Third Transition Bonds, except that the understandings and acknowledgments contained in paragraphs 1, 2 and 3 shall survive the termination of this Agreement.

SECTION 9. Governing Law. This Agreement shall be governed by the laws of the State of Texas.

SECTION 10. Further Assurances. Each of the parties hereto agrees to execute any and all agreements, instruments, financing statements, releases and any and all other documents reasonably requested by any of the other parties hereto in order to effectuate the intent of this Agreement. In each case where a release is to be given pursuant to this Agreement, the term release shall include any documents or instruments necessary to effect a release, as contemplated by this Agreement. All releases, subordinations and other instruments submitted to the executing party are to be prepared at no expense to such party.

SECTION 11. Limitation on Rights of Others. This Agreement is solely for the benefit of the Initial Transition Bond Issuer, the Initial Transition Bond Trustee for the benefit of itself, the Additional Transition Bond Issuer, the Additional Transition Bond Trustee for the benefit of itself, the Third Transition Bond Issuer, the Third Transition Bond Trustee for the benefit of itself, the holders of Initial Transition Bonds, the Additional Transition Bonds and the Third Transition Bonds, the Decommissioning Collection Agent for the benefit of NRG South Texas LP or the Decommissioning Trustee for the benefit of NRG South Texas LP, the SBF Collection Agent for the benefit of the System Benefit Fund and any credit enhancement provider, and the Company and no other person or entity shall have any rights, benefits, priority or interest under or because of the existence of this Agreement.

SECTION 12. Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 13. Nonpetition Covenant. Notwithstanding any prior termination of this Agreement, the Initial Indenture, the Additional Indenture or the Third Indenture, each of the parties covenants that it shall not, prior to the date which is one year and one day after payment in full of the Initial Transition Bonds, the Additional Transition Bonds and the Third Transition Bonds, acquiesce, petition or otherwise invoke or cause any of the Initial Transition Bond Issuer, the Additional Transition Bond Issuer or the Third Transition Bond Issuer to invoke the process of any court or government authority for the purpose of commencing or sustaining a case against the Initial Transition Bond Issuer, the Additional Transition Bond Issuer or the Third Transition Bond Issuer under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Initial Transition Bond Issuer, the Additional Transition Bond Issuer or the Third Transition Bond Issuer or any substantial part of its property, or ordering the winding up or liquidation of the affairs of the Initial Transition Bond Issuer, the Additional Transition Bond Issuer or the Third Transition Bond Issuer.

SECTION 14. Trustees. Deutsche Bank Trust Company Americas, as Initial Transition Bond Trustee, in acting hereunder is entitled to all rights, benefits, protections, immunities and indemnities accorded to it under the Initial Indenture. Wilmington Trust Company, as Additional Transition Bond Trustee, in acting hereunder is entitled to all rights, benefits, protections, immunities and indemnities accorded to it under the Additional Indenture. Deutsche Bank Trust Company Americas, as Third Transition Bond Trustee, in acting hereunder is entitled to all rights, benefits, protections, immunities and indemnities accorded to it under the Third Indenture.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
as Company

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
as Initial TC Servicer

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
as Additional TC Servicer

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
as Third TC Servicer

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
as Decommissioning Collection Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
as SBF Collection Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
as Utility

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CENTERPOINT ENERGY TRANSITION BOND  
COMPANY, LLC

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CENTERPOINT ENERGY TRANSITION BOND  
COMPANY II, LLC

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CENTERPOINT ENERGY TRANSITION BOND  
COMPANY III, LLC

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

DEUTSCHE BANK TRUST COMPANY AMERICAS  
(successor to Bankers Trust Company),  
as Initial Transition Bond Trustee

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

WILMINGTON TRUST COMPANY,  
as Additional Transition Bond Trustee

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

DEUTSCHE BANK TRUST COMPANY AMERICAS,  
as Third Transition Bond Trustee

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_