

Registration No. 333-121505

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 1 TO

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC

(Exact name of registrant as specified in its certificate of formation)

DELAWARE

(State or other jurisdiction
of incorporation or organization)

59-3790472

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

1111 LOUISIANA
SUITE 4655B
HOUSTON, TEXAS 77002
(713) 207-5222

(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)

Copies to:

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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 delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

| TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED | AMOUNT TO BE REGISTERED | PROPOSED MAXIMUM OFFERING PRICE PER UNIT (1) | PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1) | AMOUNT OF REGISTRATION FEE |
|--|-------------------------|--|---|----------------------------|
| Transition Bonds Issuable in Series... | \$1,857,000,000 | 100% | \$1,857,000,000 | \$218,569.00 |

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act and exclusive of accrued interest, if any. Of this amount, a registration fee of \$117.70 was paid

in connection with the initial filing of this Registration Statement.
Accordingly, a filing fee of \$218,451.30 is paid herewith.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR
DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT
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
COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

The information in this prospectus supplement and the accompanying prospectus is not complete and may be changed. The issuer may not sell these securities 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 state where the offer or sale is not permitted.

Subject to Completion, dated September 12, 2005.

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED _____,
\$ _____

CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC
Issuer

Transition Bonds, Series 2005-1

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
Seller and Initial Servicer

| TRANCHE | INITIAL PRINCIPAL BALANCE | INTEREST RATE | PRICE TO PUBLIC | UNDERWRITING DISCOUNTS AND COMMISSIONS | PROCEEDS TO THE ISSUER | SCHEDULED FINAL PAYMENT DATE | FINAL MATURITY DATE |
|---------|---------------------------------|------------------|--------------------|--|------------------------------|------------------------------------|------------------------|
|---------|---------------------------------|------------------|--------------------|--|------------------------------|------------------------------------|------------------------|

The total price to the public is \$ _____. The total amount of the underwriting discounts and commissions is \$ _____. The total amount of proceeds to the issuer before deduction of expenses (estimated to be \$ _____) is \$ _____.

INVESTING IN THE SERIES 2005-1 TRANSITION BONDS INVOLVES RISKS. SEE "RISK FACTORS" ON PAGE 15 OF THE ACCOMPANYING PROSPECTUS.

The series 2005-1 transition bonds represent obligations only of the issuer, CenterPoint Energy Transition Bond Company II, LLC, and are secured only by the assets of the issuer, consisting principally of the transition property, which includes the right to impose, collect and receive from retail electric customers including the State of Texas and other governmental entities, through a transition charge, amounts sufficient to make payments on the series 2005-1 transition bonds, as described further in this prospectus supplement and the accompanying prospectus. CenterPoint Energy Houston Electric, LLC and its affiliates, other than the issuer, are not liable for any payments on the series 2005-1 transition bonds. The series 2005-1 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. However, the State of Texas and other governmental entities, as retail electric customers, will be obligated to pay transition charges securing the series 2005-1 transition bonds. 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 series 2005-1 transition bonds.

The Public Utility Commission of Texas guarantees that it will take specific actions pursuant to its irrevocable financing order dated March 16, 2005 as expressly authorized by the utility restructuring provisions of the Public Utility Regulatory Act to ensure that transition charge revenues are sufficient to pay principal and interest on the series 2005-1 transition bonds.

There currently is no secondary market for the series 2005-1 transition bonds, and we cannot assure you that one will develop.

All matters relating to the structuring and pricing of the series 2005-1 transition bonds have been considered jointly by CenterPoint Energy Houston Electric, LLC and the Public Utility Commission of Texas, acting through its financial advisor. The financial advisor to the Public Utility Commission of Texas is

[_____]

SABER PARTNERS, LLC

Additional information is contained in the accompanying prospectus. You should read this prospectus supplement and the accompanying prospectus carefully

before you invest in the series 2005-1 transition bonds. This prospectus supplement may not be used to offer or sell the series 2005-1 transition 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 series 2005-1 transition bonds through the book-entry facilities of The Depository Trust Company against payment in New York, New York on , 2005.

The date of this prospectus supplement is ,

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ABOUT THIS PROSPECTUS SUPPLEMENT AND THE PROSPECTUS

This prospectus supplement and the accompanying prospectus provide information about us, CenterPoint Energy Houston Electric, LLC and the transition bonds. This prospectus supplement describes the specific terms of the series 2005-1 transition bonds. The accompanying prospectus describes terms that apply to all series of transition bonds we may issue, including the transition bonds offered hereby.

References in this prospectus supplement and the accompanying prospectus to the terms "we," "us," "our" or "the issuer" mean CenterPoint Energy Transition Bond Company II, LLC. References to "CenterPoint Houston" or "the seller" mean CenterPoint Energy Houston Electric, LLC, 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, which we refer to as the "Restructuring Act." 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 "Texas commission." You can find a glossary of some of the other defined terms we use in this prospectus supplement and the accompanying prospectus on page A-1 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 and the accompanying prospectus. Neither we nor any underwriter, agent, dealer, salesperson, or the Texas commission 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 series 2005-1 transition 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.

and any successor servicer, referred to in this prospectus supplement and the accompanying prospectus as the "servicer," will service the transition property securing the series 2005-1 transition bonds under a servicing agreement with us. Please read "The Servicer of the Transition Property" in the accompanying prospectus.

CenterPoint Houston's address: 1111 Louisiana, Houston, Texas 77002

CenterPoint Houston's telephone number: (713) 207-3000

Texas commission financial advisor: Saber Partners, LLC (co-equal decision maker with us). Certain financial advisory services, including any activities that may be considered activities of a broker dealer, will be assigned to Saber Capital Partners, LLC, a wholly-owned subsidiary of Saber Partners, LLC.

Use of proceeds: Paid to CenterPoint Houston to retire debt or equity. We may not use the net proceeds from the sale of the series 2005-1 transition bonds for general corporate purposes or commercial purposes. Please read "Use of Proceeds" in the accompanying prospectus.

Indenture trustee: []

Bond structure: Sinking fund bond; tranche A-1 [__ years], A-2 [__ years], A-3 [__ years], A-4 [__ years] and A-5 [__ years] are scheduled to pay principal semi-annually and sequentially. Please refer to the Expected Amortization Schedule in this prospectus supplement.

Average life profile: Stable. There is no prepayment risk. Extension risk is expected to be statistically insignificant. Please read "Weighted Average Life Sensitivity" in this prospectus supplement and "Weighted Average Life and Yield Considerations for the Transition Bonds" in the accompanying prospectus.

Optional redemption: None. Non-call for the life of the series 2005-1 transition bonds.

Credit/security: The irrevocable right, pursuant to the financing order issued by the Texas commission, to impose, bill and collect a non-bypassable consumption-based charge from all retail customers of electricity (1.9 million customers), including the State of Texas and other governmental entities, in CenterPoint Houston's service territory. Please refer to the chart entitled "Parties to Transaction and Responsibilities" as well as "The Restructuring Act" and "CenterPoint Houston's Financing Order" in the accompanying prospectus. For information regarding consumption of electricity by the State of Texas and other governmental entities, please read "The Transition Property" in this prospectus supplement and "The Servicer of the Transition Property -- Customer Classes" in the accompanying prospectus.

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 related series 2005-1 transition bonds are fully repaid or discharged, other than specified true-up adjustments to correct any overcollections or undercollections. No voter initiative or referendum process exists in Texas. Please read "The Restructuring Act -- CenterPoint Houston and Other Utilities May Securitize Qualified Costs" in the accompanying prospectus.

Credit risk:

The broad-based nature of the true-up mechanism and the state pledge described above, along with other elements of the series 2005-1 transition bonds, will serve to effectively eliminate, for all practical purposes and circumstances, any credit risk associated with the series 2005-1 transition bonds (i.e., that sufficient funds will be available and paid to discharge all principal and interest obligations when due). Please refer to the financing order, Finding of Fact 107, as well as "The Restructuring Act -- CenterPoint Houston and Other Utilities May Securitize Qualified Costs," "CenterPoint Houston's Financing Order -- Statutorily Guaranteed True Ups," "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Information" in the accompanying prospectus.

Statutorily guaranteed true-up mechanism for payment of scheduled principal and interest:

The Restructuring Act and the irrevocable financing order guarantee that transition charges on all retail electric customers will be reviewed and adjusted annually and, if necessary, semi-annually to ensure the expected recovery of amounts sufficient to provide timely payment of principal and interest on the series 2005-1 transition 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 Texas commission guaranteed that it would act pursuant to the financing order as expressly authorized by the Restructuring Act.

There is no "cap" on the level of transition charges that may be imposed on consumers of electricity, including the State of Texas and other governmental entities, to meet scheduled principal and interest on the series 2005-1 transition bonds.

The financing order provides that the true-up mechanism and all other obligations of the State of Texas and the Texas commission set forth in the financing order are direct, explicit, irrevocable and unconditional upon issuance of the series 2005-1 transition bonds, and are legally enforceable against the State of Texas and the Texas commission. Please read "The Transition Charges" in this prospectus supplement and "CenterPoint Houston's Financing Order" and "The Servicing Agreements -- The Statutorily Guaranteed Transition Charge Adjustment Process" in the accompanying prospectus.

Risk weighting under certain international capital guidelines-:

1988 International Convergence of Capital Measurement and Capital Standards of the Basel Committee on Banking Supervision (as amended, the "Basel Accord").

The United Kingdom's Financial Services Authority has issued "individual guidance" letters to one or more investors that an investment in Texas transition bonds issued under the Restructuring Act may be accorded a 20% risk weighting, similar to the risk weighting assigned to U. S. Agency corporate securities.

There is no assurance that the series 2005-1 transition bonds will attract a 20% risk weighting treatment under any national law, regulation, multi-national directives or policy implementing the Basel Accord. Investors should consult their regulators before making any investment. Please read "Risk Weighting of the Series 2005-1 Transition Bonds Under Certain International Capital Guidelines" in this prospectus supplement and "Risk Weighting Under Certain International Capital Guidelines" in the accompanying prospectus.

Additional required ongoing SEC disclosure and transparency (website):

A special web site will be established for the series 2005-1 transition bonds. In addition, the indenture under which the series 2005-1 transition 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 series 2005-1 transition bonds to be posted on the website associated with our parent company, located at www.centerpointenergy.com.

Furthermore, so long as any series 2005-1 transition bonds are outstanding, we also will continue filing periodic reports under the Securities Exchange Act of 1934 and the rules, regulations or orders of the SEC, even if we would otherwise be permitted to suspend such filings. Please read "Enhanced Continuing Disclosure" in the accompanying prospectus.

Tax treatment:

Fully taxable; treated as debt for U.S. federal income tax purposes. Please read "Material 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:

Semi-annually, [] and []. Interest will be calculated on a [30/360] basis. The first scheduled payment date is [, 2006.]

Expected settlement:

[, 2005], settling flat. DTC, Clearstream and Euroclear.

Relationship to the Series 2001-1 transition bonds:

In October 2001, CenterPoint Energy Transition Bond Company, LLC, which we refer to in this prospectus supplement and the accompanying prospectus as "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 Texas commission on May 31, 2000. Transition Bond Company I will have no obligations under the series 2005-1 transition bonds, and we have no obligations under the Series 2001-1 transition bonds. The security pledged to secure the series 2005-1 transition bonds will be separate from the security that is securing the Series 2001-1 transition bonds or that would secure any other series of transition bonds. The outstanding Series 2001-1 transition bonds are currently rated Aaa/AAA/AAA. Please read "Relationship to the Series 2001-1 Transition Bonds" in the accompanying prospectus.

RISK FACTORS:

YOU SHOULD CONSIDER CAREFULLY THE RISK FACTORS BEGINNING ON PAGE 15 OF THE ACCOMPANYING PROSPECTUS BEFORE YOU INVEST IN THE SERIES 2005-1 TRANSITION BONDS.

THE SERIES 2005-1 TRANSITION BONDS

We will issue the series 2005-1 transition bonds and secure their payment under an indenture we will enter into with [], as trustee, referred to in this prospectus supplement and the accompanying prospectus as the "trustee." We will issue the series 2005-1 transition bonds in denominations of integral multiples of \$1,000, except that we may issue one transition bond in each tranche in a smaller denomination. The series 2005-1 transition bonds will consist of [] tranches. The initial principal balance, scheduled final payment date, final maturity date and interest rate for each tranche of the series 2005-1 transition bonds are stated in the table below.

| TRANCHE | AVERAGE LIFE (YEARS) | INITIAL PRINCIPAL BALANCE | SCHEDULED FINAL PAYMENT DATE | FINAL MATURITY DATE | INTEREST RATE |
|---------|----------------------|---------------------------|------------------------------|---------------------|---------------|
|---------|----------------------|---------------------------|------------------------------|---------------------|---------------|

The scheduled final payment date for each tranche of the series 2005-1 transition 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 amortization schedule for that tranche. The final maturity date for each tranche of the series 2005-1 transition bonds is the date when we are required to pay the entire remaining unpaid principal balance, if any, of all outstanding series 2005-1 transition bonds of that tranche. The failure to pay principal of any tranche of series 2005-1 transition bonds by the final maturity date for that tranche is an event of default, but the failure to pay principal of any tranche of series 2005-1 transition bonds by the respective scheduled final payment date will not be an event of default. Please refer to "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 series 2005-1 transition bonds will be secured under the indenture by the indenture's trust estate. The principal asset of the indenture's trust estate for the series 2005-1 transition bonds is the transition property relating to the series 2005-1 transition bonds, which is a present property right created under the Restructuring Act enacted by the Texas legislature in June 1999 by the financing order issued by the Texas commission on March 16, 2005, 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, under the administration agreement and under all bills 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 under any interest rate swap agreement or hedging agreement entered into with respect to the tranche ___ floating rate transition bonds],
- our rights in the deposits of retail electric providers required under the financing order,
- 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, all of the rights and interests of CenterPoint Houston 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 within CenterPoint Houston's service territory which, subject to certain limitations specified in the Restructuring Act, continue to consume electricity that is delivered through the distribution system or produced in new on-site generation, including the State of Texas and other governmental entities, an amount sufficient to recover the qualified costs of CenterPoint Houston authorized in the financing order, including the right to receive transition charges in amounts and at times sufficient to pay principal and interest and to make other deposits in connection with the series 2005-1 transition bonds. During the twelve months ended June 30, 2005, approximately 42% of CenterPoint Houston's total deliveries were to industrial customers, approximately 26% were to commercial customers and approximately 32% were to residential customers, with the State of Texas and other governmental entities included in all categories and comprising approximately 5% of CenterPoint Houston's total deliveries. 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 series 2005-1 transition bonds.

The transition property is not a receivable, and the principal collateral securing the Series 2005-1 transition bonds is not a pool of receivables. Transition charges authorized in the financing order are irrevocable and not subject to reduction, impairment, or adjustment by further action of the Texas commission, 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 transition bonds. See "Credit Enhancement -- Statutorily Guaranteed 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 are part of the transition property. CenterPoint Houston's qualified costs authorized in the financing order approving the issuance of the series 2005-1 transition bonds include:

- CenterPoint Houston's stranded cost balance, which is an amount associated with the transition to competitive retail electric markets in Texas determined by the Texas commission to be recoverable under the Restructuring Act, and which includes:
 - "excess mitigation" credits provided on the bills of retail electric customers (as required by prior order of the Texas commission) from August 31, 2004 through the date the series 2005-1 transition bonds are issued or the date of the termination of such excess mitigation credits, whichever is earlier, and
 - interest on stranded costs accrued from August 31, 2004 through the date the series 2005-1 transition bonds are issued,
- costs of issuing, supporting and servicing the series 2005-1 transition bonds, and
- any costs of retiring and refunding CenterPoint Houston's existing debt and equity securities in connection with the issuance of the series 2005-1 transition bonds (excluding costs of retiring or refunding debt or equity securities held by an affiliate of CenterPoint Houston).

The transition property relating to the series 2005-1 transition bonds and other transition property that may be transferred to us in connection with one or more separate financing orders providing for separate series of transition bonds are described in more detail under "The Sale Agreements -- CenterPoint Houston's Sale and Assignment of the Transition Property" in the accompanying prospectus.

We will purchase the transition property from CenterPoint Houston to support the issuance of up to \$[] in principal amount of the series 2005-1 transition bonds. The servicer will bill and collect transition charges allocable to the series 2005-1 transition 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 refer to "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 refer to "Retail Electric Providers" in the accompanying prospectus. For information on how electric service to retail electric customers may be terminated, see "Risk Factors -- Servicing Risks -- Limits on rights to terminate service might make it more difficult to collect the transition charges" in the accompanying prospectus. Because the amount of transition charge collections will depend largely on the amount of electricity consumed by customers within CenterPoint Houston's service territory, the amount of collections may vary substantially from year to year. Please refer to "The Servicer of the Transition Property" in the accompanying prospectus.

FINANCING ORDER

On March 16, 2005, the Texas commission issued the financing order relating to the series 2005-1 transition bonds to CenterPoint Houston. 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 \$1,493,747,264 plus (a) the principal portion of excess mitigation credits (which are credits on the bills of retail electric customers that were required by prior order of the Texas commission) provided by CenterPoint Houston after August 31, 2004 through the date of issuance of the transition bonds or the date of the termination of such excess mitigation credits, whichever is earlier, (b) interest on stranded costs accrued after August 31, 2004 through the date of issuance of the transition bonds, and (c) up-front qualified costs as set forth in the financing order. The financing order also authorizes transition charges in amounts sufficient to recover the principal and interest on the series 2005-1 transition bonds plus an additional amount of ongoing qualified costs. Our ability to recover certain of our ongoing costs through transition charges is subject to caps imposed by the financing order. The Texas commission guarantees that it will take specific actions pursuant to the irrevocable financing order as expressly authorized by the Restructuring Act ensure that transition charge revenues are sufficient to pay principal and interest on the series 2005-1 transition bonds. The financing order provides that the true-up mechanism and all other obligations of the State of Texas and the Texas commission set forth in the financing order are direct, explicit, irrevocable and unconditional upon issuance of the series 2005-1 transition bonds, and are legally enforceable against the State of Texas and the Texas commission. Please refer to "CenterPoint Houston's Financing Order" in the accompanying prospectus.

PAYMENT AND RECORD DATES AND PAYMENT SOURCES

Beginning [], 2006, we will make payments on the series 2005-1 transition bonds semi-annually on [] and [] of each year, or, if that day is not a business

day, the following business day. We refer to each of these dates as a "payment date." So long as the series 2005-1 transition 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 series 2005-1 transition 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 series 2005-1 transition bonds from amounts available in the collection account and the related subaccounts held by the trustee in the priority set forth under "The Transition Bonds -- How Funds in the Collection Account Will Be Allocated" in the accompanying prospectus. 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 series 2005-1 transition bonds to the transition bondholders equal to the sum, without duplication, of:

- the unpaid principal amount of any series 2005-1 transition bond whose final maturity date is on that payment date, plus =
- the unpaid principal amount of any series 2005-1 transition bond upon acceleration following an event of default relating to the series 2005-1 transition 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 series 2005-1 transition bond on that payment date, =

but only to the extent funds are available in the collection account after payment of certain of our fees and expenses and after payment of interest as described below under " -- Interest Payments Generally." To the extent funds are so available, we will make scheduled payments of principal of the series 2005-1 transition bonds in the following order:

1. to the holders of the tranche ____ transition bonds, until the principal balance of that tranche has been reduced to zero,
2. [additional tranches].

However, we will not pay principal of any tranche of series 2005-1 transition 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 series 2005-1 transition 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 transition bonds of each affected series then outstanding may declare the unpaid principal balance of each such affected series of the transition bonds, together with accrued interest, to be due and payable. However, the nature of our business will result in payment of principal upon

an acceleration of the series 2005-1 transition bonds being made as funds become available. See "Risk Factors -- Foreclosure of the trustee's lien on the transition property 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 transition bonds of a series that are due and payable, including upon an acceleration following an event of default, the trustee will distribute principal from the collection account for that series pro rata to each tranche of transition bonds of that series based on the principal amount then due and payable on the payment date; and if there is a shortfall in the remaining amounts available to make principal payments on transition bonds of a series that are scheduled to be paid, the trustee will distribute principal from the collection account for that series pro rata to each tranche of transition bonds of that series based on the principal amount then scheduled to be paid on the payment date.

The expected amortization schedule below sets forth the principal balance that is scheduled to remain outstanding on each payment date for each tranche of the series 2005-1 transition bonds from the issuance date to the scheduled final payment date. In establishing the expected amortization schedule, we have made the assumptions specified in the first five bullet points under the weighted average life sensitivity table below under " -- Weighted Average Life Sensitivity," among other assumptions.

EXPECTED AMORTIZATION SCHEDULE

Outstanding Principal Balance Per Tranche

| Payment Date | Tranche A-1 Balance | Tranche A-2 Balance | Tranche A-3 Balance | Tranche A-4 Balance |
|--------------|---------------------|---------------------|---------------------|---------------------|
| ----- | ----- | ----- | ----- | ----- |

On each payment date, the trustee will make principal payments to the extent the principal balance of each tranche of the series 2005-1 transition bonds exceeds the amount indicated for that payment date in the table above and to the extent of funds available in the collection account after payment of certain of our fees and expenses and after payment of interest.

We cannot assure you that the principal balance of any tranche of the series 2005-1 transition bonds will be reduced at the rate indicated in the table above. The actual reduction in tranche principal balances may occur more slowly. The actual reduction in tranche principal balances will not occur more quickly than indicated in the above table, except in the case of acceleration due to an event of default under the indenture. The series 2005-1 transition bonds will not be in default if principal is not paid as specified in the schedule 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 series 2005-1 transition bonds, the aggregate amount of each interest payment on each tranche of series 2005-1 transition bonds and the actual final payment date of each tranche of series 2005-1 transition bonds will depend on the timing of the servicer's receipt of transition charges from

retail electric providers. See "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 series 2005-1 transition bonds in relation to variances in actual energy consumption levels (retail electric sales) from forecast levels are shown below.

WEIGHTED AVERAGE LIFE SENSITIVITY

| Tranche | Expected Weighted Avg. Life ("WAL") (yrs) | WAL (yrs.) Assuming Uniform Annual Decline From Forecast Energy Consumption | | | |
|---------|---|---|--------|----------|--------|
| | | -----5% | | -----15% | |
| | | WAL | Change | WAL | Change |
| ----- | ----- | ----- | ----- | ----- | ----- |

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

- we make the scheduled payments on the series 2005-1 transition bonds on each payment date, commencing on [], 2006;
- the annual servicing fee for the series 2005-1 transition bonds equals 0.05% of the initial principal balance of the series 2005-1 transition bonds, and that we pay equal installments of the annual servicing fee on each payment date;
- there are no net earnings on amounts on deposit in the collection account;
- we pay our operating expenses, including all fees, costs and charges of the trustee and our independent managers, estimated to be in the amount of \$[] in the aggregate with respect to the series 2005-1 transition bonds on each payment date and these amounts are paid semi-annually in arrears;
- all transition charges are received and deposited in the collection account;
- the forecast error stays constant over the life of the series 2005-1 transition bonds and is equal to 5% or 15% as stated in the table above. The servicer will make periodic filings (but not more frequently than every six months during the first thirteen years in which transition charges are collected and not more frequently than every quarter during the fourteenth and fifteenth years) to true-up transition charges so as to provide for the billing of transition charges necessary to generate the collection of amounts sufficient to (a) pay ongoing fees and expenses, (b) timely provide for all scheduled payments of principal and interest, (c) replenish amounts drawn from the capital subaccount and (d) return the excess funds subaccount to a zero balance;
- periodic annual standard true-ups occur on a transaction year basis;
- interim true-ups have been modeled to be implemented only after a 5% variance from the expected amortization schedule (taking into account amounts in the excess funds subaccount) has occurred;
- no non-standard true-ups have been modeled; and
- settlement date of [], 2005.

There can be no assurance that the weighted average lives of the various tranches of the series 2005-1 transition bonds will be as shown in the above table.

DISTRIBUTION FOLLOWING ACCELERATION

Upon an acceleration of the maturity of the series 2005-1 transition bonds, the total outstanding principal balance of and interest accrued on the series 2005-1 transition 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. See "Risk Factors -- Foreclosure of the trustee's lien on the transition property 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.

INTEREST PAYMENTS GENERALLY

Holders of transition bonds in each tranche of series 2005-1 transition bonds will receive interest at the rate for that tranche as set forth in the table on page S-6.

Interest on each tranche of series 2005-1 transition 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 transition bonds have been paid in full, at the interest rate indicated in the table on page S-6. 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 series 2005-1 transition bonds equal to the following amounts:

- if there has been a payment default, 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 series 2005-1 transition bonds as of the close of business on the preceding payment date, or the date of the original issuance of the series 2005-1 transition bonds, after giving effect to all payments of principal made on the preceding payment date, if any.

We will pay interest on the series 2005-1 transition bonds before we pay principal on the series 2005-1 transition bonds. Please refer to "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 series 2005-1 transition bonds, the trustee will distribute interest pro rata to each tranche of series 2005-1 transition bonds based on the amount of interest payable on each such outstanding tranche[, subject to additional limitations applicable to any floating rate tranche]. Please read "Credit Enhancement -- Collection Account and Subaccounts" in this prospectus supplement. We will calculate interest on tranches of the series 2005-1 transition bonds paying interest at a fixed rate on the basis of a 360-day year of twelve 30-day months.

INTEREST PAYMENTS ON FLOATING RATE TRANSITION BONDS

Interest on each floating rate tranche of series 2005-1 transition bonds will be paid, for all interest accrual periods, at the rate equal to the London interbank offered rate, referred to as "LIBOR," for [three-month] United States dollar deposits, [except with respect to the period from the date of issuance to and including [], 2005 when the rate will be based on LIBOR for one-month United States dollar deposits,] in each case determined on the applicable floating rate interest determination date, as described below, plus the percentage spread above LIBOR applicable to that tranche. The spread above LIBOR for any floating rate tranche is referred to as the "floating rate spread." LIBOR plus the floating rate spread payable on each floating rate tranche is referred to as the "floating rate."

The floating rate spread for the tranche ____ series 2005-1 transition bonds will be [] % per annum.

There will be no minimum or maximum interest rate on any floating rate tranche. Interest on each floating rate tranche will be calculated on the basis of the actual number of days from and including the preceding payment date, or, for the first payment date, from and including the date of issuance of that tranche, to but excluding the next payment date, divided by 360. On or prior to each payment date, the trustee, using LIBOR, will calculate the amount of interest payable on each floating rate tranche for the relevant interest accrual period.]

FLOATING RATE INTEREST DETERMINATION

The interest determination date for each floating rate tranche and each payment date will be the day two London banking days prior to (1) the preceding payment date or (2) in the case of the first payment date, the dates specified below. A London banking day is a day on which commercial banks in London are open for general business.

Interest payable on the first interest payment date of [], 2005 for each floating rate tranche will be determined as follows:

- From and including the date of issuance to but excluding [], 2005, interest on each floating rate tranche will be based on LIBOR as determined two London business days prior to the date of issuance
- From and including [], 2005 until but excluding the first payment date, interest on each floating rate tranche will be based on LIBOR as determined on [], 2006
- Payment of the sum of the amounts calculated for these two periods will be made on [], 2006, the first payment date

After the first payment date, interest on each floating rate tranche will be paid at the rate equal to LIBOR as determined on each interest determination date, plus the floating rate spread for that tranche.

The trustee will determine LIBOR in accordance with the following provisions:

1. On each interest determination date, the trustee will determine LIBOR based on the offered rate for deposits in United States dollars commencing on the first day of that period that appears on page 3750 of Bridge Telerate, Inc. as of 11:00 a.m., London time, on that interest determination date. That display page is referred to as the "Telerate page." If no offered rate appears on that Telerate page, LIBOR for that period will be determined as described in clause (2) below.
2. With respect to an interest determination date on which no offered rate appears on the Telerate page, the trustee will request each of four major banks in the London interbank market, selected by the trustee, to provide the trustee with that bank's offered quotation for deposits in United States dollars for the applicable period, commencing on the second London banking day immediately following that interest determination date, to prime banks in the London interbank market at approximately 11:00 a.m., London time, on that interest determination date and in a principal amount that is representative for a single transaction in United States dollars in that market at that time. The applicable period is [three] months, except for the period from the date of issuance of the series 2005-1 transition bonds to and including [], 2005, when the applicable period is one month. If at least two such quotations are provided, LIBOR will be the arithmetic mean of those quotations. If fewer than two quotations are provided, LIBOR for that period will be the arithmetic mean of the rates quoted at approximately 11:00 a.m. in The City of New York on that interest determination date by major banks in The City of New York selected by the trustee for loans in United States dollars to leading European banks, for the period commencing on the second London banking day immediately following that interest determination date and in a principal amount that is representative for a single transaction in United States dollars in that market at that time.

If LIBOR cannot be determined in accordance with clauses (1) or (2) above, then that rate will be determined to be the same as the rate which applied during the previous period or on the date of issuance, in the case of a failure to determine LIBOR for the first payment date.

On each interest determination date, the trustee will notify the servicer, us and the swap counterparty of LIBOR for the applicable period as determined by the trustee.

INTEREST RATE SWAP AGREEMENTS

We will enter into an interest rate swap agreement with a swap counterparty for each floating rate tranche, on or before the date of issuance of that tranche. The purpose of each interest rate swap agreement is synthetically to convert the cash flows allocable to each floating rate tranche into cash flows that are based on a floating rate of interest even though the transition charges are based on a fixed rate. The cash flows allocable to each floating rate tranche will be based on the "gross fixed rate" for that tranche, as discussed further below.

Any such interest rate swap will be either a "scheduled balance swap" or an "actual balance swap." A "scheduled balance swap" is an interest rate swap in which the notional amount in each period is the principal amount of the applicable tranche after giving effect to all payments (if any) of principal that were scheduled to be made or before the payment date at the beginning of that period. An "actual balance swap" is an interest rate swap in which the notional amount in each period is the principal amount of the relevant tranche after giving effect to all payments (if any) of principal that have actually been made on or before the payment date at the beginning of that period.

Amounts Payable Under Interest Rate Swap Agreements. Under each interest rate swap agreement, for each interest accrual period we will be obligated to pay the related swap counterparty an amount equivalent to interest on the notional amount for such tranche for such period at a fixed rate of interest, referred to as the "gross fixed rate" for that notional amount, and the swap counterparty will be obligated to pay us an amount equal to interest at the floating rate for the same notional amount. Those obligations will then be netted on the business day before each payment date. Therefore, for each interest accrual period with respect to the notional amount of the swap, either we will pay the swap counterparty only the amount, if any, by which interest at the gross fixed rate exceeds interest at the floating rate, referred to as the "net swap payment," or the swap counterparty will pay us only the amount, if any, by which interest at the floating rate exceeds interest at the gross fixed rate, referred to as the "net swap receipt," as discussed below.

For each payment date with respect to each floating rate tranche, the trustee will allocate to the subaccount established for that tranche, referred to as a "tranche subaccount," an amount equal to the product of interest at the gross fixed rate for that tranche and the relevant notional amount for that tranche for the preceding interest accrual period, referred to as the "gross fixed amount." In addition, any net swap receipt under the related interest rate swap agreement will be deposited in that tranche subaccount, and will be available, together with the gross fixed amount for that tranche, to pay interest due on that tranche on that payment date. Any net swap payment will be paid to the related swap counterparty only out of funds on deposit in that tranche subaccount, and the remaining amount in that tranche subaccount will be available to pay interest due on that tranche. In addition, in the case of a scheduled balance swap, we will pay interest due on any tranche equal to the product of the applicable floating rate and the amount, if any, by which the average outstanding principal balance of that tranche during that accrual period exceeds the notional amount for that tranche for that interest period. We also will pay any additional amount that might be required to fund interest on the series 2005-1 transition bonds, for example, if the swap counterparty fails to pay.

With respect to any payment date, the notional amount in effect under each actual balance swap for the interest accrual period ended prior to that payment date will equal the actual principal balance of the related floating rate tranche as of the close of business on the preceding payment date, and the notional amount in effect under each scheduled balance swap for the interest accrual period ended prior to the payment date will equal the principal balance of the related floating rate tranche, taking into account all scheduled payments of principal, as of the close of business on the preceding payment date. With respect to

the first payment date, the notional amount in effect under each interest rate swap agreement prior to that payment date will be equal to the initial principal balance of the related floating rate tranche.

The gross fixed rate for the floating rate tranche _____ transition bonds will be []% percent per annum.

Swap Counterparty Ratings. The required long-term senior unsecured or financial program ratings of each swap counterparty under each interest rate swap agreement will be at least "[]" by Moody's, either at least "[]" or, for short-term obligations, "[]" by S&P and, if a swap counterparty is rated by Fitch, either at least "[]" or, for short-term obligations, "[]" for Fitch. These ratings are referred to as the "swap counterparty minimum ratings."

Caps on Certain Swap Termination Amounts Payable from Funds in the Collection Account. Swap termination payments will be payable out of the general subaccount of the collection account under clause 11 of the waterfall of payments described under "The Transition Bonds -- How Funds in the Collection Account Will Be Allocated" in the accompanying prospectus only after all of the series 2005-1 transition bonds have been paid in full unless the swap termination payments are payable as a result of (i) failure to pay as a result of insufficient collection of transition charges (up to \$[]), (ii) breach of the swap agreement by us or the indenture trustee (up to \$[]), (iii) our bankruptcy, (iv) our merger without assumption or (v) failure or termination of the security interest of the trustee under the indenture.

Swap Counterparty. The swap counterparty is [counterparty].

[The swap counterparty's] ratings for long-term obligations are [] from Moody's, [] from S&P and [] from Fitch.]

CREDIT ENHANCEMENT

Credit enhancement for the series 2005-1 transition bonds is intended to protect you against losses or delays in scheduled payments on your series 2005-1 transition bonds. Please refer to "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.

STATUTORILY GUARANTEED TRUE-UP MECHANISM FOR PAYMENT OF SCHEDULED PRINCIPAL AND INTEREST

The Restructuring Act and the irrevocable financing order guarantee 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 to ensure the expected recovery of amounts sufficient to provide timely payment of principal and interest on the series 2005-1 transition 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 series 2005-1 transition bonds. In the irrevocable financing order, the Texas commission guaranteed that it would take specific action pursuant to the financing order as expressly authorized by the Restructuring Act. There is no "cap" on the level of transition charges that may be imposed on consumers of electricity, including the State of Texas and other governmental entities, to meet scheduled principal and interest on the series 2005-1 transition bonds. The Financing Order provides that the true-up mechanism and all other obligations of the State of Texas and the Texas commission set forth in the financing order are direct, explicit, irrevocable and unconditional upon issuance of the series 2005-1 transition bonds, and are legally enforceable against the State of Texas and the Texas commission. Please read "The Transition Charges" below and "CenterPoint Houston's Financing Order" and "The Servicing Agreements -- The Statutorily Guaranteed Transition Charge Adjustment Process" in the accompanying prospectus.

COLLECTION ACCOUNT AND SUBACCOUNTS

The trustee will establish a collection account for the series 2005-1 transition 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

- [the tranche subaccount for the tranche __ floating rate transition bonds.]

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.

The General Subaccount. The trustee will deposit collected transition charges remitted to it by the servicer with respect to the series 2005-1 transition bonds into the general subaccount. On each payment date, the trustee will allocate amounts in the general subaccount as described under "The Transition Bonds -- How Funds in the Collection Account Will Be Allocated" in the accompanying prospectus.

The Excess Funds Subaccount. The excess funds subaccount will be funded 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 on any payment date:

- fees and expenses, including any indemnity payments, of the trustee, our independent managers, the servicer and the administrator and other fees, expenses, costs and charges,
- principal and interest payments on the series 2005-1 transition bonds[, which in the case of interest on the tranche ___ floating rate transition bonds will be the gross fixed amount for that tranche on that payment date,] 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 series 2005-1 transition 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 transition 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 series 2005-1 transition 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 series 2005-1 transition bonds. The capital contribution has been set at a level sufficient to obtain the ratings on the series 2005-1 transition bonds described below under "Ratings for the Series 2005-1 Transition Bonds." If amounts available in the general subaccount and the excess funds subaccount are not sufficient to make required or scheduled payments to the transition 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.

The Tranche Subaccount. A subaccount, referred to as the tranche subaccount, will be established for the tranche ___ floating rate transition bonds upon issuance. On the business day preceding each payment date, the trustee will allocate to the tranche subaccount from the general subaccount an amount equal to the gross fixed amount for the floating rate tranche on that payment date. On that day, any net swap payment will be paid to the related swap counterparty from the tranche subaccount, or any net swap receipt from the related swap counterparty will be deposited into the tranche subaccount. On the related payment date, amounts in the tranche subaccount will be paid as interest to the holders of the tranche ___ floating rate transition bonds. In the event of a shortfall of funds in the tranche subaccount to make a net swap payment due the related swap counterparty and to pay interest on the tranche ___ floating rate transition bonds, those amounts will be paid on a pro rata basis based on the relative amounts due in respect of the swap and the interest on that tranche. Any balance remaining in the tranche subaccount after payments have been made to the holders of the tranche ___ floating rate transition bonds on a payment date will be transferred to the collection account for allocation on the next payment date.

No amounts in the excess funds subaccount or the capital subaccount may be used to cover any shortfalls in interest on the tranche ___ floating rate transition bonds to the extent that the shortfall is due to the swap counterparty's failure to pay any net swap receipt due under the related interest rate swap agreement. However, amounts in those subaccounts will be available to pay the applicable gross fixed amount with respect to the notional amount of the swap related to the tranche ___ floating rate transition bonds and, in the case of a scheduled balance swap, to pay interest accrued on principal to the extent that the average actual principal balance for an interest accrual period exceeds the swap's notional amount for that period.]

RETAIL ELECTRIC PROVIDER DEPOSITS AND OTHER CREDIT SUPPORT

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.

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 series 2005-1 transition 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 payments in respect of the series 2005-1 transition bonds. Please see "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.

THE TRANSITION CHARGES

CenterPoint Houston will be the initial servicer of the series 2005-1 transition bonds. Beginning on the date we issue the series 2005-1 transition 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 Texas commission. Please refer to "CenterPoint Houston's Financing Order" in the accompanying prospectus.

INITIAL TRANSITION CHARGES

| TRANSITION CHARGE CUSTOMER CLASS ----- | INITIAL TRANSITION CHARGE RATE ----- |
|--|--|
| Residential..... | PER KWH |
| MGS (miscellaneous general service)..... | PER KW/PER KWH |
| LGS (large general service)..... | PER KVA/PER KW |
| 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 refer to "CenterPoint Houston's Financing Order -- Allocation" in the accompanying prospectus.

UNDERWRITING THE SERIES 2005-1 TRANSITION BONDS

Subject to the terms and conditions in the underwriting agreement among us, CenterPoint Houston and the underwriters, for whom [] is acting as the representative, we have agreed to sell to the underwriters, and the underwriters have severally agreed to purchase, the principal amount of the series 2005-1 transition bonds listed opposite each underwriter's name below:

| UNDERWRITER ----- | TRANCHE ----- | TRANCHE ----- | TRANCHE ----- | TRANCHE ----- |
|----------------------|------------------|------------------|------------------|------------------|
| Total..... | \$ ===== | \$ ===== | \$ ===== | \$ ===== |

Under the underwriting agreement, the underwriters will take and pay for all of the series 2005-1 transition bonds we offer, if any is 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 SERIES 2005-1 TRANSITION BONDS

The series 2005-1 transition 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 series 2005-1 transition 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.

| TRANCHE ----- | SELLING CONCESSION ----- | REALLOWANCE DISCOUNT ----- |
|------------------|--------------------------------|----------------------------------|
|------------------|--------------------------------|----------------------------------|

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 SERIES 2005-1 TRANSITION BONDS

The series 2005-1 transition 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 series 2005-1 transition 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 series 2005-1 transition bonds.

VARIOUS TYPES OF UNDERWRITER TRANSACTIONS THAT MAY AFFECT THE PRICE OF THE SERIES 2005-1 TRANSITION BONDS

The underwriters may engage in over-allotment transactions, stabilizing transactions, syndicate covering transactions and penalty bids with respect to the series 2005-1 transition 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. Stabilizing transactions are bids to purchase the series 2005-1

transition bonds, which are permitted, so long as the stabilizing bids do not exceed a specific maximum price. Syndicate covering transactions involve purchases of the series 2005-1 transition 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 series 2005-1 transition 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 series 2005-1 transition 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 series 2005-1 transition bonds.

We estimate that our share of the total expenses of the offering will be \$[].

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 series 2005-1 transition 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 series 2005-1 transition 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.

RISK WEIGHTING OF THE SERIES 2005-1 TRANSITION BONDS UNDER CERTAIN INTERNATIONAL CAPITAL GUIDELINES

If held by financial institutions subject to regulation in countries (other than the United States) that have adopted the 1988 International Convergence of Capital Measurement and Capital Standards of the Basel Committee on Banking Supervision (as amended, "Basel Accord"), the series 2005-1 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. Please read "Centerpoint Houston's Financing Order -- Statutorily Guaranteed True-Ups" and " -- Statutorily Guaranteed True-Ups: Entire Private Sector Default" in the accompanying prospectus.

The United Kingdom's Financial Services Authority has issued "individual guidance" letters to one or more investors that an investment in Texas transition bonds issued under the Restructuring Act may be accorded a 20% risk weighting, similar to the risk weighting assigned to U. S. agency corporate securities.

There is no assurance that the series 2005-1 transition bonds will attract a 20% risk weighting treatment under any national law, regulation, multi-national directives or policy implementing the Basel Accord. Investors should consult their regulators before making any investment.

RATINGS FOR THE SERIES 2005-1 TRANSITION BONDS

It is a condition of any underwriter's obligation to purchase the series 2005-1 transition bonds that each tranche of the series 2005-1 transition bonds be rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "AAA" by Fitch, Inc., and "Aaa" by Moody's Investors Service.

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 series 2005-1 transition bonds, and accordingly, we cannot assure you that a

rating assigned to any tranche of the series 2005-1 transition 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 series 2005-1 transition 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 series 2005-1 transition bonds other than payment in full of each tranche of the series 2005-1 transition bonds by the applicable final maturity date, as well as the timely payment of interest.

Subject to completion, dated September 12, 2005.

PROSPECTUS

CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC
Issuer

Transition Bonds

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
Seller and Initial Servicer

YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 15 OF THIS PROSPECTUS BEFORE YOU INVEST IN THE TRANSITION BONDS.

We may issue from time to time one or more series of the transition bonds as described in this prospectus. Each series of 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. However, the State of Texas and other governmental entities, as retail electric customers, will be obligated to pay transition charges securing the transition bonds. 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.

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 any offerings in one or more supplements to this prospectus. You should read this prospectus and the related 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 , .

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement we have filed with the SEC using a "shelf" registration process. By using this process, we may offer the transition bonds in one or more offerings. This prospectus provides you with a description of the transition bonds we may offer. Each time 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 add, update or change the information contained in this prospectus. 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 issuer" mean CenterPoint Energy Transition Bond Company II, LLC. References to "CenterPoint Houston" or "the seller" mean CenterPoint Energy Houston Electric, LLC, 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, which we refer to as the "Restructuring Act." 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 "Texas commission." You can find a glossary of some of the other defined terms we use in this prospectus on page A-1 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:

- state and federal legislative and regulatory actions or developments, including deregulation, re-regulation and restructuring of the electric utility industry, changes in or application of laws or regulations applicable to other aspects of our business;
- non-payment of transition charges due to financial distress of retail electric providers;
- the accuracy of the servicer's estimates of market demand and prices for energy;
- the accuracy of the servicer's estimates of industrial, commercial and residential growth in CenterPoint Houston's service territory;
- changes in market demand and demographic patterns;
- weather variations and other natural phenomena affecting retail electric customer energy usage;
- the operating performance of CenterPoint Houston's facilities and the facilities of third-party suppliers of electric energy in CenterPoint Houston's service territory;
- the accuracy of the servicer's forecast of electrical consumption or the payment of transition charges;
- 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.; 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 and applies to all series of transition bonds we may offer by use of this prospectus. You may find information relating to a specific series of our transition bonds in the prospectus supplement relating to that series. You will find a more detailed description of the terms of the offering of the transition bonds following this summary.

YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 15 OF THIS PROSPECTUS BEFORE YOU INVEST IN THE TRANSITION BONDS.

SUMMARY OF THE TRANSITION BONDS

The issuer of the transition bonds: CenterPoint Energy Transition Bond Company II, 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 one or more series of transition bonds secured by transition property and to perform any activity incidental thereto.

We are responsible to the State of Texas commission. Specifically, pursuant to the financing order of the Texas commission relating to the initial series of transition bonds,

- our organizational documents and transaction documents for the initial series of transition bonds prohibit us from engaging in any activities other than acquiring transition property, issuing transition bonds and performing other activities as specifically authorized by that financing order,
- we must respond to representatives of the Texas commission throughout the process of offering the initial series of transition bonds, with the financing order directing the Texas commission's financial advisor to veto any proposal that does not comply with all criteria established in the financing order, and
- the servicer will file periodic adjustments to transition charges with the Texas commission on our behalf.

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

Subsequent financing orders relating to additional series of transition bonds may impose additional or different requirements. Please read "CenterPoint Houston's Financing Order."

The issuer's address: 1111 Louisiana, Suite 4655B, Houston, Texas 77002

The issuer's telephone number: (713) 207-5222

The seller of the transition property:

CenterPoint Energy Houston Electric, LLC, a regulated utility organized under Texas law. CenterPoint Houston is engaged in the transmission and distribution of electric energy in a 5,000 square-mile area located along the Texas Gulf Coast that has a population of approximately 5 million people. As of June 30, 2005, CenterPoint Houston provided electric transmission and distribution service to approximately 1.9 million metered customers in this area. CenterPoint Houston is an indirect, wholly owned subsidiary of CenterPoint Energy, Inc., a public utility holding company created in August 2002 as part of the corporate restructuring of Reliant Energy, Incorporated. CenterPoint Energy is a holding company registered under the Public Utility Holding Company Act of 1935.

CenterPoint Houston's address: 1111 Louisiana, Houston, Texas 77002

CenterPoint Houston's telephone number: (713) 207-3000

The servicer of the transition property:

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 a servicing agreement with us. CenterPoint Houston currently services under a separate servicing agreement other transition property securing 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." Please read "Relationship to the Series 2001-1 Transition Bonds."

The trustee:

The trustee for each series of transition bonds will be named in the applicable 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 certain of these stranded investments and other balances through the issuance of transition bonds pursuant to and supported by an irrevocable financing order issued by the Texas commission. The Restructuring Act also permits the Texas commission to impose an irrevocable nonbypassable transition charge on all retail electric customers, including the State of Texas and other governmental entities, 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 by an electric utility by the Texas commission. 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 issuer, 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 Texas commission as described above, unless the context indicates that the reference is to the financing order issued by the Texas commission on March 16, 2005 which is further described below. Any subsequent financing order relating to a separate series of transition bonds will be described in the applicable prospectus supplement.

On March 16, 2005, the Texas commission issued a financing order to CenterPoint Houston authorizing the issuance of transition bonds in one or more series in an aggregate amount not to exceed \$1,493,747,264 plus (a) the principal portion of excess mitigation credits (which are credits on the bills of retail electric customers that were required by prior order of the Texas commission) provided by CenterPoint Houston after August 31, 2004 through the date of issuance of the transition bonds, or the date of the termination of such excess mitigation credits, whichever is earlier, (b) interest on stranded costs accrued after August 31, 2004 through the date of issuance of the transition bonds, and (c) up-front qualified costs as set forth in the financing order. The qualified costs authorized in the financing order, which we refer to in this prospectus and any applicable prospectus supplement as "qualified costs," include CenterPoint Houston's stranded cost

balance (including the excess mitigation credits, interest and up-front costs described above), certain costs of issuing, supporting and servicing the transition bonds and certain costs of retiring and refunding CenterPoint Houston's existing debt and equity securities in connection with the issuance of the transition bonds. The Texas commission guarantees that it will take specific action pursuant to the irrevocable financing order as expressly authorized by the Restructuring Act to ensure that transition charge revenues are sufficient to pay principal and interest on the series 2005-1 transition bonds.

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

- CenterPoint Houston will sell transition property to us in exchange for the net proceeds from the sale of a series of transition bonds,

- we will sell the series of transition bonds, which will be secured primarily by the related transition property, to the underwriters named in the prospectus supplement, and

- CenterPoint Houston will act as the 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. However, the State of Texas and other governmental entities, as retail electric customers, will be obligated to pay transition charges securing the transition bonds. 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.

PARTIES TO TRANSACTION AND RESPONSIBILITIES

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

[Chart summarizing the parties to the transactions underlying the offering of the transition bonds, their roles and relationships to the other parties. The Texas commission issues a financing order. CenterPoint Energy Transition Bond Company II, LLC issues the transition bonds and purchases transition property from CenterPoint Houston. CenterPoint Houston, as servicer, calculates charges by customer class to meet the payment schedule, prepares true-ups and submits filings to the Texas commission, which approves the transition charges on customer bills. The 1.9 metered million retail electric customers pay the transition charges to retail electric providers who remit transition charges to CenterPoint Houston, as servicer. CenterPoint Houston, as servicer, then remits on a daily basis, all transition charges collected to the indenture trustee, who then pays principal and interest semi-annually to the transition bondholders.]

FLOW OF FUNDS

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

[Chart describing the flow of funds as follows: Retail customers remit transition charges to the retail electric providers, who remit the billed transition charges to CenterPoint Houston, as the servicer. CenterPoint Houston, as the servicer, remits transition charges to the indenture trustee for payment of principal and interest to the transition bondholders.]

THE COLLATERAL

Each series of transition bonds will be secured under the indenture by the indenture's trust estate relating to that series. The principal asset of the trust estate will be transition property, which is a present property right created under the Restructuring Act enacted by the Texas legislature in June 1999 by a financing order issued by the Texas commission. The indenture's trust estate will also consist of:

- our rights under a sale agreement pursuant to which we will acquire the related transition property, under an administration agreement and under all bills of sale delivered by CenterPoint Houston pursuant to the sale agreement,
- our rights under a servicing agreement and any subservicing, agency, intercreditor or collection agreements executed in connection with the servicing agreement,
- the collection account for the particular series of transition bonds and all subaccounts of the collection account,
- our rights under any interest rate swap agreement or hedging agreement entered into with respect to the issuance of a floating rate tranche of a particular series of transition bonds,
- our rights in the deposits of retail electric providers required under the applicable financing order,
- all of our other property related to the series of 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 collateral for each series of transition bonds will be separate from the collateral for any other series, and holders of one series of transition bonds will have no recourse to collateral for a different series. Please read "The Transition Bonds -- The Security for the Transition Bonds."

THE TRANSITION PROPERTY

In general terms, all of the rights and interests of CenterPoint Houston under a financing order, upon transfer 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, through the transition charges payable by retail electric customers within CenterPoint Houston's service territory which, subject to certain limitations specified in the Restructuring Act, continue to consume electricity that is delivered through the distribution system or produced in new on-site generation, including the State of Texas and other governmental entities, an amount sufficient to recover the qualified costs of CenterPoint Houston authorized in the applicable financing order, including the right to receive transition charges in amounts and at times sufficient to pay principal and interest and to make other deposits in connection with the related series of transition bonds. During the twelve months ended June 30, 2005, approximately 42% of CenterPoint Houston's total deliveries were to industrial customers, approximately 26% were to commercial customers and approximately 32% were to residential customers, with the State of Texas and other governmental entities included in all categories and comprising approximately 5% of CenterPoint Houston's total deliveries. 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.

The transition property is not a receivable, and the principal collateral securing a series of 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 Texas commission, 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 transition bonds. See "CenterPoint Houston's Financing Order -- True Ups." All revenues and collections resulting from transition charges are part of the transition property with respect to a particular series of transition bonds.

We will purchase transition property from CenterPoint Houston to support the issuance of the related series of 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 refer to "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 refer to "Retail Electric Providers" in this prospectus. For information on how electric service to retail electric customers may be terminated, see "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 year to year. Please refer to "The Servicer of the Transition Property" in this prospectus.

INTEREST PAYMENTS

Interest on each tranche or series of transition bonds will accrue from the date we issue the tranche or series of transition bonds at the interest rate stated in the related prospectus supplement. On each payment date, we will pay interest on each tranche or series of 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 or series of transition bonds as of the close of business on the preceding payment date, or the date of the original issuance of each tranche or series of 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 or series of transition bonds before we pay the principal of each tranche or series of transition bonds. Please refer to "The Transition Bonds -- Payments of Interest and Principal on the Transition Bonds." If there is a shortfall in the amounts available in the applicable collection account to make interest payments, the trustee will distribute interest pro rata to each series and tranche of transition bonds based on the amount of interest payable on each outstanding series and tranche. Unless

otherwise specified in the prospectus supplement, 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 each series of transition bonds, referred to in this prospectus as a "payment date," we will pay amounts then due or scheduled to be paid on outstanding series of the transition bonds from amounts available in the collection account for that series 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

Unless otherwise specified in a prospectus supplement, on each payment date for a series of transition bonds, the trustee will allocate or pay all amounts on deposit in the general subaccount of the collection account for that series in the following order of priority:

1. payment of the trustee's fees, expenses and any outstanding indemnity amounts relating to that series, the total amount of which will be fixed as specified in the indenture,
2. payment of the servicing fee, which will be a fixed amount specified in the servicing agreement for that series, plus any unpaid servicing fees from prior payment dates,
3. payment of a pro rata portion of the administration fee, which will be a fixed amount specified in the administration agreement between us and CenterPoint Houston, and a pro rata portion of the fees of our independent managers, which will be in an amount specified in an agreement between us and our independent managers,
4. payment of all of our other ordinary periodic operating expenses relating to that series, such as accounting and audit fees, rating agency fees, legal fees and certain reimbursable costs of the servicer under the applicable servicing agreement,
5. payment of the interest then due on that series of transition bonds, and payment of amounts, if any, specified in the prospectus supplement that are payable in respect of interest to the swap counterparty under any interest rate swap agreement,
6. payment of the principal then required to be paid on that series of transition bonds at final maturity or upon redemption or acceleration,
7. payment of the principal then scheduled to be paid on that series of transition bonds,
8. payment of any amounts payable to any other credit enhancement providers with respect to that series,
9. payment of any of our remaining unpaid operating expenses and any remaining amounts owed pursuant to the basic documents relating to that series, including all remaining indemnity amounts owed to the trustee, and any other amounts owed pursuant to any interest rate swap agreement, other than swap termination payments,
10. replenishment of any amounts drawn from the capital subaccount for that series,

11. any swap termination payments, which will be payable only after all of the transition bonds have been paid in full unless the swap termination payments are payable as a result of (i) failure to pay as a result of insufficient collection of transition charges (up to a cap specified in the prospectus supplement), (ii) breach of the swap agreement by us or the indenture trustee (up to a cap specified in the prospectus supplement), (iii) our bankruptcy, (iv) our merger without assumption or (v) failure or termination of the security interest of the trustee under the indenture,
12. release to us of an amount equal to investment earnings on amounts in the capital subaccount for that series, so long as no event of default has occurred and is continuing, and
13. allocation of the remainder, if any, to the excess funds subaccount.

The amounts paid during any calendar year in respect of the trustee's fees and expenses in clause 1, the servicing fee in clause 2, the administration and independent managers' fees in clause 3, the ordinary periodic operating expenses in clause 4 and the remaining periodic expenses in clause 9 may not exceed \$1,055,500 in the aggregate for all series (for so long as CenterPoint Houston is the servicer), unless the Texas commission approves a different aggregate amount of such payments. If more than one series of transition bonds is outstanding, the payments described in the preceding sentence will be made pro rata from the respective collection accounts of each series. Please read "Risk Factors -- Other Risks Associated with an Investment in the Transition Bonds -- We may incur expenses in excess of caps on such expenses provided in the financing order."

The trustee's fees, expenses and indemnity amounts referred to in clause 1 above and the amount of the servicer's fee referred to in clause 2 above will be described in the prospectus supplement for the related series of the transition bonds. 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 for each series of the transition bonds.

FLOATING RATE TRANSITION BONDS

If, in connection with the issuance of any tranche of transition bonds paying interest at a floating rate, referred to as a floating rate tranche, we arrange for any interest rate swap transactions, the material terms of those transactions will be described in the related prospectus supplement.

CREDIT ENHANCEMENT

Unless otherwise specified in the prospectus supplement, credit enhancement for the transition bonds will be as follows:

- The Texas commission 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 statutorily guaranteed "true-up adjustments" or the "true-up mechanism." These adjustments will be made 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 refer to "CenterPoint Houston's Financing Order -- Statutorily Guaranteed True-Ups."

- Collection Account -- Under the indenture, the trustee will hold a collection account for each series of transition bonds, divided into various subaccounts. The primary subaccounts for credit enhancement purposes are:
 - the capital subaccount -- CenterPoint Houston will deposit an amount specified in the prospectus supplement into the capital subaccount on the date of issuance of each series of the transition bonds and
 - the excess funds subaccount -- any excess amount of collected transition charges and investment earnings not released to us will be held in the excess funds subaccount.

Each of these subaccounts will be available to make payments on the transition bonds on each payment date. Interest rate swaps and other hedging arrangements may be used to fix synthetically the interest on floating rate transition bonds. Tranche subaccounts for related floating rate transition bonds may also be established in the event interest rate swaps or other hedging arrangements are utilized.

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 transition bonds of the related series. Please see "Retail Electric Providers -- Rating, Deposit and Related Requirements" and " -- Remedies Upon Default."

Additional credit enhancement for any series may include other surety bonds or letters of credit or other forms of credit enhancement. Any additional forms of credit enhancement for each series will be specified in the related prospectus supplement. Credit enhancement for the transition bonds is intended to protect you against losses or delays in scheduled payments on your 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 Texas commission 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.

ALLOCATIONS AND DISTRIBUTIONS OF TRANSITION CHARGES

[Chart describing the flow of transition charges as follows: Retail electric customers pay transition charges to retail electric providers, who remit transition charges to the servicer; the servicer remits the transition charges to the indenture trustee for deposit to the collection account for the series of transition bonds; the swap counterparty also pays any amounts due under any interest rate swap for deposit in the tranche subaccount for the series of transition bonds; all amounts in the collection account are then applied to the general subaccount and the other subaccounts to make payments in accordance with the "waterfall" described in this prospectus.]

OPTIONAL REDEMPTION

The prospectus supplement may provide for redemption of a series of the transition bonds at our option at a redemption price not less than the outstanding principal of and accrued interest on that series of the transition bonds.

PAYMENT AND RECORD DATES

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

RATINGS FOR THE TRANSITION BONDS

It will be a condition of issuance for each series of transition bonds that the series be rated "Aaa" by Moody's Investors Service, Inc., "AAA" by Standard and Poor's Rating Services, a Division of The McGraw-Hill Companies and "AAA" by Fitch, Inc. See "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 related series of transition bonds. Unless and until the transition bonds are issued in definitive certificated form, the reports 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 refer to "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 all series of 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 initial series of 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 Texas commission consents, exceed 0.60% of the initial principal balance of the initial series of transition bonds on an annualized basis. In no event will the trustee be liable for any servicing fee in its individual capacity.

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 recently released 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 refer to "Material 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 an 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 refer to "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 in "Cautionary Statement Regarding Forward-Looking Information," before deciding whether to invest in the transition bonds. We will describe material risks of investing in any tranches of floating rate transition bonds in the applicable prospectus supplement.

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 that series of transition bonds, including:

- the right to impose, collect and receive 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 related 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 refer to "The Issuer" in this prospectus.

RISKS ASSOCIATED WITH POTENTIAL JUDICIAL, LEGISLATIVE OR REGULATORY ACTIONS

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 each 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 refer to

"The Sale Agreements -- 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 one or more financing orders that may be issued by the Texas commission 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. Several parties appealed the financing order described in this prospectus, but the financing order was affirmed on appeal to the district court of Travis County, Texas and the deadline established under the Restructuring Act for further appeal has expired. If the Restructuring Act is invalidated, however, the financing order 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.

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 refer to "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 California, Massachusetts, Michigan and 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.

THE TEXAS COMMISSION 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 Texas commission 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 Texas commission retains the power to adopt, revise or rescind rules or regulations affecting CenterPoint Houston. The Texas commission 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 Texas commission 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 Texas commission, on our behalf, certain adjustments of the transition charges. Please refer to "CenterPoint Houston's Financing Order -- Statutorily Guaranteed 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 of these transition bonds 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 refer to "CenterPoint Houston's Financing Order -- Statutorily Guaranteed True-Ups" and " -- Adjustments to Allocation of Transition Charges" in this prospectus.

The servicer of Transition Bond Company I's transition charges (which will also be the servicer for the transition bonds unless otherwise specified) 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 or an act of terrorism or other catastrophic event; changes in the market structure of the electric industry; customers consuming less electricity because of increased energy prices, increased conservation efforts; 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 declaration of a moratorium on terminating electric service to customers in the event of extreme weather, either of which would cause greater delinquencies or charge-offs than expected or force CenterPoint Houston or retail electric providers to grant additional payment relief to more customers, or

any other 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 Texas commission 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 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 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 collection disruption. 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 refer to "The Servicing Agreements" 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 refer to "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 June 30, 2005, CenterPoint Houston did business with approximately 63 retail electric providers. Reliant Energy, through its subsidiaries, is CenterPoint Houston's largest customer, accounting for approximately 64% of CenterPoint Houston's outstanding receivables from retail electric providers as of June 30, 2005.

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.

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 refer to "CenterPoint Houston's Financing Order -- Statutorily Guaranteed 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 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 June 30, 2005, CenterPoint Houston continued to provide metering services related to the installation and removal of meters, meter testing and calibration, data collection and data management. Please refer to "The Restructuring Act -- The Restructuring Act's General Effect on the Electric Utility Industry in

Texas -- 'Price to Beat' and Services" in this prospectus. Should the Texas commission 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 Texas commission. 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 Texas commission'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 Texas commission 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 refer to "The Servicer 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 Texas commission. Nonetheless, Texas statutory requirements and the rules and regulations of the Texas commission, 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 if non-paying customers make up a sufficiently large part of the retail electric providers customers), required service to non-paying customers could affect the ability of retail electric providers to make such payment.

FUTURE ADJUSTMENTS TO TRANSITION CHARGES BY CUSTOMER CLASS MIGHT RESULT IN INSUFFICIENT COLLECTIONS.

The customers who pay transition charges are divided into customer classes. 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 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 customers in a class fail to pay 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 failures by the remaining customers to pay 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 TRANSITION CHARGES FOR ANY SERIES OF TRANSITION BONDS IN RESPECT OF ELECTRIC SERVICE PROVIDED MORE THAN 15 YEARS FROM THE DATE OF ISSUANCE OF THAT SERIES OF TRANSITION BONDS.

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

FORECLOSURE OF THE TRUSTEE'S LIEN ON THE TRANSITION PROPERTY 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, transition charges likely would not be accelerated and the nature of our business will result in principal being paid as funds become available. If there is an acceleration, all tranches of 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 refer to "How a Bankruptcy Might 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 refer to "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 refer to "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,
- 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. See " -- 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 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 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 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 the 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 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 Texas commission or a Travis County, Texas district court to order the sequestration and payment to transition bondholders of all revenues arising with respect to the transition property. There can be no assurance, however, that the Texas commission 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, either on a series basis or otherwise, 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 one or more series of 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 refer to "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 refer to "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 bankruptcy court determines there is no valid right of set-off or recoupment. In that case, the issuer might only have an unsecured claim for any amounts owed by the retail electric provider in the retail electric provider's bankruptcy proceedings. Two 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, 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 Servicer 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 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 refer to "How a Bankruptcy May Affect Your Investment" in this prospectus.

OTHER RISKS ASSOCIATED WITH AN INVESTMENT IN THE TRANSITION BONDS

WE MAY INCUR EXPENSES IN EXCESS OF CAPS ON SUCH EXPENSES PROVIDED IN THE FINANCING ORDER.

Under the financing order, transition charges may not be imposed for certain of our ongoing expenses to the extent they exceed caps provided in the financing order for such amounts. In addition, our other assets, substantially all of which are pledged to the trustee for the transition bonds under the indenture, may not be used by the trustee to pay such excess amounts. Examples of these caps include payment of specified fees and expenses of the trustee and the servicer and other specified operating expenses. Please refer to "The Transition Bonds -- How Funds in the Collection Account Will Be Allocated." We cannot be sure that we will not incur expenses for these purposes in excess of the cap levels and, if this were to occur, we would not have funds to make payments for these excess amounts. Creditors of ours which are owed these amounts and not paid may obtain judgment liens against our assets or seek to place us in bankruptcy.

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 each 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 each servicing agreement to indemnify us, the trustee, for itself and on behalf of the transition bondholders,

and the Texas commission only in specified circumstances. Please refer to "The Sale Agreements" and "The Servicing Agreements" 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 a sale agreement or a 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.

TECHNOLOGICAL CHANGE MIGHT MAKE ALTERNATIVE ENERGY SOURCES MORE ATTRACTIVE IN THE FUTURE.

Technological developments might result in the introduction of economically attractive alternatives to purchasing electricity through CenterPoint Houston's distribution facilities for increasing numbers of retail customers. Manufacturers of self-generation facilities may develop smaller-scale, more fuel-efficient generating units that can be cost-effective options for a greater number of retail customers. 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. Technological developments might allow greater numbers of retail customers to avoid transition charges under such provisions, which may reduce the total number of retail customers from which transition charges will be collected.

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 refer to "Plan of Distribution for the Transition Bonds" in this prospectus.

YOU MIGHT RECEIVE PRINCIPAL PAYMENTS 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 refer to "The Transition Bonds" in this prospectus.

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. 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,
- permitted electric utilities to recover certain stranded investments and other balances through the issuance of transition bonds pursuant to and supported by an irrevocable financing order issued by the Texas commission,
- permitted the Texas commission to impose an irrevocable nonbypassable transition charge on all retail electric customers, including the State of Texas and other governmental entities, within a utility's certificated service territory as it existed on May 1, 1999, for payment of transition bonds, and
- 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 Texas commission 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 as described below, 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 subsidiary of CenterPoint Energy. Texas Genco, LP is a wholly owned indirect subsidiary of Texas Genco Holdings, Inc., approximately 81% of the common stock of which is

indirectly owned by CenterPoint Energy. In December 2004, Texas Genco Holdings and Texas Genco, LP completed the sale of all of Texas Genco, LP's fossil generation assets to third parties for approximately \$2.2 billion. In the second step of the transaction, which was completed in April 2005, the buyers acquired Texas Genco Holdings and the remaining nuclear generation assets for approximately \$700 million. 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 is and has been a separate legal entity from Reliant Energy, Incorporated, the integrated utility and predecessor to CenterPoint Houston. Reliant Energy and CenterPoint Energy have no overlapping board members or executive officers, and neither owns any stock in the other; however, under provisions of the Restructuring Act, Reliant Energy Retail Services and Reliant Energy Solutions are considered to be the "affiliated retail electric providers."

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 the affiliated retail electric providers. As of June 30, 2005, there were approximately 63 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 serve approximately 53% of the total retail kWh billed by CenterPoint Houston in its service territory.

"Price to Beat" and Services. From January 1, 2002 until January 1, 2007, the affiliated retail electric provider of a utility is required to make available a "price to beat" to residential and small commercial retail electric customers in the electric utility's service territory. The "price to beat" is a rate that, on a bundled basis, is six percent less than the affiliated electric utility's corresponding average residential and small commercial rates, on a bundled basis, that were in effect on January 1, 1999, adjusted to take into account changes in the cost of fuel. The Restructuring Act prohibits the affiliated retail electric provider from charging residential and most small commercial retail electric customers rates that are different than the "price to beat" until the earlier of January 1, 2005 or the date 40% of the electric load of retail electric customers in that class in that service territory have chosen new retail electric providers. Thereafter, it requires the affiliated retail electric provider to offer to sell to residential and most small commercial retail electric customers at the "price to beat" but does not prohibit the affiliated retail electric provider and its customers from agreeing to rates that are either higher or lower than the "price to beat".

The Texas commission designates a "provider of last resort" for each customer class in each service territory in the state. The provider of last resort is required to offer, in its service territory, a standard retail service package for its class of retail electric customers at a fixed rate approved by the Texas commission. The 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, or who is transferred to the provider of last resort by other retail electric providers for reasons other than non-payment. The providers of last resort for CenterPoint Houston's service territory are CPL Retail Energy (for Direct Energy) (for the residential class), Constellation Energy (for the small non-residential class) and Tenaska Power Service Company d/b/a TPS III (for the large non-residential class).

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 June 30, 2005, 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 Texas commission 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 Texas commission's rules require ERCOT to file with the Texas commission quarterly updates as to the operational readiness of the support systems necessary for the Texas commission 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 Texas commission in a final true-up proceeding in 2004. In CenterPoint Houston's case, the Texas commission 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 and plus interest accrued after August 31, 2004 on certain balances until collected. Of that amount, approximately \$1.343 billion plus the principal portion of all excess 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 provides for recovery of stranded costs and regulatory assets as determined in the final true-up proceeding through non-bypassable competition transition charges on retail electric customers' bills or through issuance of transition bonds to be paid and secured by non-bypassable transition charges. The Texas commission has determined that the other true-up balances cannot be securitized and may only be collected through competition transition charges. In general, the retail electric customers within the utility's service territory as it existed on May 1, 1999 will be assessed competition transition charges regardless of whether the retail electric customers receive service from the utility that historically served them or another entity. Competition transition charges are similar to transition charges in the way they are imposed and collected, but competition transition charges are not securitized.

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 Texas commission 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. The transition bonds are secured by, and payable from, transition property, which includes the right to impose, collect and receive the 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 Texas commission 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 order, are first transferred to an assignee 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 order, is irrevocable and not subject to reduction, impairment or adjustment by the Texas commission 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 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.

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 -- Statutorily Guaranteed 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 related transition bonds have been paid and performed in full. For a description of risks related to the enforcement of this pledge, see "Risks Associated with Potential Judicial, Legislative or Regulatory Actions" in this Prospectus.

Constitutional Matters. To date, no cases addressing the repeal or amendment of securitization provisions such as those contained in the Restructuring Act have been decided in Texas or other states. There have been cases in other states in which courts have applied the Contract Clause of the United States Constitution and parallel state constitutional provisions 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 reducing or eliminating the security for bonds. 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 an offering of a series of transition bonds described in a prospectus supplement accompanying this prospectus to the effect that the pledge described above would be treated as creating a contractual obligation for purposes of the Contract Clauses of the United States and Texas constitutions, and the State of Texas could not, consistent with the Contract Clauses of the United States and Texas Constitutions, take any action of a legislative character, including the repeal or amendment of the securitization provisions of the Restructuring Act, that would substantially impair the value of the transition property or substantially reduce, alter or impair the transition charges in a manner violative of the State's pledge described above, 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 notwithstanding the State's pledge, if the legislature acts in order to serve a significant and legitimate public purpose, such as protecting the public health and safety.

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 they are not aware of any federal or Texas court cases addressing the applicability of the federal or Texas Takings Clauses 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 an offering of a series of transition bonds described in a prospectus supplement accompanying this prospectus to the effect that under existing case law the State of Texas could not repeal or amend the securitization provisions of the Restructuring Act, or take any other action in contravention of the State's pledge described above, that substantially impairs the rights of the transition bondholders without paying just compensation to the transition bondholders, as determined by a court of competent jurisdiction, if doing so:

- under the federal Takings Clause, 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 or

- under the Texas Takings Clause, did not accomplish a legitimate goal (that is, was not substantially related to the health, safety or general welfare of the people) or was not reasonable, as determined under a case-by-case analysis taking into account such factors as whether the action taken would render the transition bonds wholly useless, would cause a disproportionate diminution in economic value to the transition bondholders or was for the State's own advantage.

In connection with the foregoing, Baker Botts L.L.P. has advised us that the determination of whether a substantial impairment or a permanent appropriation of a substantial property interest had occurred would be subject to determination under case law standards developed primarily with respect to uses of real property and that there is little guidance as to how those standards would be applied to a financial obligation. The degree of impairment necessary to meet the standards for relief under a takings analysis could be substantially in excess of what a transition bondholder would consider material. If such a legislative action were determined to be a taking, the State of Texas might be obligated to pay compensation for the taking, but there is no assurance that any amount provided as compensation would be sufficient for you to fully recover your investment in the transition bonds. 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.

The Texas Commission May Adjust Transition Charges. The Restructuring Act requires the Texas commission to provide in all financing orders a mechanism requiring that transition charges be reviewed and adjusted at least annually, within 45 days of the anniversary of the date of the issuance of the 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 the 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 transition bonds. The security interest automatically attaches from the time value is received for the transition bonds.

On perfection through the filing of a notice with the Secretary of State, the security interest (1) will be a continuously perfected lien and security interest in the transition property and all proceeds of the property, whether 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 the 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 will not be impaired by:

- commingling of funds collected from transition charges with other funds, or
- modifications to the financing order resulting from any true-up adjustment.

Please refer to "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 state 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 refer to "The Sale Agreements" 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. On March 31, 2004, CenterPoint Houston, Texas Genco and Reliant Energy Retail Services jointly applied to the Texas commission for an order determining CenterPoint Houston's stranded cost and other true-up balances pursuant to the Restructuring Act. On December 17, 2004, the Texas commission issued its final order 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 and plus interest accrued after August 31, 2004 on certain balances until collected. Of that amount, approximately \$1.343 billion plus the principal portion of all excess 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. In December 2004, CenterPoint Houston filed an application with the Texas commission for a financing order to permit securitization of the approximately \$2.3 billion determined by the Texas commission in its December 17, 2004 order, plus (a) the principal portion of excess mitigation credits provided by CenterPoint Houston after August 31, 2004 through the date of issuance of the transition bonds or the date of the termination of such excess mitigation credit, whichever is earlier, (b) interest on stranded costs accrued after August 31, 2004 through the date of issuance of the transition bonds, and (c) up-front qualified costs. The Texas commission determined that the true-up balances other than stranded costs and regulatory assets cannot be securitized and may only be recovered through competition transition charges. The Texas commission issued the financing order on March 16, 2005 authorizing CenterPoint Houston to securitize an amount not to exceed \$1,493,747,264 plus the amounts specified in (a), (b) and (c) above. Several parties appealed the financing order, but the financing order was affirmed on appeal by the district court in Travis County, Texas and the deadline established under the Restructuring Act for further appeal has expired.

We are responsible to the State of Texas and the Texas commission. Specifically, pursuant to the financing order,

- our organizational documents and transaction documents prohibit us from engaging in any activities other than acquiring transition property, issuing transition bonds and performing other activities as specifically authorized by that financing order,
- we must respond to representatives of the Texas commission throughout the process of offering the transition bonds provided for therein, with the financing order directing the Texas commission's financial advisor to veto any proposal that does not comply with all criteria established in the financing order, and
- the servicer will file periodic adjustments to transition charges with the Texas commission on our behalf.

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

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.

The Texas commission guarantees that it will take specific actions pursuant to the irrevocable financing order as expressly authorized by the Restructuring Act to ensure that transition charge revenues are sufficient to pay principal and interest on the transition bonds. The financing order provides that the true-up mechanism and all other obligations of the State of Texas and the Texas commission set forth in the financing order are direct, explicit, irrevocable and unconditional upon issuance of the transition bonds, and are legally enforceable against the State of Texas and the Texas commission.

Issuance of Transition Bonds. The financing order authorizes CenterPoint Houston to cause us to issue transition bonds in an aggregate principal amount not to exceed \$1,493,747,264 plus the amounts described in (a), (b) and (c) above.

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 sufficient to recover 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, 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 a series of transition bonds for electricity delivered after the fifteenth anniversary of the date of issuance of that series of 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 Texas commission an issuance advice letter, which will:

- demonstrate compliance with the requirements 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,
- identify the transition property we will purchase,
- identify us, and

- 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.

Both the issuance advice letter and the accompanying compliance tariff become effective on the date of issuance of the transition bonds unless the Texas commission issues an order prior to noon on the fourth business day after the determination of the final terms of the transition bond, that the proposed issuance does not comply with the requirements of the Restructuring Act or the financing order.

Allocation. Under the terms of the financing order, CenterPoint Houston will initially allocate the qualified costs among its transition charge customer classes as follows:

| TRANSITION CHARGE CUSTOMER CLASS ----- | ALLOCATION FACTOR ----- |
|---|-------------------------------|
| Residential..... | |
| MGS (miscellaneous general service)..... | |
| LGS (large general service)..... | |
| LOS-A (large overhead service -- A)..... | |
| LOS-B (large overhead service -- B)..... | |
| Non-Metered Lighting..... | |
| Standby Electric Service -- Distribution..... | |
| Interruptible Service Supplemental -- Distribution..... | |
| Interruptible Service -- 30 Minute Notice..... | |
| Interruptible Service -- 10 Minute Notice..... | |
| Interruptible Service -- Instantaneous..... | |
| Interruptible Service Supplemental -- Transmission..... | |
| Standby Electric Service -- Transmission..... | |
| Standby Interruptible Service..... | |
| SCP (special contract pricing)..... | |

The allocation factors for each class are subject to periodic adjustment. See " - - Adjustments to Allocation of Transition Charges" below.

Statutorily Guaranteed True-Ups. The Restructuring Act and the irrevocable financing order guarantee that transition charges on all retail electric customers will be reviewed and adjusted 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 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 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, including the State of Texas and other governmental entities, to meet scheduled principal and interest on 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 Texas commission for an adjustment at least annually
 - to correct any undercollection or overcollection of transition charges 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 interest (or deposits to sinking funds in respect of principal and interest) 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, trustee indemnities, payments due in connection with any swap agreements and 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 a prospectus supplement applicable to a particular series of transition bonds) 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 each servicing agreement to seek an interim true-up adjustment with respect to a series of 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 of that series, taking into account amounts on deposit in the excess collections subaccount for that series, and (b) the expected principal balance on the expected amortization schedule,

- as needed to meet any rating agency requirement that the transition bonds of that series 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 of that series based on rating agency and transition bondholder considerations, including a mandatory interim true-up in connection with each semi-annual payment date if the servicer forecasts that collections of transition charges during the next semi-annual payment period will be insufficient to make all scheduled payments of interest, principal and other amounts in respect of the transition bonds of that series and to replenish the capital subaccount for that series to its required level.

Statutorily Guaranteed True-Ups -- 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 broad-based 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 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 and interest obligations on the transition bonds when due). See the financing order, Finding of Fact 107, and "The Restructuring Act -- CenterPoint Houston and Other Utilities May Securitize Qualified Costs," "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Information" for further information. With respect to the foregoing, interest is due on each payment date and principal is due upon the final maturity date for each tranche.

Statutorily Guaranteed 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 that service the transition bonds 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, these entities, pursuant to the statutorily guaranteed 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 State of Texas and other governmental entities, subdivisions, agencies, authorities and instrumentalities of the State of Texas, only in their capacity as retail electric customers, will be obligated to provide funds to make payments on the transition bonds. The diagram below depicts the operation of the statutorily guaranteed true-up mechanism if these unlikely events were ever to occur. There is no assurance that the State of Texas or such local government agencies, even though there is a direct claim on them, would pay such transition charges.

[Chart depicting operation of statutorily guaranteed true-up mechanism with respect to the Texas public sector (as retail electric customers) in the unlikely event of a default by the entire Texas private sector.]

Adjustments to Allocation of Transition Charges. In the financing order, the Texas commission 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 Texas commission. 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.

Servicing Agreement. In the financing order, the Texas commission authorized CenterPoint Houston, as the servicer, to enter into a servicing agreement described under "The Servicing Agreements" in this prospectus.

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 Texas commission.

Subsequent Financing Orders. We may issue additional series of transition bonds secured by separate transition property under a subsequent financing order of the Texas commission. We will describe the material terms of any such financing order in the related prospectus supplement.

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 Texas commission. 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. Under the Restructuring Act, Reliant Energy Retail Services and Reliant Energy Solutions, retail electric providers owned by Reliant Energy, are considered "affiliated retail electric providers."

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 Energy'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 refer to " -- 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 refer to "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.

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 and for other charges approved by the Texas commission. 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 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 refer to "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 Texas commission 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 Texas commission'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 and Fitch 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 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 proportioned between the transition charges and other fees and charges (including transition charges attributable to the transition bonds issued by Transition Bond Company I), 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.

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 Texas commission 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 Texas commission. 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 Texas commission 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 Texas commission. 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 Texas commission-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. It is expressly intended that 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.

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 Texas commission 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 charge-off percentage in effect on the first day of the month preceding issuance of the transition bonds for transition charges being collected on behalf of Transition Bond Company I or, in the case of a new retail electric provider, based on the same system-wide charge-off percentage then being used for payments to the servicer for Transition Bond Company I. 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 charge rates 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 Texas commission rules. Under current rules of the Texas commission 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 SERVICER OF THE TRANSITION PROPERTY

ABOUT CENTERPOINT HOUSTON

Background Information. CenterPoint Houston is a fully regulated utility engaged in the transmission and distribution of electric energy in a 5,000-square mile area located along the Texas Gulf Coast, including the City of Houston. CenterPoint Houston is an indirect wholly owned subsidiary of CenterPoint Energy, a public utility holding company created on August 31, 2002 as part of the corporate restructuring of the integrated utility in response to 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 service through an energy delivery charge approved by the Texas commission.

CenterPoint Energy is a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). The 1935 Act and related rules and regulations impose a number of restrictions on the activities of CenterPoint Energy and its subsidiaries, including CenterPoint Houston. The 1935 Act has been repealed by the Energy Policy Act of 2005. However, we are required to obtain approval from the SEC under the 1935 Act in order to issue transition bonds prior to February 2006, which is when the repeal becomes effective.

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

Service Territory. CenterPoint Houston provides electric transmission and distribution service to approximately 1.9 million metered customers in its service territory, which has a population of approximately 5 million people. With the exception of Texas City, CenterPoint Houston serves nearly all of the Houston/Galveston 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, the Johnson Space Center, the Texas Medical Center and a growing technology industry. 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 moderate 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 class, which have increased rapidly for several years, are expected to moderate to an approximate 2% growth rate. The 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 1994, including over 42,000 new residential customers in 2004. As a consequence, energy sales in CenterPoint Houston's service territory have also increased for all customer classes other than the large industrial customer class. Energy sales to large industrial customers in 2004 were approximately 9% above levels in 1994. Industrial sales are sensitive to increased use of self-generation and the unfavorable impact that high natural gas prices have had on the competitiveness of Houston's petrochemical industry. On a weather-adjusted basis, energy sales to the residential, commercial and small industrial customer classes have increased an average of 3.3%, 3.7% and 1.0%, respectively, over the ten-year period ended December 31, 2003. There can be no assurance that future usage rates will be similar to historical experience.

Electric Transmission. CenterPoint Houston transports electricity from power plants to substations and 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 on behalf of retail electric providers. CenterPoint Houston provides transmission services under tariffs approved by the Texas commission.

Electric Distribution. CenterPoint Houston distributes 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 Texas commission. Texas commission rules and market protocols govern the commercial retail operations of distribution companies and other market participants.

ERCOT Market Framework. CenterPoint Houston is a member of ERCOT. ERCOT is a network of retail customers, investor and municipally owned electric utilities, rural electric co-operatives, river authorities, independent generators, power marketers and retail electric providers, which serves as the regional reliability coordinating council for member electric power systems in Texas. 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 largest power markets. The ERCOT market includes an aggregate net generating capacity of approximately 77,000 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 Texas commission 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 are responsible for contracting sales and purchases of power bilaterally. The ERCOT ISO also serves as agent for procuring ancillary services for those 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 June 30, 2005, approximately 42% of CenterPoint Houston's total deliveries were to industrial customers, approximately 26% were to commercial customers and approximately 32% were to residential customers, with the State of Texas and other governmental entities included in all categories and comprising approximately 5% of CenterPoint Houston's total deliveries. 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 Texas commission 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. The following table shows various operating statistics by customer class. 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 any series issuance date and any adjustment thereto, in each case giving effect to the issuance of transition bonds on that date, see the related 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.

The transmission and distribution revenue data for the years ended December 31, 2002, 2003 and 2004 represents CenterPoint Houston's revenues for transmission and distribution charges billed to retail electric providers.

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, 2004 was 3.0% 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. See "Risk Factors -- Servicing Risks" in this prospectus.

Retail Electric Customers. 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 table sets forth customer usage as of December 31 of each year shown and as of June 30, 2005, a measure that illustrates current totals more accurately than the average number of retail electric customers for those periods.

HISTORICAL SALES, REVENUE AND CUSTOMER STATISTICS

RETAIL ELECTRIC USAGE (AS MEASURED BY BILLED MWH SALES) BY CUSTOMER CLASS AND PERCENTAGE COMPOSITION

| CUSTOMER CLASS | 2000 | | | | | | | | | | SIX MONTHS ENDED 6/30/05 | |
|-------------------|------------|--------|------------|--------|------------|--------|------------|--------|------------|-------|--------------------------|-------|
| | 2000 | | 2001 | | 2002 | | 2003 | | 2004 | | | |
| Residential..... | 22,415,359 | 30.7% | 21,764,703 | 30.6% | 22,867,469 | 32.9% | 23,588,945 | 33.4% | 23,583,782 | 32.1% | 9,573,484 | 28.8% |
| Commercial..... | 17,489,472 | 24.0% | 17,809,507 | 25.0% | 18,289,012 | 26.3% | 18,777,752 | 26.6% | 19,052,995 | 26.0% | 8,914,185 | 26.8% |
| Industrial..... | 32,915,840 | 45.1% | 31,398,074 | 44.2% | 28,201,753 | 40.6% | 28,101,238 | 39.8% | 30,598,650 | 41.7% | 14,640,007 | 44.1% |
| Other..... | 145,184 | 0.2% | 141,75 | 0.2% | 150,544 | 0.2% | 153,075 | 0.2% | 156,433 | 0.2% | 78,920 | 0.2% |
| Total Retail..... | 72,965,854 | 100.0% | 71,114,041 | 100.0% | 69,508,779 | 100.0% | 70,621,010 | 100.0% | 73,391,860 | 100% | 33,206,595 | 100% |

TRANSMISSION AND DISTRIBUTION REVENUE BY CUSTOMER CLASS AND PERCENTAGE COMPOSITION (DOLLARS IN THOUSANDS)

| CUSTOMER CLASS | 2002 | | | | | | SIX MONTHS ENDED 6/30/05 | |
|-------------------|-------------|--------|-------------|--------|-------------|--------|--------------------------|--------|
| | 2002 | | 2003 | | 2004 | | | |
| Residential..... | \$ 608,778 | 51.8% | \$ 632,612 | 52.1% | \$ 643,818 | 51.6% | \$ 271,932 | 46.9% |
| Commercial..... | 355,605 | 30.2% | 375,528 | 30.9% | 389,789 | 31.2% | 195,651 | 33.7% |
| Industrial..... | 185,854 | 15.8% | 180,967 | 14.9% | 187,958 | 15.1% | 98,868 | 17.0% |
| Other..... | 25,496 | 2.2% | 25,712 | 2.1% | 26,473 | 2.1% | 13,434 | 2.3% |
| Total Retail..... | \$1,175,733 | 100.0% | \$1,214,819 | 100.0% | \$1,248,038 | 100.0% | \$ 579,885 | 100.0% |

SERVICE TERRITORY NUMBER OF METERED RETAIL ELECTRIC CUSTOMERS AND PERCENTAGE COMPOSITION

| CUSTOMER CLASS | DECEMBER 31, | | | | | | | | | | JUNE 30, 2005 | |
|-------------------|--------------|--------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|---------------|-------|
| | 2000 | | 2001 | | 2002 | | 2003 | | 2004 | | | |
| Residential..... | 1,501,148 | 87.9% | 1,529,103 | 87.8% | 1,569,230 | 87.7% | 1,615,921 | 88.0% | 1,658,076 | 88.0% | 1,681,005 | 88.0% |
| Commercial..... | 204,069 | 12.0% | 209,689 | 12.0% | 218,720 | 12.2% | 218,739 | 11.9% | 223,174 | 11.9% | 227,495 | 11.9% |
| Industrial..... | 1,729 | 0.1% | 1,824 | 0.1% | 1,863 | 0.1% | 1,981 | 0.1% | 2,03 | 0.1% | 2,076 | 0.1% |
| Total Retail..... | 1,706,946 | 100.0% | 1,740,616 | 100.0% | 1,789,813 | 100.0% | 1,836,641 | 100.0% | 1,883,288 | 100.0% | 1,910,576 | 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 June 30, 2005, CenterPoint Houston did business with approximately 63 retail electric providers. Reliant Energy, through its subsidiaries, is CenterPoint Houston's largest customer, accounting for approximately 64% of CenterPoint Houston's outstanding receivables

from retail electric providers as of June 30, 2005. Since January 2002, other than the bankruptcies described below and minor delays and payment discrepancies, these retail electric providers 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. CenterPoint Houston has no long-term contract with any retail electric provider.

Two retail electric providers with which CenterPoint Houston has done business filed for bankruptcy in June 2002 and March 2003, respectively. CenterPoint Houston, as servicer under the transition bonds issued by Transition Bond Company I, recovered from one of these retail electric providers the full amount of the transition charges relating to those transition bonds from a cash deposit provided by that retail electric provider. 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, 2004, the largest end-use retail electric customer served by retail electric providers in CenterPoint Houston's service territory represented approximately 2.28%, and the ten largest end-use retail electric customers represented approximately 10.04%, 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 refer to "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 Texas commission for reasonableness and accuracy in regulatory proceedings.

Currently, CenterPoint Houston relies extensively on the use of end-use modeling, particularly in the preparation of its residential and commercial forecasts. These models combine information on weather, appliance saturation and energy intensity along with key economic parameters as part of the process of developing the forecast. For example, residential usage of electricity is forecast utilizing economic data on electricity prices and real income in conjunction with average household size, the number of appliances, appliance efficiency and normal weather. The commercial and small industrial models forecast electric energy deliveries based on electricity price, employment, floor space and energy intensity by commercial building type. 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 in-house research. 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.

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 2004 variance is based on a forecast prepared in 2003. The variances for the residential customer class ranged from -3.6% to 8.2%. The variances for the commercial customer class ranged from 0.0% to 4.6% and for the industrial class from -5.6% to 9.1%. Variances for the other customer class ranged from -3.1% to 13.2%. 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

| | 2000 | 2001 | 2002 | 2003 | 2004 | Six Months ended 6/30/05 |
|---------------------|------------|------------|------------|------------|------------|-----------------------------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| RESIDENTIAL | | | | | | |
| Forecast (MWH)..... | 20,710,864 | 21,338,086 | 22,177,812 | 23,591,423 | 23,990,031 | 9,926,624 |
| Actual (MWH)..... | 22,415,359 | 21,764,703 | 22,867,469 | 23,588,945 | 23,583,782 | 9,573,484 |
| Variance..... | 8.2% | 2.0% | 3.1% | 0.0% | -1.7% | -3.6% |
| COMMERCIAL | | | | | | |
| Forecast (MWH)..... | 16,728,189 | 17,209,406 | 17,645,969 | 18,768,660 | 18,978,028 | 8,873,912 |
| Actual (MWH)..... | 17,489,472 | 17,809,507 | 18,289,012 | 18,777,752 | 19,052,995 | 8,914,185 |
| Variance..... | 4.6% | 3.5% | 3.6% | 0.0% | 0.4% | 0.5% |
| INDUSTRIAL | | | | | | |
| Forecast (MWH)..... | 32,351,426 | 32,100,649 | 29,861,371 | 28,617,844 | 28,036,906 | 14,185,108 |
| Actual (MWH)..... | 32,915,840 | 31,398,074 | 28,201,753 | 28,101,238 | 30,598,650 | 14,640,007 |
| Variance..... | 1.7% | -2.2% | -5.6% | -1.8% | 9.1% | 3.2% |

| | 2000 | 2001 | 2002 | 2003 | 2004 | Six Months ended 6/30/05 |
|---------------------|------------|------------|------------|------------|------------|--------------------------------|
| OTHER | | | | | | |
| Forecast (MWH)..... | 130,214 | 131,575 | 132,936 | 157,891 | 155,174 | 79,213 |
| Actual (MWH)..... | 145,184 | 141,757 | 150,544 | 153,075 | 156,433 | 78,920 |
| Variance..... | 11.5% | 7.7% | 13.2% | -3.1% | 0.8% | -0.4% |
| TOTAL | | | | | | |
| Forecast (MWH)..... | 69,920,693 | 70,779,715 | 69,818,088 | 71,135,818 | 71,160,137 | 33,064,858 |
| Actual (MWH)..... | 72,965,854 | 71,114,042 | 69,508,779 | 70,621,010 | 73,391,861 | 33,206,595 |
| Variance..... | 4.4% | 0.5% | -0.4% | -0.7% | 3.1% | 0.4% |

The table below compares the actual number of customers for a particular period to the related forecast of the number of customers for such period 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 0.4% to 1.1%. The variances for the commercial customer class ranged from -2.1% to 5.3%. The variances for the industrial customer class ranged from -2.5% to 5.6%. 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 a prospectus supplement. In this table, "variance" represents percentage deviation from the forecast number of customers.

FORECAST VARIANCE FOR THE NUMBER OF METERED CUSTOMERS

| | 2000 | 2001 | 2002 | 2003 | 2004 | Six months ended 6/30/05 |
|--------------------|-----------|-----------|-----------|-----------|-----------|-----------------------------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| RESIDENTIAL | | | | | | |
| Forecast..... | 1,487,206 | 1,520,206 | 1,554,206 | 1,602,916 | 1,640,280 | 1,673,700 |
| Actual..... | 1,501,148 | 1,529,103 | 1,569,230 | 1,615,921 | 1,658,076 | 1,681,005 |
| Variance..... | 0.9% | 0.6% | 1.0% | 0.8% | 1.1% | 0.4% |
| COMMERCIAL | | | | | | |
| Forecast..... | 196,917 | 202,619 | 207,712 | 223,415 | 224,265 | 225,961 |
| Actual..... | 204,069 | 209,689 | 218,720 | 218,739 | 223,174 | 227,495 |
| Variance..... | 3.6% | 3.5% | 5.3% | -2.1% | -0.5% | 0.7% |
| INDUSTRIAL | | | | | | |
| Forecast..... | 1,773 | 1,820 | 1,853 | 1,903 | 1,930 | 1,990 |
| Actual..... | 1,729 | 1,824 | 1,863 | 1,981 | 2,038 | 2,076 |
| Variance..... | -2.5% | 0.2% | 0.5% | 4.1% | 5.6% | 4.3% |
| TOTAL | | | | | | |
| Forecast..... | 1,685,896 | 1,724,645 | 1,763,771 | 1,828,234 | 1,866,475 | 1,901,651 |
| Actual..... | 1,706,946 | 1,740,616 | 1,789,813 | 1,836,641 | 1,883,288 | 1,910,576 |
| Variance..... | 1.2% | 0.9% | 1.5% | 0.5% | 0.9% | 0.5% |

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 Texas commission.

Under the servicing agreement, any changes CenterPoint Houston institutes to customary billing and collection practices will apply to the servicing of 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. The statutorily guaranteed 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 -- Statutorily Guaranteed True-Ups."

| | Net write-off for 12 months ended May 31, | | |
|---------------------------|---|------|------|
| | 2003 | 2004 | 2005 |
| | ---- | ---- | ---- |
| Residential customers | 2.7% | 3.4% | 1.9% |
| Non-residential customers | 0.5% | 0.6% | 0.4% |

THE ISSUER

GENERAL

We are a limited liability company formed under the Delaware Limited Liability Company Act pursuant to the limited liability company agreement executed by our sole member, CenterPoint Houston, and the filing of a certificate of formation with the Secretary of State of the State of Delaware. The 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 initial series of transition bonds with CenterPoint Houston. We have filed the form of the amended and restated limited liability company agreement with the SEC as an exhibit to the registration statement of which this prospectus forms a part. We have summarized selected provisions of the amended and restated limited liability company agreement below.

As of the date of this prospectus, we have not carried on any business activities and have no operating history. We have included our audited financial statements as a part of this prospectus. Our fiscal year is the calendar year. We are not an agency or instrumentality of the State of Texas but are responsible to the State of Texas and the Texas commission as described below under the caption " -- Our Relationship with the State of Texas and the Texas Commission." Immediately following our issuance of the initial series of transition bonds, our assets will include:

- the related transition property,
- our rights under the applicable sale agreement, under the administration agreement and under all bills of sale delivered by CenterPoint Houston pursuant to the sale agreement,
- our rights under the applicable servicing agreement and any subservicing, agency, administration, intercreditor or collection agreements executed in connection with the servicing agreement,
- the applicable collection account and all subaccounts of the collection account,
- our rights under any interest rate swap agreement or hedging agreement entered into with respect to the issuance of a series of floating rate bonds,
- our rights in the deposits of retail electric providers required under the applicable 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.

Following the issuance of subsequent series of transition bonds our assets will include similar property related to each such series. 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 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 one or more series of 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 related series of 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, including the execution of any interest rate swap or hedging agreement related to the issuance of transition bonds.

The amended and restated limited liability company agreement does not permit us to engage in any activities not directly related to these purposes.

OUR RELATIONSHIP WITH CENTERPOINT HOUSTON

On the issue date for each series of the transition bonds, except in the event of a permitted refunding of outstanding transition bonds, CenterPoint Houston will sell transition property to us pursuant to a sale agreement between us and CenterPoint Houston. Pursuant to a 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 STATE OF TEXAS AND THE TEXAS COMMISSION

We are responsible to the State of Texas and the Texas commission. Specifically, pursuant to a financing order,

- our organizational documents and transaction documents prohibit us from engaging in any activities other than acquiring transition property, issuing transition bonds and performing other activities as specifically authorized by that financing order,
- we must respond to representatives of the Texas commission throughout the process of offering the transition bonds provided for therein, with the financing order directing the Texas commission's financial advisor to veto any proposal that does not comply with all criteria established in the financing order, and
- the servicer will file periodic adjustments to transition charges with the Texas commission on our behalf.

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

OUR MANAGERS

Pursuant to the amended and restated 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 initial issuance of the transition bonds, we will have at least two independent managers at all times who, among other things, are not and have not been for at least five years prior to the date of their 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 CenterPoint Houston or any of its affiliates.

The persons who serve as independent managers of Transition Bond Company I may also serve as our independent managers. 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 53 years of age and the Vice President and Treasurer of CenterPoint Houston, is our sole manager. We expect that CenterPoint Houston will appoint two of its employees or officers to serve as managers with Mr. Kilbride and the independent managers in connection with the initial issuance of transition bonds.

None of our managers has been involved in any legal proceedings which are specified in Item 401(k) 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 managers, for their services performed on our behalf. The independent managers 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 managers may employ in connection with the performance of their respective duties under the amended and restated limited liability company agreement.

Under the amended and restated limited liability company agreement, our managers will not be liable under any circumstances 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 the amended and restated 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.

Under the amended and restated 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 the amended and restated limited liability company agreement, except in the circumstances described above.

WE ARE A SEPARATE AND DISTINCT LEGAL ENTITY FROM CENTERPOINT HOUSTON

Under the amended and restated 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 managers). CenterPoint Houston has agreed that it will not cause us to file a voluntary petition for relief under the bankruptcy code. The amended and restated 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 4655B, Houston, Texas 77002, and our telephone number at such address is (713) 207-5222.

ADMINISTRATION AGREEMENT

CenterPoint Houston will provide administrative services to us pursuant to an administration agreement between CenterPoint Houston and us. We will pay CenterPoint Houston a fixed fee for performing these services, plus all reimbursable expenses.

USE OF PROCEEDS

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

RELATIONSHIP TO THE SERIES 2001-1 TRANSITION BONDS

In October 2001, CenterPoint Energy Transition Bond Company, LLC (which we refer to in this prospectus and any accompanying prospectus supplement as "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 Texas commission 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 transition bonds described in this prospectus, as more fully described under "The Servicer 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."

THE TRANSITION BONDS

We will issue the transition bonds under an indenture between us and a trustee to be named in the applicable 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 each series of the transition bonds will be provided in the indenture and a related 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 each series of the transition bonds in a supplement to this prospectus. You should carefully read the summary below, the applicable prospectus supplement and the terms and provisions of the indenture that may be important to you before investing in the transition bonds. Please refer to "Where You Can Find More Information" in this prospectus.

GENERAL TERMS OF THE TRANSITION BONDS

Transition bonds may be issued under the indenture from time to time to finance the purchase by us of 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 Texas commission on March 16, 2005 may not exceed \$1,493,747,264 plus (a) the principal portion of excess mitigation credits provided by CenterPoint Houston after August 31, 2004 through the date of issuance of the transition bonds or the date of the termination of such excess mitigation credits, whichever is earlier, (b) interest on stranded costs accrued after August 31, 2004 through the date of issuance of the transition bonds, and (c) up-front qualified costs as set forth in the financing order, although the indenture permits the issuance of additional series of transition bonds secured by other transition property in accordance with one or more subsequent financing orders of the Texas commission. Any series of 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 all transition bonds of the same series will be identical, unless a series includes 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 of any series and, if applicable, tranches thereof, will be set forth in the supplemental indenture for that series. The terms of a series of

transition bonds, and any tranches thereof, will not be subject to consent of the transition bondholders of any previously issued series. Please refer to "Risk Factors -- Other Risks Associated with an Investment in the Transition Bonds" in this prospectus. Each series of transition bonds may include one or more tranches that accrue interest at a variable rate, and one or more interest rate swap agreements may be entered into in connection with the issuance of any such variable rate transition bonds. Please refer to " -- Floating Rate Transition Bonds" below.

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

- the designation of the series and, if applicable, the tranches of that series,
- the principal amount of the series and, if applicable, the tranches of that series,
- 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 series and, if applicable, the tranches of that series,
- the issuance date of the series,
- the collateral for the series,
- the authorized denominations,
- any provisions for optional redemption of the series or tranche,
- the expected amortization schedule for principal of the series and, if applicable, the tranches of that series,
- any other material terms of the tranche 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,
- the identity of the trustee, and
- only if a series includes floating rate transition bonds, the terms of any swap agreement executed to permit such issuance and the identity of any swap counterparty related thereto.

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 related prospectus supplement. Interest will be payable to the transition bondholders on each payment date, commencing on the payment date specified in the related prospectus supplement. Interest payments for each series will be made from collections of related transition charges, including amounts available in the excess funds subaccount and, if necessary, the amounts available in the capital subaccount for each series. In the event of default by a retail electric provider, the amounts in the retail electric provider security deposit subaccount 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 of the related series.

On any payment date with respect to any series, 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 for that series, but only to the extent funds are available for that series as described in this prospectus. Accordingly, principal of the series of transition bonds may be paid later, but generally not sooner, than reflected in the expected amortization schedule for such series, except in the case of an applicable optional redemption or acceleration. Please refer to "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 that series 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 managers and the trustee,
- payments of interest and principal on the transition bonds for that series,
- allocations to the capital subaccount for that series, and
- investment earnings on amounts in the capital subaccount released to us.

If the trustee receives insufficient collections of transition charges for a series of transition bonds for any payment date, and amounts in the collection account for that series (and the applicable subaccounts of that collection account) are not sufficient to make up the shortfall, principal of that series of 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 of a series because there are not sufficient funds in the collection account for that series does not constitute a default or an event of default with respect to such series 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 of a particular series to the extent of available funds in the related 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 of any series 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 in New York, New York.

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

- the unpaid principal amount of each series due on the final maturity date of that series, plus
- the unpaid principal amount of each series upon acceleration following an event of default, plus
- the unpaid principal amount of any transition bonds of each series called for redemption, plus
- the overdue payments of principal, plus
- the unpaid and previously scheduled payments of principal, plus
- the principal scheduled to be paid on each series on that payment date.

The failure to pay accrued interest on a series of 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 that series of transition bonds unless such failure is cured within five business days. If interest is not paid within that five-day period, the issuer 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). The issuer will fix any special record date and special payment date and, at least 10 days before such special record date, the issuer 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. An event of default under one series of transition bonds will not automatically trigger an event of default under other outstanding series of transition bonds. See " -- What Constitutes an Event of Default on the Transition Bonds" below.

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

- on the final maturity date of that series,
- on the date of redemption, if any, and
- 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 that series of transition bonds have declared that series of transition bonds to be immediately due and payable.

However, the nature of our business will result in payment of principal upon an acceleration of a series of transition bonds being made as funds become available. See "Risk Factors -- Foreclosure of the trustee's lien on the transition property 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 related series of transition bonds or that assumptions made in calculating transition charges will in fact be realized.

FLOATING RATE TRANSITION BONDS

If we issue any tranche of floating rate transition bonds, we may enter into or arrange for one or more interest rate swap transactions. Generally, a swap agreement, on each payment date, will obligate us to pay to the swap counterparty, solely from payments of transition charges, an amount equal to the fixed interest due under the swap agreement on the payment date. The swap agreement will obligate the swap counterparty to pay to us an amount equal to the product of (1) a floating rate comparable to the rate accruing on the floating rate transition bonds and (2) the principal balance of the floating rate transition bonds as of the close of business on the preceding payment date, after giving effect to all payments of principal made to the floating rate transition bond holders on the preceding payment date.

The related prospectus supplement will include a description of:

- the material terms of any interest rate swap transaction,
- the identity of any interest rate swap counterparty,
- any payments due to be paid by or to us or the trustee under any interest rate swap transaction,
- scheduled deposits in and withdrawals from any tranche subaccount of the collection account with respect to any interest rate swap transaction,
- the formula for calculating the floating rate of interest of any floating interest rate tranche, and
- the rights of transition bondholders with respect to any interest rate swap transaction, including any right of termination of or amendment to the interest rate swap agreement.

Under the indenture, we are obligated to perform all of our obligations pursuant to any interest rate swap agreement to which we are a party.

REDEMPTION OF THE TRANSITION BONDS

We will specify the redemption provisions, if any, for any series of the transition bonds in the related prospectus supplement, including the premiums, if any, payable upon redemption. Unless the context requires otherwise, all references in this prospectus to principal of the transition bonds of a series as it relates to redemption include any premium that might be payable on the transition bonds if the transition bonds of the series are redeemed. The trustee will give notice of redemption of any series of the transition bonds to each registered holder of a transition bond of such series by first-class mail, postage prepaid, mailed not less than five days nor more than 45 days prior to the date of redemption or in another manner or at another time as we may specify in the related prospectus supplement. The redemption price will, in each case, include accrued interest to, but excluding, the date of redemption. All transition bonds called for redemption will cease to bear interest on the specified redemption date, provided the redemption price is on deposit with the trustee at that time, and will no longer be considered "outstanding" under the indenture. The transition bondholders will have no further rights to transition bonds called for redemption after the specified redemption date, except to receive from the trustee payment of the redemption price of such transition bonds and unpaid interest accrued to the date fixed for redemption.

CREDIT ENHANCEMENT FOR THE TRANSITION BONDS

Credit enhancement with respect to the transition bonds of each series will be provided principally by adjustments to the related transition charges, amounts on deposit in the

excess funds subaccount and the capital subaccount for that series and cash deposits and other credit support provided in respect of transition charges allocable to a series by retail electric providers who do not meet specified credit rating requirements. In addition, for any series of the transition bonds or one or more tranches of the transition bonds, additional credit enhancement may be provided. We will describe the amounts and types of credit enhancement, if any, and the provider of credit enhancement with respect to each series of the transition bonds or one or more tranches of the transition bonds in the applicable prospectus supplement. Additional credit enhancement may be in the form of:

- an additional excess funds subaccount,
- subordination,
- a financial guaranty insurance policy,
- a letter of credit,
- a credit or liquidity facility,
- a repurchase obligation for certain obligations and warranties,
- a third-party payment or other support,
- a cash deposit or other credit enhancement, or
- any combination of the foregoing, as we may describe in the applicable prospectus supplement.

If specified in the applicable prospectus supplement, credit enhancement for a series of the transition bonds may cover one or more other series of the transition bonds.

TRANSITION BONDS WILL BE ISSUED IN BOOK-ENTRY FORM

Unless we specify otherwise in the related prospectus supplement, the transition bonds will be available to investors only in the form of book-entry transition bonds. You may hold your 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 related prospectus supplement. You may hold your notes 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 depositaries. These depositaries will, in turn, hold these positions in customers' securities accounts in the depositaries' 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. 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 any series of 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 any series of 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.

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 notes, 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 to tax reporting in accordance with relevant United States tax laws and regulations. Please refer to "Material 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 related 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 of all affected series 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.

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 applicable 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 certificate 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 note or a note 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

If specified in the related prospectus supplement, 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." Unless otherwise specified in the related prospectus supplement, 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 related prospectus supplement and, except as otherwise provided in the related 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 TRANSITION BONDS MAY BE ISSUED IN VARIOUS SERIES OR TRANCHES

Under the indenture, the trustee will authenticate and deliver an additional series of the transition bonds only on the satisfaction of specified conditions, including the following:

- all parties required to do so by the terms of the relevant documents must have authorized, executed and delivered appropriate documentation required by the indenture and our limited liability company agreement, as amended or restated,
- the seller must have irrevocably assigned all of its right, title and interest in the applicable transition property to us and made the filing required by Section 39.309 of the Restructuring Act with respect to the assignment,
- the trustee must have received written confirmation from each rating agency that the new series of transition bonds will be rated as set forth in the related prospectus supplement,
- the seller must receive and deliver to us and the trustee:
 - an opinion of outside tax counsel (as selected by the seller, and in form and substance reasonably satisfactory to us and the trustee) to the effect that we will not be subject to United States federal income tax as an entity separate from CenterPoint Energy and that the new series of transition bonds will be treated as debt of CenterPoint Energy for United States federal income tax purposes,
 - an opinion of outside tax counsel (as selected by the seller, and in form and substance reasonably satisfactory to us and the trustee) or, if the seller so chooses, a ruling from the IRS, in either case to the effect that, for United States federal income tax purposes, the issuance of the new series of transition bonds will not result in gross income to the seller, and
 - an opinion of outside tax counsel (as selected by the seller, and in form and substance reasonably satisfactory to us and the trustee) to the effect that such issuance of the additional series of transition bonds will not adversely affect the characterization of any then outstanding transition bonds as obligations of CenterPoint Energy.

The opinion of outside tax counsel described above may, if the seller so chooses, be conditioned on the receipt by the seller of one or more letter rulings from the IRS and in rendering such opinion outside tax counsel shall be entitled to rely on the rulings contained in such letter rulings and to rely on the representations made, and information supplied, to the IRS in connection with such letter rulings, and

- we must deliver certain certificates and opinions specified in the indenture to the trustee and, in certain instances, to the Texas commission.

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 of each series pursuant to the indenture, we will grant to the trustee for the benefit of

the transition bondholders of each series a security interest in all of our right, title and interest, whether now owned or later acquired, in and to the following collateral with respect to that series, which collectively constitutes the trust estate under the indenture:

- the transition property related to that series,
- our rights under the statutorily guaranteed true-up mechanism,
- our rights under the applicable sale agreement,
- all bills of sale delivered by CenterPoint Houston pursuant to the applicable sale agreement,
- our rights under the applicable 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 applicable 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 under any interest rate swap agreement or hedging agreement entered into with respect to the issuance of a floating rate tranche of a particular series of transition bonds,
- our rights in the deposits of retail electric providers required under the applicable financing order,
- all of our other property related to the series of transition bonds, other than any cash released to us by the trustee semi-annually 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, 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 for that series that have been released to us or as we direct following retirement of that series of transition bonds,

- amounts deposited with us on any series issuance date for payment of costs of issuance with respect to the related series of 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.

The collateral for each series of transition bonds will be separate from the collateral for any other series, and holders of one series of transition bonds will have no recourse to collateral for a different series. Please refer to " -- How Funds in the Collection Account Will Be Allocated."

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 each series of transition bonds. The collection account will be under the sole dominion and exclusive control of the trustee. The trustee will hold the collection account for our benefit as well as the benefit of the bondholders of the related series of transition bonds. Funds received from collections of the applicable transition charges will be deposited into the collection account. The collection account for each series of transition bonds will be divided into the following subaccounts, which need not be separate bank accounts:

- the general subaccount,
- the capital subaccount,
- the excess funds subaccount, and
- one or more tranche subaccounts with respect to floating rate transition bonds, if any.

All amounts in the collection account for each series of 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 any series of 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, or
- 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:

- 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
- 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.

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 each series of 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, 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 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. depository institution or trust company, acting as principal, described in clause 2 above,
 - b. 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,

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 not less than the equivalent of the lower of the ratings thereon from Moody's and S&P.

These eligible investments may not:

- unless otherwise provided in the prospectus supplement, 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 that series to the trustee for deposit in the related 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 the sale agreement. Please refer to "The Servicing Agreements" and "The Sale Agreements" in this prospectus. To the extent that the combined amounts remitted by a retail electric provider are insufficient to satisfy amounts owed in respect of transition charges relating to the transition bonds or any other bonds being serviced by the servicer or transmission and distribution service provided to the retail electric provider (other than late fees), the remitted amounts will be allocated pro rata among such transition charges and transmission and distribution charges. 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 each series 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 9 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 9. The trustee will allocate collected transition charges available on any payment date that are not necessary to pay amounts described in clauses 1 through 9 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 any series of the transition bonds has been retired as of any payment date, the amounts on deposit in the capital subaccount allocable to that series 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 12 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 11 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 11.

Tranche Subaccount. If specified in the prospectus supplement, upon the issuance of a specified tranche of floating rate transition bonds, a tranche subaccount will be established with respect to that tranche. On or before each payment date, a fixed amount specified in the prospectus supplement will be allocated to that tranche subaccount from the general subaccount and payments to and from any swap counterparty pursuant to the related interest rate swap agreement will be made from or allocated to, as applicable, that tranche subaccount as described in the prospectus supplement. On or before each payment date, amounts on deposit in the tranche subaccount will be applied to make payments with respect to the related tranche, as specified in the prospectus supplement.

HOW FUNDS IN THE COLLECTION ACCOUNT WILL BE ALLOCATED

Amounts remitted by the servicer to the trustee with respect to a series of transition bonds, including any indemnity amounts, amounts paid by a swap counterparty in accordance with any interest rate swap agreement, if any, and all investment earnings on amounts in the subaccounts in the collection account will be deposited into the general subaccount of the collection account. Unless otherwise specified in the prospectus supplement, on each payment date or other date specified in the prospectus supplement with respect to a particular tranche or series, the trustee will allocate or pay all amounts on deposit in the general subaccount of the collection account for that series in the following priority:

1. payment of the trustee's fees, expenses and any outstanding indemnity amounts relating to that series, the total amount of which will be fixed as specified in the indenture,
2. payment of the servicing fee, which will be a fixed amount specified in the servicing agreement for that series, plus any unpaid servicing fees from prior payment dates,
3. payment of a pro rata portion of the administration fee, which will be a fixed amount specified in the administration agreement between us and CenterPoint Houston, and a pro rata portion of the fees of our independent managers, which will be in an amount specified in an agreement between us and our independent managers,
4. payment of all of our other ordinary periodic operating expenses relating to that series, such as accounting and audit fees, rating agency fees, legal fees and certain reimbursable costs of the servicer under the applicable servicing agreement,
5. payment of the interest then due on that series of transition bonds, and payment of amounts, if any, specified in the prospectus supplement that are payable in respect of interest to the swap counterparty under any interest rate swap agreement,
6. payment of the principal then required to be paid on that series of transition bonds at final maturity or upon redemption or acceleration,
7. payment of the principal then scheduled to be paid on that series of transition bonds,
8. payment of any amounts payable to any other credit enhancement providers with respect to that series,
9. payment of any of our remaining unpaid operating expenses and any remaining amounts owed pursuant to the basic documents relating to that series, including all remaining indemnity amounts owed to the trustee, and any other amounts owed pursuant to any interest rate swap agreement, other than swap termination payments,
10. replenishment of any amounts drawn from the capital subaccount for that series,
11. any swap termination payments, which will be payable only after all of the transition bonds have been paid in full unless the swap termination payments are payable as a result of (i) failure to pay as a result of insufficient collection of transition charges (up to a cap specified in the prospectus supplement), (ii) breach of the swap agreement by us or the indenture trustee (up to a cap specified in the prospectus supplement), (iii) our bankruptcy, (iv) our merger without assumption or (v) failure or termination of the security interest of the trustee under the indenture,

12. release to us of an amount equal to investment earnings on amounts in the capital subaccount for that series, so long as no event of default has occurred and is continuing, and
13. allocation of the remainder, if any, to the excess funds subaccount.

The amounts paid during any calendar year in respect of the trustee's fees and expenses in clause 1, the servicing fee in clause 2, the administration and independent managers' fees in clause 3, the ordinary periodic operating expenses in clause 4 and the remaining periodic expenses in clause 9 may not exceed \$1,055,500 in the aggregate for all series (for so long as CenterPoint Houston is the servicer), unless the Texas Commission approves a different aggregate amount of such payments. If more than one series of transition bonds is outstanding, the payments described in the preceding sentence will be made pro rata from the respective collection accounts of each series. Please read "Risk Factors -- Other Risks Associated with an Investment in the Transition Bonds -- We may incur expenses in excess of caps on such expenses provided in the financing order."

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

- an amount equal to the interest accrued on that series or 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, with respect to that series or tranche,
- any unpaid interest plus, to the fullest extent permitted by law, any interest accrued on this unpaid interest,
- if the transition bonds have been declared due and payable, all accrued and unpaid interest thereon, and
- with respect to a series or tranche to be redeemed prior to the next payment date, the amount of interest that will be payable as interest on such series or tranche upon such redemption.

Principal means, with respect to any payment date and any series or 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 series or tranche,
- the amount of principal and premium, if any, due as a result of a redemption of the transition bonds prior to such payment date pursuant to the indenture,
- any overdue payments of principal, and
- the amount of principal scheduled to be paid on such payment date in accordance with the expected amortization schedule.

If on any payment date funds in the general subaccount are insufficient to make the allocations or payments contemplated by clauses 1 through 11 of the first paragraph of this subsection with respect to a series of 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 11, and

2. from the capital subaccount for allocations and payments contemplated by clauses 1 through 9.

If, on any payment date, available collections of transition charges allocable to a series of transition bonds, together with available amounts in the related subaccounts, are not sufficient to pay interest due on all outstanding transition bonds of that series on that payment date, amounts available will be allocated pro rata based on the amount of interest payable on each tranche in that series. If, on any payment date, remaining collections of transition charges allocable to a series of transition bonds, together with available amounts in the subaccounts, are not sufficient to pay principal due and payable on all outstanding transition bonds of that series 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 a series of transition bonds, together with available amounts in the subaccounts, are not sufficient to pay principal scheduled to be paid on all outstanding transition bonds of that series, 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 related to that series or tranche will take into account, among other things, the need to replenish those amounts.

REPORTS TO HOLDERS OF THE TRANSITION BONDS

With respect to each series 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 of that series, to the Texas commission 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 applicable supplemental indenture, as to the transition bonds of that series with respect to that payment date or the period since the previous payment date, as applicable:

- the amount to be paid to transition bondholders of that series and the related tranches in respect of principal,
- the amount to be paid to transition bondholders of that series and the related tranches in respect of interest,
- the transition bond balance and the projected transition bond balance of that series and the related tranches as of that payment date,
- the amount on deposit in the capital subaccount for that series as of that payment date,
- the amount, if any, on deposit in the excess funds subaccount for that series as of that payment date,
- the amount to be paid to and by any counterparty under any interest rate swap agreement or hedge agreement relating to that series,
- the amount to be paid to the trustee relating to that series on that payment date,
- the amount to be paid to the servicer relating to that series on that payment date, and
- any other transfers and payments relating to that series made pursuant to the indenture.

ENHANCED CONTINUING DISCLOSURE

We will not voluntarily suspend or terminate our filing obligations with the SEC and, to the extent permitted by and consistent with our legal obligations, we will post on our website or furnish or file in the periodic reports and other reports to be filed with the SEC pursuant to the Exchange Act, as described below, the following information with respect to each series of outstanding transition bonds to the extent such information is reasonably available to us:

- statements of transition charge remittances made to the trustee (to be included in a Form 10-Q or Form 10-K),
- a statement reporting the balances in the collection account and 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-Q or Form 10-K),
- a statement showing the balance of outstanding transition bonds that reflects the actual periodic payments made on each series of the transition bonds versus the expected periodic payments (to be included in the next Form 10-Q or Form 10-K filed),
- the semi-annual servicer's certificate which is required to be submitted pursuant to the servicing agreement (to be filed with a Form 10-Q, Form 10-K or Form 8-K),
- the text (or a link to the website where a reader can find the text) of each true-up filing and the results of each true-up filing following the issuance of the series of transition bonds (to be included in either a Form 10-Q, Form 10-K or Form 8-K),
- 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),
- material legislative or regulatory developments directly relevant to the outstanding transition bonds (to be filed or furnished in a Form 8-K); and
- a quarterly statement (to be included in each Form 10-Q and Form 10-K) either affirming that, to our knowledge, in all material respects, for each materially significant retail electric provider, (a) each such retail electric provider has been billed in compliance with the requirements outlined in the applicable financing order; (b) each such retail electric provider has made payments in compliance with the requirements outlined in the applicable financing order, and (c) each such retail electric provider satisfies the creditworthiness requirements of the applicable financing order or describing the servicer's actions if (a), (b) or (c) has not occurred.

Internet-Based Information and Special Website. In addition, we will, to the extent permitted by and consistent with the issuer's obligations under applicable law, cause to be posted on the website associated with CenterPoint Houston:

- the final prospectus for each series of outstanding transition bonds,
- the semi-annual servicer's certificate delivered for each series of transition bonds pursuant to the servicing agreements,
- the periodic reports described above, and
- a current organization chart for the issuer 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 applicable financing order, with the consent or deemed consent of the Texas commission (other than with respect to the supplemental indenture establishing the initial series of 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,
- to set forth the terms of any series that has not theretofore been authorized by a supplemental indenture, 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 applicable financing order, with the consent or deemed consent of the Texas commission, 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 series or tranche to be affected by the supplemental indenture and, with respect to amendments that would increase ongoing qualified costs as defined in the applicable financing order, with the consent or deemed consent of the Texas commission, 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, this supplemental indenture may not, without the consent of the holder of each outstanding transition bond of each series or tranche affected thereby:

- change the date of payment of any installment of principal of or premium, if any, or interest on any transition bond, or reduce the principal amount thereof, the interest rate thereon or the redemption price or the premium, if any, with respect thereto,
- change the provisions of the indenture and the related applicable 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, 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 regarding payment, reduce the percentage of the aggregate amount of the outstanding transition bonds, or of a series or tranche thereof, the consent of the transition bondholders of which is required for any supplemental indenture, or the consent of the transition bondholders of which is required for any waiver of compliance with those provisions of the indenture specified therein or of defaults specified therein and their consequences provided for in the indenture,
- reduce the percentage of the outstanding amount of the transition bonds required to direct the trustee to direct us to sell or liquidate the collateral,
- modify any provision of the section of the indenture relating to the consent of transition bondholders 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 on any payment date or change the redemption dates, expected amortization schedules, series final maturity dates or tranche final maturity dates of any transition bonds,
- decrease the required capital amount with respect to any series, 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 them or any obligor on the transition bonds,
- decrease the percentage of the aggregate principal amount of the transition bonds 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, 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 applicable to each series of transition bonds. 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 applicable to each series of transition bonds. 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 applicable to each series of transition bonds. However, if we or the servicer propose to amend, modify, waive, supplement, terminate or surrender in any material respect, or agree to any material amendment, modification, supplement, termination, waiver or surrender of, the process for adjusting the transition charges, we must notify the trustee and the Texas commission in writing and the trustee must notify the transition bondholders of this proposal. In addition, the trustee may consent to this proposal only with the written consent of the holders of a majority of the principal amount of the outstanding transition bonds of the series or tranches materially and adversely affected thereby and only if the rating agency condition is satisfied. In addition, any proposed amendment of the indenture, the sale agreement or the servicing agreement that would increase ongoing qualified costs as defined in the applicable financing order requires the prior written consent or deemed consent of the Texas commission.

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 of all affected series shall, exercise all of our rights, remedies, powers, privileges and claims against CenterPoint Houston, the administrator and servicer, under or in connection with the related sale agreements, administration agreements, intercreditor agreements and servicing agreements, and any right of ours to take this action shall be suspended.

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, in each case relating to a particular series of transition bonds, 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 of the related series but, with respect to amendments that would increase ongoing qualified costs as defined in the applicable financing order, with the consent or deemed consent of the Texas commission (other than with respect to an intercreditor agreement). However, this 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 of the affected series. The parties to the servicing agreement acknowledge that the financing order provides that the Texas commission, acting through its authorized legal representative and for the benefit of Texas ratepayers, may enforce the servicer's obligations imposed under the servicing agreement pursuant to the financing order to the extent permitted by law.

Notification of the Rating Agencies, the Texas Commission, 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 amendment. Upon receiving notification regarding the rating agency condition, we must thereafter notify the trustee and the Texas commission in writing and the trustee shall notify the transition bondholders of the proposed amendment 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 series or tranches materially and adversely affected thereby.

WHAT CONSTITUTES AN EVENT OF DEFAULT ON THE TRANSITION BONDS

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

1. a default in the payment of any interest on any transition bond of that series 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 of that series on the final maturity date for that series or, if applicable, any tranche on the final maturity date for that tranche,
3. a default in the payment of the redemption price for any transition bond of that series on the redemption date therefor,
4. 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, 2 or 3 above, or any of our covenants or agreements made in any interest rate swap agreement, hedge agreement or credit enhancement agreement permitted under the indenture or any supplemental indenture 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 (other than a covenant, agreement or representation or warranty expressly included in the indenture solely for the benefit of a different series of transition bonds), 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 of the affected series or (b) the date we have actual notice of the default,
5. 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 that series 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 of us or our property or for any substantial part of the collateral securing that series, 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,
6. the commencement by us 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 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 that series, 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,
7. any act or failure to act by the State of Texas or any of its agencies (including the Texas commission), 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 Texas Commission to implement the statutorily guaranteed true-up mechanism, or

8. any other event designated as an event of default in the related series supplement.

Remedies Available Following an Event of Default. If an event of default with respect to a series of transition bonds, other than event number 1 above, occurs and is continuing, the trustee or holders of a majority in principal amount of the transition bonds of that series may declare the unpaid principal balance of that series of transition bonds, together with accrued interest, to be immediately due and payable. This declaration may, under the circumstances specified therein, be rescinded by the holders of a majority in principal amount of that series 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. See "Risk Factors -- Foreclosure of the trustee's lien on the transition property 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 of the series with respect to which a default has occurred, shall, exercise one or more of the following remedies upon an event of default (other than event number 1 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 that series,
- 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 that series 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 or the applicable sale agreement, intercreditor agreement or servicing agreement or against any swap counterparty under or in connection with, and pursuant to the terms of, any applicable swap agreement.

If event of default number 1 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 a series of transition bonds has been declared to be due and payable following an event of default, the trustee may, at the written direction of the holders of a majority in principal amount of the transition bonds of such affected series, either:

- subject to the paragraph immediately below, sell the collateral securing such series,
- elect to have us maintain possession of the collateral securing such series, 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 of such series then outstanding and declared to have been due and payable, may direct and continue to apply distributions on the collateral securing such series as if there had been no declaration of acceleration.

The trustee is prohibited from selling the collateral securing such series of transition bonds following an event of default on such series other than (1) a default for five days or more in the payment of any interest on the transition bonds of such series, (2) a default in the payment of the then unpaid principal of the transition bonds of such series on the final maturity date for that series or (3) if applicable, any tranche on the final maturity date for that tranche, or a default in the payment of the redemption price for any transition bond of such series on the redemption date therefor unless:

- the holders of 100% of the principal amount of all series 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 of such series, or
- the trustee determines (based upon a report from an independent auditor) that funds provided by the collateral securing such series would not be sufficient on an ongoing basis to make all payments on the transition bonds of such series as these payments would have become due if the transition bonds of such series 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 of such series.

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 series, tranche or 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,
- the trustee may sell the collateral securing the affected series 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,
- so long as the conditions specified in the indenture have been satisfied and the trustee elects to retain the collateral securing the affected series pursuant to the indenture and elects not to sell or liquidate that collateral, any direction to the trustee to sell or liquidate the collateral securing the affected series is by the holders of 100% of the principal amount of the affected series of the transition bonds then outstanding, 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 of any series 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. The holders of a majority in principal amount of the transition bonds of a series may, in those cases specified in the indenture, waive any default with respect to that series. However, they may not waive a default in the payment of principal of or 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 series and tranches.

Limitation of Proceedings. Under the indenture, no transition bondholder of any series 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 of the affected series 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 of the affected series.

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, institute 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,
- 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,
- enter into any swap, hedge or other similar financial arrangement except as permitted by the indenture, any supplement thereto, the sale agreement or the servicing agreement,
- 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 transition property, issuing transition bonds from time to time, 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 and any obligations under any credit enhancement or any swap or hedge for any series of 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 eligible investments. We may not, except as contemplated by the indenture, the sale agreement, the servicing agreement and related documents, including the amended and restated 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, any 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 refer to "The Servicing Agreements" 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 be required to file annually with the trustee a written statement, a copy of which we will provide to each of the rating agencies and the Texas commission, as to the fulfillment of our obligations under the indenture. In addition, we will furnish to the trustee an opinion of counsel concerning filings made by us on an annual basis and before the effectiveness of any amendment to the sale agreement or the servicing agreement.

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,
- any additional issue of a series of the transition bonds not previously reported, and
- any action taken by it that materially affects the transition bonds of any series and that has not been previously reported.

WHAT WILL TRIGGER SATISFACTION AND DISCHARGE OF THE INDENTURE

The transition bonds of any series, all moneys payable with respect to the transition bonds of that series and the indenture as it applies to that series will cease to be of further effect and the lien of the indenture will be released with respect to that series, interest will cease to accrue on the transition bonds of that series 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 of that series, when:

- either all transition bonds of that series 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 interest on the transition bonds of that series and to pay and discharge the entire indebtedness on those transition bonds not previously delivered to the trustee,
- we have paid all other sums payable by us under the indenture with respect to the transition bonds of that series, 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 of that series.

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 of any series, 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 of any series. 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 with respect to any series of the transition bonds notwithstanding our prior exercise of the covenant defeasance option with respect to that series. If we exercise the legal defeasance option with respect to any series, that series 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 or redemption date therefor as described below. That series will not be subject to payment through redemption or acceleration prior to the scheduled final payment date or redemption date, as applicable. If we exercise the covenant defeasance option with respect to any series, the final payment of the transition bonds of that series may not be accelerated because of an event of default relating to a default in the observance or performance of any of our covenants or agreements made in the indenture.

We may exercise the legal defeasance option or the covenant defeasance option with respect to any series of 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 of that series to the scheduled final payment date or redemption date therefor, as applicable, the deposit to be made in the defeasance subaccount for that series,
- 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 will provide cash at times and in sufficient amounts to pay in respect of the transition bonds of that series:
 - principal in accordance with the expected amortization schedule therefor, and/or if that series is to be redeemed, the redemption price on the redemption date 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 of that series 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 of that series 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 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 each series of transition bonds will be named in the applicable 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 of all series 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 or the trustee becomes incapable of acting. 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. 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 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- 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.

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 series or 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 statutorily guaranteed 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 refer to "Risk Factors -- Servicing Risks," " -- Other Risks Associated With an Investment in the Transition Bonds" and "CenterPoint Houston's Financing Order - -- Statutorily Guaranteed 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 a redemption or 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 amortization schedule for each series or 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 applicable expected amortization schedules, to pay interest and related fees and expenses and to fund subaccounts of the collection account will be allocated to the excess funds subaccount. Redemption of any tranche or series of the transition bonds and 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 AGREEMENTS

The following summary describes particular material terms and provisions of each sale agreement pursuant to which we will purchase transition property from CenterPoint Houston. We have filed the form of the sale agreements 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 applicable sale agreement.

CENTERPOINT HOUSTON'S SALE AND ASSIGNMENT OF THE TRANSITION PROPERTY

Any sale of transition property to us by CenterPoint Houston will be financed through the corresponding issuance of a series of transition bonds. Pursuant to a sale agreement, CenterPoint Houston will on each transfer date sell and assign to us, without recourse, except as provided therein, its rights and interests under the applicable 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 applicable financing order, including the right to impose, collect and receive the transition charges and the revenues and collections resulting from such transition charges authorized in the financing order with respect to the related series of the transition bonds. We will apply the net proceeds that we receive from the sale of each series of transition bonds to the purchase of the transition property acquired on that date.

As provided by the Restructuring Act, our purchase of transition property from CenterPoint Houston pursuant to a 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 applicable financing order will become transition property upon transfer of such rights to us by CenterPoint Houston. The transition property will constitute our present property right for purposes of contracts concerning the sale or pledge of property.

Upon the issuance of a financing order, the execution and delivery of the related 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 applicable 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 related financing order and the execution and delivery of the sale agreement in connection with the issuance of a series of the transition bonds. The lien and security interest attaches automatically from the time that value is received for the series of 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 each sale and assignment of CenterPoint Houston's rights and interests under each 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 Federal Income Tax Consequences for the Transition Bondholders."

CENTERPOINT HOUSTON'S REPRESENTATIONS AND WARRANTIES

In each sale agreement, CenterPoint Houston will make representations and warranties to us as of the applicable 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 applicable 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 applicable financing order and the issuance advice letter) is correct in all material respects;
2. it is the intention of the parties to each sale agreement that, other than for specified tax purposes, each 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 in, to and under the applicable financing order to us, whereupon (subject to the effectiveness of the related issuance advice letter) such rights and interests will become transition property; upon execution and delivery of the sale agreement and the related 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 being sold to us on the applicable transfer date,
 - b. on the applicable 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 applicable financing order has been issued by the Texas commission in accordance with the Restructuring Act, the applicable 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 applicable financing order is final, non-appealable and in full force and effect;

5. as of the date of issuance of the related transition bonds, those transition bonds will be entitled to the protections provided by the Restructuring Act and the applicable financing order, and the applicable 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 Restructuring Act, the issuance advice letter relating to the transferred transition property to be sold on such a date will have been filed in accordance with the applicable financing order, and the Texas commission will not have issued any order prior to noon on the fourth business day after submission of the issuance advice letter that those transition bonds do not comply with specified ordering provisions of the applicable financing order and the initial transition charges and the final term of the transition bonds set forth in the related 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 applicable sale agreement or, except as permitted in Section 39.307 of the Restructuring Act, reduce, alter or impair the related transition charges 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,

 - 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 applicable 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 the important public purpose justifying that action, 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 related 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 applicable financing order or issuance advice letter, the transferred transition property or the related transition charges or any rights arising under any of them or that seeks to enjoin the performance of any obligations under the applicable financing order;

8. under the laws of the State of Texas and the federal laws of the United States in effect on the applicable 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 under the applicable 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 applicable transfer date, the assumptions used in calculating the transition charges in the applicable 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 those transition charges will in fact be sufficient to meet the payment obligations on the related transition bonds or that the assumptions used in calculating such transition charges will in fact be realized;

10. a. upon the effectiveness of the applicable issuance advice letter, the transfer of CenterPoint Houston's rights and interests under the related financing order and our purchase of the transition property from CenterPoint Houston pursuant to the applicable sale agreement, the transferred transition property will constitute a present property right,
 - b. upon the effectiveness of the applicable issuance advice letter, the transfer of CenterPoint Houston's rights and interests under the applicable financing order and our purchase of the transition property from CenterPoint Houston pursuant to the applicable sale agreement, the transferred transition property will include, without limitation:
 - (1) the right to impose, collect and receive transition charges authorized in the related 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 applicable financing order,
 - (3) the rights to file for periodic adjustments of the transition charges as provided in the applicable financing order, and
 - (4) all revenues and collections resulting from transition charges,
 - c. upon the effectiveness of the applicable issuance advice letter and the transfer of CenterPoint Houston's rights and interests under the applicable financing order and our purchase of the transition property from CenterPoint Houston on such transfer date pursuant to such 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 applicable financing order and to execute and deliver the applicable 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 applicable financing order, to sell and assign the rights and interests under the applicable financing order to us, whereupon (subject to the effectiveness of the related issuance advice letter) such rights and interests will become transition property; and the execution, delivery and performance of the applicable 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;

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 applicable sale agreement, the performance by CenterPoint Houston of the transactions contemplated by such sale agreement or the fulfillment by CenterPoint Houston of the terms of such sale agreement, except those that have previously been obtained or made and those that CenterPoint Houston, in its capacity as servicer under the related servicing agreement, is required to make in the future pursuant to that servicing agreement;
16. except as disclosed in this prospectus or a 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 applicable sale agreement, any of the other basic documents, the related transition bonds, the Restructuring Act or the applicable financing order,
 - b. seeking to prevent the issuance of the related transition bonds or the consummation of the transactions contemplated by the applicable 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 applicable 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 any transferred transition property under the applicable 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 applicable transfer date to the trustee. Any change in the law occurring after the applicable transfer date that renders any of the representations and warranties untrue does not constitute a breach under the related sale agreement.

CENTERPOINT HOUSTON'S COVENANTS

In each 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 the transition bonds of any series 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 applicable sale agreement and each other instrument or agreement to which CenterPoint Houston is a party necessary to the proper administration of such sale agreement and the transactions contemplated by such 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 applicable financing order;
2. except for the conveyances under the applicable 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 applicable 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 applicable 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 related 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 such 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 applicable 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 applicable transferred transition property or under the basic documents or CenterPoint Houston's performance of its obligations under the applicable sale agreement;
6. so long as any transition bonds of the applicable series 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 or as required in connection with the SEC's administration of the 1935 Act;
 - b. will disclose in its financial statements that it is not the owner of the applicable 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 of the applicable series are outstanding:
 - a. in all proceedings relating directly or indirectly to the applicable transferred transition property, CenterPoint Houston will affirmatively certify and confirm that it has sold all of its rights and interests under the applicable financing order to us (other than for financial reporting or tax purposes or as required in connection with the SEC's administration of the 1935 Act), and will not make any statement or reference in respect of such transferred transition property that is inconsistent with our ownership interest (other than for financial reporting or tax purposes or as required in connection with the SEC's administration of the 1935 Act),
 - b. CenterPoint Houston will not take any action in respect of the applicable transferred transition property except solely in its capacity as servicer thereof pursuant to the servicing agreement or as contemplated by the basic documents,
 - c. CenterPoint Houston will not sell a new series of transition bonds under a separate financing order unless the rating agency condition has been satisfied with respect to the series of transition bonds related to that sale agreement;
8. CenterPoint Houston agrees that, upon the sale by CenterPoint Houston of all of its rights and interests under the applicable financing order to us pursuant to the applicable sale agreement any payment to the servicer by any person responsible for remitting transition charges to the servicer under the terms of the applicable financing order or the Restructuring Act or applicable tariff shall discharge such person's obligations in respect of such 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 under the applicable 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 Texas commission 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 transfer of the ownership of the rights and interests under the applicable 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 applicable financing order, the applicable 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 of the applicable series 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 applicable 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 under the applicable financing order, including making any post-closing filings; and
12. even if the applicable sale agreement or the indenture providing for the related series of transition bonds 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 each sale agreement not to petition or otherwise induce 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 each 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 of the related series 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 applicable transfer date as a result of the sale and assignment of CenterPoint Houston's rights and interests under the applicable financing order by CenterPoint Houston to us, the acquisition or holding of the applicable transferred transition property by us or the issuance and sale by us of the related 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 of the related series, in the event and to the extent such taxes are not recoverable qualified costs, it being understood that the transition bondholders of the related series 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 related 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 applicable 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 of the related series, 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 applicable sale agreement.

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 applicable 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 related series of transition bonds. CenterPoint Houston will not indemnify any party for any changes of law after the issuance of the related series of transition bonds or for any liability resulting solely from a downgrade in the ratings on the transition bonds.

CenterPoint Houston's Limited Obligation to Undertake Legal Action. As described in clause 9 above under " -- CenterPoint Houston's Covenants," each sale agreement will require CenterPoint Houston to 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 Restructuring Act, the applicable financing order or any 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

Each 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) will be the successor to CenterPoint Houston with respect to CenterPoint Houston's ongoing obligations under the sale agreement. Each 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 successor to the seller must execute an agreement of assumption to perform every obligation of the seller under the sale agreement,
- 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

Each sale agreement may be amended by the parties thereto, 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 applicable financing order, the consent or deemed consent of the Texas commission. If any such amendment would adversely affect the interest of any transition bondholder in any material respect, the consent of the holders of a majority of each affected tranche or series of transition bonds is also required.

THE SERVICING AGREEMENTS

The following summary describes the material terms and provisions of each 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 applicable servicing agreement. We have filed the form of the servicing agreements 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 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,
- responding to inquiries by retail electric customers, retail electric providers, the Texas commission 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 of 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 Texas commission 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 agreements and monitoring the collections of the agents for compliance with the intercreditor agreements,
- 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 applicable 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 Texas commission 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, and
- any other duties specified for a servicer under applicable law.

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

In each servicing agreement, the servicer will agree, among other things, that, in servicing 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 Texas commission 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 Texas commission has mandated and consistent with the terms of the applicable 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 applicable financing order, any Texas commission order related to transition charge allocation and any applicable tariffs,
- it will use all reasonable efforts consistent with its customary servicing procedures to collect all amounts owed in respect of the transition property as they become due,
- 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 related 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 Texas commission 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 applicable financing order, and
- it will keep on file, in accordance with customary procedures, all documents related 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 each servicing agreement are qualified by any Texas commission regulations or orders in effect at the time those duties are to be performed.

Servicer Obligation to Undertake Legal Action. The servicer is required to institute any action or proceeding reasonably 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 applicable financing order or the applicable 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 transition charges in its bill to retail electric customers. The servicer or its agent will bill each retail electric provider for transition charges attributable to the retail electric provider's retail electric customers at least monthly. Pursuant to the applicable financing order, each retail electric provider must remit to the servicer the amount of 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 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 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 proportioned between the transition charges and other fees and charges (including transition charges attributable to the transition bonds issued by Transition Bond Company I), other than late fees, and second, any remaining portion of the payment shall be attributed to late fees.

Remittances to the Trustee. The servicer will make periodic payments of transition charge collections to the trustee for deposit in the collection account for the applicable series of transition bonds. The servicer will remit collected transition charges to the trustee on a daily basis. 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. If the servicer remits transition charges on or before the second business day after the servicer receives such transition charge collections, the servicer will be entitled to retain any interest earnings on transition charge collections prior to remittance to the collection account for the applicable series. However, if the servicer fails to remit the transition charge collections to the trustee on or before the second business day after the servicer received such transition charge collections on more than three occasions during the period that the transition bonds of a series are outstanding, then thereafter the servicer will be required to pay the trustee any interest earnings on transition charge collections received by the servicer and invested by the servicer during each collection period prior to remittance to the trustee for so long as that series of transition bonds remains outstanding.

THE STATUTORILY GUARANTEED TRANSITION CHARGE ADJUSTMENT PROCESS

Annual True-Ups. Among other things, each servicing agreement will require the servicer to file adjustment requests 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. For more information on the true-up process, please refer to "CenterPoint Houston's Financing Order -- Statutorily Guaranteed 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 delinquencies and 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 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 Texas commission.

In each 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 applicable financing order, the Texas commission has 15 days to approve the adjustments. Any adjustment to the allocation of transition charges must be filed with the Texas commission at least 90 days before the date the proposed adjustment will become effective. The Texas commission 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 each series on the final adjustment date specified in the prospectus supplement for that series.

Interim True-Ups. In addition to the annual adjustment process, the servicer will be required under each servicing agreement to seek an interim true-up adjustment with respect to a series of 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 of that series, taking into account amounts on deposit in the excess collections subaccount for that series, and (b) the expected principal balance on the expected amortization schedule,

- as needed to meet any rating agency requirement that the transition bonds of that series 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 of that series based on rating agency and transition bondholder considerations, including a mandatory interim true-up in connection with each semi-annual payment date if the servicer forecasts that collections of transition charges during the next semi-annual payment period will be insufficient to make all scheduled payments of interest, principal and other amounts in respect of the transition bonds of that series and to replenish the capital subaccount for that series to its required level.

Reconciliation of Charge-Off Allowances. Under the applicable financing order, retail electric providers will be entitled to withhold an allowance for charge-offs from their payments of 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 transition charges.

Collected Transition Charges. In each servicing agreement, the servicer will agree to remit all 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 transition charges are remitted to the collection account, the servicer will not segregate them from its general funds. Remittances of collected transition charges will not include interest thereon prior to the remittance date, but will include any penalties assessed against retail electric providers for delinquent remittances of transition charges. Please refer to "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 all series outstanding in an amount equal to:

- 0.05% of the aggregate initial principal amount of all outstanding transition bonds, for so long as the servicer remains CenterPoint Houston or any of its permitted successors or assigns or an affiliate (allocated among all outstanding series of transition bonds pro rata based on outstanding principal amount), or

- an amount agreed upon by the successor servicer and the trustee, but, unless the Texas commission consents, not more than 0.60% of the aggregate initial principal amount of all outstanding transition bonds if CenterPoint Houston, any permitted successor or assign or an affiliate is not the servicer (allocated among all outstanding transition bonds pro rata based on outstanding principal amount).

The servicing fee will be paid semi-annually with respect to each series, with half of the annual servicing fee being paid on each semi-annual payment date. The servicing fee for each series of 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 each series of transition bonds will be paid prior to the payment of or provision for any amounts in respect of interest on and principal of that series of transition bonds. As long as CenterPoint Houston is the servicer, the Texas commission 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 each 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,
- 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 Texas commission 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:
 - seeking any determination or ruling that might materially and adversely affect 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 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,
- each report and certificate delivered in connection with any filing made with the Texas commission 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 Texas commission, 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 a 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 TEXAS COMMISSION IN LIMITED CIRCUMSTANCES

Under each servicing agreement, the servicer will agree to indemnify, defend and hold harmless us, the trustee, for itself and on behalf of the transition bondholders, 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,
- the servicer's breach of any of its representations or warranties under the servicing 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).

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 the Texas commission (for the benefit of retail electric customers) 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 Texas commission for the benefit of the retail electric consumers will be remitted to the trustee promptly for deposit in the applicable collection account.

In each 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 Texas commission, 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 TEXAS COMMISSION AND THE TRUSTEE

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

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

The servicer will prepare and furnish to us, the Texas commission 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 each series of transition bonds, the servicer will prepare and furnish to us, the Texas commission and the trustee a statement setting forth the amounts to be paid to the holders of the transition bonds of that series. 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

Each servicing agreement will provide that a firm of independent certified public accountants will furnish to us, the Texas commission, the trustee and the rating agencies, on or before March 31 of each year, beginning March 31, 2006, 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. Each servicing agreement also will provide for delivery to us, the Texas commission 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 each serving 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.

Each 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 Texas commission and the trustee, and
- prior written notice will have been received by the Texas commission 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. Each 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. However, unless the appointed person is an affiliate of CenterPoint Houston, 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.

Each 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 Texas commission 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 each 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 Texas commission 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 Texas commission 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, with the written consent of the holders of the majority of the outstanding principal amount of the transition bonds of all affected series, may waive in whole or in part any default by the servicer, except a default in making any required remittances to the trustee.

THE TRUSTEE'S RIGHTS IF THE SERVICER DEFAULTS

As long as a servicer default under a 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 of an affected series, must, except as described below under " -- Intercreditor Agreement," by written notice to the servicer, terminate all the rights and obligations of the servicer under that 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 of that series, must, appoint a successor servicer which will succeed to all the rights and duties of the servicer under the applicable 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 Texas commission 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 refer to 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.

THE OBLIGATIONS OF A SUCCESSOR SERVICER

Pursuant to the provisions of each 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. Each 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

Each 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 applicable financing order, the consent or deemed consent of the Texas commission. Each servicing agreement will provide that if the Texas commission adopts rules or regulations the effect of which is to modify or supplement any provision of the servicing agreement related to retail electric provider standards and which the rating agencies have confirmed will not result in a suspension, withdrawal or downgrade of the ratings on

the transition bonds, the servicing agreement will be 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.

INTERCREDITOR AGREEMENT

We will enter into an intercreditor agreement with CenterPoint Houston (on behalf of itself and in its capacities as servicer of the transition bonds to which this prospectus relates and as servicer of the transition bonds issued by Transition Bond Company I), the trustee, Transition Bond Company I and the trustee under the indenture relating to the transition bonds issued by Transition Bond Company I pursuant to which:

- the servicer that allocates and remits funds received from retail electric providers for the transition bonds to which this prospectus relates and for the transition bonds issued by Transition Bond Company I 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 agreements relating to the transition bonds to which this prospectus relates and the servicing agreement relating to the transition bonds issued by Transition Bond Company I, and
- both the trustee of the transition bonds to which this prospectus relates, acting upon the vote of transition bondholders representing a majority of the outstanding principal amount of the transition bonds of the affected series, and the trustee of the transition bonds issued by Transition Bond Company I 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 to which this prospectus relates or the transition bonds issued by Transition Bond Company I, if the trustees are unable to agree on a replacement servicer, neither trustee would be able to replace CenterPoint Houston or any successor as servicer. Instead, under the intercreditor agreement, either of them 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 offered in this prospectus and the transition bonds issued by Transition Bond Company I.

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 applicable sale agreement constitutes a true and valid sale and assignment of that transition property by CenterPoint Houston to us. It will be a condition of closing for the sale of transition property pursuant to a 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 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. See "The Restructuring Act -- Recovery of Qualified Costs for CenterPoint Houston and Other Texas Utilities" and "Material 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 principles. Each sale agreement will provide that if the transfer of the applicable 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, each sale agreement will require the filing of a notice of security interest in the related 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 a 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 Issuer 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 refer to "The Issuer" 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.

Status of Transition Property as Current Property. CenterPoint Houston will represent in each sale agreement, and the Restructuring Act provides, that the transition property sold pursuant to such 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 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 transition bondholders 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 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 applicable 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 applicable 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 applicable sale agreement in accordance with the terms of the indenture. In this capacity, the trustee is permitted to request the Texas commission 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 Texas commission 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 Texas commission 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 applicable 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 indenture trustee as specified in the applicable 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 related 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.

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.

Each 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. Each servicing agreement will also provide that the trustee, together with the other persons specified therein, may petition the Texas commission 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 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.

Affiliated Retail Electric Providers. 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. As incentive collection agent compensation, a retail electric provider may retain collections from end-use customers in excess of the specified percentage remitted but is not reimbursed for collections below the specified percentage. 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.

In the event of a bankruptcy of CenterPoint Houston, a party in interest in bankruptcy could attempt to take the position that an affiliated retail electric provider had taken all or some of the risk of transition charge collections.

If a court were to adopt this position, there would be an increased possibility that the court would recharacterize the transaction as a financing transaction and not a "true sale" or substantively consolidate the assets and liabilities of CenterPoint Houston and us.

Other risks relating to bankruptcy may be found in "Risk Factors -- The Risks Associated With Potential Bankruptcy Proceedings of Retail Electric Providers."

MATERIAL FEDERAL INCOME TAX CONSEQUENCES FOR THE TRANSITION BONDHOLDERS

GENERAL

The following is a summary of the material federal income tax consequences to transition bondholders 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.

INCOME TAX STATUS OF THE TRANSITION BONDS AND THE ISSUER

Based upon recently released 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.

CenterPoint Energy has received 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 short-term earnings from investment of the transition charges and the amounts held in the excess funds subaccount and the collection account will be excluded from our taxable capital and taxable earned surplus for purposes of 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 series or tranche of transition bonds is issued with OID, prospective holders will be so informed in the related 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 (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.

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, 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 administrative class exemptions from the prohibited transaction rules of ERISA and Section 4975 of the Code.

Examples of Prohibited Transaction Class Exemptions. Potentially applicable prohibited transaction class exemptions ("PTCEs"), issued by the Department of Labor, include the following:

- 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; and
- PTCE 96-23, which exempts certain transactions effected on behalf of a plan by an "in-house asset manager."

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 OF ANY SERIES, 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 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

The transition bonds of each series may be sold to or through the underwriters 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 related prospectus supplement or may be offered or placed either directly or through agents. We intend that the transition bonds may be offered through various methods from time to time. We also intend that offerings may be made concurrently through more than one of these methods or that an offering of a particular series 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 the 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 bearing interest at a fixed rate will be listed on any securities exchange. Transition bonds bearing interest at a floating rate may be listed on a securities exchange. Information regarding any such listing will be provided in the applicable prospectus supplement. The underwriters may, from time to time, buy and sell transition bonds, but there can be no assurance that a secondary market for any series of the transition bonds will develop or, if one does develop, that it will continue.

COMPENSATION TO UNDERWRITERS

In connection with the sale of any series of 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. 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 of a series 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 related 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 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

If held by financial institutions subject to regulation in countries (other than the United States) that have adopted the 1988 International Convergence of Capital Measurement and Capital Standards of the Basel Committee on Banking Supervision (as amended, "Basel Accord"), 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. Please read "CenterPoint Houston's Financing Order -- Statutorily Guaranteed True-Ups" and " -- Statutorily Guaranteed True-Ups: Entire Private Sector Default."

The United Kingdom's Financial Services Authority has issued "individual guidance" letters to one or more investors that an investment in Texas transition bonds issued under the Restructuring Act may be accorded a 20% risk weighting, similar to the risk weighting assigned to U. S. Agency corporate securities.

There is no assurance that transition bonds will attract a 20% risk weighting treatment under any national law, regulation, multi-national directives or policy implementing the Basel Accord. Investors should consult their regulators before making any investment.

RATINGS FOR THE TRANSITION BONDS

It is a condition of any underwriter's obligation to purchase the transition bonds that each series or 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 series or tranche of transition bonds and, accordingly, we can give no assurance that the ratings assigned to any series or 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 series or tranche of transition bonds is revised or withdrawn, the liquidity of this series or tranche 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 series or tranche of transition bonds by the applicable series final maturity date or 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 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 II, LLC
1111 Louisiana, Suite 4655B
Houston, Texas 77002
(713) 207-5222

We will also file with the SEC all of the periodic reports we 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 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 a prospectus supplement or information that we file subsequently that is incorporated by reference into this prospectus. We are incorporating into this prospectus our future filings 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. 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

Some 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. Some 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 applicable prospectus supplement.

EXPERTS

The financial statements of CenterPoint Energy Transition Bond Company II, LLC as of December 31, 2004 and for the period from December 3, 2004 (date of inception) to December 31, 2004, included in this prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein, and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

APPENDIX A

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 Texas commission requesting modifications to the transition charges.

Clearstream means Clearstream Banking, Luxembourg, S.A.

Collection account means the segregated trust account relating to a series of transition bonds designated the collection account for that series 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.

ERISA means the Employee Retirement Income Security Act of 1974, as amended.

Euroclear means the Euroclear System.

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, as used in this prospectus, means an order issued by the Texas commission to CenterPoint Houston which, among other things, governs the amount of transition bonds that may be issued and terms for collections of related transition charges, unless the context indicates that the reference applies to the financing order issued by the Texas commission on March 16, 2005 applicable to the initial series of transition bonds. As used in a prospectus supplement, the term may be used to refer to a financing order relating to a specific series of transition bonds, including the order issued on March 16, 2005.

Fitch means Fitch Ratings.

Indenture means the indenture to be entered into between CenterPoint Energy Transition Bond Company II, LLC 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.

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.

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.

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 and Fitch to the trustee and CenterPoint Energy Transition Bond Company II, LLC that such action will not result in a reduction or withdrawal of the then rating by such rating agency of any outstanding series or tranche of 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.

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, a Division of The McGraw-Hill Companies.

Sale agreement means a sale agreement to be entered into between CenterPoint Energy Transition Bond Company II, LLC and CenterPoint Houston, pursuant to which CenterPoint Houston sells and CenterPoint Energy Transition Bond Company II, LLC buys the transition property.

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 a servicing agreement with CenterPoint Energy Transition Bond Company II, LLC.

Servicing agreement means a servicing agreement to be entered into between CenterPoint Energy Transition Bond Company II, LLC and CenterPoint Houston, as the same may be amended and supplemented from time to time, pursuant to which CenterPoint Houston undertakes to service transition property.

Texas commission means the Public Utility Commission of Texas.

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 a financing order.

Transition property means, with regard to CenterPoint Houston, all of CenterPoint Houston's right, title, and interest in and to a financing order, including the right to impose, collect and receive through transition charges, amounts sufficient to recover the qualified costs of CenterPoint Houston authorized in the financing order, including the right to receive transition charges in amounts and at times sufficient to pay principal and interest on the related transition bonds and make deposits to the various subaccounts within the collection account, and all revenues and collections resulting from transition charges sold to CenterPoint Energy Transition Bond Company II, LLC pursuant to a sale agreement.

True-up provision means a mechanism required by the financing order whereby the servicer will apply to the Texas commission for adjustments to the transition charges based on actual collected transition charges and updated assumptions by the servicer as to future collections of transition charges. The Texas commission 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.

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OF
CENTERPOINT ENERGY
TRANSITION BOND COMPANY II, LLC

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Member of CenterPoint Energy Transition Bond Company II, LLC:

We have audited the accompanying balance sheet of CenterPoint Energy Transition Bond Company II, LLC (the "Company"), a wholly owned subsidiary of CenterPoint Energy Houston Electric, LLC, as of December 31, 2004, and the related statements of member's equity and cash flows for the period from December 3, 2004 (date of inception) to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2004, and its cash flows for the period from December 3, 2004 (date of inception) to December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP

Houston, Texas
September 12, 2005

CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC

BALANCE SHEETS

| | December 31, 2004 | June 30, 2005 |
|---------------------------|-------------------|---------------|
| | ----- | ----- |
| | | (unaudited) |
| Total assets - cash | \$ 1,000 | \$ 1,000 |
| | ===== | ===== |
| Member's equity | \$ 1,000 | \$ 1,000 |
| | ===== | ===== |

See Notes to Company's Financial Statements

CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC

STATEMENTS OF MEMBER'S EQUITY

| | |
|--|---------|
| Initial contribution on December 3, 2004 (date of inception)..... | \$1,000 |
| Net income for the period from December 3, 2004 (date of inception) to December 31, 2004..... | -- |
| | ----- |
| Member's equity at December 31, 2004..... | 1,000 |
| | ----- |
| Net income for the six months ended June 30, 2005 (unaudited)..... | -- |
| | ----- |
| Member's equity at June 30, 2005 (unaudited)..... | \$1,000 |
| | ===== |

See Notes to Company's Financial Statements

STATEMENTS OF CASH FLOWS

| | December 3, 2004 (inception) to December 31, 2004 ----- | Six Months Ended June 30, 2005 ----- (unaudited) |
|---------------------------------------|--|---|
| Cash Flows from Financing Activities: | | |
| Contribution from member | \$ 1,000 | \$ -- |
| | ----- | ----- |
| Net Increase in Cash | 1,000 | -- |
| Cash at Beginning of Period | -- | 1,000 |
| | ----- | ----- |
| Cash at End of Period | \$ 1,000 | \$ 1,000 |
| | ===== | ===== |

See Notes to Company's Financial Statements

NOTES TO FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

CenterPoint Energy Transition Bond Company II, LLC (Company) is a special purpose Delaware limited liability company, whose sole member is CenterPoint Energy Houston Electric, LLC (CenterPoint Houston). CenterPoint Houston is a regulated utility engaged in the transmission and distribution of electric energy in a 5,000 square mile area located along the Texas Gulf Coast, including the City of Houston.

The Texas Electric Utility Restructuring Act (Texas electric restructuring law), enacted in 1999, authorized competition in the retail and generation markets for electricity beginning in January 2002 and provides for recovery of certain qualified costs through irrevocable non-bypassable transition charges assessed on all retail electric customers within a utility's geographical certificated service area as it existed on May 1, 1999, subject to certain limitations specified in the Texas electric restructuring law (Transition Charges). The Texas electric restructuring law authorizes the Public Utility Commission of Texas (Texas Utility Commission) to issue financing orders approving the issuance of transition bonds to recover qualified costs. The Texas electric restructuring law and the financing order permit an electric utility to transfer its rights and interests in the financing order, including the right to collect Transition Charges pursuant to the Texas electric restructuring law, 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 and its other rights and interests under the financing order constitute "Transition Property." The Texas Utility Commission issued a financing order to CenterPoint Houston on March 16, 2005 (Financing Order) that authorizes CenterPoint Houston to cause the Company to issue transition bonds (Transition Bonds) in an aggregate principal amount not to exceed \$1,493,747,264 plus (a) the amount of excess mitigation credits provided by CenterPoint Houston after August 31, 2004 through the date of issuance of the Transition Bonds or the date of the termination of such excess mitigation credits, whichever is earlier, (b) interest on stranded costs accrued after August 31, 2004 through the date of issuance of the Transition Bonds, and (c) up-front qualified costs as set forth in the Financing Order.

The Company was organized on December 3, 2004 under the laws of the State of Delaware for the sole purpose of issuing transition bonds, using the proceeds therefrom to acquire Transition Property from CenterPoint Houston, holding the Transition Property and taking certain other actions related thereto. The Company had no operations during the period from December 3, 2004 (date of inception) to December 31, 2004 and the six-month period ended June 30, 2005, and therefore has not presented a separate statement of operations.

CenterPoint Houston's parent company, CenterPoint Energy, Inc. (CenterPoint Energy), is a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). The 1935 Act and related rules and regulations impose a number of restrictions on the activities of CenterPoint Energy and its subsidiaries, including CenterPoint Houston. The 1935 Act has been repealed by the Energy Policy Act of 2005. However, the Company is required to obtain approval from the Securities and Exchange Commission under the 1935 Act in order to issue transition bonds prior to February 2006, which is when the repeal becomes effective.

The Company is restricted by its organizational documents from engaging in any activity not directly related to the specific purposes for which the Company was created. The Company is a separate and distinct legal entity from CenterPoint Houston, and the Company's organizational documents require it to operate in a manner to avoid consolidation with the bankruptcy estate of CenterPoint Houston in the event CenterPoint Houston becomes subject to such a proceeding. Upon the consummation of the transactions described in this prospectus, CenterPoint Houston will not be the owner of the Transition Property described herein. The assets of the Company are not available to pay creditors of CenterPoint Houston or any of its affiliates.

Under a servicing agreement to be entered into by the Company and CenterPoint Houston concurrently with the issuance of the Transition Bonds, CenterPoint Houston, as servicer, will be required to manage and administer the Transition Property of the Company and to collect the Transition Charges on behalf of the Company. The Company will pay an annual servicing fee to CenterPoint Houston for these services.

[LOGO]

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

CenterPoint Energy Transition Bond Company II, LLC estimates that expenses in connection with the offering described in this Registration Statement will be as follows:

| | |
|---|-----------------|
| Securities and Exchange Commission filing fee | \$ 218,451.00* |
| Financial advisory fees | 500,000.00 |
| Trustee's fees and expenses | 22,500.00 |
| Attorneys' fees and expenses | 2,000,000.00 |
| Independent accountant's fees and expenses | 75,000.00 |
| Printing expenses | 250,000.00 |
| Rating agency fees | 1,050,000.00 |
| Texas commission application and related fees (including fees of its financial advisor) | 1,000,000.00* |
| Miscellaneous expenses | 384,049.00 |
| | ----- |
| Total | \$ 5,500,000.00 |
| | ===== |

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* Actual; all other expenses are estimated.

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

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 the amended and restated 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 the amended and restated 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 the amended and restated 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.

ITEM 16. EXHIBITS.

See Index to Exhibits at page II-5.

ITEM 17. UNDERTAKINGS.

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, 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;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the 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 the 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 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;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) of this section do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, 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.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the 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.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the 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, the

registrant will, unless in the opinion of its 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 Act and will be governed by the final adjudication of such issue.

(d) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective; and

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus 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 bonafide offering thereof.

(e) The undersigned registrant hereby undertakes 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 ("Act") in accordance with the rules and regulations prescribed by the Commission under Section 305(b)(2) of the Act.

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 that the security rating requirement of Form S-3 will be met by the time of sale, and has duly caused this amendment to its registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on September 12, 2005.

CenterPoint Energy Transition Bond Company II, 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 person in the capacity indicated on September 12, 2005.

Signature

/s/MARC KILBRIDE

Marc Kilbride
Sole Manager

INDEX TO EXHIBITS

| Exhibit Number | Document Description |
|-------------------|--|
| 1.1* | Form of Underwriting Agreement |
| 3.1 | Certificate of Formation of CenterPoint Energy Transition Bond Company II, LLC |
| 3.2 | Limited Liability Company Agreement of CenterPoint Energy Transition Bond Company II, LLC |
| 3.3 | Form of Amended and Restated Limited Liability Company Agreement of CenterPoint Energy Transition Bond Company II, LLC |
| 4.1 | Form of Indenture |
| 4.2 | Form of the Transition Bonds (included in Exhibit 4.3) |
| 4.3* | Supplemental Indenture relating to the issuance of a series of 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 |
| 10.1 | Form of Transition Property Sale Agreement |
| 10.2 | Form of Transition Property Servicing Agreement |
| 10.3 | Form of Administration Agreement |
| 23.1 | Consent of Deloitte & Touche LLP |
| 23.2 | Consent of Baker Botts L.L.P. (included in Exhibits 5.1 and 8.1) |
| 25.1* | Statement of Eligibility under the Trust Indenture Act on Form T-1 |
| 99.1 | Application for the Financing Order |
| 99.2 | Financing Order |
| 99.3 | State of Texas Comptroller of Public Accounts rulings relating to the transition bonds |
| 99.4* | Opinion of Baker Botts L.L.P. with respect to constitutionality of certain matters |

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* To be filed by amendment or as an exhibit to a report on Form 8-K.

CERTIFICATE OF FORMATION

OF

CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC

This Certificate of Formation of CenterPoint Energy Transition Bond Company II, LLC (the "Company") is being executed and filed by the undersigned authorized person to form a limited liability company under the Delaware Limited Liability Company Act (6 Del. C. Section 18-101, et seq.).

ARTICLE I

The name of the Company is CenterPoint Energy Transition Bond Company II, LLC.

ARTICLE II

The address of the registered office of the Company in the County of New Castle, State of Delaware is Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, and the name of the registered agent of the Company at such address is The Corporation Trust Company.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Formation as of December 3, 2004.

/s/ Rufus S. Scott

Rufus S. Scott, Authorized Person

LIMITED LIABILITY COMPANY AGREEMENT
OF
CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC
Effective as of December 3, 2004

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LIMITED LIABILITY COMPANY AGREEMENT

This Limited Liability Company Agreement (this "Agreement") is made and executed to be effective as of December 3, 2004, by CenterPoint Energy Houston Electric, LLC, a Texas limited liability company.

WHEREAS, a certificate of formation of CenterPoint Energy Transition Bond Company II, LLC (the "Company"), has been filed with the Secretary of State of the State of Delaware; and

WHEREAS, it is desired that the orderly management of the affairs of the Company be provided for;

ARTICLE I

DEFINITIONS

The following terms used in this Agreement shall have the following meanings (unless otherwise expressly provided herein):

"Agreement" shall mean this Agreement as originally executed and as it may be amended from time to time hereafter.

"Capital Contribution" shall mean any contribution to the capital of the Company in cash or property by the Member whenever made.

"Certificate of Formation" shall mean the Certificate of Formation of the Company filed with and endorsed by the Secretary of State of the State of Delaware, as such certificate may be amended from time to time hereafter.

"Code" shall mean the Internal Revenue Code of 1986, as amended, or corresponding provisions of subsequent superseding federal revenue laws.

"Common Interest" shall have the meaning given such term in Section 4.1.

"Common Share" shall mean an undivided portion of all of the rights, duties, obligations and ownership interests in the Company.

"Delaware Act" shall mean the Delaware Limited Liability Company Act, as the same may be amended from time to time hereafter.

"Entity" shall mean any foreign or domestic general partnership, limited partnership, limited liability company, corporation, joint enterprise, trust, business trust, employee benefit plan, cooperative or association.

"Fiscal Year" shall mean the Company's fiscal year, which shall be determined by the Managers in accordance with Section 706(b) of the Code.

"Manager" shall mean any of the managers of the Company duly appointed or elected to serve in such capacity under Delaware law and this Agreement.

"Member" shall mean each Person who executes a counterpart of this Agreement as a Member and each Person who may hereafter become a Member pursuant to Article XII; but shall not include any Member that ceases to be a Member.

"Person" shall mean any individual or Entity, and any heir, executor, administrator, legal representative, successor or assign of such "Person" where the context so admits.

"PUCT" shall mean the Public Utility Commission of Texas or any successor entity thereto.

"Texas Electric Choice Plan" shall mean the Act of May 21, 1999, 76th Leg. R.S. ch. 405, 1999 (codified at Texas Utilities Code Section 39.001 et seq.).

"Transition Bonds" and "Transition Property" shall have the meanings given such terms in Section 2.6.

ARTICLE II

FORMATION OF THE COMPANY

2.1 Formation. On December 3, 2004, the Certificate of Formation of the Company was filed with the Secretary of State of the State of Delaware pursuant to the Delaware Act.

2.2 Name. The name of the Company is CenterPoint Energy Transition Bond Company II, LLC. If the Company shall conduct business in any jurisdiction other than the State of Delaware, it shall register the Company or its trade name with the appropriate authorities in such state in order to have the legal existence of the Company recognized.

2.3 Place of Business. The Company may locate its places of business and registered office at any place or places as the Managers may from time to time deem advisable.

2.4 Registered Office and Registered Agent. The Company's registered office shall be at the office of its registered agent at 1209 Orange Street, Wilmington, Delaware 19801, and the name of its initial registered agent at such address shall be The Corporation Trust Company.

2.5 Term. The Company and this Agreement shall continue until the earliest of (a) such time as all of the Company's assets have been sold or otherwise disposed of or (b) such time as the Company's existence has been terminated as otherwise provided herein or in the Delaware Act.

2.6 Business Purpose. The nature of the business or purpose to be conducted or promoted by the Company is to engage exclusively in the following business and financial activities:

(a) to authorize, issue, sell and deliver one or more series or classes of transition bonds (as defined in the Texas Electric Choice Plan) ("Transition Bonds") and, in connection therewith, to enter into any agreement or document providing for the authorization, issuance, sale and delivery of the Transition Bonds;

(b) to purchase, acquire, own, hold, administer, service, and enter into agreements for the servicing of, finance, manage, sell, assign, pledge, collect amounts due on and otherwise deal with rights and interests under any financing order issued by the PUCT to the Member in connection with the issuance of Transition Bonds ("Transition Property"), other assets to be acquired in connection therewith and any proceeds or rights associated therewith;

(c) to negotiate, authorize, execute, deliver, assume the obligations under, and perform its duties under, any agreement, instrument or document relating to the activities set forth in clauses (a) and (b) above; provided, that each party to any such agreement under which material obligations are imposed upon the Company shall covenant that it shall not, prior to the date which is one year and one day after the termination of the indenture providing for the Transition Bonds and the payment in full of each series of Transition Bonds and any other amounts owed under such indenture, acquiesce, petition or otherwise invoke or cause the Company to invoke the process of any court or Governmental Authority for the purpose of commencing or sustaining a case against the Company 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 Company or any substantial part of the property of the Company; or ordering the winding up or liquidation of the affairs of the Company; and provided, further, that the Company shall be permitted to incur additional indebtedness or other liabilities payable to service providers and trade creditors in the ordinary course of business in connection with the foregoing activities;

(d) to invest proceeds from Transition Property and its other assets and any capital and income of the Company in accordance with the applicable agreements or instruments entered into in connection with the issuance of Transition Bonds or as otherwise determined by the Managers and not inconsistent with this Section or such applicable agreements or instruments;

(e) to do such other things and carry on any other activities which the Managers determine to be necessary, convenient or incidental to any of the foregoing purposes, and have and exercise all of the powers and rights conferred upon limited liability companies formed pursuant to the Delaware Act that are related or incidental to any of the foregoing; and

(f) to enter into and perform all agreements or instruments entered into in connection with the issuance of Transition Bonds and all documents, certificates or financing statements contemplated thereby or related thereto, all without any further act, vote or approval of the Member, any Manager or other Person notwithstanding any other provision of this Agreement, the Delaware Act or applicable law, rule or regulation. The foregoing

authorization shall not be deemed a restriction on the powers of the Member or any Manager to enter into other agreements on behalf of the Company.

ARTICLE III

INITIAL MEMBER

The name and place of business of the initial Member are as follows:

CenterPoint Energy Houston Electric, LLC
1111 Louisiana
Houston, Texas 77002

ARTICLE IV

CAPITAL OF THE COMPANY

4.1 Common Shares and Initial Contributions.

(a) A class of equity interests denominated the "Common Shares" is hereby designated as the sole class of equity interests of the Company. Each issued and outstanding Common Share shall at any time represent that undivided portion of all of the rights, duties, obligations and ownership interests in the Company in proportion to the total number of Common Shares outstanding at such time.

(b) The Company will issue to the initial Member 1,000 Common Shares (together, the "Common Interest") upon payment of \$1,000 to the Company from the Initial Member, which shall be deemed to be the initial Capital Contribution of the initial Member. Upon receipt of such initial Capital Contribution and execution of this Agreement by the Member, such Common Shares shall be validly issued and outstanding, fully paid and nonassessable.

4.2 Additional Contributions. The Member shall not be required to make additional Capital Contributions unless, and except on such terms as, the Managers and the Member unanimously agree.

4.3 Interest. No interest shall be paid by the Company on Capital Contributions.

ARTICLE V

RIGHTS AND OBLIGATIONS OF THE MEMBER

5.1 Limitation of Member's Responsibility, Liability. The Member shall not perform any act on behalf of the Company, incur any expense, obligation or indebtedness of any nature on behalf of the Company, or in any manner participate in the management of the Company or receive or be credited with any amounts, except as specifically contemplated hereunder. The Member shall not be personally liable for any amount in excess of its Capital

Contribution, and shall not be liable for any of the debts or losses of the Company, except to the extent that a liability of the Company is founded upon or results from an unauthorized act or activity of the Member. In addition, the Member's liability shall be limited as set forth in the Delaware Act and other applicable law hereafter in effect.

5.2 Return of Distributions. In accordance with Section 18-607 of the Delaware Act, the Member will be obligated to return any distribution from the Company only as provided by applicable law.

ARTICLE VI

ACTS OF THE MEMBER

6.1 Action by the Member With a Meeting. The Member may act by voting the Common Interest at a meeting, which may be called by the Member or any Manager, and which may be held at any place designated by the Member. If a Manager calls such a meeting, written notice shall be given to the Member not less than 10 and not more than 60 days before the date of the meeting. At all meetings of the Member, the Member may vote in person or by proxy executed in writing by the Member or by a duly authorized attorney in fact. Such proxy shall be filed with the Managers of the Company before or at the time of the meeting. No proxy shall be valid after 11 months from the date of its execution, unless otherwise provided in the proxy.

6.2 Action by the Member Without a Meeting. Action required or permitted to be taken at a meeting of the Member may be taken without a meeting if the action is evidenced by one or more written consents describing the action taken, signed by the Member and delivered to the Managers of the Company for inclusion in the minutes or for filing with the Company records.

6.3 Waiver of Notice. When any notice is required to be given to the Member, a waiver thereof in writing signed by the Person entitled to such notice, whether before, at or after the time stated therein, shall be equivalent to the giving of such notice.

6.4 Special Prohibitions and Limitations. Without the prior approval of the Member, the Company shall not (i) sell, exchange or otherwise dispose of all or substantially all of the assets of the Company outside the ordinary course of business of the Company (provided, however, that this provision shall not be interpreted to preclude or limit the mortgage, pledge, hypothecation or grant of a security interest in all or substantially all of the assets of the Company and shall not apply to any forced sale of any or all of the assets of the Company pursuant to the foreclosure of (or in lieu of foreclosure), or other realization upon, any such encumbrance), (ii) merge, consolidate or combine with any other Person, or (iii) issue additional Common Shares.

6.5 Amendments to be Adopted Solely by the Managers. The Managers, without the consent at the time of the Member, may amend any provision of this Agreement and execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith, to reflect:

(a) a change in the name of the Company or the location of the principal place of business of the Company;

(b) a change that is necessary or advisable in the opinion of the Managers to qualify the Company as a company in which members have limited liability under the laws of any state or other jurisdiction or to ensure that the Company will not be treated as an association taxable as a corporation for federal income tax purposes;

(c) a change that (i) in the sole discretion of the Managers does not adversely affect the Member in any material respect, (ii) is necessary or desirable to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or contained in any federal or state statute or (iii) is required or contemplated by this Agreement;

(d) a change in any provision of this Agreement that requires any action to be taken by or on behalf of the Company or the Member pursuant to the requirements of Delaware law if the provisions of Delaware law are amended, modified or revoked so that the taking of such action is no longer required; provided that this Section 6.5(d) shall be applicable only if such changes are not materially adverse to the Member; or

(e) any other amendments similar to the foregoing.

The Member hereby appoints each Manager as its attorney in fact to execute any amendment permitted by this Section 6.5.

6.6 Amendments. A proposed amendment to this Agreement (other than one permitted by Section 6.5) shall be effective upon its adoption by the Member.

ARTICLE VII

RIGHTS AND DUTIES OF MANAGERS

7.1 Management. The powers of the Company shall be exercised by or under the authority of, and the business and affairs of the Company shall be managed under, its Managers. In addition to the powers and authorities expressly conferred by this Agreement upon the Managers, the Managers may exercise all such powers of the Company and do all such lawful acts and things as are not directed or required to be exercised or done by the Member by the Delaware Act, the Certificate of Formation of the Company or this Agreement. In accordance with and pursuant to the provisions of Section 18-407 of the Delaware Act, the Managers may delegate to one or more other persons their rights and powers to manage and control the business and affairs of the Company, provided that any such delegation may not authorize any action that would violate or reasonably be expected to violate the limited business purpose of the Company specified in Section 2.6.

7.2 Number and Qualifications. The number of Managers of the Company shall initially be one; but the number of Managers may be changed by the Member. Managers need not be residents of the State of Delaware or Members of the Company. The Managers, in

their discretion, may elect a chairman of the Managers who shall preside at any meetings of the Managers.

7.3 Powers of the Managers. Without limiting the generality of Section 7.1, the Managers shall have power and authority, acting in concert in accordance with this Agreement, to cause the Company to do and perform all acts as may be necessary or appropriate to the conduct of the Company's business.

7.4 Initial Manager. The initial Manager shall be Marc Kilbride. The Member shall have the right to take action pursuant Section 6.1 or Section 6.2 to designate one or more Managers and to remove, replace or fill any vacancy occurring for any reason of any Manager.

7.5 Place of Meetings. All meetings of the Managers of the Company or committees thereof may be held either within or without the State of Delaware. Any Manager may participate in a meeting by means of conference telephone or similar equipment, and participation by such means shall constitute presence in person at the meeting.

7.6 Meetings of Managers. Meetings of the Managers may be called by any Manager on two days' notice to each Manager, either personally or by mail, telephone or telegram.

7.7 Quorum. At all meetings of the Managers, the presence of a majority of the Managers shall be necessary and sufficient to constitute a quorum for the transaction of business unless a greater number is required by law. The act of a majority of the Managers present at a meeting at which a quorum is present shall be the act of the Managers, except as otherwise provided by law, Certificate of Formation or this Agreement. If a quorum shall not be present at any meeting of the Managers, the Managers present at the meeting may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

7.8 Attendance and Waiver of Notice. Attendance of a Manager at any meeting shall constitute a waiver of notice of such meeting, except where a Manager attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Managers need be specified in the notice or waiver of notice of such meeting.

7.9 Action by Managers Without a Meeting. Action required or permitted to be taken at a meeting of Managers may be taken without a meeting if the action is evidenced by one or more written consents describing the action taken, signed by a majority of the Managers and included in the Company minutes or records. Action taken under this Section is effective when a majority of the Managers have signed the consent, unless the consent specifies a different effective date. The record date for determining Managers entitled to take action without a meeting shall be the date the first Manager signs a written consent.

7.10 Compensation of Managers. Managers, as such, shall not receive any stated salary for their services, but shall receive such compensation for their services as may be

from time to time approved by the Member, provided that nothing contained in this Agreement shall preclude any Manager from serving the Company in any other capacity and receiving compensation for service. In addition, a fixed sum and expenses of attendance, if any, may be allowed for attendance at each meeting of the managers.

7.11 Committees. The Managers may, by resolution, designate from among the Managers one or more committees, each of which shall be comprised of one or more Managers, and may designate one or more of the Managers as alternate members of any committee, who may, subject to any limitations imposed by the Managers, replace absent or disqualified Managers at any meeting of that committee. Such committee shall have and may exercise all of the authority of the Managers, subject to the limitations set forth in this Agreement and under the Delaware Act.

7.12 Liability of Managers. A Manager shall not be liable under any judgment, decree or order of a court, or in any other manner, for any debt, obligation or liability of the Company by reason of his acting as a Manager of the Company. A Manager of the Company shall not be personally liable to the Company or the Member for monetary damages for breach of fiduciary duty as a Manager, except for liability for any acts or omissions that involve intentional misconduct, fraud or a knowing violation of law or for a distribution in violation of Delaware law as a result of the willful or grossly negligent act or omission of the Manager. If the laws of the State of Delaware are amended after the date of this Agreement to authorize action further eliminating or limiting the personal liability of Managers, then the liability of a Manager of the Company, in addition to the limitation on personal liability provided herein, shall be limited to the fullest extent permitted by the amended laws of the State of Delaware. Any repeal or modification of this Section 7.12 by the Member of the Company shall be prospective only, and shall not adversely affect any limitation on the personal liability of a Manager of the Company existing at the time of such repeal or modification or thereafter arising as a result of acts or omissions prior to the time of such repeal or modification.

ARTICLE VIII

INDEMNIFICATION

8.1 Indemnification. Each Person who at any time shall be, or shall have been, a Member or Manager of the Company, or any Person who, while a Member, Manager or agent of the Company, is or was serving at the request of the Company as a director, member, manager, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of an Entity, shall be entitled to indemnification as and to the fullest extent permitted by the provisions of Delaware law or any successor statutory provisions, as from time to time amended. The foregoing right of indemnification shall not be deemed exclusive of any other rights to which one to be indemnified may be entitled as a matter of law or under this Agreement, any other agreement, by vote of the Member or disinterested Managers or otherwise, both as to any action in an official capacity and as to action in another capacity while holding such office. Any repeal of this Section 8.1 shall be prospective only, and shall not adversely affect any right of indemnification existing at the time of such repeal or modification or thereafter arising as a result of acts or omissions prior to the time of such repeal or modification. Any Person entitled to indemnification in accordance with this Section 8.1 shall hereinafter be referred to as an

"Indemnitee." If any provision or provisions of this Agreement relating to indemnification shall be held to be invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby; and, to the fullest extent possible, the provisions of this Agreement shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable, including, without limitation, by allowing indemnification by vote of the Member or Managers or the disinterested minority thereof.

8.2 Advancement or Reimbursement of Expenses. The Company may pay in advance or reimburse expenses actually or reasonably incurred or anticipated by an Indemnitee in connection with an appearance as a witness or other participation in a proceeding whether or not such Indemnitee is a named defendant or a respondent in the proceeding.

8.3 Nonexclusivity and Survival of Indemnification. The indemnification and advancement of expenses provided by, or granted pursuant to, the other subsections of this Article VIII shall not be deemed exclusive of any other rights to which one seeking indemnification and advancement of expenses may be entitled under this Agreement, any other agreement, by vote of the disinterested Member or Managers or otherwise, both as to action in an official capacity and as to action in any other capacity while holding such office, it being the policy of the Company that, if the Managers and the Member unanimously approve, indemnification specified in this Article VIII shall be made to the fullest extent permitted by law. The provisions of this Article VIII shall not be deemed to preclude the indemnification of any Person who is not specified in this Article VIII but whom the Company has the power or obligation to indemnify under the provisions of the Delaware Act or otherwise.

8.4 Insurance. The Company may purchase and maintain insurance on behalf of any Person who is or was a Member, Manager or agent of the Company, or is or was serving at the request of the Company as a member, manager, director, officer, employee or agent of an Entity against any liability asserted against and incurred by such Person in any such capacity or arising out of such Person's status as such, whether or not the Company would have the power or the obligation to indemnify such Person against such liability under the provisions of this Article VIII.

ARTICLE IX

ALLOCATIONS AND DISTRIBUTIONS

9.1 Allocations. Except as may otherwise be unanimously agreed by the Managers with the consent of the Member, all items of income, gain, loss, deduction, and credit of the Company shall be allocated to the Member in respect of its Common Interest.

9.2 Distributions. The Member shall be entitled to receive, out of the assets of the Company legally available therefor, when, as and if declared by unanimous vote of the Managers, distributions payable in cash in such amounts, if any, as the Managers shall declare. Notwithstanding any provision to the contrary contained in this Agreement, the Company shall not be required to make a distribution to the Member on account of its interest in the Company if such distribution would violate Sections 18-607 or 18-804 of the Delaware Act or any other

applicable law or any agreement or instrument entered into by the Company in connection with the issuance of Transition Bonds.

ARTICLE X

ACCOUNTING PERIOD, RECORDS AND REPORTS

10.1 Accounting Period. The Company's accounting period shall be the Fiscal Year.

10.2 Records, Audits and Reports. At the expense of the Company, the Managers shall maintain records and accounts of all operations and expenditures of the Company.

10.3 Inspection. The books and records of the Company shall be maintained at the principal place of business of the Company and shall be open to inspection by the Member at all reasonable times during any business day.

ARTICLE XI

TAX MATTERS

11.1 Tax Returns and Elections. The Managers or their designees shall cause the preparation and timely filing of all tax returns required to be filed by the Company pursuant to the Code and all other tax returns that the Managers or their designees deem necessary and are required to be filed by the Company. Copies of such returns, or pertinent information therefrom, shall be furnished to the Member as promptly as practicable after filing.

11.2 State, Local or Foreign Income Taxes. In the event state or foreign income taxes are applicable, any references to federal income taxes or to "income taxes" contained herein shall refer to federal, state, local and foreign income taxes. References to the Code or Treasury Regulations shall be deemed to refer to corresponding provisions that may become applicable under state, local or foreign income tax statutes and regulations.

ARTICLE XII

RESTRICTIONS ON TRANSFERABILITY

The Common Interest constitutes personal property and shall be freely transferable and assignable in whole but not in part upon registration of such transfer and assignment on the books of the Company in accordance with the procedures established for such purpose by the Managers. Upon registration of the transfer and assignment of the Common Interest on the books of the Company, and without any further action of any Person, the transferee/assignee shall be and become the sole Member of the Company and shall have the rights and powers, and be subject to the restrictions and liabilities, of the Member under this Agreement and the Delaware Act, and the transferor/assignor shall cease to be the Member, each as of the date of such registration. Notwithstanding the foregoing, the Common Interest may not

be transferred unless any conditions thereto specified in agreements or instruments entered into by the Company in connection with the issuance of Transition Bonds are satisfied.

ARTICLE XIII

DISSOLUTION AND TERMINATION

13.1 Dissolution. The Company shall dissolve upon the occurrence of any of the following events:

- (i) when the period fixed for the duration of the Company shall expire;
- (ii) if the Member so elects by vote or in writing; or
- (iii) as otherwise provided under Delaware law.

13.2 Effect of Dissolution. Upon the occurrence of any of the events specified in this Article effecting the dissolution of the Company, the Company shall cease to carry on its business, except insofar as may be necessary for the winding up of its business, but its separate existence shall continue until a certificate of cancellation has been issued by the Secretary of State of the State of Delaware or until a decree dissolving the Company has been entered by a court of competent jurisdiction.

13.3 Winding Up, Liquidating and Distribution of Assets.

(a) Upon dissolution, an accounting shall be made of the accounts of the Company and of the Company's assets, liabilities and operations, from the date of the last previous accounting until the date of dissolution. The Managers shall immediately proceed to wind up the affairs of the Company.

(b) If the Company is dissolved and its affairs are to be wound up, the Managers shall (1) sell or otherwise liquidate all of the Company's assets as promptly as practicable (except to the extent the Managers may determine to distribute any assets in kind to the Member), (2) allocate any income or loss resulting from such sales to the Member in accordance with this Agreement, (3) discharge all liabilities to creditors in the order of priority as provided by law, (4) discharge all liabilities of the Member (other than liabilities to the Member or for Capital Contributions to the extent unpaid in breach of an obligation to do so), including all costs relating to the dissolution, winding up and liquidation and distribution of assets, (5) establish such reserves as the Managers may determine to be reasonably necessary to provide for contingent liabilities of the Company, (6) discharge any liabilities of the Company to the Member other than on account of their interests in Company capital or profits and (7) distribute the remaining assets to the Member, either in cash or in kind, as determined by the Managers.

(c) Notwithstanding anything to the contrary in this Agreement, upon a liquidation of the Company no Member shall have any obligation to make any contribution to the capital of the Company other than any Capital Contributions such Member agreed to make in accordance with this Agreement.

(d) Upon completion of the winding up, liquidation and distribution of the assets, the Company shall be deemed terminated.

(e) The Managers shall comply with any applicable requirements of applicable law pertaining to the winding up of the affairs of the Company and the final distribution of its assets.

13.4 Certificate of Cancellation. When all debts, liabilities and obligations have been paid and discharged or adequate provisions have been made therefor and all of the remaining property and assets have been distributed to the Member, a Certificate of Cancellation shall be executed in duplicate, and verified by the person signing the Certificate of Cancellation and filed with the Secretary of State of the State of Delaware, which Certificate shall set forth the information required by the Delaware Act.

13.5 Return of Contribution. Except as provided by law, upon dissolution, the Member shall look solely to the assets of the Company for the return of its Capital Contribution.

ARTICLE XIV

MISCELLANEOUS PROVISIONS

14.1 Notices. Any notice, demand or communication required or permitted to be given by any provision of this Agreement shall be deemed to have been sufficiently given or served for all purposes if delivered personally to the party or to an executive officer of the party to whom the same is directed or if sent by registered or certified mail, postage and charges prepaid, addressed to the Member's and/or Company's address, as appropriate, which is set forth in this Agreement.

If mailed, any such notice shall be deemed to be delivered two calendar days after being deposited in the United States mail with postage thereon prepaid, addressed and sent as aforesaid.

14.2 Books of Account and Records. Proper and complete records and books of account in which shall be entered fully and accurately all transactions and other matters relating to the Company's business in such detail and completeness as is customary and usual for businesses of the type engaged in by the Company shall be kept or shall be caused to be kept by the Company. Such books and records shall be maintained as provided in Section 10.3. The books and records shall at all times be maintained at the principal executive office of the Company and shall be open to the reasonable inspection and examination of the Member or its duly authorized representatives during reasonable business hours.

14.3 Application of Delaware Law. This Agreement, and the application of interpretation hereof, shall be governed exclusively by its terms and by the laws of the State of Delaware, and specifically the Delaware Act.

14.4 Waiver of Action for Partition. The Member irrevocably waives, during the term of the Company, any right that the Member may have to maintain any action for partition with respect to the property of the Company.

14.5 Execution of Additional Instruments. The Member hereby agrees to execute such other and further statements of interest and holdings, designations, powers of attorney and other instruments necessary to comply with any laws, rules or regulations.

14.6 Headings. The headings in this Agreement are inserted for convenience only and are in no way intended to describe, interpret, define or limit the scope, extent or intent of this Agreement or any provision hereof.

14.7 Waivers. No waiver of any right under this Agreement shall be effective unless evidenced in writing and executed by the Person entitled to the benefits thereof. The failure of any party to seek redress for violation of or to insist upon the strict performance of any covenant or condition of this Agreement shall not prevent another act or omission, which would have originally constituted a violation, from having the effect of an original violation.

14.8 Rights and Remedies Cumulative. The rights and remedies provided by this Agreement are cumulative and the use of any one right or remedy by any party shall not preclude or waive the right to use any or all other rights or remedies. Said rights and remedies are given in addition to any other rights the parties may have by law, statute, ordinance or otherwise.

14.9 Severability. If any provision of this Agreement or the application thereof to any person or circumstance shall be invalid, illegal or unenforceable to any extent, the remainder of this Agreement and the application thereof shall not be affected and shall be enforceable to the fullest extent permitted by law.

14.10 Heirs, Successors and Assigns. Each and all of the covenants, terms, provisions and agreements herein contained shall be binding upon and inure to the benefit of the parties hereto and, to the extent permitted by this Agreement, their respective heirs, legal representatives, successors and assigns.

14.11 Creditors. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the Company.

14.12 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

EXECUTED to be effective as of the date first above written.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: /s/ Rufus S. Scott

Name: Rufus S. Scott
Title: Vice President, Deputy General
Counsel and Assistant Secretary

FORM OF AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT

OF

CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC

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FORM OF AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT
OF
CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC

AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT, dated as of [_____], (as it may be further amended and supplemented from time to time, this "Agreement"), of CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC, a Delaware limited liability company (the "Company"), having its principal office at 1111 Louisiana Street, Suite 4655B, Houston, Texas 77002.

WHEREAS, CenterPoint Energy Houston Electric, LLC, a Texas limited liability company ("CenterPoint Houston"), as sole Member, caused the Certificate of Formation of the Company (the "Certificate of Formation") to be filed with the Secretary of State of the State of Delaware (the "Secretary of State") on December 3, 2004, executed a Limited Liability Company Agreement dated December 3, 2004 (the "Original LLC Agreement") [and caused the amended and restated Certificate of Formation to be filed with the Secretary of State on _____]; and

WHEREAS, this Agreement amends and restates the Original LLC Agreement in all respects, and from and after the date hereof constitutes the governing instrument of the Company;

NOW THEREFORE, the parties hereto hereby amend and restate the Original LLC Agreement as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Capitalized Terms. For all purposes of this Agreement, the following terms shall have the meanings set forth below:

"Act" shall mean the Delaware Limited Liability Company Act, as amended, as in effect on the date hereof (currently Chapter 18 of Title 6, Sections 18-101 through 18-1109 of the Delaware Code) and as it may be amended hereafter, from time to time.

"Administration Agreement" shall mean the Administration Agreement, dated as of [Closing Date] between the Company and CenterPoint Houston, as Administrator, as the same may be amended and supplemented from time to time.

"Affiliate" shall mean, 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" shall mean this Amended and Restated Limited Liability Company Agreement of the Company as the same may be further amended and supplemented from time to time in accordance with the provisions hereof.

"Bankruptcy" shall mean, with respect to any Person, if such Person (i) makes an assignment for the benefit of creditors, (ii) files a petition commencing a voluntary bankruptcy, (iii) is adjudged a bankrupt or insolvent, or has entered against it an order for relief, in any bankruptcy or insolvency proceedings, (iv) files a petition or answer seeking for itself any reorganization, arrangement, composition, readjustment, liquidation or similar relief under any statute, law or regulation, (v) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against it in any proceeding of this nature, (vi) seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator of the Person or of all or any substantial part of its properties, or (vii) if 120 days after the commencement of any proceeding against the Person seeking reorganization, arrangement, composition, readjustment, liquidation or similar relief under any statute, law or regulation, the proceeding has not been dismissed, or if within 90 days after the appointment without such Person's consent or acquiescence of a trustee, receiver or liquidator of such Person or of all or any substantial part of its properties, the appointment is not vacated or stayed, or if within 90 days after the expiration of any such stay, the appointment is not vacated. The foregoing definition of "Bankruptcy" is intended to replace and shall supersede and replace the definition of "Bankruptcy" set forth in Sections 18-101(1) and 18-304 of the Act.

"Basic Documents" shall mean (i) this Agreement, the Certificate of Formation, the Indenture, the Administration Agreement and (ii) any Sale Agreement, Bill of Sale, Servicing Agreement, Supplemental Indenture, Intercreditor Agreement, Underwriting Agreement and Swap Agreement entered into in connection with one or more Series of Transition Bonds.

"Bill of Sale" shall mean and include any bill of sale issued by the Member to the Company pursuant to a Sale Agreement evidencing the sale of Transition Property to the Company.

"Business Day" shall mean any day other than a Saturday, Sunday or other day on which banking institutions in the City of Houston, Texas, in the City of New York, New York or in the City of Wilmington, Delaware are required or authorized by law or executive order to remain closed.

"CenterPoint Houston" shall mean CenterPoint Energy Houston Electric, LLC, a Texas limited liability company, or its successor.

"Certificate of Formation" shall mean the Certificate of Formation of the Company as filed in accordance with the Act with the Secretary of State on December 3, 2004, as amended and restated and filed with the Secretary of State on _____, as the same may be further amended and supplemented from time to time.

"Class" shall mean, with respect to any Series, any one of the classes or tranches of Transition Bonds of that Series, as specified in the Series Supplement for that Series.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time (or any successor law), and Treasury Regulations promulgated thereunder.

"Common Interest" shall mean the limited liability company interest of the Member in the Company as described in Article VII. The Company shall have one class of Common Interest.

"Company" shall mean CenterPoint Energy Transition Bond Company II, LLC, a Delaware limited liability company.

"Financing Order" shall mean and include the financing order issued by the PUCT on March 16, 2005 in Docket No. 30485 and any subsequent financing order issued by the PUCT to the Member pursuant to which the Member transfers its rights and interests thereunder to the Company in connection with the issuance of a separate Series of Transition Bonds.

"Fiscal Year" shall mean, unless the Managers shall at any time determine otherwise pursuant to the requirements of the Code, a calendar year.

"GAAP" shall mean the generally accepted accounting principles promulgated or adopted by the Financial Accounting Standards Board and its successors from time to time.

"Governmental Authority" shall mean any court or any federal or state regulatory body, administrative agency or governmental instrumentality.

"Indenture" shall mean the Indenture dated as of [Closing Date], between the Company, as Issuer and the Trustee, as the same may be amended and supplemented from time to time, and shall include the forms and terms of the Transition Bonds established thereunder.

"Independent Manager" shall mean, with respect to the Company, a Manager who is not, and within the previous five years was not (except solely by virtue of such Person's serving as, or affiliation with any other Person serving as, an independent director or manager, as applicable, of CenterPoint Houston, the Company or any bankruptcy remote special purpose entity that is an Affiliate of CenterPoint Houston or the Company), (i) a stockholder, member, partner, director, officer, employee, Affiliate, customer, supplier, creditor or independent contractor of, or any Person that has received any benefit in any form whatsoever from (other than in such Manager's capacity as a ratepayer or customer of CenterPoint Houston in the ordinary course of business), or any Person that has provided any service in any form whatsoever to, or any major creditor (or any Affiliate of any major creditor) of, the Company, CenterPoint Houston or any of their Affiliates, or (ii) any Person owning beneficially, directly or indirectly, any outstanding shares of common stock, any limited liability company interests or any partnership interests, as applicable, of the Company, CenterPoint Houston, or any of their Affiliates, or of any major creditor (or any Affiliate of any major creditor) of any of the foregoing, or a stockholder, member, partner, director, officer, employee, Affiliate, customer, supplier, creditor or independent contractor of, or any Person that has received any benefit in any form whatever from (other than in such Person's capacity as a ratepayer or customer of CenterPoint Houston in the ordinary course of business), or any Person that has provided any service in any form whatever to, such beneficial owner or any of such beneficial owner's Affiliates, or (iii) a member of the immediate family of any person described above; provided that the indirect or beneficial ownership of stock 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. For purposes of this definition, "major creditor" shall mean a natural person or business entity to which the Company, CenterPoint Houston or any of their Affiliates has outstanding indebtedness for borrowed money or credit on open account in a sum sufficiently large as would reasonably be expected to influence the judgment of the proposed Independent Manager adversely to the interests of the Company when the interests of that Person are adverse to those of the Company.

"Intercreditor Agreement" shall mean and include the Intercreditor Agreement, dated as of [Closing Date], among Deutsche Bank Trust Company Americas, the Company, CenterPoint Houston and CenterPoint Energy Transition Bond Company, LLC, each in the capacities stated therein, as the same may be amended and supplemented from time to time and any subsequent intercreditor agreement entered into by the Company in connection with the issuance of a separate Series of Transition Bonds in accordance with a Financing Order.

"Manager" shall mean any manager (as defined in the Act) of the Company, including the Independent Managers.

"Member" shall mean CenterPoint Houston, in its capacity as a member in the Company under this Agreement, or any successor thereto as a member pursuant to Article VI; provided, however, the term "Member" shall not include the Special Members.

"Officer's Certificate" means a certificate signed 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 Company.

"Person" shall mean 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" shall have the meaning set forth in Section 9.01.

"PUCT" shall mean 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 one or more Financing Orders, in each case as applicable to the Series of Transition Bonds to which the Financing Order relates.

"Rating Agency" shall mean any rating agency rating the Transition Bonds of any Class or Series at the time of issuance thereof at the request of the Company, which initially shall be Moody's Investors Service Inc., Standard & Poor's, a division of The McGraw-Hill Companies, and Fitch Ratings. If no such organization or successor is any longer in existence, "Rating Agency" shall mean a nationally recognized statistical rating organization or other comparable

Person designated by the Company, written notice of which designation shall be given to the Trustee, the PUCT and the Member.

"Rating Agency Condition" shall mean, with respect to any action, the notification in writing to each Rating Agency of such action, and confirmation from Standard & Poor's Rating Services and Fitch Ratings to the Trustee and the Company that such action will not result in a reduction or withdrawal of the then current rating by such Rating Agency of any outstanding Series or Class of Transition Bonds.

"Sale Agreement" shall mean and include the Transition Property Sale Agreement dated as of [Closing Date], between CenterPoint Houston and the Company, as the same may be amended and supplemented from time to time and any subsequent transition property sale agreement entered into by the Company in connection with the issuance of a separate Series of Transition Bonds in accordance with a Financing Order.

"Secretary of State" shall have the meaning given thereto in the second recital hereof.

"Securities Intermediary" shall mean the party named as such in the Indenture or its successor or any successor Securities Intermediary under the Indenture.

"Series" shall mean any series of Transition Bonds issued by the Company and authenticated by the Trustee pursuant to the Indenture, as specified in the Series Supplement therefor.

"Series Supplement" shall mean a Supplemental Indenture that authorizes a particular Series of Transition Bonds.

"Servicing Agreement" shall mean and include the Transition Property Servicing Agreement dated as of [Closing Date], between the Company and CenterPoint Houston and acknowledged by the Trustee, as the same may be amended and supplemented from time to time and any subsequent servicing agreement entered into by the Company in connection with the issuance of a separate Series of Transition Bonds in accordance with a Financing Order.

"Special Member" shall mean, upon such Person's admission to the Company as a member of the Company pursuant to Section 6.05, a Person acting as Independent Manager, in such Person's capacity as a member of the Company. A "Special Member" shall have the rights and duties expressly set forth in this Agreement.

"Supplemental Indenture" shall mean a supplemental indenture entered into by the Company and the Trustee pursuant to Article IX of the Indenture.

"Swap Agreement" shall mean and include the ISDA Master Agreement, together with the related Schedule and Confirmation, each dated [] between the Company and [Counterparty], as swap counterparty thereunder, as the same may be amended and supplemented from time to time and any other Swap Agreement, as defined in and permitted by the Indenture and any Supplemental Indenture thereto.

"Texas Electric Choice Plan" shall mean the Act of May 21, 1999, 76th Leg. R.S. ch. 405, 1999 (codified at Texas Utilities Code Section 39.001 et seq.).

"Transition Bonds" shall mean any of the transition bonds (as defined in the Texas Electric Choice Plan) issued by the Company pursuant to the Indenture.

"Transition Charges" shall mean the nonbypassable amounts to be charged for the use or availability of electric services, approved by the PUCT in a Financing Order to recover Qualified Costs that may be collected by CenterPoint Houston, its successors, assignees or other collection agents as provided in such Financing Order.

"Transition Property" shall mean the rights and interests of CenterPoint Houston or its successor under a Financing Order, once those rights are first transferred to the Company or pledged in connection with the issuance of the related Series of Transition Bonds, including the right to impose, collect and receive through Transition Charges payable by retail electric customers within CenterPoint Houston's certificated service area as it existed on May 1, 1999, an amount sufficient to cover the Qualified Costs of CenterPoint Houston authorized in such 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 such related Series of Transition Bonds and all revenues and collections resulting from Transition Charges.

"Treasury Regulations" shall mean regulations, including proposed or temporary regulations, promulgated under the Code. References herein to specific provisions of proposed or temporary regulations shall include analogous provisions of final Treasury Regulations or other successor Treasury Regulations.

"Trustee" shall mean the party named as such in the Indenture or its successor or any successor Trustee under the Indenture.

"Underwriting Agreement" shall mean and include the Underwriting Agreement, dated [_____], between the Company, CenterPoint Houston and [_____] and any subsequent underwriting agreement entered into by the Company and CenterPoint Houston in connection with the issuance of a separate Series of Transition Bonds in accordance with a Financing Order.

SECTION 1.02. Other Definitional Provisions.

(a) All terms in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein.

(b) As used in this Agreement and in any certificate or other documents made or delivered pursuant hereto or thereto, accounting terms not defined in this Agreement or in any such certificate or other document, and accounting terms partly defined in this Agreement or in any such certificate or other document to the extent not defined, shall have the respective meanings given to them under GAAP. To the extent that the definitions of accounting terms in this Agreement or in any such certificate or other document are inconsistent with the meanings of such terms under GAAP, the definitions contained in this Agreement or in any such certificate or other document shall control.

(c) 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 references contained in this Agreement are references to Sections in this Agreement unless otherwise specified; and the term "including" shall mean "including without limitation."

(d) The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms.

(e) Any agreement, instrument or statute defined or referred to herein or in any instrument or certificate delivered in connection herewith means such agreement, instrument or statute as from time to time amended, modified or supplemented and includes (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein; references to a Person are also to its permitted successors and assigns.

ARTICLE II

FORMATION OF THE LIMITED LIABILITY COMPANY

SECTION 2.01. Formation; Filings. Pursuant to the Act and in accordance with the further terms and provisions hereof, the Member and, when signed by the Special Members, the Special Members, hereby continue the Company as a limited liability company. The Certificate of Formation of the Company has been executed and filed with the Secretary of State by Rufus S. Scott, as an "authorized person" within the meaning of the Act. Upon the filing of the Certificate of Formation with the Secretary of State, his powers as an "authorized person" ceased, and the Member thereupon became the designated "authorized person" and shall continue as the designated "authorized person" within the meaning of the Act. Except as such powers may be delegated by the Member to the Managers or by the Managers to the officers of the Company and as otherwise provided in this Agreement, the Member shall execute or cause to be executed from time to time all other instruments, certificates, notices and documents, and shall do or cause to be done all such filing, recording, publishing and other acts, in each case, as may be necessary or appropriate from time to time to comply with all applicable requirements for the formation and/or operation and, when appropriate, termination of a limited liability company in the State of Delaware and all other jurisdictions where the Company shall desire to conduct its business.

SECTION 2.02. Name, Registered Agent and Office.

(a) The name of the Company shall be "CenterPoint Energy Transition Bond Company II, LLC." All business of the Company shall be conducted in such name and all contracts, property and other assets of the Company shall be held in that name, and the Member shall not have any ownership interests in such contracts, property or other assets in the Company's individual name.

(b) The address of the registered office of the Company in the State of Delaware is the Corporation Trust Center, 1209 Orange Street in the City of Wilmington, County of New

Castle, 19801. The name of its registered agent at that address is The Corporation Trust Company. The Delaware State file number for the Company is #3854015.

(c) The Company may also have offices at such other places both within and without the State of Delaware as the Member may from time to time determine.

SECTION 2.03. Business Purpose. The nature of the business or purpose to be conducted or promoted by the Company is to engage exclusively in the following business and financial activities:

(a) to authorize, issue, sell and deliver one or more Series or Classes of Transition Bonds under the Indenture and, in connection therewith, to execute and deliver Supplemental Indentures providing for the issuance of one or more Series of Transition Bonds, each as permitted by and in accordance with the terms of the Indenture and to enter into any agreement or document providing for the authorization, issuance, sale and delivery of the Transition Bonds;

(b) to purchase, acquire, own, hold, administer, service, and enter into agreements for the servicing of, finance, manage, sell, assign, pledge, collect amounts due on and otherwise deal with the Transition Property and other assets to be acquired pursuant to the Basic Documents and any proceeds or rights associated therewith;

(c) to negotiate, authorize, execute, deliver, assume the obligations under, and perform its duties under, the Basic Documents and any other agreement or instrument or document relating to the activities set forth in clauses (a) and (b) above, including agreements with third-party credit enhancers and swap or hedge agreement counterparties relating to any Series or Class of Transition Bonds; provided, that each party to any such agreement under which material obligations are imposed upon the Company shall covenant that it shall not, prior to the date which is one year and one day after the termination of the Indenture and the payment in full of each Series of the Transition Bonds and any other amounts owed under the Indenture, including any amounts owed to third-party credit enhancers and any amounts owed under any Swap Agreement or hedge agreement, acquiesce, petition or otherwise invoke or cause the Company to invoke the process of any court or Governmental Authority for the purpose of commencing or sustaining a case against the Company 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 Company or any substantial part of the property of the Company; or ordering the winding up or liquidation of the affairs of the Company; and provided, further, that the Company shall be permitted to incur additional indebtedness or other liabilities payable to service providers and trade creditors in the ordinary course of business in connection with the foregoing activities;

(d) to invest proceeds from the Transition Property and its other assets and any capital and income of the Company in accordance with the applicable Basic Documents or as otherwise determined by the Managers and not inconsistent with this Section or the applicable Basic Documents;

(e) to do such other things and carry on any other activities which the Managers determine to be necessary, convenient or incidental to any of the foregoing purposes, and have

and exercise all of the powers and rights conferred upon limited liability companies formed pursuant to the Act that are related or incidental to any of the foregoing; and

(f) to enter into and perform the Basic Documents and all documents, agreements, certificates or financing statements contemplated thereby or related thereto, all without any further act, vote or approval of any Member, Manager, officer or other Person notwithstanding any other provision of this Agreement, the Act or applicable law, rule or regulation. The foregoing authorization shall not be deemed a restriction on the powers of the Member or any Manager or officer to enter into other agreements on behalf of the Company.

SECTION 2.04. Term. The term of the Company shall continue until the Company is dissolved and liquidated in accordance with Section 7.03. The existence of the Company as a separate legal entity shall continue until the cancellation of the Certificate of Formation in accordance with the Act.

SECTION 2.05. No State Law Partnership. The Member and the Special Members intend that the Company shall not be a partnership (including a general partnership or a limited partnership) or joint venture, and that neither the Member, any Special Members nor any Manager shall be a partner or joint venturer of the Member, any Special Member or any Manager with respect to the business of the Company, for any purposes, and this Agreement shall not be construed to suggest otherwise.

SECTION 2.06. Authority of Member. Subject to Section 4.04, the Member, acting in such capacity, shall have the authority or power to act for or on behalf of the Company, to do any act that would be binding on the Company, or to incur any expenditures, debts, liabilities or obligations on behalf of the Company.

SECTION 2.07. Liability to Third Parties. Except as otherwise expressly provided by the Act, neither the Member, any Special Member nor any Manager or officer shall be liable for the debts, obligations or liabilities of the Company (whether arising in contract, tort or otherwise), including under a judgment, decree or order of a court, solely by reason of being the Member or acting as a Special Member, Manager or officer.

SECTION 2.08. No Personal Liability of Member, Special Members, Managers, Etc. (a) Neither the Member nor any Special Member shall be subject in such capacity to any personal liability whatsoever to any Person in connection with the assets or the acts, obligations or affairs of the Company, and (b) no Manager or officer of the Company shall be subject in such capacity to any personal liability whatsoever to any Person, other than the Company or its Member, in connection with the assets or the affairs of the Company; and, subject to the provisions of Article IX, all such Persons shall look solely to the assets of the Company for satisfaction of claims of any nature arising in connection with the affairs of the Company; provided, that such protection from personal liability shall apply to the fullest extent permitted by applicable law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment provides further protection from personal liability or permits the Company to provide greater or broader indemnification rights than such law permitted the Company to provide prior to such amendment).

SECTION 2.09. Separateness.

(a) Except as expressly permitted by the Basic Documents, the funds and other assets of the Company shall not be commingled with those of any other entity, and the Company shall maintain its own bank accounts separate from the Member and any other Person. At all times, all funds and assets of the Company shall be separately identifiable from those of the Member or any other Person.

(b) The Company shall maintain its property and assets in such a way that it is not difficult or costly to segregate, identify and ascertain its property and assets as distinct from the property and assets of any other Person.

(c) The Company shall not guarantee or otherwise hold itself out as being liable for the debts of any other entity, and shall conduct its own business in its own name.

(d) The Company shall not form, or cause to be formed, any subsidiaries.

(e) The Company shall act solely in its limited liability company name and through its duly authorized Member, Special Members, Managers, officers or agents in the conduct of its business, and shall conduct its business so as not to mislead others as to the identity of the entity or assets with which they are concerned.

(f) The Company shall maintain separate records (financial and otherwise), books of account and financial statements and shall not commingle its records and books of account with the records and books of account of any other entity or the Member.

(g) The Managers shall hold appropriate meetings to authorize all of the Company's limited liability company actions, which meetings may be held by telephone conference call, provided, that in lieu of any such meeting and without prior notice, the Managers may act by written consent in accordance with Section 4.13. The Company shall observe all formalities required by this Agreement and applicable Law, and shall keep and maintain records of such meetings and compliance.

(h) The Company shall at all times ensure that its capitalization is adequate (and never unreasonably small) in light of its business, purpose and expected activities.

(i) Neither the Member, any Special Member nor any Manager, officer or Affiliate of the Company shall guarantee, become liable on or hold itself out as being liable for the debts of the Company. The Company shall not guarantee or become obligated for the debts of the Member, any Special Member or any Manager, any Affiliate thereof or any other Person, or otherwise hold out its credit as being available to satisfy the obligations of the Member, any Special Member, any Manager or any other Person (except for the Company's obligations under any Basic Documents), shall not pledge its assets for the benefit of any entity other than the Trustee, shall not make loans or advances to any Person, and shall not acquire obligations or securities of the Member, any Special Member, any Manager or officer or any Affiliate thereof.

(j) The Company shall pay its own liabilities out of its own funds, including fees and expenses of the Administrator pursuant to the Administration Agreement and the Servicer pursuant to any Servicing Agreement.

(k) The Company shall maintain an arm's-length relationship with the Member and its other Affiliates.

(l) The Company shall allocate fairly and reasonably the salaries of and the expenses related to providing the benefits of officers or other employees shared with the Member, any Special Member or any Manager.

(m) The Company shall allocate fairly and reasonably any overhead for office space shared with the Member, any Special Member or any Manager.

(n) The Company shall use its own separate taxpayer identification number, stationery, invoices, checks and other business forms.

(o) The Company shall conduct all of its business in its own name and shall correct any known misunderstanding regarding its separate identity.

(p) The Company shall treat all outstanding Transition Bonds as debt except where a contrary treatment is required by law or by GAAP.

(q) The Company shall at all times hold itself out to the public as a legal entity separate from the Member and any other Person.

(r) The Company shall file its own tax returns, if any, as may be required under applicable law, to the extent (a) not part of a consolidated group filing a consolidated return or returns or (b) not treated as a division for tax purposes of another taxpayer, and pay any taxes so required to be paid under applicable law.

(s) The Company shall treat the transfer of the Transition Property from the Member to the Company as a sale under the Texas Electric Choice Plan.

Failure of the Company, or the Member, any Special Member or any Manager or officer on behalf of the Company, to comply with any of the foregoing covenants or any of the covenants contained in this Agreement shall not affect the status of the Company as a separate legal entity or the limited liability of the Member, any Special Member or any Manager.

SECTION 2.10. Limited Liability and Bankruptcy Remoteness. Without limiting the generality of Section 2.09, the Company shall be operated in such a manner as the Managers deem reasonable and necessary or appropriate to preserve (a) the limited liability of CenterPoint Houston (or its successor) as the Member and the limited liability of the Special Members, (b) the separateness of the Company from the business of CenterPoint Houston (or its successor), as the Member, or any other Affiliate thereof and (c) until the expiration of the period of one year and one day specified in Section 10.06, the special purpose, bankruptcy-remote status of the Company.

ARTICLE III

CAPITAL CONTRIBUTIONS

SECTION 3.01. Capital Contributions. The Member was deemed admitted as the Member of the Company upon the execution and delivery of the Original LLC Agreement. The Member has contributed the amount of cash to the Company listed on Schedule A attached hereto.

ARTICLE IV

MANAGEMENT

SECTION 4.01. Management by Managers. The powers of the Company shall be exercised by or under the authority of, and the business and affairs of the Company shall be managed under the direction of, the Managers, except to the extent that such powers are otherwise retained by the Member under this Agreement (which may be delegated by the Member to the Managers unless otherwise specified herein).

SECTION 4.02. Acts by Managers.

(a) The Managers shall be obliged to devote only as much of their time to the Company's business as shall be reasonably required in light of the Company's business and objectives. A Manager shall perform his or her duties as a Manager in good faith, in a manner he or she reasonably believes to be in the best interests of the Company, and with such care as an ordinarily prudent person in a like position would use under similar circumstances.

(b) Every Manager is an agent of the Company for the purpose of its business, and the act of every Manager, including the execution in the name of the Company of any instrument for carrying on the business of the Company, binds the Company, unless such act is in contravention of this Agreement or unless the Manager so acting otherwise lacks the authority to act for the Company and the Person with whom he or she is dealing has knowledge of the fact that he or she has no such authority.

(c) The Managers shall have the right and authority to take all actions which the Managers deem necessary, useful or appropriate for the day-to-day management and conduct of the Company's business.

(d) The Managers may exercise all powers of the Company and do all such lawful acts and things as are not required or directed by the Act, other applicable law, or this Agreement to be exercised or done by the Member. All instruments, contracts, agreements and documents providing for the acquisition or disposition of property of the Company shall be valid and binding on the Company if executed by one or more of the Managers or by one or more officers of the Company delegated such power by the Managers. All instruments, contracts, agreements and documents of whatsoever type executed on behalf of the Company shall be executed in the name of the Company by one or more Managers or by one or more officers of the Company delegated such power by the Managers.

SECTION 4.03. Number and Qualifications. The number of Managers of the Company shall not be less than three nor more than five, as may be determined by the Member from time to time, but no decrease in the number of Managers shall have the effect of shortening the term of any incumbent Manager.

SECTION 4.04. Independent Managers.

(a) The Company shall have at all times at least two individuals who are each Independent Managers. The Independent Managers may not delegate their duties, authorities or responsibilities hereunder. If any Independent Manager resigns, dies or becomes incapacitated, or such position is otherwise vacant, no action requiring the unanimous affirmative vote of the Managers shall be taken until a successor Independent Manager is appointed by the Member and qualifies and approves such action.

(b) Notwithstanding any other provision of this Agreement and any provision of law that otherwise so empowers the Company, the Member, any Special Member, any Manager, officer or any other Person, the Company shall not, and no Member, Special Member, Manager, officer or any other Person on behalf of the Company shall, without the prior unanimous consent of the Managers, including each of the Independent Managers, do any of the following: (i) engage in any business or activity other than those set forth in Section 2.03; (ii) except as provided in the Basic Documents, incur any indebtedness, other than the Transition Bonds, obligations under agreements with third party credit enhancers and swap or hedge agreement counterparties relating to any Series of Transition Bonds and ordinary course expenses as set forth in Section 2.03, or assume or guarantee any indebtedness of any other entity; (iii) make a general assignment for the benefit of creditors; (iv) file a petition commencing a voluntary bankruptcy; (v) file a petition or answer seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution (to the fullest extent permitted by law) or similar relief under any statute, law or regulation; (vi) file an answer or other pleading admitting or failing to contest the material allegations of a petition filed against it in any proceeding seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution (to the fullest extent permitted by law) or similar relief under any statute, law or regulation, or the entry of any order appointing a trustee, liquidator or receiver of it or of its assets or any substantial portion thereof; (vii) seek, consent to or acquiesce in the appointment of a trustee, receiver or liquidator of it or of all or any substantial part of its assets; (viii) file or otherwise initiate the filing of a motion in any Bankruptcy or other insolvency proceeding in which the Member or any of its Affiliates is a debtor to substantively consolidate the assets and liabilities of any such debtor with the assets and liabilities of the Company; (ix) consolidate or merge with or into any other entity or convey or transfer substantially all of its properties and assets substantially as an entirety to any entity; or (x) amend this Agreement, or take any other action, in furtherance of any such action. With regard to any action contemplated by the preceding sentence, or with regard to any action taken or determination made at any time when the Company is insolvent, each Independent Manager will to the fullest extent permitted by law, including Section 18-1101(c) of the Act, owe its primary fiduciary duty to the Company (including the creditors of the Company).

(c) No Independent Manager shall at any time serve as trustee in bankruptcy for any Affiliate of the Company.

SECTION 4.05. Appointment and Vacancy. The Member will appoint each Manager, including any Manager to be appointed by reason of an increase in the number of Managers.

SECTION 4.06. Term. Each Manager shall hold office until his successor shall be selected by the Member and qualified, or until his or her earlier death, resignation or removal as provided in this Agreement.

SECTION 4.07. Removal. Subject to Section 4.15, the Member may remove, with or without cause, any Manager.

SECTION 4.08. Resignation. Any Manager may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein or, if no time is specified therein, at the time of its receipt by the remaining Managers; provided, that the resignation of an Independent Manager shall not be effective until a replacement Independent Manager (i) shall have accepted his or her appointment as an Independent Manager, and (ii) shall have executed a counterpart to this Agreement as required by Section 6.05. The acceptance of a resignation shall not be necessary to make it effective, unless so expressly provided in the resignation.

SECTION 4.09. Place of Meetings of Managers. Any meetings of the Managers may be held either within or without the State of Delaware at such place or places as shall be determined from time to time by resolution of the Managers.

SECTION 4.10. Meetings of Managers. Meetings of the Managers may be held when called by any Managers or Manager. The Manager or Managers calling any meeting shall cause notice to be given of such meeting, including therein the time, date and place of such meeting, to each Manager at least two Business Days before such meeting. The business to be transacted at, or the purpose of, any meeting of the Managers shall be specified in the notice or waiver of notice of any such meeting. If fewer than all the Managers are present in person, by telephone or by proxy, business transacted at any such meeting shall be confined to the business or purposes specifically stated in the notice or waiver of notice of such meeting.

SECTION 4.11. Quorum; Majority Vote. At all meetings of the Managers, the presence in person, by telephone or by proxy of a majority of the Managers shall be necessary and sufficient to constitute a quorum for the transaction of business unless a greater number is required by this Agreement or by law. The act of a majority of the Managers present in person, by telephone or by proxy at a meeting at which a quorum is present in person, by telephone or by proxy shall be the act of the Managers, except as otherwise provided by law or this Agreement. If a quorum shall not be present in person, by telephone or by proxy at any meeting of the Managers, the Managers present in person, by telephone or by proxy at the meeting may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present in person, by telephone or by proxy.

SECTION 4.12. Methods of Voting; Proxies. A Manager may vote either in person, by telephone, by electronic transmission or by proxy executed in writing by the Manager; provided that the Person designated to act as proxy for an Independent Manager must be an Independent Manager.

SECTION 4.13. Actions Without a Meeting. Any action required or permitted to be taken at a meeting of the Managers may be taken without a meeting, without prior notice, and without a vote, if a consent in writing, setting forth the action so taken, is signed by the Managers having not fewer than the minimum number of votes that would be necessary to take the action at a meeting at which all Managers entitled to vote on the action were present and voted. Copies of any such consents shall be filed with the minutes and permanent records of the Company.

SECTION 4.14. Telephone and Similar Meetings. The Managers, or members of any committee thereof, may participate in and hold meetings by means of conference telephone or similar communications equipment by means of which all Persons participating in the meeting can hear each other. Such participation in any such meeting shall constitute presence in person at such meeting, except where a Person participates in such meeting for the express purpose of objecting to the transaction of any business on the ground that such meeting is not lawfully called or convened.

SECTION 4.15. Managers. The Member and each Manager shall take all actions necessary from time to time to ensure that at all times the number of Managers shall be not less than three nor more than five; provided, however, that pursuant to Section 4.04, the Company shall at all times have at least two Independent Managers. The Managers upon the execution of this Agreement shall be those persons identified on Schedule C.

SECTION 4.16. Compensation and Fees. The Managers, other than the Independent Managers, shall not receive any compensation or fees from the Company. The compensation for the performance of CenterPoint Houston, as Administrator under the Administration Agreement, shall include the compensation of Persons serving as Managers, other than the Independent Managers. The fees of the Independent Managers shall be paid by the Company and shall be fixed by the Managers consistent with the provisions of any applicable Financing Order.

ARTICLE V

OFFICERS

SECTION 5.01. Designation; Term; Qualifications. The Managers may, from time to time, designate one or more Persons to be officers of the Company. Any officer so designated shall have such title and authority and perform such duties as the Managers may, from time to time, delegate to him or her. Each officer shall hold office for the term for which such officer is designated and until his or her successor shall be duly designated and shall qualify or until his or her death, resignation or removal as provided in this Agreement. Any Person may hold any number of offices. No officer need be a Manager, the Member, a Delaware resident or a United States citizen. The persons identified on Schedule D are hereby designated the officers of the Company.

SECTION 5.02. Removal and Resignation. Any officer of the Company may be removed as such, with or without cause, by the Managers at any time. Any officer of the Company may resign as such at any time upon written notice to the Company. Such resignation

shall be made in writing and shall take effect at the time specified therein or, if no time is specified therein, at the time of its receipt by the Managers.

SECTION 5.03. Vacancies. Any vacancy occurring in any office of the Company may be filled by the Managers.

SECTION 5.04. Compensation. The officers of the Company shall not receive any compensation from the Company. The compensation for the performance of CenterPoint Houston, as Administrator under the Administration Agreement, shall include the compensation of Persons serving as officers of the Company.

ARTICLE VI

MEMBER

SECTION 6.01. Powers. Subject to the provisions of this Agreement and the Act, all powers shall be exercised by or under the authority of, and the business and affairs of the Company shall be controlled by, the Member pursuant to Section 6.03. The Member may not and shall not resign from the Company. Pursuant to Section 4.01, the Member has delegated such powers to the Managers. Without prejudice to such general powers, but subject to the same limitations, it is hereby expressly declared that the Member shall have the following powers, subject to Section 4.04 in all cases:

First: To select and remove the Managers and prescribe such powers and duties for them as may be consistent with the Act and other applicable law and this Agreement.

Second: To conduct, manage and control the affairs and business of the Company, and to make such rules and regulations therefor consistent with the Act and other applicable law and this Agreement.

Third: To change the registered office of the Company in Delaware from one location to another; to fix and locate from time to time one or more other offices of the Company; and to designate any place within or without the State of Delaware for the conduct of the business of the Company.

SECTION 6.02. Fees of Member. The Company shall have authority to pay to the Member reasonable fees for the Member's services to the Company (other than services to be provided to the Company by the Member pursuant to the Administration Agreement and any Servicing Agreement, the compensation for which is governed by such agreements), subject to the approval of the PUCT or the deemed approval by the PUCT. With respect to the PUCT's approval of the fees of the Member,

(a) any Manager may request the approval of the PUCT by delivering to the PUCT's executive director and general counsel a written request for such approval, which request shall contain:

(i) a reference to Docket No. 30485 or the Docket No. of any proceeding related to the issuance of an additional Series of

Transition Bonds and a statement as to the possible effect of the proposed fees on ongoing qualified costs;

(ii) an Officer's Certificate stating that the proposed fees have been approved by the Managers; and

(iii) a statement identifying the person to whom the PUCT or its staff is to address its approval to the proposed fee amount or request additional time;

(b) The PUCT shall, within 30 days of receiving the request for approval complying with Section 6.02(a) above, either

(i) provide notice of its approval or lack of approval to the person specified in Section 6.02(a)(iii) above, or

(ii) be conclusively deemed to have approved the proposed fees,

unless, within 30 days of receiving the request for approval complying with Section 6.02(a) above, the PUCT or its staff delivers to the office of the person specified in Section 6.02(a)(iii) above a written statement requesting an additional amount of time not to exceed 30 days in which to consider whether to approve the proposed fees. 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 approval or lack of approval to the person specified in Section 6.02(a)(iii) above no later than the last day of such extension of time or be conclusively deemed to have approved the proposed fees as of the last day of such extension of time. Following delivery of a notice to the PUCT under Section 6.02(a) above, the Manager making the request (or other Person designated by the Managers) may at any time withdraw from the PUCT further consideration of any notification of a requested approval. Any Member fees requiring the consent of the PUCT as provided in this Section 6.02 shall become effective on the later of (i) the date proposed by the Manager(s) therefor and (ii) the first day after the expiration of the 30 day period provided for in Section 6.02(b), or, if such period has been extended pursuant thereto, the first day after the expiration of such period as so extended. It is understood that the fees paid to the Member under the provisions of this Section shall be determined without regard to the income of the Company, shall not be deemed to constitute distributions to the recipient of any profit, loss or capital of the Company and shall be considered as an operating expense of the Company.

SECTION 6.03. Actions by the Member. All actions of the Member may be taken by written resolution of the Member which shall be signed on behalf of the Member by an authorized officer of the Member and filed with the minutes and records of the Company.

SECTION 6.04. Control by Member. To the extent the Member takes any action with respect to the Company (including by means of its appointment of any individual Manager or its control or employment of any individual Manager in any other capacity), the Member, or any such Manager or officer designated by the Managers, as applicable, will act in good faith in accordance with the terms of this Agreement, and make decisions with respect to the business

and daily operations of the Company independent of, and not dictated by, in the case of the Manager or officer, the Member, or in either case any Affiliate of the foregoing, and, to the fullest extent permitted by law, any such Manager or officer shall bear a fiduciary duty to the Company (including its creditors) under the circumstances set forth in Section 4.04.

SECTION 6.05. Special Member. Upon the occurrence of any event that causes the Member to cease to be a member of the Company (other than upon an assignment by the Member of all of its limited liability company interest in the Company and the admission of the transferee pursuant to Section 7.01), each person acting as an Independent Manager pursuant to Section 4.04 shall, without any action of any Person and simultaneously with the Member ceasing to be a member of the Company, automatically be admitted to the Company as a Special Member and shall continue the Company without dissolution. No Special Member may resign from the Company or transfer its rights as Special Member unless (i) a successor Special Member has been admitted to the Company as Special Member by executing a counterpart to this Agreement, and (ii) such successor has also accepted its appointment as Independent Manager, provided, however, the Special Members shall automatically cease to be members of the Company upon the admission to the Company of a substitute Member (who may be approved by the personal representative of the last Member that ceased to be a member of the Company). Each Special Member shall be a member of the Company that has no interest in the profits, losses and capital of the Company and has no right to receive any distributions of Company assets. Pursuant to Section 18-301(d) of the Act, a Special Member shall not be required to make any capital contributions to the Company and shall not receive a limited liability company interest in the Company. A Special Member, in its capacity as Special Member, may not bind the Company. A Special Member, in its capacity as Special Member, shall have no right to vote on, approve or otherwise consent to any action by, or matter relating to, the Company, including the merger, consolidation or conversion of the Company. In order to implement the admission to the Company of each Special Member, each person acting as an Independent Manager pursuant to Section 4.04 shall execute a counterpart to this Agreement. Prior to its admission to the Company as Special Member, each person acting as an Independent Manager pursuant to Section 4.04 shall not be a member of the Company.

ARTICLE VII

COMMON INTEREST

SECTION 7.01. General. (a) The Common Interest is hereby issued to the Member and shall be deemed fully paid and non-assessable. The Common Interest constitutes personal property and shall be freely transferable and assignable in whole but not in part upon registration of such transfer and assignment on the books of the Company in accordance with the procedures established for such purpose by the Managers. Upon registration of the transfer and assignment of the Common Interest on the books of the Company, and without any further action of any Person, the transferee/assignee shall be and become the sole Member of the Company and shall have the rights and powers, and be subject to the restrictions and liabilities, of the Member under this Agreement and the Act, and the transferor/assignor shall cease to be the Member, each as of the date of such registration. Notwithstanding the foregoing, the Common Interest may not be transferred unless the Rating Agency Condition is satisfied. The Common Interest of the Member shall be evidenced by a certificate in the form set forth in Schedule B hereto.

(b) Certificates.

- (i) The Company shall issue one or more certificates in the name of the Member. Each certificate shall be signed by a Manager on behalf of the Company.
- (ii) The Company shall issue a certificate in place of any certificate previously issued if the holder of the Common Interest represented by such certificate, as reflected on the books and records of the Company:
 - (A) makes proof by affidavit, in form and substance satisfactory to the Managers, that such previously issued certificate has been lost, stolen or destroyed;
 - (B) requests the issuance of a new certificate before the Managers have notice that such previously issued certificate has been acquired by a purchaser for value in good faith and without notice of an adverse claim;
 - (C) if requested by the Managers, delivers to the Company a bond, in form and substance satisfactory to the Managers, with such surety or sureties as the Managers may direct, to indemnify the Company and the Managers against any claim that may be made on account of the alleged loss, destruction or theft of the previously issued certificate; and
 - (D) satisfies any other reasonable requirements imposed by the Managers.
- (iii) Upon a Member's transfer in accordance with the provisions of this Agreement of the Common Interest represented by a certificate, the transferee of the Common Interest shall deliver such certificate to the Managers for cancellation, and a Manager shall thereupon issue a new certificate to such transferee.

SECTION 7.02. Distributions. The Member shall be entitled to receive, out of the assets of the Company legally available therefor, when, as and if declared by unanimous vote of the Managers, distributions payable in cash in such amounts, if any, as the Managers shall declare. Notwithstanding any provision to the contrary contained in this Agreement, the Company shall not be required to make a distribution to the Member on account of its interest in the Company if such distribution would violate Sections 18-607 or 18-804 of the Act or any other applicable law or any Basic Document.

SECTION 7.03. Rights on Liquidation, Dissolution or Winding Up.

(a) The Company shall be dissolved, and its affairs shall be wound up upon the first to occur of the following: (i) the termination of the legal existence of the last remaining

member of the Company or the occurrence of any other event which terminates the continued membership of the last remaining member of the Company in the Company unless the business of the Company is continued in a manner permitted by this Agreement or the Act or (ii) the entry of a decree of judicial dissolution under Section 18-802 of the Act. The resignation or dissolution of the Member or the resignation of any Special Member (whether or not in violation of any provision of this Agreement prohibiting such action) shall not, by itself, constitute a dissolution of the Company.

(b) In the event of dissolution, the Company shall conduct only such activities as are necessary to wind up its affairs (including the sale of the assets of the Company in an orderly manner), and the assets of the Company shall be applied in the manner, and in the order of priority, set forth in Section 18-804 of the Act.

(c) The Company shall terminate when (i) all of the assets of the Company, after payment of or due provision for all debts, liabilities and obligations of the Company shall have been distributed to the Member in the manner provided for in this Agreement and (ii) the Certificate of Formation shall have been canceled in the manner required by the Act.

(d) Neither the sale of all or substantially all of the property or business of the Company, nor the merger, conversion or consolidation of the Company into or with another company or other entity, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purpose of this Section 7.03.

(e) The commencement of a Bankruptcy, insolvency, receivership or other similar proceeding by or against the Company shall not result in the dissolution of the Company or in the cessation of the interest of the Member in the Company.

(f) Upon the occurrence of any event that causes the last remaining member of the Company to cease to be a member of the Company, to the fullest extent permitted by law, the personal representative of such member is hereby authorized to, and shall, within 90 days after the occurrence of the event that terminated the continued membership of such member in the Company, agree in writing (i) to continue the Company and (ii) to the admission of the personal representative or its nominee or designee, as the case may be, as a substitute member of the Company, effective as of the occurrence of the event that terminated the continued membership of the last remaining member of the Company in the Company.

(g) Notwithstanding any other provision of this Agreement, the Bankruptcy of the Member or any Special Member shall not cause the Member or Special Member, respectively, to cease to be a member of the Company, and upon the occurrence of such an event, the business of the Company shall continue without dissolution.

SECTION 7.04. Redemption. The Common Interest shall not be redeemable.

SECTION 7.05. Voting Rights. Subject to Section 4.04, the Member shall have the sole right to vote on all matters as to which members of a limited liability company shall be entitled to vote pursuant to the Act and other applicable law.

ARTICLE VIII

ALLOCATIONS; DISTRIBUTIONS; EXPENSES; TAXES;
BOOKS; AND REPORTS

SECTION 8.01. Allocations. Except as may be required by section 704(c) of the Code and Treasury Regulation section 1.704-1(b)(2)(iv)(f)(4), all items of income, gain, loss, deduction and credit of the Company for each Fiscal Year shall be allocated to the Member. Any credit available for federal income tax purposes shall be allocated to the Member in the same manner.

SECTION 8.02. Distributions. All distributions shall be made to the Member from surplus funds. Except as provided in Section 8.03, all distributions shall be made in such amounts and at such times as determined by the Managers.

SECTION 8.03. Limitation Upon Distributions. No distribution shall be declared and paid unless, after the distribution is made, no default has occurred and is continuing under the Indenture or any Series of Transition Bonds then outstanding.

SECTION 8.04. Expenses. Except as otherwise provided in this Agreement, and subject to the provisions of the Basic Documents, the Company shall be responsible for all expenses and the allocation thereof including:

(a) all expenses incurred by the Member or its Affiliates in organizing the Company;

(b) all expenses related to the payment of the principal of and interest on and other amounts in respect of the Transition Bonds issued by the Company;

(c) all expenses related to the business of the Company and all administrative expenses of the Company, including any amounts payable under the Administration Agreement and any Servicing Agreement, the maintenance of books and records of the Company and the preparation and dispatch to the Member of checks, financial reports, tax returns and notices required pursuant to this Agreement;

(d) all expenses incurred in connection with any litigation or arbitration involving the Company (including the cost of any investigation and preparation) and the amount of any judgment or settlement paid in connection therewith;

(e) all expenses for indemnity or contribution payable by the Company to any Person;

(f) all expenses incurred in connection with the collection of amounts due to the Company from any Person;

(g) all expenses incurred in connection with the preparation of amendments to this Agreement, any other Basic Documents and any documents required by any of the foregoing;

(h) all expenses incurred in connection with the liquidation, dissolution and winding up of the Company; and

(i) all expenses otherwise allocated in good faith to the Company by the Managers.

SECTION 8.05. Tax Elections. The Managers shall make the following elections on behalf of the Company:

(a) To elect the calendar year as the Company's Fiscal Year;

(b) To elect the accrual method of accounting;

(c) To elect to treat all organization and start-up costs of the Company as deferred expenses amortizable over 60 months under Section 195 of the Code; and

(d) To elect with respect to such other federal, state and local tax matters as the Managers shall agree upon from time to time.

SECTION 8.06. Annual Tax Information. The Managers shall cause the Company to deliver to the Member all information necessary for the preparation of the Member's federal or state income tax return.

SECTION 8.07. Tax Matters Member. The Member shall communicate and negotiate with the Internal Revenue Service on any tax matter on behalf of the Member and the Company.

SECTION 8.08. Maintenance of Books. The Company shall keep books and records of accounts and shall keep minutes of the proceedings of the Member, the Managers and each committee of the Managers. The Fiscal Year shall be the accounting year of the Company.

SECTION 8.09. Reports. Within ninety (90) days following the end of each Fiscal Year during the term of the Company, the Managers shall cause to be furnished to the Member a balance sheet, an income statement and a statement of changes in Member's capital account for, or as of the end of, that Fiscal Year. Such financial statements shall be prepared in accordance with the accounting method selected by the Managers consistently applied (except as therein noted), and shall be accompanied by an audit report from a nationally recognized accounting firm. The Managers also may cause to be prepared or delivered such other reports as they may deem appropriate. The Company shall bear the costs of all such financial statements and reports.

ARTICLE IX

INDEMNIFICATION

SECTION 9.01. Mandatory Indemnification of Member, the Special Members and the Managers. Any Person who was or is a party or is threatened to be made a party to or is involved in, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitral or investigative (hereafter a "Proceeding"), or any appeal in such a Proceeding or any inquiry or investigation that could lead to such a Proceeding by reason of the

fact that such Person is or was the Member, a Special Member or a Manager, or by reason of the fact that the Member, such Special Member or such Manager is or was serving at the request of the Company as a member, director, manager, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic corporation, limited liability company or partnership, joint venture, partnership, trust, sole proprietorship, employee benefit plan or other enterprise, shall be indemnified by the Company, to the fullest extent permitted by applicable law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Company to provide greater or broader indemnification rights than such law permitted the Company to provide prior to such amendment) against judgments, penalties (including excise and similar taxes and punitive damages), fines, settlements and reasonable expenses (including reasonable attorneys' fees) actually incurred by such Person in connection with such Proceeding except that such Person shall not be entitled to indemnification for any judgment, penalty, fine, settlement or expense directly caused by such Person's fraud, gross negligence or willful misconduct. It is expressly acknowledged that the indemnification provided in this Article IX could involve indemnification for negligence or under theories of strict liability. Notwithstanding anything herein to the contrary, for so long as any Transition Bonds are outstanding, no payment from funds of the Company (as distinct from funds from other sources, such as insurance) of any indemnity of the Member, Special Member or any Manager under this Article IX shall be payable except in amounts and out of funds available for payment of Company expenses as provided in the Indenture.

SECTION 9.02. Mandatory Advancement of Expenses. Expenses incurred by a Person of the type entitled to be indemnified under Section 9.01 in defending any Proceeding shall be paid or reimbursed by the Company in advance of the final disposition of the Proceeding to the extent that such expenses are Qualified Costs, without any determination as to such Person's ultimate entitlement to indemnification under Section 9.01, upon receipt of a written affirmation by such Person of such Person's good faith belief that such Person has met the standard of conduct necessary for indemnification under this Agreement and a written undertaking by or on behalf of such Person to repay all amounts so advanced if it shall ultimately be determined that such Person is not entitled to be indemnified by the Company as authorized in Section 9.01 or otherwise. The written undertaking shall be an unlimited general obligation of the Person but need not be secured and shall be accepted without reference to financial ability to make repayment.

SECTION 9.03. Indemnification of Officers, Employees and Agents. The Company shall indemnify and pay and advance expenses to an officer, employee or agent of the Company to the same extent and subject to the same conditions under which it may indemnify and pay and advance expenses to the Member, any Special Member or any Managers under this Article IX, and the Company shall indemnify and pay and advance expenses to any Person who is or was an officer, employee or agent of the Company and who is or was serving at the request of the Company as a member, manager, director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic limited liability company or partnership, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise against any liability asserted against such Person and incurred by such Person in such a capacity or arising out of such Person's status as such to the same extent and

subject to the same conditions that the Company may indemnify and pay and advance expenses to the Member or a Special Member or any Manager under this Article IX.

SECTION 9.04. Nonexclusivity of Rights. The indemnification and advancement and payment of expenses provided by this Article IX (i) shall not be deemed exclusive of any other rights to which the Member, a Special Member, a Manager or other Person seeking indemnification may be entitled under any statute, agreement, decision of the Member or disinterested Managers, or otherwise both as to action in such Person's official capacity and as to action in another capacity while holding such office, (ii) shall continue as to any Person who has ceased to serve in the capacity which initially entitled such Person to indemnity and advancement and payment of expenses, and (iii) shall inure to the benefit of the heirs, executors, administrators, successors and assigns of the Member, such Special Member, such Manager or other Person.

SECTION 9.05. Contract Rights. The rights granted pursuant to this Article IX shall be deemed to be contract rights, and no amendment, modification or repeal of this Article IX shall have the effect of limiting or denying any such rights with respect to actions taken or Proceedings arising prior to any such amendment, modification or repeal.

SECTION 9.06. Insurance. The Company may purchase and maintain insurance or other arrangement or both, at its expense, on behalf of itself or any Person who is or was serving as the Member, a Special Member, a Manager, officer, employee or agent of the Company, or is or was serving at the request of the Company as a member, manager, director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic limited liability company or partnership, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise, against any liability, expense or loss, whether or not the Company would have the power to indemnify such Person against such liability under the provisions of this Article IX.

SECTION 9.07. Savings Clause. If this Article IX or any portion of this Agreement shall be invalidated on any ground by any court of competent jurisdiction, then the Company shall nevertheless indemnify and hold harmless the Member, each Special Member, each Manager or any other Person indemnified pursuant to this Article IX as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, to the fullest extent permitted by any applicable portion of this Article IX that shall not have been invalidated and to the fullest extent permitted by applicable law.

SECTION 9.08. Other Ventures. It is expressly agreed that the Member, any Special Member, any Manager and any Affiliates, officers, managers, members, or employees of the Member, any Special Member or any Manager, may engage in other business ventures of every nature and description, whether or not in competition with the Company, independently or with others, and the Company shall not have any rights in and to any independent venture or activity or the income or profits derived therefrom.

SECTION 9.09. Other Arrangements Not Excluded. The indemnification and advancement of expenses authorized in or ordered by a court pursuant to this Article IX:

(a) does not exclude any other rights to which a Person seeking indemnification or advancement of expenses may be entitled under any agreement, decision of the Member or otherwise, for either an action of the Member, any Special Member or any Manager, officer, employee or agent in the official capacity of such Person or an action in another capacity while holding such position, except that indemnification, unless ordered by a court pursuant to Section 9.05 above, may not be made to or on behalf of the Member, any Special Member or any Manager if a final adjudication established that its acts or omissions involved intentional misconduct, fraud or a knowing violation of the law and was material to the cause of action; and

(b) continues for a Person who has ceased to be the Member, a Special Member, Manager, officer, employee or agent and inures to the benefit of the successors, heirs, executors and administrators of such a Person.

SECTION 9.10. Survival. The forgoing provisions of this Article IX shall survive any termination of this Agreement.

ARTICLE X

MISCELLANEOUS PROVISIONS

SECTION 10.01. Offset. Whenever the Company is to pay any sum to the Member, any amounts the Member owes the Company may be deducted from such sum before payment.

SECTION 10.02. Notices. Except as expressly set forth to the contrary in this Agreement, all notices, requests or consents provided for or permitted to be given under this Agreement shall be in writing and shall be given either by depositing such writing in the United States mail, addressed to the recipient, postage paid, and registered or certified with return receipt requested or by delivering such writing to the recipient in person, by reputable overnight courier, or by facsimile transmission; and a notice, request or consent given under this Agreement shall be effective on receipt by the Person to whom sent or three business days after deposit in the United States mail, registered or certified, postage prepaid and properly addressed. All notices, requests and consents to be sent to the Member shall be sent to or made to 1111 Louisiana Street, Houston, Texas 77002, Attention: Treasurer or such other address as the Member may specify by notice to the Company and the Managers. Any notice, request, or consent to the Company or the Managers must be given to the Managers at the following address: 1111 Louisiana Street, Suite 4655B, Houston, Texas 77002, Attention: Manager. Whenever any notice is required to be given by law or this Agreement, a written waiver thereof, signed by the Person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

SECTION 10.03. Benefits of Agreement; No Third-Party Rights. Subject to Section 10.09, none of the provisions of this Agreement shall be for the benefit of or enforceable by any creditor of the Company or by any creditor of the Member. Nothing in this Agreement shall be deemed to create any right in any Person (other than Persons indemnified pursuant to Article IX)

not a party hereto, and this Agreement shall not be construed in any respect to be a contract in whole or in part for the benefit of any third Person.

SECTION 10.04. Effect of Waiver or Consent. A waiver or consent, express or implied, to or of any breach or default by any Person in the performance by such Person of its obligations with respect to the Company shall not be a consent or waiver to or of any other breach or default in the performance by such Person of the same or any other obligations of such Person with respect to the Company.

SECTION 10.05. Governing Law; Severability. This Agreement shall be governed by and shall be construed in accordance with the law of the State of Delaware, excluding any conflicts-of-law rule or principle that might refer the governance or the construction of this Agreement to the law of another jurisdiction. In the event of a direct conflict between the provisions of this Agreement and any mandatory provision of the Act, then the applicable provision of the Act shall control. If any provision of this Agreement or the application thereof to any Person or circumstance is held invalid or unenforceable to any extent, the remainder of this Agreement and the application of that provision to other Persons or circumstances shall not be affected thereby and such provision shall be enforced to the fullest extent permitted by law.

SECTION 10.06. No Bankruptcy Petition; Dissolution.

(a) To the fullest extent permitted by law, the Member, each Special Member and each Manager hereby covenant and agree (or shall be deemed to have hereby covenanted and agreed) that, prior to the date which is one year and one day after the termination of the Indenture and the payment in full of every Series of Transition Bonds and any other amounts owed under the Indenture, including, without limitation, any amounts owed to third-party credit enhancers or swap or hedge agreement counterparties with respect to the Transition Bonds, it will not acquiesce, petition or otherwise invoke or cause the Company to invoke the process of any court or Governmental Authority for the purpose of commencing or sustaining a case against the Company 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 Company or any substantial part of the property of the Company, or ordering the winding up or liquidation of the affairs of the Company; provided, however, that nothing in this Section 10.06 shall constitute a waiver of any right to indemnification, reimbursement or other payment from the Company pursuant to this Agreement.

(b) To the fullest extent permitted by law, the Member, each Special Member and each Manager hereby covenants and agrees (or shall be deemed to have hereby covenanted and agreed) that, until the termination of the Indenture and the payment in full of any Series of the Transition Bonds and any other amounts owed under the Indenture, including any amounts owed to third-party credit enhancers or under any Swap Agreement or hedge agreement, the Member, such Special Member and such Manager will not consent to, or make application for, or institute or maintain any action for, the dissolution of the Company under Section 18-801 or 18-802 of the Act or otherwise.

(c) In the event that the Member, any Special Member or any Manager takes action in violation of this Section 10.06, the Company agrees that it shall file an answer with the

court or otherwise properly contest the taking of such action and raise the defense that the Member, the Special Member or Manager, as the case may be, has agreed in writing not to take such action and should be estopped and precluded therefrom and such other defenses, if any, as its counsel advises that it may assert.

(d) The provisions of this Section 10.06 shall survive the termination of this Agreement and the resignation, withdrawal or removal of the Member, any Special Member or any Manager. Nothing herein contained shall preclude participation by the Member, any Special Member or a Manager in assertion or defense of its claims in any such proceeding involving the Company.

SECTION 10.07. Amendment. Subject to Section 4.04(b)(ix) hereof, so long as the Rating Agency Condition is satisfied, the Trustee shall have given its prior approval and, in the case of any amendment to Section 4.16, 5.04 or 6.02 or any other amendment that increases ongoing qualified costs as defined in the applicable Financing Order, the PUCT shall have given its prior written approval or be deemed to have given its prior written approval, this Agreement may be modified, altered, supplemented or amended in writing by the Member; provided further that neither approval of the Trustee nor satisfaction of the Rating Agency Condition shall be necessary if such modification, alteration, supplement or amendment is necessary: (i) to cure any ambiguity or (ii) to correct or supplement any provision in a manner consistent with the intent of this Agreement. With respect to the PUCT's approval of any amendment to Section 4.16, 5.04 or 6.02 or any other amendment that increases ongoing qualified costs specified in a Financing Order,

(a) any Manager may request the approval of the PUCT by delivering to the PUCT's executive director and general counsel a written request for such approval, which request shall contain:

(i) a reference to Docket No. 30485 or to the Docket No. of any proceeding related to the issuance of an additional Series of Transition Bonds 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 necessary parties; and

(iii) a statement identifying the person to whom the PUCT or its staff is to address its approval to the proposed amendment or request additional time;

(b) The PUCT shall, within 30 days of receiving the request for approval complying with Section 10.07(a) above, either

(i) provide notice of its approval or lack of approval to the person specified in Section 10.07(a)(iii) above, or

(ii) be conclusively deemed to have approved the proposed amendment,

unless, within 30 days of receiving the request for approval complying with Section 10.07(a) above, the PUCT or its staff delivers to the office of the person specified in Section 10.07(a)(iii) above a written statement requesting an additional amount of time not to exceed 30 days in which to consider whether to approve 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 approval or lack of approval to the person specified in Section 10.07(a)(iii) above no later than the last day of such extension of time or be conclusively deemed to have approved the proposed amendment as of the last day of such extension of time. Following delivery of a notice to the PUCT under Section 10.07(a) above, the Manager making the request (or other Person designated by the Managers) 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 10.07 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 10.07(b), or, if such period has been extended pursuant thereto, the first day after the expiration of such period as so extended.

SECTION 10.08. Headings and Sections. The headings in this Agreement are inserted for convenience only and are in no way intended to describe, interpret, define, or limit the scope, extent or intent of this Agreement or any provision hereof.

SECTION 10.09. Binding Agreement. Notwithstanding any other provision of this Agreement, the Member agrees that this Agreement constitutes a legal, valid and binding Agreement of the Member, and is enforceable against the Member by the Independent Managers, in accordance with its terms. In addition, the Independent Managers shall be intended beneficiaries of this Agreement.

SECTION 10.10. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original of this Agreement and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, this Amended and Restated Limited Liability Company Agreement is hereby executed by the undersigned as of the date first written above.

MEMBER:

CENTERPOINT ENERGY HOUSTON
ELECTRIC, LLC

Name:
Title:

Agreed to and Consented to by the Special
Members and Independent Managers:

SCHEDULE A

Schedule of Capital Contributions of Member

COMMON INTEREST

| Member ----- | Capital Contribution ----- | Common Interest Percentage ----- |
|---|-------------------------------|-------------------------------------|
| CenterPoint Energy Houston Electric, LLC | \$ [] | 100% |

SCHEDULE B

CERTIFICATE OF COMMON INTEREST

of

CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC

A Limited Liability Company

Formed under the Laws of the State of Delaware

This Certificate is issued and shall be held subject to the provisions of the Amended and Restated Limited Liability Company Agreement of CenterPoint Energy Transition Bond Company II, LLC, dated as of [_____], as the same may be amended from time to time.

This Certificate of Common Interest certifies that CenterPoint Energy Houston Electric, LLC, a Texas limited liability company, is the registered holder of the entire Common Interest of the Company, which Common Interest shall be transferable only on the books of the Company by the holder hereof in person or by a duly authorized attorney upon surrender of this Certificate with a proper endorsement.

IN WITNESS WHEREOF, the Company has caused this Certificate to be signed by one of its duly authorized Managers this ____ day of _____.

CENTERPOINT ENERGY TRANSITION BOND
COMPANY II, LLC

Manager

B-1

CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC

For Value Received the undersigned hereby sells, assigns and transfers unto _____ the entire Common Interest of the Company represented by the within Certificate and does hereby irrevocably constitute and appoint _____, Attorney, to transfer said Common Interest on the books of the Company with full power of substitution in the premises.

Dated: _____

SCHEDULE C

Managers*

Names

[Marc Kilbride]
[James S. Brian]
[Gary L. Whitlock]

Independent Managers*

Names

- - - - -

* The Member adopted resolutions on _____, appointing _____ and _____ as additional Managers and upon the closing of the offering and sale of the initial Series of Transition Bonds appointing _____ and _____ as Independent Managers.

SCHEDULE D

Initial Officers

| Names - - - - - | Office - - - - - |
|----------------------|---------------------|
| [Gary L. Whitlock] | President |
| [Marc Kilbride] | Treasurer |
| [Scott E. Rozzell] | Secretary |
| [Rufus S. Scott] | Assistant Secretary |
| [Linda Geiger] | Assistant Treasurer |
| [Richard B. Dauphin] | Assistant Secretary |

CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC

Issuer

and

Trustee

and

Securities Intermediary

FORM OF INDENTURE

Dated as of []

Securing Transition Bonds

Issuable in Series

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| APPENDIX A. MASTER DEFINITIONS | |

CERTAIN SECTIONS OF THIS INDENTURE RELATING TO SECTIONS 310 THROUGH 318, INCLUSIVE, OF THE TRUST INDENTURE ACT OF 1939:

| TRUST INDENTURE ACT SECTION | INDENTURE SECTION(S) |
|-----------------------------|----------------------|
| 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 |
| 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 [], between CenterPoint Energy Transition Bond Company II, LLC, a Delaware limited liability company (the "Issuer"), _____, a _____ banking corporation, in its capacity as trustee (the "Trustee"), and _____, in its capacity as the Securities Intermediary hereunder, (the "Securities Intermediary").

The Issuer has duly authorized the execution and delivery of this Indenture to provide for one or more Series of Transition Bonds, issuable as provided in this Indenture. Each Series of Transition Bonds will be issued only under a separate Series 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 of each Series shall be non-recourse obligations and shall be secured by and payable solely out of the Transition Property and the other Trust Estate securing such Series of 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, the Trustee and the Securities Intermediary agree as follows:

That under one or more Series Supplements, the Issuer will Grant to the Trustee a Lien on and trust interest in the property described therein (such property with respect to a particular Series being the "Series Trust Estate" and all such property, collectively, the "Trust Estate"). Each Series Trust Estate shall secure the obligations of the Issuer as more particularly described in the applicable Series 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 related Series Supplement, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture or by the related Series 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 Series and Tranche, if any, to which it belongs. The terms of all Transition Bonds of the same Series shall be the same, unless such Series is comprised of one or more Tranches, in which case 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.

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 any Series of Transition Bonds is 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; TRANSITION BONDS ISSUABLE IN SERIES. The Transition Bonds of each Series shall be issuable as registered Transition Bonds in Authorized Denominations.

The Transition Bonds may, at the election of and as authorized by a Manager and set forth in a Series Supplement, be issued in one or more Series (each of which may be comprised of 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 Series or Tranche as a Manager of the Issuer may determine and as set forth in the Series Supplement therefor.

Each Series of Transition Bonds shall be created by a Series Supplement authorized by a Manager and establishing the terms and provisions of such Series and, if applicable, any Tranches thereof. The several Series and Tranches thereof may differ as between Series and Tranches, in respect of any of the following matters:

- (a) designation of the Series and, if applicable, the Tranches thereof;
- (b) the aggregate initial principal amount of the Transition Bonds of the Series and, if applicable, each Tranche thereof;
- (c) the Bond Rate of the Series and, if applicable, each Tranche thereof or the formula, if any, used to calculate the applicable Bond Rate or Bond Rates for the Series and each Tranche thereof;
- (d) the Payment Dates for the Series and, if applicable, each Tranche thereof;
- (e) the Expected Final Payment Date of the Series, and, if applicable, each Tranche thereof;
- (f) the Series Final Maturity Date for the Series and, if applicable, the Tranche Final Maturity Date for each Tranche thereof;
- (g) the Series Issuance Date for the Series;
- (h) the Series Trust Estate;

(i) the place or places for payments with respect to the Series and, if applicable, each Tranche thereof;

(j) the Authorized Denominations for the Series and, if applicable, each Tranche thereof;

(k) the provisions, if any, for redemption of the Series by the Issuer and, if applicable, each Tranche thereof;

(l) whether the Transition Bonds of the Series are to be Book-Entry Transition Bonds and the extent to which Section 2.11 will apply;

(m) the Expected Amortization Schedule for the Series and, if applicable, each Tranche thereof;

(n) the Required Capital Amount with respect to the Series;

(o) the Calculation Dates and Adjustment Dates for the Series;

(p) the credit enhancement, if any, applicable to the Series and each Tranche thereof and, with respect to Floating Rate Bonds, the terms of the applicable Swap Agreement and the identity of the Swap Counterparty; and

(q) any other terms of the Series or Tranche 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 Series (and, if applicable, 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 AND EXCHANGE. 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. The Trustee 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 of a like Series (and, if applicable, Tranche) and aggregate outstanding principal amount.

At the option of the Holder, Transition Bonds may be exchanged for other Transition Bonds of a like Series (and, if applicable, Tranche) and aggregate outstanding principal amount in Authorized Denominations upon surrender of the Transition Bonds to be exchanged at such office or agency. Whenever any Transition Bonds are so surrendered for exchange, a Manager on behalf of the Issuer shall execute, and the Trustee shall authenticate, and the Transition Bondholder shall obtain from the Trustee the Transition Bonds which the Transition Bondholder making the exchange is entitled to receive.

All Transition Bonds issued upon any registration of transfer or exchange of 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 or exchange.

Every Transition Bond presented or surrendered for registration of transfer or exchange shall be duly endorsed by, or be accompanied by a written instrument of transfer in the form set forth in the applicable Series 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 or exchange of 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 or exchange of 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 Series (and, if applicable, 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 of each Series shall accrue Interest as provided in the related Series 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 related Series Supplement, except that (i) upon application to the Trustee by any Holder owning Transition Bonds of any Series or 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 clause (b) below. 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 of each Series (and, if applicable, 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 Series Supplement for such Transition Bonds, 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 applicable Expected Amortization Schedule. Failure to pay principal of each Transition Bond of a Series in accordance with such 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 with respect to that Series. Notwithstanding the foregoing, the entire unpaid principal amount of the Transition Bonds of any Series or Tranche shall be due and payable, if not previously paid (i) on the Series Final Maturity Date (or, if applicable, Tranche Final Maturity Date) therefor, (ii) on the date on which the Transition Bonds of all Series 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 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 10.03.

(c) If the Issuer defaults in a payment of Interest on the Transition Bonds of any Series, 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, exchange 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 or in exchange 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 [].

Transition Bonds of each Series created and established by a Series Supplement may from time to time 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 a Transition Bond or Bonds of such Series:

(1) Issuer Action. An Issuer Order authorizing and directing the execution, authentication and delivery of the Transition Bonds by the Trustee and specifying the principal amount of Transition Bonds to be authenticated.

(2) Authorizing Certificate. A certified resolution of the Managers authorizing the execution and delivery of the Series Supplement for the Transition Bonds applied for and the execution, authentication and delivery of such Transition Bonds.

(3) Series Supplement. A Series Supplement in form satisfactory to the Trustee for the Series of Transition Bonds being issued, which shall set forth the provisions and form of the Transition Bonds of such Series (and, if applicable, each Tranche thereof).

(4) Certificates of the Issuer and the Seller.

(a) An Issuer Officer's Certificate dated as of the Series 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 Series Trust Estate, except for the Grant contained in the applicable Series Supplement; that the Issuer has the power and authority to Grant the Series Trust Estate, and to Grant a security interest in and a Lien upon the Series 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 Series 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 applicable 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 Series Trust Estate for that Series of Transition Bonds that are required to be filed by the terms of the Financing Order, the Texas Electric Choice Plan, the applicable Sale Agreement, the applicable 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 Series 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 applicable 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 Series 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 Series Supplement and this Indenture and to issue the Transition Bonds being issued, each of the Series 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 related Series Supplement;

(iv) this Indenture (including the related Series Supplement), the applicable Sale Agreement, the applicable Administration Agreement, the applicable Servicing Agreement and any applicable 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 applicable Sale Agreement, the applicable Servicing Agreement, any applicable Intercreditor Agreement, and the applicable 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 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 such Series 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 such Series 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 Series Supplement for the Transition Bonds applied for has been duly qualified under the Trust Indenture Act or (ii) no such qualification of such Series 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) either (A) the registration statement covering the Transition Bonds is effective under the Securities Act of 1933 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 of 1933 nor have proceedings therefor been instituted by the Commission or (B) the Transition Bonds are exempt from the registration requirements under the Securities Act of 1933;

(j) the applicable Sale Agreement, the applicable Servicing Agreement, and the applicable 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) any applicable 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) Accountant's Certificate or Opinion. A certificate or opinion complying with the requirements of Section 11.01, addressed to the Issuer and the Trustee of an Independent registered public accounting firm of recognized national reputation to the effect that (a) such accountants are Independent within the meaning of the Indenture, and are independent public accountants within the meaning of the standards of the Public Company Accounting Oversight Board (United States), and (b) with respect to the Series Trust Estate, they have reviewed calculations made by the Issuer and determined that, based on the assumptions used by the Issuer in calculating the initial Transition Charges with respect to the transferred Transition Property or, if applicable, the most recent revised Transition Charges with respect to the transferred Transition Property, and taking into account amounts on deposit in the Excess Funds Subaccount, as of the Series Issuance Date for such Series (after giving effect to the issuance of such Series and the application of the proceeds therefrom) such Transition Charges are sufficient

to (i) pay Operating Expenses when incurred plus any amounts due under any interest rate protection agreement, (ii) pay Interest on each Series of Transition Bonds at their respective Bond Rates when due, (iii) pay Principal of the Transition Bonds of all Series in accordance with their respective Expected Amortization Schedules and (iv) replenish any amounts drawn from the Capital Subaccount as of each Payment Date.

(7) Rating Agency Condition. The Trustee shall receive written confirmation from each Rating Agency that such Series of Transition Bonds will be rated as set forth in the applicable Series Supplement.

(8) Bill of Sale. If the issuance of a Series of Transition Bonds is a Financing Issuance, the Bill of Sale delivered to the Issuer under the applicable Sale Agreement with respect to the Transition Property being purchased with the proceeds of such Financing Issuance.

(9) Moneys for Refunding. If the issuance of a Series of Transition Bonds is a Refunding Issuance, the amount of money necessary to pay the outstanding Principal balance of, and premium and Interest on, the Transition Bonds being refunded to the Redemption Date for the Transition Bonds, is to be deposited into a separate account with the Trustee.

(10) Required Capital Amount. Evidence satisfactory to the Trustee that the Required Capital Amount for such Series has been credited to the Capital Subaccount.

SECTION 2.11. BOOK-ENTRY TRANSITION BONDS. Unless otherwise specified in the related Series Supplement, each Series of 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 of any Series (the "Definitive Transition Bonds") replacing the Book-Entry Transition Bonds have been issued to Transition Bondholders of that Series pursuant to Section 2.13 or pursuant to any applicable Series Supplement relating thereto:

(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 a Series 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 Series or 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 applicable Series 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 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 Series or Tranche of 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 Series or Tranche of 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 of all Series 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 of such Series, then the Clearing Agency shall notify all affected Transition Bond Owners, the Issuer and the Trustee 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 of that Series, 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. [Any Definitive Transition Bonds listed on the Luxembourg Stock Exchange shall be made available to the Transition Bondholders through the office of the transfer agent appointed pursuant to the second paragraph of Section 3.02.] 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 and exchangeable 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 applicable Series Supplement; provided that except on the Series Final Maturity Date, the Tranche Final Maturity Date or the Redemption Date for a Series or Tranche of 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, an office or agency where Transition Bonds may be surrendered for registration of transfer or exchange, 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 the Trustee to serve as its agent for the foregoing purposes. The Issuer will give prompt written notice to 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 the Trustee with the address thereof, such surrenders, notices and demands may be made or served at the Corporate Trust Office, and the Issuer hereby appoints the Trustee 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 or exchange, (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 Transition Bonds shall be paid over to the Issuer except as provided in this Section and in Section 8.02.

The Issuer shall cause each 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), subject to the provisions of this Section, that such Paying Agent will:

(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 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 all Series Supplements;

(c) enforce any of the Trust Estate, including its rights under any Swap Agreement;

(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 Series is outstanding, beginning on March 31, 2006, 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 any Sale Agreement or 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 each series of Outstanding Transition Bonds to the extent such information is reasonably available to the Issuer:

(ii) a statement of Transition Charge remittances to the Trustee (to be included in the Form 10-Q or Form 10-K filed subsequent to the respective report);

(iii) 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 the Form 10-Q or Form 10-K);

(iv) 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 Form 10-Q or Form 10-K);

(v) the [semiannual] Servicer's Certificate which is required to be submitted pursuant to the applicable Servicing Agreement (to be filed with a Form 10-Q, Form 10-K or Form 8-K);

(vi) 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 Series of Transition Bonds and the results of each true-up filing (to be included in either a Form 10-Q, Form 10-K or Form 8-K);

(vii) 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);

(viii) material legislative or regulatory developments directly relevant to the Outstanding Transition Bonds (to be filed or furnished in a Form 8-K); and

(ix) a quarterly statement (to be included in each Form 10-Q and 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 each series of Outstanding Transition Bonds;

B. the [semiannual] Servicer's Certificate delivered for each Series of Transition Bonds pursuant to each 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, any Sale Agreement or any Servicing Agreement, sell, transfer, exchange or otherwise dispose of any of the assets of the Issuer, 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, any Sale Agreement, or any Servicing Agreement, enter into any swap, hedge or other similar financial arrangement;

(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 Series or Tranche of 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 [], 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 applicable Series Supplement or Series Supplements;

(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, any 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 Financing Orders issued by the PUCT from time to time, issuing Transition Bonds from time to time, 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 Series Supplements, entering into and performing under the Basic Documents relating to the Transition Bonds and any Swap Agreement executed in connection therewith, 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 and any obligations under any credit enhancement or Swap Agreement for any Series of Transition Bonds and 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 Transition Property purchased from the Seller pursuant to, and in accordance with, any 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 all Series of 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. PURCHASE OF SUBSEQUENT TRANSITION PROPERTY. (a) The Issuer may from time to time purchase or acquire Subsequent Transition Property from the Seller pursuant to a Sale Agreement, subject to the conditions specified in paragraph (b) below.

(b) The Issuer shall be permitted to purchase or acquire from the Seller Subsequent Transition Property and the proceeds thereof only upon the satisfaction of each of the following conditions on or prior to the related Subsequent Transfer Date:

(i) The Seller shall have provided the Issuer, the PUCT, the Trustee and the Rating Agencies with an Addition Notice, which shall be given not later than 10 days prior to the related Subsequent Transfer Date, specifying the Subsequent Transfer Date for such Subsequent Transition Property and the aggregate amount of the Transition Charges related to such Subsequent Transition Property, and shall have provided any information reasonably requested by any of the foregoing Persons with respect to the Subsequent Transition Property then being conveyed to the Issuer;

(ii) The Texas Electric Choice Plan, such Sale Agreement and the related Financing Order shall be in full force and effect and a filing shall have been made pursuant to Section 39.309(d) of the Texas Electric Choice Plan;

(iii) As of such Subsequent Transfer Date, the Seller will not be insolvent and will not have been made insolvent (within the meaning of the Bankruptcy Code or the Delaware Uniform Fraudulent Transfer Act) by such sale and transfer and the Seller is not aware of any pending insolvency with respect to itself;

(iv) The Rating Agency Condition shall have been satisfied with respect to such sale and transfer;

(v) As of such Subsequent Transfer Date, no material breach by the Seller of its representations, warranties or covenants in such Sale Agreement and no Servicer Default shall exist;

(vi) As of such Subsequent Transfer Date, the Issuer shall have sufficient funds available to pay the purchase price for the Subsequent Transition Property to be sold to it on such date and all conditions to the subsequent issuance of one or more Series of new Transition Bonds intended to provide such funds set forth in Section 2.10 shall have been satisfied or waived;

(vii) The Issuer shall have delivered to the Trustee an Officer's Certificate confirming the satisfaction of each condition precedent specified in this paragraph (b);

(viii) (A) The Issuer shall have delivered to the Rating Agencies (with a copy to the PUCT) any Opinions of Counsel required by the Rating Agencies and (B) the Issuer shall have delivered to the Trustee the Opinion of Counsel required by Section 3.06(b);

(ix) the Seller shall have received and delivered to the Issuer and the Trustee: (i) an opinion of outside tax counsel (as selected by the Seller, and in form and substance reasonably satisfactory to the Issuer and the Trustee) to the effect that the Issuer will not be subject to United States federal income tax as an entity separate from its sole owner and that the Transition Bonds issued in connection with the purchase of such Subsequent Transition Property will be treated as debt of the Issuer's sole owner for United States federal income tax purposes, (ii) an opinion of outside tax counsel (as selected by the Seller, and in form and substance reasonably satisfactory to the Issuer and the Trustee) or, if the Seller so chooses, a ruling from the Internal Revenue Service, in either case to the effect that, for United States federal income tax purposes, the issuance of such Transition Bonds will not result in gross income to the Seller, and (iii) an opinion of outside tax

counsel (as selected by the Seller, and in form and substance reasonably satisfactory to the issuer and the Trustee) to the effect that such subsequent issuance will not adversely affect the characterization of any such Transition Bonds then Outstanding as obligations of the Issuer's sole owner. The opinion of outside tax counsel described above may, if the Seller so chooses, be conditioned on the receipt by the Seller of one or more letter rulings from the Internal Revenue Service and in rendering such opinion outside tax counsel shall be entitled to rely on the rulings contained in such ruling letters and to rely on the representations made, and information supplied, to the Internal Revenue Service in connection with such letter rulings; and

(x) The Seller and the Issuer shall have taken any action required to maintain the first perfected ownership interest of the Issuer in the Subsequent Transition Property and the proceeds thereof, and the Issuer shall have taken any action required to maintain the first priority perfected security interest of the Trustee in the Subsequent Transition Property and the proceeds thereof.

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 any Sale Agreement, any Intercreditor Agreement, the Administration Agreement and any 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 any Sale Agreement, any Intercreditor Agreement, the Administration Agreement and any 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 any Sale Agreement, any Intercreditor Agreement, the Administration Agreement and any 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 Transition Bonds of all Series or 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 applicable 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 applicable 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, any Sale Agreement, Intercreditor Agreement (except that any amendment to an 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 of the related Series; provided that such amendment shall not adversely affect the interest of any Transition Bondholder of that Series 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 any Sale Agreement, Intercreditor Agreement, Administration Agreement, or Servicing Agreement, or waive timely performance or observance by the Seller, CenterPoint Houston, the Administrator or the Servicer under any Sale Agreement, Intercreditor Agreement, Administration Agreement or Servicing Agreement, in each case in such a way as would materially and adversely affect the interests of Transition Bondholders of any Series, the Issuer shall first notify the Rating Agencies of the proposed amendment, modification, waiver, supplement, termination or surrender and shall notify the Trustee and the PUCT in writing and the Trustee shall notify the Transition Bondholders of such Series 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 Transition Bonds of the Series or 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 any 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 and the Trustee 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 of the Series or Tranches affected thereby and only if the Rating Agency Condition has been satisfied with respect thereto.

(f) Promptly following a default by the Seller under any Sale Agreement, by the Administrator under the Administration Agreement, by CenterPoint Houston or any successor to CenterPoint Houston under any Intercreditor Agreement, or the occurrence of a Servicer Default under any 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 that Sale Agreement, Administration Agreement, Intercreditor 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 that Sale Agreement, Administration Agreement, Intercreditor Agreement or Servicing Agreement, as applicable.

(g) If the Issuer shall have knowledge of the occurrence of a Servicer Default under any Servicing Agreement, the Issuer shall (i) promptly give written notice thereof to the Trustee, the PUCT 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 that 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 Transition Bonds of the related Series 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 that 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 related to that Series (such agreement to be in form and substance satisfactory to the Trustee).

(i) Upon termination of the Servicer's rights and powers pursuant to any Servicing Agreement, the Trustee shall promptly notify the Issuer, the PUCT, the Transition Bondholders of the related Series 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 of the related Series 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 are 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 of any Series, all moneys payable with respect thereto and this Indenture as it applies to such Series shall cease to be of further effect and the Lien hereunder shall be released with respect to such Series, Interest shall cease to accrue on the Transition Bonds of such Series 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 of such Series, when

(A) either

(1) all Transition Bonds of such Series 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 of such Series 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 with respect to such Series; 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 of such Series 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 of any Series ("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(iv) (other than with respect to the Defeasance Subaccount and U.S. Government Obligations therein) ("Covenant Defeasance Option") with respect to any Series of Transition Bonds. The Issuer may exercise the Legal Defeasance Option with respect to any Series of Transition Bonds notwithstanding its prior exercise of the Covenant Defeasance Option with respect to such Series.

If the Issuer exercises the Legal Defeasance Option with respect to any Series, the maturity of the Transition Bonds of such Series 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 with respect to any Series, the maturity of the Transition Bonds of such Series may not be accelerated because of an Event of Default specified in Section 5.01(iv).

Upon satisfaction of the conditions set forth herein to the exercise of the Legal Defeasance Option or the Covenant Defeasance Option with respect to any Series of 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 of the Series 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 with respect to such Series shall survive.

SECTION 4.02. CONDITIONS TO DEFEASANCE. The Issuer may exercise the Legal Defeasance Option or the Covenant Defeasance Option with respect to any Series of 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 such Series of 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 such Series of Transition Bonds;

(b) the deposit in the Defeasance Subaccount pursuant to subsection (a) of this Section 4.02 constitutes proceeds from a refunding of the Transition Bonds;

(c) 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 of such Series (i) subject to clause (ii), Principal in accordance with the Expected Amortization Schedule therefor, (ii) if such Series is to be redeemed, the Redemption Price therefor on the Redemption Date therefor and (iii) Interest when due;

(d) 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(v) or (vi) shall have occurred and be continuing at the end of the period; provided, however, that in determining whether a default under Section 5.01(v) has occurred, the requirement that the decree or order shall remain unstayed and in effect for 90 days shall be disregarded;

(e) no Default has occurred and is continuing on the day of such deposit and after giving effect thereto;

(f) 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 of such Series 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;

(g) 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 of such Series 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;

(h) 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 of such Series to the extent contemplated by this Article IV have been complied with;

(i) 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

(j) 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 of such Series.

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 any Series of Transition Bonds shall be held in trust in the Defeasance Subaccount for such Series 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 of any Series, all moneys then held by any Paying Agent other than the Trustee under the provisions of this Indenture or any 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 3.03 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" with respect to any Series, 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 of such Series 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 of such Series on the Series Final Maturity Date for such Series or, if applicable, any Tranche of such Series on the Tranche Final Maturity Date for such Tranche;

(iii) default in the payment of the Redemption Price for any Transition Bond on the Redemption Date therefor;

(iv) 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), any covenant or agreement of the Issuer made in any interest rate swap agreement, hedge agreement or credit enhancement agreement permitted under Section 3.13 hereof and any Series Supplement, 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 (other than a covenant, agreement or representation or warranty expressly included herein or in a Series Supplement solely for the benefit of a different Series of Transition Bonds), 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 Transition Bonds of such Series, 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;

(v) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of the Issuer or any substantial part of the Trust Estate securing such Series 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 Series Trust Estate securing such Series, 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;

(vi) 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 Series Trust Estate securing such Series, 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;

(vii) 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

(viii) any other event designated as an Event of Default in the related Series 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(vii) 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 Transition Bonds of the Series with respect to which an Event of Default has occurred, voting as a class, may, but need not, declare all the Transition Bonds of such Series 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 of such Series, 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 Transition Bonds of such Series, 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 of such Series, a sum sufficient to pay

(A) all payments of Principal of and premium, if any, and Interest on all Transition Bonds of such Series 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 with respect to such Series and the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents and counsel with respect to such Series; and

(ii) all Events of Default other than the nonpayment of the Principal of the Transition Bonds of the Series 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 Series 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 of such Series, 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 of such Series or the applicable Tranche of such Series.

(b) In case the Issuer shall fail forthwith to pay the amounts specified in clause (a) above 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 Series Trust Estate and the proceeds thereof, the whole amount then due and payable on the Transition Bonds of such Series 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 of such Series or the applicable Tranche of such Series 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(vii) 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 of all materially and adversely affected Series 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 Series Trust Estate securing those Series of 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 any Series of Transition Bonds or any Person having or claiming an ownership interest in the Series Trust Estate securing that Series, 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 that Series of Transition Bonds, or to the creditors or property of the Issuer or such other obligor, the Trustee, irrespective of whether the principal of that Series of 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 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; and

(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 Transition Bonds allowed in any judicial Proceedings relative to the Issuer, its creditors and its property;

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 any Series of Transition Bonds, may be enforced by the Trustee without the possession of any of those 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 those 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(vii) 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 Transition Bonds of such Series or Tranche affected thereby 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 Series Trust Estate securing such Series;

(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 of such Series;

(iv) sell the Series Trust Estate securing such Series 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 Seller, the Administrator, CenterPoint Houston and the Servicer under or in connection with, and pursuant to the terms of, the Administration Agreement or any applicable Sale Agreement, Intercreditor Agreement or Servicing Agreement or against any Swap Counterparty under or in connection with, and pursuant to the terms of, any applicable Swap Agreement;

provided, however, that the Trustee may not sell or otherwise liquidate any portion of the Series Trust Estate securing such Series following an Event of Default, other than an Event of Default described in Section 5.01(i), (ii) or (iii), with respect to such Series unless (A) the Holders of 100% of the Outstanding Amount of the Transition Bonds of all Series consent thereto, (B) the proceeds of such sale or liquidation distributable to the Transition Bondholders of such Series are sufficient to discharge in full all amounts then due and unpaid upon such Transition Bonds for Principal, premium, if any, and Interest or (C) the Trustee determines that the Series Trust Estate securing such Series will not continue to provide sufficient funds for all payments on the Transition Bonds of such Series 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 of such Series. 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 Series 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(vii) 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(vii).

(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 of a Series 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 Series Trust Estate securing that Series 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 of any Series, and the Trustee shall take such desire into account when determining whether or not to maintain possession of the Series Trust Estate securing that Series or sell or liquidate the same. In determining whether to maintain possession of the Series 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 Series Trust Estate for such purpose.

SECTION 5.06. LIMITATION OF PROCEEDINGS. No Holder of any Transition Bond of any Series 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 with respect to the affected Series;

(ii) the Holders of not less than a majority of the Outstanding Amount of the Transition Bonds of such Series 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 of such Series,

it being understood and intended that no one or more Holders of 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 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 Transition Bonds, each representing less than a majority

of the Outstanding Amount of the Transition Bonds of all Series, 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 Series or Tranches are affected, the Holders of a majority of the Outstanding Amount of the Transition Bonds of the affected Series or 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 Series or 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 Series or Tranche or Tranches); provided that

(i) such direction shall not be in conflict with any rule of law or with this Indenture;

(ii) subject to the express terms of Section 5.04, any direction to the Trustee to sell or liquidate the Trust Estate shall be by the Holders of Transition Bonds representing not less than 100% of the Outstanding Amount of the Transition Bonds of all Series;

(iii) if the conditions set forth in Section 5.05 have been satisfied and the Trustee elects to retain the Series Trust Estate securing such Series pursuant to such Section and elects not to sell or liquidate the same, then any direction to the Trustee by Holders of Transition Bonds representing less than 100% of the Outstanding Amount of the Transition Bonds of all affected Series to sell or liquidate such Series 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 of a Series or Tranche affected as provided in Section 5.02, the holders of a majority of the Outstanding Amount of Transition Bonds of such Series 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 of such Series 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 of a Series 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 Series Final Maturity Date or Tranche Final Maturity Date, if applicable, therefor 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 undertakes 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 paragraph (c) does not limit the effect of paragraph (b) of this Section;

(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 paragraphs (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, the applicable Sale Agreement, Intercreditor Agreement or Servicing Agreement or any applicable Swap 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.

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, Securities Intermediary 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, Securities Intermediary 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 a Manager or any Manager of the Issuer 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 any Tranche or Series 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 Transition Bonds of all Series affected thereby 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 of 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) So long as Transition Bonds are Outstanding and the Trustee is the Securities Registrar and Paying Agent, within the prescribed period of time for tax reporting purposes after the end of each calendar year, the Trustee 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 Series and Tranche of 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 Trustee shall deliver such [Semiannual] Servicer's Certificate to each Holder of Transition Bonds, to the PUCT and to each Rating Agency which will include (to the extent applicable) the following information (and any other information so specified in the Series Supplement for such Series) as to the Transition Bonds of such Series 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 of such Series 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 of such Series 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 Series and Tranche and as of such Payment Date;

(iv) the amount on deposit in the Capital Subaccount for such Series as of such Payment Date;

(v) the amount, if any, on deposit in the Excess Funds Subaccount for such Series as of such Payment Date;

(vi) the amount to be paid to and by any counterparty under any Swap Agreement for such Series;

(vii) the amount to be paid to the Trustee relating to that Series on such Payment Date;

(viii) the amount to be paid to the Servicer relating to that Series on such Payment Date; and

(ix) any other transfers and payments relating to that Series 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 Trustee's responsibility for disbursing the information described in subsection (b) above to Holders of a Series of Transition Bonds is limited to the availability, timeliness and accuracy of the information provided by the Servicer pursuant to Section 3.04 and Annex 1 of the applicable Servicing Agreement and pursuant to any applicable 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. 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 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 AND THE PERFORMANCE BY THE TRUSTEE OF THE DUTIES AND OBLIGATIONS OF THE TRUSTEE UNDER OR PURSUANT TO THIS INDENTURE AND ANY SALE AGREEMENT, ADMINISTRATION AGREEMENT, SERVICING

AGREEMENT AND INTERCREDITOR AGREEMENT; 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 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 ANY SALE AGREEMENT, ADMINISTRATION 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(v) or (vi) 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; or
- (iv) the Trustee otherwise becomes incapable of acting.

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 any 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.

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 with respect to each Series and (ii) six months after the last Record Date with respect to each Series, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders of Transition Bonds of such Series 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.

(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 of any Series, the Trustee shall mail to each Holder of Transition Bonds of such Series 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 initial issuance of each Series.

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 Trustee shall provide such Transition Bondholder, the PUCT or Rating Agency, 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 applicable Servicing Agreement. If any Transition Bonds are listed on the Luxembourg Stock Exchange and its rules so require, the Trustee 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 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 Series Issuance Date for each Series issued hereunder, 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 for the deposit of Collections for that Series of Transition Bonds and all other amounts received with respect to the Series Trust Estate securing that Series (each a "Collection Account" and collectively, the "Collection Accounts"). The Collection Account for each Series shall initially be divided into subaccounts, which need not be separate accounts: a general subaccount (the "General Subaccount"), an overcollateralization subaccount (the "Overcollateralization 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 any Series of Transition Bonds that has a floating rate of interest as specified in any Series Supplement (each, a "Tranche Subaccount"). On or prior to the Series Issuance Date for any Series of Transition Bonds, the Member shall deposit into the Capital Subaccount for that Series an amount equal to the Required Capital Amount for that Series. Unless otherwise specified in any Series Supplement, the overcollateralization amount and scheduled overcollateralization level for the Overcollateralization Subaccount of each Series shall at all times be zero. All amounts in the Collection Account for any Series not allocated to any other subaccount shall be allocated to the General Subaccount for that Series. Prior to the initial Payment Date for a Series, all amounts in the Collection Account for that Series (other than funds deposited into the Capital Subaccount, up to the Required Capital Amount for that Series) shall be allocated to the General Subaccount for that Series. All payments received by the Trustee from any Swap Counterparty in respect of any Swap Agreement related to that Series shall be deposited in the related Tranche 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 each Series 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 Series Trust Estate securing that Series as herein provided.

(ii) The Securities Intermediary also agrees that (A) each of the Collection Accounts is, or on the date of its creation will be, and shall at all times be maintained by the Securities Intermediary 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 Securities Intermediary is the State of New York, (C) all cash and other property in each of the Accounts shall be treated by the Securities Intermediary 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 Securities Intermediary or in blank, or credited to another securities account maintained in the name of the Securities Intermediary, 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 or the Trustee, except to the extent the foregoing have been specially indorsed by the Issuer or the Trustee, as applicable, to the Securities Intermediary or in blank, (F) the Securities Intermediary shall not change the names or account numbers of any of the Accounts without the prior written consent of the Trustee and shall not change the entitlement holder, and (G) the Securities Intermediary 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. The Securities Intermediary shall give notice to the Issuer and the Transition Bondholders of the location of the Accounts and of any change thereof (provided that no such change shall be made without the prior approval of the Majority Holders), prior to the use thereof.

(iv) Anything herein to the contrary notwithstanding, the Issuer irrevocably agrees that the Securities Intermediary may, and the Securities Intermediary agrees that it shall, comply with "entitlement orders" (as defined in Section 8-102(8) of the New York UCC) originated by the Trustee and relating to each of the Accounts (and all securities entitlements within the meaning of Section 8-102(a)(17) of the New York UCC or, with respect to Book-Entry Securities, within the meaning of applicable Federal Book-Entry Regulations carried in such Account) without further consent by the Issuer or any other Person so long as this Indenture is in effect. The Securities Intermediary agrees that it shall at all times comply with the "entitlement orders" (as defined in Section 8-102(8) of the New York UCC) originated by the Trustee and shall not comply with "entitlement orders" of any other Person. The Trustee and the Securities Intermediary hereby represent that they have not, and hereby agree that they will not, enter into any agreement or take any action which gives any Person other than the Trustee, "control" (as defined in Section 8-106 of the New York UCC) over any of the Accounts.

(v) The Trustee shall have sole dominion and exclusive control over all property in each Collection Account and the Securities Intermediary 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 of the applicable Servicing Agreement.

(vi) Collections shall be deposited in the applicable General Subaccount as provided in the applicable Servicing Agreement. All deposits to and withdrawals from a Collection Account, all allocations to the subaccounts of such Collection Account and any amounts to be paid to the applicable Servicer under Section 8.02(d) shall be made by the Trustee in accordance with the written instructions provided by such Servicer in the Servicer's Certificate or upon other written notice provided by such Servicer pursuant to such Servicing Agreement, as applicable.

(vii) There are no other agreements entered into between the Securities Intermediary, 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 Issuer Order will, as entitlement holder, cause the Securities Intermediary to invest and reinvest all or a portion of the funds in the Collection Account for each Series in Eligible Investments; provided, however, that (i) such Eligible Investments shall not mature later than the next Payment Date for such Series (except as otherwise provided in any Series 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 any Series of 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 for that Series shall be deposited by the Trustee in the Collection Account for that Series, and any loss resulting from such investments shall be charged to that Collection Account. The Issuer shall not direct the Trustee to make any investment of any funds or to sell any investment held in the Collection Account for a Series 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 a Series of Transition Bonds, any Indemnity Amounts with respect to that Series remitted to the Trustee by the Seller, the Issuer or the Servicer, any amounts paid by a Swap Counterparty in accordance with a Swap Agreement relating to that Series, any other amount otherwise received by the Trustee or the Issuer related to that Series, and any other proceeds of Series Trust Estate securing that Series received by the Servicer, the Issuer or the Trustee shall be deposited in the General Subaccount for that Series, except that the Trustee shall deposit in the Capital Subaccount for that Series the Required Capital Amount.

(d) On each Payment Date for a particular Series of Transition Bonds or other date specified in the Series Supplement with respect to that Series, the Trustee pursuant to the written direction provided in the [Semiannual] Servicer's Certificate shall by 12:00 noon (New York City time) apply all amounts on deposit in the General Subaccount of the Collection Account for that Series and any investment earnings on the subaccounts in the Collection Account for that Series in the following priority unless otherwise set forth in any Series Supplement herein (provided, that no Series Supplement may 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 and, to the extent those amounts are not separately identified by the Trustee as being payable with respect to a Series, allocated among all Series of Transition Bonds Outstanding on a Pro Rata basis; provided that the Indemnity Amounts with respect to that Series paid during any calendar year pursuant to this clause (i) may not exceed the amount fixed therefor in the applicable Series Supplement;

(ii) the Servicing Fee, which will be a fixed percentage of the initial principal amount of that Series of Transition Bonds, 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 their acting as managers under the Issuer LLC Agreement shall be paid to such independent managers, each allocated Pro Rata among all Series of Transition Bonds Outstanding;

(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 applicable Servicing Agreement) other than those referred to in clauses (i), (ii) and (iii) above shall be paid to the Persons entitled thereto; provided, that the fees and expenses of the independent managers of the Issuer shall be allocated Pro Rata among all Series of Transition Bonds Outstanding;

(v) an amount equal to the sum of (x) Interest payable on such Series of Transition Bonds on such Payment Date and (y) any amounts in respect of periodic payments that are required to be made to any Swap Counterparty under any Swap

Agreement entered into with respect to a Series as set forth in the applicable Series Supplement;

(vi) an amount equal to any Principal of that Series or Tranche of Transition Bonds payable as a result of acceleration pursuant to Section 5.02, any Principal of that Series or Tranche payable on a Series Final Maturity Date or Tranche Final Maturity Date for that Series or Tranche and any Principal of and premium, if any, on that Series or Tranche of Transition Bonds payable on a Redemption Date shall be allocated to that Series 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 Series of Transition Bonds on such Payment Date according to the Expected Amortization Schedule, excluding any amounts provided for pursuant to clause (vi) above, shall be allocated to the corresponding Series and if there are insufficient funds to make that allocation in full, on a Pro Rata basis;

(viii) any amounts payable to credit enhancement providers with respect to that Series, if any, shall be paid to such credit enhancement providers;

(ix) all remaining unpaid Operating Expenses and any other amounts due and owing pursuant to the Basic Documents (including all remaining Indemnity Amounts) and any other amounts due and owing pursuant to any Swap Agreement (other than swap termination payments) shall be paid to the Persons entitled thereto without duplication of any other payment from any other source;

(x) any amount necessary to replenish amounts drawn from the Capital Subaccount shall be allocated to the Capital Subaccount;

(xi) all Swap Payments under any Swap Agreement related to that Series that would effect the termination of all obligations of the Issuer under such Swap Agreement, payable only after all of the Transition Bonds of that Series have been paid in full unless any of the following events has occurred: (a) an Event of Default (as defined in the Master Agreement (defined below)) under Section 5(a)(i) of the International Swaps and Derivatives Association, Inc. Master Agreement relating to that Series (the "Master Agreement"), between one or more Swap Counterparties and the Issuer, as a result of insufficient collection of Transition Charges relating to that Series of Transition Bonds (provided that any such termination Swap Payment shall not exceed an aggregate amount specified in the Supplemental Indenture relating to that Series); (b) an Event of Default under Section 5(a)(ii) of the Master Agreement caused by either the Issuer or the Trustee (provided that any such termination Swap Payment shall not exceed an aggregate amount specified in the Supplemental Indenture relating to that Series); (c) an Issuer's Event of Default (as defined in the Master Agreement) under Section 5(a)(vii) of the Master Agreement; (d) an Issuer's Event of Default under Section 5(a)(viii) of the Master Agreement; or (e) failure or termination of the security interest of the Trustee under this Indenture;

(xii) so long as no Event of Default has occurred and is continuing, an amount equal to investment earnings on amounts in the Capital Subaccount for that Series shall be released to the Issuer; and

(xiii) the balance, if any, shall be allocated to the Excess Funds Subaccount for that Series.

The amounts paid during any calendar year in respect of the Trustee's fees and expenses in clause (i), 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 (ix) above may not exceed in the aggregate for all Series an amount specified in the related Supplemental Indenture (which amount may be based in part on whether CenterPoint Houston is the Servicer of that Series of Transition Bonds) unless the PUCT approves a different aggregate amount of such payments. If more than one Series of Transition Bonds is outstanding, the payments described in the preceding sentence will be made Pro Rata from the respective Collection Accounts of each Series.

Following repayment of all Transition Bonds of a Series, the balance, if any, shall be released to the Issuer free from the Lien of the Indenture.

"Pro Rata" means with respect to any Series or Tranche of Transition Bonds a ratio, (A) in the case of clause (d)(v) above, the numerator of which is the aggregate amount of Interest payable or net amount payable to a counterparty under an interest rate protection agreement, as applicable, with respect to such Series or Tranche on such Payment Date and the denominator of which is the sum of the aggregate amounts of Interest payable and aggregate of the net amounts payable under interest rate protection agreements with respect to all Outstanding Series or Tranches on such Payment Date; and (B) 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 Series or 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 Series or Tranches on such Payment Date, unless and to the extent, with respect to either clause (A) or (B) of this paragraph, in the case of a Series comprised of two or more Tranches, the Series Supplement for such Series provides otherwise.

If, on any Payment Date for a Series of Transition Bonds, funds on deposit in the General Subaccount for that Series are insufficient to make the payments or transfers contemplated by clauses (i) through (xii) above, the Trustee 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 such Series for allocations and payments contemplated by clauses (i) through (xi); and

(ii) from the Capital Subaccount for such Series for allocations and payments contemplated by clauses (i) through (ix).

(e) Upon an acceleration of the maturity of any Series of Transition Bonds pursuant to Section 5.02, the aggregate amount of Principal of and Interest accrued on each Transition Bond of that Series 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 a Collection Account by the Trustee 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 clause (a) above, the Trustee 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 of a Series Outstanding and all sums due the Trustee with respect to that Series pursuant to Section 6.07 have been paid, release any remaining portion of the Series Trust Estate that secured that Series of 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 that Series of 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 related Series Supplements. 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 one Series of Transition Bonds. Pursuant to and in accordance with the Financing Order, amounts received from any REP as a security deposit with respect to a Series of Transition Bonds shall be deposited into the applicable REP Deposit Account for that Series. 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, any Servicing Agreement and any 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. 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. 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 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 Series 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 any Series Trust Estate, or to better assure, convey and confirm unto the Trustee any Series Trust Estate, or to subject to the Lien of this Indenture additional property;

(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, the Trustee and any Swap Counterparty;

(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 set forth the terms of any Series that has not theretofore been authorized by a Series Supplement;

(ix) to qualify the Transition Bonds for registration with a Clearing Agency; or

(x) 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 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 Series or 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 Series or 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, 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 related applicable Series 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, 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 Series or 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 Transition Bonds of affected Series required to direct the Trustee to direct the Issuer to sell or liquidate the Series Trust Estate securing such Series pursuant to Section 5.04 or to preserve the Series Trust Estate related to such Series 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 payable on any Transition Bond on any Payment Date or change the Redemption Dates, Expected Amortization Schedules or Series Final Maturity Dates or Tranche Final Maturity Dates of any Transition Bonds;

(vii) decrease the Required Capital Amount with respect to any Series;

(viii) modify or alter the provisions of this Indenture regarding the voting of 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 Transition Bonds 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, 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 Series or Tranche of 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. 30485 and to any other Docket No. under which a Financing Order has been issued 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. [Reserved]

SECTION 10.02. MANDATORY REDEMPTION BY ISSUER. The Issuer shall redeem all Transition Bonds of a Series that have been called for redemption pursuant to

Section 10.01 on the Redemption Date or Dates, if any, in the amounts required, if any, and at the redemption price specified in the Series Supplement for such Series, 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 of a Series pursuant to this Section 10.02, 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 10.03 hereof to each Holder of the Transition Bonds of such Series pursuant to this Section 10.02.

SECTION 10.03. FORM OF REDEMPTION NOTICE. Unless otherwise specified in the Series Supplement relating to a Series of Transition Bonds, notice of redemption under Section 10.01 or 10.02 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 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 of any Series 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 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. Notice of optional redemption shall be irrevocable once given.

SECTION 10.04. 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. 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 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, 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 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 at its Corporate Trust Office, or

(b) the Issuer by the Trustee or by 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 II, LLC, 1111 Louisiana Street, Suite 4655B, 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.

Notices required to be given to the Rating Agencies by the Issuer, the Trustee 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.

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 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 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. NOTWITHSTANDING THE FOREGOING, FOR PURPOSES OF CHAPTER 8 OF THE UCC AS ENACTED IN THE STATE OF TEXAS AND ARTICLE 8 OF THE UCC AS ENACTED IN THE STATE OF NEW YORK, OR CHAPTER 8 OR ARTICLE 8 (OR CORRESPONDING PROVISION) OF THE UCC AS ENACTED IN ANY OTHER STATE, THE JURISDICTION OF THE SECURITIES INTERMEDIARY SHALL BE THE STATE OF NEW YORK.

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 paragraph 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 any Intercreditor Agreement provided to it by the Issuer that does not materially and adversely affect any Holder's rights in and to any Series 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 such Intercreditor Agreement does not materially and adversely affect any Holder's rights in and to any Series Trust Estate or otherwise hereunder. Each Intercreditor Agreement shall be binding on the Holders.

IN WITNESS WHEREOF, the Issuer, the Trustee and the Securities Intermediary 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 II, LLC

By: _____
Name: _____
Title: _____

DEUTSCHE BANK TRUST COMPANY
AMERICAS, as Trustee

By: _____
Name: _____
Title: _____

DEUTSCHE BANK TRUST COMPANY AMERICAS,
as Securities Intermediary

By: _____
Name: _____
Title: _____

SCHEDULE 1

[SEMIANNUAL] SERVICER'S CERTIFICATE

SCHEDULE 2a

[STATUTORY TRUE-SALE OPINION]

SCHEDULE 2b

[STATE LAW SECURITY INTEREST OPINION]

SCHEDULE 2C
[UCC OPINION]

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 Overcollateralization 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.

"Addition Notice" means, with respect to the transfer of Subsequent Transition Property to the Issuer, notice, which shall be given by the Seller to the Issuer, the PUCT and the Rating Agencies not later than 10 days prior to the related Subsequent Transfer Date, specifying the Subsequent Transfer Date for such Subsequent Transition Property.

"Adjustment Date" has the meaning specified in the applicable Servicing Agreement.

"Administration Agreement" means the Administration Agreement dated as of [], 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 applicable Servicing Agreement.

"Authorized Denominations" means, with respect to any Series or Tranche of Transition Bonds, \$1,000 and integral multiples thereof, or such other denominations as may be specified in the Series 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, each Sale Agreement, each Servicing Agreement, each Intercreditor Agreement, each Swap Agreement, the Administration Agreement, the Indenture, any Supplemental Indentures, each DTC Agreement, each Underwriting Agreement and any Bills of Sale.

"Bill of Sale" means any bill of sale issued by the Seller to the Issuer pursuant to any Sale Agreement evidencing the sale of Transition Property by the Seller to the Issuer.

"Bond Rate" means, with respect to each Series or, if applicable, each Tranche of Transition Bonds, the rate at which interest accrues on the principal balance of Transition Bonds of such Series or Tranche, as specified in the Series Supplement therefor.

"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 each Series of Transition Bonds, the date on which the calculations and filings set forth in Annex 1 to the applicable 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 Trust and Securities Services, 60 Wall Street, 26th Floor, MS NYC60 - 2606, New York, New York 10005, Attn: Structured Finance Services, 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 notify the Transition Bondholders and the Issuer).

"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 any applicable Letter of Representations among the Issuer, the Trustee 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:

(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).

"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 Final Payment Date" means, with respect to each Series or, if applicable, each Tranche of Transition Bonds, the date when all interest and principal is scheduled to be paid for that Series or Tranche in accordance with the Expected Amortization Schedule, as specified in the Series Supplement therefor.

"Expected Amortization Schedule" means, with respect to each Series or, if applicable, each Tranche of Transition Bonds, the expected amortization schedule for principal thereof, as specified in the Series Supplement therefor.

"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 Series or, if applicable, each Tranche of Transition Bonds, the date by which all Principal and Interest on the Transition Bonds is required to be paid, as specified in the Series Supplement therefor.

"Financing Issuance" means an issuance of a new Series of Transition Bonds under the Indenture to provide funds to finance the purchase by the Issuer of Transition Property.

"Financing Order" means the Financing Order issued by the PUCT on March 16, 2005, in Docket No. 30485 and any subsequent financing order issued by the PUCT to CenterPoint Houston pursuant to which CenterPoint Houston transfers its rights and interests thereunder to the Issuer in connection with the issuance of a separate Series of Transition Bonds.

"Fitch" means Fitch Ratings or any successor thereto.

"Floating Rate Bonds" means any Series or Tranche of Transition Bonds that accrues interest at a variable rate determined as described in the related Series Supplement, if any.

"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 Series or Tranche is registered on the Transition Bond Register.

"Indemnity Amounts" means any indemnification obligations payable by the Servicer pursuant to any Servicing Agreement, the Seller pursuant to any Sale Agreement or the Issuer pursuant to Section 6.07 of the Indenture.

"Indenture" means this Indenture dated as of [], among the Issuer, the Trustee and the Securities Intermediary, as the same may be amended and supplemented from time to time by

one or more Series Supplements or 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.

"Initial Transfer Date" means the Series Issuance Date for the first Series of Transition Bonds.

"Intercreditor Agreement" means any intercreditor agreement that CenterPoint Houston, as Seller, enters into with the Trustee, the Issuer, CenterPoint Energy Transition Bond Company, 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, and other parties.

"Interest" means, for any Payment Date for any Series or Tranche of 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 Initial Transfer Date, with respect to that Series or 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 Series or Tranche to be redeemed prior to the next Payment Date, the amount of interest that will be payable as interest on such Series or Tranche upon such redemption.

"ISDA" means the International Swap Dealers Association, Inc.

"Issuer" means CenterPoint Energy Transition Bond Company II, 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 [], 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, dated as of [], 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 of all Series.

"Manager" means any manager of the Issuer.

"Master Agreement" has the meaning specified in Section 8.02(d) of the Indenture.

"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 a Series of Transition Bonds, including all amounts owed by the Issuer to the Trustee relating to that Series, the Servicing Fee relating to that Series (but excluding costs and expenses incurred by the Servicer except as specifically set forth in Section 5.08 of the Servicing Agreement relating to that Series), the fees and expenses relating to that Series 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 relating to that Series incurred by the Administrator in accordance with Sections 2 and 3 of the Administration Agreement), the fees and expenses relating to that Series payable by the Issuer to the independent managers of the Issuer, legal fees and expenses of the Servicer pursuant to the applicable Servicing Agreement relating to that Series, and legal and accounting fees, costs and expenses of the Issuer relating to that Series.

"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" 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 Series 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 of a Series or Tranche Outstanding at the date of determination.

"Overcollateralization Subaccount" has the meaning specified in Section 8.02(a) of the Indenture.

"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 each Series or, if applicable, each Tranche of Transition Bonds, each date or dates specified as Payment Dates for such Series or Tranche in the Series Supplement therefor, 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 Series or, if applicable, each Tranche of 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 Series or 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 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 Transition Bonds after giving effect to payment of the sum of the amounts provided for in the Expected Amortization Schedules for each outstanding Series of Transition Bonds and 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 one or more Financing Orders, in each case as applicable to the Series of Transition Bonds to which that Financing Order relates.

"Rating Agency" means any rating agency rating the Transition Bonds of any Tranche or Series 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 a new Series of 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 and Fitch 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 Series or Tranche of Transition Bonds.

"Record Date" means, with respect to any Payment Date for a Series or Tranche, the date set forth as such in the Series Supplement therefor.

"Redemption Date" means, with respect to each Series or, if applicable, each Tranche of Transition Bonds, the date for the redemption of the Transition Bonds of such Series or Tranche pursuant to Section 10.01 or 10.02 of the Indenture or the Series Supplement for such Series or Tranche, which in each case shall be a Payment Date.

"Redemption Price" has the meaning set forth in Section 10.01 of the Indenture.

"Refunding Issuance" means issuance of a new Series of Transition Bonds hereunder to pay the cost of refunding, through redemption or payment on the Expected Final Payment Date

for a Series or Tranche of Transition Bonds, all or part of the Transition Bonds of such Series or Tranche to the extent permitted by the terms thereof.

"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 related Series 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 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.

"Retiring Trustee" means a Trustee that resigns or vacates the office of Trustee for any reason.

"Sale Agreement" means the Sale Agreement for any Transition Property, in each case, between the Seller and the Issuer, as the same may be amended and supplemented from time to time.

"Securities Intermediary" means _____, as securities intermediary, or its successor or any successor securities intermediary under the Indenture.

"Seller" means CenterPoint Houston, or its successor, in its capacity as seller of the Transition Property to the Issuer pursuant to any Sale Agreement.

"[Semiannual] Servicer's Certificate" means the statement prepared by the Servicer and delivered to the Trustee with respect to each Series of Transition Bonds on or prior to each Payment Date therefor, the form of which is attached hereto as Schedule 1.

"Series" means any series of Transition Bonds issued by the Issuer and authenticated by the Trustee pursuant to the Indenture, as specified in the Series Supplement therefor.

"Series Final Maturity Date" means the Final Maturity Date for a Series.

"Series Issuance Date" means, with respect to any Series, the date on which the Transition Bonds of such Series are to be originally issued in accordance with Section 2.10 of the Indenture and the Series Supplement for such Series.

"Series Supplement" means a Supplemental Indenture that authorizes a particular Series of Transition Bonds.

"Series Trust Estate" has the meaning specified in a Series Supplement for a particular Series of Transition Bonds.

"Servicer" means CenterPoint Houston and each successor to or assignee of CenterPoint Houston, in its capacity as Servicer under the applicable Servicing Agreement for a Series of Transition Bonds.

"Servicer Default" means an event specified in the applicable Servicing Agreement.

"Servicing Agreement" means any Transition Property Servicing Agreement between the Issuer and the Servicer for the related 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 each Series of Transition Bonds in the amount to be specified in the applicable 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.

"Subsequent Sale" means the sale of Transition Property after the date hereof, subject to the satisfaction of the conditions specified in any Sale Agreement and the Indenture.

"Subsequent Transfer Date" means any date on which a Subsequent Sale will be effective, specified in an Addition Notice.

"Subsequent Transition Property" means Transition Property (identified in the related Bill of Sale) sold by the Seller to the Issuer as of a Subsequent Transfer Date pursuant to a Sale Agreement.

"Successor Servicer" means a successor Servicer appointed by the Trustee pursuant to the applicable Servicing Agreement which will succeed to all the rights and duties of the Servicer under the Servicing Agreement.

"Supplemental Indenture" means a supplemental indenture entered into by the Issuer and the Trustee pursuant to Article IX of the Indenture.

"Swap" means an interest rate swap, cap, floor, collar or other hedging transaction that may be entered into by the Issuer in accordance with the Indenture for the purpose of managing interest rate risk with respect to a specified Series or Tranche of Floating Rate Bonds that are being issued concurrently with the execution of the Swap.

"Swap Agreement" means any ISDA Master Agreement relating to a Series of Transition Bonds, together with the related Schedule and Confirmation, between the Issuer and a Swap

Counterparty, as the same may be amended, supplemented or otherwise modified and in effect from time to time, as permitted by the Indenture and any Series Supplement.

"Swap Counterparty" means the entity that is a party to a Swap with the Issuer.

"Swap Payment" means the payments made by the Issuer to the Swap Counterparty pursuant to any Swap, subject to any netting of payments provided in the applicable Swap.

"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.).

"Tranche" means, with respect to any Series, any one of the classes of Transition Bonds of that Series, as specified in the Series Supplement for that Series.

"Tranche Final Maturity Date" means the Final Maturity Date of a Tranche, as specified in the Series Supplement for the related Series.

"Tranche Subaccount" has the meaning specified in Section 8.02(a) of the Indenture.

"Transition Bond" means any of the transition bonds (as defined in the Texas Electric Choice Plan) issued by the Issuer pursuant to the Indenture.

"Transition Bond Balance" means, as of any date, the aggregate Outstanding Amount of all Series of 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 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 applicable Servicing Agreement 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 any 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, and all Subsequent Transition Property.

"Trust Estate" means all Series Trust Estate securing all Transition Bonds issued under the Indenture.

"Trust Indenture Act or TIA" means the Trust Indenture Act of 1939 as in force on the date hereof, unless otherwise specifically provided.

"Trustee" means _____, 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 of any Series or Tranche from the Issuer and sell such Transition Bonds in a public offering.

"Underwriting Agreement" means any underwriting agreement entered into by the Issuer, CenterPoint Houston and the underwriters parties thereto in connection with the issuance of a separate Series of Transition Bonds in accordance with a 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.]

September 12, 2005

CenterPoint Energy Transition Bond Company II, LLC
1111 Louisiana, Suite 4655B
Houston, Texas 77002

Ladies and Gentlemen:

We have acted as counsel for CenterPoint Energy Transition Bond Company II, LLC, a Delaware limited liability company (the "Company"), in connection with the preparation of Amendment No. 1 to the Registration Statement on Form S-3 (the "Registration Statement") filed by the Company with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended, on September 12, 2005 relating to the proposed issuance of up to \$1,857,000,000 in aggregate principal amount of transition bonds (the "Transition Bonds") of the Company to be offered from time to time as described in the form of 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. 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 December 3, 2004 (the "Certificate"), as filed in the office of the Secretary of State of the State of Delaware (the "Secretary of State") on December 3, 2004;

(b) The Limited Liability Company Agreement of the Company, dated as of December 3, 2004, by CenterPoint Energy Houston Electric, LLC, a Texas limited liability corporation ("CEHE"), as sole member;

(c) A Form of Amended and Restated Limited Liability Company Agreement of the Company (the "Agreement"), to be entered into by the CEHE, as sole member, and the managers named therein, attached as an exhibit to the Registration Statement;

(d) The Registration Statement;

(e) A form of Indenture (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

(f) A Certificate of Good Standing for the Company, dated September 12, 2005, 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, 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 officers and other representatives of the Company, CEHE and others. We have not reviewed any document (other than the documents listed in paragraphs (a) through (f) 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 any Series of Transition Bonds:
 - (i) all necessary orders, approvals and authorizations for the Company's purchase from time to time of Transition Property from CEHE 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 CEHE 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 CEHE, as Seller, will have been executed and delivered;
 - (vi) the Servicing Agreement between the Company and CEHE, as Servicer, will have been executed and delivered;
 - (vii) the Underwriting Agreement among the Company, CEHE and the underwriters of the Transition Bonds (the "Underwriting Agreement") will have been executed and delivered; and
 - (viii) the Manager or Managers of the Issuer have 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, the contract law of the State of New York 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 included in the Registration Statement. 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.

[Letterhead of Baker Botts L.L.P.]

September 12, 2005

CenterPoint Energy Transition Bond Company II, LLC
1111 Louisiana, Suite 4655B
Houston, Texas 77002

CenterPoint Energy Houston Electric, LLC
1111 Louisiana
Houston, Texas 77002

Ladies and Gentlemen:

We have acted as counsel to CenterPoint Energy Transition Bond Company II, LLC, a Delaware limited liability company (the "Company"), and CenterPoint Energy Houston Electric, LLC, a Texas limited liability company, with respect to certain legal matters in connection with the Registration Statement on Form S-3 (Registration No. 333-121505) (the "Registration Statement") filed by the Company 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 \$1,857,000,000 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 from time to time 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 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 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.

CenterPoint Energy Transition Bond Company II, LLC

September 12, 2005

Very truly yours,

/s/ BAKER BOTTS L.L.P.

- 2 -

FORM OF TRANSITION PROPERTY SALE AGREEMENT

between

CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC

Issuer

and

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

Seller

Dated as of _____

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APPENDIX A DEFINITIONS

SCHEDULE 1

TRANSITION PROPERTY SALE AGREEMENT (this "Agreement") dated as of _____, between CENTERPOINT ENERGY TRANSITION BOND COMPANY II, 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 Transferred 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 Transferred 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 paragraph (a) above.

(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 for the Transferred Transition Property to be purchased on such date, 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 Transferred 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 Transferred 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 Transferred 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 [] and the related prospectus supplement dated [] 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 income 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 Transferred 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 Transferred Transition Property; and that such Transferred 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 Transferred 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 Transferred Transition Property and to grant to the Indenture Trustee a first priority perfected security interest in the Transferred 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 Transferred 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 believe 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 [] 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 the third business day after submission of the Issuance Advice Letter that the Transition Bonds do not comply with Ordering Paragraph [] 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 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.

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 Transferred 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 and the Issuer's purchase of the Transition Property from the Seller pursuant to this Agreement, the Transferred Transition Property constitutes 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 Transferred Transition Property from the Seller pursuant to this Agreement, the Transferred Transition Property includes:

- (1) the right to impose, collect and receive the Transition Charges authorized in the Financing Order, 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 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 Transferred Transition Property from the Seller on such Transfer Date pursuant to this Agreement, the Transferred Transition Property is not 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 Servicer 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 the Seller's retail electric customers in its 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 Transferred 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 Transferred 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 collections 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 Transferred 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 Transferred 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 is 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 or as required in connection with the SEC's administration of the 1935 Act,

(ii) disclose in its financial statements that it is not the owner of the Transferred 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 Transferred 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 or as required in connection with the SEC's administration of the 1935 Act), and (B) not make any statement or reference in respect of the Transferred Transition Property that is inconsistent with the ownership thereof by the Issuer (other than for financial reporting or tax purposes or as required in connection with the SEC's administration of the 1935 Act);

(ii) the Seller shall not take any action in respect of the Transferred 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; and

(iii) the Issuer shall not sell transition bonds under a separate financing order in connection with the issuance of additional transition bonds unless the Rating Agency Condition shall have been satisfied with respect to the Transition Bonds outstanding.

(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 Transferred 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 Transferred 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 Transferred 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 ownership 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 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, 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 Transferred 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 TRANSFERRED 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 LEGISLATURE 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 Transferred 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 (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. [] 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, Houston, Texas 77002, Attention: Treasurer,

(b) in the case of the Issuer, to CenterPoint Energy Transition Bond Company II, LLC, 1111 Louisiana, Suite 4655B, 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, [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 Transferred 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.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their respective officers as of the day and year first above written.

CENTERPOINT ENERGY TRANSITION BOND
COMPANY II, 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.

"1935 Act" means the Public Utility Holding Company Act of 1935, as amended.

"Administration Agreement" means the Administration Agreement, dated as of [], 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" or the "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 December 3, 2004, as amended and restated on [], the Amended and Restated Limited Liability Company Agreement of the Issuer dated as of [], this Sale Agreement, the Bill of Sale, the Servicing Agreement, the Intercreditor Agreement, the Administration Agreement, the Indenture, the Series Supplement [and the Swap Agreement].

"Bill of Sale" means any 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.

"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 [] in Docket No. [] 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 [], between the Issuer and the Indenture Trustee, the Series Supplement (including the forms and terms of the Transition Bonds

established thereunder), as the same may be amended and supplemented with respect to the Transition Bonds from time to time.

"Indenture Trustee" means _____, a _____ corporation, or its successor or any successor Indenture Trustee under the Indenture.

"Intercreditor Agreement" means the Intercreditor Agreement dated as of [], among the Indenture Trustee, the Issuer, the Seller and CenterPoint Energy Transition Bond Company, LLC, 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 by the Seller pursuant to the Financing Order in connection with the issuance of the Transition Bonds.

"Issuer" means CenterPoint Energy Transition Bond Company II, 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 and Fitch 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.

"SEC" means the 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.

"Series Supplement" means the Supplemental Indenture dated [], which authorizes 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 an event specified in [Section 6.01] of the Servicing Agreement.

"Servicing Agreement" means the Transition Property Servicing Agreement, dated as of [], 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.

"Supplemental Indenture" means a supplemental indenture entered into by the Issuer and the Indenture Trustee pursuant to Article IX of the Indenture.

"Swap Agreement" means and includes the ISDA Master Agreement, together with the related Schedule and Confirmation, each dated [] between the Issuer and [Counterparty], as swap counterparty thereunder, as the same may be amended and supplemented from time to time.

"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.).

"Transfer Date" means the date on which the Transition Bonds are to be originally issued in accordance with Section 2.10 of the Indenture.

"Transferred Transition Property" means the Transition Property that has been purchased by the Issuer pursuant to the Bill of Sale.

"Transition Bond" means any of the Series 2005-____ Transition Bonds issued by the Issuer pursuant to the Indenture and one or more Supplemental Indentures authorizing such series and also has the meaning given such term in the Texas Electric Choice Plan, as applicable to such series.

"Transition Bondholder" means the Person in whose name a Transition Bond is registered on the Transition Bond Register.

"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 [] (the "Sale Agreement"), between CenterPoint Energy Houston Electric, LLC (the "Seller") and CenterPoint Energy Transition Bond Company II, 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.

IN WITNESS WHEREOF, the Seller and the Issuer have duly executed this Bill of Sale as of the ___ day of _____, ____.

CENTERPOINT ENERGY TRANSITION BOND
COMPANY II, LLC,
as Issuer,

By: _____
Name:
Title:

CENTERPOINT ENERGY HOUSTON
ELECTRIC, LLC,
as Seller,

By: _____
Name:
Title:

Exhibit A-2

SCHEDULE 1
to
BILL OF SALE

Transition Property

FORM OF TRANSITION PROPERTY SERVICING AGREEMENT

between

CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC

Issuer

and

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

Servicer

Dated as of []

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TRANSITION PROPERTY SERVICING AGREEMENT dated as of [] (this "Agreement") between CENTERPOINT ENERGY TRANSITION BOND COMPANY II, 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 5.03 or 6.04, the "Servicer").

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 collected from Customers and REPs (as applicable); and

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;

WHEREAS, the Financing Order provides that the PUCT, acting through its authorized legal representative and for the benefit of Texas ratepayers, may 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 in accordance with the terms of this Agreement. 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 such 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 the Issuer with respect to the Transition Property. The Servicer hereby agrees that it shall not take any action that is not authorized by this Agreement, the Texas Electric Choice Plan 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 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 applicable (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 Replacement 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 3.02);

(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 of REPs, investigating and resolving delinquencies (including, where permitted by the Financing Order, Schedule TC2 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 TC2, and enforcing against such REP at the earliest date permitted by the Financing Order and Schedule TC2 any remedies provided by such Schedule TC2, the Financing Order or other applicable law;

(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 Series 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; and

(xiv) any other duties specified for a servicer under the Financing Order, Schedule TC2, the Texas Electric Choice Plan or other applicable law.

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 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 Exhibit A hereto.

(b) 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.

(c) 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 the 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.

SECTION 3.02. COLLECTION AND ALLOCATION OF TRANSITION CHARGES.

(a) 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 3.02(c) below) as and when the same shall become due and shall follow such collection procedures 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 TC2 and the Issuer Annex.

(b) If an REP does not pay the full amount it has been billed by the Servicer, the amount paid by the REP will first be proportioned 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 attributed to late fees owed to CenterPoint Houston or any successor.

(c) Transition Charges must be paid within 35 days following the date of each billing by the Servicer to the 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 date on which the Transition Charges were billed to the REP. 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. Disputes regarding whether and when an REP has made payment of billed Transition Charges shall be resolved in accordance with Section 8(b) of the Issuer Annex.

SECTION 3.03. PAYMENT OF TC COLLECTIONS.

(a) The Servicer shall collect and remit to the Trustee for deposit in the Collection Account on a daily basis in accordance with Section 5.11 the Transition Charges plus

Accrued Interest thereon from the date or dates such Transition Charges were actually received in accordance with Section 3.02 upon receipt of such collection from any source.

(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.

SECTION 3.04. 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 without limitation 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 consistent with the terms and provisions of the Financing Order, Schedule TC2 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 Series Trust Estate and use all reasonable efforts to otherwise enforce and maintain the Trustee's rights in respect of the Transition Property and the Series 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 3.10 hereof or otherwise.

SECTION 3.05. SERVICER'S CERTIFICATES. The Servicer shall provide to the Issuer, the PUCT, the Trustee and the Rating Agencies the statements and certificates specified in the Issuer Annex at the time and in the manner set forth therein.

SECTION 3.06. ANNUAL STATEMENT AS TO COMPLIANCE; NOTICE OF DEFAULT. The Servicer shall deliver to the Issuer, to the PUCT, to the Trustee and to each Rating Agency, on or before March 31 of each year beginning March 31, 2006, an Officers' Certificate, stating that:

(i) a review of the activities of the Servicer during the preceding calendar year (or relevant portion thereof) and of its performance under this Agreement has been made under such officers' supervision; and

(ii) to the best of such officers' knowledge, based on such review, the Servicer has fulfilled all its obligations under this Agreement throughout such period or, if there has been a default in the fulfillment of any such obligation, stating that there has been a default and describing each such default.

SECTION 3.07. 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, and the Servicer shall deliver to the Issuer, to the PUCT, to the Trustee and to each Rating Agency, on or before March 31 of each year, beginning March 31, 2006, to and including the March 31 succeeding the retirement of all Transition Bonds, 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 related to financial matters in connection with the Servicer's compliance with its obligations under this Agreement during the preceding calendar year (or, in the case of the first Annual Accountant's Report, the period of time from the Sale Date through December 31, 2005), 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 within the meaning of the Code of Professional Ethics of the American Institute of Certified Public Accountants.

SECTION 3.08. TRANSITION PROPERTY DOCUMENTATION. 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 3.09. COMPUTER RECORDS; AUDITS OF DOCUMENTATION.

(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 5.11 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 3.09, to the extent such Transition Property Documentation has not been previously transferred to a successor Servicer, shall terminate three years 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 of any Series 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 3.09(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.

SECTION 3.10. 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 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 3.10 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 3.11. OPINIONS OF COUNSEL. The Servicer shall deliver to the Issuer, to the PUCT and to the Trustee:

(a) promptly after the execution and delivery of this Agreement and of each amendment hereto, and promptly after the Sale Date, an Opinion of Counsel either:

(i) to the effect that, in the opinion of such counsel, all filings, including filings with the Secretary of State of the State of Texas pursuant to the Texas Electric Choice Plan and filings pursuant to the UCC, that are necessary to perfect the transfer and security interests of each of the Issuer and the Trustee in the Transition Property to which the Sale Agreement relates have been executed and filed and are in full force and effect, and reciting the details of such filings or referring to prior Opinions of Counsel in which such details are given, or

(ii) to the effect that, in the opinion of such counsel, no such action shall be necessary to preserve and protect such interests; and

(b) within 90 days after the beginning of each calendar year beginning with the first calendar year beginning more than three months after the Sale Date, an Opinion of Counsel, dated as of a date during such 90-day period, either:

(i) to the effect that, in the opinion of such counsel, all filings, including filings with the Secretary of State of the State of Texas pursuant to the Texas Electric Choice Plan and filings pursuant to the UCC, that are necessary to fully preserve and protect the interests of each of the Issuer and the Trustee in the Transition Property to which the Sale Agreement relates have been executed and filed and are in full force and effect, and reciting the details of such filings or referring to prior Opinions of Counsel in which such details are given, or

(ii) to the effect that, in the opinion of such counsel, no such action shall be necessary to preserve and protect such interest.

Each Opinion of Counsel referred to in clause (a) or (b) 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 interests.

ARTICLE IV

SERVICES RELATED TO TRANSITION CHARGE ADJUSTMENTS AND PBRAF
ADJUSTMENTS

SECTION 4.01. TRANSITION CHARGE ADJUSTMENTS AND PBRAF ADJUSTMENTS. The Servicer shall perform the calculations and take the actions relating to adjusting the Transition Charges and PBRAFs as set forth in the Issuer Annex at the time and in the manner set forth therein.

ARTICLE V

THE SERVICER

SECTION 5.01. 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 and will rely in acquiring 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.

(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, properties or prospects or adversely affect the servicing of the Transition Property).

(c) Power and Authority. The Servicer has the limited liability company or corporate, as the case may be, 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 or corporate, as the case may be, 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 bankruptcy, receivership, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity (regardless of whether considered in a court 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 limited liability company agreement or articles of incorporation or by-laws, as the case may be, 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 39.909 of the Texas Electric Choice Plan); or violate any law or any existing order, rule or regulation applicable to the Servicer of any court or of any federal or State regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the Servicer or its properties.

(f) Approvals. Except for 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, 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 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 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.

(g) No Proceedings. Except as disclosed by the Servicer on Schedule A hereto, there are no 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:

(i) 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;

(ii) relating to the Servicer and which 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

(iii) 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 PBRAF 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 5.02. 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 5.02 (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 5.02, 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 5.02 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 5.02, 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 5.02 (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 5.02(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 5.02 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 5.07(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 APPLICABLE COLLECTION ACCOUNT.

SECTION 5.03. 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 5.01 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 and the Trustee an Officers' Certificate and an opinion of Independent counsel each stating that such consolidation, merger, conversion or succession and such agreement of assumption comply with this Section 5.03 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 5.03, then upon the satisfaction of all of the other conditions of this Section 5.03, the Servicer shall automatically and without further notice be released from its obligations hereunder.

SECTION 5.04. 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 5.03.

SECTION 5.05. 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 3.10 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 5.05 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 5.06. CENTERPOINT HOUSTON NOT TO RESIGN AS SERVICER. Subject to the provisions of Sections 5.03 and 5.04, 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 and the PUCT 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 6.04.

SECTION 5.07. 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 all Series of 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 5.03, or
- (iii) any Person is the successor Servicer hereunder pursuant to the provisions of Section 5.04 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 Series Issuance Date and shall be prorated into equal payment amounts based on the number of Payment Dates that are expected to occur (a) in the remaining portion of the calendar year in which the Servicer began to provide any of the services set forth in this Agreement (provided that the Servicing Fee for such time period shall be prorated to the fraction of a calendar year during which the Servicer provides any of the services set forth in this Agreement) and (b) in each calendar year thereafter.

(b) In the event that a successor Servicer not an Affiliate of CenterPoint Houston is appointed in accordance with Section 6.04, 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 Series Issuance Date without the consent of the PUCT and shall be prorated into equal payment amounts as set forth in the preceding paragraph. The foregoing fees 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.

(c) The Servicer will be entitled to retain any interest earnings on such TC Collections prior to remittance to the Collection Account for the applicable Series; provided, however, that if the Servicer fails to remit the TC Collections to the Trustee on or before the second business day after the Servicer received such TC Collections on more than three occasions during the period that the Transition Bonds of a Series are outstanding, then thereafter the Servicer will be required to pay the Trustee any actual interest earned on TC Collections received by the Servicer and invested by the Servicer during each collection period prior to remittance to the Trustee for so long as that Series of Transition Bonds remains outstanding. All late payment charges will be remitted to the Trustee.

SECTION 5.08. SERVICER EXPENSES. Except as otherwise expressly provided in Sections 3.10 and 5.05, 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 5.09. 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 5.06. The Designated Account Holder shall constitute a subservicer for purposes of this Section 5.09.

SECTION 5.10. NO SERVICER ADVANCES. The Servicer shall not make any advances of interest on or principal of the Transition Bonds.

SECTION 5.11. REMITTANCES. The Servicer will make periodic payments on account of TC Collections to the Trustee for deposit in the Collection Account for the applicable series of Transition Bonds. The Servicer will remit TC Collections to the Trustee on a daily basis, which 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.

SECTION 5.12. PROTECTION OF TITLE. The Servicer shall execute and file all such 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 such 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.

ARTICLE VI

SERVICER DEFAULT

SECTION 6.01. 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; or

(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 6.01(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 7 of Annex 1 to 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 5.02 hereof and the obligation under Section 6.04 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 Section 5 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 6.04 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 6.02. 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 6.01.

SECTION 6.03. 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 5.11 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 6.04. APPOINTMENT OF SUCCESSOR.

(a) Upon the Servicer's receipt of a Termination Notice pursuant to Section 6.01 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 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 6.05. 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 VII

MISCELLANEOUS PROVISIONS

SECTION 7.01. AMENDMENT. 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 7.12 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 3.11. 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.

SECTION 7.02. 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, reputable overnight courier or by first class mail, postage prepaid, and shall be deemed to have been duly given upon receipt

(a) in the case of the Servicer, to CenterPoint Houston, 1111 Louisiana Street, Houston, Texas 77002, Attention: Treasurer;

(b) in the case of the Issuer, to CenterPoint Energy Transition Bond Company II, LLC, 1111 Louisiana Street, Suite 4655B, 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, 99 Church 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; and

(f) in the case of Fitch, to Fitch Ratings, 1 State Street Plaza, New York, New York 10004;

(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 7.03. ASSIGNMENT. Notwithstanding anything to the contrary contained herein, except as provided in Sections 5.03 and 5.04 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 7.04. 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 Series 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 7.05. 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 7.06. 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 7.07. 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 7.08. 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 7.09. 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 7.10. 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 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 the property of the Issuer, or ordering the winding up or liquidation of the affairs of the Issuer.

SECTION 7.11. TERMINATION. This Agreement shall terminate when all Transition Bonds have been retired or redeemed in full.

SECTION 7.12. PUCT CONSENT. Except as specifically set forth in Section 6.04, 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) CenterPoint Houston 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. 30485 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 7.12(a) above, either

(i) provide notice of its consent or lack of consent to the person specified in Section 7.12(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 7.12(a) above, the PUCT or its staff delivers to the office of the person specified in Section 7.12(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 7.12(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 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 Section 7.12(b)(ii), or, if such period has been extended pursuant thereto, the first day after the expiration of such period as so extended.

SECTION 7.13. EFFECT OF SUBSEQUENT PUCT REGULATIONS. Notwithstanding anything to the contrary contained in this Agreement (including Annex 1 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 and the Rating Agencies of any such PUCT Regulation and the corresponding modification of or supplement to this Agreement promptly upon obtaining knowledge thereof.

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 II, LLC

By: _____
Name:
Title:

CENTERPOINT ENERGY HOUSTON ELECTRIC,
LLC, as Servicer

By: _____
Name:
Title:

Acknowledged and Accepted:

_____,
not in its individual capacity but solely as
Trustee on behalf of the Holders
of the Transition Bonds

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:

[]

ANNEX 1
TO
TRANSITION PROPERTY SERVICING AGREEMENT

The Servicer agrees to comply with the following with respect to CenterPoint Energy Transition Bond Company II, LLC (the "Issuer"):

SECTION 1. DEFINITIONS. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in Appendix A to the Transition Property Servicing Agreement dated as of [] between the Issuer and CenterPoint Houston, as Servicer.

SECTION 2. CHANGES TO PBRAF METHODOLOGY PURSUANT TO PUCT ORDER. CenterPoint Houston's methodology for allocating qualified costs and developing the initial PBRAs will not be changed except in the limited circumstance where total retail stranded costs on a statewide basis exceed \$5 billion as described in Part D of Section 6 of Schedule TC2. The Servicer shall file the adjustments required therein, within 45 days after the PUCT issues any order that causes the total statewide stranded costs (determined pursuant to Section 39.253(f) of the Texas Electric Choice Plan) to exceed \$5 billion or changes the amount by which the total statewide stranded costs (determined pursuant to Section 39.253(f) of the Texas Electric Choice Plan) exceed \$5 billion.

SECTION 3. CALCULATION DATE STATEMENTS TO ISSUER AND TRUSTEE. 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 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; and

(d) 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.

SECTION 4. CALCULATION DATE ACTIVITY BETWEEN THE SERVICER AND REPS.

(a) Each REP will be permitted 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. Until the first Calculation Date, each REP that has chosen to hold back an allowance for charge-offs in its payments of TC Collections to the Servicer in accordance with the Financing Order and Schedule TC2 will remit to the Servicer TC Collections based on the charge-off percentage in effect for transition charges related to the

transition bonds issued by CenterPoint Energy Transition Bond Company, LLC on October 24, 2001. 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 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 no event will the REP have recourse to the Trustee, the Issuer or the Issuer's funds for such payments.

(iii) 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 and the REP's rights to credits will not take effect until after such adjusted Transition Charges rates have been implemented.

(b) 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 upcoming Adjustment Date.

(c) 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 under this Section 4 to receive a credit against future payments of TC Collections to the Servicer shall not take effect until after the next upcoming Adjustment Date.

(d) In any case the Servicer shall bill to and collect from each REP such REP's share of the amount required to meet the requirements of the Financing Order, provided that in addition each billing shall also include the amount of the holdback allowed for charge-offs.

SECTION 5. REMITTANCE STATEMENTS. 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.

SECTION 6. PAYMENT DATE STATEMENTS. By 12:00 noon Central Time on the Business Day immediately preceding each Payment Date, the Servicer shall prepare and furnish

to the Issuer, the PUCT, the Trustee and the Rating Agencies a [Semiannual] Servicer's Certificate setting forth the transfers and payments to be made in respect of such Payment Date pursuant to Section 8.02(d) of the Indenture and the amounts thereof and the amounts to be paid to Holders of Transition Bonds of each Series pursuant to Section 8.02(e) of the Indenture.

SECTION 7. TRANSITION CHARGE AND PBRAF ADJUSTMENTS.

(a) Prior to each Calculation Date, the Servicer shall calculate

(i) the PBRAF Adjustments to be made in accordance with the methodology set forth in Schedule TC2, as may be modified from time to time by order from the PUCT,

(ii) 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

(iii) the Transition Charge Adjustment with respect to the Transition Property for the twelve-month period preceding and including the next upcoming Adjustment Date and each subsequent twelve-month period, such that the Servicer projects that TC Collections therefrom allocable to the Issuer will be sufficient so that:

(A) 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 Series or Tranche of Transition Bonds, by the Expected Final Payment Date therefor, taking into account any amounts on deposit in the Excess Funds Subaccount,

(B) 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 Series [] Transition Bonds or any Tranche thereof, by the Expected Final Payment Date therefor, will equal the Required Capital Amount for such date, 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 Series [] Transition Bonds,

(C) thereafter, the TC Collections will provide for amortization of the remaining outstanding principal amount of the Series [] Transition Bonds in accordance with the Expected Amortization Schedule therefor and payment of interest on the Series [] Transition Bonds when due,

(D) the Servicer can reconcile past overpayments and underpayments by the REP of Transition Charges arising out of hold-backs for charge-offs in accordance with Section 4 of this Annex,

(E) the Servicer can recover out of TC Collections the interest paid to an REP arising out of a dispute between the Servicer and such REP pursuant to Section 8(b) of this Annex for which the Servicer's claim to the funds in dispute was not clearly unfounded, and

(F) the fees and expenses of the Servicer, the Trustee, the independent managers of the Issuer and the Administrator and other fees expenses, charges and costs authorized in the Financing Order will be paid.

(b) On 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:

(i) 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. 30485 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

(ii) 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) 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 TC2, in order to provide for the timely payment of the Transition Bonds. More particularly, the Servicer shall calculate and file for interim Transition Charge Adjustments:

(i) if the Servicer determines that, as of any Payment Date, there is more than a 5% variation between (A) the sum of the outstanding principal amount of each Series of Transition Bonds, taking into account the amount in the related Excess Funds Subaccount available to make principal payments on such Series of Transition Bonds at the next payment date, and (B) the sum of the projected outstanding principal amount of each Series of Transition Bonds for that Payment Date set forth in the Expected Amortization Schedule;

(ii) as needed to meet any Rating Agency requirement that the Transition Bonds of that Series be paid in full at scheduled maturity; or

(iii) to correct any undercollection of Transition Charges, regardless of cause, in order to assure timely payment of the Transition Bonds of that Series based on Rating Agency and Transition Bondholder considerations, including a mandatory interim Transition Charge Adjustment in connection with each semi-annual Payment Date if the Servicer forecasts that TC Collections during the next semi-annual payment period will be insufficient to make all scheduled payments of interest, principal and other amounts in respect of the Transition Bonds of that Series and to replenish the Capital Subaccount for that Series to the Required Capital Amount.

In the event an interim Transition Charge Adjustment is permitted under Schedule TC2, the Servicer will file for such an adjustment with the PUCT not less than fifteen days prior to the proposed Interim Adjustment Date. The Servicer shall promptly thereafter provide notice and a copy of such filings to each Rating Agency. The Servicer will make the interim filing described in this Section 7(c) no more frequently than every three months if quarterly payments are made to Transition Bond Owners and no more frequently than every six months (except that interim filings will be made no more frequently than every three months in the fourteenth and fifteenth years of the Transition Bonds).

(d) The Servicer shall take reasonable steps to monitor the Transition Charge rate for each class of Customers to determine whether any such rate exceeds the maximum rate that class of Customers is obligated to pay under Section 39.202(a) of the Texas Electric Choice Plan. If such maximum rate is being exceeded for any class of Customers ("Affected Class"), then the Servicer shall cause the billing entity for Customers in the Affected Class to apply the maximum rate allowed under that section to the Affected Class, and the rates for all other classes of Customers ("Remaining Classes") shall be recalculated using the maximum rate for the Affected Class. The Servicer will allocate any resulting deficiency in Transition Charges to the Remaining Classes based on the ratio of the PBRAFs then in effect.

(e) 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.

SECTION 8. OTHER ACTIVITY BETWEEN THE SERVICER AND REPS.

(a) In the event an REP provides a cash deposit to the Trustee in the form of up to two months' maximum expected transition charge collections, a surety bond or letter of credit (each an "REP Deposit") pursuant to the Financing Order and Schedule TC2,

(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 TC2 to ensure that the REP Deposit accurately reflects up to two months' maximum TC 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 or the Servicer shall instruct the Trustee to remit to the REP any portion of the REP Deposit no longer required to be on deposit,

(iii) The Servicer shall instruct the Trustee in writing to remit to the REP the REP Deposit, plus any investment earnings thereon, upon the Final Maturity Date of the final Tranche, if applicable, of the final Series of Transition Bonds except such portion of the REP Deposit as was utilized in satisfaction of the REP's obligation to remit billed Transition Charges, and

(iv) The Servicer shall instruct the Trustee to remit to the REP the REP Deposit, plus any investment earnings thereon, within 30 days of the date on which the REP Deposit is no longer required under the Financing Order or Schedule TC2.

(b) 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 3.02 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 TC2. 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 TC2 and Section 7(a)(iii)(F) of this Annex, 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 TC2, 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.

(c) 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 TC2.

SECTION 9. OTHER ACTIVITIES BY THE SERVICER.

(a) In addition to the obligation set forth in Section 8(c) of this Annex, 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 TC2 and PUCT Regulations.

(b) If an REP fails to remit payment in full of all Transition Charges billed to such REP 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 3.02(c) of the Servicing Agreement, direct the Trustee by written instruction to apply 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) into the Collection Account the lesser of the amount of Transition Charges such REP has failed to remit or the amount of the REP Deposit. 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 immediately the amount of such withdrawal, demand and/or draw to the Trustee for replenishment of such REP's REP Deposit. The Servicer shall require the REP to immediately replenish its REP Deposit and 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 TC2.

(c) If an REP is in default pursuant to Section [] of Schedule TC2 and Findings of Fact [] 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:

(i) 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 [] of Schedule TC2 and Finding of Fact [] 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 [] of Schedule TC2 unless (i) the Servicer is directed promptly in writing by the Trustee to accept a proposal of such REP following the 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

(ii) 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 [] of Schedule TC2 and Finding of Fact [] of the Financing Order or fails to adequately meet its responsibilities thereunder, the Servicer shall immediately allow the 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.

(d) In the event the 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 TC2 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 TC2.

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 [], 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 3.07 of the Servicing Agreement.

"Basic Documents" means the Issuer LLC Agreement, the Issuer Certificate of Formation, the Sale Agreement, the Servicing Agreement, the Intercreditor Agreement, each Swap Agreement (as defined in the Indenture) relating to the Series [] Transition Bonds, the Administration Agreement, the Indenture, the Series Supplement, the Underwriting Agreement relating to the Series [] Transition Bonds and the Bill of Sale.

"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 Series [] Transition Bonds, the date on which the calculations and filings set forth in 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 PBRAF 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" 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 the Indenture is located at Trust and Securities Services, 60 Wall Street, 26th Floor, MS NYC 60-2606, New York, New York 10005, Attn: Structured Finance Services, 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 notify the Transition Bondholders and the Issuer).

"Customer Class" means each of the Transition Charge classes specified in the Financing Order.

"Customers" means each Person from whom CenterPoint Houston is authorized to recover Qualified Costs as defined in and pursuant to the Texas Electric Choice Plan or any PUCT Regulation, as more specifically set forth in the Indenture.

"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.

"Event of Default" has the meaning specified in Section 5.01 of the Indenture.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Expected Amortization Schedule" means, with respect to the Series [] Transition Bonds or any Tranche thereof, the expected amortization schedule for principal thereof, as specified in the Series Supplement.

"Expected Final Payment Date" means, with respect to the Series [] Transition Bonds or, if applicable, each Tranche thereof, the date when all interest and principal is scheduled to be paid for that Series or Tranche in accordance with the Expected Amortization Schedule, as specified in the Series 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 Series [] 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 Series Supplement.

"Financing Order" means the Financing Order issued by the PUCT on March 16, 2005 in Docket No. 30485 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.

"Holder" or "Transition Bondholder" means the Person in whose name a Transition Bond of any Series or Tranche is registered on the Transition Bond Register.

"Indenture" means the Indenture, dated as of [], between the Issuer and the Trustee and the Series Supplement thereto relating to the Series [] Transition Bonds (including the forms and terms of the Series [] Transition Bonds established thereunder), as the same may be amended and supplemented with respect to the Series [] 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 [], among the Issuer, CenterPoint Houston and CenterPoint Energy Transition Bond Company, LLC, 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 Series [] Transition Bonds.

"Issuer" means CenterPoint Energy Transition Bond Company II, 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 [], 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, dated as of [], as the same may be amended and 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 Series [] 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 Series [] Transition Bonds, including all amounts owed by the Issuer to the Trustee, the Servicing Fee, the fees and expenses relating to the Series [] Transition Bonds payable by the Issuer to the Administrator under the Administration Agreement, the fees and expenses relating to the Series [] Transition Bonds payable by the Issuer to the Independent managers 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 Series [] Transition Bonds.

"Opinion of Counsel" means one or more written opinions of counsel who may be an employee of or counsel to CenterPoint Houston and 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 Series 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 Series [] Transition Bonds or, if the context requires, all Outstanding Transition Bonds of a Tranche of Series [] 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 Series [] Transition Bonds or, if applicable, each Tranche thereof, the date or dates specified as Payment Dates for such Series or Tranche in the Series Supplement therefor, provided that if any such date is not a Business Day, the Payment Date shall be the Business Day immediately succeeding such date.

"PBRF" means the periodic billing requirement allocation factor used to allocate Transition Charges among different classes of Customers, as set forth in Schedule TC2 and any other applicable tariff or order.

"PBRF Adjustment" means each adjustment to any PBRF made in accordance with Section 4.01 of the Servicing Agreement, Schedule TC2 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 for the REP's failure to remit timely payments of Transition Charges as set forth in Section 3.02(c) of this Agreement.

"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 Series [] Transition Bonds after giving effect to payment of the sum of the amounts provided for in the Expected Amortization Schedules for the Series [] Transition Bonds and 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 Regulations" means any regulations, rules, orders or directives 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 Series [] 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 and Fitch 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 Series [] Transition Bonds.

"Redemption Date" means, with respect to the Series [] Transition Bonds or, if applicable, each Tranche thereof, the date for the redemption of the Transition Bonds of such Series or Tranche pursuant to Sections 10.01 or 10.02 of the Indenture or the Series Supplement for such Series or Tranche, which in each case shall be a Payment Date.

"Released Parties" has the meaning specified in Section 5.02(f) of the Servicing Agreement.

"REP" means a retail electric provider under the Financing Order.

"REP Billing Day" has the meaning specified in Section 3.02(c) of the Servicing Agreement.

"REP Default" has the meaning specified in Section 9(c) of the Issuer Annex.

"REP Deposit" has the meaning specified in Section 8 of the Issuer Annex.

"Required Capital Amount" means a capital contribution in an amount equal to the amount specified in the Series 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 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.

"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 [] 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 the Transition Property to which this Agreement relates to the Issuer.

"Schedule TC2" means the tariff on the form entitled "Schedule TC2" approved by the PUCT in the Financing Order and filed by CenterPoint Houston prior to the issuance of any 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.

"[Semiannual] Servicer's Certificate" means the statement prepared by the Servicer and delivered to the Trustee with respect to the Series [] Transition Bonds on or prior to each Payment Date therefor, the form of which is attached to the Indenture as Schedule 1.

"Series" means the Series [] of Transition Bonds issued by the Issuer and authenticated by the Trustee pursuant to the Indenture, as specified in the Series Supplement.

"Series Issuance Date" means the date on which the Series [] are to be originally issued in accordance with the Indenture and the Series Supplement.

"Series Supplement" means the indenture supplemental to the Indenture that authorizes the Series [] Transition Bonds.

"Series Trust Estate" has the meaning specified in the Series Supplement.

"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 5.03, 5.04, or 6.04 of the Servicing Agreement.

"Servicer Default" means an event specified in Section 6.01 of the Servicing Agreement.

"Servicing Agreement" means the Transition Property Servicing Agreement dated as of [], between the Issuer and the Servicer, and acknowledged by the Trustee, relating to the Series [] 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 Series [] Transition Bonds in an amount specified in Section 5.07 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 a successor Servicer appointed by the Trustee pursuant to Section 6.04 of the Servicing Agreement which will succeed to all the rights and duties of the Servicer under the Servicing Agreement.

"TC Collections" means amounts constituting good funds collected by any Person in respect of Transition Charges and Transition Property.

"Termination Notice" has the meaning specified in Section 6.01 of the Servicing Agreement.

"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.).

"Tranche" means any one of the tranches of Series [] Transition Bonds, as specified in the Series Supplement.

"Transition Bond" means any of the Series [] Transition Bonds issued by the Issuer pursuant to the Indenture.

"Transition Bond Balance" means, as of any date, the aggregate Outstanding Amount of Series [] 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 or in connection with the redemption or refunding by the Issuer of Transition Bonds.

"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 other collection agents 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, as described in Section 3.08 of the Servicing Agreement.

"Trustee" means _____, a _____ banking corporation, 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.

"Utility" has the meaning specified in the Intercreditor Agreement.

FORM OF ADMINISTRATION AGREEMENT

ADMINISTRATION AGREEMENT, dated as of _____ (this "Administration Agreement"), is by and between CENTERPOINT ENERGY TRANSITION BOND COMPANY II, 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.

W I T N E S S E T H:

WHEREAS, the Issuer is issuing Transition Bonds pursuant to the Indenture, dated as of _____ and a First Supplemental Indenture thereto, dated as of _____ even date herewith (the "First Supplement") (as amended, supplemented or otherwise modified and in effect from time to time, the "Indenture"), between the Issuer and _____, as the Trustee and as Securities Intermediary;

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 "Servicing Agreement"), between the Issuer and CenterPoint Energy Houston Electric, LLC, as Servicer, (iii) the Transition Property Sale Agreement, dated as of [] (the "Sale Agreement"), between the Issuer and CenterPoint Energy Houston Electric, LLC, as Seller, and (iv) the Letter of Representations, dated as of [] (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 in connection with the issuance of one or more additional series of Transition Bonds (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 one or more series of 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) undertake such other administrative services as may be appropriate, necessary or requested by the Issuer; and

(ix) 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"). The Administration Fee shall be modified, and this Section 2 shall be deemed to have been amended, without further act or deed by any Person to reflect any such modification or amendment, to the extent provided in any financing order issued by the PUCT providing for the issuance of an additional series of Transition Bonds.

3. Third Party Services. Any services 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 professional 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 II, LLC
1111 Louisiana Street, Suite 4655B
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 any party shall have provided to the other parties 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 relating to a series of Transition Bonds, 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. 30485 or to the Docket No. of any proceeding related to the issuance of an additional series of Transition Bonds 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 II, LLC, as Issuer

By: _____
Name:
Title:

CENTERPOINT ENERGY HOUSTON ELECTRIC,
LLC, as Administrator

By: _____
Name:
Title:

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use in this Amendment No. 1 to Registration Statement No. 333-121505 of our report dated September 12, 2005 relating to the financial statements of CenterPoint Energy Transition Bond Company II, LLC, appearing in the Prospectus, which is part of such Registration Statement, and to the reference to us under the heading "Experts" in such Prospectus.

/s/ Deloitte & Touche LLP

Houston, Texas
September 12, 2005

PUC DOCKET NO. _____

APPLICATION OF CENTERPOINT SECTION BEFORE THE
ENERGY HOUSTON ELECTRIC, SECTION PUBLIC UTILITY COMMISSION
LLC FOR A FINANCING ORDER SECTION OF TEXAS

APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
FOR A FINANCING ORDER

CenterPoint Energy Houston Electric, LLC ("CenterPoint Houston") files this application for a financing order ("Application") pursuant to Subchapter G of Chapter 39 of the Public Utility Regulatory Act ("PURA") to securitize the true-up balance determined by the Commission in Docket 29526.

I. INTRODUCTION

Securitization financing was approved by the Texas legislature "because this type of debt will lower the carrying costs of the assets relative to the costs that would be incurred using conventional utility financing methods," thereby providing benefits to ratepayers. PURA Section 39.301. The tangible and quantifiable benefits to ratepayers that result from securitization are best measured by comparing the present value of the revenue stream associated with securitized transition bond with the present value of the revenue stream that would result from the use of conventional financing techniques for recovery of the same qualified costs. Applying those present value techniques, under current market conditions, the potential savings from the securitization proposed in this Application are enormous. CenterPoint Houston estimates that ratepayers will save approximately \$925 million on a present value basis, or \$1.117 billion on a nominal basis, as compared to recovery of the same qualified costs through non-securitizable competition transition charges ("CTCs"). Phrased differently, for each dollar of qualified costs that is not securitized an additional \$1.35 would have to be collected through CTCs.

II. AUTHORIZED REPRESENTATIVES

The telephone numbers and addresses of CenterPoint Houston's authorized legal representatives are as follows:

Scott E. Rozzell
Executive Vice President and General Counsel
CenterPoint Energy, Inc.
P.O. Box 61867
Houston, Texas 77208
(713) 207-7789
(713) 207-0141 (fax)

I. Jay Golub
Jason M. Ryan
Baker Botts LLP
910 Louisiana
Houston, Texas 77002
(713) 229-1234
(713) 229-1522 (fax)

The telephone number and address of CenterPoint Houston's authorized business representative are as follows:

James N. Purdue
Director, Rates and Load Research
CenterPoint Energy, Inc.
P.O. Box 4567
Houston, Texas 77210
(713) 207-7245
(713) 207-9819 (fax)

CenterPoint Houston requests that all information and documents in this proceeding be served on each of the persons above at their respective addresses or fax numbers.

III. JURISDICTION

The Public Utility Commission of Texas ("Commission") has jurisdiction over this Application pursuant to PURA Sections 14.001 and 39.303.

IV. AFFECTED PERSONS AND TERRITORIES

The Application, if approved, will affect all retail electric providers ("REPs") serving end-use retail electric customers in CenterPoint Houston's certificated service territory as it existed on May 1, 1999, and may affect the retail electric customers of those REPs, depending on how the REPs are required to or choose to pass along to their retail electric customers the transition charges resulting from this Application.

V. REQUEST FOR A FINANCING ORDER

The Commission's November 23, 2004 final order in Docket No. 29526 determined that CenterPoint Houston's total true-up balance as of August 31, 2004 (including interest as of that date) was \$2,300,888,665.(1) The final total true-up balance, however, will continue to increase by the amount of excess mitigation credits provided by CenterPoint Houston and additional interest accrued after August 31, 2004.(2) Pursuant to Substantive Rule 25.263(1), CenterPoint Houston is entitled to "securitize any or all of the amounts" determined in Docket No. 29526, including interest on that balance, (i.e., the final total true-up amount) until the balance is "fully recovered."

1. THE STRUCTURE OF THE PROPOSED SECURITIZATION TRANSACTION

To facilitate the proposed securitization transaction, CenterPoint Houston proposes that a special purpose entity transition bond company ("BondCo") be created. CenterPoint Houston's rights to impose, collect, and receive transition charges along with CenterPoint Houston's other rights, title, and interest in the requested financing order will be transferred to BondCo. Upon transfer, these rights will become transition property as provided

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(1) Docket No. 29526, Application of CenterPoint Energy Houston Electric, LLC, Reliant Energy Retail Services, LLC, and Texas Genco, LP to Determine Stranded Costs and Other True-Up Balances Pursuant to PURA Section 39.262, Final Order at 220 (Nov. 23, 2004).

(2) Id. at 73, 176.

by PURA Section 39.304. BondCo will issue transition bonds and will transfer the net proceeds from the sale of the transition bonds to CenterPoint Houston in consideration for the transfer of the transition property. CenterPoint Houston will use the proceeds it receives from the sale of the transition property to reduce its debt and equity and to adjust its capitalization on its regulatory books. The structure of the proposed securitization transaction is set forth in further detail in the Direct Testimony of Wayne Olson and in other testimony and documents contained in the filing package.

2. THE AMOUNT OF QUALIFIED COSTS

Securitization of the final total true-up balance provides substantial savings to ratepayers. Moreover, it reflects CenterPoint Houston's commitment to recover its qualified costs in the manner that has the least impact on consumers. In this Application, therefore, CenterPoint Houston requests a financing order to issue transition bonds in the original principal amount not to exceed (1) the total true-up balance (\$2,300,888,665) determined by the Commission in Docket No. 29526(3) plus (a) the amount of excess mitigation credits provided by CenterPoint Houston after August 31, 2004, through the date of issuance of the transition bonds, (b) interest accrued after August 31, 2004, through the date of issuance of the transition bonds, and (c) up-front qualified costs,(4) minus (2) an amount to reflect the present value of the benefits associated with applicable accumulated deferred federal income taxes ("ADFIT"). The amount

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- (3) CenterPoint Houston's request to securitize the total true-up balance determined in the November 23, 2004 order in Docket No. 29526 is, and any issuance of transition bonds pursuant to the requested financing order will be, without prejudice to its right to seek modification of that balance through rehearing or appeal.
 - (4) As provided in PURA Section 39.302(4), up-front qualified costs include the costs of issuing, supporting, and servicing the transition bonds, the costs of retiring and refunding existing debt and equity securities in connection with issuance of the transition bonds, fees and expenses paid by the Commission to acquire professional services for the purpose of evaluating CenterPoint Houston's proposed securitization transaction, the costs of possible swap or hedge agreements, and the costs of credit enhancements relating to marketability of the transition bonds entered into under the circumstances described in this Application.

of qualified costs is set forth in further detail in the Direct Testimony of James S. Brian and in other testimony and documents contained in the filing package.

Based on comments in pre-filing meetings, it appears that some potential intervenors may contend that CenterPoint Houston cannot securitize a portion of the total true-up balance equal to the sum of the capacity auction true-up and final fuel factor. That argument, if adopted, would reduce the amount of qualified costs securitized to \$1.494 billion⁽⁵⁾ and would require the implementation of CTCs with an 11.37% interest rate to recover the remaining \$807 million. Subchapter G of Chapter 39 of PURA allows CenterPoint Houston to securitize stranded costs, but it does not define stranded costs. The Commission, in Substantive Rule 25.263, determined that the entire true-up balance could be securitized. Because of securitization's significant benefits to ratepayers, CenterPoint Houston agrees with the Commission's interpretation of the Legislature's intent to permit securitization of the entire true-up balance.

While CenterPoint Houston does not advocate severing any portion of the total true-up balance for recovery through CTCs, Mr. Brian's testimony includes information showing that securitization of the \$1.494 billion balance also provides significant benefits to ratepayers when compared to use of a CTC to recover the same balance. As expected, however, such benefits are much smaller than can be achieved if the entire total true-up balance is securitized.

CenterPoint Houston is also presenting an analysis of the additional costs that ratepayers will incur if the remaining \$807 million in qualified costs were recovered through CTCs as opposed to securitized transition bonds. Over the 14-year recovery period, ratepayers in

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(5) This reflects the total true-up balance less the capacity auction true-up and final fuel factor amounts and less the present value benefits of ADFIT. It does not include adjustments for excess mitigation credits and interest from August 2004 through the date the bonds are issued.

CenterPoint Houston's service territory would pay \$500 million more on a nominal basis if the remaining \$807 million is not securitized.

Put in terms of the rates paid by the Commission's benchmark residential consumer (i.e., 1000 kWh/month), the monthly charge if the total true-up balance is securitized using the phase-in structure (discussed below) will be approximately \$0.61 per month, in the first year and \$2.99 per month beginning in the third year. Using the same phase-in structure, the residential consumer would have to pay monthly transition charges of \$0.87 and monthly CTCs of \$1.59 for a combined monthly charge of \$2.46 in the first year and \$3.75 beginning in the third year if the total true-up balance is split, with \$1.494 billion securitized and the remaining \$807 million recovered through CTCs.(6) Other than hoping to delay these proceedings,(7) it is unclear why any intervenor purporting to represent consumer interests would view this as a beneficial outcome.

3. THE ALTERNATIVE STRUCTURES OF TRANSITION CHARGES

CenterPoint Houston proposes to include the transition charges for recovery of the above-mentioned qualified costs over a term of 14 years in a new Schedule TC2 to its current Tariff for Retail Delivery Service. This Application presents two alternative structures of those transition charges. The first alternative, the "phase-in structure," limits the transition charges to approximately \$50 million per year during the first two years with an increase in transition charges applicable to the third through fourteenth years. The second alternative, the "level structure," provides for essentially level transition charges to the residential class for the entire

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(6) Under the level structure, securitization of the total true-up balance would increase the benchmark residential consumer's monthly charge by \$2.60 per month. The same customer's monthly charge would increase by \$3.54 if \$1.494 billion is securitized and the remaining \$807 million is recovered through a CTC.

(7) Delay involves the risk of rising interest rates which further increase ratepayer costs. As Federal Reserve Board Chairman Greenspan recently remarked: "Rising interest rates have been advertised for so long and in so many places that anyone who hasn't appropriately hedged his position by now obviously is desirous of losing money."

expected 14-year term of the transition bonds. Although the interest rates associated with the phase-in structure are higher than with the level structure, CenterPoint Houston believes that most consumers will prefer the phase-in structure. CenterPoint Houston therefore recommends adoption of the phase-in structure. These alternative structures are discussed in further detail in the Direct Testimony of Marc Kilbride.

The Direct Testimony of James N. Purdue sets forth the impact on ratepayers under both alternative structures.(8) The phase-in structure would initially increase rates for Commission benchmark residential customers by approximately 0.0607 cent(s) per kWh (\$0.61 per month), followed by an additional 0.2393 cent(s) per kWh (\$2.39 per month) increase after the first two years. The level structure would increase residential rates by approximately 0.2599 cent(s) per kWh or \$2.60 per month. By way of comparison, other increases to the price to beat, which have nothing to do with CenterPoint Energy charges, dwarf the increases that would result from either alternative in this transaction. The rates to residential price-to-beat customers in CenterPoint Houston's service territory have increased by approximately \$24.30 per month since January 1, 2002. None of the price-to-beat increases were attributable to increases in CenterPoint Houston's rates. Calculation of the Schedule TC2 transition charges and allocation thereof to the transition charge classes is set forth in further detail in Mr. Purdue's testimony. The Direct Testimony of James S. Brian presents evidence that the public benefits tests in PURA Sections 39.301 and 39.303(a) are satisfied under both alternative structures.(9) For example, the present value of the transition charges is \$2.236 billion in the expected case under the phase-in structure and \$2.250 billion in the expected case under the level structure. That compares to the present value

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(8) The calculations assume that the price-to-beat rate is increased by the exact amount of the transition charges.

(9) The examples provided herein relate to the residential class; other transition charge classes would achieve comparable savings. In addition, these examples assume securitization of the entire total true-up balance, although as set forth in Mr. Brian's testimony, the public benefits tests are still met with securitization of the lower amount advocated by some potential intervenors.

using conventional financing (i.e., CTCs) of \$3.161 billion under the phase-in and \$3.193 billion under the level structure. The resulting difference, which represents the expected tangible and quantifiable benefits of securitization, is either \$925 million under the phase-in structure or \$943 million under the level structure. Moreover, benefits continue to exist under the level structure even under a worst case scenario in which interest rates double to 9% by the time the transition bonds can be issued. Under the worst case scenario, doubling the assumed transition bond rate, and thus the discount rate, to 9% yields a present value of \$2.164 billion under the phase-in structure and \$2.196 billion under the level structure, but a present value of \$2.410 billion under conventional financing (i.e., CTCs). This would result in tangible and quantifiable benefits of \$246 million under the phase-in structure or \$214 million in the level structure under the worst case scenario. Details of how the proposed securitization meets the remaining public benefits tests are set forth in Mr. Brian's testimony.

4. REQUEST FOR APPROVAL

CenterPoint Houston requests approval of the structure of the securitization transaction as proposed, transition charges in an amount sufficient to recover the qualified costs, and approval of the form of Schedule TC2 to implement those transition charges.

VI. DESCRIPTION OF THE FILING PACKAGE

The Commission did not develop a filing package for securitization applications to recover the true-up balances determined under PURA Section 39.262. As a result, CenterPoint Houston has modified the filing package adopted by the Commission in 1999 for use in the prior securitizations of regulatory assets to reflect the different nature of the costs that will be securitized through the financing order in this proceeding.⁽¹⁰⁾ The filing package submitted in support of this Application contains the following documents: the application; an executive

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⁽¹⁰⁾ The 1999 filing package was developed in Project No. 21046, Development of Securitization Application Form.

summary; the direct testimony and exhibits of four witnesses; eight schedules adapted from the 1999 filing package; a draft term sheet for the proposed securitization transaction; a draft financing order; a proposed Schedule TC2; drafts of related applications to the Securities and Exchange Commission ("SEC"), Internal Revenue Service ("IRS"), and Texas Comptroller; drafts of principal agreements related to the securitization; and workpapers.

VII. RELATION OF THE REQUESTED FINANCING ORDER TO A POSSIBLE
REQUEST FOR COMPETITION TRANSITION CHARGES

In a separate proceeding required by Substantive Rule 25.263(n) to be initiated within 60 days after the order in Docket No. 29526 becomes appealable, CenterPoint Houston will seek approval of CTCs sufficient to recover part or all of the true-up balances determined by the Commission in Docket No. 29526 and a tariff to implement those CTCs. The CTCs, if approved prior to completion of the securitization financing proposed in this Application, would be in effect until the transition charges requested in this Application become effective and would remain in effect thereafter only to the extent that the CTCs recover costs that are not included in the securitized transition charges. To the extent any of the qualified costs addressed in this Application are recovered through such CTCs, the amount of transition charges will be commensurately reduced to ensure that there is no double recovery of those qualified costs and that all of the costs are recovered through a combination of the two charges.

VIII. TERMINATION OF EXCESS MITIGATION CREDITS

CenterPoint Houston will be filing a separate request to terminate the excess mitigation credits left in place by the order in Docket No. 29526. The requested termination would be effective not later than the earlier of (i) the effective date of the transition charges requested in this Application or (ii) the effective date of the CTCs discussed above. CenterPoint

Houston expressly reserves the right to seek earlier termination of the excess mitigation credits from the Commission or a court of competent jurisdiction.

IX. PROTECTIVE ORDER

CenterPoint Houston requests entry of the protective order attached as Attachment 1. This protective order is the same as that used in Docket No. 29526. CenterPoint Houston has designated the drafts of the SEC filings and the drafts of the IRS and Texas Comptroller tax ruling requests as Protected Materials under the terms of the proposed protective order. CenterPoint Houston anticipates that the SEC filings will remain protected only until such time as they have been filed at the SEC; the tax ruling requests will remain protected indefinitely.

X. PROPOSED PROCEDURAL SCHEDULE

PURA Section 39.303(e) requires the Commission to issue a financing order "not later than 90 days after the utility files its request." But not only is such expedited action mandated by statute, in this case it is in the public interest. Pursuant to the order in Docket No. 29526, the qualified costs are increasing at a rate of approximately \$9 million per week.⁽¹¹⁾ Moreover, the interest rates currently available for securitization financing are low by historical standards and thus are more likely to increase than to decline in the coming months. Based on the projected principal amount of the transition bonds, every 100 basis-point increase in interest rates will increase average annual transition charges by \$14 million. CenterPoint Houston therefore requests that the Commission retain this Application rather than referring it to the State Office of Administrative Hearings. Attachment 2 is a proposed procedural schedule that would result in completion of this docket in the 90 days provided for in PURA Section 39.303(e).

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(11) The qualified cost balance is increasing by approximately \$5 million per week as a result of interest accumulating on the total true-up balance. The qualified cost balance is also increasing by approximately \$4 million per week as a result of the continuation of the excess mitigation credits.

XI. NOTICE

Attachment 3 is CenterPoint Houston's proposed form of public notice. CenterPoint Houston requests approval of this notice and CenterPoint Houston's proposal to publish it once each week for two successive weeks in newspapers of general circulation in CenterPoint Houston's service area. Publication would occur as soon as practicable following approval of the form of the notice. CenterPoint Houston also proposes and seeks approval to provide this notice by certified mail to each REP listed on the Commission's website. Although the Commission has exclusive original jurisdiction over this Application, Attachment 4 is CenterPoint Houston's proposed form of notice to the governing bodies of all Texas incorporated municipalities retaining original jurisdiction over its rates. Proof of publication in the form of publishers' affidavits and the provision of notice to the municipalities and REPs will be submitted as soon as such documentation is available.

In addition to the notice discussed above, CenterPoint Houston has provided notice of the filing of this Application to each party that participated in Docket No. 29526 by providing a copy of this Application to the attorneys of record in that proceeding.

XII. PRAYER

WHEREFORE, PREMISES CONSIDERED, CenterPoint Houston prays that this Application be granted, that the Financing Order required by PURA Section 39.303 be issued and for such other relief to which it may be entitled.

Respectfully submitted,

/s/ Scott E. Rozzell

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ATTORNEYS FOR
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document was served on all parties of record in Docket No. 29526, Application of CenterPoint Energy Houston Electric, LLC, Reliant Energy Retail Services, LLC and Texas Genco, LP to Determine Stranded Costs and other True-Up Balances Pursuant to PURA Section 39.262 by facsimile transmission, hand delivery, or overnight delivery on this 2nd day of December, 2004.

DOCKET NO. _____

APPLICATION OF CENTERPOINT SECTION PUBLIC UTILITY COMMISSION
ENERGY HOUSTON ELECTRIC, LLC SECTION
FOR A FINANCING ORDER SECTION OF TEXAS

PROTECTIVE ORDER

This Protective Order shall govern the use of all information deemed confidential (Protected Materials) or highly confidential (Highly Sensitive Protected Materials) by a party providing information to the Public Utility Commission of Texas (Commission), including information whose confidentiality is currently under dispute.

It is ORDERED that:

1. DESIGNATION OF PROTECTED MATERIALS. Upon producing or filing a document, including, but not limited to, records stored or encoded on a computer disk or other similar electronic storage medium in this proceeding, the producing party may designate that document, or any portion of it, as confidential pursuant to this Protective Order by typing or stamping on its face "PROTECTED PURSUANT TO PROTECTIVE ORDER ISSUED IN DOCKET NO. _____" or words to this effect and consecutively Bates Stamping each page. Protected Materials and Highly Sensitive Protected Materials include not only the documents so designated, but also the substance of the information contained in the documents and any description, report, summary, or statement about the substance of the information contained in the documents.
2. MATERIALS EXCLUDED FROM PROTECTED MATERIALS DESIGNATION. Protected Materials shall not include any information or document contained in the public files of the Commission or any other federal or state agency, court, or local governmental authority subject to the Texas Public Information Act. Protected Materials also shall not include documents or information which at the time of, or prior to disclosure in a proceeding, is or was public knowledge, or which becomes public knowledge other than through disclosure in violation of this Protective Order.

3. REVIEWING PARTY. For the purposes of this Protective Order, a "Reviewing Party" is any party to this docket.
4. PROCEDURES FOR DESIGNATION OF PROTECTED MATERIALS. On or before the date the Protected Materials or Highly Sensitive Protected Materials are provided to the Commission, the producing party shall file with the Commission and deliver to each party to the proceeding a written statement, which may be in the form of an objection, indicating: (i) any and all exemptions to the Public Information Act, TEX. GOV'T CODE ANN., Chapter 552, claimed to be applicable to the alleged Protected Materials; (ii) the reasons supporting the providing party's claim that the responsive information is exempt from public disclosure under the Public Information Act and subject to treatment as protected materials; and (iii) that counsel for the providing party has reviewed the information sufficiently to state in good faith that the information is exempt from public disclosure under the Public Information Act and merits the Protected Materials designation.
5. PERSONS PERMITTED ACCESS TO PROTECTED MATERIALS. Except as otherwise provided in this Protective Order, a Reviewing Party shall be permitted access to Protected Materials only through its "Reviewing Representatives" who have signed the Protective Order Certification Form. Reviewing Representatives of a Reviewing Party include its counsel of record in this proceeding and associated attorneys, paralegals, economists, statisticians, accountants, consultants, or other persons employed or retained by the Reviewing Party and directly engaged in this proceeding. At the request of the PUC Commissioners, or their staff, copies of Protected Materials may be produced by Commission Staff or the Policy Development Division (PDD) to the Commissioners. The Commissioners and their staff shall be informed of the existence and coverage of this Protective Order and shall observe the restrictions of the Protective Order.
6. HIGHLY SENSITIVE PROTECTED MATERIAL DESCRIBED. The term "Highly Sensitive Protected Materials" is a subset of Protected Materials and refers to documents or information which a producing party claims is of such a highly sensitive nature that making copies of such documents or information or providing access to such

documents to employees of the Reviewing Party (except as set forth herein) would expose a producing party to unreasonable risk of harm, including but not limited to: (a) customer-specific information protected by Section 32.101(c) of the Public Utility Regulatory Act(1); (b) contractual information pertaining to contracts that specify that their terms are confidential or which are confidential pursuant to an order entered in litigation to which the producing party is a party; (c) market-sensitive fuel price forecasts, wholesale transactions information and/or market-sensitive marketing plans; and (d) business operations or financial information that is commercially sensitive. Documents or information so classified by a producing party shall bear the designation "HIGHLY SENSITIVE PROTECTED MATERIALS PROVIDED PURSUANT TO PROTECTIVE ORDER ISSUED IN DOCKET NO. _____" or words to this effect and shall be consecutively Bates Stamped in accordance with the provisions of this Protective Order. The provisions of this Protective Order pertaining to Protected Materials also apply to Highly Sensitive Protected Materials, except where this Protective Order provides for additional protections for Highly Sensitive Protected Materials. In particular, the procedures herein for challenging the producing party's designation of information as Protected Materials also apply to information that a producing party designates as Highly Sensitive Protected Materials.

7. RESTRICTIONS ON COPYING AND INSPECTION OF HIGHLY SENSITIVE PROTECTED MATERIAL. Except as expressly provided herein, only one copy may be made of any Highly Sensitive Protected Materials except that additional copies may be made in order to have sufficient copies for introduction of the material into the evidentiary record if the material is to be offered for admission into the record. A record of any copies that are made of Highly Sensitive Protected Material shall be kept and a copy of the record shall be sent to the producing party at the time the copy or copies are made. The record shall include information on the location and the person in possession of the copy. Highly Sensitive Protected Material shall be made available for inspection only at the location or locations provided

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(1) Public Utility Regulatory Act, TEX. UTIL. CODE ANN., Section 32.101 (c) (Vernon 1998 & Supp. 2004) (PURA).

by the producing party, except as provided by Paragraph 9. Limited notes may be made of Highly Sensitive Protected Materials, and such notes shall themselves be treated as Highly Sensitive Protected Materials unless such notes are limited to a description of the document and a general characterization of its subject matter in a manner that does not state any substantive information contained in the document.

8. **RESTRICTING PERSONS WHO MAY HAVE ACCESS TO HIGHLY SENSITIVE PROTECTED MATERIAL.** With the exception of Commission Staff, The Office of the Attorney General (OAG), and the Office of Public Utility Counsel (OPC), and except as provided herein, the Reviewing Representatives for the purpose of access to Highly Sensitive Protected Materials may be persons who are (i) outside counsel for the Reviewing Party, (ii) outside consultants for the Reviewing Party working under the direction of Reviewing Party's counsel or, (iii) employees of the Reviewing Party working with and under the direction of Reviewing Party's counsel who have been authorized by the presiding officer to review Highly Sensitive Protected Materials. The Reviewing Party shall limit the number of Reviewing Representatives that review each Highly Sensitive Protected document to the minimum number of persons necessary. The Reviewing Party is under a good faith obligation to limit access to each portion of any Highly Sensitive Protected Materials to two Reviewing Representatives whenever possible. Reviewing Representatives for Commission Staff and OPC, for the purpose of access to Highly Sensitive Protected Materials, shall consist of their respective counsel of record in this proceeding and associated attorneys, paralegals, economists, statisticians, accountants, consultants, or other persons employed or retained by them and directly engaged in these proceedings.
9. **COPIES PROVIDED OF HIGHLY SENSITIVE PROTECTED MATERIAL.** A producing party shall provide one copy of Highly Sensitive Protected Materials specifically requested by the Reviewing Party to the person designated by the Reviewing Party who must be a person authorized to review Highly Sensitive Protected Material under Paragraph 8, and be either outside counsel or an outside consultant. Other representatives of the reviewing party who are authorized to

view Highly Sensitive Material may review the copy of Highly Sensitive Protected Materials at the office of the Reviewing Party's representative designated to receive the information. Any Highly Sensitive Protected documents provided to a Reviewing Party may not be copied except as provided in Paragraph 7 and shall be returned along with any copies made pursuant to Paragraph 7 to the producing party within two weeks after the close of the evidence in this proceeding. The restrictions contained herein do not apply to Commission Staff, OPC, and the Office of the Attorney General (OAG) when the OAG is representing a party to the proceeding.

10. PROCEDURES IN PARAGRAPHS 10-14 APPLY TO COMMISSION STAFF, OPC, AND THE OAG AND CONTROL IN THE EVENT OF CONFLICT. The procedures set forth in Paragraphs 10 through 14 apply to responses to requests for documents or information that the producing party designates as Highly Sensitive Protected Materials and provides to Commission Staff, OPC, and the OAG in recognition of their purely public functions. To the extent the requirements of Paragraphs 10 through 14 conflict with any requirements contained in other paragraphs of this Protective Order, the requirements of these Paragraphs shall control.
11. COPY OF HIGHLY SENSITIVE PROTECTED MATERIAL TO BE PROVIDED TO COMMISSION STAFF, OPC AND THE OAG. When, in response to a request for information by a Reviewing Party, the producing party makes available for review documents or information claimed to be Highly Sensitive Protected Materials, the producing party shall also deliver one copy of the Highly Sensitive Protected Materials to the Commission Staff, OPC, and the OAG (if the OAG is representing a party) in Austin, Texas. Provided however, that in the event such Highly Sensitive Protected Materials are voluminous, the materials will be made available for review by Commission Staff, OPC, and the OAG (if the OAG is representing a party) at the designated office in Austin, Texas. The Commission Staff, OPC and the OAG (if the OAG is representing a party) may request such copies as are necessary of such voluminous material under the copying procedures set forth herein.

12. DELIVERY OF THE COPY OF HIGHLY SENSITIVE PROTECTED MATERIAL TO STAFF AND OUTSIDE CONSULTANTS. The Commission Staff, OPC, and the OAG (if the OAG is representing a party) may deliver the copy of Highly Sensitive Protected Materials received by them to the appropriate members of their staff for review, provided such staff members first sign the certification provided in Paragraph 15. After obtaining the agreement of the producing party, Commission Staff, OPC, and the OAG (if the OAG is representing a party) may deliver the copy of Highly Sensitive Protected Materials received by it to the agreed, appropriate members of their outside consultants for review, provided such outside consultants first sign the certification attached hereto.
13. RESTRICTION ON COPYING BY COMMISSION STAFF, OPC AND THE OAG. Except as allowed by Paragraph 7, Commission Staff, OPC and the OAG may not make additional copies of the Highly Sensitive Protected Materials furnished to them unless the producing party agrees in writing otherwise, or, upon a showing of good cause, the presiding officer directs otherwise. Limited notes may be made by Commission Staff, OPC, and the OAG (if the OAG is representing a party) of Highly Sensitive Protected Materials furnished to them and all such handwritten notes will be treated as Highly Sensitive Protected Materials as are the materials from which the notes are taken.
14. PUBLIC INFORMATION REQUESTS. In the event of a request for any of the Highly Sensitive Protected Materials under the Public Information Act, an authorized representative of the Commission OPC, or the OAG may furnish a copy of the requested Highly Sensitive Protected Materials to the Open Records Division at the OAG together with a copy of this Protective Order after notifying the producing party that such documents are being furnished to the OAG. Such notification may be provided simultaneously with the delivery of the Highly Sensitive Protected Materials to the OAG.
15. REQUIRED CERTIFICATION. Each person who inspects the Protected Materials shall, before such inspection, agree in writing to the following certification set forth in the Attachment to this Protective Order:

I certify my understanding that the Protected Materials are provided to me pursuant to the terms and restrictions of the Protective Order in this docket, and that I have been given a copy of it and have read the Protective Order and agree to be bound by it. I understand that the contents of the Protected Materials, any notes, memoranda, or any other form of information regarding or derived from the Protected Materials shall not be disclosed to anyone other than in accordance with the Protective Order and unless I am an employee of the Commission or OPC shall be used only for the purpose of the proceeding in Docket No. _____. I acknowledge that the obligations imposed by this certification are pursuant to such Protective Order. Provided, however, if the information contained in the Protected Materials is obtained from independent public sources, the understanding stated herein shall not apply.

In addition, Reviewing Representatives who are permitted access to Highly Sensitive Protected Material under the terms of this Protective Order shall, before inspection of such material, agree in writing to the following certification set forth in the Attachment to this Protective Order:

I certify that I am eligible to have access to Highly Sensitive Protected Material under the terms of the Protective Order in this docket.

A copy of each signed certification shall be provided by the reviewing party to Counsel for the producing party and served upon all parties of record.

16. DISCLOSURES BETWEEN REVIEWING REPRESENTATIVES AND CONTINUATION OF DISCLOSURE RESTRICTIONS AFTER A PERSON IS NO LONGER ENGAGED IN THE PROCEEDING. Any Reviewing Representative may disclose Protected Materials, other than Highly Sensitive Protected Materials, to any other person who is a Reviewing Representative provided that, if the person to whom disclosure is to be made has not executed and provided for delivery of a signed certification to the

party asserting confidentiality, that certification shall be executed prior to any disclosure. A Reviewing Representative may disclose Highly Sensitive Protected Material to other Reviewing Representatives who are permitted access to such material and have executed the additional certification required for persons who receive access to Highly Sensitive Protected Material. In the event that any Reviewing Representative to whom Protected Materials are disclosed ceases to be engaged in these proceedings, access to Protected Materials by that person shall be terminated and all notes, memoranda, or other information derived from the protected material shall either be destroyed or given to another Reviewing Representative of that party who is authorized pursuant to this Protective Order to receive the protected materials. Any person who has agreed to the foregoing certification shall continue to be bound by the provisions of this Protective Order so long as it is in effect, even if no longer engaged in these proceedings.

17. PRODUCING PARTY TO PROVIDE ONE COPY OF CERTAIN PROTECTED MATERIAL AND PROCEDURES FOR MAKING ADDITIONAL COPIES OF SUCH MATERIALS. Except for Highly Sensitive Protected Materials, which shall be provided to the Reviewing Parties pursuant to Paragraphs 9, and voluminous Protected Materials, the producing party shall provide a Reviewing Party one copy of the Protected Materials upon receipt of the signed certification described in Paragraph 15. Except for Highly Sensitive Protected Materials, a Reviewing Party may make further copies of Protected Materials for use in this proceeding pursuant to this Protective Order, but a record shall be maintained as to the documents reproduced and the number of copies made, and upon request the Reviewing Party shall provide the party asserting confidentiality with a copy of that record.
18. PROCEDURES REGARDING VOLUMINOUS PROTECTED MATERIALS. Production of voluminous Protected Materials will be governed by P.U.C. PROC. R. 22.144(h). Voluminous Protected Materials will be made available in the producing party's voluminous room, in Austin, Texas, or at a mutually agreed upon location, Monday through Friday, 9:00 a.m. to 5:00 p.m. (except on state or Federal holidays), and at other mutually convenient times upon reasonable request.

19. REVIEWING PERIOD DEFINED. The Protected Materials may be reviewed only during the Reviewing Period, which shall commence upon entry of this Protective Order and continue until the expiration of the Commission's plenary jurisdiction. The Reviewing Period shall reopen if the Commission regains jurisdiction due to a remand as provided by law. Protected materials that are admitted into the evidentiary record or accompanying the evidentiary record as offers of proof may be reviewed throughout the pendency of this proceeding and any appeals.
20. PROCEDURES FOR MAKING COPIES OF VOLUMINOUS PROTECTED MATERIALS. Other than Highly Sensitive Protected Materials, Reviewing Parties may take notes regarding the information contained in voluminous Protected Materials made available for inspection or they may make photographic, mechanical or electronic copies of the Protected Materials, subject to the conditions hereof; provided, however, that before photographic, mechanical or electronic copies can be made, the Reviewing Party seeking photographic, mechanical or electronic copies must complete a written receipt for copies on the attached form identifying each piece of Protected Materials or portions thereof the Reviewing Party will need.
21. PROTECTED MATERIALS TO BE USED SOLELY FOR THE PURPOSES OF THESE PROCEEDINGS. All Protected Materials shall be made available to the Reviewing Parties and their Reviewing Representatives solely for the purposes of these proceedings. Access to the Protected Materials may not be used in the furtherance of any other purpose, including, without limitation: (i) any other pending or potential proceeding involving any claim, complaint, or other grievance of whatever nature, except appellate review proceedings that may arise from or be subject to these proceedings; or (ii) any business or competitive endeavor of whatever nature. Because of their statutory regulatory obligations, these restrictions do not apply to Commission Staff or OPC.
22. PROCEDURES FOR CONFIDENTIAL TREATMENT OF PROTECTED MATERIALS AND INFORMATION DERIVED FROM THOSE MATERIALS. Protected Materials, as well as a Reviewing Party's notes, memoranda, or other information regarding or derived from the Protected Materials are to be treated confidentially by the Reviewing

Party and shall not be disclosed or used by the Reviewing Party except as permitted and provided in this Protective Order. Information derived from or describing the Protected Materials shall be maintained in a secure place and shall not be placed in the public or general files of the Reviewing Party except in accordance with the provisions of this Protective Order. A Reviewing Party must take all reasonable precautions to insure that the Protected Materials including notes and analyses made from Protected Materials that disclose Protected Materials are not viewed or taken by any person other than a Reviewing Representative of a Reviewing Party.

23. PROCEDURES FOR SUBMISSION OF PROTECTED MATERIALS. If a Reviewing Party tenders for filing any Protected Materials, including Highly Sensitive Protected Materials, or any written testimony, exhibit, brief, motion or other type of pleading or other submission at the Commission or before any other judicial body that quotes from Protected Materials or discloses the content of Protected Materials, the confidential portion of such submission shall be filed and served in sealed envelopes or other appropriate containers endorsed to the effect that they contain Protected Material or Highly Sensitive Protected Material and are sealed pursuant to this Protective Order. If filed at the Commission, such documents shall be marked "PROTECTED MATERIAL" and shall be filed under seal with the presiding officer and served under seal to the counsel of record for the Reviewing Parties. The presiding officer may subsequently, on his/her own motion or on motion of a party, issue a ruling respecting whether or not the inclusion, incorporation or reference to Protected Materials is such that such submission should remain under seal. If filing before a judicial body, the filing party: (i) shall notify the party which provided the information within sufficient time so that the providing party may seek a temporary sealing order; and (ii) shall otherwise follow the procedures set forth in Rule 76a, Texas Rules of Civil Procedure.
24. MAINTENANCE OF PROTECTED STATUS OF MATERIALS DURING PENDENCY OF APPEAL OF ORDER HOLDING MATERIALS ARE NOT PROTECTED MATERIALS. In the event that the presiding officer at any time in the course of this proceeding finds that all or part

of the Protected Materials are not confidential or proprietary, by finding, for example, that such materials have entered the public domain or materials claimed to be Highly Sensitive Protected Materials are only Protected Materials, those materials shall nevertheless be subject to the protection afforded by this Protective Order for three (3) full working days, unless otherwise ordered, from the date the party asserting confidentiality receives notice of the presiding officer's order. Such notification will be by written communication. This provision establishes a deadline for appeal of a presiding officer's order to the Commission. In the event an appeal to the Commissioners is filed within those three (3) working days from notice, the Protected Materials shall be afforded the confidential treatment and status provided in this Protective Order during the pendency of such appeal. Neither the party asserting confidentiality nor any Reviewing Party waives its right to seek additional administrative or judicial remedies after the Commission's denial of any appeal.

25. NOTICE OF INTENT TO USE PROTECTED MATERIALS OR CHANGE MATERIALS DESIGNATION. Parties intending to use Protected Materials shall notify the other parties prior to offering them into evidence or otherwise disclosing such information into the record of the proceeding. During the pendency of Docket No. _____ at the Commission, in the event that a Reviewing Party wishes to disclose Protected Materials to any person to whom disclosure is not authorized by this Protective Order, or wishes to have changed the designation of certain information or material as Protected Materials by alleging, for example, that such information or material has entered the public domain, such Reviewing Party shall first file and serve on all parties written notice of such proposed disclosure or request for change in designation, identifying with particularity each of such Protected Materials. A Reviewing Party shall at any time be able to file a written motion to challenge the designation of information as Protected Materials.
26. PROCEDURES TO CONTEST DISCLOSURE OR CHANGE IN DESIGNATION. In the event that the party asserting confidentiality wishes to contest a proposed disclosure or request for change in designation, the party asserting confidentiality shall file with the appropriate presiding officer its objection to a proposal, with supporting

affidavits, if any, within five (5) working days after receiving such notice of proposed disclosure or change in designation. Failure of the party asserting confidentiality to file such an objection within this period shall be deemed a waiver of objection to the proposed disclosure or request for change in designation. Within five (5) working days after the party asserting confidentiality files its objection and supporting materials, the party challenging confidentiality may respond. Any such response shall include a statement by counsel for the party challenging such confidentiality that he or she has reviewed all portions of the materials in dispute and without disclosing the Protected Materials, a statement as to why the Protected Materials should not be held to be confidential under current legal standards, or alternatively that the party asserting confidentiality for some reason did not allow such counsel to review such materials. If either party wishes to submit the material in question for in camera inspection, it shall do so no later than five (5) working days after the party challenging confidentiality has made its written filing.

27. PROCEDURES FOR PRESIDING OFFICER DETERMINATION REGARDING PROPOSED DISCLOSURE OR CHANGE IN DESIGNATION. If the party asserting confidentiality files an objection, the appropriate presiding officer will determine whether the proposed disclosure or change in designation is appropriate. Upon the request of either the producing or reviewing party or upon the presiding officer's own initiative, the presiding officer may conduct a prehearing conference. The burden is on the party asserting confidentiality to show that such proposed disclosure or change in designation should not be made. If the presiding officer determines that such proposed disclosure or change in designation should be made, disclosure shall not take place earlier than three (3) full working days after such determination unless otherwise ordered. No party waives any right to seek additional administrative or judicial remedies concerning such presiding officer's ruling.
28. MAINTENANCE OF PROTECTED STATUS DURING PERIODS SPECIFIED FOR CHALLENGING VARIOUS ORDERS. Any party electing to challenge, in the courts of this state, a Commission or presiding officer determination allowing disclosure or a change in

designation shall have a period of ten (10) days from: (i) the date of an unfavorable Commission order; or (ii) if the Commission does not rule on an appeal of an interim order, the date an appeal of an interim order to the Commission is overruled by operation of law, to obtain a favorable ruling in state district court. Any party challenging a state district court determination allowing disclosure or a change in designation shall have an additional period of ten (10) days from the date of the order to obtain a favorable ruling from a state appeals court. Finally, any party challenging a determination of a state appeals court allowing disclosure or a change in designation shall have an additional period of ten (10) days from the date of the order to obtain a favorable ruling from the state supreme court, or other appellate court. All Protected Materials shall be afforded the confidential treatment and status provided for in this Protective Order during the periods for challenging the various orders referenced in this paragraph. For purposes of this paragraph, a favorable ruling of a state district court, state appeals court, Supreme Court or other appellate court includes any order extending the deadlines set forth in this paragraph.

29. OTHER GROUNDS FOR OBJECTION TO USE OF PROTECTED MATERIALS REMAIN APPLICABLE. Nothing in this Protective Order shall be construed as precluding any party from objecting to the use of Protected Materials on grounds other than confidentiality, including the lack of required relevance. Nothing in this Protective Order constitutes a waiver of the right to argue for more disclosure, provided, however, that unless and until such additional disclosure is order by the Commission or a court, all parties will abide by the restrictions imposed by the Protective Order.
30. PROTECTION OF MATERIALS FROM UNAUTHORIZED DISCLOSURE. All notices, applications, responses or other correspondence shall be made in a manner which protects Protected Materials from unauthorized disclosure.
31. RETURN OF COPIES OF PROTECTED MATERIALS AND DESTRUCTION OF INFORMATION DERIVED FROM PROTECTED MATERIALS. Following the conclusion of these proceedings, each Reviewing Party must, no later than thirty (30) days following

receipt of the notice described below, return to the party asserting confidentiality all copies of the Protected Materials provided by that party pursuant to this Protective Order and all copies reproduced by a Reviewing Party, and counsel for each Reviewing Party must provide to the party asserting confidentiality a letter by counsel that, to the best of his or her knowledge, information, and belief, all copies of notes, memoranda, and other documents regarding or derived from the Protected Materials (including copies of Protected Materials) that have not been so returned, if any, have been destroyed, other than notes, memoranda, or other documents which contain information in a form which, if made public, would not cause disclosure of the substance of Protected Materials. As used in this Protective Order, "conclusion of these proceedings" refers to the exhaustion of available appeals, or the running of the time for the making of such appeals, as provided by applicable law. If, following any appeal, the Commission conducts a remand proceeding, then the "conclusion of these proceedings" is extended by the remand to the exhaustion of available appeals of the remand, or the running of the time for making such appeals of the remand, as provided by applicable law. Promptly following the conclusion of these proceedings, counsel for the party asserting confidentiality will send a written notice to all other parties, reminding them of their obligations under this Paragraph. Nothing in this Paragraph shall prohibit counsel for each Reviewing Party from retaining two (2) copies of any filed testimony, brief, application for rehearing, hearing exhibit or other pleading which refers to Protected Materials provided that any such Protected Materials retained by counsel shall remain subject to the provisions of this Protective Order.

32. APPLICABILITY OF OTHER LAW. This Protective Order is subject to the requirements of the Public Information Act(2), the Open Meetings Act(3), and any other applicable law, provided that parties subject to those acts will give the party asserting confidentiality notice, if possible under those acts, prior to disclosure pursuant to those acts.

(2) TEX. GOV'T CODE ANN. Section 552.111 (Vernon 1994 & Supp. 2004).

(3) TEX. GOV'T CODE ANN. Section 551.001 (Vernon 1994 & Supp. 2004).

33. PROCEDURES FOR RELEASE OF INFORMATION UNDER ORDER. If required by order of a governmental or judicial body, the Reviewing Party may release to such body the confidential information required by such order; provided, however, that (i) the Reviewing Party shall notify the party asserting confidentiality of such order at least five (5) calendar days in advance of the release of the information in order for the party asserting confidentiality to contest any release of the confidential information; (ii) the Reviewing Party shall notify the producing party that there is a request for such information within five (5) calendar days of the date the Reviewing Party is notified of the request for information; and (iii) the Reviewing Party shall use its best efforts to prevent such materials from being disclosed to the public. The terms of this Protective Order do not preclude the Reviewing Party from complying with any valid and enforceable order of a state or federal court with competent jurisdiction specifically requiring disclosure of Protected Materials earlier than contemplated herein.
34. BEST EFFORTS DEFINED. The term "best efforts" as used in the preceding paragraph requires that the Reviewing Party attempt to ensure that disclosure is not made unless such disclosure is pursuant to a final order of a Texas governmental or Texas judicial body or written opinion of the Texas Attorney General which was sought in compliance with the Public Information Act. The Reviewing Party is not required to delay compliance with a lawful order to disclose such information but is simply required to timely notify the party asserting confidentiality, or its counsel, that it has received a challenge to the confidentiality of the information and that the Reviewing Party will either proceed under the provisions of Section 552.301 of the Public Information Act, or intends to comply with the final governmental or court order.
35. NOTIFY DEFINED. "Notify" for purposes of Paragraphs 33 and 34 shall mean written notice to the party asserting confidentiality at least five (5) calendar days prior to release; including when a Reviewing Party receives a request under the Public Information Act. However, the Commission or OPC may provide a copy of Protected Materials to the Open Records Division of the OAG as provided herein.

36. REQUESTS FOR NON-DISCLOSURE. If the producing party asserts that the requested information should not be disclosed at all, or should not be disclosed to certain parties under the protection afforded by this Order, the producing party shall tender the information for in camera review to the presiding officer within ten (10) calendar days of the request. At the same time, the producing party shall file and serve on all parties its argument, including any supporting affidavits, in support of its position of non-disclosure. The burden is on the producing party to establish that the material should not be disclosed. The producing party shall serve a copy of the information under the classification of Highly Sensitive Protected Material to all parties requesting the information that the producing party has not alleged should be prohibited from reviewing the information.

Parties wishing to respond to the producing party's argument for non-disclosure shall do so within five working days. Responding parties should explain why the information should be disclosed to them, including why disclosure is necessary for a fair adjudication of the case if the material is determined to constitute a trade secret. If the presiding officer finds that the information should be disclosed as Protected Material under the terms of this Protective Order, the presiding officer shall stay the order of disclosure for such period of time as the presiding officer deems necessary to allow the producing party to appeal the ruling to the commission.

37. SANCTIONS AVAILABLE FOR ABUSE OF DESIGNATION. If the presiding officer finds that a producing party unreasonably designated material as Protected Material or as Highly Sensitive Protected Material, or unreasonably attempted to prevent disclosure pursuant to Paragraph 36, the presiding officer may sanction the producing party pursuant to P.U.C. PROC. R. 22.161.
38. MODIFICATION OF PROTECTIVE ORDER. Each party shall have the right to seek changes in this Protective Order as appropriate from the presiding officer.
39. BREACH OF PROTECTIVE ORDER. In the event of a breach of the provisions of this Protective Order, the producing party, if it sustains its burden of proof required to establish the right to injunctive relief, shall be entitled to an injunction against

such breach without any requirements to post bond as a condition of such relief. The producing party shall not be relieved of proof of any element required to establish the right to injunctive relief. In addition to injunctive relief, the producing party shall be entitled to pursue any other form of relief to which it is entitled.

ATTACHMENT A

PROTECTIVE ORDER CERTIFICATION

I certify my understanding that the Protected Materials are provided to me pursuant to the terms and restrictions of the Protective Order in this docket, and that I have been given a copy of it and have read the Protective Order and agree to be bound by it. I understand that the contents of the Protected Materials, any notes, memoranda, or any other form of information regarding or derived from the Protected Materials shall not be disclosed to anyone other than in accordance with the Protective Order and unless I am an employee of the Commission or OPC shall be used only for the purpose of the proceeding in Docket No. _____. I acknowledge that the obligations imposed by this certification are pursuant to such Protective Order. Provided, however, if the information contained in the Protected Materials is obtained from independent public sources, the understanding stated herein shall not apply.

Signature Party Represented

Printed Name Date

I certify that I am eligible to have access to Highly Sensitive Protected Material under the terms of the Protective Order in this docket.

Signature Party Represented

Printed Name Date

ATTACHMENT B

I request to view/copy the following documents:

| Document Requested | # of Copies | Non-Confidential | Confidential &/or HS |
|--------------------|-------------|------------------|----------------------|
| ----- | ----- | ----- | ----- |

| | |
|-----------|-------------------|
| ----- | ----- |
| Signature | Party Represented |

| | |
|--------------|-------|
| ----- | ----- |
| Printed Name | Date |

PROPOSED PROCEDURAL SCHEDULE

| DATE ----- | EVENT ----- |
|-------------------|--|
| December 2, 2004 | Application is filed at the Commission |
| December 2, 2004 | Discovery begins on all parties. Responses to RFIs are due within 10 calendar days. Objections to RFIs are due within 5 calendar days; motions to compel are due within 3 business days after objections are received. |
| December 13, 2004 | Deadline for motions on material deficiency of application |
| December 14, 2004 | First prehearing conference |
| December 15, 2004 | Deadline for publishing notice (assuming approval of notice content and form at first prehearing conference) |
| December 20, 2004 | Reply to motions on material deficiency due |
| December 21, 2004 | Settlement conference |
| January 3, 2005 | Intervention deadline |
| January 7, 2005 | Deadline to file RFIs and take depositions of CenterPoint Houston witnesses |
| January 7, 2005 | Objections to CenterPoint Houston's testimony due |
| January 7, 2005 | Intervenor testimony due |
| January 14, 2005 | Staff testimony due |
| January 14, 2005 | Reply to objections to CenterPoint Houston's testimony due |
| January 21, 2005 | Intervenor cross-answering testimony |
| January 28, 2005 | Objections to Intervenor and Staff testimony due |
| January 28, 2005 | Deadline for discovery on Intervenor and Staff testimony |
| January 29, 2005 | CenterPoint Houston's rebuttal testimony due |
| February 1, 2005 | Hearing on the merits begins (no more than 4 days) |
| February 9, 2005 | Initial briefs due |
| February 10, 2005 | Discussion at Open Meeting |
| February 16, 2005 | Reply briefs due |
| February 24, 2005 | Approval of order at Open Meeting |
| March 2, 2005 | Final order issued on or before this date (90 days after the application is filed) |

FORM OF PUBLIC AND REP NOTICE

NOTICE OF APPLICATION OF CENTERPOINT ENERGY HOUSTON
ELECTRIC, LLC FOR A FINANCING ORDER

On December 2, 2004, CenterPoint Energy Houston Electric, LLC ("CenterPoint Houston") filed with the Public Utility Commission of Texas ("Commission") an application for a financing order to securitize qualified costs (the "Application") as allowed by Subchapter G of Chapter 39 of the Public Utility Regulatory Act ("PURA") and Commission Substantive Rule 25.263. The Application, if approved, will affect all retail electric providers ("REPs") serving end-use retail electric customers in CenterPoint Houston's certificated service territory as it existed on May 1, 1999, and may affect the retail electric customers of those REPs depending on how the REPs are required to or choose to pass along to their retail electric customers CenterPoint Houston's transition charges resulting from this Application.

Pursuant to PURA Section 39.301 et seq. and Commission Substantive Rule 25.263, CenterPoint Houston is permitted to recover qualified costs through irrevocable nonbypassable transition charges assessed on substantially all retail electric customers within its certificated service territory as it existed on May 1, 1999. The amount and terms for collections of these transition charges will be governed by a financing order issued by the Commission. CenterPoint Houston can then 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 CenterPoint Houston to issue debt securities secured by the right to receive revenues arising from the transition charges. CenterPoint Houston'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 special purpose entity, constitute transition property.

CenterPoint Houston will sell the transition property to a special purpose entity owned by CenterPoint Houston and that entity will then issue transition bonds for a term not to exceed 15 years. The transition bonds will be secured primarily by the transition property. The transition charges authorized under the financing order will provide the sole source of revenue for payment of the transition bonds. CenterPoint Houston will use the proceeds it receives from the sale of the transition property to reduce the debt and equity on its regulatory books. CenterPoint Houston and any successor servicer of the transition bonds will bill and collect transition charges from the REPs serving end-use retail electric customers in CenterPoint Houston's certificated service territory as it existed on May 1, 1999.

On November 23, 2004, the Commission issued an order in Docket No. 29526 determining that CenterPoint Houston is entitled pursuant to PURA Section 39.262 to recover \$2,300,888,665 of costs associated with the transition to competitive retail markets and all excess mitigation credits provided by CenterPoint Houston after August 31, 2004. Pursuant to the terms of the order in Docket No. 29526, the balance accrues interest until the balance is collected.

In the Application, CenterPoint Houston requests a financing order to issue transition bonds in the original principal amount not to exceed (1) the total true-up balance (\$2,300,888,665) determined by the Commission in Docket No. 29526 plus (a) the amount of excess mitigation

credits provided by CenterPoint Houston after August 31, 2004, through the date of issuance of the transition bonds, (b) interest accrued after August 31, 2004, through the date of issuance of the transition bonds, and (c) up-front qualified costs, minus (2) an amount to reflect the present value of the benefits associated with accumulated deferred federal income taxes that relate to the stranded costs and regulatory assets as of August 31, 2004. CenterPoint Houston also proposes to include as qualified costs the costs of possible swap or hedge agreements entered into under certain circumstances described in the Application and the costs of credit enhancements relating to marketability of the transition bonds. CenterPoint Houston also requests approval of the structure of the proposed securitization financing, transition charges in an amount sufficient to recover the qualified costs, and approval of the form of Schedule TC2 to implement those transition charges.

Persons with questions or who want more information about the Application may contact CenterPoint at 1111 Louisiana, Houston, Texas 77002 or by calling Bunny Browning at 713-207-5567. A complete copy of the Application is available for inspection at the address listed above.

Pursuant to PURA Section 39.303(e), the Commission must issue an Order no later than 90 days after the Application was filed. The Commission has assigned Docket No. [_____] to the Application and the proceeding. Persons who wish to intervene in or comment upon these proceedings should notify the Commission as soon as possible, as an intervention deadline will be imposed. Unless otherwise ordered by the presiding officer, requests to intervene must be filed by [date]. A request to intervene or for further information should be mailed to the Public Utility Commission of Texas, P.O. Box 13326, Austin, Texas 78711-3326. Further information may also be obtained by calling the Public Utility Commission at (512) 936-7120 or (888) 782-8477. Hearing- and speech-impaired individuals with text telephones (TTY) may contact the Commission at (512) 936-7136.

FORM OF NOTICE TO MUNICIPALITIES

December 2, 2004

[Mayor, City Secretary or other appropriate official]
[Name of City]
[Address line 1]
[Address line 2]

RE: APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC FOR A
FINANCING ORDER

Dear [Mayor, City Secretary or other appropriate official]:

On December 2, 2004, CenterPoint Energy Houston Electric, LLC filed with the Public Utility Commission of Texas an application requesting authorization to securitize qualified costs as allowed by Subchapter G of Chapter 39 of the Texas Utilities Code and Commission Substantive Rule 25.263.

For your convenience, attached is a copy of the application (without attachments) and the executive summary of the application. Should you have any questions concerning this matter or if you wish to receive a copy of the entire application, please contact me at [phone number].

Very truly yours,

[Name]
Service Area Manager

Attachments

Received this ____ day of _____, 2004

By: _____

Title: _____

| | | |
|----------------------------|---------|---------------------------|
| APPLICATION OF CENTERPOINT | Section | PUBLIC UTILITY COMMISSION |
| ENERGY HOUSTON ELECTRIC, | Section | |
| LLC FOR FINANCING ORDER | Section | OF TEXAS |
| | Section | |

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FINANCING ORDER

This Financing Order addresses the application of CenterPoint Energy Houston Electric, LLC ("CenterPoint") under Subchapter G of Chapter 39 of the Public Utility Regulatory Act(1) ("PURA") to securitize the true-up balance determined by the Commission in Docket No. 29526 and other qualified costs, for approval of the proposed securitization financing structure, for approval of transition charges sufficient to recover qualified costs, and for approval of a tariff to implement the transition charges.

As discussed in this Financing Order, the Commission finds that CenterPoint's application as modified by this Financing Order should be approved. The Commission also finds that the securitization approved in this Financing Order meets all applicable requirements of PURA. Accordingly, the Commission (1) approves the securitization of CenterPoint's stranded costs, interest on stranded costs, and other qualified costs as specified in this Financing Order, and authorizes, subject to the terms of this Financing Order, the issuance of transition bonds in one or more series in an aggregate amount not to exceed \$1,493,747,264 plus (a) the amount of excess mitigation credits provided by CenterPoint after August 31, 2004 through the date of issuance of the transition bonds or the termination of such excess mitigation credits, whichever is earlier, (b) interest on stranded costs accrued after August 31, 2004 through the date of issuance of the transition bonds, and (c) up-front qualified costs as set forth in this Financing Order; (2) approves the structure of the proposed securitization financing; (3) approves transition charges in an amount to be calculated as provided in this Financing Order; and (4) approves the form of tariff, as provided in this Financing Order, to implement those transition charges.

The Commission received evidence from the parties indicating that the proposed securitization met the several financial tests set forth by Subchapter G of PURA Chapter 39 by varying degrees. All of the calculations performed by parties who evaluated the proposed qualified costs by these tests concurred that the transaction would pass these tests by a wide margin. Considering the magnitude of the margin by which the proposed

securitization passes the various tests, the Commission declines to determine a particular number for each benefit conferred by the securitization. Accordingly, in quantifying the benefit to ratepayers as a result of this securitization, the Commission refers to the ranges of benefits calculated under CenterPoint's expected case scenario for the levelized bond structure, in which the transition bonds bear 4.36% weighted-average interest, and a worst-case scenario, in which the bonds are subject to a 9% weighted-average interest rate.

As a result of the securitization approved by this Financing Order, consumers in CenterPoint's service area will realize benefits currently estimated to be between approximately \$113 million and \$166 million on a present value basis in the worst case scenario.(2) At the expected weighted-average interest rate, securitization confers benefits of between \$537 million and \$580 million on a present-value basis.(3) In addition, under the worst-case scenario, the securitization approved by this Financing Order will result in a reduction in the amount of revenues collected by CenterPoint of between approximately \$304 million and \$444 million, on a nominal basis, when compared to the amount that would have been collected under conventional financing methods.(4) In the expected case, the securitization will result in a reduction in the amount of revenues collected by CenterPoint of between approximately \$692 million and \$794 million.(5)

On December 17, 2004, the Commission issued an Order on Rehearing in Docket No. 29526 determining that CenterPoint is entitled pursuant to PURA Section 39.262 to recover \$2,300,888,665 of costs associated with the transition to competitive retail markets plus excess mitigation credits provided by CenterPoint after August 31, 2004. Pursuant to the terms of the order in Docket No. 29526, that balance accrues interest until it is collected. In its application, CenterPoint requested to securitize the entire true-up balance (including

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- (1) TEX. UTIL. CODE ANN. Sections 11.001-64.158 (Vernon 1998 & Supp. 2004).
 - (2) See Staff Ex. Staff Ex. 1, Direct Testimony of Darryl Tietjen (Tietjen Direct) at Exhibit DT-2 p.4; CNP Ex. 2, Direct Testimony of James Brian (Brian Direct), Figure JSB-1, page 15.
 - (3) See Tietjen Direct at Exhibit DT-2 p.3; Brian Direct, Figure JSB-1, page 14.
 - (4) See Tietjen Direct at Exhibit DT-2 p.4; Brian Direct, Figure JSB-1, page 15.
 - (5) See Tietjen Direct at Exhibit DT-2 p.3; Brian Direct, Figure JSB-1, page 14.

excess mitigation credits and interest) under that order. The scope of CenterPoint's securitization proposal was addressed in the Commission's preliminary order on December 20, 2004. The effect of that order on the size of CenterPoint's proposed securitization is discussed further, below.

CenterPoint provided a general description of the proposed transaction structure in its application and in the testimony and exhibits submitted in support of its application. The proposed transaction structure does not contain every relevant detail and, in certain places, uses only approximations of certain costs and requirements. The final transaction structure will depend, in part, upon the requirements of the nationally-recognized credit rating agencies which will rate the transition bonds and, in part, upon the market conditions that exist at the time the transition bonds are taken to the market.

While the Commission recognizes the need for some degree of flexibility with regard to the final details of the securitization transaction approved in this Financing Order, its primary focus is upon the statutory requirements--not the least of which is to ensure that securitization results in tangible and quantifiable benefits to ratepayers--that must be met prior to issuing a financing order. The Commission must be mindful of its responsibility to shepherd the restructuring of the electric industry in Texas in a manner that ensures that a robust competitive retail market continues to exist in this state.

In view of these obligations, the Commission has established certain criteria in this Financing Order that must be met in order for the approvals and authorizations granted in this Financing Order to become effective. This Financing Order grants authority to issue transition bonds and to impose and collect transition charges only if the final structure of the securitization transaction complies in all material respects with these criteria. In addition, the Commission, acting through its designated representative or financial advisor, will participate in the structuring, marketing, and pricing of the transition bonds and will make the decision, in conjunction with CenterPoint, as to whether to issue the bonds. Finally, the authority and approval granted in this Financing Order is effective only upon CenterPoint filing with the Commission an issuance advice letter demonstrating compliance with the provisions of this Financing Order.

I. DISCUSSION AND STATUTORY OVERVIEW

The Texas Legislature amended PURA in 1999 to provide for competition in the provision of retail electric service.(6) To facilitate the transition to a competitive environment, electric utilities are authorized to undertake securitization financing of qualified costs.(7) The Legislature provided this option for recovering qualified costs based on the conclusion that securitized financing will result in lower carrying costs for utility assets relative to the costs that would be incurred using conventional utility financing methods. As a precondition to the use of securitization, the Legislature required that the utility demonstrate that ratepayers would receive tangible and quantifiable benefits as a result of securitization and that this Commission make a specific finding that such benefits exist before issuing a financing order. Consequently, a basic purpose of securitized financing--the recovery of an electric utility's qualified costs--is conditioned upon the other basic purpose--providing economic benefits to consumers of electricity in this state.

To securitize an electric utility's qualified costs, the Commission may authorize the issuance of a security known as transition bonds. Transition bonds are generally defined as evidences of indebtedness or ownership that are issued under a financing order, are limited to a term of not longer than 15 years, and are secured by or payable from transition property.(8) The net proceeds from the sale of the transition bonds must be used to reduce the amount of a utility's recoverable regulatory assets or stranded costs through the refinancing or retirement of the utility's debt or equity. If transition bonds are approved and issued, retail electric consumers must pay the principal, interest, and related charges of the transition bonds through transition charges. Transition charges are nonbypassable charges that will be paid as a component of the monthly charge for electric service. Transition charges must be approved by the Commission pursuant to a financing order.(9)

(6) See Act of May 27, 1999, 76th Leg., R.S., ch. 440, 1999 TEX. GEN. LAWS 1111 (codified primarily at TEX. UTIL. CODE Chapters 39, 40, and 41).

(7) See PURA Sections 39.201, .301-.303.

(8) See Id. Section 39.302(6).

(9) See Id. Section 39.302(7).

The Commission may adopt a financing order only if it finds that the total amount of revenues to be collected under the financing order is less than the revenue requirement that would be recovered using conventional financing methods and that the financing order is consistent with the standards of PURA Section 39.301. The Commission must ensure that the net proceeds of transition bonds may be used only for the purpose of reducing the amount of recoverable costs through the refinancing or retirement of utility debt or equity. In addition, the Commission must ensure that (1) securitization provides tangible and quantifiable benefits to ratepayers greater than would have been achieved absent the issuance of the transition bonds, and (2) the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of a financing order. Finally, the amount securitized may not exceed the present value of the revenue requirement over the life of the proposed transition bonds associated with the amounts sought to be securitized, and the present value calculation must use a discount rate equal to the proposed interest rate on the transition bonds. All of these statutory requirements go to ensure that securitization will provide real benefits to retail consumers.

The essential finding by the Commission that is needed to issue a financing order is that ratepayers will receive tangible and quantifiable benefits as a result of securitization. This finding can only be made upon a showing of economic benefits to ratepayers through an economic analysis. An economic analysis is necessary to recognize the time value of money in evaluating whether and the extent to which benefits accrue from securitization. Moreover, an economic analysis recognizes the concept that the timing of a payment can be as important as the magnitude of a payment in determining the value of the payment. Thus, an analysis showing an economic benefit is necessary to quantify a tangible benefit to ratepayers.

Economic benefits also depend upon a favorable financial market--one in which transition bonds may be sold at an interest rate lower than the carrying costs of the assets being securitized. The precise interest rate at which transition bonds can be sold in a future market, however, is not known today. Nevertheless, benefits can be calculated based upon certain known facts (e.g. the amount of assets to be securitized and the cost of the alternative to securitization) and assumptions (e.g. the interest rate of the transition

bonds, the term of the transition bonds and the amount of other qualified costs). By analyzing the proposed securitization based upon those facts and assumptions, a determination can be made as to whether tangible and quantifiable benefits result. To ensure that benefits are realized, the securitization transaction must be structured in a manner consistent with the assumptions of the cost-benefit economic analysis and conform to the structure ordered by the Commission and an issuance advice letter must be presented to the Commission immediately prior to issuance of the bonds demonstrating that the actual structure and costs of the bonds will provide tangible and quantifiable benefits. The cost-benefit analysis contained in the issuance advice letter shall reflect the actual structure of the bonds.

In this proceeding, financial analysis shows that securitizing the items permitted by the Commission's preliminary order and determined in Docket 29526 along with CenterPoint's other qualified costs in the manner provided by this Financing Order will produce an economic benefit to ratepayers in an amount between \$113 million and \$166 on a present value basis.⁽¹⁰⁾ This benefit will result if the bond market is unfavorable and transition bonds have to be issued at the maximum weighted-average interest rate allowed by this Financing Order. Assuming that the transition bonds are, as CenterPoint expects, subject to a 4.36% weighted-average interest rate, the benefit is between approximately \$537 million and \$580 million on a present-value basis.⁽¹¹⁾ The economic benefit to ratepayers will be larger if a more favorable market allows the transition bonds to be issued at a lower interest rate.

To issue a financing order, PURA also requires that the Commission find that the total amount of revenues collected under the financing order will be less than would otherwise have been collected under conventional financing methods. In this proceeding, the analysis using worst-case market conditions under a level rate transition charge structure demonstrates that revenues will be reduced by between \$304 million and \$444 million on a nominal basis under this Financing Order compared to the amount that would be recovered under conventional financing methods, assuming the bonds are

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⁽¹⁰⁾ See Staff Ex. 1, Direct Testimony of Darryl Tietjen (Tietjen Direct) at 9-11; CNP Ex. 2, Direct Testimony of James Brian (Brian Direct), Figures JSB-1, page 15.

issued at a 9% weighted-average interest rate.(12) Under the expected scenario, securitization saves ratepayers between \$692 million and \$794 million in nominal revenue.(13) If transition bonds are issued in a more favorable market, this reduction in revenues will be larger.

To obtain the most favorable issuance of transition bonds--and the greatest benefits to ratepayers--consistent with market conditions and the terms of this Financing Order, the Commission, acting through its designated representative or financial advisor, will participate in the structuring, marketing, and pricing of the bonds. This participation will provide assurances that the minimum cost of securitization and the maximum benefits for retail consumers are obtained consistent with market conditions at the time of pricing and the terms of this Financing Order. In addition, before the transition bonds may be issued, CenterPoint must submit to the Commission an issuance advice letter in which it demonstrates, based upon the actual market conditions at the time of pricing, that the proposed structure and pricing of the transition bonds will provide real economic benefits to retail consumers and comply with this Financing Order. As part of this submission, CenterPoint must also certify to the Commission that the structure and pricing of the transition bonds results in the lowest transition bond charges consistent with market conditions at the time of pricing and the terms of this Financing Order. The form of certification that must be submitted by CenterPoint is set out in Appendix A to this Financing Order. The Commission, by order, may stop the issuance of the transition bonds authorized by this Financing Order if CenterPoint fails to make this demonstration or certification.

PURA requires that transition charges be charged for the use or availability of electric services to recover all qualified costs.(14) Transition charges can be recovered over a period that does not exceed 15 years.(15) The Commission concludes that this prevents the collection of transition charges from retail consumers for services rendered after the 15-year period but does not prohibit recovery of transition charges for service

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(11) See Tietjen Direct at Exhibit DT-2, page 3; Brian Direct Figure JSB-1, page 14.

(12) See Tietjen Direct at Exhibit DT-2, page 4; Brian Direct Figure JSB-1, page 15.

(13) See Tietjen Direct at Exhibit DT-2, page 3; Brian Direct Figure JSB-1, page 14.

(14) See PURA Section 39.302(7).

rendered during the 15-year period but not actually collected until after the 15-year period.

Transition charges will be collected by an electric utility, its successors, an assignee, or other collection agents as provided for in this Financing Order.(16) The right to impose, collect, and receive transition charges (including all other rights of an electric utility under the financing order) are only contract rights until they are first transferred to an assignee or pledged in connection with the issuance of transition bonds. Upon the transfer or pledge of those rights, they become transition property and, as such, are afforded certain statutory protections to ensure that the charges are available for bond retirement.(17)

This Financing Order contains terms, as it must, ensuring that the imposition and collection of transition charges authorized herein shall be nonbypassable.(18) It also includes a mechanism requiring that transition charges be reviewed and adjusted at least annually, within 45 days of the anniversary date of the issuance of the transition bonds, to correct any overcollections or undercollections during the preceding 12 months and 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.(19) In addition to the required annual reviews, more frequent reviews are allowed to ensure that the amount of the transition charges matches the funding requirements approved in this Financing Order. These provisions will help to ensure that the amount of transition charges paid by retail consumers does not exceed the amounts necessary to cover the costs of this securitization, and will also help to foster the development of a robust and competitive retail electric market in Texas. To encourage utilities to undertake securitization financing, other benefits and assurances are provided.

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(15) See Id. Section 39.303(b).

(16) See Id. Section 39.302(7).

(17) See Id. Section 39.304(b).

(18) See Id. Section 39.306.

(19) See Id. Section 39.307.

The State of Texas has pledged, for the benefit and protection of financing parties and electric utilities, that it will not take or permit any action that would impair the value of transition property, or, except for the true-up expressly allowed by law, 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.(20)

Transition property constitutes a present property right for purposes of contracts concerning the sale or pledge of property, and the property will continue to exist for the duration of the pledge of the State of Texas as described in the preceding paragraph.(21) In addition, the interest of an assignee or pledgee in transition property (as well as the revenues and collections arising from the property) are not subject to setoff, counterclaim, surcharge, or defense by the electric utility or any other person or in connection with the bankruptcy of the electric utility or any other entity.(22) Further, 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.(23) The creation, granting, perfection, and enforcement of liens and security interests in transition property are governed by PURA Section 39.309 and not by the Texas Business and Commerce Code.(24)

The Commission may adopt a financing order providing for the retiring and refunding of transition bonds only upon making a finding that the future transition charges required to service the new transition bonds, including transaction costs, will be less than the future transition charges required to service the bonds being retired or refunded.(25) CenterPoint has not requested and this Financing Order does not grant any authority to refinance transition bonds authorized by this Financing Order. This

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(20) See Id. Section 39.310.

(21) See Id. Section 39.304(b).

(22) See Id. Section 39.305.

(23) See Id. Section 39.311.

(24) See Id. Section 39.309(a).

Financing Order does not preclude CenterPoint from filing a request for a financing order to retire or refund the transition bonds approved in this Financing Order upon a showing that the statutory criteria in PURA Section 39.303(g) are met.(26)

To facilitate compliance and consistency with applicable statutory provisions, this Financing Order adopts the definitions in PURA Section 39.302.

II. DESCRIPTION OF PROPOSED TRANSACTION

A description of the transaction proposed by CenterPoint is contained in its application and the filing package submitted as part of the application. A brief summary of the proposed transaction is provided in this section. A more detailed description is included in Section III.C, titled "Structure of the Proposed Securitization" and in the application and filing package submitted as part of the application.

To facilitate the proposed securitization, CenterPoint proposed that a special purpose entity transition bond company ("BondCo") be created to which will be transferred the rights to impose, collect, and receive transition charges along with the other rights arising pursuant to this Financing Order. Upon transfer, these rights will become transition property as provided by PURA Section 39.304. BondCo will issue transition bonds and will transfer the net proceeds from the sale of the transition bonds to CenterPoint in consideration for the transfer of the transition property. BondCo will be organized and managed in a manner designed to achieve the objective of maintaining BondCo as a bankruptcy-remote entity that would not be affected by the bankruptcy of CenterPoint or any other affiliates of CenterPoint or any of their respective successors. In addition, BondCo will have at least two independent managers whose approval will be required for certain major actions or organizational changes by BondCo.

The transition bonds will be issued pursuant to an indenture and administered by an indenture trustee. The transition bonds will be secured by and payable solely out of the transition property created pursuant to this Financing Order and other collateral described in CenterPoint's application. That collateral will be pledged to the indenture

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(25) See Id. Section 39.303(g).

trustee for the benefit of the holders of the transition bonds and to secure payment of certain qualified costs.

The servicer of the transition bonds will collect the transition charges and remit those amounts to the indenture trustee on behalf of BondCo. The servicer will be responsible for making any required or allowed true-ups of the transition charges. If the servicer defaults on its obligations under the servicing agreement, the indenture trustee may appoint a successor servicer. CenterPoint will act as the initial servicer for the transition bonds.

Retail electric providers ("REPs") will be required to meet certain financial standards to collect transition charges under this Financing Order. If the REP qualifies to collect transition charges, the servicer will bill to and collect from the REP the transition charges attributable to the REP's customers. The REP in turn will bill to and collect from its retail customers the transition charges attributable to them. If any REP fails to qualify to collect transition charges or defaults in the remittance of those charges to the servicer of the transition bonds, another entity can assume responsibility for collection of the transition charges from the REP's retail customers.

Transition charges will be calculated to ensure the collection of an amount sufficient to service the principal, interest, and related charges for the transition bonds and in a manner that allocates this amount to the various classes of retail consumers as provided in PURA and Commission orders. The transition charges will be calculated pursuant to the method described in Schedule TC2, a pro forma copy of which is contained in Appendix B. In addition to the annual true-up required by PURA Section 39.307, periodic true-ups may be performed as necessary to ensure that the amount collected from transition charges is sufficient to service the transition bonds. In addition, an adjustment to the transition charge class allocations will be allowed under certain circumstances. The methodology for making true-ups and allocation adjustments and the circumstances under which each shall be made are described in amended Schedule TC2, attached to this Financing Order as Appendix B.

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(26) See Id.

The Commission determines that CenterPoint's proposed level transition charge structure, rather than its "phase-in" approach, should be utilized. Because the phase-in approach extends payments on the transition debt further into the future, ratepayers must bear greater interest charges under that structure. The level transition charge structure results in a lower nominal cost to ratepayers over a 14 year recovery period than does the phase-in structure.(27) Accordingly, the Commission concludes that the level structure is preferable from the perspective of ratepayers.

In its application, CenterPoint requested authority to issue transition bonds in the original principal amount not to exceed (1) the total true-up balance (\$2,300,888,665) determined in Docket No. 29526 plus (a) the amount of excess mitigation credits provided by CenterPoint after August 31, 2004 through the date of issuance of the transition bonds, (b) interest accrued after August 31, 2004 through the date of issuance of the transition bonds, and (c) up-front qualified costs, minus (2) the present value of the benefit arising from the accumulated deferred federal income taxes ("ADFIT") associated with the true-up balance as of August 31, 2004.

The Commission addressed the scope of CenterPoint's application in a preliminary order issued December 20, 2004.(28) After consideration of briefs submitted by the parties on this issue, the Commission determined that PURA Chapter 39, Subchapter G does not permit CenterPoint to securitize its entire true-up balance as determined in Docket No. 29526. Rather, the Commission determined that the company may only securitize its stranded costs, interest on stranded costs, regulatory assets not already securitized, and certain qualified costs.(29) Under the Commission's preliminary order, the balance eligible for securitization is \$1,493,747,264, plus interest accrued since August 31, 2004, updated excess mitigation credit payments made since that date, and up-front costs of issuing the transition bonds as discussed further in this Order.

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(27) See, e.g, Brian Direct, Figure JSB-1 page 2 compared with Figure JSB-1 page 15, in which the total nominal revenues required under the phase-in structure exceed the revenue required under the level structure for the worst-case scenario.

(28) Preliminary Order at 5-7(Dec. 20, 2004).

(29) Id. at 7.

The Commission is issuing a separate order in this docket, concurrent with this Financing Order, to address the adjustment for the ADFIT benefit that CenterPoint included in its application. As that Order details, a total ADFIT benefit of \$313,620,745 shall be applied against CenterPoint's CTC recovery in Docket No. 30706,(30) and not against the amount to be securitized in this proceeding.

CenterPoint requests approval of transition charges sufficient to recover the principal and interest on the transition bonds plus ongoing qualified costs as described in Appendix C. CenterPoint requests that the transition charges be recovered from REPs and through them from retail consumers and that the amount of the transition charges be calculated based upon the allocation methodology and billing determinants specified in Schedule TC2. CenterPoint also requests that certain standards related to the billing and collection of transition charges be applied to REPs, as specified in Schedule TC2. To implement the transition charges and billing and collection requirements, CenterPoint requests approval of Schedule TC2, as modified by the stipulation between CenterPoint, TIEC, Staff , and a number of other intervenors.(31)

CenterPoint requested in its application that its upfront and ongoing costs of issuing and maintaining the transition bonds be recovered through the TC at issue in this proceeding without limitation. CenterPoint estimated that for its proposed level structure, its upfront costs would total approximately \$18 million, while its ongoing costs of servicing the bonds would total approximately \$1 million per year for each year of the term of the bonds.(32)

The Commission's analysis of CenterPoint's request begins with the finding that the company's costs that are permitted to be securitized, as well as the ongoing costs that the company proposes to recover directly through the TC, should be capped. This finding accords with Reliant Energy's securitization,(33) and other securitization proceedings in

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(30) Application of CenterPoint Energy Houston Electric, LLC, for a Competition Transition Charge (CTC), Docket No. 30706 (pending).

(31) TIEC Ex. 17, Stipulation Regarding Industrial Intra-Class Allocations.

(32) See Brian Direct, Figures JSB-1, Schedule 6.

(33) Application of Reliant Energy, Incorporated for Financing Order to Securitize Regulatory Assets and Other Qualified Costs, Docket No. 21665, Financing Order (June 1, 200).

this state. CenterPoint's case does not present sufficient distinctions to merit deviating from this practice.

Furthermore, the Commission concludes that certain of the items within CenterPoint's up-front cost estimate should be reduced. In particular, the Commission concludes that CenterPoint should be permitted to securitize only \$2 million in legal fees, rather than the \$6.7 million originally requested. This securitization is the latest of several such transactions in this state that have occurred since deregulation began, with the previous securitizations being of similar complexity and presenting similar issues. Accordingly, it is reasonable to reduce the total amount of securitizable up-front qualified costs by \$4.7 million, as reflected in Appendix C. However, CenterPoint may seek to recover any actual costs in excess of the capped amount, including legal fees, through a surcharge to CenterPoint's rates for transmission and distribution service. In seeking recovery of such costs, CenterPoint must prove that the costs were prudently incurred and reasonable and necessary.

The Commission also believes that the proposed securitization of the \$1.6 million estimated for the Commission's financial advisor to be unreasonable, and finds \$1.0 million to be an appropriate fee to be included in the securitized balance.

The Commission notes that the cost of retiring CenterPoint's debt or equity using the proceeds of the transition bonds shall remain uncapped; Commission experience with these expenses indicates that they vary widely and are not entirely within the company's control.(34)

In capping CenterPoint's upfront and ongoing costs, the Commission is mindful of the fact that several of the components of these total cost balances will vary upon the size of the final issuance of the transition bonds. Specifically, the Commission realizes that the SEC Registration Fee and Underwriters Fees are proportional to the amount of qualified costs actually securitized. In view of the Commission's decision not to deduct an ADFIT benefit from CenterPoint's securitized balance, and the updating of the accrual of interest on stranded costs through the date of the bond issuance, as well as the actual

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(34) See Staff Ex. 2, Direct Testimony of Martha Elvey (Elvey Direct) at 18.

amount of EMCs actually paid through the date of bond issuance, the amount of qualified costs will increase from the amount assumed for the purpose of estimating these costs. Accordingly, caps on ongoing costs stated in Appendix C to this order should be increased to the extent that the SEC Registration Fee and Underwriters Fees increases proportionately as a result of the increase in qualified costs securitized.

The amounts currently stated in Appendix C for those items are estimates based on the size of the bond issuance resulting from securitizing CenterPoint's stranded costs, interest on stranded costs through August 31, 2004, plus EMCs paid through that date, plus regulatory assets, minus CenterPoint's proposed ADFIT deduction, plus up-front qualified costs appropriate to the size of the resulting securitization. Thus, the cap on upfront costs is currently \$12,700,000, as reflected in Appendix C, but will be subject to updating upon review of CenterPoint's issuance advice letter.

Likewise, although recovery of ongoing costs are capped at the level estimated in CenterPoint's application and as reflected in Appendix C, the cap should be updated upon a showing that ongoing costs will increase as a result of the allowable amount of the transition bonds increasing. The Commission will also permit a successor servicer to CenterPoint to recover a higher servicer fee if CenterPoint ceases to service these bonds, but in no event shall such recovery exceed the amount specified for the fee of a third party as servicer stated in Appendix C.

III. FINDINGS OF FACT

A. IDENTIFICATION AND PROCEDURE

1. IDENTIFICATION OF APPLICANT AND APPLICATION

1. CenterPoint Energy Houston Electric, LLC, (CenterPoint) is a transmission and distribution utility which owns and operates for compensation an extensive transmission and distribution network to provide electric service in the portion of this state which is included in ERCOT. CenterPoint is an indirect wholly-owned subsidiary of CenterPoint Energy, Inc., which is a registered public utility holding company under the Public Utility Holding Company Act of 1935.

2. On March 31, 2004 in Docket No. 29526, CenterPoint, Texas Genco, LP and Reliant Energy Retail Services, LLC jointly filed an application to determine the true-up balance CenterPoint is entitled to recover in connection with the transition from a regulated to a competitive electricity market in ERCOT as required under PURA Section 39.262. After contested hearings, in an order issued on November 23, 2004, the Commission determined that CenterPoint was entitled to recover an aggregate balance of \$2,300,888,665 plus the excess mitigation credits provided and interest accrued after August 31, 2004.
2. PROCEDURAL HISTORY
3. On December 2, 2004, CenterPoint filed its application for a financing order under Subchapter G of Chapter 39 of PURA to permit securitization of (1) the total true-up balance (\$2,300,888,665) determined in Docket No. 29526 plus (a) the amount of excess mitigation credits provided by CenterPoint after August 31, 2004 through the date of issuance of the transition bonds, (b) interest accrued after August 31, 2004 through the date of issuance of the transition bonds, and (c) up-front qualified costs, minus (2) the present value of the benefit arising from the ADFIT associated with its true-up balance as of August 31, 2004. CenterPoint also proposed to include as qualified costs the costs of possible swap or hedge agreements entered into under the circumstances described in the testimony accompanying the application and the costs of credit enhancements relating to marketability of the transition bonds. The application includes the exhibits, schedules, attachments, and testimony.
4. On December 2, the Commission's Policy Development Division issued an order requesting briefing on the following issues:
 - i) Whether Centerpoint's application was properly filed at the time, considering that the order in Docket No. 29526 was not final and appealable, the possibility that Docket No. 29526 could be overturned on judicial appeal, and the Commission had not yet established a competitive transition charge (CTC)

- ii) Whether the Commission may issue a financing order to recover amounts other than qualified costs as defined in PURA Section 39.302(4).
5. On December 3, 2005, the administrative law judge (ALJ) of the Commission's Policy Development Division issued Order No. 1 scheduling a prehearing conference, adopting a protective order, addressing discovery deadlines and requesting parties' comments on CenterPoint's notice.
 6. At a prehearing conference on December 10, 2004, the ALJ considered the parties' comments regarding notice and procedural schedule and admitted the following parties as intervenors: CPL Retail Energy, LP, Office of Public Utility Counsel (OPC), the State of Texas (State), Gulf Coast Coalition of Cities (GCCC), Houston Council for Health and Education (HCHE), Texas Industrial Energy Consumers (TIEC), Alliance for Retail Markets (ARM), Coalition of Commercial Ratepayers (CCR), Reliant, and Occidental Power Marketing.
 7. In Order No. 2, on December 15, 2004, the ALJ approved CenterPoint's notice and revised the protective order.
 8. In Order No. 3, on December 17, 2004, the ALJ established the procedural schedule.
 9. In response to briefs filed by the parties, on December 20, 2004, the Commission issued a preliminary order stating that: (1) CenterPoint's application was not untimely, and (2) PURA did not permit CenterPoint to securitize its entire true-up balance, but only the company's stranded costs, interest on stranded costs, regulatory assets not already securitized, and certain up-front and ongoing costs of issuance maintaining the transition bonds. As a result of the preliminary order, the true-up balance to be securitized was reduced to \$1,493,747,264 plus (a) the amount of excess mitigation credits (EMCs) paid by CenterPoint since August 31, 2004 through the date of issuance of the transition bonds or the date of EMC termination, whichever is earlier, and (b) interest on stranded costs accrued after August 31, 2004 through the date of issuance of the bonds, and (c) up-front qualified costs of issuing the bonds.

10. On December 22, 2004, OPC filed a motion alleging CenterPoint's application to be materially deficient because CenterPoint did not amend its application to conform to the Preliminary Order. CenterPoint responded on December 28, 2004, noting that it included in its original filing package all of the information necessary to evaluate the proposed securitization of the amount specified in the Preliminary Order. The ALJ denied OPC's motion on January 3, 2005.
11. On January 14, 2005, parties filed a Final Allocation Settlement Agreement addressing the allocation of costs to be recovered through a transition charge or competition transition charge among rate classes. Signatories are CenterPoint, TIEC, OPC, City of Houston/Coalition of Cities, the State of Texas, HCHE and CCR. No party opposed the settlement.
12. In Order No. 13 on January 24, 2005, the ALJ granted the motions to intervene of Air Products and Chemicals and TXU Energy Retail.
13. On January 31, February 1, and February 2, 2005 a hearing was held before the Commission.
14. During the hearing, TIEC entered as its Exhibit 17 a Stipulation Regarding Industrial Intra-Class Allocations, which addresses certain portions of CenterPoint's Proposed Schedule TC2. On February 25, 2005, TIEC filed an amended Schedule TC2 in accordance with stipulation. Parties to the stipulation are CenterPoint, OPC, Commission Staff, CCR, HCHE, TXU Energy Retail, TIEC, the State, GCCC, COH/COC, and Air Products and Chemicals. No party opposed the stipulation.
15. On February 10 and 24, 2005, in open meeting, the Commission deliberated on the merits of CenterPoint's application, including the proposed financing order, and rendered its final decision in this docket.
16. On February 23, 2005, Staff and CenterPoint jointly filed amendments to CenterPoint's proposed financing order, included modified findings of fact, new findings of fact, and new ordering paragraph. No party filed comments in opposition to the joint filing.

17. At the February 24, 2005 open meeting, counsel for CenterPoint agreed to waive the requirement in PURA 39.303(e) that the Commission issue this Financing Order within 90 days after the application was filed.

3. NOTICE OF APPLICATION

18. Notice of CenterPoint's application was provided through publication once a week for two consecutive weeks in newspapers having general circulation in CenterPoint's service area, beginning shortly after the filing of the application. In addition, CenterPoint provided individual notice to the governing bodies of all Texas incorporated municipalities that have retained original jurisdiction over CenterPoint and to each retail electric provider listed on the Commission website. Notice was also provided to all parties in Docket No. 29526. Proof of publication was submitted in the form of publishers' affidavits and verification of the mailing of individual notices and the provision of notice to the municipalities.

B. QUALIFIED COSTS AND AMOUNT TO BE SECURITIZED

1. IDENTIFICATION AND AMOUNTS

19. Qualified costs are defined in PURA to include 100% of an electric utility's regulatory assets and 75% of its recoverable costs determined by the Commission under PURA Section 39.201 and any remaining stranded costs determined under PURA Section 39.262 together with the costs of issuing, supporting, and servicing transition bonds and any costs of retiring and refunding the electric utility's existing debt and equity securities in connection with the issuance of transition bonds. Qualified costs also include the costs to the Commission of acquiring professional services for the purpose of evaluating proposed securitization transactions.(35)

20. Regulatory assets are defined to include only the generation-related portion of the Texas jurisdictional portion of the amount reported by an electric utility in its 1998 annual report to the Securities and Exchange Commission ("SEC") on Form 10-K as regulatory assets and liabilities, offset by the applicable portion of

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(35) See PURA Section 39.302(4).

generation-related investment tax credits permitted under the Internal Revenue Code of 1986(36) Pursuant to the financing order in Docket No. 21665, CenterPoint was authorized to and did securitize certain of its regulatory assets and retained the right to request authority to securitize certain additional regulatory assets. In its Order in Docket No. 29526, the Commission quantified an additional \$150,473,181 in regulatory assets.

21. Other qualified costs include the costs of issuing, supporting, and servicing the transition bonds and any transaction costs associated with retiring and refunding existing debt and equity securities with the proceeds from the transition bonds; provided, however, to the extent that the proceeds of transition bonds are used to retire or refund any debt owed by CenterPoint to an affiliate or any equity held by an affiliate, any transaction costs associated with retiring or refunding such affiliate-held debt or equity shall not be included in other qualified costs. The actual costs of issuing and supporting the transition bonds will not be known until the transition bonds are issued, and certain ongoing costs relating to the transition bonds may not be known until such costs are incurred. This order contains an estimate of the maximum amount of these costs as shown in Appendix C and provides for recovery of the actual amounts subject to an aggregate cap applicable to the up-front costs, a specific cap applicable to the financial advisor fee, and a separate cap for ongoing costs. The magnitude of two of the components of the capped up-front costs--the SEC filing fee and the underwriter fee--is directly related to the size of the bond issuance. The Commission estimates the total cost of these two items in its Appendix C; these items shall be updated, to the extent they deviate from this estimate, in the issuance advice letter. The actual amount of debt and equity securities to be retired and refunded will be affected by the timing of issuance of the transition bonds and market conditions at the time such securities are retired or refunded. As a result, the actual cost of retiring and refunding debt and equity securities in connection with the issuance of transition bonds will not be known until such securities are retired and such refunding is

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(36) See PURA Section 39.302(5).

complete. Similarly, the need for and the costs of any credit enhancement and of any swaps or hedges that may be entered into in connection with the issuance of transition bonds and underwriting costs will not be known until the time the transition bonds are priced. There also is no way to estimate the original issue discount, if any, which under market conditions existing at the time of issuance may be necessary or appropriate. The underwriting costs, and the cost of credit enhancement, swaps and hedges, and original issue discount will be fully reflected in the issuance advice letter.

2. SECURITIZATION OF INTEREST ON STRANDED COSTS

22. CenterPoint's application sought to securitize interest on the company's stranded costs balance accrued since August 31, 2004.
23. The December 17, 2004 Order on Rehearing in Docket No. 29526 recognized that the effect of the Supreme Court of Texas' decision in CenterPoint Energy v. Pub. Util. Comm'n of Texas, 143 S.W.3d 81 (Tex. 2004) was that CenterPoint should be allowed to recover interest on its stranded costs starting on January 1, 2002.
24. The Commission determined in Docket No. 29526 that CenterPoint's stranded costs balance is subject to an 11.075% interest rate
25. The balance to be securitized properly includes interest on stranded costs accrued since August 31, 2004 through the date of issuance of the transition bonds.

3. SECURITIZATION OF EMCS

26. In Docket No. 29526, the Commission determined that CenterPoint should continue to pay EMCs and that all EMCs paid (excluding interest on EMCs) are recoverable.
27. EMCs paid since August of 31, 2004 through either the date of issuance of the transition bonds or the termination of EMCs, whichever is earlier, are properly included in the balance CenterPoint seeks to securitize.

4. BALANCE TO BE SECURITIZED

28. CenterPoint should be authorized to issue transition bonds with a principal amount equal to (1) the sum of stranded costs and regulatory assets not previously securitized as determined in Docket No. 29526 (\$1,493,747,264) plus (a) the amount of excess mitigation credits provided by CenterPoint after August 31, 2004 through the date of issuance of the transition bonds or the date of termination of such excess mitigation credits, whichever is earlier, (b) interest on stranded costs accrued after August 31, 2004 through the date of issuance of the transition bonds, and (c) up-front qualified costs subject to the caps set forth in Appendix C and as adjusted as provided in this Financing Order. CenterPoint should be authorized to recover the remaining qualified costs, composed of the ongoing support and servicing costs subject to the cap listed in Appendix C as adjusted as provided in this Financing Order, directly through transition charges.
29. The proposed recovery of the sum described in Finding of Fact No. 28 through issuance of transition bonds as provided in this Financing Order should be approved because ratepayers will receive tangible and quantifiable benefits as a result of the securitization.

5. ISSUANCE ADVICE LETTER

30. Because the actual structure and pricing of the transition bonds and the precise amounts of up-front costs and expenses will not be known at the time this Financing Order is issued, CenterPoint and Staff agreed that, following determination of the final terms of the transition bonds and prior to issuance of the transition bonds, CenterPoint will file with the Commission for each series of transition bonds issued, and no later than twenty-four hours after the pricing date for that series of transition bonds, an issuance advice letter. The issuance advice letter will include CenterPoint's best estimate of total up-front qualified costs. The estimated total up-front qualified costs may be included in the principal amount securitized, subject to the caps set forth in Appendix C and as adjusted as provided by this Financing Order. Within 60 days of issuance of the transition bonds, CenterPoint shall submit to the Commission a final accounting of the total

up-front qualified costs. If the actual up-front qualified costs are less than the up-front qualified costs included in the principal amount securitized, the periodic billing requirement for the first annual true-up adjustment shall be reduced by the amount of such unused funds (together with interest earned thereon through investment by the trustee in eligible investments) and such unused funds (together with interest earned thereon through investment by the trustee in eligible investments) shall be available for payment of debt service on the bond payment date next succeeding such true-up adjustment. If the actual up-front qualified costs are more than the up-front qualified costs included in the principal amount securitized, CenterPoint may request recovery of the remaining up-front qualified costs through a surcharge to CenterPoint's rates for transmission and distribution service. In seeking to recover such costs, CenterPoint should be required to prove that the costs were prudently incurred, and reasonable and necessary. The excess or deficiency shall bear interest from the date of issuance of the transition bonds through the date the amounts are refunded or recovered, at the interest rate(s) applicable to refunds under the Commission's rules. The issuance advice letter will be completed to report the actual dollar amount of the initial transition charges and other information specific to the transition bonds to be issued. All amounts that require computation will be computed using the mathematical formulas contained in the form of the issuance advice letter in Appendix A to this Financing Order and Schedule TC2. The initial transition charges and the final terms of the transition bonds set forth in the issuance advice letter shall become effective on the date of issuance of the transition bonds unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and this Financing Order.

31. CenterPoint will submit a draft issuance advice letter to the Commission Staff for review not later than two weeks prior to the expected date of pricing the transition bonds. Within one week after receipt of the draft issuance advice letter, Commission Staff will provide CenterPoint comments and recommendations regarding the adequacy of the information provided.

32. The issuance advice letter shall be submitted to the Commission within 24 hours after the pricing of the transition bonds. Commission Staff may request such revisions of the issuance advice letter as may be necessary to assure the accuracy of the calculations and that the requirements of PURA and of this financing order have been met. The initial transition charges and the final terms of the transition bonds set forth in the issuance advice letter shall become effective on the date of issuance of the transition bonds (which shall not occur prior to the fifth business day after pricing) unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and the Financing Order.
33. The completion and filing of an issuance advice letter in the form of the issuance advice letter attached as Appendix A, including the certification from CenterPoint discussed in Finding of Fact No. 115 is necessary to ensure that any securitization actually undertaken by CenterPoint complies with the terms of this Financing Order.
34. The certification statement contained in CenterPoint's certification letter shall be worded precisely as the statement in the form of the issuance advice letter approved by the Commission. Other aspects of the certification letter may be modified to describe the particulars of the transition bonds facts and the actions that were taken during the transaction.

6. TANGIBLE AND QUANTIFIABLE BENEFIT

35. The statutory requirement in PURA Section 39.301 that directs the Commission to ensure that securitization provides tangible and quantifiable benefits to ratepayers greater than would be achieved absent the issuance of transition bonds can only be determined using an economic analysis to account for the time value of money. An analysis that compares in the aggregate over a 14-year period the present value of the revenue requirement associated with recovery of the balance permitted in the Commission's preliminary order through a competition transition charge, which is the method that would be used to recover any portion of the balance not securitized and is reflective of conventional utility financing, with the

present value of the revenue required under securitization is an appropriate economic analysis to demonstrate whether securitization provides economic benefits to ratepayers.

36. Securitization financing of the stranded costs, interest on stranded costs accrued since August 31, 2004 through the date of bond issuance, EMC principal paid since August 31, 2004, regulatory assets not already securitized and other qualified costs as requested by CenterPoint is expected to result in between approximately \$113 million and \$166 million of tangible and quantifiable economic benefits to ratepayers on a present-value basis if the transition bonds are issued at the maximum weighted-average interest rate of 9% allowed by this Financing Order. Using the projected weighted-average interest rate of approximately 4.36%, the benefits of securitization would be even larger, between approximately \$537 million and \$580 million. The actual benefit to ratepayers will depend upon market conditions at the time the transition bonds are issued and the amount actually securitized. This range of quantifications uses a maximum expected life of 14 years and reflects the present value of estimated up-front and ongoing qualified costs.

7. PRESENT VALUE CAP

37. The amount securitized may not exceed the present value of the revenue requirement over the life of the proposed transition bonds associated with conventional (i.e., non-securitized) recovery of the authorized amounts where the present value analysis uses a discount rate equal to the proposed interest rate on the transition bonds.⁽³⁷⁾ The methodologies used by the parties to calculate economic benefits also demonstrate that the amount CenterPoint seeks to securitize does not exceed the present value of the revenue requirement associated with the securitized amount over the maximum expected 14-year life of the transition bonds. That present value (calculated using the maximum weighted-average rate of 9%) is between \$1.473 billion and \$1.2 billion. Using the projected weighted-average interest rate of approximately 4.36%, the benefits of

securitization would be even larger. Using a 4.36% weighted-average interest rate, the present value would be between \$1.958 billion and \$1.619 billion.

38. The amount of qualified costs to be securitized does not exceed the present value of the revenue requirement over the maximum expected 14-year life of the transition bonds associated with the amount approved to be securitized in this Financing Order. The present value analysis uses a discount rate equal to the maximum allowed weighted average interest rate on the transition bonds on an annual basis.

8. TOTAL AMOUNT OF REVENUE TO BE RECOVERED

39. The Commission is required to find that the total amount of revenues to be collected under this Financing Order will be less than the revenue requirement that would be recovered over the remaining life of the amounts that are securitized under this Financing Order, using conventional financing methods.(38) The appropriate conventional financing method with which to make this comparison is the recovery of the amount through competition transition charges determined under PURA Section 39.201. Under the worst-case scenario in which the bonds bear a 9% weighted-average interest rate, the total amount of revenues to be collected under this Financing Order is expected to be between approximately \$304 million and \$444 million less than the revenue requirement that would be recovered using conventional utility financing methods over the period under which they would be recovered through a competition transition charge. This quantification is the reduction in the amount of revenues resulting from securitization of the authorized amounts using the methodology contained in CenterPoint's testimony with a transition bond weighted-average interest rate of 9.0% and a maximum expected life of 14 years. Using the projected weighted- average interest rate of approximately 4.36%, the benefits of securitization would be even larger, between approximately \$692 million and \$794 million.

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(37) See PURA Section 39.301.

(38) See id. Section 39.303(a).

C. STRUCTURE OF THE PROPOSED SECURITIZATION

1. BONDCO

40. For purposes of this securitization, CenterPoint will create BondCo, a special purpose entity which will be a Delaware limited liability company with CenterPoint as its sole member. BondCo will be formed for the limited purpose of acquiring transition property (including any transition property authorized by the Commission in a subsequent financing order), issuing transition bonds in one or more series and in one or more classes for each series (which could include transition bonds authorized by the Commission in a subsequent financing order), and performing other activities relating thereto or otherwise authorized by this Financing Order. BondCo will not be permitted to engage in any other activities and will have no assets other than transition property and related assets to support its obligations under the transition bonds. Obligations relating to the transition bonds will be BondCo's only significant liabilities. These restrictions on the activities of BondCo and restrictions on the ability of CenterPoint to take action on BondCo's behalf are imposed to achieve the objective of ensuring that BondCo will be bankruptcy remote and not affected by a bankruptcy of CenterPoint. BondCo will be managed by a board of managers with rights and duties similar to those of a board of directors of a corporation. As long as the transition bonds remain outstanding, BondCo will have at least two independent managers with no organizational affiliation with CenterPoint. BondCo will not be permitted to amend the provisions of the organizational documents that ensure bankruptcy-remoteness of BondCo without the consent of the independent managers. Similarly, BondCo will not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or insolvency proceedings against it, or to dissolve, liquidate, consolidate, convert, or merge without the consent of the independent managers. Other restrictions to ensure

bankruptcy-remoteness may also be included in the organizational documents of BondCo as required by the rating agencies.

41. The capital of BondCo is expected to be not less than 0.5% of the original principal amount of each series of transition bonds issued by BondCo. The capitalization of BondCo is expected to be sufficient to allow BondCo to meet any reasonably expected expenses that might arise that are related to the transition charges and the transition bonds. Adequate funding of BondCo is intended to avoid the possibility that CenterPoint would have to extend funds to BondCo in a manner that could jeopardize the bankruptcy remoteness of BondCo. A sufficient level of capital is necessary to minimize this risk and, therefore, assist in achieving the lowest transition bond charges possible.
42. BondCo will issue transition bonds in one or more series, and in one or more classes for each series, in an aggregate amount not to exceed the principal amount approved by this Financing Order and will pledge to the indenture trustee, as collateral for payment of the transition bonds, the transition property, including BondCo's right to receive the transition charges as and when collected, and certain other collateral described in CenterPoint's application.
43. Concurrent with the issuance of any of the transition bonds, CenterPoint will transfer to BondCo all of CenterPoint's rights under this Financing Order, including rights to impose, collect, and receive transition charges approved in this Financing Order. This transfer will be structured so that it will qualify as a true sale within the meaning of PURA Section 39.308. By virtue of the transfer, BondCo will acquire all of the right, title, and interest of CenterPoint in the transition property arising under this Financing Order.
44. The use and proposed structure of BondCo and the limitations related to its organization and management are necessary to minimize risks related to the proposed securitization transactions and to minimize the transition charges. Therefore, the use and proposed structure of BondCo should be approved.

2. CREDIT ENHANCEMENT AND ARRANGEMENTS TO REDUCE INTEREST RATE RISK OR ENHANCE MARKETABILITY

45. CenterPoint requested approval to use additional forms of credit enhancement (including letters of credit, reserve accounts, surety bonds, or guarantees), various arrangements to reduce interest rate risks (including swaps and hedges) and other mechanisms designed to promote the credit quality and marketability of the transition bonds if the benefits of such arrangements exceeded their cost. CenterPoint also asked that the costs of any credit enhancements as well as the costs of arrangements to reduce interest rate risk or enhance marketability be included in the amount of qualified costs to be securitized. CenterPoint should be permitted to recover the up-front and ongoing costs of credit enhancements and arrangements to reduce interest rate risk or enhance marketability, provided that the Commission's designated representative or financial advisor and CenterPoint agree in advance that such enhancements and arrangements provide benefits greater than their tangible and intangible costs. If the use of original issue discount, credit enhancements, or other arrangements is proposed by CenterPoint, CenterPoint shall provide the Commission's designated representative or financial advisor copies of all cost/benefit analyses performed by or for CenterPoint Houston that support the request to use such arrangements. This finding does not apply to the collection account or its subaccounts approved in this Financing Order.
46. CenterPoint's proposed use of credit enhancements and arrangements to reduce interest rate risk or enhance marketability is reasonable and should be approved, provided that CenterPoint certifies that the enhancements or arrangements provide benefits greater than their cost and that such certifications are agreed with by the Commission's designated representative or financial advisor.
3. TRANSITION PROPERTY
47. Under PURA Section 39.304(a), the rights and interest of an electric utility or successor under a financing order, including the right to impose, collect, and receive the transition charges authorized in the order, are only contract rights until they are

first transferred to an assignee or pledged in connection with the issuance of transition bonds, at which time they will become transition property.

48. The rights to impose, collect, and receive the transition charges approved in this Financing Order along with the other rights arising pursuant to this Financing Order will become transition property upon the transfer of such rights by CenterPoint to BondCo pursuant to PURA Section 39.304.
49. Transition property and all other collateral will be held and administered by the indenture trustee pursuant to the indenture, as described in CenterPoint's application. This proposal will help ensure the lowest transition bond charges and should be approved.
50. Under PURA Section 39.304(b), transition property constitutes a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of transition charges depends on further acts of the utility or others that have not yet occurred.

4. SERVICER AND THE SERVICING AGREEMENT

51. CenterPoint will execute a servicing agreement with BondCo. The servicing agreement may be amended, renewed or replaced by another servicing agreement. The entity responsible for carrying out the servicing obligations under any servicing agreement is the servicer. CenterPoint will be the initial servicer but may be succeeded as servicer by another entity under certain circumstances detailed in the servicing agreement. Pursuant to the servicing agreement, the servicer is required, among other things, to impose and collect the applicable transition charges for the benefit and account of BondCo, to make the periodic true-up adjustments of transition charges required or allowed by this Financing Order, and to account for and remit the applicable transition charges to or for the account of BondCo in accordance with the remittance procedures contained in the servicing agreement without any charge, deduction or surcharge of any kind (other than the servicing fee specified in the servicing agreement). Under the terms of the servicing agreement, if any servicer fails to perform its servicing

obligations in any material respect, the indenture trustee acting under the indenture to be entered into in connection with the issuance of the transition bonds, or the indenture trustee's designee, may, or, upon the instruction of the requisite percentage of holders of the outstanding amount of transition bonds, shall, appoint an alternate party to replace the defaulting servicer, in which case the replacement servicer will perform the obligations of the servicer under the servicing agreement. The obligations of the servicer under the servicing agreement and the circumstances under which an alternate servicer may be appointed are more fully described in the servicing agreement. The rights of BondCo under the servicing agreement will be included in the collateral pledged to the indenture trustee under the indenture for the benefit of holders of the transition bonds. CenterPoint currently serves as servicer of the transition charges related to the transition bonds issued by CenterPoint Energy Transition Bond Company, LLC in October 2001 pursuant to the financing order issued on May 31, 2000 in Docket No. 21665. Consequently, CenterPoint, as initial servicer of transition charges associated with transition bonds issued under this Financing Order will, and any successor servicer may, simultaneously be serving as servicer of separate transition charges associated with transition bonds for more than one issuer.

52. The Servicing Agreement negotiated as part of this securitization shall contain a recital clause that the Commission, or its attorney, will enforce the Servicing Agreement for the benefit of Texas ratepayers to the extent permitted by law.
53. The Servicing Agreement negotiated as part of this securitization shall include a provision that CenterPoint shall indemnify the Commission (for the benefit of consumers) in connection with any increase in servicing fees that become payable pursuant to Section 5.07 of the Servicing Agreement as a result of a default resulting from CenterPoint's willful misconduct, bad faith or negligence in performance of its duties or observance of its covenants under the Servicing Agreement. The indemnity will be enforced by the Commission but will not be enforceable by any REP or consumer.

54. The obligations to continue to provide service and to collect and account for transition charges will be binding upon CenterPoint and any other entity that provides transmission and distribution services or direct wire services to a person that was a retail consumer located within HL&P's service area as it existed on May 1, 1999, or that became a retail consumer for electric services within such area after May 1, 1999, and is still located within such area. Further, and to the extent REPs are responsible for imposing and billing transition charges on behalf of BondCo, billing and credit standards approved in this Financing Order will be binding on all REPs that bill and collect transition charges from such retail consumers, together with their successors and assigns. The Commission will enforce the obligations imposed by this Financing Order, its applicable substantive rules, and statutory provisions.
55. To the extent that any interest in the transition property created by this Financing Order is assigned, sold or transferred to an assignee,(39) CenterPoint will enter into a contract with that assignee that will require CenterPoint to continue to operate its transmission and distribution system in order to provide electric services to CenterPoint's customers. This provision does not prohibit CenterPoint from selling, assigning or otherwise divesting its transmission and distribution system or any part thereof so long as the entity acquiring such facilities agrees to continue operating the facility to provide electric services to CenterPoint's customers.
56. The proposals described in Findings of Fact Nos. 51 through 55 are reasonable, will reduce risk associated with the proposed securitization and will, therefore, result in lower transition bond charges and greater benefits to ratepayers and should be approved.

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(39) The term "assignee" means "any individual, corporation, or other legally recognized entity to which an interest in transition property is transferred, other than as security, including any assignee of that party." See id. Section 39.302(1).

5. RETAIL ELECTRIC PROVIDERS

57. The servicer will bill the transition charges to each retail consumer's REP and the REP will collect the transition charges from its retail customers.
58. Schedule TC2 sets forth minimum billing and collection standards to apply to REPs that collect transition charges approved by this Financing Order from retail electric consumers. The Commission finds that the REP standards set forth in Schedule TC2 are appropriate and should be adopted.
59. The REP standards set forth in Schedule TC2 relate only to the billing and collection of transition charges authorized under this Financing Order, and do not apply to collection of any other nonbypassable charges or other charges. The standards apply to all REPs other than REPs that have contracted with CenterPoint to have CenterPoint bill and collect transition charges from the REP's retail consumers. REPs may contract with parties other than CenterPoint to bill and collect transition charges from retail consumers, but such parties shall remain subject to these standards. Upon adoption of any amendment to P.U.C. Substantive Rule 25.108, the Commission staff will open a proceeding to investigate the need to modify the standards in Schedule TC2 to conform to that rule, provided that such modifications may not be implemented absent prior written confirmation from each of the rating agencies that have rated the transition bonds that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the transition bonds.
60. The REP standards are as follows:

(A) RATING, DEPOSIT, AND RELATED REQUIREMENTS.

Each REP must (1) have a long-term, unsecured credit rating of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively, or (2) provide (a) a deposit of two months' maximum expected transition charge collections in the form of cash, (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 REP defaults in its payment obligations, or (c) a combination of any of the foregoing. A REP that does not have or maintain the requisite long-term, unsecured credit rating may select which alternate form of deposit, credit support, or combination thereof it will utilize, in its sole discretion. The indenture trustee shall be a beneficiary of any affiliate guarantee, surety bond or letter of credit. The provider of any affiliate guarantee, surety bond, or letter of credit must have and maintain a long-term, unsecured credit rating of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively.

(B) LOSS OF RATING.

If the long-term, unsecured credit rating from either Standard & Poor's or Moody's Investors Service of a REP 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 REP must provide the alternate form of deposit, credit support, or combination thereof, or new forms thereof, in each case from providers with the requisite ratings, within 10 business days following such suspension, withdrawal, or downgrade. A REP failing to make such provision must comply with the provisions set forth in Paragraph (e).

(C) COMPUTATION OF DEPOSIT, ETC.

The computation of the size of a deposit required under Paragraph (a) shall be agreed upon by the servicer and the REP, and reviewed no more frequently than quarterly to ensure that the deposit accurately reflects two months' maximum expected transition charge collections. Within 10 business days following such review, (1) the REP shall remit to the indenture trustee the amount of any shortfall in such required deposit or (2) the servicer shall instruct the indenture trustee to remit to the REP any amount in excess of such required deposit. A REP failing to so remit any such shortfall must comply with the provisions set forth in Paragraph (e). REP cash deposits shall be held by the indenture 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 REP cash deposits shall be considered part of such cash deposits

so long as they remain on deposit with the indenture trustee. At the instruction of the servicer, cash deposits will be remitted with investment earnings to the REP at the end of the term of the transition bonds unless otherwise utilized for the payment of the REP's obligations for transition charges. Once the deposit is no longer required, the servicer shall promptly (but not later than 30 calendar days) instruct the indenture trustee to remit the amounts in the segregated accounts to the REP.

(D) PAYMENT OF TRANSITION CHARGES.

Payments of transition charges are due 35 calendar days following each billing by the servicer to the REP, 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 the date the check clears. A 5% penalty is to be charged on amounts received after 35 calendar days; however, a 10 calendar-day grace period will be allowed before the REP is considered to be in default. A REP in default must comply with the provisions set forth in Paragraph (e). The 5% penalty will be a one-time assessment measured against the current amount overdue from the REP to the servicer. The "current amount" consists of the total unpaid transition charges existing on the 36th calendar day after billing by the servicer. Any and all such penalty payments will be made to the indenture trustee to be applied against transition charge obligations. A REP shall not be obligated to pay the overdue transition charges of another REP. If a 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 5% penalty upon such transition charges; however, the prior REP shall not be relieved of the previously-assessed penalties.

(E) REMEDIES UPON DEFAULT.

After the 10 calendar-day grace period (the 45th calendar day after the billing date) referred to in Paragraph (d), the servicer shall have the option to seek recourse against any cash deposit, affiliate guarantee, surety bond, letter of credit, or combination thereof provided by the REP, and 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 REP's deposit or alternate form of credit support. In addition, a REP that is in default with respect to the requirements set forth in Paragraphs (b), (c), or (d) shall, subject to the limitations and requirements of applicable bankruptcy laws if the REP is a debtor in bankruptcy, select and implement one of the following options:

(1) Allow the Provider of Last Resort ("POLR") or a qualified REP of the consumer's choosing to immediately assume the responsibility for the billing and collection of transition charges.

(2) Immediately implement other mutually suitable and agreeable arrangements with the servicer. It is expressly understood that the servicer's ability to agree to any other arrangements will be limited by the terms of the servicing agreement and requirements of each of the rating agencies that have rated the transition bonds necessary to avoid a suspension, withdrawal, or downgrade of the ratings on the transition bonds.

(3) Arrange that all amounts owed by retail consumers 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 the remaining amounts are released to the REP. All costs associated with this mechanism will be borne solely by the REP.

If a REP 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 shall immediately implement option (1), subject to the limitations and requirements of applicable bankruptcy laws if the REP is a debtor in bankruptcy. Upon re-establishment of compliance with the requirements set forth in Paragraphs (b), (c) and (d) and the payment of all past-due amounts and associated penalties, the REP will no longer be required to comply with this paragraph.

(F) INTEREST OF REPS (INCLUDING THE POLR) IN FUNDS HELD BY SERVICER.

Any interest that a REP (including the POLR) may have in any funds in the hands of the

servicer shall be junior and subordinate to any and all rights of the indenture trustee or the issuer to such funds.

(G) BILLING BY PROVIDERS OF LAST RESORT, ETC. The POLR appointed by the Commission must meet the minimum credit rating or deposit/credit support requirements described in Paragraph (a) in addition to any other standards that may be adopted by the Commission. If the POLR 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 POLR can be named by the Commission or the consumer requests the services of a certified REP. Retail consumers may never be re-billed by the successor REP, the POLR, or the servicer for any amount of transition charges they have paid their REP (although future transition charges shall reflect REP and other system-wide charge-offs). Additionally, if the amount of the penalty detailed in Paragraph (d) is the sole remaining past-due amount after the 45th calendar day, the REP shall not be required to comply with clauses (1), (2), or (3) of Paragraph (e), unless the penalty is not paid within an additional 30 calendar days.

(H) DISPUTES. In the event that a REP disputes any amount of billed transition charges, the REP shall pay the disputed amount under protest according to the timelines detailed in Paragraph (d). The REP and servicer shall first attempt to informally resolve the dispute, but if they fail to do so within 30 calendar days, either party may file a complaint with the Commission. If the REP is successful in the dispute process (informal or formal), the REP shall be entitled to interest on the disputed amount paid to the servicer at the Commission-approved interest rate. Disputes about the date of receipt of transition charge payments (and penalties arising thereof) or the size of a required REP deposit will be handled in a like manner. It is expressly intended that any interest paid by the servicer on disputed amounts shall not be recovered through transition charges if it is determined that the servicer's claim to the funds is clearly unfounded. No interest shall be paid by the servicer if it is determined that the servicer has received inaccurate metering data from another entity providing competitive metering services pursuant to PURA Section 39.107.

(I) METERING DATA.

If the servicer is providing the metering, metering data will be provided to the REP at the same time as the billing. If the servicer is not providing the metering, the entity providing the metering services will be responsible for complying with Commission rules and ensuring that the servicer and the REP receive timely and accurate metering data in order for the servicer to meet its obligations under the servicing agreement and this Financing Order with respect to billing and true ups.

(J) CHARGE-OFF ALLOWANCE.

The REP 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. In the initial year, REPs will be allowed to remit payments based on the same charge-off percentage then being used by the REP to remit payments to the servicer in connection with transition charges related to transition bonds issued by CenterPoint Energy Transition Bond Company, LLC on October 24, 2001. On an annual basis in connection with the true-up process, 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:

- (1) 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 transition charges) have been written off.
- (2) 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 no event will the REP have recourse to the indenture trustee, BondCo or BondCo's funds for such payments.
- (2) 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 and the REP's rights to credits will not take effect until after such adjusted transition-charges rates have been implemented.

(K) SERVICE TERMINATION.

In the event that the servicer is billing consumers for transition charges, the servicer shall have the right to terminate transmission and distribution service to the end-use consumer for non-payment by the end-use consumer pursuant to applicable Commission rules. In the event that a REP or the POLR is billing consumers for transition charges, the REP or POLR shall have the right to terminate transmission and distribution service to the end-use consumer for non-payment in accordance with the applicable Commission rules.

61. The proposed billing and collection standards are the same as those adopted in Docket No. 21665 and currently applied by CenterPoint in its capacity as servicer under the transition bonds issued pursuant to the financing order in that docket.
62. The proposed billing and collection standards for REPs and the applicability of those standards are appropriate for the collection of transition charges resulting from this Financing Order, are reasonable and will lower risks associated with the collection of transition charges and will result in lower transition bond charges and greater benefits to ratepayers. In addition, adoption of these standards will provide uniformity of standards for the billing and collection of transition charges for which CenterPoint acts as servicer. Therefore, the proposed billing and collection standards for REPs and the applicability of those standards described in Finding of Fact Nos. 59-60 should be approved.

6. TRANSITION BONDS

63. BondCo will issue and sell transition bonds in one or more series, and each series may be issued in one or more classes. The legal final maturity date of any series of transition bonds will not exceed 15 years from the date of issuance of such series. The legal final maturity date of each series and class within a series and amounts in each series will be finally determined by CenterPoint and the Commission's designated representative or financial advisor, consistent with market conditions and indications of the rating agencies, at the time the transition bonds are issued, but subject to ultimate Commission review through the issuance

advice letter process. CenterPoint will retain sole discretion regarding whether or when to assign, sell, or otherwise transfer any rights concerning transition property arising under this Financing Order, or to cause the issuance of any transition bonds authorized in this Financing Order, subject to the right of the Commission's designated representative or financial advisor to participate in the structuring, marketing, and pricing of the transition bonds. BondCo will issue the transition bonds on or after the fifth business day after pricing of the transition bonds unless, prior to noon on the fourth business day following pricing of the bonds, the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and this Financing Order.

64. The application describes two alternative structures of the transition bonds with respect to the maturities and classes. The proposed structure of the transition bonds was designed to achieve the specific amortization pattern described in the application. The Commission finds that the proposed structure providing annual transition charges to residential customer that would be essentially level over the term of the transition bonds if the actual year-to-year changes in residential load match the changes forecast at the time the bonds are structured is in the public interest and should be used. The approved structure will facilitate competition, is reasonable and should be approved, provided that the weighted average interest rate for the bonds does not exceed 9.0% on an annual basis. This restriction is necessary to ensure that the stated economic benefits to ratepayers materialize. To further ensure benefits to ratepayers, the Commission's designated representative or financial advisor should be charged with the obligation to ensure on behalf of the Commission that the structure and pricing of the transition bonds results in the lowest transition bond charges consistent with market conditions and this Financing Order.

7. SECURITY FOR TRANSITION BONDS

65. The payment of the transition bonds and related charges authorized by this Financing Order is to be secured by the transition property created by this

Financing Order and by certain other collateral as described in the application. The transition bonds will be issued pursuant to the indenture administered by the indenture trustee. The indenture will include provisions for a collection account for each series and subaccounts for the collection and administration of the transition charges and payment or funding of the principal and interest on the transition bonds and other costs, including fees and expenses, in connection with the transition bonds, as described in CenterPoint's application. Pursuant to the indenture, BondCo will establish a collection account as a trust account to be held by the indenture trustee as collateral to ensure the payment of the principal, interest, and other costs approved in this Financing Order related to the transition bonds in full and on a timely basis. The collection account will include the general subaccount, the overcollateralization subaccount, the capital subaccount, and the reserve subaccount, and may include other subaccounts.

A. THE GENERAL SUBACCOUNT

66. The indenture trustee will deposit the transition charge remittances that the servicer remits to the indenture trustee for the account of BondCo into one or more segregated trust accounts and allocate the amount of those remittances to the general subaccount. The indenture trustee will on a periodic basis apply moneys in this subaccount to pay expenses of BondCo, to pay principal and interest on the transition bonds, and to meet the funding requirements of the other subaccounts. The funds in the general subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including, to the extent necessary, investment earnings) will be applied by the indenture trustee to pay principal and interest on the transition bonds and all other components of the Periodic Payment Requirement (as defined in Finding of Fact No 94), and otherwise in accordance with the terms of the indenture.

B. THE OVERCOLLATERALIZATION SUBACCOUNT

67. The overcollateralization subaccount will be periodically funded from transition charge remittances over the life of the transition bonds. The aggregate amount

and timing of the actual funding will depend on tax and rating-agency requirements, and is expected to be not less than 0.5% of the original principal amount of the transition bonds and by the day before each scheduled payment date will be not less than 10% of the scheduled payment of principal and interest on the transition bonds. This subaccount will serve as collateral to ensure timely payment of principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. To the extent that the overcollateralization subaccount must be drawn upon to pay any of these amounts due to a shortfall in the transition charge remittances, it will be replenished through future transition charge remittances to its required level through the true-up process. The funds in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including investment earnings) will be used by the indenture trustee to pay principal and interest on the transition bonds and all other components of the Periodic Payment Requirement.

C. THE CAPITAL SUBACCOUNT

68. When a series of transition bonds is issued, CenterPoint will make a capital contribution to BondCo for that series, which BondCo will deposit into the capital subaccount. The amount of the capital contribution is expected to be not less than 0.5% of the original principal amount of each series of transition bonds, although the actual amount will depend on tax and rating agency requirements. The capital subaccount will serve as collateral to ensure timely payment of principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. Any funds drawn from the capital account to pay these amounts due to a shortfall in the transition charge remittances will be replenished through future transition charge remittances. The funds in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including investment earnings) will be used by the indenture trustee to pay principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. Upon payment of the principal amount of all transition bonds and the discharge of all obligations that may be paid by use of

transition charges, all amounts in the capital subaccount, including any investment earnings, will be released to BondCo for payment to CenterPoint. Investment earnings in this subaccount may be released earlier in accordance with the indenture.

69. The capital contribution to BondCo should be funded by CenterPoint. To ensure that ratepayers receive the appropriate benefit from the securitization approved in this Financing Order, the proceeds from the sale of the transition bonds that are used to retire or refund CenterPoint's debt and equity securities should not be offset by the amount of this capital contribution. Because CenterPoint funds the capital subaccount, CenterPoint should receive the investment earnings earned through the indenture trustee's investment of that capital and return of that capital after all transition bonds have been paid.

D. THE RESERVE SUBACCOUNT

70. The reserve subaccount will hold any transition charge remittances and investment earnings on the collection account (other than earnings attributable to the capital subaccount and released under the terms of the indenture) in excess of the amounts needed to pay current principal and interest on the transition bonds and to pay other Periodic Payment Requirements (including, but not limited to, funding or replenishing the overcollateralization subaccount and the capital subaccount). Any balance in or allocated to the reserve subaccount on a true-up adjustment date will be subtracted from the Periodic Payment Requirements for purposes of the true-up adjustment. The money in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such money (including investment earnings thereon) will be used by the indenture trustee to pay principal and interest on the transition bonds and other Periodic Payment Requirements.

E. THE CLASS SUBACCOUNT

71. A class subaccount will be established for each floating-rate class of transition bonds upon issuance. On the business day preceding each payment date, the

trustee will allocate to the class subaccount from the general subaccount an amount equal to the gross fixed amount for the floating rate class on that payment date. On that day, any net swap payment will be paid to the related swap counterparty from the class subaccount, or any net swap receipt from the related swap counterparty will be deposited into the class subaccount. On the related payment date, amounts in the class subaccount will be paid as interest to the holders of the floating-rate transition bonds. In the event of a shortfall of funds in the class subaccount to make a net swap payment due the related swap counterparty and to pay interest on the floating-rate transition bonds, those amounts will be paid on a pro rata basis based on the relative amounts due in respect of the swap and the interest on that class. Any balance remaining in the class subaccount after payments have been made to the holders of the floating-rate transition bonds on a payment date will be transferred to the collection account for allocation on the next payment date.

8. GENERAL PROVISIONS

72. The collection account and the subaccounts described above are intended to provide for full and timely payment of scheduled principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. If the amount of transition charges remitted to the general subaccount is insufficient to make all scheduled payments of principal and interest on the transition bonds and to make payment on all of the other components of the Periodic Payment Requirement, the reserve subaccount, the overcollateralization subaccount, and the capital subaccount will be drawn down, in that order, to make those payments. Any deficiency in the overcollateralization subaccount or the capital subaccount due to such withdrawals must be replenished first to the capital subaccount and then to the overcollateralization subaccount on a periodic basis through the true-up process. In addition to the foregoing, there may be such additional accounts and subaccounts as are necessary to segregate amounts received from various sources (i.e., amounts received from REPs), or to be used for specified purposes. Such accounts will be administered and utilized as set

forth in the servicing agreement and the indenture. Upon the maturity of the transition bonds and the discharge of all obligations in respect thereof, remaining amounts in the collection account, other than amounts that were in the capital subaccount, will be released to BondCo and equivalent amounts will be credited by CenterPoint to customers consistent with PURA Section 39.262(g).

73. The use of a collection account and its subaccounts in the manner proposed by CenterPoint is reasonable, will lower risks associated with the securitization and thus lower the costs to ratepayers, and should, therefore, be approved.

9. TRANSITION CHARGES--IMPOSITION AND COLLECTION, NONBYPASSABILITY, AND SELF-GENERATION

74. CenterPoint seeks authorization to impose on and collect from REPs transition charges in an amount sufficient to provide for the timely recovery of its qualified costs approved in this Financing Order (including payment of principal and interest on the transition bonds and ongoing costs related to the transition bonds).
75. Transition charges will be separately identified on bills presented to REPs.
76. If a REP does not pay the full amount it has been billed, the amount paid by the REP will first be proportioned 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 attributed to late fees. This allocation will facilitate a proper balance between the competing claims to this source of revenue in an equitable manner.
77. The transition bonds have an expected final maturity of not longer than 14 years. However, amounts may still need to be recovered after the expiration of the 14-year period. CenterPoint proposed that the transition charges related to a series of transition bonds will be recovered over a period of not more than 15 years from the date of issuance of that series of the transition bonds but that amounts due at or before the end of that period for services rendered during the 15-year period may be collected after the conclusion of the 15-year period.

78. PURA Section 39.303(b) prohibits the recovery of transition charges for a period of time that exceeds 15 years. Transition charges related to a series of transition bonds may not be collected after 15 years from the date of issuance of that series of bonds. This restriction does not, however, prevent the recovery of amounts due at the end of such 15-year period for services rendered during such 15-year period.
79. CenterPoint will collect transition charges from REPs serving all existing and future retail consumers located within HL&P's service area as it existed on May 1, 1999, except as provided in Finding of Fact No. 80. In accordance with PURA Section 39.252(c), a retail consumer within such area may not avoid transition charges by switching to another electric utility, electric cooperative or municipally-owned utility after May 1, 1999. However, a consumer in a multiply-certificated service area that requested to switch providers on or before May 1, 1999, or was not taking service from HL&P on May 1, 1999, and does not do so after that date, will not be responsible for paying transition charges.
80. Except as provided by PURA Sections 39.262(k) and 39.252, as implemented by Substantive Rule 25.345, a retail consumer may not avoid the payment of transition charges by switching to new on-site generation. Pursuant to PURA Section 39.252(b)(2), if a consumer commences taking energy from new on-site generation that materially reduces the consumer's use of energy delivered through CenterPoint's facilities, the consumer will pay an amount each month computed by multiplying the output of the on-site generation utilized to meet the internal electrical requirements of the consumer by the applicable transition charges in effect for that month. Any reduction equivalent to more than 12.5% of the consumer's annual average use of energy delivered through CenterPoint's facilities will be considered material for this purpose. Payments of the transition charges owed by such consumers under PURA Section 39.252(b)(2) will be made to the servicer and will be collected in addition to any other charges applicable to services provided to the consumer through CenterPoint's facilities and any other competition transition charges applicable to self-generation under PURA Section 39.252.

81. CenterPoint's proposal related to imposition and collection of transition charges is reasonable and is necessary to ensure collection of transition charges sufficient to support recovery of the qualified costs approved in this Financing Order and should be approved. It is reasonable to approve the form of CenterPoint's Schedule TC2 in this Financing Order and require that a tariff be filed before any transition bonds are issued pursuant to this Financing Order.
10. ALLOCATION OF QUALIFIED COSTS AMONG TEXAS RETAIL CONSUMERS
82. CenterPoint proposed to allocate the qualified costs to 15 transition charge classes. The transition charge classes contain the same billing classes and sub-classes that are charged under the existing Schedule TC approved by the Commission in Docket No. 21665, except that the two MGS distribution voltage sub-classes have been combined and that combined sub-class is billed on a per kWh basis.
83. CenterPoint proposed that a single allocation percentage be developed for each transition charge class and that such percentage and the procedures for adjusting such percentage be set forth in Schedule TC2. The proposed single allocation percentage, referred to as the periodic billing requirement allocation factor ("PBR AF"), will be developed as a weighted average of separate allocation percentages for several different categories of qualified costs based on a Periodic Billing Requirement as defined in Finding of Fact No. 94.
84. On January 14, 2005, parties filed a final Allocation Settlement Agreement that addressed the allocation of costs to be recovered through securitization and through a CTC. The agreement sets forth different allocation methods depending on whether the Commission approves a settlement fixing the amount to be securitized at greater than \$1.75 billion, approves a settlement fixing the amount to be securitized at less than \$1.75 billion, or does not approve a settlement establishing an overall amount of securitization.
85. The parties have not reached a settlement establishing an overall amount of securitization. Under these circumstances, the Allocation Settlement Agreement

allocates the amount to be securitized on the environmental allocator (as prescribed in PURA Section 39.253 and P.U.C. SUBSTANTIVE RULE 25.345(h)(3)(A)) and the stranded costs allocator approved in Docket No. 28252 in the same proportion as environmental and other stranded costs amounts as is found in Schedule I of the Order on Rehearing in Docket No. 29526.

86. The Allocation Settlement Agreement is reasonable, in the public interest and produces an allocation in compliance with PURA The Agreement is attached to this Financing Order as Appendix D.
87. Schedule TC2, as modified by the Stipulation Regarding Industrial Intra-Class Allocations, contains a series of formulas to adjust the class allocation factors if load losses within a given class or group of classes exceed specified thresholds or if there are additional load losses attributable to eligible generation as defined in Substantive Rule 25.345(c)(2). Schedule TC2 also contains procedures for adjusting the allocation percentages if stranded costs exceed \$5 billion on a statewide basis.
88. Texas-New Mexico Power ("TNP"), a previous wholesale customer of CenterPoint, exited CenterPoint's system in 2001 before the start of retail competition. CenterPoint proposes to allocate portions of the following qualified costs to TNP: CenterPoint's portion of statewide stranded costs (as defined in PURA Section 39.253) in excess of \$5 billion (if any), regulatory assets, deferred debits, the remainder of net book value of generation assets, market value of generation assets, interest, final fuel balance, and the capacity auction true-up balance. These qualified costs are directly applicable to TNP or allocable to TNP based on the time period in which TNP was CenterPoint's customer and the allocation to TNP proposed by CenterPoint should be approved.
89. The methodology for allocating qualified costs and developing the initial PBRAFs as described above is reasonable and appropriate and should be approved. That methodology will not be changed except in the limited circumstance where total retail stranded costs on a statewide basis exceed \$5 billion as described in Part D of Section 6 of Schedule TC2.

90. The initial PBRAF for each transition charge class shall be calculated as set forth in the Allocation Settlement Agreement.
91. New consumers will be assigned to the transition charge classes listed in Schedule TC2, as amended, based on the definitions and procedures described in Schedule TC2, as amended.
92. The initial PBRAFs will remain in effect throughout the life of the transition bonds unless a modification is made pursuant to the allocation factor adjustment provisions in Section 6 of Schedule TC2 as amended. PBRAF adjustments should occur at the same time as adjustments to the allocation factors under Schedule TC.
93. The method of calculating and adjusting PBRAFs as set forth in the Allocation Settlement Agreement and the Stipulation Regarding Intra-Class Allocations and approved in this Financing Order comply with the requirements of PURA Section 39.253 and should be approved.

11. TRUE-UP OF TRANSITION CHARGES

94. Pursuant to PURA Section 39.307, the servicer of the transition bonds will make annual adjustments to the transition charges to:

(a) correct any undercollections or overcollections, including without limitation any caused by REP defaults, during the preceding 12 months; and

(b) ensure the billing of transition charges necessary to generate the collection of amounts sufficient to timely provide all scheduled payments of principal and interest (or deposits to sinking funds in respect of principal and interest) and any other amounts due in connection with the transition bonds (including ongoing fees and expenses and amounts required to be deposited in or allocated to any collection account or subaccount, trustee indemnities, payments due in connection with swap agreements and any expenses incurred by the indenture trustee or the servicer to enforce bondholder rights and all other payments that may be required pursuant to the waterfall of payments described in the application) during the period for which such adjusted transition charges are to be in effect.

Such amounts are referred to as the "Periodic Payment Requirement" and the amounts necessary to be billed to collect such Periodic Payment Requirement are referred to as the "Periodic Billing Requirement." With respect to any series of transition bonds, the servicer will make true-up adjustment filings with the Commission at least annually, within 45 days of the anniversary of the date of the original issuance of the transition bonds of that series.

95. True-up filings will be based upon the cumulative differences, regardless of the reason, between the Periodic Payment Requirement (including scheduled principal and interest payments on the transition bonds) and the amount of transition charge remittances to the indenture trustee. True-up procedures are necessary to ensure full recovery of amounts sufficient to meet the Periodic Payment Requirements over the expected life of the transition bonds. In order to assure adequate transition charge revenues to fund the Periodic Payment Requirement and to avoid large overcollections and undercollections over time, the servicer will reconcile the transition charges using CenterPoint's most recent forecast of electricity deliveries (i.e., forecasted billing units) and estimates of transaction-related expenses. The calculation of the transition charges will also reflect both a projection of uncollectible transition charges and a projection of payment lags between the billing and collection of transition charges based upon CenterPoint's and the REPs' most recent experience regarding collection of transition charges.
96. The servicer will make reconciliation adjustments in the manner described in Section 8 of Schedule TC2. For the residential consumer class it will:
 - (a) allocate the upcoming period's Periodic Billing Requirement, including any undercollection or overcollection, including, without limitation, any caused by REP defaults, from the preceding period, based on the PBRAFs determined in accordance with Schedule TC2 approved in this Financing Order; and
 - (b) divide the amount assigned to the residential consumer class in step (a) above by the appropriate forecasted billing units to determine the transition charge rate by class for the upcoming period.

97. For each of the Commercial and Industrial TC Groups as defined in Schedule TC2, an adjustment factor will be computed by dividing the sum of the existing rates times the forecasted billing determinants for each class in the group by the amount assigned to the group in step (a) above. For each class in a group, the transition charge for the upcoming period will be the product of the existing transition charge times the adjustment factor for the group in which that class resides.
12. INTERIM TRUE-UP
98. In addition to these annual true-up adjustments, true-up adjustments may be made by the servicer more frequently at any time during the term of the transition bonds to correct any undercollection or overcollection, as provided for in this Financing Order, in order to assure timely payment of transition bonds based on rating agency and bondholder considerations. In addition to the foregoing, either of the following two conditions may result in an interim true-up adjustment in the month prior to an upcoming transition bond principal payment date:
- (a) the servicer determines that 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 reserve subaccount and (ii) the outstanding principal balances anticipated in the target amortization schedule; or
- (b) to meet a rating agency requirement that any series of transition bonds be paid in full by the expected maturity date for any series of transition bonds that matures after a date determined mutually, at the time of pricing by CenterPoint and the Commission's designated personnel or financial advisor.
99. In the event an interim true-up is necessary, the interim true-up 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 true-up 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 true-up adjustments for any transition bonds remaining outstanding during the fourteenth and fifteenth year after the bonds are issued may occur quarterly.

13. ADJUSTMENT TO PBRAFS

100. Schedule TC2, as modified by the Stipulation Regarding Industrial Intra-Class Allocations, contains detailed procedures for adjustment of PBRAFs to reflect load losses a transition charge class or group of transition charge classes may suffer and certain changes that may be ordered by the Commission.

101. A proceeding for the purpose of approving an allocation factor adjustment should be conducted in the following manner:

(a) Any allocation factor adjustment will be made in conjunction with a standard, annual true up. Any such adjustment will be filed with the Commission at least 90 days before the date the proposed adjustment will become effective. The filing will contain the proposed changes to the transition charge rates, justification for such changes as necessary to specifically address the cause(s) of the adjustment and a statement of the proposed adjustment date.

(b) Concurrently with the filing with the Commission, the servicer will notify all parties to this docket of the filing of the proposed adjustment.

(c) The servicer will issue appropriate notice and the Commission will conduct a contested case proceeding on the allocation adjustment pursuant to PURA Section 39.003.

The scope of the proceeding will be limited to determining whether the proposed adjustment complies with this Financing Order. In any true-up proceeding that involves the adjustment of the PBRAFs, all parties in the proceeding shall have the right to challenge the reasonableness of the forecasts of billing determinants proposed as a basis for adjusting the PBRAFs. The Commission will issue a final order by the proposed adjustment date stated in the filing. In the event that the Commission cannot issue an order by that date, the servicer will be permitted to implement its proposed changes. Any modifications subsequently ordered by the Commission will be made by the servicer in the next true-up filing.

102. The Stipulation and amended schedule TC2 provides for an additional true-up provision and adjustment to PBRAFs for the Industrial TC group. Under the Stipulation, the first 10% of load loss within an Industrial TC class is borne by that class, with the excess of load loss over 10% allocated to the remaining Industrial TC classes.
 103. The Stipulation Regarding Industrial Intra-Class Allocation is reasonable, in the public interest, will have no effect on the allocation of costs to any non-industrial class, and protects consumers in industrial classes that experience precipitous load loss. The Stipulation is attached to this Financing Order as Appendix E.
 104. The allocation adjustment procedures contained in Schedule TC2, as amended, are necessary to avoid inequities, are reasonable, and should be adopted.
14. ADDITIONAL TRUE-UP PROVISIONS
105. The true-up adjustment filing will set forth the servicer's calculation of the true-up adjustment to the transition charges. Except for the allocation adjustment described in Findings of Fact Nos. 100 through 102, the Commission will have 15 days after the date of a true-up adjustment filing in which to confirm the mathematical accuracy of the servicer's adjustment. Except for the allocation adjustment described above, any true-up adjustment filed with the Commission should be effective on its proposed effective date, which shall be not less than 15 days after filing. Any necessary corrections to the true-up adjustment, due to mathematical errors in the calculation of such adjustment or otherwise, will be made in future true-up adjustment filings.
 106. The true-up procedures contained in Schedule TC2, as modified by the Stipulation Regarding Industrial Intra-Class Allocations, are reasonable and will reduce risks related to the transition bonds, resulting in lower transition bond charges and greater benefits to ratepayers and should be approved.
 107. The broad-based nature of the true-up mechanism and the pledge of the State of Texas embodied in PURA Section 39.310, along with the bankruptcy remoteness of the special purpose entity and the collection account, will serve to effectively

eliminate for all practical purposes and circumstances any credit risk associated with the transition bonds (i.e., that sufficient funds will be available and paid to discharge all principal and interest obligations when due).

15. DESIGNATED REPRESENTATIVE OR FINANCIAL ADVISOR

108. In order to ensure, as required by PURA Section 39.301, that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order, the Commission finds that it is necessary for the Commission, acting through its designated representative or financial advisor, to have a decision-making role co-equal with CenterPoint with respect to the structuring and pricing of the transition bonds and that all matters relating to the structuring and pricing of the transition bonds shall be determined through a joint decision of CenterPoint and the Commission's designated representative or financial advisor. The primary responsibilities of the Commission's designated representative or financial advisor are to ensure that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order.
109. To properly advise the Commission, any financial advisor to the Commission must not participate in the underwriting of the transition bonds and its fee should not be based upon a percentage of the transition bond issuance. Its role should be limited to advising the Commission or acting on behalf of the Commission regarding the structuring, marketing, and pricing of the transition bonds. The Commission's designated representative or financial advisor must, however, have an integral role in the structuring, marketing, and pricing of the transition bonds in order to provide competent advice to the Commission. This requires the Commission's designated representative or financial advisor to participate fully and in advance in all plans and decisions related to the structuring, marketing, and pricing of the transition bonds and that it be provided timely information as necessary to fulfill its obligation to advise the Commission in a timely manner (including, but not limited to, information prepared for the benefit of rating agencies and information prepared for use in marketing the transition bonds to

investors). The financial advisor's fee and fees of any attorneys or other professionals hired to assist the financial advisor or the Commission are determined pursuant to the Commission's contract with the financial advisor or other professionals and will be included in the up-front qualified costs that may be securitized.

110. The Commission's financial advisor or designated representative shall require a certificate from the bookrunning underwriter(s) confirming that the structuring, marketing, and pricing of the transition bonds resulted in the lowest transition bond charges consistent with market conditions and the terms of this financing order.

111. CenterPoint submitted draft transaction documents with its application, specifically forms of the Administration Agreement, the Indenture Agreement, the LLC Agreement, S-3 Registration Statement, Servicing Agreement, Transition Property Sale Agreement, and Term Sheet (attachments 2A, 2C, 2D, 2E, 2F, 2G, and Attachment 3, respectively). These draft documents have not been reviewed or approved by the Commission. The Commission's financial advisor or designated representative shall review and comment on these documents before they are finalized.

16. LOWEST TRANSITION BOND CHARGES

112. CenterPoint has proposed a transaction structure that is expected to include (but is not limited to):

(a) the use of BondCo as issuer of the transition bonds, limiting the risks to transition bond holders of any adverse impact resulting from a bankruptcy proceeding of its parent or any affiliate;

(b) the right to impose and collect transition charges that are nonbypassable and which must be trued-up at least annually, but may be trued-up more frequently under certain circumstances, in order to assure the timely payment of the debt service and other ongoing transaction costs;

(c) additional collateral in the form of a collection account which includes a capital subaccount funded in cash in an amount equal to not less than 0.5% of the original principal amount of the transition bonds and an overcollateralization subaccount in which funds build up over time to equal not less than an additional 0.5% of the original principal amount of the transition bonds and, as of the day before any scheduled payment date, amounts on deposit in such account will equal at least 10% of the next scheduled payment of principal and interest on the transition bonds, and other subaccounts resulting in greater certainty of payment of interest and principal to investors and that are consistent with the Internal Revenue Service ("IRS") requirements that must be met to receive the desired federal income tax treatment for the transition bond transaction;

(d) protection of transition bondholders against potential defaults by a servicer or REPs that are responsible for billing and collecting the transition charges from existing or future retail consumers;

(e) benefits for federal income tax purposes including: (i) the transfer of the rights under this Financing Order to BondCo not resulting in gross income to CenterPoint Energy and the future revenues under the transition charges being included in CenterPoint Energy's gross income under its normal method of accounting, (ii) the issuance of the transition bonds and the transfer of the proceeds of the transition bonds to CenterPoint not resulting in gross income to CenterPoint Energy and (iii) the transition bonds constituting obligations of CenterPoint Energy;

(f) the transition bonds will be marketed using proven underwriting and marketing processes, through which market conditions and investors' preferences, with regard to the timing of the issuance, the terms and conditions, related maturities, type of interest (fixed or variable) and other aspects of the structuring and pricing will be determined, evaluated and factored into the structuring and pricing of the transition bonds;

(g) participation by the Commission, acting through its designated representative or financial advisor, on an equal basis with CenterPoint in

determining the structuring, marketing, and pricing of the transition bonds, which will help to ensure that benefits to ratepayers as the result of securitization are realized; and

(h) hedging and swap agreements used to mitigate the risk of future rate increases if CenterPoint and the Commission's designated representative or financial advisor jointly determine that it is prudent to enter into these types of agreements.

113. CenterPoint's proposed transaction structure is necessary to enable the transition bonds to obtain the highest possible bond credit rating, ensures that the structuring and pricing of the transition bonds will result in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order, ensures the greatest benefit to ratepayers consistent with market conditions and the terms of this Financing Order, and protects the competitiveness of the retail electric market.
114. To ensure that ratepayers receive the tangible and quantifiable economic benefits due from the proposed securitization and so that the proposed transition bond transaction will be consistent with the standards set forth in PURA Sections 39.301 and 39.303, it is necessary that (i) the effective annual weighted average interest rate of the transition bonds, excluding up-front qualified and ongoing qualified costs, does not exceed 9.0%, (ii) the expected final maturity of the last class of transition bonds does not exceed 14 years (although the legal final maturity of the transition bonds may extend to 15 years), (iii) the level payment pattern of the transition bonds is structured to produce level rates over the term of the bonds, and (iv) CenterPoint otherwise satisfies the requirements of this Financing Order.
115. To allow the Commission to fulfill its obligations under PURA related to the securitization approved in this Financing Order, it is necessary for CenterPoint, for each series of transition bonds issued, to certify to the Commission that the structure and pricing of that series results in the lowest transition bond charges consistent with market conditions at the time that the transition bonds are priced and the terms (including the specified amortization pattern) of this Financing

Order and, if additional credit enhancements or arrangements to enhance marketability or reduce interest rate risks were used, to certify that they are expected to provide benefits in excess of their cost as required by Finding of Fact No. 46 of this Financing Order.

D. USE OF PROCEEDS

116. Upon the issuance of transition bonds, BondCo will use the net proceeds from the sale of the transition bonds (after payment of transaction costs) to pay to CenterPoint the purchase price of the transition property.
117. The net proceeds from the sale of the transition property (after payment of transaction costs) will be applied to reduce the debt and/or common equity on the regulatory books of CenterPoint. CenterPoint agreed not to use the net proceeds to repay the \$303 million intracompany payable owed by CenterPoint Houston to CenterPoint Energy, Inc.
118. Through the steps described in Findings of Fact Nos. 116 and 117, the net proceeds from the sale of transition bonds will be used solely to retire existing debt and/or common equity of CenterPoint and will result in a reduction in CenterPoint's recoverable transition costs as determined in Docket No. 29526.

IV. CONCLUSIONS OF LAW

1. CenterPoint is a public utility, as defined in PURA Section 11.004, and an electric utility, as defined in PURA Section 31.002(6).
2. CenterPoint is entitled to file an application for a financing order under PURA Section 39.301.
3. The Commission has jurisdiction and authority over CenterPoint's application pursuant to PURA Sections 14.001, 32.001, 39.201 and 39.301-.313.
4. The Commission has authority to approve this Financing Order under Subchapters E, F and G of Chapter 39 of PURA.

5. Notice of CenterPoint's application was provided in compliance with the Administrative Procedure Act(40) and Procedural Rules 22.54 and 22.55.
6. This application does not constitute a major rate proceeding as defined by P.U.C. Procedural Rule 22.2.
7. Only the retail portion of regulatory assets may be recovered through a transition charge assessed against retail consumers.
8. BondCo will be an assignee as defined in PURA Section 39.302(1) when an interest in transition property is transferred, other than as security, to BondCo.
9. The holders of the transition bonds and the indenture trustee will each be a financing party as defined in PURA Section 39.302(3).
10. BondCo may issue transition bonds in accordance with this Financing Order.
11. The securitization approved in this Financing Order satisfies the requirement of PURA Section 39.301 dictating that the proceeds of the transition bonds shall be used solely for the purposes of reducing the amount of recoverable regulatory assets and stranded costs through the refinancing or retirement of utility debt and/or equity.
12. The securitization approved in this Financing Order satisfies the requirement of PURA Section 39.301 mandating that the securitization provides tangible and quantifiable benefits to ratepayers greater than would have been achieved absent the issuance of transition bonds. Consistent with fundamental financial principles, this requirement in PURA Section 39.301 can only be determined using an economic analysis to account for the time value of money. An analysis that compares in the aggregate over a 14-year period the present value of the revenue requirement associated with use of a competition transition charge (which is the alternative recovery method permitted under PURA to recover stranded costs and regulatory assets and reflects conventional utility financing) with the present value of the revenue required under securitization is an appropriate economic

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(40) TEX. GOV'T CODE ANN. Sections 2001.001-901 (Vernon 2000).

analysis to demonstrate whether securitization provides economic benefits to ratepayers.

13. BondCo's issuance of the transition bonds approved in this Financing Order in compliance with the criteria established by this Financing Order satisfies the requirement of PURA Section 39.301 prescribing that the structuring and pricing of the transition bonds will result in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order.
14. The amount approved in this Financing Order for securitization does not exceed the present value of the revenue requirement over the life of the transition bonds approved in this Financing Order that are associated with the costs sought to be securitized, as required by PURA Section 39.301.
15. The securitization approved in this Financing Order satisfies the requirements of PURA Section 39.303(a) directing that the total amount of revenues to be collected under this Financing Order be less than the revenue requirement that would be recovered using conventional financing methods (which, in the case of the balance at issue in this proceeding, is a competition transition charge) and that this Financing Order be consistent with the standards of PURA Section 39.301.
16. The stranded costs balance as determined in Docket No. 29526 accrues interest from August 31, 2004 through the date of issuance of the transition bonds. CenterPoint may securitize interest accrued during this period.
17. CenterPoint may securitize the principal portion of EMCs that it pays through the earlier of the date the EMCs are terminated or the transition bonds are issued.
18. This Financing Order adequately details the amount to be recovered and the period over which CenterPoint will be permitted to recover nonbypassable transition charges in accordance with the requirements of PURA Section 39.303(b). Transition charges related to a series of transition bonds may not be collected after 15 years from the date of issuance of that series of bonds. This provision does not preclude the servicer from recovering transition charges attributable to

service rendered during the 15-year period but remaining unpaid at the end of the 15-year period.

19. The method approved in this Financing Order for collecting and allocating the transition charges satisfies the requirements of PURA Sections 39.303(c) and 39.253.
20. As provided in PURA Section 39.303(d), this Financing Order, together with the transition charges authorized by this Financing Order, is irrevocable and not subject to reduction, impairment, or adjustment by further act of the Commission, except for the true-up procedures approved in this Financing Order, as required by PURA Section 39.307; provided, however, that such irrevocability shall not preclude the Commission from extending the deadline for issuance of transition bonds if requested to do so by CenterPoint.
21. As provided in PURA Section 39.304(a), the rights and interests of CenterPoint or its successor under this Financing Order, including the right to impose, collect and receive the transition charges authorized in this Financing Order, are assignable and shall become transition property when they are first transferred to BondCo.
22. The rights, interests and property conveyed to BondCo in the Sale Agreement and the related Bill of Sale, including the irrevocable right to impose, collect and receive transition charges and the revenues and collections from transition charges are "transition property" within the meaning of PURA Sections 39.302(8) and 39.304.
23. Transition property will constitute a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of the transition charges depend on further acts by CenterPoint or others that have not yet occurred, as provided by PURA Section 39.304(b).
24. All revenues and collections resulting from the transition charges will constitute proceeds only of the transition property arising from this Financing Order, as provided by PURA Section 39.304(c).
25. Upon the transfer by CenterPoint of the transition property to BondCo, BondCo will have all of the rights, title and interest of CenterPoint with respect to such

transition property including the right to impose, collect and receive the transition charges authorized by the Financing Order.

26. The transition bonds issued pursuant to this Financing Order will be "transition bonds" within the meaning of PURA Section 39.302(6) and the transition bonds and holders thereof are entitled to all of the protections provided under Subchapter G of Chapter 39 of PURA.
27. The transition charges paid by the REPs to the servicer as transition charges pursuant to this Financing Order are "transition charges" as defined in PURA Section 39.302(7).
28. The amounts collected from retail consumers who purchase electricity from a REP are "transition charges" as defined in PURA Section 39.302(7), to the extent that such amounts are attributable to transition charges billed to the REPs by the servicer, whether such charges are set out as a separate line-item on the retail consumer's bill or not.
29. Any payment of transition charges by a retail consumer to its REP or directly to the servicer will discharge the retail consumer's obligations in respect of that payment, but will not discharge the obligations of any REP to remit such payments to the servicer of the transition bonds on behalf of BondCo or an assignee or its obligations to pay amounts determined through subsequent true-up adjustments.
30. As provided in PURA Section 39.305, the interests of an assignee, the holders of transition bonds, and the indenture trustee in transition property and in the revenues and collections arising from that property are not subject to setoff, counterclaim, surcharge, or defense by CenterPoint or any other person or in connection with the bankruptcy of CenterPoint or any other entity.
31. The methodology approved in this Financing Order to true-up the transition charges satisfies the requirements of PURA Section 39.307.
32. If and when CenterPoint transfers to BondCo the right to impose, collect, and receive the transition charges and to issue the transition bonds, the servicer will be

able to recover the transition charges associated with such transition property only for the benefit of BondCo and the holders of the transition bonds in accordance with the servicing agreement.

33. If and when CenterPoint transfers its rights under this Financing Order to BondCo under an agreement that expressly states that the transfer is a sale or other absolute transfer in accordance with the true-sale provisions of PURA Section 39.308, then, pursuant to that statutory provision, that transfer will be a true sale of an interest in transition property and not a secured transaction or other financing arrangement and title, legal and equitable, to the transition property will pass to BondCo. As provided by PURA Section 39.308, this true sale shall apply regardless of whether the purchaser has any recourse against the seller, or any other term of the parties' agreement, including the seller's retention of an equity interest in the transition property, CenterPoint's role as the collector of transition charges relating to the transition property, or the treatment of the transfer as a financing for tax, financial reporting, or other purposes.
34. As provided in PURA Section 39.309(b), a valid and enforceable lien and security interest in the transition property in favor of the holders of the transition bonds or a trustee on their behalf will be created by this Financing Order and the execution and delivery of a security agreement with the holders of the transition bonds or a trustee on their behalf in connection with the issuance of the transition bonds. The lien and security interest will attach automatically from the time that value is received for the transition bonds and, on perfection through the filing of notice with the Secretary of State in accordance with the rules prescribed by the Secretary of State under PURA Section 39.309(d), will be a continuously perfected lien and security interest in the transition property and all proceeds of the transition property, whether accrued or not, will have priority in the order of filing and will take precedence over any subsequent judicial or other lien creditor.
35. As provided in PURA Section 39.309(c), the transfer of an interest in transition property to an assignee will be perfected against all third parties, including subsequent judicial or other lien creditors, when this Financing Order becomes effective,

transfer documents have been delivered to that assignee, and a notice of that transfer has been filed in accordance with the rules prescribed by the Secretary of State under PURA Section 39.309(d); provided, however, that if notice of the transfer has not been filed in accordance with this process within 10 days after the delivery of transfer documentation, the transfer of the interest will not be perfected against third parties until the notice is filed. The transfer to BondCo of CenterPoint's rights under this Financing Order will be a transfer of an interest in transition property for purposes of PURA Section 39.309(c).

36. As provided in PURA Section 39.309(e), the priority of a lien and security interest perfected in accordance with PURA Section 39.309 will not be impaired by any later change in the transition charges pursuant to PURA Section 39.307 or by the commingling of funds arising from transition charges with other funds, and any other security interest that may apply to those funds will be terminated when they are transferred to a segregated account for an assignee or a financing party. To the extent that transition charges are not collected separately from other funds owed by REPs, the amounts to be remitted to such segregated account for an assignee or a financing party may be determined according to system-wide charge off percentages, collection curves or such other reasonable methods of estimation, as are set forth in the servicing agreement.
37. As provided in PURA Section 39.309(e), if transition property is transferred to an assignee, any proceeds of the transition property will be treated as held in trust for the assignee.
38. As provided in PURA Section 39.309(f), if a default or termination occurs under the transition bonds, the financing parties or their representatives may foreclose on or otherwise enforce their lien and security interest in any transition property as if they were secured parties under Chapter 9, Texas Business and Commerce Code, and, upon application by or on behalf of the financing parties, the Commission may order that amounts arising from the transition charges be transferred to a separate account for the financing parties' benefit, to which their lien and security interest may apply.

39. As provided in PURA Section 39.309(f), if a default or termination occurs under the transition bonds, on application by or on behalf of the financing parties, a district court of Travis County, Texas shall order the sequestration and payment to those parties of revenues arising from the transition charges.
40. As provided by PURA Section 39.310, the transition bonds authorized by this Financing Order are not a debt or obligation of the State of Texas and are not a charge on its full faith and credit or taxing power.
41. Pursuant to PURA Section 39.310, the State of Texas has pledged for the benefit and protection of all financing parties and CenterPoint, that it will not take or permit any action that would impair the value of transition property, or, except as permitted by PURA Section 39.307, reduce, alter or impair the transition charges to be imposed, collected, and remitted to any financing parties, 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. BondCo, in issuing transition bonds, is authorized pursuant to PURA Section 39.310 and this Financing Order to include this pledge in any documentation relating to the transition bonds.
42. As provided in PURA Section 39.311, transactions involving the transfer and ownership of the 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.
43. This Financing Order will remain in full force and effect and unabated notwithstanding the bankruptcy of CenterPoint, its successors, or assignees.
44. CenterPoint retains sole discretion regarding whether or when to assign, sell or otherwise transfer the rights and interests created by this Financing Order or any interest therein, or, subject to the approval of the Commission acting through its designated representative or financial advisor, to cause the issuance of any transition bonds authorized by this Financing Order.

45. This Financing Order is final, is not subject to rehearing by this Commission, and is not subject to review or appeal except as expressly provided in PURA Section 39.303(f). The finality of this Financing Order is not impaired in any manner by the participation of the Commission through its designated representative or financial advisor in any decisions related to issuance of the transition bonds or by the Commission's review of or issuance of an order related to the issuance advice letter required to be filed with the Commission by this Financing Order.
46. This Financing Order meets the requirements for a financing order under Subchapter G of Chapter 39 of PURA.
47. The true-up mechanism and all other obligations of the State of Texas, and the Commission set forth in this Financing Order are direct, explicit, irrevocable and unconditional upon issuance of the transition bonds and are legally enforceable against the State of Texas and the Commission.

V. ORDERING PARAGRAPHS

Based upon the record, the Findings of Fact and Conclusions of Law set forth herein, and for the reasons stated above, this Commission orders:

A. APPROVAL

1. APPROVAL OF APPLICATION. The application of CenterPoint Energy Houston Electric, LLC for the issuance of a financing order under PURA Section 39.303, is approved, as provided in this Financing Order.
2. AUTHORITY TO SECURITIZE. CenterPoint is authorized to issue transition bonds with a principal amount equal to (1) the sum of stranded costs, interest on stranded costs accrued until August 31, 2004, EMCs paid up to August 31, 2004, and regulatory assets not already securitized as determined in Docket No. 29526 (\$1,493,747,264) plus (a) the amount of excess mitigation credits provided by CenterPoint after August 31, 2004 through the date of issuance of the transition bonds or the date of termination of EMCs, whichever is earlier, (b) interest on stranded costs accrued after August 31, 2004 through the date of issuance of the transition bonds and (c) up-front qualified costs subject to the caps set forth in

Appendix C, as adjusted as provided for in this Financing Order. If the actual up-front qualified costs are less than the up-front qualified costs included in the principal amount securitized, the periodic billing requirement for the first annual true-up adjustment shall be reduced by the amount of such unused funds (together with interest earned thereon through investment by the trustee in eligible investments) and such unused funds (together with interest earned thereon through investment by the trustee in eligible investments) shall be available for payment of debt service on the bond payment date next succeeding such true-up adjustment. If the final up-front qualified costs are more than the up-front qualified costs included in the principal amount securitized or exceed the aggregate cap on upfront costs as set out on Appendix C, adjusted as provided in this Financing Order, CenterPoint may request recovery of the remaining up-front qualified costs through a surcharge to CenterPoint Houston's rates for transmission and distribution service.

3. RECOVERY OF TRANSITION CHARGES. CenterPoint shall impose on, and the servicer shall collect from, REPs, as provided in this Financing Order, transition charges in an amount sufficient to provide for the timely recovery of its aggregate qualified costs detailed in this Financing Order (including payment of principal and interest on the transition bonds). REPs shall pay the transition charges billed to them whether or not they collect the transition charges from their retail consumers.
4. ISSUANCE ADVICE LETTER. CenterPoint shall submit a draft issuance advice letter to the Commission Staff for review not later than two weeks prior to the expected date of pricing the transition bonds. Within one week after receipt of the draft issuance advice letter, Commission Staff shall provide CenterPoint comments and recommendations regarding the adequacy of the information provided. Within 24 hours after pricing of the transition bonds and prior to issuance of the transition bonds, CenterPoint, in consultation with the Commission acting through its designated representative or financial advisor, shall file with the Commission an issuance advice letter in substantially the form of the issuance advice letter attached as Appendix A to this Financing Order. As part of the issuance advice

letter, an officer of CenterPoint shall provide a certification worded precisely as the statement in the form of issuance advice letter approved by the Commission. The issuance advice letter shall be completed and evidence the actual dollar amount of the initial transition charges and other information specific to the transition bonds to be issued, and shall certify to the Commission that the structure and pricing of that series results in the lowest transition bond charges consistent with market conditions at the time that the transition bonds are priced, and the terms set out in this Financing Order. In addition, if original issue discount, additional credit enhancements, or arrangements to reduce interest rate risks or enhance marketability are used, the issuance advice letter shall include certification that the original issue discount, additional credit enhancements, or other arrangements are reasonably expected to provide benefits as required by this Financing Order. All amounts which require computation shall be computed using the mathematical formulas contained in the form of the issuance advice letter in Appendix A to this Financing Order and Schedule TC2 approved in this Financing Order. Electronic spreadsheets with the formulas supporting the schedules contained in the issuance advice letter shall be included with such letter. The Commission's review of the issuance advice letter shall be limited to the arithmetic accuracy of the calculations and to compliance with PURA, this financing order, and the requirements that are contained in the issuance advice letter. The initial transition charges and the final terms of the transition bonds set forth in the issuance advice letter shall become effective on the date of issuance of the transition bonds (which shall not occur prior to the fifth business day after pricing) unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with PURA and the financing order.

5. APPROVAL OF TARIFF. The form of the Schedule TC2 tariff attached as Appendix B to this order is approved. Prior to the issuance of any transition bonds under this Financing Order, CenterPoint shall file a tariff that conforms to the form of the Schedule TC2 tariff attached to this Financing Order.

B. TRANSITION CHARGES

6. IMPOSITION AND COLLECTION. CenterPoint is authorized to impose on, and the servicer is authorized to collect from, REPs, as provided in this Financing Order, transition charges in an amount sufficient to provide for the timely recovery of the aggregate Periodic Payment Requirements (including payment of principal and interest on the transition bonds), as approved in this Financing Order. If there is a shortfall in payment of an amount billed, the amount paid shall first be proportioned between the transition charges and other fees and charges (including transition charges attributable to the transition bonds issued in October 2001 pursuant to the financing order in Docket 21665), other than late fees, and second, any remaining portion of the payment shall be attributed to late fees.
7. BONDCO'S RIGHTS AND REMEDIES. Upon the transfer by CenterPoint of the transition property to BondCo, BondCo shall have all of the rights, title and interest of CenterPoint with respect to such transition property, including, without limitation, the right to exercise any and all rights and remedies with respect thereto, including the right to authorize disconnection of electric service and to assess and collect any amounts payable by any retail consumer in respect of the transition property.
8. COLLECTOR OF TRANSITION CHARGES. CenterPoint or any subsequent servicer of the transition bonds shall bill a consumer's REP for the transition charges attributable to that consumer and the REP shall pay to the servicer of the transition bonds the amount billed for transition charges less the applicable charge-off allowance as provided in Findings of Fact No. 60(j) whether or not the REP has collected the transition charges from its customers.
9. COLLECTION PERIOD. The transition charges related to a series of transition bonds shall be designed to be collected over the expected 14-year life of the transition bonds. However, to the extent that any amounts are not recovered at the end of this 14-year period, CenterPoint may continue to recover them over a period ending not more than 15 years from the date of issuance of that series of transition bonds. Amounts remaining unpaid after this 15-year period may be recovered but

only to the extent that the charges are attributable to services rendered during the 15-year period.

10. ALLOCATION. The Allocation Settlement Agreement is reasonable, in the public interest, compliant with PURA, and is approved. CenterPoint shall allocate the transition charges among consumer classes in the manner described in this order and in the Allocation Settlement Agreement, attached as Appendix D to this Financing Order.
11. NONBYPASSABILITY. CenterPoint and any other entity providing electric transmission or distribution services and any REP providing services to any retail consumer within HL&P's certificated service area as it existed on May 1, 1999, are entitled to collect and must remit, consistent with this Financing Order, the transition charges from such retail consumers and, except as provided under PURA Sections 39.252(b) and 39.262(k), as implemented by Substantive Rule 25.345, from retail consumers that switch to new on-site generation, and such retail consumers are required to pay such transition charges. The Commission will ensure that such obligations are undertaken and performed by CenterPoint, any other entity providing electric transmission or distribution services within HL&P's certificated service area as of May 1, 1999 and any REP providing services to any retail consumer within such certificated service area.
12. TRUE-UPS. True-ups of the transition charges, including any required adjustments to PBRAFs, shall be undertaken and conducted as described in Schedule TC2, as amended by the Stipulation Regarding Industrial Intra-Class Allocations. The servicer shall file the adjustment in a compliance docket and shall give notice of the filing to all parties in this docket.
13. NON-STANDARD TRUE-UP: The Stipulation Regarding Industrial Intra-Class Allocations is reasonable, in the public interest, compliant with PURA, and is approved.
14. OWNERSHIP NOTIFICATION. Any entity that bills transition charges to retail consumers shall, at least annually, provide written notification to each retail consumer for which the entity bills transition charges that the transition charges

are the property of BondCo and not of the entity issuing such bill. In addition, the entity that bills transition charges to retail consumers shall include on its invoices a statement that all or part of the receivable reflected on the invoice has been or may be assigned.

C. TRANSITION BONDS

15. **ISSUANCE.** BondCo is authorized to issue transition bonds as specified in this Financing Order. The aggregate amount of other qualified costs described in Appendix C that may be recovered directly through the transition charges shall be limited as provided in Appendix C.
16. CenterPoint may not securitize greater than \$12,700,000 in upfront costs. This amount reflects a cap on CenterPoint's securitizable up-front qualified costs and a \$1 million cap on the Commission's financial advisor fee. The Commission will update the cap with respect to the SEC Filing Fee and Underwriter's Fee if these amounts deviate from those listed in Appendix C as a result of an increase in the size of the transition bond issuance. This cap on up-front qualified costs does not apply to costs associated with original issue discount, interest rate swaps, or other credit enhancements as discussed in Ordering Paragraph No. 22. These costs are not capped by this Financing Order.
17. CenterPoint may recover no more than \$1,055,500 in ongoing costs per year through its TC, as reflected in Appendix C. This amount is subject to updating if any component of the fee is greater than stated in Appendix C as a result of an increase in the size of the transition bond issuance. This cap on ongoing qualified costs does not apply to costs associated with original issue discount, interest rate swaps, or other credit enhancements as discussed in Ordering Paragraph No. 22. These costs are not capped by this Financing Order.
18. **REFINANCING.** CenterPoint or any assignee may apply for one or more new financing orders pursuant to PURA Section 39.303(g).
19. **COLLATERAL.** All transition property and other collateral shall be held and administered by the indenture trustee pursuant to the indenture as described in

CenterPoint's application. BondCo shall establish a collection account with the indenture trustee as described in the application and Findings of Fact Nos. 65-72. Upon payment of the principal amount of all transition bonds and the discharge of all obligations in respect thereof, all amounts in the collection account, other than amounts in the capital subaccount, including investment earnings therein, shall be released to by the indenture trustee to the servicer. CenterPoint shall notify the Commission within 30 days after the date that these funds are eligible to be released of the amount of such funds available for crediting to the benefit of ratepayers.

20. DISTRIBUTION FOLLOWING REPAYMENT. Following repayment of the transition bonds authorized in this Financing Order and release of the funds held by the trustee, the servicer, on behalf of BondCo, shall distribute to REPs and other entities responsible for collection of transition charges from retail ratepayers, the final balance of the overcollateralization, general, reserve, class and all other subaccounts (except the capital subaccount), whether such balance is attributable to principal amounts deposited in such subaccounts or to interest thereon, remaining after all other qualified costs have been paid. The amounts shall be distributed to each REP and other entity that paid Schedule TC2 transition charges during the last 12 months that the Schedule TC2 transition charges were in effect. The amount paid to each REP and the other entity shall be determined by multiplying the total amount available for distribution by a fraction, the numerator of which is the total Schedule TC2 transition charges paid by the REP and the other entity during the last 12 months Schedule TC2 charges were in effect and the denominator of which is the total Schedule TC2 transition charges paid by all REPs and other entities responsible for collection of transition charges from retail ratepayers during the last 12 months the Schedule TC2 transition charges were in effect.
21. FUNDING OF CAPITAL SUBACCOUNT. The capital contribution by CenterPoint to BondCo to be deposited into the capital subaccount shall, with respect to each series of transition bonds, be funded by CenterPoint and not from the proceeds of the sale of transition bonds. Upon payment of the principal amount of all

transition bonds and the discharge of all obligations in respect thereof, all amounts in the capital subaccount, including investment earnings, shall be released to BondCo. Investment earnings in this subaccount may be released earlier in accordance with the indenture.

22. ORIGINAL ISSUE DISCOUNT, CREDIT ENHANCEMENT AND SWAPS. CenterPoint may provide original issue discount or provide for various forms of credit enhancement including letters of credit, reserve accounts, and surety bonds, and other mechanisms designed to promote the credit quality or marketability of the transition bonds and may enter into swap, hedging or other arrangements to mitigate the risk of an increase in interest rates if floating rate bonds are issued. The decision to use such arrangements to enhance credits, promote marketability or reduce interest rate risks shall be made in conjunction with the Commission acting through its designated representative or financial advisor. CenterPoint may include the costs of original issue discount, credit enhancements, swaps or other arrangements to promote credit quality, marketability or mitigate interest rate risks as qualified costs only if CenterPoint certifies that such arrangements are reasonably expected to provide benefits greater than their cost and such certifications are agreed with by the Commission's designated representative or financial advisor. CenterPoint shall not be required to enter any arrangements to promote credit quality, marketability or mitigate interest rate risks unless all related costs and liabilities can be included in qualified costs. CenterPoint and the Commission's designated representative or financial advisor shall evaluate the relative benefits of the arrangements in the same way that benefits are quantified under the quantifiable benefits test. This Ordering Paragraph does not apply to the collection account or its subaccounts approved in this Financing Order.
23. ANNUAL WEIGHTED AVERAGE INTEREST RATE OF BONDS. The effective annual weighted average interest rate of the transition bonds, excluding up-front and ongoing costs, shall not exceed 9.0% on an annual basis.
24. LIFE OF BONDS. The expected final maturity of the transition bonds authorized by this Financing Order shall not exceed 15 years.

25. AMORTIZATION SCHEDULE. The Commission approves, and the transition bond shall be structured to provide, a transition charge that is level over the period of recovery if the actual year-to-year changes in residential load match the changes forecast at the time the bonds are structured.
26. COMMISSION PARTICIPATION IN BOND ISSUANCE. The Commission, acting through its designated representative or financial advisor, shall participate directly with CenterPoint in negotiations regarding the structuring, marketing, and pricing, and shall have equal rights with CenterPoint to approve or disapprove the proposed pricing, marketing and structuring of the transition bonds. The Commission's designated representative or financial advisor shall have the right to participate fully and in advance regarding all aspects of the structuring, marketing, and pricing of the transition bonds (and all parties shall be notified of the designated representative's or financial advisor's role) and shall be provided timely information that is necessary to fulfill its obligation to the Commission. The Commission directs its designated representative or financial advisor to veto any proposal that does not comply in any material respect with the criteria established in this Financing Order. The Commission's designated representative or financial advisor shall ensure that the structuring, marketing, and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions that exist at the time and with the terms of this Financing Order. The Commission's designated representative or financial advisor shall inform the Commission of any items that, in the designated representative's or financial advisor's opinion, are not reasonable. The Commission's designated representative or financial advisor shall notify CenterPoint and the Commission no later than 12:00 p.m. CST on the second business day after the Commission's receipt of the issuance advice letter for each series of transition bonds whether the structuring, marketing, and pricing of that series of transition bonds comply with the criteria established in this Financing Order.
27. USE OF BONDCO. CenterPoint shall use BondCo, a special purpose entity as proposed in its application, in conjunction with the issuance of any transition bonds authorized under this Financing Order. BondCo shall be funded with an

amount of capital that is sufficient for BondCo to carry out its intended functions and to avoid the possibility that CenterPoint would have to extend funds to BondCo in a manner that could jeopardize the bankruptcy remoteness of BondCo.

D. SERVICING

28. SERVICING AGREEMENT. The Commission authorizes CenterPoint to enter into the servicing agreement with BondCo and to perform the servicing duties approved in this Financing Order. Without limiting the foregoing, in its capacity as initial servicer of the transition property, CenterPoint is authorized to calculate, bill and collect for the account of BondCo, the transition charges initially authorized in this Financing Order, as adjusted from time to time to meet the Periodic Payment Requirements as provided in this Financing Order; and to make such filings and take such other actions as are required or permitted by this Financing Order in connection with the periodic true-ups described in this Financing Order. The servicer shall be entitled to collect servicing fees in accordance with the provisions of the servicing agreement, provided that, as set forth in Appendix C, (i) the annual servicing fee payable to CenterPoint while it is serving as servicer (or to any other servicer affiliated with CenterPoint) shall not at any time exceed 0.05% of the original principal amount of the transition bonds. The annual servicing fee payable to any other servicer not affiliated with CenterPoint shall not at any time exceed 0.6% of the original principal amount of the transition bonds unless such higher rate is approved by the Commission pursuant to Ordering Paragraph No. 29.
29. REPLACEMENT OF CENTERPOINT AS SERVICER. Upon the occurrence of an event of default under the servicing agreement relating to servicer's performance of its servicing functions with respect to the transition charges, the financing parties may replace CenterPoint as the servicer in accordance with the terms of the servicing agreement. If the servicing fee of the replacement servicer will exceed the applicable maximum servicing fee specified in Ordering Paragraph No. 28, the replacement servicer shall not begin providing service until (i) the date the Commission approves the appointment of such replacement servicer or (ii) if the

Commission does not act to either approve or disapprove the appointment, the date which is 45 days after notice of appointment of the replacement servicer is provided to the Commission. No entity may replace CenterPoint as the servicer in any of its servicing functions with respect to the transition charges and the transition property authorized by this Financing Order, if the replacement would cause any of the then current credit ratings of the transition bonds to be suspended, withdrawn, or downgraded.

30. AMENDMENT OF AGREEMENTS. The parties to the servicing agreement, indenture, and sale agreement may amend the terms of such agreements; provided, however, that no amendment to any such agreement shall increase the ongoing qualified costs without the approval of the Commission. Any amendment that does not increase the ongoing qualified costs shall be effective without prior Commission authorization. Any amendment to any such agreement that may have the effect of increasing ongoing qualified costs shall be provided by BondCo to the Commission along with a statement as to the possible effect of the amendment on the ongoing qualified costs. The amendment shall become effective on the later of (i) the date proposed by the parties to the amendment or (ii) 31 days after such submission to the Commission unless the Commission issues an order disapproving the amendment within a 30-day period.
31. COLLECTION TERMS. The servicer shall remit collections of the transition charges to BondCo or the indenture trustee for BondCo's account in accordance with the terms of the servicing agreement.
32. CONTRACT TO PROVIDE SERVICE. To the extent that any interest in the transition property created by this Financing Order is assigned, sold or transferred to an assignee, CenterPoint shall enter into a contract with that assignee that requires CenterPoint to continue to operate its transmission and distribution system in order to provide electric services to CenterPoint's customers; provided, however, that this provision shall not prohibit CenterPoint from selling, assigning, or otherwise divesting its transmission and distribution systems or any part thereof

so long as the entities acquiring such system agrees to continue operating the facilities to provide electric service to CenterPoint's customers.

E. RETAIL ELECTRIC PROVIDERS

33. REP BILLING AND CREDIT STANDARDS. The Commission approves the REP standards detailed in Finding of Fact Nos. 58 through 62. These proposed REP standards relate only to the billing and collection of transition charges authorized under this Financing Order, and do not apply to collection of any other nonbypassable charges or other charges. The standards apply to all REPs other than REPs that have contracted with CenterPoint to have CenterPoint bill and collect transition charges from retail consumers. REPs may contract with parties other than CenterPoint to bill and collect transition charges from retail consumers, but such REPs shall remain subject to these standards. Upon adoption of any amendment to the rules governing REP standards as set out in Substantive Rule 25.108, the Commission staff shall initiate a proceeding to investigate the need to modify the standards adopted in this Financing Order to conform to that rule and to address whether each of the rating agencies that have rated the transition bonds will determine that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the transition bonds. Modifications to the REP standards adopted in this Financing Order may not be implemented absent prior written confirmation from each of the rating agencies that have rated the transition bonds that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the transition bonds. The servicer of the transition bonds shall also comply with the provisions of the REP standards adopted by this Financing Order that are applicable to the servicer.
34. TRANSITION CHARGE REMITTANCE PROCEDURES. Transition charges shall be billed and collected in accordance with the REP standards adopted by this Financing Order. REPs shall be subject to penalties as provided in these standards. A REP shall not be obligated to pay the overdue transition charges of another REP whose customers it agrees to serve.

35. REMEDIES UPON REP DEFAULT. A servicer of transition bonds shall have the remedies provided in the REP standards adopted by this Financing Order. If a REP that is in default fails to immediately select and implement one of the options provided in the REP standards or, after making its selection, fails to adequately meet its responsibilities under the selected option, then, subject to the limitations and requirements of the bankruptcy code if the REP is a debtor in bankruptcy, the servicer shall immediately cause the POLR or a qualified REP to assume the responsibility for the billing and collection of transition charges in the manner and for the time provided in the REP standards.
36. BILLING BY POLRS. Every POLR appointed by the Commission shall comply with the minimum credit rating or deposit/credit support requirements described in the REP standards in addition to any other standard that may be adopted by the Commission. If the POLR defaults or is not eligible to provide billing and collection services, the servicer shall immediately assume responsibility for billing and collection of transition charges and continue to meet this obligation until a new POLR can be named by the Commission or the consumer requests the services of a REP in good standing. Retail consumers may never be directly re-billed by the successor REP, the POLR, or the servicer for any amount of transition charges the consumers have paid their REP.
37. DISPUTES. Disputes between a REP and a servicer regarding any amount of billed transition charges shall be resolved in the manner provided by the REP standards adopted by this Financing Order.
38. METERING DATA. If the servicer is providing metering services to a REP's retail consumers, then metering data shall be provided to the REP at the same time as the billing. If the servicer is not providing metering services, the entity providing metering services shall comply with Commission rules and ensure that the servicer and the REP receive timely and accurate metering data in order for the servicer to meet its obligations under the servicing agreement and this Financing Order.

39. CHARGE-OFF ALLOWANCE. The REP may retain an allowance for charge-offs from its payments to the servicer as provided in the REP standards adopted by this Financing Order.
40. SERVICE TERMINATION. In the event that the servicer is billing consumers for transition charges, the servicer shall have the right to terminate transmission and distribution service to the end-use consumer for non-payment by the end-use consumer pursuant to applicable Commission rules. In the event that a REP or the POLR is billing consumers for transition charges, the REP or POLR shall have the right to transfer to terminate transmission and distribution service to the end-use consumer for non-payment by the end-use consumer to the extent permitted by and pursuant to terms and limitations of the applicable Commission rules.

F. STRUCTURE OF THE SECURITIZATION

41. STRUCTURE. CenterPoint shall structure the securitization as proposed in CenterPoint's application, except that CenterPoint shall use an amortization schedule consistent with the Commission's decision to use a level transition charge as required by Ordering Paragraph No. 25. This structure shall be consistent with Findings of Fact Nos. 112 through 115.

G. USE OF PROCEEDS

42. USE OF PROCEEDS. Upon the issuance of transition bonds, BondCo shall pay the net proceeds from the sale of the transition bonds (after payment of transaction costs) to CenterPoint for the purchase price of the transition property. CenterPoint will apply these net proceeds to reduce the debt and/or common equity on its regulatory books.

H. MISCELLANEOUS PROVISIONS

43. CONTINUING ISSUANCE RIGHT. CenterPoint has the continuing irrevocable right to cause the issuance of transition bonds in one or more series in accordance with this Financing Order for a period of 24 months following the later of (i) the date

on which this Financing Order becomes final and no longer subject to any appeal; (ii) the date on which the Commission's final order in Docket No. 29526 becomes final and no longer subject to any appeal; or (iii) the date on which any other regulatory approvals necessary to issue the transition bonds are obtained and no longer subject to any appeal. If at any time during the effective period of this Financing Order there is a severe disruption in the financial markets of the United States, the effective period shall automatically be extended to a date which is not less than 90 days after the date such disruption ends.

44. INTERNAL REVENUE SERVICE PRIVATE LETTER OR OTHER RULINGS. CenterPoint is not required by this Financing Order to obtain a ruling from the IRS; however, if it elects to do so, then upon receipt, CenterPoint shall promptly deliver to the Commission a copy of each private letter or other ruling issued by the IRS with respect to the proposed transaction, the transition bonds or any other matter related thereto. CenterPoint shall also include a copy of every such ruling by the IRS it has received as an attachment to each issuance advice letter required to be filed by this Financing Order. CenterPoint may cause transition bonds to be issued without a private letter ruling if it obtains an opinion of tax counsel sufficient to support the issuance of the bonds.
45. BINDING ON SUCCESSORS. This Financing Order, together with the transition charges authorized in it, shall be binding on CenterPoint and any successor to CenterPoint that provides transmission and distribution service directly to retail consumers in HL&P's certificated service area as of May 1, 1999, and any other entity that provides transmission or distribution services to retail consumers within that service area. This Financing Order is also binding on each REP, and any successor, that sells electric energy to retail consumers located within that service area, any other entity responsible for billing and collecting transition charges on behalf of BondCo, and any successor to the Commission. In this paragraph, a "successor" means any entity that succeeds by any means whatsoever to any interest or obligation of its predecessor, including by way of bankruptcy, reorganization or other insolvency proceeding, merger, consolidation,

conversion, assignment, pledge or other security, by operation of law or otherwise.

46. FLEXIBILITY. Subject to compliance with the requirements of this Financing Order, CenterPoint and BondCo shall be afforded flexibility in establishing the terms and conditions of the transition bonds, including the final structure of BondCo, repayment schedules, term, payment dates, collateral, credit enhancement, required debt service, reserves, interest rates (which may include floating or variable interest rates), use of original issue discount, swaps or hedges, indices and other financing costs and the ability of CenterPoint, at its option, to issue one or more series of transition bonds.
47. EFFECTIVENESS OF ORDER. This Financing Order is effective upon issuance and is not subject to rehearing by the Commission. Notwithstanding the foregoing, no transition property shall be created hereunder, and CenterPoint shall not be authorized to impose, collect, and receive transition charges, until concurrently with the transfer of CenterPoint's rights hereunder to BondCo in conjunction with the issuance of the transition bonds.
48. REGULATORY APPROVALS. All regulatory approvals within the jurisdiction of the Commission that are necessary for the securitization of the transition charges associated with the costs that are the subject of the application, and all related transactions contemplated in the application, are granted.
49. PAYMENT OF COMMISSION'S COSTS FOR PROFESSIONAL SERVICES. In accordance with PURA Section 39.302(4), CenterPoint shall pay the costs to the Commission of acquiring professional services for the purpose of evaluating CenterPoint's proposed transaction, including, but not limited to, the Commission's outside attorneys' fees in the amounts specified in this Financing Order no later than 30 days after the issuance of any transition bonds.
50. PAYMENT OF COMMISSION'S FINANCIAL ADVISOR. The fee for the Commission's financial advisor shall be a fixed fee payable at closing by wire transfer and shall not exceed \$1,000,000.

51. EFFECT. This Financing Order constitutes a legal financing order for CenterPoint under Subchapter G of Chapter 39 of PURA. The Commission finds this Financing Order complies with the provisions of Subchapter G of Chapter 39 of PURA. A financing order gives rise to rights, interests, obligations and duties as expressed in Subchapter G of Chapter 39 of PURA. It is the Commission's express intent to give rise to those rights, interests, obligations and duties by issuing this Financing Order. CenterPoint and the servicer are directed to take all actions as are required to effectuate the transactions approved in this Financing Order, subject to compliance with the criteria established in this Financing Order.
52. FURTHER COMMISSION ACTION. The Commission guarantees that it will act pursuant to this Financing Order as expressly authorized by PURA to ensure that transition charge revenues are sufficient to pay principal and interest on the transition bonds issued pursuant to this Financing Order and other costs, including fees and expenses, in connection with the transition bonds.
53. ALL OTHER MOTIONS DENIED. All motions, requests for entry of specific findings of fact and conclusions of law, and any other requests for general or specific relief not expressly granted herein, are denied for want of merit.

SIGNED AT AUSTIN, TEXAS THE 16th DAY OF MARCH 2005.

PUBLIC UTILITY COMMISSION OF TEXAS

/s/ Julie Parsley

JULIE PARSLEY, COMMISSIONER

/s/ Paul Hudson

PAUL HUDSON, CHAIRMAN

Commissioner Smitherman does not join in the decision related to the securitization of no more than \$1,000,000 in fees for the Commission's financial advisor as discussed in section II of this Financing Order and files a separate dissenting opinion on this issue. In all other respects, Commissioner Smitherman joins in the decisions reflected in this Financing Order.

/s/ Barry T. Smitherman

BARRY T. SMITHERMAN, COMMISSIONER

APPLICATION OF CENTERPOINT
ENERGY HOUSTON ELECTRIC,
LLC FOR A FINANCING ORDER

Section
Section
Section

PUBLIC UTILITY COMMISSION

OF TEXAS

DISSENT OF COMMISSIONER BARRY T. SMITHERMAN

I respectfully dissent from the majority's decision to spend up to \$1,000,000 to hire a full-fledged financial advisor to review every aspect of the structuring and issuance of CenterPoint Energy Houston's stranded-cost transition bonds. PURA does not require this expenditure. Other adequate mechanisms - which don't cost ratepayers money - can assist the Commission in satisfying its statutory requirements. Moreover, if a financial advisor is to be hired, one could be had for a price substantially below \$1,000,000. I understand that the majority believes having a financial advisor is akin to "insurance" or "a belt and suspenders" or a "security blanket." However, insurance out of proportion to risk is wasteful, a belt and suspenders both cost money and together won't keep your pants any higher than either would alone, and there are times when we need to make our way in the world without excessive security, blanket-based or not.

The Commission has been through four rounds of transition-bond issuances already, and each time the tasks for which we have paid a financial advisor were substantially broader than those required to satisfy PURA Section 39.301.(1) PURA does not mandate or urge the hiring of a financial advisor. Nor do our rules require a financial advisor.

We need a better reason for hiring a financial advisor than the simple fact that we have previously hired one. It seems that the first decision to engage a financial advisor was originally made by staff several years ago without, as reflected in a February 24, 2000 Commission meeting transcript, prior input or approval of the Commissioners. The

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(1) PURA Section 39.301 requires only that the Commission "ensure that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of the financing order."

Commission's financial advisor received \$1.7 million for the first securitization transaction, \$1.6 million for the second, and \$2.5 million for the next two deals, for a cumulative total approaching \$6 million. After the first transaction, none of these fees were awarded pursuant to a request for proposal (RFP) process that might have assessed whether other firms in the market might also be interested in this very lucrative assignment. Staff did issue an RFP for a financial advisor relating to the CenterPoint transaction, but I did not learn of the amounts proposed to be paid (as well as the amounts already paid) or the scope of work contemplated until much later.

The utility company involved in each securitization, in this case CenterPoint, is required to produce an "Issuance Advice Letter" signed by either the Treasurer, Assistant Treasurer, or CFO, attesting that the transaction complies with PURA. In particular, the Issuance Advice Letter must assert that "[t]he structuring and pricing of the Transition Bonds proposed by the Applicant in its Application will result in the lowest transition-bond charges consistent with market conditions at the time that the transition bonds are priced and the general parameters...set out in this Financing Order."⁽²⁾ That is exactly the attestation required of the Commission by PURA Section 39.301, and the assertion is made by a well-capitalized firm that remains subject to Commission oversight, jurisdiction, and continued regulation. I fail to see how a PURA-compliant Issuance Advice Letter cannot also satisfy PURA Section 39.301. Moreover, I understand that the certification paragraph that the Financing Order requires for the Issuance Advice Letter in this docket will be even stronger, requiring compliance with the terms of the Financing Order and specifically referencing PURA Section 39.301.

Some have questioned the utility's motivation to strive for the lowest transition charges or effort to issue an unbiased Issuance Advice Letter, but I submit that the company has no reason not to strive for the lowest transition charges and, given its continued regulation by the Commission, every reason to be scrupulous. In addition, CenterPoint has hired the well-respected firm Credit Suisse First Boston ("CSFB") to serve as its financial advisor on this proposed transaction and I believe many of the tasks

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(2) See, e.g., Issuance Advice Letter, PUC Docket No. 25230, AIS No. 264 (June 1, 2004) at 2 (paragraph 3).

to be accomplished by CSFB will lend themselves toward a more marketable securitization transaction, thereby resulting in lower transition-bond charges.

Even if the Commission did not want to rely solely on the utility, I understand that Commission staff receives a near-final draft Issuance Advice Letter two weeks before the actual letter is produced, and the final version shortly after the bonds are priced, with as many as four business days to review it and recommend that the Commission allow the issuance to proceed, or not. Rather than saddling ratepayers with the bill for a Commission-selected financial advisor to review the draft, the Commission could consider inviting some or all of the public entities that actually represent ratepayers (Office of Public Utility Counsel) or advocacy organizations (Texas Industrial Energy Consumers, Coalition of Commercial Ratepayers, City Coalitions) to use this time window to review the suggested interest rates. The Commission payroll already includes many fine lawyers, PhD-awarded economists, CFA-designated financial experts, and a Commissioner with 16 years of experience in investment banking, all of whom could assist in helping the proposed transaction to achieve the lowest transition-bond charges consistent with PURA.

Other public entities, such as the Lower Colorado River Authority (LCRA), have abandoned longstanding practices of hiring expensive financial advisors and instead now rely on staff expertise and a Pricing Advisor that costs far less than a Financial Advisor. LCRA has used the Pricing Advisor model for about 15 years, with no notable negative effects on its bond issuances. The University of Texas System, an entity that also sells "Aaa/AAA" bonds, last went to market in March 2004 on \$438 million of bonds with no financial advisor. The Texas Public Finance Authority, a board on which I previously served, sold \$1.376 billion of taxable and tax-exempt bonds - some "Aaa/AAA" and some only "Aa/AA" - in September 2003 and paid the financial advisors a grand total of \$239,000. Following these examples, I believe that the Commission could hire one of many qualified firms, perhaps even one domiciled in Texas, that would readily assist the Commission in satisfying its statutory obligations for significantly less than \$1,000,000.

The function that the Legislature has assigned to the Commission relates solely to price. We could drastically cut costs and lose no meaningful benefit. I respectfully dissent.

SIGNED AT AUSTIN, TEXAS THE 10th DAY OF MARCH 2005.

/s/ Barry T. Smitherman

BARRY T. SMITHERMAN, COMMISSIONER

DOCKET NO. 30485
FINANCING ORDER

APPENDIX A

ISSUANCE ADVICE LETTER

FORM OF ISSUANCE ADVICE LETTER

INSTRUCTIONS

1. A draft issuance advice letter must be given to Staff at least two weeks prior to issuance. Consultation with Staff in advance of pricing is highly advised to work out any differences in interpretation of the financing order or issuance advice letter requirements. Errors in your filed issuance advice letter may result in a delay of your issuance.
2. All electronic spreadsheets and workpapers supporting your PURA tests must be provided. Failure to provide these materials may result in a delay of your issuance.
3. All PURA tests involving a present value calculation must be updated and should use the following interest rate definition for the discount rate:

Weighted average annual interest rate--the annualized weighted average coupon rate, giving effect to compounding.
4. The form of certification letter is a template or guide except for the certification paragraph shown below.
 - (a) Update the list of actions that were taken in connection with marketing, structuring, and pricing of the bonds to reflect what actually occurred in the transaction.
 - (b) Put the following interest rates in your certification letter list of particular facts of the transition bonds:
 - Weighted average coupon rate - the semi-annual coupon rates weighted by the principal amount and modified duration of each class.
 - Weighted average annual interest rate - see definition in (3) above.
 - Weighted average yield - the annual effective interest rate, i.e., the internal rate of return giving effect to compounding, calculated including all upfront costs as shown in Attachment 1.
 - (b) The following certification statement must be included in your letter as written below:

BASED UPON INFORMATION REASONABLY AVAILABLE TO OFFICERS, AGENTS AND EMPLOYEES OF THE APPLICANT, THE APPLICANT HEREBY CERTIFIES THAT THE STRUCTURING AND PRICING OF THE TRANSITION BONDS, AS DESCRIBED IN THE ISSUANCE ADVICE LETTER, WILL RESULT IN THE LOWEST TRANSITION BOND CHARGES CONSISTENT WITH THE MARKET CONDITIONS AND THE TERMS OF THE FINANCING ORDER (INCLUDING THE AMORTIZATION STRUCTURE, IF ANY, ORDERED BY THE COMMISSION), ALL WITHIN THE MEANING OF SECTION 39.301 OF PURA.

5. Provide an electronic schedule detailing the monthly amounts of excess mitigation credits, if any, included in the amount of qualified costs to be securitized shown on Attachment 1.
6. Provide an electronic schedule detailing the monthly calculation of accrued interest on stranded costs through the date of issuance of the transition bonds to be included in the amount of qualified costs to be securitized shown on Attachment 1.
7. Provide an electronic schedule detailing the monthly amount of stranded costs and regulatory assets recovered through CTCs, if any, included on Attachment 1.

_____ DAY, _____, 2005

ADVICE _____

THE PUBLIC UTILITY COMMISSION OF TEXAS

SUBJECT: ISSUANCE ADVICE LETTER FOR TRANSITION BONDS

Pursuant to the Financing Order adopted in Application of CenterPoint Energy Houston Electric, LLC for a Financing Order, Docket No. _____ (the "Financing Order"), CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, ("Applicant") hereby submits, no later than twenty-four hours after the pricing date of this series of Transition Bonds, the information referenced below. This Issuance Advice Letter is for the [BONDCO] Transition Bonds series _____, classes _____. Any capitalized terms not defined in this letter shall have the meanings ascribed to them in the Financing Order.

PURPOSE

This filing establishes the following:

- (a) the total amount of Qualified Costs being securitized;
- (b) confirmation of compliance with issuance standards;
- (c) the actual terms and structure of the Transition Bonds being issued;
- (d) the initial Transition Charge for retail users; and
- (e) the identification of the SPE.

QUALIFIED COSTS BEING SECURITIZED

The total amount of Qualified Costs being securitized (the "Securitized Qualified Costs") is presented in Attachment 1.

COMPLIANCE WITH ISSUANCE STANDARDS

The Financing Order requires Applicant to confirm, using the methodology approved therein, that the actual terms of the Transition Bonds result in compliance with the standards set forth in the Financing Order. These standards are:

1. The securitization of Qualified Costs will provide tangible and quantifiable benefits to ratepayers, greater than would be achieved absent the issuance of Transition Bonds (See Attachment 2);
2. The amount securitized will not exceed the present value of the conventional financing revenue requirement over the life of the proposed Transition Bonds associated with the Securitized Qualified Costs when the present value calculation is made using a discount rate equal to the proposed interest rate on the Transition Bonds (See Attachment 2);
3. The total amount of revenues to be collected under the Financing Order is less than the revenue requirement that would be recovered using conventional financing methods (See Attachment 2);
4. The Transition Bonds will be issued in one or more series comprised of one or more classes having target final maturities of 1_ years and legal final maturities not exceeding 15 years from the date of issuance of such series (See Attachment 3); and
5. The structuring and pricing of the Transition Bonds is certified by the Applicant to result in the lowest transition bond charges consistent with market conditions and the terms (including the amortization structure ordered by the Commission, if any) set out in the Financing Order (See Attachment 4).

ACTUAL TERMS OF ISSUANCE

Transition Bond Series: _____
 Transition Bond Issuer: [BONDCO]
 Trustee:
 Closing Date: _____, 2005
 Bond Ratings: S&P AAA, Fitch AAA, Moody's Aaa
 Amount Issued: \$ _____
 Transition Bond Issuance Costs: See Attachment 1, Schedule B.
 Transition Bond Support and Servicing: See Attachment 2, Schedule B.

| Class | Coupon Rate | Expected Final Maturity | Legal Final Maturity |
|-------|-------------|-------------------------|----------------------|
| A-1 | _____% | ___/___/___ | ___/___/___ |
| A-2 | _____% | ___/___/___ | ___/___/___ |
| A-3 | _____% | ___/___/___ | ___/___/___ |
| A-4 | _____% | ___/___/___ | ___/___/___ |
| A-5 | _____% | ___/___/___ | ___/___/___ |

Effective Annual Weighted Average Interest Rate of the Transition Bonds: _____%

Life of Series: _____ YEARS

Weighted Average Life of Series: _____ YEARS

Call provisions (including premium, if any):

Amortization Schedule Attachment 2, Schedule A

Target Final Maturity Dates: Attachment 2, Schedule A

Legal Final Maturity Dates: Attachment 2, Schedule A

Annual Overcollateralization Funding Requirements: Attachment 2, Schedule C

Payments to Investors: Semiannually
 Beginning _____, 2005

Initial annual Servicing Fee as a percent of original Transition Bond principal balance:

0.05%
 Minimum: 10% of next scheduled Transition Bond payment

Cumulative Overcollateralization Account balance:

Maximum: 0.50% of original Transition Bond principal balance

Annual Overcollateralization funding requirements:

Attachment 2, Schedule C

INITIAL TRANSITION CHARGE

Table I below shows the current assumptions for each of the variables used in the calculation of the initial Transition Charges.

TABLE I
INPUT VALUES FOR INITIAL TRANSITION CHARGES

| | |
|--|-----------|
| Applicable period: from _____, ____ to _____, ____ | |
| Forecasted retail kWh/kW sales for the applicable period: | _____ |
| Transition Bond debt service for the applicable period: | \$ _____ |
| Percent of billed amounts expected to be charged-off: | _____% |
| Forecasted % of Billings Paid in the Applicable Period: | _____% |
| Forecasted retail kWh/kW sales billed and collected for the applicable period: | _____ |
| Forecasted annual ongoing transaction expenses (Excluding Transition Bond principal and interest): | \$ _____. |
| Required overcollateralization amount for applicable period: | \$ _____. |
| Current Transition Bond outstanding balance: | \$ _____ |
| Target Transition Bond outstanding balance as of __/__/____: | \$ _____ |
| Total Periodic Billing Requirement for applicable period: | \$ _____ |

Allocation of the PBR among customer classes: See Attachment 3.

Based on the foregoing, the initial Transition Charges calculated for retail users are as follows:

TABLE II

| Rate Class ----- | Initial Transition Charge ----- |
|---|------------------------------------|
| Residential | 0._____ \$/kWh |
| MGS | 0._____ \$/kW |
| | 0._____ \$/kWh |
| LGS | 0._____ \$/kVa |
| | 0._____ \$/kW |
| LOS-A | 0._____ \$/kW |
| LOS-B | 0._____ \$/kW |
| Non-Metered Lighting | 0._____ \$/kWh |
| Standby Electric Service - Distribution | 0._____ \$/kW |
| Interruptible Service Supplemental - Distribution | 0._____ \$/kW |
| Interruptible Service - Thirty Minute Notice | 0._____ \$/kW |
| Interruptible Service - Ten Minute Notice | 0._____ \$/kW |
| Interruptible Service - Instantaneous | 0._____ \$/kW |
| Interruptible Service Supplemental - Transmission | 0._____ \$/kW |
| Standby Electric Service - Transmission | 0._____ \$/kW |
| Standby Interruptible Service | 0._____ \$/kW |
| SCP | 0._____ \$/kW |

IDENTIFICATION OF SPE

The owner of the Transition Property (the "SPE") will be: [BONDCO].

EFFECTIVE DATE

In accordance with the Financing Order, the Transition Charge shall be automatically effective upon the Applicant's receipt of payment in the amount of \$_____ from [BONDCO], following Applicant's execution and delivery to [BONDCO] of the Bill of Sale transferring Applicant's rights and interests under the Financing Order and other rights and interests that will become Transition Property upon transfer to [BONDCO] as described in the Financing Order.

NOTICE

Copies of this filing are being furnished to the parties on the attached service list. Notice to the public is hereby given by filing and keeping this filing open for public inspection at Applicant's corporate headquarters.

AUTHORIZED OFFICER

The undersigned is an officer of Applicant and authorized to deliver this Issuance Advice Letter on behalf of Applicant.

Respectfully submitted,

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: _____

Name: _____

Title: _____

ATTACHMENT 1
SCHEDULE A
CALCULATION OF SECURITIZED QUALIFIED COSTS(1)

| | |
|---|----|
| Amount permitted to be securitized by Preliminary Order: | \$ |
| EMCs through [Transition Bond issuance date or date of termination of EMCs] | |
| Interest through [Transition Bond issuance date] | |
| Up-front Qualified Costs (Attachment 1, Schedule B) | |
| Less: Amount recovered through CTCs, if any | |
| TOTAL SECURITIZED QUALIFIED COSTS | \$ |

- -----
(1) Refer to the attached workpapers.

ATTACHMENT 1
SCHEDULE B
ESTIMATED UP-FRONT QUALIFIED COSTS

| | |
|--|----------|
| Underwriting Costs | \$ _____ |
| Rating Agency Fees | \$ _____ |
| Debt/Equity Retirement Transaction Costs | \$ _____ |
| Swap and Hedge Transaction Costs | \$ _____ |
| Credit Enhancement Costs (other than Collection Account) | \$ _____ |
| Legal Fees and Expenses | \$ _____ |
| SEC Registration Fees | \$ _____ |
| Original Issue Discount | \$ _____ |
| Accountant's/Auditor's Fees | \$ _____ |
| Commission's Financial Advisor Fees | \$ _____ |
| Up-front Trustee Payments | \$ _____ |
| Servicer Set-up Costs | \$ _____ |
| Printing and Filing Costs | \$ _____ |
| Miscellaneous | \$ _____ |
| TOTAL UP-FRONT COSTS SECURITIZED | \$ _____ |

NOTE: COSTS ARE SUBJECT TO THE CAPS SET FORTH IN THE FINANCING ORDER. ANY DIFFERENCE BETWEEN THE ESTIMATED UP-FRONT QUALIFIED COSTS SECURITIZED AND THE ACTUAL UP-FRONT COSTS INCURRED WILL BE RESOLVED THROUGH THE TRUE-UP PROCESS DESCRIBED IN THE FINANCING ORDER.

ATTACHMENT 2
SCHEDULE B
ONGOING QUALIFIED COSTS

| | ANNUAL AMOUNT |
|---|---------------|
| Servicing Fee (0.05% of Transition Bonds principal amount) | \$ _____ |
| Administration Fees and Expenses | \$ _____ |
| Trustee Fees and Expenses | \$ _____ |
| Legal and Accounting Costs | \$ _____ |
| Ongoing Costs of Credit Enhancement (other than Collection Account) | \$ _____ |
| Ongoing Costs of Swaps and Hedges | \$ _____ |
| Independent Managers' Fees | \$ _____ |
| Rating Agency Fees | \$ _____ |
| Printing and Filing Fees | \$ _____ |
| Miscellaneous | \$ _____ |
| TOTAL ONGOING QUALIFIED COSTS | \$ _____ |

NOTE: COSTS ARE SUBJECT TO THE CAPS SET FORTH IN THE FINANCING ORDER. THE AMOUNTS SHOWN FOR EACH CATEGORY OF OPERATING EXPENSE ON THIS ATTACHMENT ARE THE EXPECTED EXPENSES FOR THE FIRST YEAR OF THE TRANSITION BONDS. TRANSITION CHARGES WILL BE ADJUSTED AT LEAST ANNUALLY TO REFLECT ANY CHANGES IN ONGOING QUALIFIED COSTS THROUGH THE TRUE-UP PROCESS DESCRIBED IN THE FINANCING ORDER.

ATTACHMENT 2
 SCHEDULE D
 CALCULATION OF TRANSITION CHARGES

| YEAR | TRANSITION BOND PAYMENTS(4) | ONGOING COSTS(5) | OVERCOLLATERALIZATION ACCOUNT FUNDING(6) | TOTAL NOMINAL TRANSITION CHARGE REQUIREMENT(7) | PRESENT VALUE OF TRANSITION CHARGES(8) |
|-------|--------------------------------|------------------|---|--|--|
| 1 | \$ | \$ | \$ | \$ | |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | | | | |
| 5 | | | | | |
| 6 | | | | | |
| 7 | | | | | |
| 8 | | | | | |
| 9 | | | | | |
| 10 | | | | | |
| 11 | | | | | |
| 12 | | | | | |
| 13 | | | | | |
| 14 | | | | | |
| Total | | | | | |

(4) From Attachment 2, Schedule A.

(5) From Attachment 2, Schedule B.

(6) From Attachment 2, Schedule C.

(7) Sum of transition bond payments, ongoing costs and required overcollateralization account funding.

(8) The discount rate used is the weighted average effective annual interest rate of the transition bonds.

ATTACHMENT 2
 SCHEDULE E
 COMPLIANCE WITH SUBCHAPTER G OF THE UTILITIES CODE

TANGIBLE & QUANTIFIABLE BENEFITS AND REVENUE REQUIREMENTS TESTS:(9)

| | Conventional Financing Through Competition Transition Charge (CTC)(10) ----- | Securitization Financing(11) ----- | Savings/(Cost) of Securitization Financing ----- |
|---------|--|--|--|
| Nominal | \$ | \$ | \$ |
| Present | | | |
| Value | \$ | \$ | \$ |

 (9) Calculated in accordance with the methodology cited in the Financing Order.

(10) CTC carrying cost at ____% and CTC term of ____ years. The discount rate used is the weighted average effective annual interest rate of the transition bonds.

(11) From Attachment 2, Schedule D.

ATTACHMENT 3

INITIAL ALLOCATION OF COSTS TO TC2 CLASSES

| (1) TC2 Class | (2) PBR AF(12) | (3) Subgroups(13) | (4) Periodic Billing Requirement(14) | (5) Billing Requirement per TC2 Class (2) or (3) *(4) | (6) Forecasted Billing Determinant | (7) Transition Charge (5)/(6) |
|---|-------------------|----------------------|---|---|---|--|
| Residential | % | N/A | \$ | \$ | | \$/kWh |
| MGS | % | % | | | | \$/kW |
| LGS | % | % | | | | \$/kWh |
| | | % | | | | \$/kVa |
| LOS-A | % | N/A | | | | \$/kW |
| LOS-B | % | N/A | | | | \$/kW |
| Non-Metered Lighting | % | N/A | | | | \$/kWh |
| Standby Electric Svc. - Distribution | % | N/A | | | | \$/kW |
| Interruptible Svc. Supplemental - Dist. | % | N/A | | | | \$/kW |
| Interruptible Svc. - 30 Minute Notice | % | N/A | | | | \$/kW |
| Interruptible Svc. - 10 Minute Notice | % | N/A | | | | \$/kW |
| Interruptible Svc. - Instantaneous | % | N/A | | | | \$/kW |
| Interruptible Svc. Supplemental - Trans. | % | N/A | | | | \$/kW |
| Standby Electric Svc. - Transmission | % | N/A | | | | \$/kW |
| Standby Interruptible Svc. | % | N/A | | | | \$/kW |
| Special Contract Pricing | % | N/A | | | | \$/kW |
| Total | 100.0000% | | | \$ | | |

(12) Determined in accordance with the methodology in Schedule TC2.

(13) Distribution and Transmission customers within these TC2 classes are billed on different determinants, therefore a division into two groups is necessary to calculate rates.

(14) Table I

ATTACHMENT 4
FORM OF APPLICANT'S CERTIFICATION

[CenterPoint Letterhead]

Date: _____, 2005

Public Utility Commission of Texas
1701 N. Congress Ave.
P.O. Box 13362
Austin, TX 78711-3326

[Commission's Financial Advisor]

Re: Application of CenterPoint Energy Houston Electric, LLC for a Financing Order, Docket No. _____

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC (the "Applicant") submits this Certification pursuant to Ordering Paragraph No. [4] of the Financing Order in Application of CenterPoint Energy Houston Electric, LLC for a Financing Order, Docket No. _____ (the "Financing Order"). All capitalized terms not defined in this letter shall have the meanings ascribed to them in the Financing Order.

In its issuance advice letter dated _____, 2005, the Applicant has set forth the following particulars of the Transition Bonds:

Name of Transition Bonds: _____

SPE: [BONDCO]

Closing Date: _____, 2005

Amount Issued: \$ _____

Expected Amortization Schedule: See Attachment 2, Schedule A to the Issuance Advice Letter

Distributions to Investors (quarterly or semi-annually):

Weighted Average Coupon Rate: _____%

Weighted Average Annual Interest Rate: _____%

Weighted Average Yield: _____%

The following actions were taken in connection with the design, structuring and pricing of the bonds:

-

Based upon information reasonably available to the officers, agents, and employees of the Applicant, the Applicant hereby certifies that the structuring and pricing of the Transition Bonds, as described in the issuance advice letter, will result in the lowest transition bond charges consistent with market conditions and the terms of the Financing Order (including the amortization structure, if any, ordered by the Commission), all within the meaning of Section 39.301 of PURA.

The initial servicer acknowledges and agrees that if the servicing fee received by the initial servicer with respect to any annual period exceeds the costs and expenses incurred by the initial servicer in such annual period, then the initial servicers will reflect any such excess as a credit to reduce its revenue requirement for future ratemaking purposes.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: _____
Name: _____
Title: _____

DOCKET NO. 30485
FINANCING ORDER

APPENDIX B

SCHEDULE TC2

CenterPoint Energy Houston Electric, LLC
Applicable: Entire Service Area

CNP 828

6.1.1.7.2- SCHEDULE TC2- TRANSITION CHARGES

SECTION 1: APPLICABILITY

This schedule sets out the rates and terms and conditions under which Transition Charges will be billed and collected by CenterPoint Energy Houston Electric, LLC (Company), any successor servicer(s) and any retail electric providers (REP) or collection agents billing or collecting Transition Charges on behalf of CenterPoint Energy Transition Bond Company II, LLC (SPE). The Transition Charges were authorized by the Financing Order approved by the Public Utility Commission of Texas (Commission) in Docket No. _____ on _____ (Financing Order). Pursuant to terms of the Financing Order and the requirements of Section 39.301 et seq. of the Texas Utilities Code, all of the Company's rights under the Financing Order, including the right to bill and collect Transition Charges and to adjust Transition Charges pursuant to this Schedule TC2, were transferred to the SPE in connection with the issuance of transition bonds. The rights transferred to the SPE are "transition property" of the SPE (as defined in Section 39.304 of the Utilities Code). On the effective date of this Schedule TC2, the Company will act as servicer on behalf of the SPE to bill, collect, receive and adjust Transition Charges imposed pursuant to this Schedule TC2. However, the SPE may select another party to serve as servicer or the Company may resign as servicer in accordance with the terms and subject to the conditions of the Servicing Agreement and the Financing Order. A successor servicer selected under these conditions will assume the obligations of the Company as servicer under this Schedule TC2. As used in this Schedule TC2, the term "Servicer" includes any successor servicer. All actions by the Company under this Schedule TC2, including collection of Transition Charges, will be undertaken solely in its role as servicer under the Servicing Agreement between the Company and the SPE dated as of _____.

This schedule is applicable to:

1. Retail customers located within the certificated service area of Reliant Energy HL&P (HL&P) as such service area existed on May 1, 1999 who receive electric transmission and/or distribution service through a REP served by the Company and to the facilities, premises and loads of such retail customers;
2. Retail customers located within HL&P's certificated service area as it existed on May 1, 1999 who are presently receiving transmission and/or distribution service either directly from another utility, electric cooperative or municipally owned utility (T or D Provider) or through a REP served by another T or D Provider, and whose request to change service to the other T or D Provider was made after May 1, 1999;

Revision Number: Original

Effective: xx/xx/xx

CenterPoint Energy Houston Electric, LLC
Applicable: Entire Service Area

CNP 828

3. Retail customers located within HL&P's certificated service area as it existed on May 1, 1999 and who are served by New On-Site Generation. New On-Site Generation means "New On-Site Generation" as defined in Section 25.345(c)(1) of the Commission's Substantive Rules.
4. REPs that serve retail customers located within HL&P's certificated service area as it existed on May 1, 1999.
5. Any other entity which, under the terms of the Financing Order or the Utilities Code, may be obligated to pay, bill, collect, or adjust the Transition Charges.
6. This schedule is applicable to public retail customers located within HL&P's certificated service area as it existed on May 1, 1999 who purchase power from the General Land Office as provided for in the Utilities Code, Section 35.102.

SECTION 2: CHARACTER OF TRANSITION CHARGES

Transition Charges are non-bypassable charges. All Transition Charges other than those applicable to New On-Site Generation are computed and paid on the basis of individual end-use retail customer consumption or demand. In accordance with Utilities Code Section 39.252(b) and Section 25.345(i)(3) of the Commission's Substantive Rules, the Transition Charges applicable to use of New On-Site Generation that results in a "material reduction" of the customer's use of energy delivered through the Company's transmission and distribution facilities (as defined in Section 25.345(i)(4) of the Commission's Substantive Rules) are computed and paid based on the output of the on-site generation used to meet the internal electric requirements of the customer. Customers with New On-Site Generation will also be required to pay the Transition Charges applicable to energy actually delivered to the Customer through the Company's facilities. Individual end-use retail customers are responsible for paying Transition Charges billed to them in accordance with the terms of this Schedule TC2 whether the charges are billed directly by Servicer or are included in the bills submitted to the customer by a REP or another entity. Payment is to be made to the entity that bills the customer in accordance with the terms of the Servicing Agreement and the Financing Order. The billing entity may be the Company, a successor servicer, a REP or an entity designated to collect Transition Charges in place of the REP.

The Transition Charges are separate charges to be paid in addition to any other applicable charges for services received. Although the Transition Charges are separate charges, they may be included within other charges of the billing entity.

The REP or entity designated to collect Transition Charges in place of the REP will pay Transition Charges (less an allowance for charge-offs calculated pursuant to this Schedule TC2)

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to Servicer in accordance with the requirements of the Financing Order and this Schedule TC2 whether or not it has collected the Transition Charges from its customers. To the extent that the REP's actual charge-offs differ from the charge-off allowance, adjustments will be made pursuant to this Schedule TC2. The REP will have no right to reimbursement other than as expressly set out in this Schedule TC2.

Servicer will remit collections to the SPE in accordance with the terms of the Servicing Agreement.

SECTION 3: TERM

This Schedule TC2 is effective beginning on the date the transition bonds are issued. Schedule TC2 will remain in effect as provided in the Financing Order until the Transition Charges collected and remitted to the SPE are sufficient to satisfy all obligations of the SPE to pay principal and interest on the transition bonds (as due over the ___ year term of the transition bonds) and to pay all other qualified costs as provided in the Financing Order. However, in no event will the Transition Charges be billed for service provided after 15 years from issuance of the transition bonds, or sooner if the transition bonds are paid in full at an earlier date. This Schedule TC2 is irrevocable.

SECTION 4: TRANSITION CHARGE CLASSES

Transition Charges are calculated and applied by Transition Charge Class. There are 15 Transition Charge Classes, nine of which are Capped Classes. Each Transition Charge Class is defined in terms of the base rate tariff classes that existed on HL&P's system on September 1, 1999 ("pre-restructuring rate schedules"). The Transition Charge Classes are defined as follows:

RESIDENTIAL CLASS: The Residential Class is made up of (i) every customer that was served under HL&P rate schedule RS or RTD on the day before the customer discontinued taking service from HL&P under a pre-restructuring rate schedule, and (ii) each new customer that was not served by HL&P under any pre-restructuring rate schedule, but is the type of customer which, if it had been served by HL&P under pre-restructuring rate schedules would have qualified for service under HL&P's rate schedules RS or RTD.

MGS CLASS: The MGS Class is made up of (i) every customer that was served under HL&P rate schedule MGS on the day before the customer discontinued taking service from HL&P on a pre-restructuring rate schedule, and (ii) each new customer that was not served by HL&P under any pre-restructuring rate schedule, but is the type of customer which, if it had been served by HL&P under a pre-restructuring rate schedule would have qualified for service under HL&P's rate schedule MGS and whose demand is estimated by the Company to be less than 400 kVa. This class includes customers served under Rider GLTC. Customers served under rate schedules EIS, HVP and CSB are included in

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the MGS class if the customer's contract for service from HL&P provided that the MGS rate was the basis for pricing.

LGS CLASS: The LGS Class is made up of (i) every customer that was served under HL&P rate schedule LGS on the day before the customer discontinued taking service from HL&P on a pre-restructuring rate schedule, and (ii) each new customer that was not served by HL&P under any pre-restructuring rate schedule, but is the type of customer which, if it had been served by HL&P under a pre-restructuring rate schedule would have qualified for service under HL&P's rate schedules LGS and whose demand as estimated by the Company, if served at less than 60,000 volts, is 400 kVa or greater; or if served at 60,000 volts or greater, is at least 400 kVa but less than 2,000 kVa. This class includes customers served under Rider SEI. Customers served under rate schedules EIS, HVP and CSB are included in the LGS class if the customer's contract for service from HL&P provided that the LGS rate was the basis for pricing.

LOS-A CLASS: The LOS-A Class is made up of (i) every customer that was served under HL&P rate schedule LOS-A on the day before the customer discontinued taking service from HL&P on a pre-restructuring rate schedule, and (ii) each new customer that was not served by HL&P under any pre-restructuring rate schedule, but is the type of customer which, if it had been served by HL&P under a pre-restructuring rate schedule would have qualified for service under HL&P's rate schedule LOS-A and has a demand as estimated by the Company of 2,000 kVa or greater. Customers served under rate schedules EIS and HVP are included in the LOS-A class if the customer's contract for service from HL&P provided that the LOS-A rate was the basis for pricing.

LOS-B CLASS: The LOS-B Class is made up of every customer that was served under HL&P rate schedule LOS-B on the day before the customer discontinued taking service from HL&P on a pre-restructuring rate schedule. Customers that were not served by HL&P under any pre-restructuring rate schedule may not be included in this class.

NON-METERED LIGHTING CLASS: The Non-Metered Lighting Class is made up of (i) every customer that was served under HL&P rate schedules SPL, MLS or MTA on the day before the customer discontinued taking service from HL&P on a pre-restructuring rate schedule, and (ii) each new customer which was not served by HL&P under any pre-restructuring rate schedule, but is taking outdoor lighting services which are provided on an unmetered basis using lighting fixtures controlled by photo-electric devices which would have qualified for service under HL&P's pre-restructuring rate schedules SPL, MLS and MTA.

In addition to the six Transition Charge Classes described above, there will be nine additional Transition Charge Classes, each of which is a capped class ("Capped Classes"). Each of the Capped Classes will be made up solely of customers that actually received service from HL&P during the 12-month period ended April 30, 1999 under the HL&P rate schedule related to the

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class and any SIP customers with a contract effective date after April 30, 1999 and before January 1, 2002. The nine Capped Classes, and the related rate schedule, are as follows:

| Capped Class ----- | Related Rate Schedule ----- |
|---|--------------------------------|
| Standby Electric Service - Distribution | SES |
| Interruptible Service Supplemental - Distribution | ISS |
| Interruptible Service - 30 minute notice | IS-30 |
| Interruptible Service - 10 minute notice | IS-10 & SIP |
| Interruptible Service - Instantaneous | IS-I |
| Interruptible Service Supplemental - Transmission | ISS |
| Standby Electric Service - Transmission | SES |
| Standby Interruptible Service | SBI |
| Special Contract Pricing | SCP |

Each customer in one or more of the nine Capped Classes will be charged the Transition Charges for the applicable class only for service the customer actually receives during the billing period up to the Monthly Cap. The Monthly Cap for each customer will be based on the amount of service the customer received under the related rate schedule during the 12-month period ended April 30, 1999 or for any SIP customer, the Monthly Cap will be based on the customer's average monthly interruptible demand corresponding to the initial MFC under the customer's SIP contract effective after April 30, 1999 and before January 1, 2002, and calculated as follows:

(1) For customers which took stand alone standby service (SBI and/or SES without other service), the Monthly Cap for SBI and SES will be the highest demand under the respective rate, during the 12-month period ended April 30, 1999. If a customer began service under SES and/or SBI after April 30, 1999, the Monthly Cap for such customer's will be the highest demand under rate SES or SBI, as applicable, during the period from April 30, 1999 to January 1, 2002, if the customer provides the Company adequate documentation that (i) the additional load served was on-site load normally served by the customer's on-site generation and (ii) the customer's on-site generation was out of service due to forced outage or maintenance. If the customer does not provide the required documentation, the additional load will be billed using the Transition Charges applicable to the LGS Class for distribution voltage customers or LOS-A Class for transmission voltage customers.

(2) For customers which took SBI and/or SES in combination with other services, the Transition Charge for additional load taken in excess of the Monthly Cap will be the Transition Charge for the LOS-A class restated and applied as a cents per Kwh charge if the customer provides the Company adequate documentation that (i) the additional load was lawfully served without use of the Company's transmission and distribution facilities and (ii) the customer's on-site generation was out of service due to forced outage or maintenance. If the customer does not provide the required documentation, the additional

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load will be billed using the Transition Charges applicable to the LOS-A Class for transmission voltage customers applied on a kW basis.

(3) For any SCP customer that also received service under a non-Capped Class, the SCP rate will have a Monthly Cap based on the amount of service the customer received under the SCP rate schedule during the 12-month period ended April 30, 1999. The Monthly Cap will be the customer's monthly maximum hourly kW under the SCP rate schedule during the peak hours as defined herein, summed for the 12-month period ended April 30, 1999 and divided by the number of months during which the customer actually consumed power under the SCP rate schedule.

(4) For all other customers in Capped Classes, the Monthly Cap will be the customer's monthly maximum hourly kW under the related rate schedule during the peak hours as defined herein, summed for the 12-month period ended April 30, 1999 or alternate period applicable to any SIP customer and divided by the number of months during which the customer actually consumed power under the rate schedule. For monthly service in excess of the Monthly Cap(s), the charge associated with customer's non-capped Transition Charge Class will apply. If the customer is served at distribution voltage and did not have service associated with one of the six non-capped Transition Charge Classes, the customer will be required to pay the Transition Charges applicable to the LGS Class for all monthly service in excess of its Monthly Cap. If the customer is served at transmission voltage and did not have service associated with one of the six non-capped Transition Charge Classes, the customer will be required to pay the Transition Charges applicable to the LOS-A Class for all monthly service in excess of its Monthly Cap.

The categories of service historically provided by HL&P ceased to exist after electric business activities were unbundled pursuant to Section 39.051 of the Utilities Code. Similarly, since the advent of customer choice under Section 39.102 of the Utilities Code, retail customers receive service that may not only have different names, but may have different characteristics than the service historically provided by HL&P. The classifications set out in the preceding paragraphs will be applied to determine the Transition Charge applicable to each customer without regard to the descriptions that may be used to describe the services currently provided to retail customers.

SECTION 5: PERIODIC BILLING REQUIREMENT ALLOCATION FACTORS

The initial Periodic Billing Requirement Allocation Factors ("PBRAF") for each Transition Charge Class are set out below. These initial PBRAs will remain in effect throughout the life of the transition bonds unless a modification of the factors is made pursuant to the allocation factor adjustment provisions in Section 6 of this Schedule TC2:

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INITIAL PERIODIC BILLING REQUIREMENT ALLOCATION FACTORS

| TRANSITION CHARGE CLASS ----- | PBRAF ----- |
|--|----------------|
| Residential | % |
| MGS | % |
| LGS | % |
| LOS-A | % |
| LOS-B | % |
| Non-Metered Lighting | % |
| | |
| CAPPED CLASSES | |
| Standby Electric Service- Distribution | % |
| Interruptible Service Supplemental- Distribution | % |
| Interruptible Service - Thirty Minute Notice | % |
| Interruptible Service - Ten Minute Notice | % |
| Interruptible Service - Instantaneous | % |
| Interruptible Service Supplemental - Transmission | % |
| Standby Electric Service - Transmission | % |
| Standby Interruptible Service | % |
| Special Contract Pricing | % |

SECTION 6: ALLOCATION FACTOR ADJUSTMENTS

The PBRAFs will be subject to adjustment using the procedures in this Section 6. Any adjustment required under this Section 6 will be made effective on the date of an annual Standard True-up Adjustment. Required adjustments will be made in the following order: first, adjustments will be made under Part A; second, adjustments will be made under Part B; and third, adjustments will be made under Part C.

For purposes of determining whether an allocation adjustment is required under Parts B and C of this Section 6 and adjusting PBRAFs pursuant to those Parts, the Transition Charge Classes will be combined into three groups (TC Groups) as follows:

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TC GROUPS

| TC GROUP | TRANSITION CHARGE CLASSES | INITIAL GROUP ALLOCATION PERCENTAGE |
|-------------|-------------------------------------|-------------------------------------|
| Residential | Residential | % |
| Commercial | MGS, LGS, Non-Metered Lighting | % |
| Industrial | All other Transition Charge Classes | % |

PART A: ADJUSTMENTS DUE TO LOAD LOSS QUALIFYING UNDER UTILITIES CODE SECTION 39.262(k)

The PBRAFs shall be adjusted consistent with the Utilities Code to reflect the loss of loads due to operations of facilities that are "Eligible Generation" as defined in PUC Subst. Rule 25.345 (c) (2) ("Eligible Generation") except that this Part A shall not apply to, and the term "Eligible Generation" shall not include, load loss due to installation and operation of small power production facilities with a rated capacity of 10 megawatts or less. Any adjustments required under this Part A will be calculated as follows:

Step 1 - The Company will determine the amount of service provided during the twelve months ended April 30, 1999 that has been replaced by Eligible Generation (excluding amounts reflected in either the Initial PBRAFs or a prior adjustment under this Part A) and sum the losses by Transition Charge Class.

Step 2 - The Company will recalculate the PBRAFs for all Transition Charge Classes using the spreadsheet and data used to compute the initial PBRAFs but reducing the demand allocation factors for each Transition Charge Class to reflect the cumulative losses for that class as calculated under Step 1 (including losses for which PBRAF adjustments were made in prior years). No other changes to the spreadsheet or data used to compute the initial PBRAFs will be made. Appendix A to this Schedule TC2 contains the spreadsheet and data used to compute the initial PBRAFs.

Step 3 - An Adjusted Group Allocation Percentage for each TC Group shall then be calculated as the sum of the Adjusted PBRAFs (computed under Step 2) for all Transition Charge Classes within the TC Group.

PART B: INTER-GROUP ADJUSTMENTS DUE TO CUMULATIVE LOAD LOSS NOT ATTRIBUTABLE TO ELIGIBLE GENERATION

In connection with each annual Standard True-up Adjustment, the Company will compare the projected billing determinants being used to set Transition Charges for each Transition Charge Class during the ensuing year to the billing determinants in effect on the original effective date of

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Schedule TC2 (adjusted to exclude any billing determinants attributable to Eligible Generation if any adjustment was made under Part A after the original effective date) (such billing determinants as adjusted are hereafter referred to as the "Base Billing Determinants"). The PBRAFs of all Transition Charge Classes in all TC Groups will be adjusted if one or more TC Groups experience load loss (calculated excluding load loss attributable to Eligible Generation for which adjustments have been made under Part A but including load loss attributable to small power production facilities of 10 megawatts or less) aggregating 50% or more on a cumulative basis when measured against the Base Billing Determinants. The adjustments under this Part B will be made using the following procedures:

Step 1:

For each TC Group, if $CTCOL(G) / PBR(G) \geq 0.50$ Then, no PBRF adjustment will occur and any adjustment made in previous years under Part B shall be reversed

For each TC Group, if $CTCOL(G) / PBR(G) < 0.50$ Then, a PBRF adjustment will be calculated pursuant to Steps 2 through 5.

Where:

$CTCOL(G)$ = cumulative test collections for group $G = (\sum) CC(c) * FBU(c)$
for all classes (c) in Group (G)

$FBU(c)$ = forecasted billing determinants for class c

$CC(c)$ = cumulative test charge for class c = $\{PBRF(c) * PBR(T)\} / BBD(c)$

$PBRF(c)$ = the PBRAFs then in effect, or if an adjustment has been made under Part A, the adjusted PBRAFs from Part A

$PBR(T)$ = total periodic billing requirement for upcoming period

$BBD(c)$ = Base Billing Determinants for class c

$PBR(G)$ = periodic billing requirement for group = $(\sum) PBRF(c) * PBR(T)$
for all classes in G

Step 2:

For each TC Group in Step 1 where $CTCOL(G) / PBR(G) < 0.50$, a reduction amount (RED(G)) will be calculated for group G where
 $RED(G) = 0.5 (PBR(G) - CTCOL(G))$

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Step 3:

For all TC Groups, a reallocation amount for that group (RA(G)) shall be calculated where:

$$RA(G) = GAP(G) * \{(\sigma) RED(G)\} \text{ for all Groups}$$

Where:

$GAP(G)$ = Group Allocation Percentage = $(\sigma) PBRAF(c)$ for all classes in the group

Step 4:

For all TC groups a Group Allocation Percentage Adjustment (GAPA(G)) shall be calculated where:

$$GAPA(G) = (RA(G) - RED(G)) / PBR(T)$$

Where:

$$(\sigma) GAPA(G) = 0 \text{ for all } G$$

Step 5:

For all TC classes, the PBRAF adjustment for class c (PBRAFA(c)) will be calculated for use in calculating adjustments to the Transition Charges under Section 8, Part A where

$$PBRAFA(c) = GAPA(G) * (PBRAF(c)/GAP(G))$$

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PART C: INTER-GROUP ADJUSTMENTS DUE TO YEAR-OVER-YEAR LOAD LOSS NOT ATTRIBUTABLE
TO ELIGIBLE GENERATION

In connection with each annual Standard True-up Adjustment, the Company will compare the projected billing determinants being used to set Transition Charges for each Transition Charge Class during the ensuing year to the forecasted billing determinants used to develop the then currently effective Transition Charges for the class minus the Eligible Generation load loss for the class determined in Step 1 of Part A after the billing determinant for the currently effective Transition Charges was determined (such adjusted amount is hereinafter referred to as the "Prior Year Billing Determinant"). The PBRAFs of all Transition Charge Classes in all TC Groups will be adjusted if (i) one or more TC Groups experience load loss (calculated excluding load loss attributable to Eligible Generation for which adjustments have been made under Part A but including load loss attributable to small power production facilities of 10 megawatts or less) of 10% or greater on a year-over-year basis when compared to the Prior Year Billing Determinants or (ii) any TC Group for which an adjustment was made under this Part C in one or more prior years experiences load growth resulting in projected billing determinants for the current year at a level which, if they had existed in one or more of such prior year(s) would have resulted in no adjustment to PBRAFs in such prior year(s). No reduction in PBRAFs will be made under this Part C for any TC Group for which a reduction amount was computed under Step 5 of Part B. The adjustments under this Part C will be made using the following procedures:

Step 1:

For each TC Group not adjusted under Part B,

If $YCOL(G) / PBR(G) \geq 0.90$ Then, no PBRF adjustment will occur.

If $YCOL(G) / PBR(G) > 1.00$ Then, no PBRF adjustment will occur and any prior year adjustments made under C will be reversed pursuant to step 6.

If $YCOL(G) / PBR(G) < 0.90$ Then, a PBRF adjustment will be calculated pursuant to Steps 2 through 5.

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Where:

$YTCOL(G) = \text{year-to-year test collections for group } G = (\text{sigma}) YC(c) * FBU(c)$ for all classes (c) in Group (G)

$FBU(c) = \text{forecasted billing determinants for class } c$

$YC(c) = \text{year-to-year test charge for class } c = \{PBRAF(c) * PBR(T)\} / FBU(c) - (1)$

$PBRAFC(c) = \text{the } PBRAF(s) \text{ then in effect, or if an adjustment has been made under Part A, the adjusted } PBRAF(s) \text{ from Part A}$

$PBR(T) = \text{total periodic billing requirement for upcoming period}$

$FBU(c) - (1) = \text{prior year's forecasted billing determinants for class } c$

$PBR(G) = \text{periodic billing requirement for group } = (\text{sigma}) PBRAF(c) * PBR(T)$ for all classes in the group

Step 2:

For each TC Group in Step 1 where $YTCOL(G) / PBR(G) < 0.90$, a year to year reduction amount (YRED(G)) shall be calculated where

$$YRED(G) = 0.9 (PBR(G) - YTCOL(G))$$

Step 3:

For all TC Groups, a year to year reallocation amount (YRA(G)) shall be calculated where:

$$YRA(G) = GAP(G) * \{(\text{sigma}) YRED(G)\} \text{ for all groups}$$

Where:

$GAP(G) = \text{Group Allocation Percentage} = (\text{sigma}) PBRAF(c)$ for all classes in the group

Step 4:

For all TC groups a year to year group allocation percentage adjustment (YGAPA(G)) shall be calculated where:

$$YGAPA(G) = (YRA(G) - YRED(G)) / PBR(T)$$

Where $(\text{sigma}) GAPA(G) = 0$ for all G

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Step 5:

For all TC classes, a year to year PBRaf adjustment (YPBRAFA(c)) shall be calculated for use in calculating adjustments to the Transition Charges under Section 8, Part A where:

$$YPBRAFA(c) = YGAPA(G) * (PBRaf(c) / GAP(G))$$

Step 6:

if $\frac{\sum (YC(c) * FBU(c))}{\sum (YC(c) * FBU(c)(t-1))} \geq .90$ (for all classes in group G) then the adjustment made in year t shall be discontinued.

if $\frac{\sum (YC(c) * FBU(c))}{\sum (YC(c) * FBU(c)(t-1))} < .90$ (for all classes in group G) then the adjustment made in year t carries forward.

Where FBU(c)(t-1) is the forecasted billing determinants from the year prior to the year an adjustment was made adjusted to reflect any adjustments made under part A between year t-1 and the current year.

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PART D: ADJUSTMENTS TO BASE CLASS ALLOCATIONS

The methodology used to allocate qualified costs and determine Transition Charges shall not be changed except in the limited circumstance described in this paragraph. If, but only if, the total retail stranded costs (determined pursuant to Section 39.253 of the Utilities Code) on a statewide basis exceed \$5 billion, then the qualified costs attributable to the Company's share of the statewide stranded costs in excess of \$5 billion shall be reallocated using the allocation methodology prescribed in Section 39.253(f) of the Utilities Code. The Company's share of the statewide stranded costs in excess of \$5 billion shall be determined by multiplying (i) the percentage obtained by dividing the Company's total stranded costs (determined pursuant to Section 39.253(f)) by the total statewide stranded costs (determined pursuant to Section 39.253(f)) by (ii) the amount by which the total statewide stranded costs (determined pursuant to Section 39.253(f)) exceed \$5 billion. The qualified costs attributable to the Company's share of the statewide stranded costs shall then be determined by multiplying (i) the Company's share of the statewide stranded costs by (ii) the percentage obtained by dividing (a) the Company's stranded costs (determined pursuant to Section 39.253(f)) which were securitized pursuant to the Financing Order dated ____ in Docket No. ____ by (b) the Company's total stranded costs (determined pursuant to Section 39.253(f)). The Company shall file the adjustments required herein, within 45 days after the Commission issues any order determining a utility's stranded costs or regulatory assets that causes the total statewide stranded costs (determined pursuant to Section 39.253(f)) to exceed \$5 billion or changes the amount by which the total statewide stranded costs (determined pursuant to Section 39.253(f)) exceed \$5 billion. Any changes in Transition Charges resulting from a change in the initial or adjusted PBRAFs under this Part D shall be made prospectively from the date of the Commission's order approving adjusted PBRAFs under this Part D. No change in an initial or adjusted PBRF shall cause the sum of all PBRAFs to be more than or less than 100% or change the total Periodic Billing Requirement for any period. Transition Charges for services rendered prior to such effective date will not be changed. Future changes to the PBRAFs underlying the recomputed Transition Charges, if necessary under Parts A - D of this Section 6 will be computed pursuant to this Section 6 using the initial and adjusted PRBAFs as determined by the Commission pursuant to this Part D.

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SECTION 7: TRANSITION CHARGES

The Transition Charges to be applied beginning on the effective date of this Schedule TC2 are set out below. Transition Charges to be applied in subsequent periods (Adjusted Transition Charges) will be determined in the manner described in Section 8.

TRANSITION CHARGES

| TRANSITION CHARGE CLASS ----- | PER UNIT CHARGE ----- | BILLING UNIT ----- |
|--|--------------------------|--------------------------|
| Residential | \$ | Per kWh |
| MGS | \$ | Per kW |
| | \$ | Per kWh |
| LGS | \$ | Per kVa |
| | \$ | Per kW |
| LOS-A | \$ | Per kW |
| LOS-B | \$ | Per kW |
| Non-Metered Lighting | \$ | Per kWh |
| CAPPED CLASSES: | | |
| Standby Electric Service- Distribution | \$ | Per kW |
| Interruptible Service Supplemental- Distribution | \$ | Per kW |
| Interruptible Service - Thirty Minute Notice | \$ | Per kW |
| Interruptible Service - Ten 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 |
| Special Contract Pricing | \$ | Per kW |

The Transition Charges shall be applied on a kW basis for all service provided at Transmission voltage and for all service provided to Capped Classes and to any LGS customer that also received SES-Distribution service. The kW to be used in calculating the bill for those customers obligated to pay on a kW basis will be the highest kW for the month measured over a one hour period occurring on weekdays (Monday through Friday) during the sixteen hours beginning with

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and including the hour that ends at seven (a.m.) (07:00) and extending until the hour that ends at ten p.m. (22:00), local time (central standard or central daylight saving time, as appropriate).

Except for customers in the MGS class, the Transition Charges shall be applied on a kVa basis for all service provided at distribution voltage (other than service at distribution voltage to Capped Classes or to LGS customers that also received SES-Distribution service) and whose kVa is greater than 10 kVa in the billing month. The kVa will be the highest kVa measured over a 15 minute period during the month if the metering equipment has indicators for measuring and recording only the highest demand during the billing period, otherwise if the metering equipment measures and records continuously for all 15 minute periods the kVa will be the average of the 4 highest 15 minute periods measured during the billing period. If the demand meters used to meter service to a customer measure service is on a kW basis instead of a kVa basis or measure in intervals different than 15 minutes (e.g. 5, 10, 30 minutes) the transition charge to the customer will be based on the kW with the interval measurement period closest to a 15 minute period.

Transition Charges will be applied on a kWh basis for those customers with watt-hour meters and those customers with demand meters whose measured demand is 10 kVa or less, all Residential customers, all Non-Metered Lighting customers and all MGS customers served at distribution voltage.

Each retail customer shall be obligated to pay Transition Charges for its applicable class. The Transition Charge shall be applied to all service received by the customer during the applicable billing period. If a customer was taking service in more than one rate class through one point of service on April 30, 1999, or on the day before the customer discontinued taking service from HL&P on a pre-restructuring rate schedule, its Transition Charges shall be determined as follows:

1. For customers taking service under two or more rates through a single meter, the following order will be used to determine Transition Charges for the customer:
 - (a) If the customer takes service in one or more Capped Classes (other than SCP) through a single meter, the service shall be allocated first to Capped Classes in ascending order of unit Transition Charges beginning with the Capped Class with the lowest unit Transition Charge. All service to the customer, up to the lesser of (i) the highest hourly on-peak kW for total premises load (Total kW) or the Monthly Cap for the class, shall be deemed to be service under the Capped Class with the lowest unit Transition Charge. If the Total kW is greater than the Monthly Cap for the class with lowest unit Transition Charge, the difference up to the Monthly Cap for the Capped Class with the next lowest unit Transition Charge will be deemed to be service under the Capped Class with the next

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lowest unit Transition Charge. The remainder will then similarly be allocated to each other Capped Class under which the customer is served until the Total kW has been allocated or all applicable Monthly Caps have been reached.

- (b) If the total amount allocated to Capped Classes under (a) is less than the Total kW, the remainder, up to the Monthly Cap for SCP shall be deemed to be service provided under SCP.
- (c) Any amount remaining after the allocations in (a) and (b) will be deemed to be service provided under the Transition Charge Class (other than Capped Classes and SCP) that is applicable to the customer. If the customer is not otherwise taking service under any Transition Charge Class (other than Capped Classes and SCP) the amount remaining after the allocations in (a) and (b) shall be deemed to be service under LOS-A, if the customer is served at transmission voltage, or under LGS, if the customer is served at distribution voltage.

In addition, each customer which has New On-Site Generation shall pay an amount each month computed by multiplying the output of the on-site generation used to serve the internal electric requirements of the customer (either kW or kVa, as determined by the Transition Charge class for which the customer would qualify if it were being served by the Company or an REP) by the Transition Charge in effect for services provided to customers in that class during the month. This amount shall be in addition to any Transition Charges applicable to energy or demand actually delivered to the customer through the Company's or another T&D Provider's facilities.

SECTION 8: STANDARD TRUE-UP FOR ADJUSTMENT OF TRANSITION CHARGES

Transition Charges will be adjusted annually effective on _____ to ensure that the expected collection of Transition Charges is adequate to pay principal and interest on the transition bonds when due pursuant to the expected amortization schedule, pay as due all other qualified costs and to fund the overcollateralization account to the required level. In addition to these annual true-up adjustments, true-up adjustments may be made more frequently at any time during the term of the transition bonds to correct any undercollection or overcollection, as provided for in the Financing Order, in order to assure timely payment of transition bonds based on rating agency and bondholder considerations. In addition to the foregoing, either of the following two conditions may result in an interim true-up adjustment in the month prior to an upcoming transition bond principal payment date:

- (a) The collection of transition charges for the upcoming payment date will result in a difference that is greater than 5% in absolute value, between (i)

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the actual outstanding principal balances of the transition bonds plus amounts on deposit in the reserve subaccount and (ii) the outstanding principal balances anticipated in the target amortization schedule; or

- (b) To meet a rating agency requirement that any series of transition bonds be paid in full by the expected maturity date for any series of transition bonds that matures after a date determined mutually, at the time of pricing by CenterPoint Houston and the Commission's designated personnel or financial advisor.

In no event will interim true-up 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 true-up adjustments for any transition bonds remaining outstanding during the fourteenth and fifteenth year after the bonds are issued may occur quarterly.

All annual and interim adjustments will be designed to cause (i) the outstanding principal balance of the transition bonds to be equal to the scheduled balance on the expected amortization schedule; (ii) the amount in the overcollateralization subaccount to be equal to the required overcollateralization level; (iii) the amount in the capital subaccount to be equal to the required capital plus any investment earnings on amounts in the capital subaccount to the extent that the investment earnings have not been released to the SPE and (iv) the reserve subaccount to be zero by the payment date immediately preceding the next adjustment or by the final payment date, if the next payment date is the final payment date.

PART A: TRUE-UP ADJUSTMENT PROCEDURE FOR STANDARD AND INTERIM TRUE-UPS

Servicer will calculate the Adjusted Transition Charges using the methodology described below and will file the Adjusted Transition Charges with the Commission. Annual adjustments will be filed 15 days prior to the effective date of the Adjusted Transition Charges unless an adjustment to the PBRAFs is required under Section 6 (including Intra-Group Allocation Adjustments under Part D of Section 6) in which case the annual adjustment will be filed not later than 90 days prior to the effective date. Interim Adjustments will be filed not less than 15 days prior to the effective date of the Adjusted Transition Charges.

The Adjusted Transition Charge for the upcoming period for each class (TCc) shall be computed as follows:

For the residential class,

$$TC(c) = PBR(T) * (PBRAF(c) + PBRAFA(c) + YPBRAFA(c)(t)) / FBU(c)$$

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For classes in the Commercial and Industrial TC Groups, except if any class in the Industrial Group is forecast for the ensuing period to experience more than a 10% reduction in billing determinants compared to the industrial base billing determinants for that class, then the transition charges for the classes within the Industrial TC Group will be determined according to Section 8, Part B:

$$TC(c) = TC(c)(-1) \{(\sigma) [PBR(T) * (PBR AF(c)+PBRAFA(c)+YPBRAFA(c)(t))] / (\sigma)(TC(c)(-1)*FBU(c))\}$$

For all classes in the applicable group.

Where

TC(c)(-1) = the transition charge for that class from the previous period

PBR(T) = Periodic Billing Requirement for the ensuing period (the 12 months beginning on the effective date of the adjusted transition charges in the case of annual true-ups and the period until the next scheduled annual true-up in the case of interim adjustments). The Periodic Billing Requirement will be the amounts required to pay principal and interest on the transition bonds when due pursuant to the expected amortization schedule, pay as due all other qualified costs, fund the overcollateralization account to the required level, and recover any net system under-collections or credit any net system over-collections so that (i) the outstanding principal balance of the transition bonds will be equal to the scheduled balance on the expected amortization schedule; (ii) the amount in the overcollateralization subaccount will be equal to the required overcollateralization level; (iii) the amount in the capital subaccount will be equal to the required capital plus any investment earnings on amounts in the capital subaccount to the extent that the investment earnings have not been released to the SPE and (iv) the reserve subaccount will be zero by the payment date immediately preceding the next adjustment or by the final payment date, if the next payment date is the final payment date.

PBR AF(c) = the PBR AFs then in effect, or if an adjustment has been made under Section 6, Part A, the adjusted PBR AFs from Section 6, Part A.

PBRAFA(c) = the adjustment (if any) from Section 6, Part B, Step 5

YPBRAFA(c)(t)= the adjustment from Section 6, Part C, Step 5 for every year t in which an adjustment was made unless that adjustment was discontinued under Section 6, Part C, Step 6.

FBU(c) = the forecasted billing determinants for the upcoming period

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PART B: INTRA INDUSTRIAL GROUP ADJUSTMENTS DUE TO CUMULATIVE LOAD LOSS NOT
ATTRIBUTABLE TO ELIGIBLE GENERATION

In connection with each annual Standard True-up Adjustment, the Company will compare the projected billing determinants being used to set Transition Charges for each Industrial Group Transition Charge Class during the ensuing year to the billing determinants for the period November 2003 through October 2004 (adjusted to exclude any billing determinants attributable to Eligible Generation if any adjustment was made under Section 6, Part A after October 2004) (such billing determinants as adjusted are hereafter referred to as the "Industrial Base Year Billing Determinants"). The Transition Charges of all Transition Charge Classes in the Industrial TC Group will be adjusted if one or more Transition Charge Classes experience load loss (calculated excluding load loss attributable to Eligible Generation for which adjustments have been made under Section 6, Part A but including load loss attributable to small power production facilities of 10 megawatts or less) aggregating more than 10% on a cumulative basis when measured against the Industrial Base Year Billing Determinants. The adjustments under this Part B will be made using the following procedures:

Step 1:

If $FBU(c) / IBD(c) > \text{or} = 0.90$ for each Industrial TC Class Then, no adjustments will occur under this Section 8, Part B and the transition charge for each Industrial TC class will be calculated under Section 8, Part A.

If $FBU(c) / IBD(c) < 0.90$ for any Industrial TC Class (Load Loss Class) Then, adjustments will be calculated pursuant to Steps 2 through 6.

Where:

$FBU(c)$ = forecasted billing determinants for class c

$IBD(c)$ = Industrial Base Year Billing Determinants for class c

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Step 2:

For each Industrial TC Class in Step 1 where $FBU(c) / IBD(c) < 0.90$, a reduction amount $RED(c)$ will be calculated as follows:

$$RED(c) = PBR(c) - TCLL(c)$$

Where:

$$PBR(c) = PBR(T) * PBRAF(c)$$

$$TCLL(c) = \text{Test Collections with 10\% Load Loss for Class } c = [PBR(c) / (IBD(c) * 0.9)] * FBU(c)$$

$PBR(T)$ = total periodic billing requirement for upcoming period

$PBRAF(c)$ = the $PBRAF(s)$ then in effect, including any adjustment made under Section 6, Part A; plus any adjustment made under Section 6, Part B and Section 6, Part C unless the adjustment was discontinued.

Step 3:

For each Industrial TC class for which a reduction amount was not calculated in Step 2 and whose $TC(c)(-1) = TC(LOSA)(-1)$, a reallocation amount shall be calculated as follows:

$$RA(c) = IAP(c) * (\text{sigma}) RED(c) \text{ for all classes}$$

Where:

$IAP(c)$ = Intra-Group Allocation Percentage for class $c = PBRAF(c) / (\text{sigma}) PBRAF(c)$ for all Industrial TC Classes for which a reduction amount was not calculated in Step 2 and whose $TC(c)(-1) < \text{or} = TC(LOSA)(-1)$

$TC(LOSA)(-1)$ = Transition Charge implemented for the LOSA TC class in the last true-up filing

$TC(c)(-1)$ = Transition Charge implemented for class c in the last true-up filing

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Step 4:

The adjusted transition charge for a class (TC(c)) shall be calculated as follows:

For those Industrial TC Classes receiving a reallocation amount in Step 3: $TC(c) = [PBR(c) + RA(c)] / FBU(c)$

For all other Industrial TC Classes:
 $TC(c) = [PBR(c) - RED(c)] / FBU(c)$

Step 5:

Calculate the percent increase in the Transition Charge from the Base Year as follows:

$$PI(c) = (TC(c)/TC(c)(BASE)) - 1$$

Where:

TC(c) = The adjusted transition charge calculated in Step 4

TC(c)(BASE) = The transition charge calculated using the Industrial Base Year Billing Determinants.

Step 6:

A. For any Industrial TC Class where PI is less than the PI for the TC Classes identified in Step 1 as Load Loss Classes:

$$TC(c)(FINAL) = TC(c)$$

B. If PI for any Industrial TC Class is greater than or equal to the PI for the Load Loss Classes identified in Step 1, then calculate an initial Equal Percent Increase for that class and the Load Loss Classes identified in Step 1:

$$TC(c)(FINAL) = TC(c)(BASE) * (1 + EPI(INITIAL))$$

Where:

$EPI(INITIAL) = \text{initial Equal Percent Increase} = (\text{sigma}) (TC(c) * FBU(c)) / (\text{sigma}) (TC(c)(BASE) * FBU(c))$ for only those Industrial TC Classes identified in Step 1 as Load Loss Classes and TC classes with a PI greater than or equal to those Industrial TC Load Loss Classes identified in Step 1.

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- C. In the event that EPI(INITIAL) for any Industrial TC Class, other than a Load Loss Class identified in Step 1, exceeds the PI(c) calculated in Step 5, then for that Class,

$$TC(c)(FINAL) = TC(c)$$

- D. For the remaining classes, a final Equal Percent Increase will be calculated to reflect the exclusion of the Classes identified in Step 6, Parts A and C above as follows:

$$TC(c)(FINAL) = TC(c)(BASE) * (1 + EPI(FINAL))$$

Where:

$$EPI(FINAL) = \frac{\text{final Equal Percent Increase} = (\text{sigma}) (TC(c) * FBU(c)) / (\text{sigma}) (TC(c)(BASE) * FBU(c))}{\text{for only those Industrial TC Classes remaining in Step 6, Part D.}}$$

SECTION 9: BILLING AND COLLECTION TERMS AND CONDITIONS

Transition Charges will be billed and collected as set forth in this Schedule TC2. The terms and conditions for each party are set forth below.

A. Billings by Servicer to other T or D Providers:

1. Transition Charges applicable to former retail customers of the Company in multiply certificated service areas who are now taking service directly from other T or D Providers or through REPs served by other T or D Providers will be billed to and collected from the other T or D Provider, which, in turn will be responsible for collecting the Transition Charges from the retail customers and REPs.
2. The T or D Provider shall pay all Transition Charges not later than 35 days after bill is mailed by Servicer. The T or D Provider shall make such payment regardless of whether it collects such charges from the end-use retail customer or REP.

B. Billings by Servicer to New On-Site Generation:

1. Customers subject to Transition Charges for New On-Site Generation shall pay such charges in full not later than sixteen days after the date the bill is mailed to the customer.
2. Transition Charges applicable to New On-Site Generation are in addition to applicable transition charges under A above or C below.

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3. If the entity with New On-Site Generation receives transmission or distribution service from the Company or another T or D Provider, Servicer shall have the same right to terminate service or require the other provider to terminate service for non-payment of Transition Charges as the Company has to terminate service for non-payment of charges under the Company's rate schedules. Any termination shall comply with applicable Commission rules.

C. Billings by the REP or its replacement to end-use customers:

1. REPs will bill and collect, or cause to be billed and collected, all Transition Charges applicable to consumption by retail customers served by the REP.
2. If Servicer is providing the metering, metering data will be provided to the REP at the same time as the billing. If Servicer is not providing the metering, the entity providing metering services will be responsible for complying with Commission rules and ensuring that Servicer and the REP will receive timely and accurate metering data in order for Servicer to meet its obligations under the Servicing Agreement and the Financing Order with respect to billing and true-ups.
3. Each REP must (1) have a long-term, unsecured credit rating of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively, or (2) provide (A) a deposit of two months' maximum expected Transition Charge collections in the form of cash, (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 REP defaults in its payment obligations, or (C) a combination of any of the foregoing. A REP that does not have or maintain the requisite long-term, unsecured credit rating may select which alternate form of deposit, credit support, or combination thereof it will utilize, in its sole discretion. The indenture trustee shall be the beneficiary of any affiliate guarantee, surety bond or letter of credit. The provider of any affiliate guarantee, surety bond, or letter of credit must have and maintain a long-term, unsecured credit ratings of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively.
4. If the long-term, unsecured credit rating from either Standard & Poor's or Moody's Investors Service of a REP 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 REP must provide the alternate form of deposit, credit support, or combination thereof, or new forms thereof, in each case from providers with the requisite ratings, within 10 business days following such suspension, withdrawal, or downgrade. A REP failing to

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make such provision must comply with the provisions set forth in paragraph 3 of Section D, Billings by Servicer to the REP or its replacement (when applicable).

5. The computation of the size of a required deposit shall be agreed upon by Servicer and the REP, 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 REP shall remit to the indenture trustee the amount of any shortfall in such required deposit or (2) Servicer shall instruct the indenture trustee to remit to the REP any amount in excess of such required deposit. A REP failing to so remit any such shortfall must comply with the provisions set forth in Paragraph 3 of the Section D, Billings by Servicer to the REP or its replacement (when applicable). REP cash deposits shall be held by the indenture 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 REP cash deposits shall be considered part of such cash deposits so long as they remain on deposit with the indenture trustee. At the instruction of Servicer, cash deposits will be remitted with investment earnings to the REP at the end of the term of the transition bonds unless otherwise utilized for the payment of the REP's obligations for Transition Bond payments. Once the deposit is no longer required, Servicer shall promptly (but not later than 30 calendar days) instruct the indenture trustee to remit the amounts in the segregated accounts to the REP.
6. In the event that a REP or the Provider of Last Resort (POLR) is billing customers for Transition Charges, the REP shall have the right to transfer the customers to the POLR (or to another certified REP) or to direct Servicer to terminate transmission and distribution service to the end-use customer for non-payment by the end-use customer pursuant to applicable Commission rules.

D. Billings by Servicer to the REP or its replacement (when applicable):

1. Servicer will bill and collect from REPs all Transition Charges applicable to consumption by retail customers served by the REP, including applicable customers served by New On-Site Generation.
2. Payments of Transition Charges are due 35 calendar days following each billing by Servicer to the REP, without regard to whether or when the REP receives payment from the end-use retail customers. 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 Servicer, or the date the check clears. A 5% penalty is to be charged on amounts received after 35 calendar days; however, a 10 calendar-day grace period will be allowed before the REP is considered to be in default. A REP in default must

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comply with the provisions set forth in paragraph 3 of this Section D. The 5% penalty will be a one-time assessment measured against the current amount overdue from the REP to Servicer. The "current amount" consists of the total unpaid Transition Charges existing on the 36th calendar day after billing by Servicer. Any and all such penalty payments will be made to the indenture trustee to be applied against Transition Charge obligations. A REP shall not be obligated to pay the overdue Transition Charges of another REP. If a 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 5% penalty upon such Transition Charges; however, the prior REP shall not be relieved of the previously-assessed penalties.

3. After the 10 calendar-day grace period (the 45th calendar day after the billing date), Servicer shall have the option to seek recourse against any cash deposit, affiliate guarantee, surety bond, letter of credit, or combination thereof provided by the REP, and avail itself of such legal remedies as may be appropriate to collect any remaining unpaid Transition Charges and associated penalties due Servicer after the application of the REP's deposit or alternate form of credit support. In addition, a REP that is in default with respect to the requirements set forth in paragraphs 4 and 5 of Section C and paragraph 2 of this Section D shall select and implement one of the following options:
- (a) Allow the POLR or a qualified REP of the customer's choosing to immediately assume the responsibility for the billing and collection of Transition Charges.
 - (b) Immediately implement other mutually suitable and agreeable arrangements with Servicer. It is expressly understood that Servicer's ability to agree to any other arrangements will be limited by the terms of the Servicing Agreement and requirements of rating agencies that have rated the transition bonds necessary to avoid suspension, withdrawal or downgrade of the ratings on the transition bonds.
 - (c) Arrange that all amounts owed by retail customers for services rendered be timely billed and immediately paid directly into a lock-box controlled by Servicer with such amounts to be applied first to pay Transition Charges before the remaining amounts are released to the REP. All costs associated with this mechanism will be borne solely by the REP.

If a REP that is in default does not immediately select and implement one of the options specified in (a), (b) or (c) or, after so selecting one of the foregoing options, fails to adequately meet its responsibilities thereunder, then Servicer shall

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immediately implement option (a), subject to the limitations and requirements of the bankruptcy code if the REP is a debtor in bankruptcy. Upon re-establishment of compliance with the requirements set forth in paragraphs 4 and 5 of Section C and paragraph 2 of this Section D and the payment of all past-due amounts and associated penalties, the REP will no longer be required to comply with this paragraph 3.

4. The POLR appointed by the Commission must meet the minimum credit rating or deposit/credit support requirements described in paragraph 3 of Section C ("Billings by the REP or its Replacement to end-use customers") in addition to any other standards that may be adopted by the Commission. If the POLR 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 Servicer until a new POLR can be named by the Commission or the customer requests the services of a certified REP. Retail customers may never be re-billed by the successor REP, the POLR, or Servicer for any amount of Transition Charges they have paid their REP (although future Transition Charges shall reflect REP and other system-wide charge-offs). Additionally, if the amount of the penalty detailed in paragraph 2 of this Section D is the sole remaining past-due amount after the 45th calendar day, the REP shall not be required to comply with clauses (a), (b) or (c) of paragraph 3 of this Section D, unless the penalty is not paid within an additional 30 calendar days.
5. In the event that Servicer is billing customers for Transition Charges, Servicer shall have the right to terminate transmission and distribution service to the end-use customer for non-payment by the end use customer pursuant to applicable Commission rules.
6. The REP will be allowed to hold back an allowance for charge-offs in its payments to Servicer. Such charge-off rate will be recalculated each year in connection with the annual true-up procedure. In the initial year, REPs will be allowed to remit payments based on the same charge-off percentage then being used by the REP to remit payments to the servicer in connection with transition charges related to transition bonds issued by CenterPoint Energy Transition Bond Company, LLC on October 24, 2001. On an annual basis in connection with the true-up adjustment process, the REP and 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 Servicer, provided that:
 - (a) The REP's right to reconciliation for write-offs will be limited to customers whose service has been permanently terminated and whose

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entire accounts (i.e., all amounts due the REP for its own account as well as the portion representing Transition Charges) have been written off.

- (b) The REP's recourse will be limited to a credit against future Transition Charge payments unless the REP and Servicer agree to alternative arrangements, but in no event will the REP have recourse to the indenture trustee, the SPE or the SPE's funds for such payments.
 - (c) The REP shall provide information on a timely basis to Servicer so that 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 and the REP's rights to credits will not take effect until such adjusted Transition Charge rates have been implemented.
7. In the event that a REP disputes any amount of billed Transition Charges, the REP shall pay the disputed amount under protest according to the timelines detailed in paragraph 2 of this Section D. The REP and Servicer shall first attempt to informally resolve the dispute, but if they fail to do so within 30 calendar days, either party may file a complaint with the Commission. If the REP is successful in the dispute process (informal or formal), the REP shall be entitled to interest on the disputed amount paid to Servicer at the Commission-approved interest rate. Disputes about the date of receipt of Transition Charge payments (and penalties arising thereof) or the size of a required REP deposit will be handled in a like manner. It is expressly intended that any interest paid by Servicer on disputed amounts shall not be recovered through Transition Charges if it is determined that Servicer's claim to the funds is clearly unfounded. No interest shall be paid by Servicer if it is determined that Servicer has received inaccurate metering data from another entity providing competitive metering services pursuant to Utilities Code Section 39.107.
8. If Servicer is providing the metering, metering data will be provided to the REP at the same time as the billing. If Servicer is not providing the metering, the entity providing metering services will be responsible for complying with Commission rules and ensuring that Servicer and the REP will receive timely and accurate metering data in order for Servicer to meet its obligations under the Servicing Agreement and the Financing Order with respect to billing and true-ups.

OTHER TERMS AND CONDITIONS

If the customer or REP pays only a portion of its bill, a pro-rata portion of Transition Charge revenues shall be deemed to be collected. The Company will allocate any shortfall first, ratably based on the amount owed for Transition Charges and the amount owed for other fees and

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charges, other than late charges, owed to the Company or any successor, and second, all late charges shall be allocated to the Company or any successor.

If the Company does not regularly include the notice described below in the bills sent by it to REPs or directly to retail customers, then at least once each year the Company shall cause to be prepared and delivered to REPs and such customers a notice stating, in effect, that the amount billed includes Transition Charges which were authorized by the Financing Order dated _____ and have been transferred to and are being collected on behalf of CenterPoint Energy Transition Bond Company II, LLC and are not owned by the Company. In the customer's initial bill from the REP and at least once each year thereafter, each REP that bills Transition Charges shall cause to be prepared and delivered to its customers a notice stating, in effect, that the amount billed includes Transition Charges which were authorized by the Financing Order dated _____ and have been transferred to and are being collected on behalf of CenterPoint Energy Transition Bond Company II, LLC and are not owned by the REP or the Company, and that under certain circumstances described in Schedule TC2 Servicer may be permitted to collect the Transition Charges directly from the retail customer. Such notice shall be included either as an insert to or in the text of the bills delivered to such REPs or customers, as applicable, or shall be delivered to REPs or customers by electronic means or such other means as Servicer or the REP may from time to time use to communicate with their respective customers.

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APPENDIX C

UP-FRONT AND ONGOING COSTS CAPS

APPENDIX C : UPFRONT COSTS ELIGIBLE FOR SECURITIZATION AND ONGOING COSTS
RECOVERABLE THROUGH TC

| | Upfront Cost ----- | Ongoing Cost ----- |
|---|-----------------------|-----------------------|
| Item 1 Underwriters' Fees | 7,379,577 | 2005 1,055,500 |
| Item 2 Legal Fees/Exp for Company's/Issuer's Counsel | -- | 2006 1,055,500 |
| Item 3 Legal Fees/Exp for Underwriters' Counsel | 2,000,000 | 2007 1,055,500 |
| Item 4 Fee for Commission's Financial Advisor | 1,000,000 | 2008 1,055,500 |
| Item 5 Rating Agency Fees | 1,050,000 | 2009 1,055,500 |
| Item 6 Fee for Company's Financial Advisor | 375,000 | 2010 1,055,500 |
| Item 7 Printing/Edgarizing Expenses | 350,000 | 2011 1,055,500 |
| Item 8 SEC Registration Fee | 177,923 | 2012 1,055,500 |
| Item 9 Securitization Proceeding Expenses | 130,000 | 2013 1,055,500 |
| Item 10 Miscellaneous Administrative Costs | 100,000 | 2014 1,055,500 |
| Item 11 Accountant's Fees | 75,000 | 2015 1,055,500 |
| Item 12 Servicer Set-up Costs | 30,000 | 2016 1,055,500 |
| Item 13 Trustee's/Trustee's Counsel Fees and Expenses | 22,500 | 2017 1,055,500 |
| Item 14 Legal Fees for Commission's Counsel | 10,000 | 2018 1,055,500 |
| Total | 12,700,000 | Total 14,777,000 |

Itemized Ongoing Cost

| | |
|--|-----------------------|
| Ongoing Servicer Fee (CEHE as Servicer) (0.05% of principal amount) | \$ 702,500 |
| Ongoing Servicer Fee (Third Party as Servicer) (0.60% of principal amount) | 8,430,000 |
| Administration Fee | 100,000 |
| Accountants' Fee | 75,000 |
| Legal Fees/Expenses for Company's/Issuer's Counsel | 50,000 |
| Trustee's/Trustee's Counsel Fees and Expenses | 4,500 |
| Independent Managers' Fee | 3,500 |
| Rating Agency Fees | 50,000 |
| Printing/EDGARization Expenses | 20,000 |
| Miscellaneous | 50,000 |
| | ----- |
| TOTAL (CEHE as Servicer) | \$ 1,055,500 ===== |
| TOTAL (Third Party as Servicer) | \$ 8,783,000 ===== |

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APPENDIX D

ALLOCATION SETTLEMENT AGREEMENT

APPLICATION OF CENTERPOINT)ss. BEFORE THE
ENERGY HOUSTON ELECTRIC, LLC)ss. PUBLIC UTILITY COMMISSION
FOR A FINANCING ORDER)ss. OF TEXAS

SETTLEMENT AGREEMENT

This Settlement Agreement (Settlement Agreement) is entered in this proceeding before the Public Utility Commission of Texas (PUCT or Commission) by and between Staff of the Public Utility Commission of Texas (Staff), Office of Public Utility Counsel (OPC), Texas Industrial Energy Consumers (TIEC), Houston Council for Health and Education (HCHE), the State of Texas (State), Gulf Coast Coalition of Cities (Cities), City of Houston and Coalition of Cities (Coalition of Cities), Coalition of Commercial Ratepayers (CCR) and any other party who elects to sign this Settlement Agreement (Signatories).

On December 12, 2004, CenterPoint Energy Houston Electric, LLC (CenterPoint) filed an application in PUC Docket No. 30485 for a financing order to securitize a final true-up recovery amount determined in PUC Docket No. 29526. The Signatories filed direct and rebuttal testimony stating their respective positions in Docket No. 29526. The Signatories will file testimony in PUC Docket No. 30485. The Signatories agree to the following terms in settlement of all allocation issues related to Docket No. 30485 and any subsequent proceeding addressing competition transition charges (CTCs) or Transition Charges (TCs) for the CenterPoint service territory as a result of the Commission's decision in Docket No. 29526:

I. ALLOCATION SETTLEMENT.

1. Three categories of costs will be allocated as recommended in CenterPoint's application in Docket 30485 filed on December 12, 2004: (a) the retail clawback; (b) fuel over- and under-recovery by class; and (c) EMCS.

2. If the Commission approves a settlement of an overall true-up recovery that allows CenterPoint to securitize \$1.75 billion or more, then regardless of the overall amount that is settled upon, \$1.75 billion of the amount will be characterized as "stranded costs" and will be counted toward the \$5 billion statewide stranded cost cap as described in PURA section 39.253(f). The allocation of the settlement amount will be as follows: first, the fuel over- or under-recovery by class, and the retail clawback, will both be treated as described in paragraph 1 above; second, of the \$1.75 billion that is treated as stranded costs, the portion relating to EMCs will be allocated as recommended by the Company in its application; third, the balance of the \$1.75 billion will be allocated on the environmental allocator (as prescribed in PURA section 39.253(a) and Substantive Rule 25.345(h)(2)(A)) and stranded costs allocator (the stranded cost allocator as approved in Docket 28252) in the same proportion as environmental and other stranded cost amounts are found in schedule 1 of the Commission's Final Order in Docket 29526 and dated December 17, 2004. Any amounts over \$1.75 billion (except for the fuel over- or under-recovery and the retail clawback) will be allocated to all customer classes in the following fashion: The residential class allocation will be based upon a blended allocation which is 27.5% energy allocator and 72.5% demand allocator. After determining the amount to be allocated to the residential class, the balance of the amount over \$1.75 billion (except for the fuel over- or under-recovery and the retail clawback) will be allocated to the remaining customer classes using the demand allocation factor, grossed up to reflect the previous allocation to the residential class. An example

of this allocation process is attached as Exhibit A. A schedule of the relevant allocation factors is attached as Schedule 1.

3. If the Commission approves a settlement of an overall amount of true-up recovery that allows CenterPoint to securitize less than \$1.75 billion, then only the securitized amount will be characterized as "stranded costs" and counted toward the \$5 billion statewide stranded cost cap as described in PURA section 39.253(f). The settlement amount will be allocated as follows: the fuel over- or under-recovery by class and the retail clawback will both be treated as described in paragraph 1 above; second, of the amount that is approved for securitization and which is characterized as "stranded costs," the portion relating to EMCs will be allocated as recommended by the Company in its application; third the balance of the amount that is approved for securitization and which is characterized as "stranded cost" will be allocated on the environmental allocator (as prescribed in PURA section 39.253(a) and Substantive Rule 25.345(h)(2)(A)) and stranded costs allocator (the stranded cost allocator as approved in Docket 28252) in the same proportion as environmental and other stranded cost amounts are found in schedule 1 of the Commission's Final Order in Docket 29526 and dated December 17, 2004. Any amounts not securitized (except for the fuel over- or under-recovery and the retail clawback) will be allocated to all customer classes in the following fashion: The residential class allocation will be based upon a blended allocation which is 27.5% energy allocator and 72.5% demand allocator. After determining the amount to be allocated to the residential class, the balance of the unsecuritized amount (except for the fuel over- or under-recovery and the

retail clawback) will be allocated to the remaining customer classes using the demand allocation factor, grossed up to reflect the previous allocation to the residential class. A schedule of the relevant allocation factors is attached as Schedule 1.

4. If the Commission does not approve a settlement establishing an overall amount of securitization, then only the amount of qualified costs that are approved by the Commission to be securitized will be characterized as "stranded costs" and will be counted toward the \$5 billion state-wide cap as described in PURA section 39.253(f). The allocation of the total true-up recovery will be as follows: first, the fuel over- or under-recovery by class and the retail clawback will be allocated as described in paragraph 1; second, of the amount that is approved for securitization and which is characterized as "stranded costs," the portion relating to EMCs will be allocated as recommended by the Company in its application; third the balance of the amount that is approved for securitization and which is characterized as "stranded costs" will be allocated on the environmental allocator (as prescribed in PURA section 39.253(a) and Substantive Rule 25.345(h)(2)(A)) and stranded cost allocator (the stranded cost allocator as approved in Docket 28252) in the same proportion as environmental and other stranded cost amounts are found in schedule 1 of the Commission's Final Order in Docket 29526 and dated December 17, 2004. Any other final true-up amounts approved for recovery by the Commission that are not approved for securitization and characterized as "stranded costs" as described in this paragraph, (except for the fuel over- or under-recovery and the retail clawback) will be allocated to all

customer classes in the following fashion: The residential class allocation will be based upon a blended allocation which is 27.5% energy allocator and 72.5% demand allocator. After determining the amount to be allocated to the residential class, the balance of the unsecuritized amount (except for the fuel over- or under-recovery and the retail clawback) will be allocated to the remaining customer classes using the demand allocation factor, grossed up to reflect the previous allocation to the residential class. An example of this allocation process is attached as Exhibit B. A schedule of the relevant allocation factors is attached as Schedule 1.

5. Except as otherwise provided in this Agreement, the parties reserve the right to take any position in the future with respect to the \$5 billion state-wide cap described in PURA section 39.253(f), including seeking or opposing a recalculation of the applicable allocation factors, including whether interest is appropriate, if the \$5 billion threshold is met.
6. Under either allocation scenario described in paragraph 2, 3 or 4 above, at the end of the allocation process, \$4.0 million of allocated costs will be removed from the non-metered lighting class and spread to all other classes except the residential class on the composite stranded cost allocation factors adjusted proportionately to equal 100%.
7. Under the allocation methodology described in paragraph 4, in which the Commission allows CenterPoint to securitize only its qualified costs, at the end of the allocation process, \$5 million of costs allocated to the LGS class will be

removed from the LGS class and such costs will be allocated to the combined industrial rate classes.

II. NO WAIVER. By entering this Settlement Agreement, no Signatory waives its right to take any position in any proceeding as to any issue(s) related to the amount of stranded cost or final true-up recovery that CenterPoint may seek in any docket, appeal or any other matter. Each Signatory specifically reserves, and does not waive, its individual right to file any pleading and/or to participate in and/or to initiate any proceeding to assert or support such position, except a pleading that is inconsistent with the settlement points described above.

III. OTHER TERMS AND CONDITIONS. After extensive negotiations, the Signatories have reached a compromise and settlement regarding each of the matters discussed herein. The Signatories agree that this Settlement Agreement is in the public interest and urge the Commission to adopt a final order consistent with all the terms hereof. Oral and written statements made during the course of the settlement negotiations shall not be used as an admission or concession of any sort or as evidence in this or any other proceeding. None of the Signatories agrees to the propriety of any regulatory theory or principle that may be said to underlie any of the issues resolved by this Settlement Agreement. Because this is a stipulated agreement, the Signatories recognized that no Signatory is under any obligation to take the same position as set out in this Settlement Agreement in any other docket, except as specifically required by this Settlement Agreement, whether or not that docket presents the same or similar circumstances.

IV. NO PRECEDENT. Further, since the matters resolved herein are resolved on the basis of compromise and settlement, the Signatories agree that nothing in this Settlement Agreement should be considered precedent. This Settlement Agreement reflects a compromise, settlement and accommodation among the Signatories, and the terms and conditions herein are

interdependent. All actions by the Signatories contemplated or required by this Settlement Agreement are conditioned upon entry by the Commission of a final and appealable order consistent with this Settlement Agreement. If the Commission does not accept this Settlement Agreement as presented and enters an order inconsistent with any term of this Settlement Agreement, any Signatory shall have the right to withdraw from this Settlement Agreement, which withdrawal shall render the Settlement Agreement null and void. Any Signatory electing to withdraw from this Settlement Agreement shall notify all other Signatories in writing of such withdrawal. After the withdrawal, a new hearing will be held, if requested, and the parties have the right to file new testimony. This Settlement Agreement is binding on each of the Signatories only for the purpose of setting the issues herein and for no other purpose.

V. AUTHORIZATION TO SIGN. Each person executing this Settlement Agreement represents that (s)he is authorized to sign this Agreement on behalf of the party represented.

VI. COUNTERSIGNED ORIGINALS. This document may be countersigned by each party on separate originals. Each signature shall be treated as if it is an original signature.

Date of Execution: January 11, 2005.

STAFF OF THE
PUBLIC UTILITY COMMISSION OF TEXAS

By: /s/ Jeff Pender by permission Meghan Griffiths

Date of Execution: January 10, 2005.

OFFICE OF PUBLIC UTILITY COUNSEL

By: /s/ James K Rourke Jr.

Date of Execution: January 11, 2005.

TEXAS INDUSTRIAL ENERGY CONSUMERS

By: /s/ Lino Mendiola by permission Meghan Griffiths

Date of Execution: January 11, 2005.

HOUSTON COUNCIL FOR HEALTH AND EDUCATION

By: /s/ Kenneth L. Wiseman by permission Meghan Griffiths

Date of Execution: January 10, 2005.

STATE OF TEXAS,
OFFICE OF THE ATTORNEY GENERAL

By: /s/ Bryan L. Baker

Date of Execution: January 11, 2005.

GULF COAST COALITION OF CITIES

By: /s/ Thomas L. Brocato

Date of Execution: January 11, 2005.

CITY OF HOUSTON AND COALITION OF CITIES

By: /s/ Alton Hall

Date of Execution: January 12, 2005.

COALITION OF COMMERCIAL RATEPAYERS

By: /s/ Jim Boyle

Date of Execution: _____, 2005.

OCCIDENTAL POWER MARKETING, LP

By: _____

Date of Execution: January 14, 2005

CENTERPOINT ENERGY HOUSTON ELECTRIC LLC

By: /s/ Jay Golub

ANDREWS
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January 14, 2005

VIA MESSENGER

Irene Montelongo
Administrative Law Judge
Policy Development Division
Public Utility Commission
1701 North Congress
Austin, Texas 78701

Re: Docket No. 30485; Application of CenterPoint Energy Houston
Electric, LLC for a Financing Order

Dear Judge Montelongo:

Attached are the following final Settlement Agreement documents addressing
the allocation issues in this docket:

1. Signature pages containing the signatures of the representatives of
CenterPoint Energy Houston Electric, LLC and the Coalition of
Commercial Ratepayers;
2. The final exhibits for the Settlement Agreement; and
3. Addendum 1 to Allocation Settlement Agreement with signatures for
all settling parties.

Accordingly, the Settlement Agreement and Addendum 1 have been agreed to
by the following parties: PUC Staff, CenterPoint Energy, TIEC, the Office of
Public Utility Counsel, the City of Houston and Coalition of Cities, the Gulf
Coast Coalition of Cities, the State of Texas, Houston Council for Health and
Education, and the Coalition of Commercial Ratepayers. These parties represent
all of the customer classes, the Company, the Cities, and the public interest.

Respectfully submitted,

/s/ Lino Mendiola III

LM/jcs
cc: All Parties

Austin Dallas Houston London Los Angeles New York The Woodlands Washington, DC

APPLICATION OF CENTERPOINT)ss. BEFORE THE
ENERGY HOUSTON ELECTRIC, LLC)ss. PUBLIC UTILITY COMMISSION
FOR A FINANCING ORDER)ss. OF TEXAS

ADDENDUM 1 TO ALLOCATION SETTLEMENT AGREEMENT

This document is Addendum 1 to the Allocation Settlement Agreement.

1. The existing paragraph 5 in the Settlement Agreement is now designated paragraph 5(a).
2. A new paragraph 5(b) is added as follows:

To the extent that the Commission approves recalculating the class allocation factors (whether prospectively or retroactively) as a result of statewide stranded costs exceeding \$5 billion as described in PURA section 39.253(f), any required adjustments (including but not limited to payments any class is obligated to make or credits any class is entitled to receive if the reallocation is retroactive) will be implemented solely through prospective changes to the transition charges.

3. A new paragraph 5(c) is added as follows:

For purposes of transition charges, no class allocation factor will be reduced below zero for any time period. Under all circumstances the transition charges will be designed on a prospective basis to recover the entire periodic billing requirement. This subparagraph does not apply to competition transition charges.

This Addendum 1 is agreed to this day by the following signatories to the Settlement Agreement:

Date of Execution: January 13, 2005.

STAFF OF THE
PUBLIC UTILITY COMMISSION OF TEXAS

By: /s/ Jeffrey T. Pender

Date of Execution: January 13, 2005.

OFFICE OF PUBLIC UTILITY COUNSEL

By: /s/ Jim Rourke by permission

Date of Execution: January 13, 2005.

TEXAS INDUSTRIAL ENERGY CONSUMERS

By: /s/ Lino Mendiola

Date of Execution: January 13, 2005.

HOUSTON COUNCIL FOR HEALTH AND EDUCATION

By: /s/ Ken Wiseman by permission

Date of Execution: January 13, 2005.

STATE OF TEXAS,
OFFICE OF THE ATTORNEY GENERAL

By: /s/ Bryan L. Baker

Date of Execution: January 13, 2005.

GULF COAST COALITION OF CITIES

By: /s/ Thomas L. Brocato

Date of Execution: January 13, 2005.

CITY OF HOUSTON AND COALITION OF CITIES

By: /s/ Alton Hall

Date of Execution: January 13, 2005.

COALITION OF COMMERCIAL RATEPAYERS

By: /s/ Jim Boyle by permission

Date of Execution: January 14, 2005

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: /s/ Jay Golub

EXHIBIT A

CENTERPOINT ENERGY HOUSTON ELECTRIC
 ALLOCATED TRUE-UP BALANCE BY RATE CLASS AND TC GROUP
 SETTLEMENT BASED ON \$1.75 BILLION OF STRANDED COSTS

| RATE CLASS (1) | FUEL BALANCE (2) | PTB TRUE-UP (3) | EMCS (4) | STRANDED COSTS EXCL EMC (5) | ENVIRONMENTAL CLEAN-UP COSTS (6) | STRANDED COST PORTION (7) | TRUE-UP BALANCE > \$1.75 BILLION (8) | REDUCE LIGHTING BY \$4.0 MILLION (9) | TOTAL TRUE-UP BALANCE (10) |
|--|------------------|-----------------|----------|-----------------------------|----------------------------------|---------------------------|--------------------------------------|--------------------------------------|----------------------------|
| Residential | -\$ 47.3 | -\$ 176.6 | \$223.7 | \$ 221.4 | \$ 243.2 | \$ 688.3 | \$ 128.9 | \$ 0.0 | \$ 593.3 |
| MGS* | -\$ 31.8 | -\$ 0.8 | \$131.0 | \$ 199.1 | \$ 178.2 | \$ 508.3 | \$ 103.7 | \$ 1.9 | \$ 581.4 |
| LGS* | -\$ 11.1 | -\$ 0.2 | \$ 64.1 | \$ 111.6 | \$ 114.4 | \$ 290.1 | \$ 58.2 | \$ 1.1 | \$ 338.0 |
| LOS-A | \$ 0.1 | | \$ 17.8 | \$ 27.5 | \$ 38.0 | \$ 83.3 | \$ 14.3 | \$ 0.3 | \$ 98.1 |
| LOS-B | \$ 12.8 | | \$ 7.3 | \$ 16.7 | \$ 25.0 | \$ 49.0 | \$ 8.7 | \$ 0.2 | \$ 70.7 |
| SCP | \$ 4.9 | | \$ 7.7 | \$ 14.4 | \$ 26.1 | \$ 48.2 | \$ 7.5 | \$ 0.2 | \$ 60.8 |
| Non-Metered Lighting | -\$ 0.4 | | \$ 9.8 | \$ 1.6 | \$ 2.0 | \$ 13.4 | \$ 0.8 | -\$ 4.0 | \$ 9.9 |
| Standby Electric Svc. - Distribution | -\$ 0.2 | | \$ 0.1 | \$ 0.2 | \$ 0.2 | \$ 0.6 | \$ 0.1 | \$ 0.0 | \$ 0.5 |
| Interruptible Svc. Supplemental - Dist. | -\$ 0.7 | | \$ 1.6 | \$ 0.4 | \$ 0.5 | \$ 2.4 | \$ 0.1 | \$ 0.0 | \$ 1.9 |
| Interruptible Svc.- 30 Minute Notice | -\$ 3.1 | | \$ 2.5 | \$ 5.1 | \$ 11.0 | \$ 18.5 | \$ 1.9 | \$ 0.1 | \$ 17.4 |
| Interruptible Svc.- 10 Minute Notice | \$ 0.0 | | \$ 3.0 | \$ 5.2 | \$ 22.9 | \$ 34.1 | \$ 3.1 | \$ 0.1 | \$ 37.3 |
| Interruptible Svc. - Instantaneous | \$ 0.0 | | \$ 0.6 | \$ 0.6 | \$ 3.1 | \$ 4.4 | \$ 0.2 | \$ 0.0 | \$ 4.6 |
| Interruptible Svc. Supplemental - Trans. | \$ 0.0 | | \$ 0.1 | \$ 0.5 | \$ 0.6 | \$ 1.2 | \$ 0.2 | \$ 0.0 | \$ 1.4 |
| Standby Electric Svc. - Transmission | \$ 0.0 | | \$ 0.2 | \$ 2.0 | \$ 2.2 | \$ 4.4 | \$ 1.0 | \$ 0.0 | \$ 5.4 |
| Standby Interruptible Svc. | \$ 0.0 | | \$ 0.1 | \$ 0.9 | \$ 2.7 | \$ 3.6 | \$ 0.4 | \$ 0.0 | \$ 4.2 |
| Total | -\$ 76.7 | -\$ 177.6 | \$469.7 | \$ 610.2 | \$ 670.1 | \$1,750.0 | \$ 329.3 | \$ 0.0 | \$ 1,825.0 |

| TC GROUP/ COMMENT | PER CNP | PER CNP | PER CNP | REDUCED PRORATA; ALLOCATED PER CNP | REDUCED PRORATA; ALLOCATED PER CNP | SUM (4)-(6) | BLENDED ALLOCATOR | ALLOCATED ON THE SUM OF (2)-(3), (7)-(8) | SUM (2)-(3), (7)-(9) |
|-------------------|----------|----------|----------|------------------------------------|------------------------------------|-------------|-------------------|--|----------------------|
| Residential | -\$ 47.3 | -\$176.5 | \$ 223.7 | \$ 221.4 | \$ 243.2 | \$ 688.3 | \$ 128.5 | \$ 0.0 | \$ 593.3 |
| Commercial | -\$ 43.3 | -\$ 1.0 | \$ 204.9 | \$ 312.3 | \$ 294.6 | \$ 811.8 | \$ 162.7 | -\$ 1.0 | \$ 929.3 |
| Industrial | \$ 13.9 | \$ 0.0 | \$ 41.1 | \$ 76.5 | \$ 132.3 | \$ 249.8 | \$ 37.8 | \$ 1.0 | \$ 302.4 |
| Total | -\$ 76.7 | -\$177.5 | \$ 469.7 | \$ 610.2 | \$ 670.1 | \$ 1,750.0 | \$ 329.3 | \$ 0.0 | \$ 1,825.0 |

* These classes consist of two or more subclasses. Intra-class allocation issues will be addressed separately.

EXHIBIT B

CENTERPOINT ENERGY HOUSTON ELECTRIC
 ALLOCATED TRUE-UP BALANCE BY RATE CLASS AND TC GROUP
 No Approved Settlement of Total True-Up Recovery Securitization

| RATE CLASS (1) | FUEL BALANCE (2) | PTB TRUE-UP (3) | EMCs (4) | STRANDED COSTS EXCL EMC (5) | ENVIRONMENTAL CLEAN-UP COSTS (6) | TOTAL STRANDED COST PORTION (7) | TRUE UP BALANCE - \$1.39 BILLION (8) | SHIFT \$5 MILLION FROM LGS TO INDUSTRIAL (9) | REDUCE LIGHTING BY \$4.0 MILLION (10) | TOTAL TRUE-UP BALANCE (11) |
|--|------------------------|-----------------------|-------------|--------------------------------------|---|--|---|---|--|-------------------------------------|
| Residential | -\$ 47.3 | -\$176.6 | \$ 223.7 | \$ 159.4 | \$ 175.0 | \$ 558.1 | \$ 269.5 | \$ 0.0 | \$ 0.0 | \$ 603.6 |
| MGS* | -\$ 31.8 | -\$ 0.8 | \$ 131.0 | \$ 143.2 | \$ 128.3 | \$ 402.5 | \$ 216.8 | \$ 0.0 | \$ 1.9 | \$ 588.7 |
| LGS* | -\$ 11.1 | -\$ 0.2 | \$ 64.1 | \$ 80.3 | \$ 82.3 | \$ 228.7 | \$ 121.6 | \$ -5.0 | \$ 1.1 | \$ 333.1 |
| LOS-A | \$ 0.1 | \$ 0.0 | \$ 17.8 | \$ 19.8 | \$ 27.3 | \$ 84.9 | \$ 30.0 | \$ 1.7 | \$ 0.3 | \$ 97.0 |
| LOS-B | \$ 12.8 | \$ 0.0 | \$ 7.3 | \$ 12.0 | \$ 18.0 | \$ 37.3 | \$ 18.1 | \$ 1.0 | \$ 0.2 | \$ 69.5 |
| SCP | \$ 4.9 | \$ 0.0 | \$ 7.7 | \$ 10.3 | \$ 18.8 | \$ 36.9 | \$ 15.6 | \$ 1.0 | \$ 0.2 | \$ 58.8 |
| Non-Metered Lighting | -\$ 0.4 | \$ 0.0 | \$ 9.8 | \$ 1.2 | \$ 1.5 | \$ 12.4 | \$ 1.8 | \$ 0.0 | -\$ 4.0 | \$ 9.8 |
| Standby Electric Svc.- Distribution | -\$ 0.2 | \$ 0.0 | \$ 0.1 | \$ 0.1 | \$ 0.2 | \$ 0.4 | \$ 0.2 | \$ 0.0 | \$ 0.0 | \$ 0.5 |
| Interruptible Svc. Supplemental - Dist. | -\$ 0.7 | \$ 0.0 | \$ 1.6 | \$ 0.3 | \$ 0.3 | \$ 2.2 | \$ 0.3 | \$ 0.1 | \$ 0.0 | \$ 1.9 |
| Interruptible Svc. - 30 Minutes Notice | -\$ 3.1 | \$ 0.0 | \$ 2.5 | \$ 3.7 | \$ 7.9 | \$ 14.0 | \$ 4.1 | \$ 0.4 | \$ 0.0 | \$ 15.4 |
| Interruptible Svc. - 10 Minutes Notice | \$ 0.0 | \$ 0.0 | \$ 3.0 | \$ 5.9 | \$ 16.5 | \$ 25.3 | \$ 8.5 | \$ 0.7 | \$ 0.1 | \$ 32.6 |
| Interruptible Svc. - Instantaneous | \$ 0.0 | \$ 0.0 | \$ 0.6 | \$ 0.5 | \$ 2.3 | \$ 3.3 | \$ 0.5 | \$ 0.1 | \$ 0.0 | \$ 3.9 |
| Interruptible Svc. Supplemental-Trans. | \$ 0.0 | \$ 0.0 | \$ 0.1 | \$ 0.3 | \$ 0.4 | \$ 0.9 | \$ 0.4 | \$ 0.0 | \$ 0.0 | \$ 1.3 |
| Standby Electric Svc. - Transmission | \$ 0.0 | \$ 0.0 | \$ 0.2 | \$ 1.4 | \$ 1.6 | \$ 3.2 | \$ 2.2 | \$ 0.1 | \$ 0.0 | \$ 5.5 |
| Standby Interruptible Svc. | \$ 0.0 | \$ 0.0 | \$ 0.1 | \$ 0.7 | \$ 2.0 | \$ 2.8 | \$ 0.8 | \$ 0.1 | \$ 0.0 | \$ 3.6 |
| Total | -\$ 76.7 | -\$177.6 | \$ 469.7 | \$ 439.1 | \$ 482.2 | \$ 1,391.0 | \$ 688.3 | \$ 0.0 | \$ 0.0 | \$ 1,825.0 |

| TC GROUP/ COMMENT | PER CNP | PER CNP | PER CNP | REDUCED PRORATA; ALLOCATED PER CNP | REDUCED PRORATA; ALLOCATED PER CNP | SUM (4)-(8) | BLENDED ALLOCATOR | INDUSTRIAL STRANDED COSTS | ALLOCATED ON THE SUM OF (2)-(3), (7)-(8) | SUM (2)-(3), (7)-(10) |
|-------------------|----------|----------|----------|---|---|-------------|----------------------|---------------------------------|---|-----------------------------|
| Residential | -\$ 47.3 | -\$176.6 | \$ 223.7 | \$ 159.4 | \$ 175.0 | \$ 558.1 | \$ 269.5 | \$ 0.0 | \$ 0.1 | \$ 603.6 |
| Commercial | -\$ 43.3 | -\$ 1.0 | \$ 204.9 | \$ 224.7 | \$ 212.0 | \$ 641.7 | \$ 340.1 | -\$ 5.0 | -\$ 1.0 | \$ 931.6 |
| Industrial | \$ 13.9 | \$ 0.0 | \$ 41.1 | \$ 55.0 | \$ 95.2 | \$ 191.3 | \$ 78.7 | \$ 5.0 | \$ 0.9 | \$ 289.9 |
| Total | -\$ 76.7 | -\$177.6 | \$ 469.7 | \$ 439.1 | \$ 482.2 | \$ 1,391.0 | \$ 688.3 | \$ 0.0 | \$ 0.0 | \$ 1,825.0 |

* These classes consist of two or more subclasses. Intra-class allocation issues will be addressed separately.

CENTERPOINT ENERGY HOUSTON ELECTRIC
SUMMARY OF ALLOCATION FACTORS BY TC CLASS

| RATE CLASS (1) | STRANDED COSTS (2) | ENVIRONMENTAL CLEAN-UP COSTS (3) | EMCS (4) | FUEL BALANCE (5) | BLENDED ALLOCATOR (6) | SUM OF INDUSTRIAL STRANDED COSTS (7) | TOTAL TRUE-UP BALANCE EXCL LIGHTING & RESIDENTIAL EXHIBIT B* (8) | TOTAL TRUE-UP BALANCE EXCL LIGHTING & RESIDENTIAL EXHIBIT A* (9) |
|---|--------------------------|--|-------------|---------------------|-----------------------------|--|---|---|
| Residential | 36.2894% | 36.2894% | 47.6309% | 61.6941% | 39.1494% | 0.0000% | 0.0000% | 0.0000% |
| MGS | 32.6212% | 26.5968% | 27.8966% | 41.4419% | 31.4975% | 0.0000% | 48.0398% | 47.5841% |
| LGS | 18.2931% | 17.0700% | 13.6434% | 14.5083% | 17.6631% | 0.0000% | 27.5869% | 27.6658% |
| LOS-A | 4.5124% | 5.6640% | 3.7941% | -0.1318% | 4.3570% | 33.9488% | 7.7809% | 8.0275% |
| LOS-B | 2.7309% | 3.7299% | 1.5575% | -16.7552% | 2.6368% | 19.4935% | 5.5911% | 5.7896% |
| SCP | 2.3523% | 3.8967% | 1.6489% | -6.4025% | 2.2712% | 19.2693% | 4.7000% | 4.9762% |
| Non-Metered Lighting | 0.2667% | 0.3010% | 2.0812% | 0.5013% | 0.2575% | 0.0000% | 1.1287% | 0.0000% |
| Standby Electric Svc. - Distribution | 0.0319% | 0.0364% | 0.0262% | 0.2126% | 0.0308% | 0.2292% | 0.0399% | 0.0410% |
| Interruptible Svc. Supplemental - Dist. | 0.0626% | 0.0692% | 0.3338% | 0.8745% | 0.0443% | 1.1376% | 0.1482% | 0.1551% |
| Interruptible Svc. - 30 Minute Notice | 0.8324% | 1.6417% | 0.5238% | 4.0568% | 0.5888% | 7.3347% | 1.2259% | 1.4262% |
| Interruptible Svc. - 10 Minute Notice | 1.3421% | 3.4195% | 0.6309% | | 0.9493% | 13.2487% | 2.6101% | 3.0541% |
| Interruptible Svc. - Instantaneous | 0.1056% | 0.4693% | 0.1249% | | 0.0747% | 1.7319% | 0.3134% | 0.3795% |
| Interruptible Svc. Supplemental - Trans. | 0.0795% | 0.0854% | 0.0310% | | 0.0562% | 0.4737% | 0.1059% | 0.1140% |
| Standby Electric Svc. - Transmission | 0.3256% | 0.3223% | 0.0469% | | 0.3143% | 1.6748% | 0.4395% | 0.4436% |
| Standby Interruptible Svc. | 0.1543% | 0.4067% | 0.0299% | | 0.1091% | 1.4578% | 0.2898% | 0.3433% |
| Total | 100.0000% | 100.0000% | 100.0000% | 100.0000% | 100.0000% | 100.0000% | 100.0000% | 100.0000% |

* These are for illustrative purposes only and are based on the amount of stranded costs assumed in Exhibits A and B. They will change with the amount of costs designated as "stranded cost."

DOCKET NO. 30485
FINANCING ORDER

APPENDIX E

STIPULATION REGARDING INDUSTRIAL INTRA-CLASS
ALLOCATIONS

APPLICATION OF CENTERPOINT)ss. BEFORE THE
ENERGY HOUSTON ELECTRIC LLC,)ss. PUBLIC UTILITY COMMISSION
FOR A FINANCING ORDER)ss. OF TEXAS

STIPULATION REGARDING
INDUSTRIAL INTRA-CLASS ALLOCATIONS

1. This Stipulation affects only the intra-class allocations within the Industrial TC group. This Stipulation and the allocation methods proposed herein will not shift costs to the Residential or Commercial TC group and will have no effect on the allocation of costs to any non-industrial class.
2. The parties to this Stipulation agree that Schedule TC2 will be modified to include an additional standard true-up provision for the Industrial TC group. The primary purpose of the additional standard true-up provision is to properly reflect PURA Sec. 39.262(k) and to protect customers in TC classes that experience a precipitous loss of load. This will require a class whose load as measured by the billing determinants set forth in Schedule A is reduced more by than 10% relative to the base year as set forth in Schedule A to absorb the impact of the first 10% of the load loss. The remaining revenue shortfall would be spread to the remaining Industrial TC classes.
3. Given the unique circumstances surrounding the Industrial TC classes, two exceptions are included in the additional standard true-up to mitigate disparities within the Industrial TC group. First, the resulting transition charges should not have a disproportionate impact on the other Industrial TC classes. Second, those Industrial TC classes that would otherwise pay transition charges above the charge applicable to LOS A would be exempt from further adjustment, except for adjustments for up to 10% load loss.
4. A description of the concepts underlying the methodology of the additional standard true-up provision along with schedules reflecting an example of the calculation are reflected in pages 24 through 28 and Schedules JP-4 and JP-6 as revised of the testimony of Jeff Pollock that was pre-filed in this proceeding. The parties to this stipulation agree that certain revisions to these schedules and the tariff language reflected therein are necessary to conform the methodology with the agreed upon intent. The parties will by mutual agreement submit these conforming schedules and tariff language within two weeks of the close of the hearing on the merits in this proceeding.
5. This Industrial TC Group additional standard true-up provision will be applied prior to the first charges applied under any financing order implemented as a result of this proceeding. This initial application of the additional standard true-up provision will reflect the movement of load that was originally contracted as load under Rider SIP as part of the HVP Rate from the LOS B Industrial class to the IS-10 class.

Date of Execution: 2/1, 2005.

CENTERPOINT ENERGY HOUSTON ELECTRIC

By: /s/ James N. Purdue

Date of Execution: 2/1, 2005.

STAFF OF THE PUBLIC UTILITY COMMISSION OF TEXAS

By: /s/ Jeffrey T. Pender

Date of Execution:_____, 2005.

OFFICE OF PUBLIC UTILITY COUNSEL

By:_____

Date of Execution:_____, 2005.

COALITION OF COMMERCIAL RATEPAYERS

By:_____

Date of Execution:_____, 2005.

HOUSTON COUNCIL FOR HEALTH AND EDUCATION

By:_____

Date of Execution:_____, 2005.

TXU ENERGY RETAIL

By:_____

Date of Execution:1/31, 2005.

TEXAS INDUSTRIAL ENERGY CONSUMERS

By: /s/ Lino Mendiola

Date of Execution: 1/31, 2005.

STATE OF TEXAS, OFFICE OF THE ATTORNEY GENERAL

By: /s/ Amalija J. Hodgins

Date of Execution:_____, 2005.

GULF COAST COALITION OF CITIES

By:_____

Date of Execution:_____, 2005.

CITY OF HOUSTON AND COALITION OF CITIES

By:_____

Date of Execution: 1/31, 2005.

AIR PRODUCTS AND CHEMICALS

By: /s/ Catherine J. Webking

THE FOLLOWING PARTIES DO NOT OPPOSE THE STIPULATION REGARDING INDUSTRIAL
INTR-CLASS ALLOCATIONS.

Date of Execution: _____, 2005.

STAFF OF THE PUBLIC UTILITY COMMISSION OF TEXAS

By: _____

Date of Execution: 1/31, 2005.

OFFICE OF PUBLIC UTILITY COUNSEL

By: /s/ James K. Rourke Jr.

Date of Execution: _____, 2005.

COALITION OF COMMERCIAL RATEPAYERS

By: _____

Date of Execution 2/1, 2005.

HOUSTON COUNCIL FOR HEALTH AND EDUCATION

By: /s/ Kenneth L. Wisemen

Date of Execution: _____, 2005.

STATE OF TEXAS, OFFICE OF THE ATTORNEY GENERAL

By: _____

Date of Execution: _____, 2005.

GULF COAST COALITION OF CITIES

By: _____

Date of Execution: 1/31, 2005.

CITY OF HOUSTON AND COALITION OF CITIES

By: /s/ Alton Hall

Date of Execution _____, 2005.

TXU ENERGY RETAIL

By: _____

(SEAL)

COMPTROLLER OF PUBLIC ACCOUNTS
P.O. BOX 13528
AUSTIN, TX 78711-3528

April 26, 2005

Mr. Renn G. Neilson
Baker Botts LLP
2001 Ross Avenue
Dallas, Texas 75201-2980

Dear Renn:

Thank you for your letter concerning a securitization transaction. I understand that the information provided in your request is confidential.

Your client, CenterPoint Energy Houston Electric, LLC (CenterPoint Houston) is an electric utility. The Public Utility Regulatory Act (PURA) provides that an electric utility may securitize certain qualified costs associated with the transition from a regulated market to a competitive market.

FACTS

CenterPoint Houston has filed its application with the Public Utilities Commission for a Financing Order to authorize the issuance of Transition Bonds by a newly formed special purpose entity that will be a direct, wholly owned subsidiary of CenterPoint Houston and a limited liability company formed under the Delaware law (Issuer). Prior to issuing the Transition Bonds, CenterPoint Houston will transfer all of its rights and interests under the Financing Order to the Issuer.

The Issuer will be limited to:

- Purchasing and owning the Transition Property and other Transition Bond collateral
- Issuing and registering one or more series of Transition Bonds
- Pledging its interest in Transition Property and the other Transition Bond collateral to the trustee pursuant to the terms of the indenture under which the Transition Bonds will be issued to secure the Bonds
- Making payment on the Transition Bonds
- Distributing amounts released to it, and
- Performing other activities that are necessary, suitable or convenient to accomplish the forgoing purposes.

In connection with Issuer's securitization of Transition Property and issuance of Transition Bonds, CenterPoint Houston will:

- Contribute cash to Issuer to the extent specified in the Transition Bond Indenture or other agreements or covenants requiring credit enhancement
- Act as servicer of the Transition Property for and on behalf of Issuer and receive a fee (Servicer Fee)
- Invest Transition Charge collections in short-term financial assets or securities prior to periodic remittance of Transition Charge collections to the Trustee under the Transition Bond Indenture
- As servicer, remit all collected Transition Charges to Trustee for deposit in a collection account (Collection Account) maintained by Trustee on behalf of Issuer
- Receive from Issuer distributions of net proceeds from Transition Bonds sales and that portion of the net income from Eligible Investments that is earned in the capital sub-account.

Trustee will invest all funds in the Collection Account in accordance with written directions of the Issuer in eligible high-grade investments, which will be specified in the Indenture (Eligible Investments).

As servicer, CenterPoint Houston is required to make a filing with the Public Utility Commission for a true-up adjustment at least annually to correct any under collection or over collection of Transition Charges and to provide for the billing of Transition Charges necessary to timely provide scheduled payments of principal and interest due in connection with the Transition Bonds. This filing allows for adjustments to correct collections to provide for timely payment of the Bonds.

Issuer will terminate its operations and dissolve when the bonds are retired.

TAX EXEMPTION

PURA section 39.311 provides:

"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."

REQUEST

You ask that we confirm that state and local sales tax, franchise or income tax, or gross receipts tax will not be imposed on:

1. The receipt of the Financing Order by CenterPoint Houston
Agreed.
2. The sale, contribution or transfer of Transition Property or Initial Cash Requirement from CenterPoint Houston to Issuer or from Issuer to one or more third parties

Agreed to the extent the transition property maybe transferred to third parties under the Financing Order.

3. The ownership of Transition Property by CenterPoint Houston and/or Issuer
Agreed.
4. Transition Charges (and any related penalties or interest) received by CenterPoint Houston and/or Issuer or Trustee
Agreed.
5. Any Servicer Fee, Collections Earnings received by Trustee
Agreed to the extent the servicer fee is a fee for the receipt of transition charges.
6. Earnings on Eligible Investments or Collections Earnings received by Issuer or Trustee
Agreed to the extent investments and collections earnings by the Issuer and Trustee are used in a manner allowed by the Financing Order.

This response is based on the current law and the facts and information provided.

Thank you for your patience in this matter. Please let me know if you have any questions. My direct line is 512.463.4614.

Sincerely,

/s/ Adina Harrell Christian

Adina Harrell Christian
Area Manager for Tax Policy
Tax Policy Division