

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 any 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 all applicable PUCT Regulations and guidelines, using the same degree of care and diligence that the Servicer exercises with respect to billing and collection activities that the Servicer conducts for itself and others;

(b) follow standards, policies and procedures in performing its duties as Servicer that are customary in the electric transmission and distribution industry or that the PUCT has mandated and that are consistent with the terms and provisions of the Financing Order, Schedule 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, the PUCT, the Trustee and 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 Servicer Default, 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, the PUCT, the Trustee and 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, an Opinion of Counsel either:

(i) to the effect that, in the opinion of such counsel, all filings, including filings with the PUCT and the Secretary of State of the State of Texas pursuant to the Texas Electric Choice Plan and the UCC, that are necessary to perfect 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 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 PUCT and the Secretary of State of the State of Texas pursuant to the Texas Electric Choice Plan and the UCC, that are necessary to maintain the perfection of 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 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 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 applicable 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. 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 hereby or thereby or the fulfillment by the Servicer of the terms of each, except those that have been obtained or made or that are required by this Agreement to be made in the future by the Servicer, including the Issuance Advice Letter, filings with the PUCT for adjusting Transition Charges and PBRAFs pursuant to Section 4.01 and the Issuer Annex and filings with the Secretary of State of the State of Texas under the Texas Electric Choice Plan and Article 9 of the UCC.

(g) No Proceedings. Except as disclosed by the Servicer on Schedule A hereto, there are no Proceedings pending or, to the Servicer's knowledge, threatened before any court, federal or State regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the Servicer or its properties:

(i) asserting the invalidity of this Agreement or any of the other Basic Documents;

(ii) seeking any determination or ruling that might materially and adversely affect the Transition Property or the performance by the Servicer of its obligations under, or the validity or enforceability against the Servicer of, this Agreement;

(iii) relating to the Servicer and which might materially and adversely affect the federal income tax or State income, gross receipts or franchise tax attributes of the Transition Property or the Transition Bonds; or

(iv) seeking to prevent the issuance of the Transition Bonds or the consummation of any of the transactions contemplated by this Agreement or any of the other Basic Documents.

(h) Reports and Certificates. Each report and certificate delivered in connection with any filing made to the PUCT by the Servicer on behalf of the Issuer with respect to Transition Charges, Transition Charge Adjustments or 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 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

(c) 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, the PUCT 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, the PUCT and each Rating Agency written notice of such resignation at the earliest practicable time and, concurrently therewith or promptly thereafter, an opinion of Independent legal counsel that the Servicer's performance of its duties under this Agreement shall no longer be permissible under applicable law. No such resignation shall

become effective until a successor Servicer shall have assumed the servicing obligations and duties hereunder of the Servicer in accordance with Section 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 based on the fraction of a calendar year during which the Servicer provides any of the services set forth in this Agreement).

(b) In the event that a successor Servicer not an Affiliate of CenterPoint Houston is appointed in accordance with Section 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 based on the fraction of a calendar year during which the successor Servicer provides any of the services set forth in this Agreement. The foregoing fees set forth in paragraph (a) above and this paragraph (b) constitute a fair and reasonable price for the obligations to be performed by the Servicer. The Servicer and any successor Servicer agrees to pay from amounts received as the Servicing Fee all fees due and owing pursuant to the Intercreditor Agreement, and neither the Servicer nor any successor Servicer shall seek or be entitled to any other or additional reimbursement therefor. The Trustee shall not be responsible or liable for the Servicing Fee or any fees arising from the Intercreditor Agreement or for any increase or differential in such fees.

(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 filings, including filings with the Secretary of State of the State of Texas pursuant to the Texas Electric Choice Plan and Article 9 of the UCC, and cause to be executed and filed all filings, all in such manner and in such places as may be required by law fully to preserve, maintain and protect the interests of the Issuer and the Trustee in the Transition Property, including all filings required under the Texas Electric Choice Plan and Article 9 of the UCC relating to the transfer of the ownership or security interest in the Transition Property by the Seller to the Issuer or any security interest granted by the Issuer in the Transition Property. The Servicer shall deliver (or cause to be delivered) to the Issuer, the PUCT and the Trustee file-stamped copies of, or filing receipts for, any document filed as provided above, as soon as available following such filing.

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, by 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, the Rating Agencies and the Trustee of any such PUCT Regulation and the corresponding modification of or supplement to this Agreement promptly upon obtaining knowledge thereof.

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: /s/ MARC KILBRIDE

Name: Marc Kilbride
Title: Manager

**CENTERPOINT ENERGY HOUSTON
ELECTRIC, LLC, as Servicer**

By: /s/ Marc Kilbride

Name: Marc Kilbride
Title: Vice President and Treasurer

Acknowledged and Accepted:
Wilmington Trust Company,
not in its individual capacity but solely as Trustee on behalf of the Holders
of the Transition Bonds

By: /s/ ERWIN M. SORIANO

Name: Erwin M. Soriano
Title: Assistant Vice President

**SCHEDULE A
TO
TRANSITION PROPERTY SERVICING AGREEMENT**

Proceedings pending or, to the Servicer's best knowledge, threatened before any court, federal or State regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the Servicer or its properties seeking any determination or ruling that might materially and adversely affect the Transition Property or the performance by the Servicer of its obligations under, or the validity or enforceability against the Servicer of, this Agreement:

NONE.

**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 December 16, 2005 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 PBRAFs 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) In accordance with the Financing Order and Schedule TC2, each REP will be permitted to hold back an allowance for charge-offs in its Transition Charge payments to the Servicer. Such charge-off rate will be recalculated each year in connection with the annual Transition Charge Adjustment. Until the first Calculation Date, each REP that has chosen to hold back an allowance for charge-offs in its payments of TC Collections to the Servicer 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 all Transition Charges) have been written off.

(ii) The REP's recourse will be limited to a credit against future Transition Charge payments unless the REP and the Servicer agree to alternative arrangements, but, in accordance with the Financing Order and Schedule TC2, in no event will the REP have recourse to the Trustee, the Issuer or the Issuer's funds for such payments.

(iii) In accordance with the Financing Order and Schedule TC2, the REP shall provide information on a timely basis to the Servicer so that the Servicer can include the REP's default experience and any subsequent credits into its calculation of the adjusted Transition Charge rates for the next Transition Charge billing period. The REP's rights to credits will not take effect until after such adjusted Transition Charges 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 subsequent 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 described in this

Section 4 to receive a credit against future payments of TC Collections to the Servicer shall not take effect until after the next subsequent 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 bill 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 Senior Secured Transition Bonds, Series A or any Tranche thereof, by the Expected Final Payment Date therefor, will equal the Required Capital Amount, taking into account any amounts on deposit in the Excess Funds Subaccount and taking into account any prior withdrawals of interest or earnings on deposits in the Capital Subaccount used to meet payment obligations on the Senior Secured Transition Bonds, Series A,

(C) thereafter, the TC Collections will provide for amortization of the remaining outstanding principal amount of the Senior Secured Transition Bonds, Series A in accordance with the Expected Amortization Schedule therefor and payment of interest on the Senior Secured Transition Bonds, Series A when due,

(D) the Servicer can reconcile past overpayments and underpayments by all REPs of Transition Charges arising out of hold-backs for charge-offs in accordance with Section 4 of this Annex,

(E) the Servicer can recover out of TC Collections the interest paid to all REPs arising out of a dispute between the Servicer and any REP resolved pursuant to Section 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) as needed to meet any Rating Agency requirement that the Transition Bonds of any Series be paid in full at scheduled maturity; or

(ii) 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 Payment Date if the Servicer forecasts that TC Collections during the next 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 any of (A) a cash deposit to the Trustee in the form of up to two months' maximum expected transition charge collections, (B) a surety bond or affiliate guarantee or (C) a letter of credit (each, an "REP Deposit") pursuant to the Financing Order and Schedule 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 or release 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 or release 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, or otherwise restore, immediately the amount of such withdrawal, demand and/or draw to the Trustee for replenishment of such REP's REP Deposit. The Servicer shall 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 9 of Schedule TC2 and Finding of Fact 60 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 9 of Schedule TC2 and Finding of Fact 60 of the Financing Order, the Servicer shall consider proposals from such REP but shall not accept any proposal, and no proposal shall be deemed mutually suitable and agreeable, other than the options set forth in Section 9 of Schedule 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 9 of Schedule TC2 and Finding of Fact 60 of the Financing Order or fails to adequately meet its responsibilities thereunder, the Servicer shall immediately allow the appropriate Provider of Last Resort or another qualified REP of a Customer's choosing to immediately assume responsibility for the billing and collection of Transition Charges from such Customer.

(d) In the event the appropriate Provider of Last Resort defaults or is ineligible to provide billing and collection of Transition Charges when requested by a Customer or the Servicer, as applicable, the Servicer shall assume responsibility for billing and collection of Transition Charges until a new Provider of Last Resort is named by the PUCT or the Customer requests the services of another REP, in accordance with Schedule 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 December 1, 2006, 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 December 16, 2005, 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 Senior Secured Transition Bonds, Series A, the Administration Agreement, the Indenture, the Series Supplement, the Underwriting Agreement relating to the Senior Secured Transition Bonds, Series A 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 Senior Secured Transition Bonds, Series A, 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 November 16, 2006, if the Servicer requests only Transition Charge Adjustments, and no later than September 1, 2006, 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" has the meaning specified in Appendix A to the Indenture.

"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 Senior Secured Transition Bonds, Series A, 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 Senior Secured Transition Bonds, Series A, 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 Senior Secured Transition Bonds, Series A, 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 December 16, 2005, between the Issuer and the Trustee and the Series Supplement thereto dated as of December 16, 2005 relating to the Senior Secured Transition Bonds, Series A (including the forms and terms of the Senior Secured Transition Bonds, Series A established thereunder), as the same may be amended and supplemented with respect to the Senior Secured Transition Bonds, Series A 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 December 16, 2005, among the Issuer, CenterPoint Houston, CenterPoint Energy Transition Bond Company, LLC, the Trustee and the other parties thereto, each in the capacities stated therein, as the same may be amended from time to time.

"Interim Adjustment Date" means the effective date of any interim (non-annual) Transition Charge Adjustment.

"Issuance Advice Letter" means the issuance advice letter submitted to the PUCT by CenterPoint Houston pursuant to the Financing Order in connection with the issuance of the Senior Secured Transition Bonds, Series A.

"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 December 3, 2004, as amended and restated on December 14, 2005, as the same may be amended and restated from time to time.

"Issuer LLC Agreement" means the Limited Liability Company Agreement between the Issuer and CenterPoint Houston, as sole Member, effective as of December 3, 2004, as amended and restated on December 16, 2005, 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 Senior Secured Transition Bonds, Series A.

"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 Senior Secured Transition Bonds, Series A, including all amounts owed by the Issuer to the Trustee, the Servicing Fee, the fees and expenses relating to the Senior Secured Transition Bonds, Series A, payable by the Issuer to the Administrator under the Administration Agreement, the fees and expenses relating to the Senior Secured Transition Bonds, Series A, 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 Senior Secured Transition Bonds, Series A.

"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 bonafide 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 Senior Secured Transition Bonds, Series A, or, if the context requires, all Outstanding Transition Bonds of a Tranche of Senior Secured Transition Bonds, Series A, 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 Senior Secured Transition Bonds, Series A, 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.

"PBRAAF" 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.

"PBRAF Adjustment" means each adjustment to any PBRAF 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 Senior Secured Transition Bonds, Series A, after giving effect to payment of the sum of the payment amounts provided for in the Expected Amortization Schedules for the Senior Secured Transition Bonds, Series A, to be paid on or before such date.

"Provider of Last Resort" has the meaning specified in Section 39.106 of the Texas Electric Choice Plan.

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

"PUCT 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 Senior Secured Transition Bonds, Series A, at the time of issuance at the request of the Issuer, which initially shall be Moody's, Fitch and Standard & Poor's. If no such organization or successor is any longer in existence, "Rating Agency" shall be a nationally recognized statistical rating organization or other comparable Person designated by the Issuer, written notice of which designation shall be given to the Trustee, the PUCT and the Servicer.

"Rating Agency Condition" means, with respect to any action, the notification in writing to each Rating Agency of such action, and confirmation from S&P to the Trustee and the Issuer that such action will not result in a reduction or withdrawal of the then current rating by such Rating Agency of the Senior Secured Transition Bonds, Series A.

"Redemption Date" means, with respect to the Senior Secured Transition Bonds, Series A, 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 December 16, 2005 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 Transition Bond Registrar or in its absence or failure the Paying Agent with respect to the Senior Secured Transition Bonds, Series A, on or prior to each Payment Date therefor, the form of which is attached to the Indenture as Schedule 1.

"Series" means the Senior Secured Transition Bonds, Series A 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 Senior Secured Transition Bonds, Series A, are to be originally issued in accordance with the Indenture and the Series Supplement.

"Series Supplement" means the First Supplemental Indenture dated of even date herewith to the Indenture that authorizes the Senior Secured Transition Bonds, Series A.

"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 December 16, 2005, between the Issuer and the Servicer, and acknowledged by the Trustee, relating to the Transition Property as the same may be amended and supplemented from time to time.

"Servicing Fee" means the fee payable by the Issuer to the Servicer on each Payment Date with respect to the Senior Secured Transition Bonds, Series A, 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 Senior Secured Transition Bonds, Series A, as specified in the Series Supplement.

"Transition Bond" means any of the Senior Secured Transition Bonds, Series A issued by the Issuer pursuant to the Indenture.

"Transition Bond Balance" means, as of any date, the aggregate Outstanding Amount of Senior Secured Transition Bonds, Series A 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.

"Trustee" means Wilmington Trust Company, a Delaware 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.

ADMINISTRATION AGREEMENT

ADMINISTRATION AGREEMENT, dated as of December 16, 2005 (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.

WITNESSETH:

WHEREAS, the Issuer is issuing Transition Bonds pursuant to the Indenture, dated as of the date hereof and a First Supplemental Indenture thereto, also dated as of the date hereof (the "First Supplement") (as amended, supplemented or otherwise modified and in effect from time to time, the "Indenture"), between the Issuer and Wilmington Trust Company, as the Trustee, and Deutsche Bank Trust Company Americas, 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 date hereof (the "Servicing Agreement"), between the Issuer and CenterPoint Energy Houston Electric, LLC, as Servicer, (iii) the Transition Property Sale Agreement, dated as of the date hereof (the "Sale Agreement"), between the Issuer and CenterPoint Energy Houston Electric, LLC, as Seller, and (iv) the Letter of Representations, dated as of December 13, 2005 (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) obtaining, maintaining or facilitating one or more letters of credit or obtaining, maintaining or facilitating other credit support for the obligations of the Issuer contemplated by any Related Agreement;

(ix) undertake such other administrative services as may be appropriate, necessary or requested by the Issuer; and

(x) provide such other services as are incidental to the foregoing or as the Issuer and the Administrator may agree.

In providing the services under this Section 1 and as otherwise provided under this Administration Agreement, the Administrator will not knowingly take any actions on behalf of the Issuer which (i) the Issuer is prohibited from taking under the Related Agreements, or (ii) would cause the Issuer to be in violation of any federal, state or local law or the Issuer LLC Agreement.

2. Compensation. As compensation for the performance of the Administrator's obligations under this Administration Agreement (including the compensation of Persons serving as Managers, other than the independent managers, and officers of the Issuer, but, for the avoidance of doubt, excluding the performance by CenterPoint Houston of its obligations in its capacity as Servicer), the Administrator shall be entitled to \$100,000 annually (the "Administration Fee"), payable by the Issuer in arrears proportionately on each Payment Date. In addition, the Administrator shall be entitled to be reimbursed by the Issuer for all costs and expenses of services performed by unaffiliated third parties and actually incurred by the

Administrator in connection with the performance of its obligations under this Administration Agreement in accordance with Section 3 (but, for the avoidance of doubt, excluding any such costs and expenses incurred by CenterPoint Houston in its capacity as Servicer), to the extent that such costs and expenses are supported by invoices or other customary documentation and reasonably allocated to the Issuer ("Reimbursable Expenses"). 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 or fees required for or contemplated by the performance of the above-referenced services by the Administrator to be provided by unaffiliated third parties (including independent auditors' fees and counsel fees) may, if provided for or otherwise contemplated by any related financing order issued by the PUCT and if the Issuer deems it necessary or desirable, be arranged by the Issuer or by the Administrator at the direction (which may be general or specific) of the Issuer. Costs and expenses associated with the contracting for such third-party services may be paid directly by the Issuer or paid by the Administrator and reimbursed by the Issuer in accordance with Section 2, or otherwise as the Administrator and the Issuer may mutually arrange.

4. Additional Information to be Furnished to the Issuer. The Administrator shall furnish to the Issuer from time to time such additional information regarding the Trust Estate as the Issuer shall reasonably request.

5. Independence of the Administrator. For all purposes of this Administration Agreement, the Administrator shall be an independent contractor and shall not be subject to the supervision of the Issuer with respect to the manner in which it accomplishes the performance of its obligations hereunder. Unless expressly authorized by the Issuer, the Administrator shall have no authority, and shall not hold itself out as having the authority, to act for or represent the Issuer in any way and shall not otherwise be deemed an agent of the Issuer.

6. No Joint Venture. Nothing contained in this Administration Agreement

(a) shall constitute the Administrator and the Issuer as partners or co-members of any partnership, joint venture, association, syndicate, unincorporated business or other separate entity, (b) shall be construed to impose any liability as such on either of them or (c) shall be deemed to confer on either of them any express, implied or apparent authority to incur any obligation or liability on behalf of the other.

7. Other Activities of Administrator. Nothing herein shall prevent the Administrator or any of its members, managers, officers, employees, subsidiaries or affiliates from engaging in other businesses or, in its sole discretion, from acting in a similar capacity as an Administrator for any other person or entity even though such person or entity may engage in business activities similar to those of the Issuer.

8. Term of Agreement; Resignation and Removal of Administrator. (a) This Administration Agreement shall continue in force until the payment in full of the Transition

Bonds and any other amount which may become due and payable under the Indenture, upon which event this Administration Agreement shall automatically terminate.

(b) Subject to Sections 8(e) and 8(f), the Administrator may resign its duties hereunder by providing the Issuer with at least sixty (60) days' prior written notice.

(c) Subject to Sections 8(e) and 8(f), the Issuer may remove the Administrator without cause by providing the Administrator with at least sixty (60) days' prior written notice.

(d) Subject to Sections 8(e) and 8(f), at the sole option of the Issuer, the Administrator may be removed immediately upon written notice of termination from the Issuer to the Administrator if any of the following events shall occur:

(i) The Administrator shall default in the performance of any of its duties under this Administration Agreement and, after notice of such default, shall fail to cure such default within ten (10) days (or, if such default cannot be cured in such time, shall (A) fail to give within ten (10) days such assurance of cure as shall be reasonably satisfactory to the Issuer and (B) fail to cure such default within 30 days thereafter);

(ii) a court of competent jurisdiction shall enter a decree or order for relief, and such decree or order shall not have been vacated within sixty (60) days, in respect of the Administrator in any involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or such court shall appoint a receiver, liquidator, assignee, custodian, Trustee, sequestrator or similar official for the Administrator or any substantial part of its property or order the winding-up or liquidation of its affairs; or

(iii) the Administrator shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, shall consent to the appointment of a receiver, liquidator, assignee, Trustee, custodian, sequestrator or similar official for the Administrator or any substantial part of its property, shall consent to the taking of possession by any such official of any substantial part of its property, shall make any general assignment for the benefit of creditors or shall fail generally to pay its debts as they become due.

The Administrator agrees that if any of the events specified in clauses (ii) or

(iii) of this Section 8(d) shall occur, it shall give written notice thereof to the Issuer and the Trustee as soon as practicable but in any event within seven

(7) days after the happening of such event.

(e) No resignation or removal of the Administrator pursuant to this

Section shall be effective until a successor Administrator has been appointed by the Issuer, and such successor Administrator has agreed in writing to be bound by the terms of this Administration Agreement in the same manner as the Administrator is bound hereunder.

(f) The appointment of any successor Administrator shall be effective only after satisfaction of the Rating Agency Condition with respect to the proposed appointment.

9. Action upon Termination, Resignation or Removal. Promptly upon the effective date of termination of this Administration Agreement pursuant to

Section 8(a), the resignation of the Administrator pursuant to Section 8(b) or the removal of the Administrator pursuant to Section 8(c) or 8(d), the Administrator shall be entitled to be paid a pro-rated portion of the annual fee described in Section 2 hereof through the date of termination and all Reimbursable Expenses incurred by it through the date of such termination, resignation or removal. The Administrator shall forthwith upon such termination pursuant to Section 8(a) deliver to the Issuer all property and documents of or relating to the Trust Estate then in the custody of the Administrator. In the event of the resignation of the Administrator pursuant to Section 8(b) or the removal of the Administrator pursuant to Section 8(c) or 8(d), the Administrator shall cooperate with the Issuer and take all reasonable steps requested to assist the Issuer in making an orderly transfer of the duties of the Administrator.

10. Administrator's Liability. Except as otherwise provided herein, the Administrator assumes no liability other than to render or stand ready to render the services called for herein, and neither the Administrator nor any of its members, managers, officers, employees, subsidiaries or affiliates shall be responsible for any action of the Issuer or any of the members, managers, officers, employees, subsidiaries or affiliates of the Issuer (other than the Administrator itself). The Administrator shall not be liable for nor shall it have any obligation with regard to any of the liabilities, whether direct or indirect, absolute or contingent of the Issuer or any of the members, managers, officers, employees, subsidiaries or affiliates of the Issuer (other than the Administrator itself).

11. INDEMNITY.

(a) SUBJECT TO THE PRIORITY OF PAYMENTS SET FORTH IN THE INDENTURE, THE ISSUER SHALL INDEMNIFY THE ADMINISTRATOR, ITS MEMBERS, MANAGERS, OFFICERS, EMPLOYEES AND AFFILIATES AGAINST ALL LOSSES, CLAIMS, DAMAGES, PENALTIES, JUDGMENTS, LIABILITIES AND EXPENSES (INCLUDING, WITHOUT LIMITATION, ALL EXPENSES OF LITIGATION OR PREPARATION THEREFOR WHETHER OR NOT THE ADMINISTRATOR IS A PARTY THERETO) WHICH ANY OF THEM MAY PAY OR INCUR ARISING OUT OF OR RELATING TO THIS ADMINISTRATION AGREEMENT AND THE SERVICES CALLED FOR HEREIN; PROVIDED, HOWEVER, THAT SUCH INDEMNITY SHALL NOT APPLY TO ANY SUCH LOSS, CLAIM, DAMAGE, PENALTY, JUDGMENT, LIABILITY OR EXPENSE RESULTING FROM THE ADMINISTRATOR'S NEGLIGENCE OR WILLFUL MISCONDUCT IN THE PERFORMANCE OF ITS OBLIGATIONS HEREUNDER.

(b) THE ADMINISTRATOR SHALL INDEMNIFY THE ISSUER, ITS MEMBERS, MANAGERS, OFFICERS AND EMPLOYEES AGAINST ALL LOSSES, CLAIMS, DAMAGES, PENALTIES, JUDGMENTS, LIABILITIES AND EXPENSES (INCLUDING, WITHOUT LIMITATION, ALL EXPENSES OF LITIGATION OR PREPARATION THEREFOR WHETHER OR NOT THE ISSUER IS A PARTY THERETO) WHICH ANY OF THEM MAY INCUR AS A RESULT OF THE ADMINISTRATOR'S NEGLIGENCE OR WILLFUL MISCONDUCT IN THE PERFORMANCE OF ITS OBLIGATIONS HEREUNDER.

12. Notices. Any notice, report or other communication given hereunder shall be in writing and addressed as follows:

(a) if to the Issuer, to:

CenterPoint Energy Transition Bond Company 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: /s/ Marc Kilbride

Marc Kilbride
Manager

**CENTERPOINT ENERGY HOUSTON ELECTRIC,
LLC,
as Administrator,**

By: /s/ Marc Kilbride

Marc Kilbride
Vice President and Treasurer