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COMPLIANCE FILING OF
CENTERPOINT ENERGY HOUSTON
ELECTRIC, LLC FOR A STANDARD
TRUE-UP OF TRANSITION
CHARGES UNDER SCHEDULE TC2

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PUBLIC UTILITY COMMISSION
FILING CLERK
OF TEXAS

TARIFF FILING IN COMPLIANCE WITH NOTICE OF APPROVAL

November 30, 2018

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Pursuant to Commission's NOTICE OF APPROVAL dated November 29, 2018 in Control No. 48838, CenterPoint Energy Houston Electric, LLC (CNP) is filing a clean copy of the approved Tariff Rate Schedule, 6.1.1.2.2 – Schedule TC2 – Transition Charges with an effective date of December 1, 2018, to be stamped "Approved" by the Commission's Central Records Division, and a copy forwarded to CNP for our records.


John R. Durland, Manager of Rates

Description

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6.1.1.2.2 SCHEDULE TC2 - TRANSITION CHARGES**SECTION 1: APPLICABILITY**

This schedule sets out the rates and terms and conditions under which Transition Charges will be billed and collected by CenterPoint Energy Houston Electric, LLC (Company), any successor servicer(s) and any retail electric providers (REP) or collection agents billing or collecting Transition Charges on behalf of CenterPoint Energy Transition Bond Company II, LLC (SPE). The Transition Charges were authorized by the Financing Order approved by the Public Utility Commission of Texas (Commission) in Docket No. 30485 on March 16, 2005 (Financing Order). Pursuant to terms of the Financing Order and the requirements of Section 39.301 *et seq.* of the Texas Utilities Code, all of the Company's rights under the Financing Order, including the right to bill and collect Transition Charges and to adjust Transition Charges pursuant to this Schedule TC2, were transferred to the SPE in connection with the issuance of transition bonds. The rights transferred to the SPE are "transition property" of the SPE (as defined in Section 39.304 of the Utilities Code). On the effective date of this Schedule TC2, the Company will act as servicer on behalf of the SPE to bill, collect, receive and adjust Transition Charges imposed pursuant to this Schedule TC2. However, the SPE may select another party to serve as servicer or the Company may resign as servicer in accordance with the terms and subject to the conditions of the Servicing Agreement and the Financing Order. A successor servicer selected under these conditions will assume the obligations of the Company as servicer under this Schedule TC2. As used in this Schedule TC2, the term "Servicer" includes any successor servicer. All actions by the Company under this Schedule TC2, including collection of Transition Charges, will be undertaken solely in its role as servicer under the Servicing Agreement between the Company and the SPE dated as of December 16, 2005.

This schedule is applicable to:

1. Retail customers located within the certificated service area of Reliant Energy HL&P (HL&P) as such service area existed on May 1, 1999 who receive electric transmission and/or distribution service through a REP served by the Company and to the facilities, premises and loads of such retail customers;
2. Retail customers located within HL&P's certificated service area as it existed on May 1, 1999 who are presently receiving transmission and/or distribution service either directly from another utility, electric cooperative or municipally owned utility (T or D Provider) or through a REP served by another T or D Provider, and whose request to change service to the other T or D Provider was made after May 1, 1999;

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3. Retail customers located within HL&P's certificated service area as it existed on May 1, 1999 and who are served by New On-Site Generation. New On-Site Generation means "New On-Site Generation" as defined in Section 25.345(c)(1) of the Commission's Substantive Rules.
4. REPs that serve retail customers located within HL&P's certificated service area as it existed on May 1, 1999.
5. Any other entity which, under the terms of the Financing Order or the Utilities Code, may be obligated to pay, bill, collect, or adjust the Transition Charges.
6. This schedule is applicable to public retail customers located within HL&P's certificated service area as it existed on May 1, 1999 who purchase power from the General Land Office as provided for in the Utilities Code, Section 35.102.

SECTION 2: CHARACTER OF TRANSITION CHARGES

Transition Charges are non-bypassable charges. All Transition Charges other than those applicable to New On-Site Generation are computed and paid on the basis of individual end-use retail customer consumption or demand. In accordance with Utilities Code Section 39.252(b) and Section 25.345(i)(3) of the Commission's Substantive Rules, the Transition Charges applicable to use of New On-Site Generation that results in a "material reduction" of the customer's use of energy delivered through the Company's transmission and distribution facilities (as defined in Section 25.345(i)(4) of the Commission's Substantive Rules) are computed and paid based on the output of the on-site generation used to meet the internal electric requirements of the customer. Customers with New On-Site Generation will also be required to pay the Transition Charges applicable to energy actually delivered to the Customer through the Company's facilities. Individual end-use retail customers are responsible for paying Transition Charges billed to them in accordance with the terms of this Schedule TC2 whether the charges are billed directly by Servicer or are included in the bills submitted to the customer by a REP or another entity. Payment is to be made to the entity that bills the customer in accordance with the terms of the Servicing Agreement and the Financing Order. The billing entity may be the Company, a successor servicer, a REP or an entity designated to collect Transition Charges in place of the REP.

The Transition Charges are separate charges to be paid in addition to any other applicable charges for services received. Although the Transition Charges are separate charges, they may be included within other charges of the billing entity.

The REP or entity designated to collect Transition Charges in place of the REP will pay Transition Charges (less an allowance for charge-offs calculated pursuant to this Schedule TC2) to Servicer in accordance with the requirements of the Financing Order and this Schedule TC2 whether or not it has collected the Transition Charges from its customers. To the extent that the REP's actual

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charge-offs differ from the charge-off allowance, adjustments will be made pursuant to this Schedule TC2. The REP will have no right to reimbursement other than as expressly set out in this Schedule TC2.

Servicer will remit collections to the SPE in accordance with the terms of the Servicing Agreement.

SECTION 3: TERM

This Schedule TC2 is effective beginning on the date the transition bonds are issued. Schedule TC2 will remain in effect as provided in the Financing Order until the Transition Charges collected and remitted to the SPE are sufficient to satisfy all obligations of the SPE to pay principal and interest on the transition bonds (as due over the 14 year term of the transition bonds) and to pay all other qualified costs as provided in the Financing Order. However, in no event will the Transition Charges be billed for service provided after 15 years from issuance of the transition bonds, or sooner if the transition bonds are paid in full at an earlier date. This Schedule TC2 is irrevocable.

SECTION 4: TRANSITION CHARGE CLASSES

Transition Charges are calculated and applied by Transition Charge Class. There are 15 Transition Charge Classes, nine of which are Capped Classes. Each Transition Charge Class is defined in terms of the base rate tariff classes that existed on HL&P's system on September 1, 1999 ("pre-restructuring rate schedules"). The Transition Charge Classes are defined as follows:

Residential Class: The Residential Class is made up of (i) every customer that was served under HL&P rate schedule RS or RTD on the day before the customer discontinued taking service from HL&P under a pre-restructuring rate schedule, and (ii) each new customer that was not served by HL&P under any pre-restructuring rate schedule, but is the type of customer which, if it had been served by HL&P under pre-restructuring rate schedules would have qualified for service under HL&P's rate schedules RS or RTD.

MGS Class: The MGS Class is made up of (i) every customer that was served under HL&P rate schedule MGS on the day before the customer discontinued taking service from HL&P on a pre-restructuring rate schedule, and (ii) each new customer that was not served by HL&P under any pre-restructuring rate schedule, but is the type of customer which, if it had been served by HL&P under a pre-restructuring rate schedule would have qualified for service under HL&P's rate schedule MGS and whose demand is estimated by the Company to be less than 400 kVa. This class includes customers served under Rider GLTC. Customers served under rate schedules EIS, HVP and CSB are included in the MGS class if the customer's contract for service from HL&P provided that the MGS rate was the basis for pricing.

LGS Class: The LGS Class is made up of (i) every customer that was served under HL&P rate schedule LGS on the day before the customer discontinued taking service from HL&P

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on a pre-restructuring rate schedule, and (ii) each new customer that was not served by HL&P under any pre-restructuring rate schedule, but is the type of customer which, if it had been served by HL&P under a pre-restructuring rate schedule would have qualified for service under HL&P's rate schedules LGS and whose demand as estimated by the Company, if served at less than 60,000 volts, is 400 kVa or greater; or if served at 60,000 volts or greater, is at least 400 kVa but less than 2,000 kVa. This class includes customers served under Rider SEI. Customers served under rate schedules EIS, HVP and CSB are included in the LGS class if the customer's contract for service from HL&P provided that the LGS rate was the basis for pricing.

LOS-A Class: The LOS-A Class is made up of (i) every customer that was served under HL&P rate schedule LOS-A on the day before the customer discontinued taking service from HL&P on a pre-restructuring rate schedule, and (ii) each new customer that was not served by HL&P under any pre-restructuring rate schedule, but is the type of customer which, if it had been served by HL&P under a pre-restructuring rate schedule would have qualified for service under HL&P's rate schedule LOS-A and has a demand as estimated by the Company of 2,000 kVa or greater. Customers served under rate schedules EIS and HVP are included in the LOS-A class if the customer's contract for service from HL&P provided that the LOS-A rate was the basis for pricing.

LOS-B Class: The LOS-B Class is made up of every customer that was served under HL&P rate schedule LOS-B on the day before the customer discontinued taking service from HL&P on a pre-restructuring rate schedule. Customers that were not served by HL&P under any pre-restructuring rate schedule may not be included in this class.

Non-Metered Lighting Class: The Non-Metered Lighting Class is made up of (i) every customer that was served under HL&P rate schedules SPL, MLS or MTA on the day before the customer discontinued taking service from HL&P on a pre-restructuring rate schedule, and (ii) each new customer which was not served by HL&P under any pre-restructuring rate schedule, but is taking outdoor lighting services which are provided on an unmetered basis using lighting fixtures controlled by photo-electric devices which would have qualified for service under HL&P's pre-restructuring rate schedules SPL, MLS and MTA.

In addition to the six Transition Charge Classes described above, there will be nine additional Transition Charge Classes, each of which is a capped class ("Capped Classes"). Each of the Capped Classes will be made up solely of customers that actually received service from HL&P during the 12-month period ended April 30, 1999 under the HL&P rate schedule related to the class and any SIP customers with a contract effective date after April 30, 1999 and before January 1, 2002. The nine Capped Classes, and the related rate schedule, are as follows:

Capped Class	Related Rate Schedule
Standby Electric Service – Distribution	SES
Interruptible Service Supplemental – Distribution	ISS

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Capped Class	Related Rate Schedule
Interruptible Service -- 30 minute notice	IS-30
Interruptible Service -- 10 minute notice	IS-10 & SIP
Interruptible Service -- Instantaneous	IS-I
Interruptible Service Supplemental -- Transmission	ISS
Standby Electric Service -- Transmission	SES
Standby Interruptible Service	SBI
Special Contract Pricing	SCP

Each customer in one or more of the nine Capped Classes will be charged the Transition Charges for the applicable class only for service the customer actually receives during the billing period up to the Monthly Cap. The Monthly Cap for each customer will be based on the amount of service the customer received under the related rate schedule during the 12-month period ended April 30, 1999 or for any SIP customer, the Monthly Cap will be based on the customer's average monthly interruptible demand corresponding to the initial MFC under the customer's SIP contract effective after April 30, 1999 and before January 1, 2002, and calculated as follows:

- (1) For customers which took stand alone standby service (SBI and/or SES without other service), the Monthly Cap for SBI and SES will be the highest demand under the respective rate, during the 12-month period ended April 30, 1999. If a customer began service under SES and/or SBI after April 30, 1999, the Monthly Cap for such customer's will be the highest demand under rate SES or SBI, as applicable, during the period from April 30, 1999 to January 1, 2002, if the customer provides the Company adequate documentation that (i) the additional load served was on-site load normally served by the customer's on-site generation and (ii) the customer's on-site generation was out of service due to forced outage or maintenance. If the customer does not provide the required documentation, the additional load will be billed using the Transition Charges applicable to the LGS Class for distribution voltage customers or LOS-A Class for transmission voltage customers.
- (2) For customers which took SBI and/or SES in combination with other services, the Transition Charge for additional load taken in excess of the Monthly Cap will be the Transition Charge for the LOS-A class restated and applied as a cents per KWh charge if the customer provides the Company adequate documentation that (i) the additional load was lawfully served without use of the Company's transmission and distribution facilities and (ii) the customer's on-site generation was out of service due to forced outage or maintenance. If the customer does not provide the required documentation, the additional load will be billed using the Transition Charges applicable to the LOS-A Class for transmission voltage customers applied on a kW basis.
- (3) For any SCP customer that also received service under a non-Capped Class, the SCP rate will have a Monthly Cap based on the amount of service the customer received under the SCP rate schedule during the 12-month period ended April 30, 1999. The

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Monthly Cap will be the customer's monthly maximum hourly kW under the SCP rate schedule during the peak hours as defined herein, summed for the 12-month period ended April 30, 1999 and divided by the number of months during which the customer actually consumed power under the SCP rate schedule.

(4) For all other customers in Capped Classes, the Monthly Cap will be the customer's monthly maximum hourly kW under the related rate schedule during the peak hours as defined herein, summed for the 12-month period ended April 30, 1999 or alternate period applicable to any SIP customer and divided by the number of months during which the customer actually consumed power under the rate schedule. For monthly service in excess of the Monthly Cap(s), the charge associated with customer's non-capped Transition Charge Class will apply. If the customer is served at distribution voltage and did not have service associated with one of the six non-capped Transition Charge Classes, the customer will be required to pay the Transition Charges applicable to the LGS Class for all monthly service in excess of its Monthly Cap. If the customer is served at transmission voltage and did not have service associated with one of the six non-capped Transition Charge Classes, the customer will be required to pay the Transition Charges applicable to the LOS-A Class for all monthly service in excess of its Monthly Cap.

The categories of service historically provided by HL&P ceased to exist after electric business activities were unbundled pursuant to Section 39.051 of the Utilities Code. Similarly, since the advent of customer choice under Section 39.102 of the Utilities Code, retail customers receive service that may not only have different names, but may have different characteristics than the service historically provided by HL&P. The classifications set out in the preceding paragraphs will be applied to determine the Transition Charge applicable to each customer without regard to the descriptions that may be used to describe the services currently provided to retail customers.

SECTION 5: PERIODIC BILLING REQUIREMENT ALLOCATION FACTORS

The initial Periodic Billing Requirement Allocation Factors ("PBRAF") for each Transition Charge Class are set out below. These initial PBRAs will remain in effect throughout the life of the transition bonds unless a modification of the factors is made pursuant to the allocation factor adjustment provisions in Section 6 of this Schedule TC2:

INITIAL PERIODIC BILLING REQUIREMENT ALLOCATION FACTORS

<i>TRANSITION CHARGE CLASS</i>	<i>PBRAf</i>
Residential	40.0412%
MGS	29.0309%
LGS	16.1206%
LOS-A	4.7917%
LOS-B	2.7598%

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<i>TRANSITION CHARGE CLASS</i>	<i>PBRAf</i>
Non-Metered Lighting	0.6600%
CAPPED CLASSES	
Standby Electric Service- Distribution	0.0323%
Interruptible Service Supplemental- Distribution	0.1578%
Interruptible Service –Thirty Minute Notice	1.0392%
Interruptible Service –Ten Minute Notice	1.8814%
Interruptible Service – Instantaneous	0.2454%
Interruptible Service Supplemental – Transmission	0.0672%
Standby Electric Service – Transmission	0.2383%
Standby Interruptible Service	0.2076%
Special Contract Pricing	2.7266%

SECTION 6: ALLOCATION FACTOR ADJUSTMENTS

The PBRAFs will be subject to adjustment using the procedures in this Section 6. Any adjustment required under this Section 6 will be made effective on the date of an annual Standard True-up Adjustment. Required adjustments will be made in the following order: first, adjustments will be made under Part A; second, adjustments will be made under Part B; and third, adjustments will be made under Part C.

For purposes of determining whether an allocation adjustment is required under Parts B and C of this Section 6 and adjusting PBRAFs pursuant to those Parts, the Transition Charge Classes will be combined into three groups (TC Groups) as follows:

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<i>TC GROUPS</i>		
<i>TC GROUP</i>	<i>TRANSITION CHARGE CLASSES</i>	<i>INITIAL GROUP ALLOCATION PERCENTAGE</i>
Residential	Residential	40.0412%
Commercial	MGS, LGS, Non-Metered Lighting	45.8115%
Industrial	All other Transition Charge Classes	14.1473%

Part A: Adjustments Due to Load Loss Qualifying under Utilities Code Section 39.262(k)

The PBRAFs shall be adjusted consistent with the Utilities Code to reflect the loss of loads due to operations of facilities that are "Eligible Generation" as defined in PUC Subst. Rule 25.345 (c) (2) ("Eligible Generation") except that this Part A shall not apply to, and the term "Eligible Generation" shall not include, load loss due to installation and operation of small power production facilities with a rated capacity of 10 megawatts or less. Any adjustments required under this Part A will be calculated as follows:

Step 1 – The Company will determine the amount of service provided during the twelve months ended April 30, 1999 that has been replaced by Eligible Generation (excluding amounts reflected in either the Initial PBRAFs or a prior adjustment under this Part A) and sum the losses by Transition Charge Class.

Step 2 – The Company will recalculate the PBRAFs for all Transition Charge Classes using the spreadsheet and data used to compute the initial PBRAFs but reducing the demand allocation factors for each Transition Charge Class to reflect the cumulative losses for that class as calculated under Step 1 (including losses for which PBRAF adjustments were made in prior years). No other changes to the spreadsheet or data used to compute the initial PBRAFs will be made. Appendix A to this Schedule TC2 contains the spreadsheet and data used to compute the initial PBRAFs.

Step 3 – An Adjusted Group Allocation Percentage for each TC Group shall then be calculated as the sum of the Adjusted PBRAFs (computed under Step 2) for all Transition Charge Classes within the TC Group.

Part B: Inter-Group Adjustments Due to Cumulative Load Loss Not Attributable to Eligible Generation

In connection with each annual Standard True-up Adjustment, the Company will compare the projected billing determinants being used to set Transition Charges for each Transition Charge Class during the ensuing year to the billing determinants in effect on the original effective date of

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Schedule TC2 (adjusted to exclude any billing determinants attributable to Eligible Generation if any adjustment was made under Part A after the original effective date) (such billing determinants as adjusted are hereafter referred to as the “Base Billing Determinants”). The PBRAFs of all Transition Charge Classes in all TC Groups will be adjusted if one or more TC Groups experience load loss (calculated excluding load loss attributable to Eligible Generation for which adjustments have been made under Part A but including load loss attributable to small power production facilities of 10 megawatts or less) aggregating 50% or more on a cumulative basis when measured against the Base Billing Determinants. The adjustments under this Part B will be made using the following procedures:

Step 1:

For each TC Group, if $CTCOL_G / PBR_G \geq 0.50$	Then, no PBRAF adjustment will occur and any adjustment made in previous years under Part B shall be reversed
For each TC Group, if $CTCOL_G / PBR_G < 0.50$	Then, a PBRAF adjustment will be calculated pursuant to Steps 2 through 5.
<p>Where:</p> <p>$CTCOL_G$ = cumulative test collections for group G = $\sum CC_c * FBU_c$ for all classes (c) in Group (G)</p> <p>FBU_c = forecasted billing determinants for class c</p> <p>CC_c = cumulative test charge for class c = $\{PBRAF_c * PBR_T\} / BBD_c$</p> <p>$PBRAF_c$ = the PBRAFs then in effect, or if an adjustment has been made under Part A, the adjusted PBRAFs from Part A</p> <p>PBR_T = total periodic billing requirement for upcoming period</p> <p>BBD_c = Base Billing Determinants for class c</p> <p>PBR_G = periodic billing requirement for group = $\sum PBRAF_c * PBR_T$ for all classes in G</p>	

Step 2:

For each TC Group in Step 1 where $CTCOL_G / PBR_G < 0.50$, a reduction amount (RED_G) will be calculated for group G where

$$RED_G = 0.5 (PBR_G - CTCOL_G)$$

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Step 3:For all TC Groups, a reallocation amount for that group (RA_G) shall be calculated where:

$$RA_G = GAP_G * \{\Sigma RED_G\} \text{ for all Groups}$$

Where:

$$GAP_G = \text{Group Allocation Percentage} = \Sigma PBRAF_c \text{ for all classes in the group}$$

Step 4:For all TC groups a Group Allocation Percentage Adjustment ($GAPA_G$) shall be calculated where:

$$GAPA_G = (RA_G - RED_G) / PBR_T$$

Where:

$$\Sigma GAPA_G = 0 \text{ for all } G$$

Step 5:For all TC classes, the PBRAF adjustment for class c ($PBRAFA_c$) will be calculated for use in calculating adjustments to the Transition Charges under Section 8, Part A where

$$PBRAFA_c = GAPA_G * (PBRAF_c / GAP_G)$$

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Part C: Inter-Group Adjustments Due to Year-Over-Year Load Loss Not Attributable to Eligible Generation

In connection with each annual Standard True-up Adjustment, the Company will compare the projected billing determinants being used to set Transition Charges for each Transition Charge Class during the ensuing year to the forecasted billing determinants used to develop the then currently effective Transition Charges for the class minus the Eligible Generation load loss for the class determined in Step 1 of Part A after the billing determinant for the currently effective Transition Charges was determined (such adjusted amount is hereinafter referred to as the “Prior Year Billing Determinant”). The PBRAFs of all Transition Charge Classes in all TC Groups will be adjusted if (i) one or more TC Groups experience load loss (calculated excluding load loss attributable to Eligible Generation for which adjustments have been made under Part A but including load loss attributable to small power production facilities of 10 megawatts or less) of 10% or greater on a year-over-year basis when compared to the Prior Year Billing Determinants or (ii) any TC Group for which an adjustment was made under this Part C in one or more prior years experiences load growth resulting in projected billing determinants for the current year at a level which, if they had existed in one or more of such prior year(s) would have resulted in no adjustment to PBRAFs in such prior year(s). No reduction in PBRAFs will be made under this Part C for any TC Group for which a reduction amount was computed under Step 5 of Part B. The adjustments under this Part C will be made using the following procedures:

Step 1:

For each TC Group not adjusted under Part B,

If $YTCOL_G / PBR_G \geq 0.90$	Then, no PBRAF adjustment will occur.
If $YTCOL_G / PBR_G > 1.00$	Then, no PBRAF adjustment will occur and any prior year adjustments made under C will be reversed pursuant to step 6.
If $YTCOL_G / PBR_G < 0.90$	Then, a PBRAF adjustment will be calculated pursuant to Steps 2 through 5.

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Where:

$YTCOL_G$ = year-to-year test collections for group $G = \sum YC_c * FBU_c$ for all classes (c) in Group (G)

FBU_c = forecasted billing determinants for class c

YC_c = year-to-year test charge for class c = $\{PBRAF_c * PBR_T\} / FBU_c^{-1}$

$PBRAF_c$ = the PBRAFs then in effect, or if an adjustment has been made under Part A, the adjusted PBRAFs from Part A

PBR_T = total periodic billing requirement for upcoming period

FBU_c^{-1} = prior year's forecasted billing determinants for class c

PBR_G = periodic billing requirement for group = $\sum PBRAF_c * PBR_T$ for all classes in the group

Step 2:

For each TC Group in Step 1 where $YTCOL_G / PBR_G < 0.90$, a year to year reduction amount ($YRED_G$) shall be calculated where

$$YRED_G = 0.9 (PBR_G - YTCOL_G)$$

Step 3:

For all TC Groups, a year to year reallocation amount (YRA_G) shall be calculated where:

$$YRA_G = GAP_G * \{\sum YRED_G\} \text{ for all groups}$$

Where:

GAP_G = Group Allocation Percentage = $\sum PBRAF_c$ for all classes in the group

Step 4:

For all TC groups a year to year group allocation percentage adjustment ($YGAPA_G$) shall be calculated where:

$$YGAPA_G = (YRA_G - YRED_G) / PBR_T$$

Where $\sum GAP_G = 0$ for all G

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Step 5:

For all TC classes, a year to year PBRAF adjustment (YPBRAFA_c) shall be calculated for use in calculating adjustments to the Transition Charges under Section 8, Part A where:

$$YPBRAFA_c = YGAP_{AG} * (PBRAF_c / GAP_G)$$

Step 6:

if $\{\sum (YC_c * FBU_c)\} / \{\sum (YC_c * FBU_c^{t-1})\} \geq .90$ (for all classes in group G) then the adjustment made in year t shall be discontinued.

if $\{\sum (YC_c * FBU_c)\} / \{\sum (YC_c * FBU_c^{t-1})\} < .90$ (for all classes in group G) then the adjustment made in year t carries forward.

Where FBU_c^{t-1} is the forecasted billing determinants from the year prior to the year an adjustment was made adjusted to reflect any adjustments made under part A between year t-1 and the current year.

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Part D: Adjustments to Base Class Allocations

The methodology used to allocate qualified costs and determine Transition Charges shall not be changed except in the limited circumstance described in this paragraph. If, but only if, the total retail stranded costs (determined pursuant to Section 39.253 of the Utilities Code) on a statewide basis exceed \$5 billion, then the qualified costs attributable to the Company's share of the statewide stranded costs in excess of \$5 billion shall be reallocated using the allocation methodology prescribed in Section 39.253(f) of the Utilities Code. The Company's share of the statewide stranded costs in excess of \$5 billion shall be determined by multiplying (i) the percentage obtained by dividing the Company's total stranded costs (determined pursuant to Section 39.253(f)) by the total statewide stranded costs (determined pursuant to Section 39.253(f)) by (ii) the amount by which the total statewide stranded costs (determined pursuant to Section 39.253(f)) exceed \$5 billion. The qualified costs attributable to the Company's share of the statewide stranded costs shall then be determined by multiplying (i) the Company's share of the statewide stranded costs by (ii) the percentage obtained by dividing (a) the Company's stranded costs (determined pursuant to Section 39.253(f)) which were securitized pursuant to the Financing Order dated March 16, 2005 in Docket No. 30485 by (b) the Company's total stranded costs (determined pursuant to Section 39.253(f)). The Company shall file the adjustments required herein, within 45 days after the Commission issues any order determining a utility's stranded costs or regulatory assets that causes the total statewide stranded costs (determined pursuant to Section 39.253(f)) to exceed \$5 billion or changes the amount by which the total statewide stranded costs (determined pursuant to Section 39.253(f)) exceed \$5 billion. Any changes in Transition Charges resulting from a change in the initial or adjusted PBRAFs under this Part D shall be made prospectively from the date of the Commission's order approving adjusted PBRAFs under this Part D. No change in an initial or adjusted PBRAF shall cause the sum of all PBRAFs to be more than or less than 100% or change the total Periodic Billing Requirement for any period. Transition Charges for services rendered prior to such effective date will not be changed. Future changes to the PBRAFs underlying the recomputed Transition Charges, if necessary under Parts A – D of this Section 6 will be computed pursuant to this Section 6 using the initial and adjusted PRBAFs as determined by the Commission pursuant to this Part D.

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SECTION 7: TRANSITION CHARGES

The Transition Charges to be applied beginning on the effective date of this Schedule TC2 are set out below. Transition Charges to be applied in subsequent periods (Adjusted Transition Charges) will be determined in the manner described in Section 8.

TRANSITION CHARGES

<i>TRANSITION CHARGE CLASS</i>	<i>PER UNIT CHARGE</i>	<i>BILLING UNIT</i>
Residential	\$0.002708	Per kWh
MGS-T	\$0.333714	Per kW
MGS-D	\$0.002458	Per kWh
LGS-D	\$1.069473	Per kVa
LGS-T	\$1.654174	Per kW
LOS-A	\$0.665539	Per kW
LOS-B	\$1.130429	Per kW
Non-Metered Lighting	\$0.003454	Per kWh
CAPPED CLASSES:		
Standby Electric Service- Distribution	\$0.322740	Per kW
Interruptible Service Supplemental- Distribution	\$2.265021	Per kW
Interruptible Service --Thirty Minute Notice	\$0.677407	Per kW
Interruptible Service --Ten Minute Notice	\$0.341709	Per kW
Interruptible Service -- Instantaneous	\$0.750345	Per kW
Interruptible Service Supplemental - Transmission	\$0.825966	Per kW
Standby Electric Service - Transmission	\$0.329548	Per kW
Standby Interruptible Service	\$0.101098	Per kW
Special Contract Pricing	\$1.168457	Per kW

The Transition Charges shall be applied on a kW basis for all service provided at Transmission voltage and for all service provided to Capped Classes and to any LGS customer that also received SES-Distribution service. The kW to be used in calculating the bill for those customers obligated to pay on a kW basis will be the highest kW for the month measured over a one hour period occurring on weekdays (Monday through Friday) during the sixteen hours beginning with and

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including the hour that ends at seven (a.m.) (07:00) and extending until the hour that ends at ten p.m. (22:00), local time (central standard or central daylight saving time, as appropriate).

Except for customers in the MGS class, the Transition Charges shall be applied on a kVa basis for all service provided at distribution voltage (other than service at distribution voltage to Capped Classes or to LGS customers that also received SES-Distribution service) and whose kVa is greater than 10 kVa in the billing month. The kVa will be the highest kVa measured over a 15 minute period during the month if the metering equipment has indicators for measuring and recording only the highest demand during the billing period, otherwise if the metering equipment measures and records continuously for all 15 minute periods the kVa will be the average of the 4 highest 15 minute periods measured during the billing period. If the demand meters used to meter service to a customer measure service is on a kW basis instead of a kVa basis or measure in intervals different than 15 minutes (*e.g.* 5, 10, 30 minutes) the transition charge to the customer will be based on the kW with the interval measurement period closest to a 15 minute period.

Transition Charges will be applied on a kWh basis for those customers with watt-hour meters and those customers with demand meters whose measured demand is 10 kVa or less, all Residential customers, all Non-Metered Lighting customers and all MGS customers served at distribution voltage.

Each retail customer shall be obligated to pay Transition Charges for its applicable class. The Transition Charge shall be applied to all service received by the customer during the applicable billing period. If a customer was taking service in more than one rate class through one point of service on April 30, 1999, or on the day before the customer discontinued taking service from HL&P on a pre-restructuring rate schedule, its Transition Charges shall be determined as follows:

1. For customers taking service under two or more rates through a single meter, the following order will be used to determine Transition Charges for the customer:
 - (a) If the customer takes service in one or more Capped Classes (other than SCP) through a single meter, the service shall be allocated first to Capped Classes in ascending order of unit Transition Charges beginning with the Capped Class with the lowest unit Transition Charge. All service to the customer, up to the lesser of (i) the highest hourly on-peak kW for total premises load (Total kW) or the Monthly Cap for the class, shall be deemed to be service under the Capped Class with the lowest unit Transition Charge. If the Total kW is greater than the Monthly Cap for the class with lowest unit Transition Charge, the difference up to the Monthly Cap for the Capped Class with the next lowest unit Transition Charge will be deemed to be service under the Capped Class with the next lowest unit Transition Charge. The remainder will then similarly be allocated to each other Capped Class

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under which the customer is served until the Total kW has been allocated or all applicable Monthly Caps have been reached.

- (b) If the total amount allocated to Capped Classes under (a) is less than the Total kW, the remainder, up to the Monthly Cap for SCP shall be deemed to be service provided under SCP.
- (c) Any amount remaining after the allocations in (a) and (b) will be deemed to be service provided under the Transition Charge Class (other than Capped Classes and SCP) that is applicable to the customer. If the customer is not otherwise taking service under any Transition Charge Class (other than Capped Classes and SCP) the amount remaining after the allocations in (a) and (b) shall be deemed to be service under LOS-A, if the customer is served at transmission voltage, or under LGS, if the customer is served at distribution voltage.

In addition, each customer which has New On-Site Generation shall pay an amount each month computed by multiplying the output of the on-site generation used to serve the internal electric requirements of the customer (either kW or kVa, as determined by the Transition Charge class for which the customer would qualify if it were being served by the Company or an REP) by the Transition Charge in effect for services provided to customers in that class during the month. This amount shall be in addition to any Transition Charges applicable to energy or demand actually delivered to the customer through the Company's or another T&D Provider's facilities.

SECTION 8: STANDARD TRUE-UP FOR ADJUSTMENT OF TRANSITION CHARGES

Transition Charges will be adjusted annually effective on December 1st to ensure that the expected collection of Transition Charges is adequate to pay principal and interest on the transition bonds when due pursuant to the expected amortization schedule, pay as due all other qualified costs and to fund the overcollateralization account to the required level. In addition to these annual true-up adjustments, true-up adjustments may be made more frequently at any time during the term of the transition bonds to correct any undercollection or overcollection, as provided for in the Financing Order, in order to assure timely payment of transition bonds based on rating agency and bondholder considerations. In addition to the foregoing, either of the following two conditions may result in an interim true-up adjustment in the month prior to an upcoming transition bond principal payment date:

- (a) The collection of transition charges for the upcoming payment date will result in a difference that is greater than 5% in absolute value, between (i) the actual outstanding principal balances of the transition bonds plus

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amounts on deposit in the reserve subaccount and (ii) the outstanding principal balances anticipated in the target amortization schedule; or

- (b) To meet a rating agency requirement that any series of transition bonds be paid in full by the expected maturity date for any series of transition bonds that matures after a date determined mutually, at the time of pricing by CenterPoint Houston and the Commission's designated personnel or financial advisor.

In no event will interim true-up adjustments occur more frequently than every three months if quarterly transition bond payments are required or every six months if semi-annual transition bond payments are required; provided, however, that interim true-up adjustments for any transition bonds remaining outstanding during the fourteenth and fifteenth year after the bonds are issued may occur quarterly.

All annual and interim adjustments will be designed to cause (i) the outstanding principal balance of the transition bonds to be equal to the scheduled balance on the expected amortization schedule; (ii) the amount in the overcollateralization subaccount to be equal to the required overcollateralization level; (iii) the amount in the capital subaccount to be equal to the required capital plus any investment earnings on amounts in the capital subaccount to the extent that the investment earnings have not been released to the SPE and (iv) the reserve subaccount to be zero by the payment date immediately preceding the next adjustment or by the final payment date, if the next payment date is the final payment date.

Part A: TRUE-UP ADJUSTMENT PROCEDURE FOR STANDARD AND INTERIM TRUE-UPS

Servicer will calculate the Adjusted Transition Charges using the methodology described below and will file the Adjusted Transition Charges with the Commission. Annual adjustments will be filed 15 days prior to the effective date of the Adjusted Transition Charges unless an adjustment to the PBRAFs is required under Section 6 (including Intra-Group Allocation Adjustments under Part D of Section 6) in which case the annual adjustment will be filed not later than 90 days prior to the effective date. Interim Adjustments will be filed not less than 15 days prior to the effective date of the Adjusted Transition Charges.

The Adjusted Transition Charge for the upcoming period for each class (TC_c) shall be computed as follows:

For the residential class,

$$TC_c = PBR_T * (PBRAF_c + PBRAFA_c + YPBRAFA_c) / FBU_c$$

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For classes in the Commercial and Industrial TC Groups, except if any class in the Industrial Group is forecast for the ensuing period to experience more than a 10% reduction in billing determinants compared to the industrial base billing determinants for that class, then the transition charges for the classes within the Industrial TC Group will be determined according to Section 8, Part B:

$$TC_c = TC_c^{-1} \{ \sum [PBR_T * (PBRAF_c + PBRAFA_c + YPBRAFA_c^t)] / \sum (TC_c^{-1} * FBU_c) \}$$

For all classes in the applicable group.

Where

TC_c^{-1} = the transition charge for that class from the previous period

PBR_T = Periodic Billing Requirement for the ensuing period (the 12 months beginning on the effective date of the adjusted transition charges in the case of annual true-ups and the period until the next scheduled annual true-up in the case of interim adjustments). The Periodic Billing Requirement will be the amounts required to pay principal and interest on the transition bonds when due pursuant to the expected amortization schedule, pay as due all other qualified costs, fund the overcollateralization account to the required level, and recover any net system under-collections or credit any net system over-collections so that (i) the outstanding principal balance of the transition bonds will be equal to the scheduled balance on the expected amortization schedule; (ii) the amount in the overcollateralization subaccount will be equal to the required overcollateralization level; (iii) the amount in the capital subaccount will be equal to the required capital plus any investment earnings on amounts in the capital subaccount to the extent that the investment earnings have not been released to the SPE and (iv) the reserve subaccount will be zero by the payment date immediately preceding the next adjustment or by the final payment date, if the next payment date is the final payment date.

$PBRAFC$ = the PBRAFs then in effect, or if an adjustment has been made under Section 6, Part A, the adjusted PBRAFs from Section 6, Part A.

$PBRAFA_c$ = the adjustment (if any) from Section 6, Part B, Step 5

$YPBRAFA_c^t$ = the adjustment from Section 6, Part C, Step 5 for every year t in which an adjustment was made unless that adjustment was discontinued under Section 6, Part C, Step 6.

FBU_c = the forecasted billing determinants for the upcoming period

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Part B: Intra Industrial Group Adjustments Due to Cumulative Load Loss Not Attributable to Eligible Generation

In connection with each annual Standard True-up Adjustment, the Company will compare the projected billing determinants being used to set Transition Charges for each Industrial Group Transition Charge Class during the ensuing year to the billing determinants for the period November 2003 through October 2004 (adjusted to exclude any billing determinants attributable to Eligible Generation if any adjustment was made under Section 6, Part A after October 2004) (such billing determinants as adjusted are hereafter referred to as the “Industrial Base Year Billing Determinants”). The Transition Charges of all Transition Charge Classes in the Industrial TC Group will be adjusted if one or more Transition Charge Classes experience load loss (calculated excluding load loss attributable to Eligible Generation for which adjustments have been made under Section 6, Part A but including load loss attributable to small power production facilities of 10 megawatts or less) aggregating more than 10% on a cumulative basis when measured against the Industrial Base Year Billing Determinants. The adjustments under this Part B will be made using the following procedures:

<p>Step 1:</p> <p>If $FBU_c / IBD_c \geq 0.90$ for each Industrial TC Class</p>	<p>Then, no adjustments will occur under this Section 8, Part B and the transition charge for each Industrial TC class will be calculated under Section 8, Part A.</p>
<p>If $FBU_c / IBD_c < 0.90$ for any Industrial TC Class (Load Loss Class)</p>	<p>Then, adjustments will be calculated pursuant to Steps 2 through 6.</p>
<p>Where:</p> <p>FBU_c = forecasted billing determinants for class c</p> <p>IBD_c = Industrial Base Year Billing Determinants for class c</p>	

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Step 2:

For each Industrial TC Class in Step 1 where $FBU_c / IBD_c < 0.90$, a reduction amount (RED_c) will be calculated as follows:

$$RED_c = PBR_c - TLL_c$$

Where:

$$PBR_c = PBR_T * PBRAF_c$$

$$TLL_c = \text{Test Collections with 10\% Load Loss for Class } c = [PBR_c / (IBD_c * 0.9)] * FBU_c$$

PBR_T = total periodic billing requirement for upcoming period

$PBRAF_c$ = the PBRAFs then in effect, including any adjustment made under Section 6, Part A; plus any adjustment made under Section 6, Part B and Section 6, Part C unless the adjustment was discontinued.

Step 3:

For each Industrial TC class for which a reduction amount was not calculated in Step 2 and whose $TC_c^{-1} \leq TC_{LOSA}^{-1}$, a reallocation amount shall be calculated as follows:

$$RA_c = IAP_c * \sum RED_c \text{ for all classes}$$

Where:

IAP_c = Intra-Group Allocation Percentage for class $c = PBRAF_c / \sum PBRAF_c$ for all Industrial TC Classes for which a reduction amount was not calculated in Step 2 and whose $TC_c^{-1} \leq TC_{LOSA}^{-1}$

TC_{LOSA}^{-1} = Transition Charge implemented for the LOSA TC class in the last true-up filing

TC_c^{-1} = Transition Charge implemented for class c in the last true-up filing

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Step 4:

The adjusted transition charge for a class (TC_c) shall be calculated as follows:

For those Industrial TC Classes receiving a reallocation amount in Step 3:

$$TC_c = [PBR_c + RA_c] / FBU_c$$

For all other Industrial TC Classes:

$$TC_c = [PBR_c - RED_c] / FBU_c$$

Step 5:

Calculate the percent increase in the Transition Charge from the Base Year as follows:

$$PI_c = (TC_c / TC_c^{BASE}) - 1$$

Where:

TC_c = The adjusted transition charge calculated in Step 4

TC_c^{BASE} = The transition charge calculated using the Industrial Base Year Billing Determinants.

Step 6:

- A. For any Industrial TC Class where PI is less than the PI for the TC Classes identified in Step 1 as Load Loss Classes:

$$TC_c^{FINAL} = TC_c$$

- B. If PI for any Industrial TC Class is greater than or equal to the PI for the Load Loss Classes identified in Step 1, then calculate an initial Equal Percent Increase for that class and the Load Loss Classes identified in Step 1:

$$TC_c^{FINAL} = TC_c^{BASE} * (1 + EPI^{INITIAL})$$

Where:

$EPI^{INITIAL}$ = initial Equal Percent Increase = $\Sigma (TC_c * FBU_c) / \Sigma (TC_c^{BASE} * FBU_c)$ for only those Industrial TC Classes identified in Step 1 as Load Loss Classes and TC classes with a PI greater than or equal to those Industrial TC Load Loss Classes identified in Step 1.

- C. In the event that $EPI^{INITIAL}$ for any Industrial TC Class, other than a Load Loss Class identified in Step 1, exceeds the PI_c calculated in Step 5, then for that Class,

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$$TC_c^{FINAL} = TC_c$$

- D. For the remaining classes, a final Equal Percent Increase will be calculated to reflect the exclusion of the Classes identified in Step 6, Parts A and C above as follows:

$$TC_c^{FINAL} = TC_c^{BASE} * (1 + EPI^{FINAL})$$

Where:

EPI^{FINAL} = final Equal Percent Increase = $\Sigma (TC_c * FBU_c) / \Sigma (TC_c^{BASE} * FBU_c)$ for only those Industrial TC Classes remaining in Step 6, Part D.

SECTION 9: BILLING AND COLLECTION TERMS AND CONDITIONS

Transition Charges will be billed and collected as set forth in this Schedule TC2. The terms and conditions for each party are set forth below.

A. Billings by Servicer to other T or D Providers:

1. Transition Charges applicable to former retail customers of the Company in multiply certificated service areas who are now taking service directly from other T or D Providers or through REPs served by other T or D Providers will be billed to and collected from the other T or D Provider, which, in turn will be responsible for collecting the Transition Charges from the retail customers and REPs.
2. The T or D Provider shall pay all Transition Charges not later than 35 days after bill is mailed by Servicer. The T or D Provider shall make such payment regardless of whether it collects such charges from the end-use retail customer or REP.

B. Billings by Servicer to New On-Site Generation:

1. Customers subject to Transition Charges for New On-Site Generation shall pay such charges in full not later than sixteen days after the date the bill is mailed to the customer.
2. Transition Charges applicable to New On-Site Generation are in addition to applicable transition charges under A above or C below.
3. If the entity with New On-Site Generation receives transmission or distribution service from the Company or another T or D Provider, Servicer shall have the same right to terminate service or require the other provider to terminate service for

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non-payment of Transition Charges as the Company has to terminate service for non-payment of charges under the Company's rate schedules. Any termination shall comply with applicable Commission rules.

C. Billings by the REP or its replacement to end-use customers:

1. REPs will bill and collect, or cause to be billed and collected, all Transition Charges applicable to consumption by retail customers served by the REP.
2. If Servicer is providing the metering, metering data will be provided to the REP at the same time as the billing. If Servicer is not providing the metering, the entity providing metering services will be responsible for complying with Commission rules and ensuring that Servicer and the REP will receive timely and accurate metering data in order for Servicer to meet its obligations under the Servicing Agreement and the Financing Order with respect to billing and true-ups.
3. Each REP must (1) have a long-term, unsecured credit rating of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively, or (2) provide (A) a deposit of two months' maximum expected Transition Charge collections in the form of cash, (B) an affiliate guarantee, surety bond, or letter of credit providing for payment of such amount of Transition Charge collections in the event that the REP defaults in its payment obligations, or (C) a combination of any of the foregoing. A REP that does not have or maintain the requisite long-term, unsecured credit rating may select which alternate form of deposit, credit support, or combination thereof it will utilize, in its sole discretion. The indenture trustee shall be the beneficiary of any affiliate guarantee, surety bond or letter of credit. The provider of any affiliate guarantee, surety bond, or letter of credit must have and maintain a long-term, unsecured credit ratings of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively.
4. If the long-term, unsecured credit rating from either Standard & Poor's or Moody's Investors Service of a REP that did not previously provide the alternate form of deposit, credit support, or combination thereof or of any provider of an affiliate guarantee, surety bond, or letter of credit is suspended, withdrawn, or downgraded below "BBB-" or "Baa3" (or the equivalent), the REP must provide the alternate form of deposit, credit support, or combination thereof, or new forms thereof, in each case from providers with the requisite ratings, within 10 business days following such suspension, withdrawal, or downgrade. A REP failing to make such provision must comply with the provisions set forth in paragraph 3 of Section D, Billings by Servicer to the REP or its replacement (when applicable).

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5. The computation of the size of a required deposit shall be agreed upon by Servicer and the REP, and reviewed no more frequently than quarterly to ensure that the deposit accurately reflects two months' maximum collections. Within 10 business days following such review, (1) the REP shall remit to the indenture trustee the amount of any shortfall in such required deposit or (2) Servicer shall instruct the indenture trustee to remit to the REP any amount in excess of such required deposit. A REP failing to so remit any such shortfall must comply with the provisions set forth in Paragraph 3 of the Section D, Billings by Servicer to the REP or its replacement (when applicable). REP cash deposits shall be held by the indenture trustee, maintained in a segregated account, and invested in short-term high quality investments, as permitted by the rating agencies rating the transition bonds. Investment earnings on REP cash deposits shall be considered part of such cash deposits so long as they remain on deposit with the indenture trustee. At the instruction of Servicer, cash deposits will be remitted with investment earnings to the REP at the end of the term of the transition bonds unless otherwise utilized for the payment of the REP's obligations for Transition Bond payments. Once the deposit is no longer required, Servicer shall promptly (but not later than 30 calendar days) instruct the indenture trustee to remit the amounts in the segregated accounts to the REP.
6. In the event that a REP or the Provider of Last Resort (POLR) is billing customers for Transition Charges, the REP shall have the right to transfer the customers to the POLR (or to another certified REP) or to direct Servicer to terminate transmission and distribution service to the end-use customer for non-payment by the end-use customer pursuant to applicable Commission rules.

D. Billings by Servicer to the REP or its replacement (when applicable):

1. Servicer will bill and collect from REPs all Transition Charges applicable to consumption by retail customers served by the REP, including applicable customers served by New On-Site Generation.
2. Payments of Transition Charges are due 35 calendar days following each billing by Servicer to the REP, without regard to whether or when the REP receives payment from the end-use retail customers. Servicer shall accept payment by electronic funds transfer, wire transfer, and/or check. Payment will be considered received the date the electronic funds transfer or wire transfer is received by Servicer, or the date the check clears. A 5% penalty is to be charged on amounts received after 35 calendar days; however, a 10 calendar-day grace period will be allowed before the REP is considered to be in default. A REP in default must comply with the provisions set forth in paragraph 3 of this Section D. The 5% penalty will be a one-time assessment measured against the current amount overdue from the REP to Servicer. The "current amount" consists of the total unpaid Transition Charges

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existing on the 36th calendar day after billing by Servicer. Any and all such penalty payments will be made to the indenture trustee to be applied against Transition Charge obligations. A REP shall not be obligated to pay the overdue Transition Charges of another REP. If a REP agrees to assume the responsibility for the payment of overdue Transition Charges as a condition of receiving the customers of another REP that has decided to terminate service to those customers for any reason, the new REP shall not be assessed the 5% penalty upon such Transition Charges; however, the prior REP shall not be relieved of the previously-assessed penalties.

3. After the 10 calendar-day grace period (the 45th calendar day after the billing date), Servicer shall have the option to seek recourse against any cash deposit, affiliate guarantee, surety bond, letter of credit, or combination thereof provided by the REP, and avail itself of such legal remedies as may be appropriate to collect any remaining unpaid Transition Charges and associated penalties due Servicer after the application of the REP's deposit or alternate form of credit support. In addition, a REP that is in default with respect to the requirements set forth in paragraphs 4 and 5 of Section C and paragraph 2 of this Section D shall select and implement one of the following options:
 - (a) Allow the POLR or a qualified REP of the customer's choosing to immediately assume the responsibility for the billing and collection of Transition Charges.
 - (b) Immediately implement other mutually suitable and agreeable arrangements with Servicer. It is expressly understood that Servicer's ability to agree to any other arrangements will be limited by the terms of the Servicing Agreement and requirements of rating agencies that have rated the transition bonds necessary to avoid suspension, withdrawal or downgrade of the ratings on the transition bonds.
 - (c) Arrange that all amounts owed by retail customers for services rendered be timely billed and immediately paid directly into a lock-box controlled by Servicer with such amounts to be applied first to pay Transition Charges before the remaining amounts are released to the REP. All costs associated with this mechanism will be borne solely by the REP.

If a REP that is in default does not immediately select and implement one of the options specified in (a), (b) or (c) or, after so selecting one of the foregoing options, fails to adequately meet its responsibilities thereunder, then Servicer shall immediately implement option (a), subject to the limitations and requirements of the bankruptcy code if the REP is a debtor in bankruptcy. Upon re-establishment of compliance with the requirements set forth in paragraphs 4 and 5 of Section C

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and paragraph 2 of this Section D and the payment of all past-due amounts and associated penalties, the REP will no longer be required to comply with this paragraph 3.

4. The POLR appointed by the Commission must meet the minimum credit rating or deposit/credit support requirements described in paragraph 3 of Section C (“Billings by the REP or its Replacement to end-use customers”) in addition to any other standards that may be adopted by the Commission. If the POLR defaults or is not eligible to provide such services, responsibility for billing and collection of Transition Charges will immediately be transferred to and assumed by Servicer until a new POLR can be named by the Commission or the customer requests the services of a certified REP. Retail customers may never be re-billed by the successor REP, the POLR, or Servicer for any amount of Transition Charges they have paid their REP (although future Transition Charges shall reflect REP and other system-wide charge-offs). Additionally, if the amount of the penalty detailed in paragraph 2 of this Section D is the sole remaining past-due amount after the 45th calendar day, the REP shall not be required to comply with clauses (a), (b) or (c) of paragraph 3 of this Section D, unless the penalty is not paid within an additional 30 calendar days.
5. In the event that Servicer is billing customers for Transition Charges, Servicer shall have the right to terminate transmission and distribution service to the end-use customer for non-payment by the end use customer pursuant to applicable Commission rules.
6. The REP will be allowed to hold back an allowance for charge-offs in its payments to Servicer. Such charge-off rate will be recalculated each year in connection with the annual true-up procedure. In the initial year, REPs will be allowed to remit payments based on the same charge-off percentage then being used by the REP to remit payments to the servicer in connection with transition charges related to transition bonds issued by CenterPoint Energy Transition Bond Company, LLC on October 24, 2001. On an annual basis in connection with the true-up adjustment process, the REP and Servicer will be responsible for reconciling the amounts held back with amounts actually written off as uncollectible in accordance with the terms agreed to by the REP and Servicer, provided that:
 - (a) The REP’s right to reconciliation for write-offs will be limited to customers whose service has been permanently terminated and whose entire accounts (*i.e.*, all amounts due the REP for its own account as well as the portion representing Transition Charges) have been written off.
 - (b) The REP’s recourse will be limited to a credit against future Transition Charge payments unless the REP and Servicer agree to alternative

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arrangements, but in no event will the REP have recourse to the indenture trustee, the SPE or the SPE's funds for such payments.

- (c) The REP shall provide information on a timely basis to Servicer so that Servicer can include the REP's default experience and any subsequent credits into its calculation of the adjusted Transition Charge rates for the next transition charge billing period and the REP's rights to credits will not take effect until such adjusted Transition Charge rates have been implemented.
- 7. In the event that a REP disputes any amount of billed Transition Charges, the REP shall pay the disputed amount under protest according to the timelines detailed in paragraph 2 of this Section D. The REP and Servicer shall first attempt to informally resolve the dispute, but if they fail to do so within 30 calendar days, either party may file a complaint with the Commission. If the REP is successful in the dispute process (informal or formal), the REP shall be entitled to interest on the disputed amount paid to Servicer at the Commission-approved interest rate. Disputes about the date of receipt of Transition Charge payments (and penalties arising thereof) or the size of a required REP deposit will be handled in a like manner. It is expressly intended that any interest paid by Servicer on disputed amounts shall not be recovered through Transition Charges if it is determined that Servicer's claim to the funds is clearly unfounded. No interest shall be paid by Servicer if it is determined that Servicer has received inaccurate metering data from another entity providing competitive metering services pursuant to Utilities Code Section 39.107.
- 8. If Servicer is providing the metering, metering data will be provided to the REP at the same time as the billing. If Servicer is not providing the metering, the entity providing metering services will be responsible for complying with Commission rules and ensuring that Servicer and the REP will receive timely and accurate metering data in order for Servicer to meet its obligations under the Servicing Agreement and the Financing Order with respect to billing and true-ups.

OTHER TERMS AND CONDITIONS

If the customer or REP pays only a portion of its bill, a pro-rata portion of Transition Charge revenues shall be deemed to be collected. The Company will allocate any shortfall first, ratably based on the amount owed for Transition Charges and the amount owed for other fees and charges, other than late charges, owed to the Company or any successor, and second, all late charges shall be allocated to the Company or any successor.

If the Company does not regularly include the notice described below in the bills sent by it to REPs or directly to retail customers, then at least once each year the Company shall cause to be prepared and delivered to REPs and such customers a notice stating, in effect, that the amount billed includes

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Transition Charges which were authorized by the Financing Order dated March 16, 2005 and have been transferred to and are being collected on behalf of CenterPoint Energy Transition Bond Company II, LLC and are not owned by the Company. In the customer's initial bill from the REP and at least once each year thereafter, each REP that bills Transition Charges shall cause to be prepared and delivered to its customers a notice stating, in effect, that the amount billed includes Transition Charges which were authorized by the Financing Order dated March 16, 2005 and have been transferred to and are being collected on behalf of CenterPoint Energy Transition Bond Company II, LLC and are not owned by the REP or the Company, and that under certain circumstances described in Schedule TC2 Servicer may be permitted to collect the Transition Charges directly from the retail customer. Such notice shall be included either as an insert to or in the text of the bills delivered to such REPs or customers, as applicable, or shall be delivered to REPs or customers by electronic means or such other means as Servicer or the REP may from time to time use to communicate with their respective customers.

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ATTACHMENT 1**PERIODIC BILLING REQUIREMENT ALLOCATION FACTORS**

TRANSITION CHARGE CLASS	PBRAFF Effective 12-1-08
Residential	40.4859 %
MGS	29.1622 %
LGS	16.1753 %
LOS-A	4.6947%
LOS-B	2.7249 %
Non-Metered Lighting	0.5518 %
CAPPED CLASSES	
Standby Electric Service- Distribution	0.0319 %
Interruptible Service Supplemental- Distribution	0.1382 %
Interruptible Service –Thirty Minute Notice	0.9595 %
Interruptible Service -Ten Minute Notice	1.7179 %
Interruptible Service – Instantaneous	0.2159 %
Interruptible Service Supplemental- Transmission	0.0650 %
Standby Electric Service – Transmission	0.2495 %
Standby Interruptible Service	0.1902 %
Special Contract Pricing	2.6371 %

TC GROUPS

TC GROUP	TRANSITION CHARGE CLASSES	GROUP ALLOCATION PERCENTAGE Effective 12-1-08
Residential	Residential	40.4859 %
Commercial	MGS, LGS, Non-Metered Lighting	45.8893 %
Industrial	All other Transition Charge Classes	13.6248 %