



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

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission File Number 333-121505

CenterPoint Energy Transition Bond Company II, LLC

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

59-3790472

(I.R.S. Employer Identification Number)

1111 Louisiana, Suite 4655B  
Houston, Texas 77002

(Address and zip code of principal  
executive offices)

(713) 207-5222

(Registrant's telephone number, including  
area code)

The registrant meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of March 31, 2008, all outstanding membership interests in CenterPoint Energy Transition Bond Company II, LLC were held by CenterPoint Energy Houston Electric, LLC.

CenterPoint Energy Transition Bond Company II, LLC

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

From time to time we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are not historical facts. These statements are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied by these statements. In some cases, you can identify our forward-looking statements by the words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “goal,” “intend,” “may,” “objective,” “plan,” “potential,” “predict,” “projection,” “should,” “will,” or other similar words.

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

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

- changes in market demand and demographic patterns;
- weather variations and other natural phenomena affecting retail electric customer energy usage;
- the operating performance of CenterPoint Energy Houston Electric, LLC’s (CenterPoint Houston) facilities and third-party suppliers of electric energy in CenterPoint Houston’s service territory;
- state and federal legislative and regulatory actions or developments, including deregulation, re-regulation, changes in or application of laws or regulations applicable to the various aspects of CenterPoint Houston’s business;
- the accuracy of the servicer’s forecast of electrical consumption or the payment of transition charges;
- non-payment of transition charges by retail electric providers;
- the reliability of the systems, procedures and other infrastructure necessary to operate the retail electric business in CenterPoint Houston’s service territory, including the systems owned and operated by the independent system operator in the Electric Reliability Council of Texas, Inc.; and
- other factors we discuss in “Risk Factors” in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2007, which is incorporated herein by reference, and our other Securities and Exchange Commission filings.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement.

## PART I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

## CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC

STATEMENTS OF INCOME  
AND CHANGES IN MEMBER'S EQUITY  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2008</b>
	<b>(in thousands)</b>	
<b>Revenues:</b>		
Transition charge revenue	\$ 39,647	\$ 37,146
Investment income	458	386
Total operating revenues	<u>40,105</u>	<u>37,532</u>
<b>Expenses:</b>		
Interest expense	22,996	21,920
Amortization of transition property	16,021	14,517
Amortization of transition bond discount and issuance costs	516	440
Administrative and general expenses	572	655
Total operating expenses	<u>40,105</u>	<u>37,532</u>
<b>Net Income</b>	<u>—</u>	<u>—</u>
<b>Member's Equity at Beginning of Period</b>	9,256	9,256
<b>Contributed Capital</b>	<u>—</u>	<u>—</u>
<b>Member's Equity at End of Period</b>	<u>\$ 9,256</u>	<u>\$ 9,256</u>

See Notes to the Company's Interim Unaudited Financial Statements

## CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC

BALANCE SHEETS  
(Unaudited)

	<u>December 31, 2007</u>	<u>March 31, 2008</u>
	(in thousands)	
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 97,891	\$ 38,004
Restricted funds	34,198	33,931
Transition charge receivable	25,352	22,650
Current Assets	157,441	94,585
Intangible transition property	1,651,080	1,636,563
Unamortized debt issuance costs	8,522	8,095
Total Assets	<u>\$ 1,817,043</u>	<u>\$ 1,739,243</u>
<b>LIABILITIES AND MEMBER'S EQUITY</b>		
<b>Current Liabilities:</b>		
Current portion of long-term debt	\$ 93,696	\$ 97,850
Accrued interest	37,267	14,466
Customer deposits	24,701	24,588
Fees payable to servicer	451	207
Current Liabilities	156,115	137,111
Long-term debt:		
Transition bonds, net of unamortized discount	1,651,672	1,592,876
Total Liabilities	<u>1,807,787</u>	<u>1,729,987</u>
<b>Member's Equity:</b>		
Contributed capital	9,256	9,256
Retained earnings	—	—
Total Member's Equity	<u>9,256</u>	<u>9,256</u>
Total Liabilities and Member's Equity	<u>\$ 1,817,043</u>	<u>\$ 1,739,243</u>

See Notes to the Company's Interim Unaudited Financial Statements

**CENTERPOINT ENERGY TRANSITION BOND COMPANY II, LLC**  
**STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2008</b>
	<b>(in thousands)</b>	
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ —	\$ —
Adjustments for non-cash items:		
Amortization of transition bond discount and issuance costs	516	440
Amortization of transition property	16,021	14,517
Changes in other assets and liabilities:		
Transition charge receivable	1,176	2,702
Accrued interest	(23,827)	(22,801)
Customer deposits	282	(113)
Fees payable to servicer	(953)	(244)
Net cash used in operating activities	<u>(6,785)</u>	<u>(5,499)</u>
<b>Cash Flows from Investing Activities:</b>		
Restricted funds	(157)	267
Net cash provided by (used in) investing activities	<u>(157)</u>	<u>267</u>
<b>Cash Flows from Financing Activities:</b>		
Payments of long-term debt	(51,527)	(54,655)
Net cash used in financing activities	<u>(51,527)</u>	<u>(54,655)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(58,469)	(59,887)
<b>Cash and Cash Equivalents, Beginning of Period</b>	<u>90,827</u>	<u>97,891</u>
<b>Cash and Cash Equivalents, End of Period</b>	<u>\$ 32,358</u>	<u>\$ 38,004</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash Payments:		
Interest	\$ 46,823	\$ 44,721

See Notes to the Company's Interim Unaudited Financial Statements

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

**NOTES TO UNAUDITED FINANCIAL STATEMENTS**

**(1) Background and Basis of Presentation**

*General.* Included in this Quarterly Report on Form 10-Q (Form 10-Q) of CenterPoint Energy Transition Bond Company II, LLC (the Company) are the Company's interim financial statements and notes (Interim Financial Statements). The Interim Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

*Background.* The Company is a special purpose Delaware limited liability company whose sole member is CenterPoint Energy Houston Electric, LLC (CenterPoint Houston). The Company has no commercial operations and was formed for the principal purpose of purchasing and owning transition property, issuing transition bonds and performing activities incidental thereto. CenterPoint Houston is a regulated utility engaged in the transmission and distribution of electric energy in a 5,000 square mile area located along the Texas Gulf Coast, including the City of Houston.

*Basis of Presentation.* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company's Interim Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the respective periods. Amounts reported in the Company's Statements of Income and Changes in Member's Equity are not necessarily indicative of amounts expected for a full-year period due to the effects of, among other things, seasonal variations in energy consumption.

*Amortization.* The transition property was recorded at acquired cost and is being amortized over fourteen years, the expected life of the transition bonds, based on estimated revenue from transition charges, interest accruals and other expenses. The financing order authorizing the imposition of the transition charges and the issuance of the transition bonds limits the terms of the transition bonds to no greater than 15 years. In accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," amortization is adjusted for over/under collection of transition charges. The transition charges are reviewed and adjusted at least annually, and semi-annually as necessary, by the Public Utility Commission of Texas to correct any overcollections or undercollections during the preceding 12 months and to provide for the expected recovery of amounts sufficient to timely provide all payment of debt service and other required amounts and charges in connection with the transition bonds.



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### (2) Transition Charges

The following table shows the aggregate amount of transition charges remitted by CenterPoint Houston to the trustee under the indenture pursuant to which the transition bonds were issued (the trustee) during each month from the date of issuance of the transition bonds through March 31, 2008 (in thousands):

	<u>2006</u>	<u>2007</u>	<u>2008</u>
January	\$ 402	\$13,525	\$14,309
February	8,525	12,489	12,599
March	13,257	14,582	12,589
April	11,862	12,956	
May	12,589	13,322	
June	16,704	12,987	
July	16,302	16,309	
August	19,329	19,958	
September	18,528	17,331	
October	18,118	20,728	
November	17,263	17,227	
December	13,646	13,999	

### (3) Cash and Cash Equivalents/Restricted Funds

For purposes of the Balance Sheet and Statement of Cash Flows, the Company considers investments purchased with a maturity of three months or less to be the equivalent of cash. The administrative agent for the trustee has established, as provided in the indenture, the following subaccounts for the Company's cash balances related to its transition bonds:

- The General Subaccount is comprised of collections of transition charges remitted to the trustee's administrative agent by the servicer with respect to the transition bonds. These amounts accumulate in the General Subaccount until they are transferred from the General Subaccount on each transition bond payment date. The General Subaccount had a balance of \$25.8 million at March 31, 2008.
- The Excess Funds Subaccount is maintained for the purpose of holding any collected transition charges and earnings on amounts in the collection account (other than earnings on amounts allocated to the Capital Subaccount) not otherwise used on the payment dates of the transition bonds for payment of principal, interest, fees or expenses, or for funding the Capital Subaccount. The Excess Funds Subaccount had a balance of \$12.2 million at March 31, 2008.
- The Capital Subaccount received a deposit of approximately \$9.3 million (0.5% of the initial principal amount of the transition bonds) on the date of issuance of the transition bonds. CenterPoint Houston contributed this amount to the Company. If amounts available in the General and Excess Funds Subaccounts are not sufficient on any payment date to make scheduled payments on the transition bonds and payments of certain fees and expenses, the trustee's administrative agent will draw on amounts in the Capital Subaccount. As of March 31, 2008, the Capital Subaccount had a balance of \$9.3 million and is classified as Restricted Funds in the Balance Sheets.

As of March 31, 2008, cash deposits provided by retail electric providers (REPs) totaled \$24.6 million and are classified as Restricted Funds in the Balance Sheets.

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" (SFAS No. 157). Under SFAS No. 157, the Company held \$33.8 million of Level 1 investments as of March 31, 2008.

**(4) Long-Term Debt**

Principal and interest payments on the transition bonds are due semi-annually on February 1 and August 1 of each year and are paid from funds deposited with the trustee’s administrative agent by CenterPoint Houston as servicer of the transition property.

The source of repayment for the transition bonds is the transition charges. The servicer collects this non-bypassable charge from REPs in CenterPoint Houston’s service territory. The servicer deposits transition charge collections into the Company’s General Subaccount maintained by the trustee’s administrative agent.

Scheduled final payment dates, final maturity dates and interest rates for the transition bonds outstanding at March 31, 2008, are as follows:

Tranche	Scheduled Final Payment Date	Final Maturity Date	Interest Rate	Amount (in millions)
A-1	February 1, 2009	February 1, 2011	4.84%	\$90
A-2	August 1, 2012	August 1, 2014	4.97%	368
A-3	February 1, 2014	August 1, 2015	5.09%	252
A-4	August 1, 2017	August 1, 2019	5.17%	519
A-5	August 1, 2019	August 1, 2020	5.302%	462
				1,691
Less: Current Maturities (scheduled payments)				(98)
Total Long-Term Debt, net				\$1,593

The following table shows scheduled and actual principal payments on the transition bonds from the issuance date through March 31, 2008 (in thousands):

	Tranche A-1		Tranche A-2		Tranche A-3		Tranche A-4		Tranche A-5	
	Scheduled	Actual	Scheduled	Actual	Scheduled	Actual	Scheduled	Actual	Scheduled	Actual
August 1, 2006	\$18,565	\$18,565	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
February 1, 2007	51,527	51,527	—	—	—	—	—	—	—	—
August 1, 2007	35,337	35,337	—	—	—	—	—	—	—	—
February 1, 2008	54,655	54,655	—	—	—	—	—	—	—	—

**(5) Related Party Transactions and Major Customers**

*Related Party Transactions.* As the servicer, CenterPoint Houston manages and administers the transition property of the Company and collects the transition charges on behalf of the Company. The Company pays a fixed annual servicing fee to CenterPoint Houston for these services. Pursuant to an administration agreement entered into between the Company and CenterPoint Houston, CenterPoint Houston also provides administrative services to the Company. The Company pays CenterPoint Houston a fixed fee for performing these services, plus all reimbursable expenses. The Company recorded administrative and servicing fees of \$0.3 million during each of the three months ended March 31, 2007 and 2008, respectively.

*Major Customers.* Subsidiaries of Reliant Energy, Inc. (formerly named Reliant Resources, Inc.) (RRI) collect the majority of the transition charges from retail electric customers in CenterPoint Houston’s service territory. At March 31, 2008, subsidiaries of RRI had approximately \$18.3 million of cash on deposit with the trustee’s administrative agent. As with any REP that may default in its payment obligations in respect of transition charges, the servicer is expected to direct the trustee to seek recourse against such cash deposits or alternate form of credit support as a remedy for any payment default that may occur.

## **Item 2. MANAGEMENT'S NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS**

*This analysis should be read in combination with the Interim Financial Statements included in Item 1 of this Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2007 (2007 Form 10-K).*

We meet the conditions specified in General Instruction H(1)(a) and (b) to Form 10-Q and therefore are providing the following analysis of our results of operations using the reduced disclosure format for wholly owned subsidiaries of reporting companies. Accordingly, we have omitted from this report the information called for by Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations) and Item 3 (Quantitative and Qualitative Disclosures About Market Risk) of Part I and the following Part II items of Form 10-Q: Item 2 (Unregistered Sales of Equity Securities and Use of Proceeds), Item 3 (Defaults Upon Senior Securities) and Item 4 (Submission of Matters to a Vote of Security Holders).

We are a Delaware limited liability company established in December 2004 for limited purposes. We issued \$1.851 billion aggregate principal amount of transition bonds on December 16, 2005 and used the net proceeds to purchase the transition property from CenterPoint Energy Houston Electric, LLC (CenterPoint Houston). As we are restricted by our organizational documents from engaging in activities other than those described under "Business" in Item 1 of our 2007 Form 10-K, income statement effects are limited primarily to revenue generated from the transition charges, interest expense on the transition bonds, amortization of the transition property, debt issuance expenses and the discount on the transition bonds, transition property servicing and administration fees and incidental investment interest income. Net income is expected to be zero for each reporting period.

For the three months ended March 31, 2008, revenue from transition charges was \$37.1 million and investment income was \$0.4 million. Amortization of transition property was \$14.5 million. Interest expense of \$21.9 million related to interest on the transition bonds and amortization expense of \$0.4 million related to amortization of debt issuance expenses and the discount on the transition bonds. We recorded administrative expenses of \$0.7 million for the three months ended March 31, 2008.

For the three months ended March 31, 2007, revenue from transition charges was \$39.6 million and investment income was \$0.5 million. Amortization of transition property was \$16.0 million. Interest expense of \$23.0 million related to interest on the transition bonds and amortization expense of \$0.5 million related to amortization of debt issuance expenses and the discount on the transition bonds. We recorded administrative expenses of \$0.6 million for the three months ended March 31, 2007.

We use collections of transition charges to make scheduled principal and interest payments on the transition bonds. Transition charges, together with interest earned on collected transition charges, are expected to offset (1) interest expense on the transition bonds, (2) the principal amount of the transition bonds scheduled to be paid and (3) fees and expenses, including fees charged by CenterPoint Houston for servicing the transition property and providing administrative services to us and expenses related to such administrative services.

The transition charges are reviewed and adjusted at least annually by the Public Utility Commission of Texas (Texas Utility Commission) to correct prospectively any overcollections or undercollections during the preceding 12 months and to provide for the expected recovery of amounts sufficient to timely provide all payment of debt service and other required amounts and charges in connection with the transition bonds.

CenterPoint Houston is required to true-up transition charges annually on December 1 in compliance with the financing order. CenterPoint Houston's most recent true-up filing to adjust transition charges was filed with the Texas Utility Commission on November 1, 2007 and became effective December 1, 2007. The adjusted transition charges are designed to collect \$178.9 million during the twelve-month period ending November 30, 2008. Such adjusted transition charges consider the impact of the over-collection of \$14.7 million for the twelve-month period ended November 30, 2007.

In all material respects, each materially significant retail electric provider (i) has been billed in accordance with the financing order, (ii) has made all payments in compliance with the requirements outlined in the financing order, and (iii) has satisfied the creditworthiness requirements of the financing order.

**Item 4. CONTROLS AND PROCEDURES**

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2008 to provide assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure.

There has been no change in our internal controls over financial reporting that occurred during the three months ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

**PART II. OTHER INFORMATION****Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in our 2007 Form 10-K.

**Item 6. Exhibits**

The following exhibits are filed herewith:

Exhibits not incorporated by reference to a prior filing are designated by a cross (+); all exhibits not so designated are incorporated by reference to a prior filing of CenterPoint Energy Transition Bond Company II, LLC.

<u>Exhibit Number</u>	<u>Description</u>	<u>Report or Registration Statement</u>	<u>SEC File or Registration Number</u>	<u>Exhibit References</u>
4.1	Amended and Restated Certificate of Formation of CenterPoint Energy Transition Bond Company II, LLC	Current Report on Form 8-K filed with the SEC on December 16, 2005	333-121505	3.1
4.2	Amended and Restated Limited Liability Company Agreement of CenterPoint Energy Transition Bond Company II, LLC	Current Report on Form 8-K filed with the SEC on December 16, 2005	333-121505	3.2
10.1	Semiannual Servicer's Certificate dated as of January 30, 2008, as to the transition bond balances, the balances of the collection account and its sub-accounts, and setting forth transfers and payments to be made on the February 1, 2008 payment date	Form 10-K for the year ended December 31, 2007	333-121505	10.5
+31.1	Section 302 Certification of Gary L. Whitlock			
+31.2	Section 302 Certification of Marc Kilbride			
+32.1	Section 906 Certification of Gary L. Whitlock			

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<u>Exhibit Number</u>	<u>Description</u>	<u>Report or Registration Statement</u>	<u>SEC File or Registration Number</u>	<u>Exhibit References</u>
+32.2	Section 906 Certification of Marc Kilbride			
+99.1	Items incorporated by reference from the CenterPoint Energy Transition Bond Company II, LLC Form 10-K. Item 1A "Risk Factors."			



## Index to Exhibits

The following exhibits are filed herewith:

Exhibits not incorporated by reference to a prior filing are designated by a cross (+); all exhibits not so designated are incorporated by reference to a prior filing of CenterPoint Energy Transition Bond Company II, LLC.

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+32.2	Section 906 Certification of Marc Kilbride			
+99.1	Items incorporated by reference from the CenterPoint Energy Transition Bond Company II, LLC Form 10-K. Item 1A "Risk Factors."			

## CERTIFICATIONS

I, Gary L. Whitlock, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy Transition Bond Company II, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2008

/s/ Gary L. Whitlock

\_\_\_\_\_  
Gary L. Whitlock

President and Manager (Principal Executive Officer)



## CERTIFICATIONS

I, Marc Kilbride, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy Transition Bond Company II, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2008

/s/ Marc Kilbride

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Marc Kilbride

Vice President, Treasurer and Manager  
(Principal Financial Officer)

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CenterPoint Energy Transition Bond Company II, LLC (the "Company") on Form 10-Q for the quarter ended March 31, 2008 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Gary L. Whitlock, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gary L. Whitlock

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Gary L. Whitlock

President and Manager

(Principal Executive Officer)

May 13, 2008

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CenterPoint Energy Transition Bond Company II, LLC (the "Company") on Form 10-Q for the quarter ended March 31, 2008 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Marc Kilbride, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Marc Kilbride

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Marc Kilbride

Vice President and Treasurer

(Principal Financial Officer)

May 13, 2008

**Item 1A. Risk Factors*****Material payment delays or a loss on investments in the transition bonds may occur because the source of funds for payment is limited.***

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

- the right to impose, collect and receive related transition charges;
- the funds on deposit in the accounts held by the trustee;
- our rights under various contracts; and
- the credit enhancement.

The transition bonds are not a charge on the full faith and credit or taxing power of the State of Texas or any governmental agency or instrumentality, nor are the transition bonds insured or guaranteed by CenterPoint Houston, including in its capacity as the servicer, or by its ultimate parent, CenterPoint Energy, Inc., any of its affiliates (other than us), the trustee or by any other person or entity. Thus, holders of transition bonds (bondholders) must rely for payment of transition bonds solely upon collections of the transition charges, funds on deposit in the related accounts held by the trustee and the credit enhancement described under “Business—Transition Property” in Item 1. Our organizational documents restrict our right to acquire other assets unrelated to the transactions described under “Business—General” in Item 1.

**Risks Associated with Potential Judicial, Legislative or Regulatory Actions*****Future judicial action could reduce the value of the transition bonds.***

The transition property is the creation of the 1999 utility restructuring amendments to the Public Utility Regulatory Act of Texas (Restructuring Act) and the financing order. There is uncertainty associated with investing in bonds payable from an asset that depends for its existence on legislation because there is limited judicial or regulatory experience implementing and interpreting the legislation. Because the transition property is a creation of the Restructuring Act, any judicial determination affecting the validity of or interpreting the Restructuring Act, the transition property or our ability to make payments on the transition bonds might have an adverse effect on the transition bonds.

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

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

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

If federal legislation preempting the Restructuring Act or the financing order is enacted, there is no assurance that the courts would consider it a “taking” under the United States Constitution for which the government would be

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required to pay just compensation or, if it is considered a “taking,” that any amount provided as compensation would be sufficient to pay the full amount of principal of and interest on the transition bonds or to pay these amounts on a timely basis.

***Future state legislative action could reduce the value of the transition bonds.***

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

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

***The Texas Utility Commission might take actions that could reduce the value of the transition bonds.***

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

The servicer is required to file with the Texas Utility Commission, on our behalf, certain adjustments of the transition charges. True-up adjustment procedures have been challenged in the past and may be challenged in the future. Challenges to or delays in the true-up process might adversely affect the market perception and valuation of the transition bonds. Also, any litigation might materially delay transition charge collections due to delayed implementation of true-up adjustments and might result in missing payments or payment delays and lengthened weighted average life of the transition bonds.

**Servicing Risks**

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

The transition charges are generally assessed based on forecasted customer usage. The amount and the rate of transition charge collections depend in part on actual electricity usage and the amount of collections and write-offs for each customer class. If the servicer inaccurately forecasts electricity consumption or uses inaccurate customer delinquency or charge-off data when setting or adjusting the transition charges, there could be a shortfall or material delay in transition charge collections, which might result in missed or delayed payments of principal and interest and lengthened weighted average life of the transition bonds.

The servicer has experienced difficulties from time to time in making accurate forecasts of electricity consumption because of unexpected weather conditions. Inaccurate forecasting of electricity consumption by the servicer might result from, among other things, unanticipated weather or economic conditions, resulting in less

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electricity consumption than forecast; general economic conditions being worse than expected, causing retail electric customers to migrate from CenterPoint Houston's service territory or reduce their electricity consumption; the occurrence of a natural disaster or an act of terrorism or other catastrophic event; changes in the market structure of the electric industry; customers consuming less electricity because of increased energy prices or conservation effort; or customers switching to alternative sources of energy, including self-generation of electric power.

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

***We depend on CenterPoint Houston or its successor or assignee, acting as servicer of the transition property.***

CenterPoint Houston, as servicer, is responsible for, among other things, calculating, billing and collecting the transition charges from REPs, submitting requests to the Texas Utility Commission to adjust these charges, monitoring the collateral for the transition bonds and taking certain actions in the event of non-payment by a REP. The trustee's receipt of collections in respect of the transition charges, which are used to make payments on the transition bonds, depends in part on the skill and diligence of the servicer in performing these functions. The systems the State of Texas and the servicer have in place for transition charge billings and collections might, in particular circumstances, cause the servicer to experience difficulty in performing these functions in a timely and completely accurate manner. If the servicer fails to make collections for any reason, then the servicer's payments to the trustee in respect of the transition charges might be delayed or reduced. In that event, our payments on the transition bonds might be delayed or reduced.

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

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

***It might be difficult to collect transition charges from REPs.***

As required by the Restructuring Act, retail electric customers pay the transition charges to REPs who supply them with electric power. The REPs are obligated to remit payments of the transition charges, less a specified percentage allowance for charge-offs of delinquent customer accounts, within 35 days of billing from the servicer, even if they do not collect the transition charges from retail electric customers. Because the REPs bill most retail electric customers for the transition charges, we have to rely on a relatively small number of entities for the collection of the bulk of the transition charges. As of December 31, 2007, CenterPoint Houston did business with 74 REPs. Reliant Energy, Inc. (RRI) through its subsidiaries, is CenterPoint Houston's largest customer, accounting for approximately 48% of CenterPoint Houston's outstanding receivables from REPs as of December 31, 2007.

Failure by the REPs to remit transition charges to the servicer might cause delays in payments on the transition bonds and adversely affect the value of the transition bonds. The servicer does not pay any shortfalls resulting from the failure of any REP to forward transition charge collections.

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Adjustments to the transition charges and any credit support provided by a REP, while available to compensate for a failure by a REP to pay the transition charges to the servicer, might not be sufficient to protect the value of the transition bonds.

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

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

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

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

***Changes to billing and collection practices might reduce the value of the transition bonds.***

The financing order specifies the methodology for determining the amount of the transition charges we may impose. The servicer may not change this methodology without approval from the Texas Utility Commission. However, the servicer may set its own billing and collection arrangements with REPs and retail electric customers, if any, from whom it collects transition charges directly, provided that these arrangements comply with the Texas Utility Commission’s customer safeguards. For example, to recover part of an outstanding bill, the servicer may agree to extend a REP’s payment schedule or to write off the remaining portion of the bill, including the transition charges. Also, the servicer may change billing and collection practices, which might adversely impact the timing and amount of retail electric customer payments and might reduce transition charge collections, thereby limiting our ability to make scheduled payments on the transition bonds. Separately, the Texas Utility Commission might require changes to these practices. Any changes in billing and collection practices regulations might make it more difficult for the servicer to collect the transition charges and adversely affect the value of the transition bonds.

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

Texas statutory requirements and the rules and regulations of the Texas Utility Commission, which may change from time to time, regulate and control the right of the REP to initiate disconnection of service. For example, REPs generally may not terminate service to a customer (1) on a holiday or weekend day or the day immediately preceding a holiday or weekend, (2) during certain extreme weather conditions, (3) if such disconnection would cause a person to become seriously ill or more seriously ill, (4) if such customer is an energy assistance client under certain circumstances or (5) if the customer is a master-metered apartment complex unless certain notices are given. To the extent these retail electric customers do not pay for their electric service, REPs will not be able to collect transition charges from these retail electric customers. Although REPs have to pay the servicer the transition charges

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on behalf of those customers (subject to any charge-off allowance and reconciliation rights), required service to non-paying customers could affect the ability of REPs to make such payment.

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

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

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

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

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

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

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

**Risks Associated with Potential Bankruptcy Proceedings of CenterPoint Houston or a Successor Servicer**

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

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

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

The Restructuring Act provides that our rights to the transition property are not affected by the commingling of these funds with any other funds of the servicer. In a bankruptcy of the servicer, however, a bankruptcy court might rule that federal bankruptcy law does not recognize our right to collections of the transition charges that are commingled with other funds of the servicer as of the date of bankruptcy. If so, the collections of the transition charges held by the servicer as of the date of bankruptcy would not be available to pay amounts owing on the

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transition bonds. In this case, we would have only a general unsecured claim against the servicer for those amounts. This decision could cause material delays in payments of principal or interest, or losses, on the transition bonds and could materially reduce the value of the transition bonds, particularly if it occurred in the fifteenth year of the transition bonds after the completion of which no transition charges can be charged.

***The bankruptcy of CenterPoint Houston, as seller of the transition property, might result in losses or delays in payments on the transition bonds.***

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

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

These provisions are important to maintaining payments on the transition bonds in accordance with their terms during any bankruptcy of CenterPoint Houston.

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

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

- without permission from the bankruptcy court, the trustee might be prevented from taking actions against CenterPoint Houston or recovering or using funds on behalf of bondholders or replacing CenterPoint Houston as the servicer;
  - the bankruptcy court might order the trustee to exchange the transition property for other property, of lower value;
  - tax or other government liens on CenterPoint Houston's property might have priority over the trustee's lien and might be paid from collected transition charges before payments on the transition bonds;
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- the trustee's lien might not be properly perfected in the collected transition property collections prior to or as of the date of CenterPoint Houston's bankruptcy, with the result that the transition bonds would represent only general unsecured claims against CenterPoint Houston;
- the bankruptcy court might rule that neither our property interest nor the trustee's lien extends to transition charges in respect of electricity consumed after the commencement of CenterPoint Houston's bankruptcy case, with the result that the transition bonds would represent only general unsecured claims against CenterPoint Houston;
- we and CenterPoint Houston might be relieved of any obligation to make any payments on the transition bonds during the pendency of the bankruptcy case and might be relieved of any obligation to pay interest accruing after the commencement of the bankruptcy case;
- CenterPoint Houston might be able to alter the terms of the transition bonds as part of its plan of reorganization;
- the bankruptcy court might rule that the transition charges should be used to pay, or that we should be charged for, a portion of the cost of providing electric service; or
- the bankruptcy court might rule that the remedy provisions of the transition property sale agreement are unenforceable, leaving us with an unsecured claim for actual damages against CenterPoint Houston that may be difficult to prove or, if proven, to collect in full.

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

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

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

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

In the event of a bankruptcy of the servicer, a party in interest might take the position that the remittance of funds prior to bankruptcy of the servicer, pursuant to the servicing agreement or intercreditor agreement, constitutes a preference under bankruptcy law if the remittance of those funds was deemed to be paid on account of a pre-existing debt. If a court were to hold that the remittance of funds constitutes a preference, any such remittance within 90 days of the filing of the bankruptcy petition could be avoidable, and the funds could be required to be returned to the bankruptcy estate of the servicer. To the extent that transition charges have been commingled with the general funds of the servicer, the risk that a court would hold that a remittance of funds was a preference would increase. Also, we or the servicer may be considered an “insider” with any REP that is affiliated with us or the servicer. If the servicer or we are considered to be an “insider” of the REP, any such remittance made within one year of the filing of the bankruptcy petition could be avoidable as well if the court were to hold that such remittance constitutes a preference. In either case, we or the trustee would merely be an unsecured creditor of the servicer.

***Claims against CenterPoint Houston might be limited in the event of its bankruptcy.***

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

***The bankruptcy of CenterPoint Houston might limit the remedies available to the trustee.***

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

***Risks Associated with Potential Bankruptcy Proceedings of REPs***

***REPs may commingle the transition charges with other revenues they collect. This may cause losses on or reduce the value of the transition bonds in the event a REP enters bankruptcy proceedings.***

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

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

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

If a REP does not have the credit rating required by the financing order, it may nevertheless qualify to act as a REP if, among other alternatives, it provides a cash deposit equal to two months' maximum expected transition charge collections. That cash deposit will be held by the trustee under the indenture. However, it is unclear whether the Restructuring Act creates a lien on the cash deposit in favor of the trustee. If the REP becomes bankrupt, the trustee would be stayed from applying that cash deposit to cover amounts owed by the REP, and the trustee might be required to return that cash deposit to the REP's bankruptcy estate if the bankruptcy court determines there is no valid right of set-off or recoupment. In that case, the issuer might only have an unsecured claim for any amounts owed by the REP in the REP's bankruptcy proceedings. Several REPs with which CenterPoint Houston has done business have filed for bankruptcy. CenterPoint Houston, as servicer of the transition bonds, was able to recover the full amount or a substantial majority of the transition charges from cash deposits or a combination of cash deposits and payments from these REPs, but there is no assurance that CenterPoint Houston will be able to recover such amounts from any bankrupt REPs in the future.

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

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

Furthermore, the mere fact of a REP bankruptcy proceeding could have an adverse effect on the resale market for the transition bonds and on the value of the transition bonds.

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

***We may incur expenses in excess of caps on such expenses provided in the financing order.***

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

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

CenterPoint Houston is obligated under the transition property sale agreement to indemnify us and the trustee, for itself and on behalf of the bondholders, only in specified circumstances and will not be obligated to repurchase the transition property in the event of a breach of any of its representations, warranties or covenants regarding the transition property. Similarly, CenterPoint Houston is obligated under the transition property servicing agreement to indemnify us, the trustee, for itself and on behalf of the bondholders, and the Texas Utility Commission only in specified circumstances.

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

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

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

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

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

***Bondholders might receive principal payments on the transition bonds later than expected.***

The amount and the rate of collection of the transition charges, together with the related transition charge adjustments, will generally determine whether there is a delay in the scheduled repayments of transition bond principal. If the servicer collects the transition charges at a slower rate than expected from any REP, it might have to request adjustments of the transition charges. If those adjustments are not timely and accurate, bondholders might experience a delay in payments of principal and interest and a decrease in the value of the transition bonds.