

New Revenue Recognition Standard (ASC 606) FAQ

1) Why did you elect to adopt ASC 606 in 2017?

The adoption of ASC 606 will more closely align revenue recognition with the service delivery period of our demand response programs. In turn, this will help reduce the volatility that distorted historical revenue trends. All SEC registered companies are required to adopt ASC 606 in 2018. We believe the enhanced clarity of reporting under this standard provided sufficient incentive to early adopt in 2017.

2) What impact will ASC 606 have on your demand response business?

The previous guidance required revenues for certain demand response programs to be deferred until contract maturity. As a result, quarterly revenue fluctuations were largely driven by the completion of such programs. Revenue recognition under ASC 606 will more closely align with the service delivery throughout the period.

3) Specifically, what impact will ASC 606 have on your PJM demand response programs?

ASC 606 will minimize historic year-over-year revenue volatility generated from our election to participate in either the PJM Limited or Extended program. For example, all revenue associated with the 2017/18 PJM Extended program would be deferred until May of 2018 under the previous guidance, despite five months (>80% of the contract term) of performance in 2017. Under ASC 606, we will be able to recognize revenues associated with the five months of service delivered in 2017.

Please refer to the “PJM Revenue Recognition Primer” slides on the investor page on our website <http://investor.enernoc.com/> for a more in depth summary of how we expect to recognize PJM revenues under the ASC 606 standard.

4) What impact will ASC 606 have on your procurement solutions revenues?

Under the previous guidance, revenue generated from energy sourcing was recognized over the term of the contract as the end-user consumed energy. Under ASC 606, recognition of energy sourcing revenue is accelerated to completion of the energy sourcing auction, thus more closely aligning with new order bookings.

5) Will ASC 606 impact your other revenue streams?

ASC 606 will not have a material ongoing impact on our subscription software or professional services revenues.

6) Will ASC 606 eliminate the seasonality of your demand response revenues?

No...Through at least 2019, we will continue to have a large population of demand response programs in which the service delivery period is concentrated in the summer months.

7) What impact will ASC 606 have on the revenue trends for procurement solutions?

As recognition more closely aligns to bookings, we anticipate some quarterly revenue lumpiness as deal sizes and timing will have more meaningful impact on quarterly revenues.

8) Will you recast prior year results under ASC 606 for comparative purposes?

We do not intend to recast prior year results under the new accounting standard. We will, however, report pro-forma quarterly and full year 2017 financial results under ASC 605, which will provide the ability to compare current year operating results with prior years.

9) What would 2016 PJM have looked like under ASC 606?

Applying the ASC 606 standard to historical results, we estimate the 2016 PJM revenues would have been approximately \$60 million less than the reported amount, primarily due to 2015/16 PJM Extended program revenue that was deferred into 2016 under ASC 605. Under ASC 606, the majority of revenue related to this program would have been reflected in 2015.

10) What would your 2017 revenue guidance look like under ASC 605?

Applying the ASC 605 standard to 2017, we estimate our revenue guidance would be reduced by approximately \$100 million, primarily due to the 2017/18 PJM Extended program. Under ASC 606, the majority of revenue related to this program is recognized in 2017, but would be deferred into 2018 under ASC 605.

11) Will ASC 606 impact gross margin?

No...ASC 606 is not expected to have a material impact to gross margin as costs of revenues will continue to be recognized in line with revenues.

12) Will ASC 606 impact operating expenses?

The standard does impact the recognition timing for certain sales commissions and channel partner fees within operating expenses, but the net impact to our operating income is relatively immaterial.

13) Is there any change in expected cash flows stemming from the new standard?

No – there is no impact on cash flows, only the timing in which we recognize revenues and expenses. Any changes in our income statement from this accounting change will have an offsetting change on our balance sheet such that cash flows remain the same.

14) How will the change to ASC 606 manifest on your balance sheet?

The application of ASC 606 results in a new balance sheet account referred to as “Contract Asset”. As of March 31, 2017, this largely reflects amounts due to the Company for procurement solutions, for which collections will be applied throughout the life of the respective contracts.

15) How were your financial statements impacted upon adoption of ASC 606?

Under the modified retrospective approach, we calculated revenue and costs associated with contracts not completed as of December 31, 2016, that would have been recognized under ASC 606. The net impact was recorded as an adjustment to retained earnings.

16) Is the \$5.8 million goodwill impairment charge related to the adoption of ASC 606?

Under ASC 606, revenues associated with procurement solutions contracts are recognized upon successful completion of an auction, generating a corresponding contract asset. The adoption of ASC 606 generated a \$34 million contract asset on January 1, 2017, increasing the net assets of the reporting unit. As a result, the fair value of the reporting unit no longer exceeded its carrying value and impairment to goodwill was required.

17) Where can I learn more about the impact of the new standard?

We have provided disclosure in our Form 10-Q for the first quarter of 2017 and encourage you to reference this document. All other inquiries can be sent to ir@enernoc.com.