



PJM Revenue Recognition

Change in Accounting Standards

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PJM Revenue Recognition

Overview of Accounting Standard Change

EnerNOC adopted the new ASC 606 revenue guidance effective Jan 1, 2017

1. More closely aligns demand response revenue recognition with delivery of service
2. Changes in PJM program mix will still result in revenue seasonality for the next few years
3. Regardless of program, cash is received ratably across 12 months of each PJM year

Demand Response

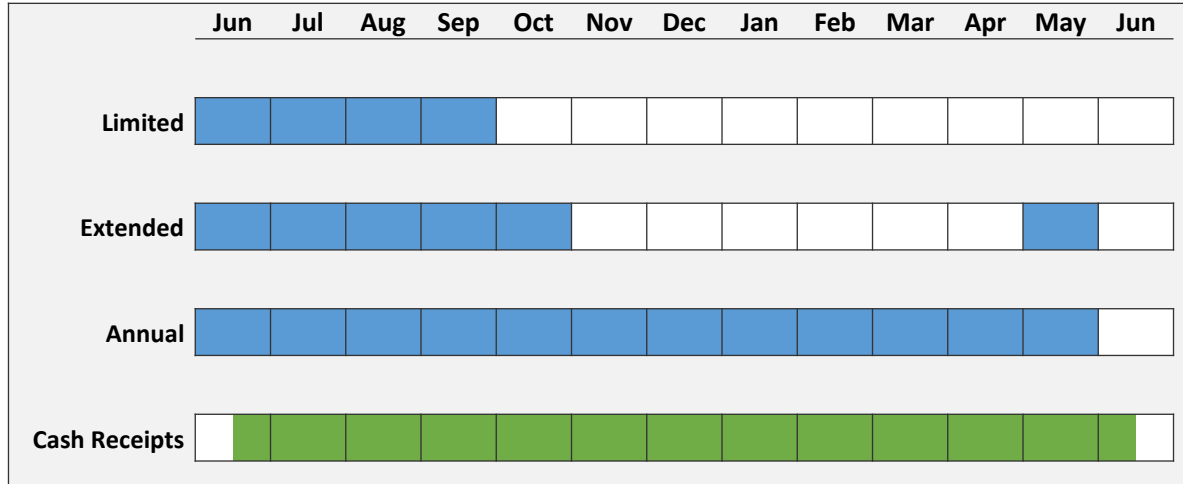
A Closer Look at the PJM Programs





- PJM Interconnection LLC (PJM) is a regional transmission organization in the U.S. serving 13 states in the Mid-Atlantic region
- EnerNOC, as a Curtailment Service Provider, participates in various PJM demand response programs
 - EnerNOC utilizes our Network Operations Center (NOC) to reduce electricity consumption across a network of C&I end-user sites as needed
 - PJM compensates EnerNOC based on the volume of MW's we are able to curtail in the event of an emergency or test dispatch

PJM Demand Response Programs

Program Timing



-  PJM program delivery periods
-  Timing of PJM program cash receipts

- PJM's program year commences on June 1st and extends through May 31st
- There are three PJM programs, each with varying service delivery periods
 - **Limited or Base Capacity**
June → September
 - **Extended**
June → October + the following May
 - **Annual or Capacity Performance**
June → the following May
- Cash is received ratably throughout PJM's program year (June → the following May) for all programs

PJM Revenue Recognition Primer

ASC 606 allows for ratable revenue recognition

Under 605 (prior to 2017):

- Limited program revenue deferred until the end of the program's service delivery period
- Significant revenue concentration in Q3
- Extended and Annual program revenue deferred until Q2 of the subsequent calendar year

Under 606 (2017 and beyond):

- Revenue recognized as we satisfy service delivery obligations throughout the program period

Cash Impact:

- Regardless of accounting methodology, cash is received evenly throughout the program year

PJM Program	Delivery Periods	Revenue Recognition	
		ASC 605	ASC 606
Limited	June-September	Deferred until the end of delivery period (Q3)	As we satisfy performance obligations over the 4 month service delivery period*
Extended	June-October PLUS the following May	Deferred until the end of delivery period (following year Q2)	As we satisfy performance obligations over the 6 month service delivery period*
Annual	June-the following May	Deferred until the end of delivery period (following year Q2)	As we satisfy performance obligations over the 12 month service delivery period*

* Recognition throughout the service delivery period will be subject to constraint, such that it is probable that a significant reversal of cumulative revenues will not occur

EnerNOC's PJM Program Mix

PJM's forward auction construct provides revenue visibility three years in advance of delivery

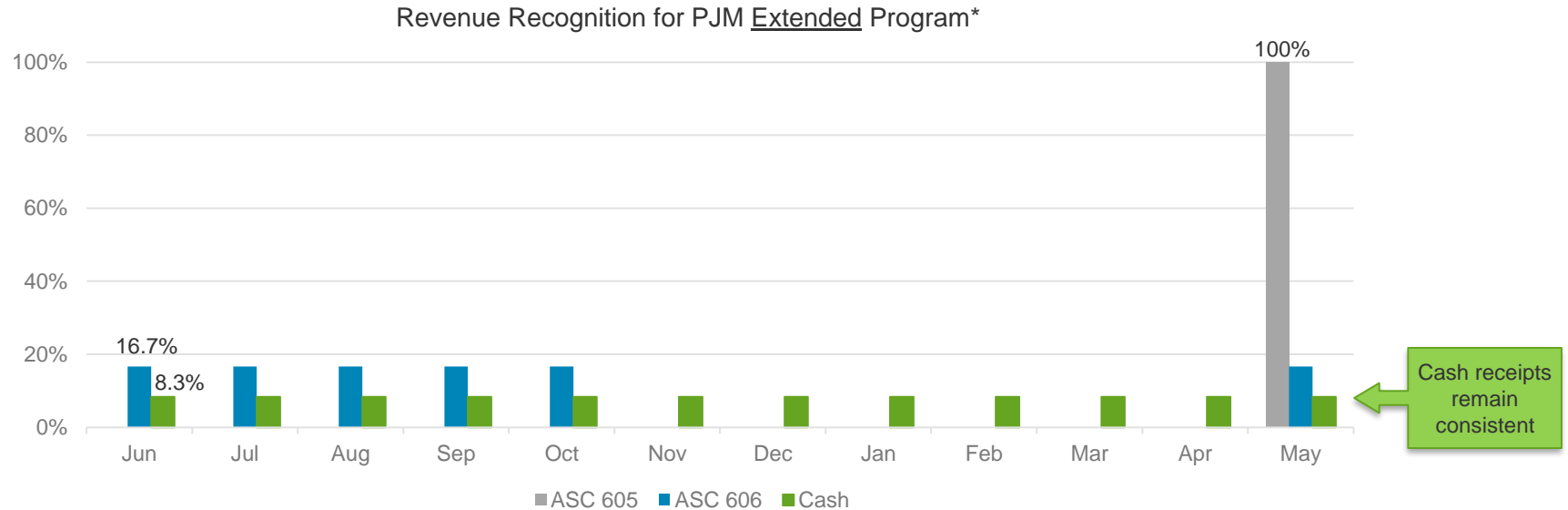
Fiscal Year	PJM % Limited	PJM % Extended	PJM % Annual
FY 2017	5%	90%	5%
FY 2018	85%	10%	5%
FY 2019	95%	0%	5%
FY 2020+	0%	0%	100%

All values rounded to nearest 5%

- The Annual program has historically represented less than 10% of our PJM portfolio
- Participation in PJM's Limited and Extended programs will continue to create seasonality in Q3 revenues, as the majority of performance obligation is delivered during this quarter
- This trend will continue until June 2020, when PJM transitions entirely to the Annual Capacity Performance program
- With the switch to PJM's Annual Capacity Performance program in June 2020, quarterly revenue recognition will more closely align with cash receipts

PJM Extended Program

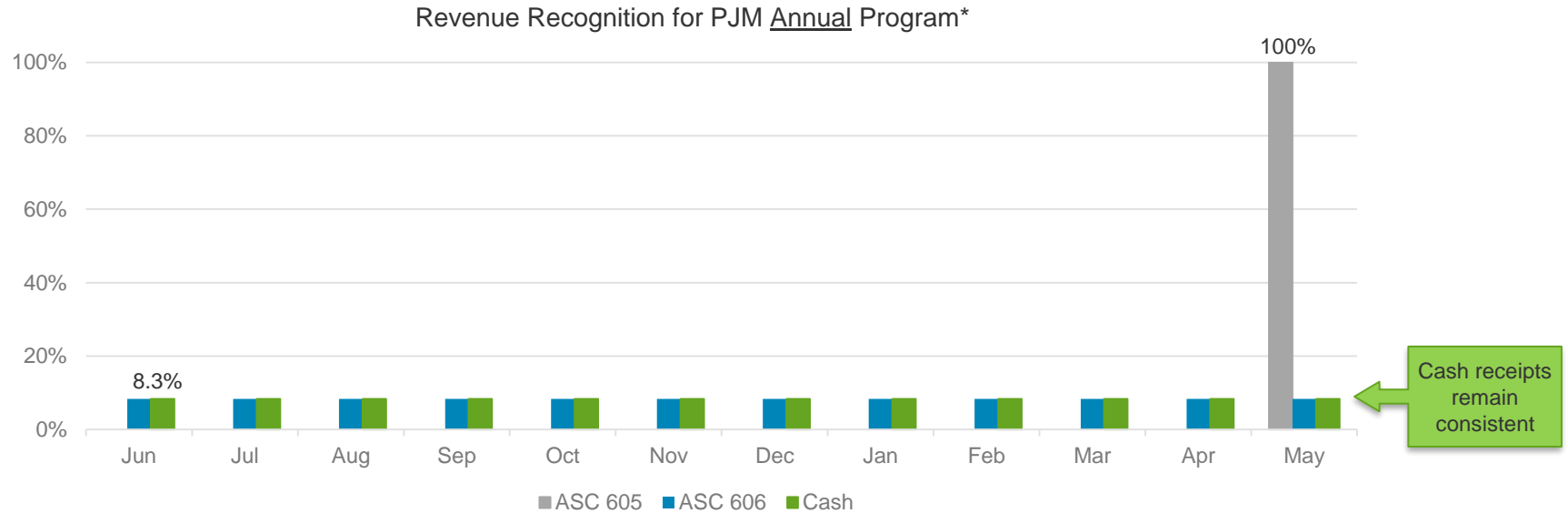
ASC 606 allows for ratable revenue recognition over the 6 months of delivery obligation



* Illustration excludes the impact of a revenue constraint (in earlier months), necessary to address potential performance penalties in later months

PJM Annual Program

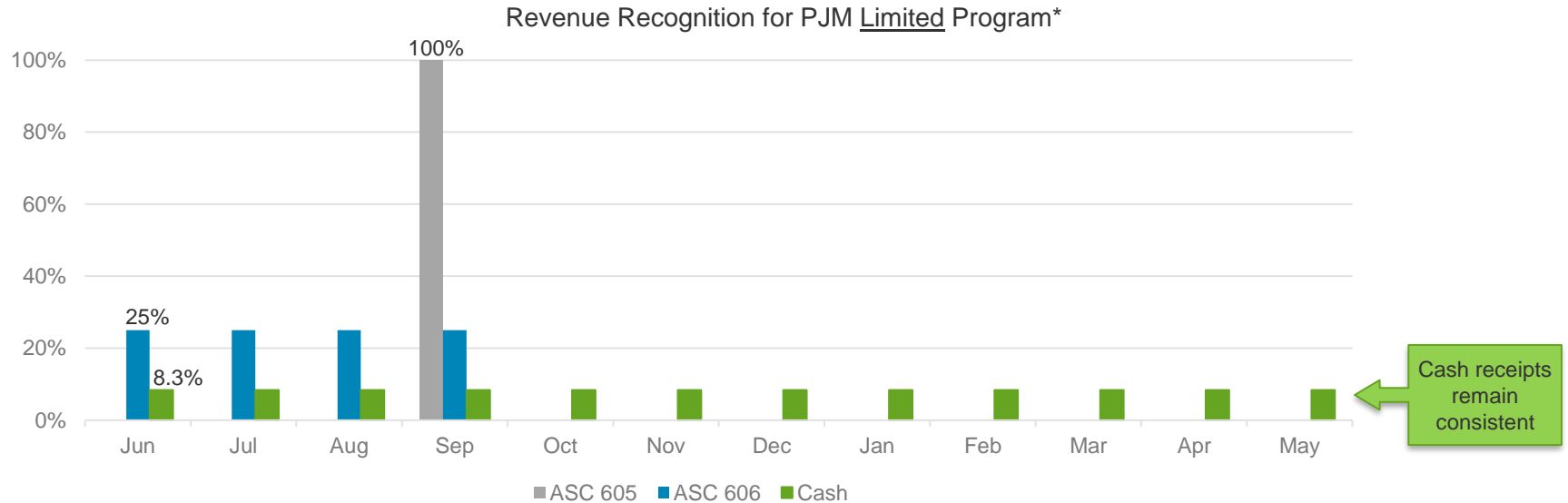
ASC 606 allows for revenue to closely align to cash



* Illustration excludes the impact of a revenue constraint (in earlier months), necessary to address potential performance penalties in later months

PJM Limited Program

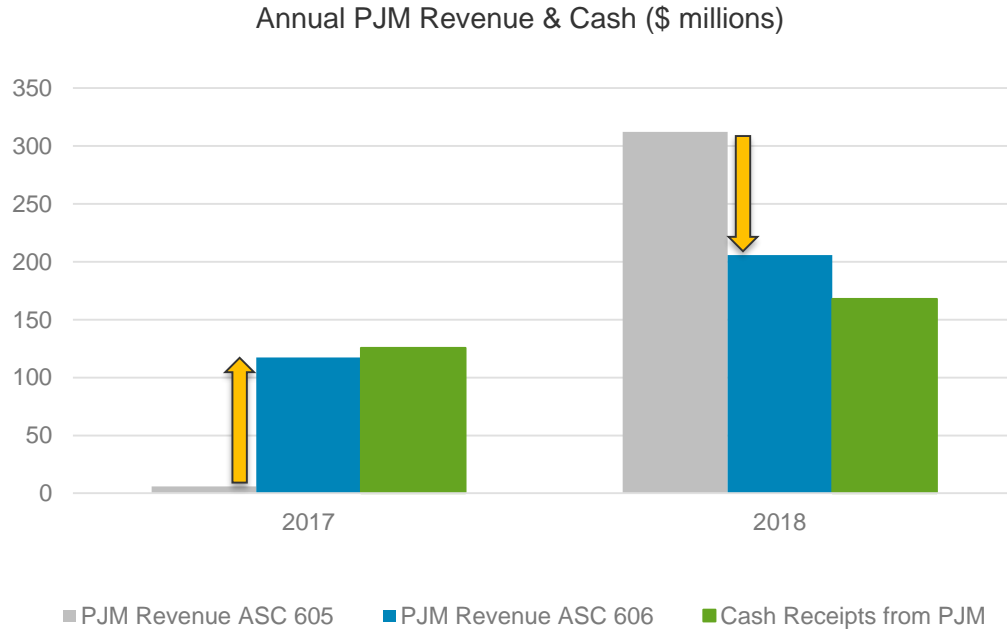
ASC 606 accelerates some revenue into Q2, but revenue still peaks in Q3



* Illustration excludes the impact of a revenue constraint (in earlier months), necessary to address potential performance penalties in later months

How 2017 Adoption of ASC 606 Impacts ENOC's P&L

Cash Flows Remain Unchanged



- Adopting ASC 606 in 2017 accelerates approximately \$100M of revenue into 2017 that otherwise would have been deferred to 2018
- There is no change to PJM cash receipts by adopting ASC 606; Receipts are expected to average approximately \$145M per year and remain less volatile than revenues

Overview

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