Pattern Energy Group Inc.
Form 10-Q
November 05, 2018

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 September 30, 2018.
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-36087

PATTERN ENERGY GROUP INC.
(Exact name of Registrant as specified in its charter)

Delaware	90-0893251
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Pier 1, Bay 3, San Francisco, CA 94111
(Address of principal executive offices) (Zip Code)
Registrant’s telephone number, including area code: (415) 283-4000

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
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 November 1, 2018, there were 98,095,884 shares of Class A common stock outstanding with par value of $0.01 per share.

PATTERN ENERGY GROUP INC.
REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018
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CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements and information in this Quarterly Report on Form 10-Q (Form 10-Q) may constitute “forward-looking statements.” You can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will," "would," or similar words. You should read statements that contain these words carefully because they discuss our current plans, strategies, prospects, and expectations concerning our business, operating results, financial condition, and other similar matters. While we believe that these forward-looking statements are reasonable as and when made, there may be events in the future that we are not able to predict accurately or control, and there can be no assurance that future developments affecting our business will be those that we anticipate. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those summarized below:

- our ability to complete acquisitions of power projects;
- our ability to complete construction of our construction projects and transition them into financially successful operating projects;
- fluctuations in supply, demand, prices and other conditions for electricity, other commodities and renewable energy credits (RECs);
- our electricity generation, our projections thereof and factors affecting production, including wind, solar and other conditions, other weather conditions, turbine and transmission availability and curtailment;
- changes in law, including applicable tax laws;
- public response to and changes in the local, state, provincial and federal regulatory framework affecting renewable energy projects, including those related to taxation, the U.S. federal production tax credit (PTC), investment tax credit (ITC) and potential reductions in Renewable Portfolio Standards (RPS) requirements;
- the ability of our counterparties to satisfy their financial commitments or business obligations;
- the availability of financing, including tax equity financing, for our power projects;
- an increase in interest rates;
- our substantial short-term and long-term indebtedness, including additional debt in the future;
- competition from other power project developers;
- development constraints, including the availability of interconnection and transmission;
- potential environmental liabilities and the cost and conditions of compliance with applicable environmental laws and regulations;
- our ability to operate our business efficiently, manage capital expenditures and costs effectively and generate cash flow;
- our ability to retain and attract executive officers and key employees;
- our ability to keep pace with and take advantage of new technologies;
- the effects of litigation, including administrative and other proceedings or investigations, relating to our projects under construction and those in operation;
- conditions in energy markets as well as financial markets generally, which will be affected by interest rates, foreign currency exchange rate fluctuations and general economic conditions;
- the effectiveness of our currency risk management program;
- the effective life and cost of maintenance of our wind turbines, solar panels and other equipment;
- the increased costs of, and tariffs on, spare parts;
- scarcity of necessary equipment;
- negative public or community response to wind and solar power projects;
- the value of collateral in the event of liquidation; and
- other factors discussed under “Risk Factors.”

For additional information regarding known material factors that could cause our actual results to differ from our projected results, please see Part II, "Item 1A. Risk Factors" in this Form 10-Q and Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
Pattern Energy Group Inc.
Consolidated Balance Sheets
(In thousands of U.S. Dollars, except share data)
(Unaudited)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents (Note 8)	$ 125,689	$ 116,753
Restricted cash (Note 8)	6,324	9,065
Counterparty collateral	5,855	29,780
Trade receivables (Note 8)	50,303	54,900
Derivative assets, current	15,842	19,445
Prepaid expenses (Note 8)	21,080	17,847
Deferred financing costs, current, net of accumulated amortization of $2,670 and $2,580 as of September 30, 2018 and December 31, 2017, respectively	1,482	1,415
Other current assets (Note 8)	13,584	21,105
Total current assets	240,159	270,310
Restricted cash (Note 8)	13,899	12,162
Major construction advances	71,406	—
Construction in progress	221,185	—
Property, plant and equipment, net (Note 8)	4,109,864	3,965,121
Unconsolidated investments	372,380	311,223
Derivative assets	24,757	9,628
Deferred financing costs	8,797	7,784
Net deferred tax assets	1,616	6,349
Finite-lived intangible assets, net (Note 8)	221,183	136,048
Goodwill	56,453	—
Other assets (Note 8)	30,372	22,906
Total assets	$ 5,372,071	$ 4,741,531
Liabilities and equity		
Current liabilities:		
Accounts payable and other accrued liabilities (Note 8)	$ 57,360	$ 53,615
Accrued construction costs (Note 8)	38,442	1,369
Counterparty collateral liability	5,855	29,780
Accrued interest (Note 8)	7,621	16,460
Dividends payable	42,185	41,387
Derivative liabilities, current	2,190	8,409
Revolving credit facility, current	186,372	—
Current portion of long-term debt, net	63,671	51,996
Contingent liabilities, current	24,771	2,592
Other current liabilities (Note 8)	12,955	11,426
Total current liabilities	441,422	217,034
Revolving credit facility	23,760	—
Long-term debt, net	2,105,834	1,878,735
Derivative liabilities	14,985	20,972

Net deferred tax liabilities	120,104	56,491
Finite-lived intangible liabilities, net (Note 8)	57,039	51,194
Contingent liabilities (Note 8)	140,048	62,398
Asset retirement obligations (Note 8)	192,006	56,619
Other long-term liabilities (Note 8)	64,033	49,946
Advanced lease revenue	28,268	—
Total liabilities	3,187,499	2,393,389
Commitments and contingencies (Note 17)		
Equity:		
Class A common stock, $0.01 par value per share: 500,000,000 shares authorized; 98,095,886 and 97,860,048 shares outstanding as of September 30, 2018 and December 31, 2017, respectively	983	980
Additional paid-in capital	1,170,450	1,234,846
Accumulated loss	(12,595)	(112,175)
Accumulated other comprehensive loss	(15,716)	(25,691)
Treasury stock, at cost; 178,783 and 157,812 shares of Class A common stock as of September 30, 2018 and December 31, 2017, respectively	(3,901)	(3,511)
Total equity before noncontrolling interest	1,139,221	1,094,449
Noncontrolling interest	1,045,351	1,253,693
Total equity	2,184,572	2,348,142
Total liabilities and equity	$ 5,372,071	$4,741,531

See accompanying notes to consolidated financial statements.

Pattern Energy Group Inc.
Consolidated Statements of Operations
(In thousands of U.S. Dollars, except share data)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenue:				
Electricity sales	$115,417	$89,807	$353,515	$293,977
Other revenue	2,976	2,223	16,477	6,646
Total revenue	118,393	92,030	369,992	300,623
Cost of revenue:				
Project expense	37,229	33,932	105,456	96,437
Transmission costs	5,700	7,421	20,533	12,213
Depreciation, amortization and accretion	55,267	52,379	165,698	144,637
Total cost of revenue	98,196	93,732	291,687	253,287
Gross profit (loss)	20,197	(1,702)	78,305	47,336
Operating expenses:				
General and administrative	9,305	9,068	29,100	31,969
Related party general and administrative	4,285	3,587	12,016	10,589
Impairment expense	2,325	—	6,563	—
Total operating expenses	15,915	12,655	47,679	42,558
Operating income (loss)	4,282	(14,357)	30,626	4,778
Other expense:				
Interest expense	(27,460)	(27,147)	(80,613)	(74,541)
Gain (loss) on derivatives	1,536	(6,288)	15,997	(11,687)
Earnings (loss) in unconsolidated investments, net	(4,304)	(3,964)	13,166	27,431
Net earnings (loss) on transactions	1,130	(466)	(1,970)	(1,585)
Other income (expense), net	(3,688)	7	(8,910)	560
Total other expense	(32,786)	(37,858)	(62,330)	(59,822)
Net loss before income tax	(28,504)	(52,215)	(31,704)	(55,044)
Tax provision (benefit)	3,043	(3,839)	14,237	5,477
Net loss	(31,547)	(48,376)	(45,941)	(60,521)
Net loss attributable to noncontrolling interest	(18,952)	(18,548)	(201,986)	(50,566)
Net income (loss) attributable to Pattern Energy	$(12,595)	$(29,828)	$156,045	$(9,955)
Weighted-average number of common shares outstanding				
Basic	97,460,492	87,370,979	97,464,012	87,146,465
Diluted	97,460,492	87,370,979	105,788,848	87,146,465
Earnings (loss) per share attributable to Pattern Energy				
Basic	$(0.13)	$(0.34)	$1.60	$(0.12)
Diluted	$(0.13)	$(0.34)	$1.58	$(0.12)

See accompanying notes to consolidated financial statements.

Pattern Energy Group Inc.
Consolidated Statements of Comprehensive Income (Loss)
(In thousands of U.S. Dollars)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net loss	$(31,547)	$(48,376)	$(45,941)	$(60,521)
Other comprehensive income (loss):				
Foreign currency translation, net of tax of zero, $3,656, zero and $3,656	2,901	8,230	(19,547)	17,979
Derivative activity:				
Effective portion of change in fair market value of derivatives, net of tax of ($2,273), ($1,285), ($1,227) and ($1,344), respectively	12,152	1,920	20,888	(2,498)
Reclassifications to net loss due to de-designation of interest rate derivatives, net of zero tax impact	—	2,207	(1,529)	2,207
Reclassifications to net loss, net of tax impact of $279, $351, $618 and $838 respectively	819	2,540	3,437	7,023
Total change in derivative activity	12,971	6,667	22,796	6,732
Proportionate share of equity investee’s derivative activity:				
Effective portion of change in fair market value of derivatives, net of tax of ($1,505), ($2,075), ($1,980) and ($2,360), respectively	4,175	5,756	5,492	6,546
Reclassifications to net loss, net of tax of $375, $672, $1,273 and $2,333, respectively	1,041	1,863	3,530	6,471
Total change in proportionate share of equity investee's derivative activity	5,216	7,619	9,022	13,017
Total other comprehensive income, net of tax	21,088	22,516	12,271	37,728
Comprehensive loss	(10,459)	(25,860)	(33,670)	(22,793)
Less comprehensive income (loss) attributable to noncontrolling interest:				
Net loss attributable to noncontrolling interest	(18,952)	(18,548)	(201,986)	(50,566)
Foreign currency translation, net of zero tax impact	1,636	(718)	(1,277)	(718)
Derivative activity:				
Effective portion of change in fair market value of derivatives, net of tax of $12, ($267), ($96) and ($166), respectively	2,245	763	3,226	489
Reclassifications to net gain due to de-designation of interest rate derivatives, net of zero tax impact	—	—	(447)	—
Reclassifications to net loss, net of tax of $38, $86, $41 and $148, respectively	167	244	794	411
Total change in derivative activity	2,412	1,007	3,573	900
Comprehensive loss attributable to noncontrolling interest	(14,904)	(18,259)	(199,690)	(50,384)
Comprehensive income (loss) attributable to Pattern Energy	$4,445	$(7,601)	$166,020	$27,591

See accompanying notes to consolidated financial statements.

Pattern Energy Group Inc.
Consolidated Statements of Stockholders' Equity
(In thousands of U.S. Dollars, except share data)
(Unaudited)

	Class A Common Stock		Treasury Stock							
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Total	Noncontrolling Interest	Total E
Balances at December 31, 2016	87,521,651	$875	(110,964)	$(2,500)	$1,145,760	$(94,270)	$(62,367)	$987,498	$891,246	$1,878
Issuance of Class A common stock, net of issuance costs	931,561	9	—	—	22,500	—	—	22,509	—	22,509
Issuance of Class A common stock under equity incentive award plan	231,311	2	—	—	(2)	—	—	—	—	—
Repurchase of shares for employee tax withholding	—	—	(4,182)	(97)	—	—	—	(97)	—	(97
Stock-based compensation	—	—	—	—	4,085	—	—	4,085	—	4,085
Dividends declared ($1.25 per Class A common share)	—	—	—	—	(110,168)	—	—	(110,168)	—	(110,16
Acquisition of Broadview Project and Meikle	—	—	—	—	—	—	—	—	390,389	390,38
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(13,701)	(13,701
Other	—	—	—	—	77	—	—	77	(201)	(124
Net loss	—	—	—	—	—	(9,955)	—	(9,955)	(50,566)	(60,521
Other comprehensive income, net of tax	—	—	—	—	—	—	37,546	37,546	182	37,728
Balances at September 30,	88,684,523	$886	(115,146)	$(2,597)	$1,062,252	$(104,225)	$(24,821)	$931,495	$1,217,349	$2,148

2017

Balances at December 31, 2017	98,017,860	$980	(157,812)	$(3,511)	$1,234,846	$(112,175)	$(25,691)	$1,094,449	$1,253,693	$2,348
Issuance of Class A common stock under equity incentive award plan	256,809	3	—	—	(3)	—	—	—	—	—
Repurchase of shares for employee tax withholding	—	—	(20,971)	(390)	—	—	—	(390)	—	(390
Stock-based compensation	—	—	—	—	3,517	—	—	3,517	—	3,517
Dividends declared ($1.27 per Class A common share)	—	—	—	—	(67,747)	(56,465)	—	(124,212)	—	(124,21
Acquisitions	—	—	—	—	—	—	—	—	52,493	52,493
Sale of subsidiaries	—	—	—	—	—	—	—	—	(32,278)	(32,278
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(28,867)	(28,867
Other	—	—	—	—	(163)	—	—	(163)	—	(163
Net income (loss)	—	—	—	—	—	156,045	—	156,045	(201,986)	(45,941
Other comprehensive income, net of tax	—	—	—	—	—	—	9,975	9,975	2,296	12,271
Balances at September 30, 2018	98,274,669	$983	(178,783)	$(3,901)	$1,170,450	$(12,595)	$(15,716)	$1,139,221	$1,045,351	$2,184

See accompanying notes to consolidated financial statements.

Pattern Energy Group Inc.
Consolidated Statements of Cash Flows
(In thousands of U.S. Dollars)
(Unaudited)

	Nine months ended September 30,	
	2018	2017
Operating activities		
Net loss	$(45,941)	$(60,521)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	187,741	156,330
Impairment expense	6,563	—
Loss (gain) on derivatives	(3,236)	17,869
Stock-based compensation	3,517	4,085
Deferred taxes	13,910	9,133
Intraperiod tax allocation	—	(3,656)
Earnings in unconsolidated investments, net	(13,166)	(27,431)
Distributions from unconsolidated investments	42,838	43,093
Other reconciling items	1,802	(2,047)
Changes in operating assets and liabilities:		
Counterparty collateral asset	23,925	10,105
Trade receivables	(47)	(2,861)
Prepaid expenses	(1,241)	(3,187)
Other current assets	13,749	(9,790)
Other assets (non-current)	(4,173)	2,457
Advanced lease revenue	33,792	—
Accounts payable and other accrued liabilities	(1,801)	16,389
Counterparty collateral liability	(23,925)	(10,105)
Accrued interest	(5,841)	(3,884)
Other current liabilities	(2,651)	6,650
Contingent liabilities, current	24,070	1,390
Long-term liabilities	7,366	14,569
Contingent liabilities	(27,013)	742
Derivatives	228	—
Net cash provided by operating activities	230,466	159,330
Investing activities		
Cash paid for acquisitions, net of cash and restricted cash acquired	(188,527)	(229,329)
Proceeds from sale of subsidiaries, net of cash and restricted cash distributed	55,820	—
Payment for construction advances/deposits	(68,937)	—
Payment for construction in progress	(49,450)	—
Payment for property, plant and equipment	(10,212)	(44,295)
Distributions from unconsolidated investments	4,752	11,211
Other assets	(781)	7,607
Investment in Pattern Development 2.0	(86,254)	(60,000)
Net cash used in investing activities	(343,589)	(314,806)

Pattern Energy Group Inc.
Consolidated Statements of Cash Flows
(In thousands of U.S. Dollars)
(Unaudited)

	Nine months ended September 30,	
	2018	2017
Financing activities		
Proceeds from public offerings, net of issuance costs	—	22,431
Dividends paid	(123,616)	(107,943)
Capital contributions - noncontrolling interest	3,383	—
Capital distributions - noncontrolling interest	(28,867)	(13,701)
Payment for financing fees	(7,478)	(7,763)
Proceeds from revolving credit facility	488,907	323,000
Repayment of revolving credit facility	(279,000)	(250,000)
Proceeds from long-term debt	164,673	404,395
Repayment of long-term debt	(53,274)	(192,109)
Repayment of note payable - related party	(909)	—
Repayment of short-term debt	(36,973)	—
Payment for termination of designated derivatives	—	(14,372)
Other financing activities	(2,771)	(3,712)
Net cash provided by financing activities	124,075	160,226
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(3,020)	3,952
Net change in cash, cash equivalents and restricted cash	7,932	8,702
Cash, cash equivalents and restricted cash at beginning of period	137,980	109,371
Cash, cash equivalents and restricted cash at end of period	$145,912	$118,073
Supplemental disclosures		
Cash payments for income taxes	$490	$335
Cash payments for interest expense	$79,302	$70,100
Schedule of non-cash activities		
Change in major construction advances, construction in progress and property, plant and equipment	$225,898	$619

See accompanying notes to consolidated financial statements.

Pattern Energy Group Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. Organization

Pattern Energy Group Inc. (Pattern Energy or the Company) was organized in the state of Delaware on October 2, 2012. Pattern Energy is an independent energy generation company focused on constructing, owning and operating energy projects with long-term energy sales contracts. Pattern Energy Group LP (Pattern Development 1.0) owns a 0.4% interest in the Company at September 30, 2018. The Pattern Development Companies (Pattern Development 1.0, Pattern Energy Group 2 LP (Pattern Development 2.0) and their respective subsidiaries) are leading developers of renewable energy and transmission projects.

The Company consists of the consolidated operations of certain entities purchased principally from Pattern Development 1.0, except for purchases of Lost Creek, Post Rock and certain additional interests in El Arrayán (each as defined below) which were purchased from third-parties. Each of the Company's wind and solar projects and certain assets are consolidated into the Company's subsidiaries as follows:

- Pattern US Operations Holdings LLC, which consists primarily of:
  - 100% ownership of Hatchet Ridge Wind, LLC (Hatchet Ridge), Spring Valley Wind LLC (Spring Valley), Pattern Santa Isabel LLC (Santa Isabel), Ocotillo Express LLC (Ocotillo), Pattern Gulf Wind LLC (Gulf Wind) and Lost Creek Wind, LLC (Lost Creek), and
  - consolidated controlling interests in Panhandle Wind LLC (Panhandle 1), Panhandle Wind 2 LLC (Panhandle 2), Post Rock Wind Power Project, LLC (Post Rock), Logan's Gap Wind LLC (Logan's Gap), Fowler Ridge IV Wind Farm LLC (Amazon Wind), and Broadview Finco Pledgor LLC (Broadview Project), which consists primarily of Broadview Energy KW, LLC and Broadview Energy JN, LLC (together, Broadview) and Western Interconnect LLC, a transmission line (Western Interconnect);
- Pattern Canada Operations Holdings ULC, which consists primarily of:
  - 100% ownership of St. Joseph Windfarm Inc. (St. Joseph),
  - a consolidated controlling interest in Meikle Wind Energy Limited Partnership (Meikle) and Mont Sainte-Marguerite Wind Farm Limited Partnership (MSM), and
  - noncontrolling interests in South Kent Wind LP (South Kent), Grand Renewable Wind LP (Grand), K2 Wind Ontario Limited Partnership (K2), and SP Armow Wind Ontario LP (Armow), each of which are accounted for as unconsolidated investments;
- Pattern Chile Holdings LLC, which included controlling interests in Parque Eólico El Arrayán SpA (El Arrayán) and Don Goyo Transmisión S.A. (Don Goyo), a transmission asset of El Arrayán through August 20, 2018 (see Note 4, Divested Operations);
- Green Power Tsugaru Holdings G.K. (Tsugaru Holdings), which consists primarily of 100% ownership of Green Power Tsugaru G.K. (Tsugaru); and
- Green Power Generation G.K. (GPG), which consists primarily of:
  - 100% ownership in GK Green Power Otsuki (Ohorayama), Otsuki Wind Power Corporation (Otsuki), and GK Green Power Kanagi (Kanagi), and
  - a consolidated controlling interest in GK Green Power Futtsu (Futtsu)). (See Note 5, Acquisitions).

During the nine months ended September 30, 2018, the Company has funded $86.3 million into Pattern Development 2.0 of which approximately $27 million was used by Pattern Development 2.0 to fund the purchase of Green Power Investments (GPI), located in Japan. As of September 30, 2018, the Company has funded $153.6 million in aggregate and holds an approximately 29% ownership interest in Pattern Development 2.0.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the results of wholly-owned and partially-owned subsidiaries in which the Company has a controlling interest with all significant intercompany accounts and transactions eliminated in consolidation.

Unaudited Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and Article 10 of Regulation S-X issued by the U.S. Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, the interim financial information reflects all adjustments of a normal recurring nature, necessary for a fair statement of the Company's financial position at September 30, 2018, the results of operations and comprehensive income (loss) for the three and nine months ended September 30, 2018 and 2017, respectively, and the cash flows for the nine months ended September 30, 2018 and 2017, respectively. The consolidated balance sheet at December 31, 2017 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. This Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures 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 these estimates, and such differences may be material to the financial statements.

Reclassification

Certain prior period balances have been reclassified to conform to the current period presentation in the Company's consolidated financial statements and the accompanying notes.

During the nine months ended September 30, 2018, the Company identified a $1.3 million error in tax expense related to the recognition of net operating loss carryforwards in its Chilean entity. The Company concluded the error was not material to any previously reported period and is not material to the nine months ended September 30, 2018. The Company recorded the error as an out-of-period adjustment in the second quarter of 2018.

Reconciliation of Cash and Cash Equivalents and Restricted Cash as Presented on the Statements of Cash Flows

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows (in thousands):

	September 30, 2018	December 31, 2017
Cash and cash equivalents	$ 125,689	$ 116,753
Restricted cash - current	6,324	9,065
Restricted cash	13,899	12,162
Cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	$ 145,912	$ 137,980

Assets Held for Sale

The Company records assets held for sale at the lower of the carrying value or fair value less costs to sell. The following criteria are used to determine if property is held for sale: (i) management has the authority and commits to a plan to sell the property; (ii) the property is available for immediate sale in its present condition; (iii) there is an active program to locate a buyer and the plan to sell the property has been initiated; (iv) the sale of the property is probable within one year; (v) the property is being actively marketed at a reasonable price relative to its current fair value; and (vi) it is unlikely that the plan to sell will be withdrawn or that significant changes to the plan will be made.

In determining the fair value of the assets less costs to sell, the Company considers factors including current sales prices and any recent legitimate offers. If the estimated fair value less costs to sell of an asset is less than its current carrying value, the asset is written down to its estimated fair value less costs to sell. Due to uncertainties in the estimation process, it is possible that actual results could differ from the estimates used in the Company's historical analysis. The Company's assumptions about project sale prices require significant judgment because the current market is highly sensitive to changes in economic conditions. The Company estimates the fair values of assets held for sale based on current market conditions and assumptions made by management, which may differ from actual results and may result in additional impairments if market conditions deteriorate. When assets are classified as held for sale, the Company does not continue to record depreciation or amortization for the respective assets.

Accounting for Re-powering

The Company's commitment to a plan to re-power a project represents the decision to abandon the existing long-lived asset. Because a decision to abandon a long-lived asset is akin to a decision to dispose of a long-lived asset before the initially intended date, it is viewed as an indicator of impairment, and as such a recoverability test is required. If the recoverability test indicates that the carrying value is not recoverable, the fair value of the existing asset is compared to its net carrying value. If the fair value of the asset is less than its net carrying value, an impairment expense for the difference is recorded. The remaining useful life of the existing asset represents the period between the date the Company is committed to a plan to abandon the asset and the removal date. Due to the change in useful life, the Company will revise the estimated future cash flows of the asset retirement obligation. As a result, the Company will accelerate depreciation expense and accretion expense.

Major Construction Advances

Major construction advances represent amounts advanced to suppliers for the manufacture of wind turbines, transmission lines, and solar panels in accordance with component equipment supply agreements for the Company's projects and for which the Company has not taken title or advances to builders in accordance with balance of plant contracts. These advances are reclassified to construction in progress when the Company takes legal title to the equipment.

Goodwill

The Company records goodwill when the cost of an acquisition exceeds the fair value of the tangible and identified intangibles of the acquired business. Goodwill is not amortized, but is subject to an assessment for impairment at least annually in the fourth quarter or more frequently if events occur or circumstances change that will more likely than not reduce the fair value of the reporting unit below its carrying amount.

Advanced lease revenue

Advanced lease revenue presented on the consolidated balance sheets represents advance payments the Company has received under a power purchase agreement. As the power purchase agreement is an operating lease, the advance lease payments will be recorded as lease income on a straight-line basis over the 25-year term of the agreement.

The 2017 Tax Act

On December 22, 2017, the 2017 Tax Act (Tax Act) was enacted, which significantly revises the U.S. corporate income tax law by lowering the U.S. federal corporate income tax rate from 35% to 21%, implementing a territorial tax system and imposing a one-time tax on foreign unremitted earnings. The Tax Act also establishes several new tax provisions effective in 2018.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. SAB 118 allows registrants to record provisional amounts during a one year “measurement period” similar to that used when accounting for business combinations. The measurement period ends when the company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year.

As of December 31, 2017, the Company was able to make a reasonable estimate of the impact of several provisions of the Tax Act, including the repatriation provisions and the Tax Act's reduction of the U.S. federal tax rate from 35% to 21% which impacts the Company's U.S. deferred tax assets and deferred liabilities. The U.S operations as of December 31, 2017 were in a net deferred tax asset position offset by a full valuation allowance and thus, any adjustments to the deferred accounts did not impact the tax provision. Although the Company made a reasonable estimate of the amounts related to the repatriation provisions and deferred tax assets and deferred tax liabilities disclosed, a final determination of the Tax Act's impact on the Company's tax provision and deferred tax assets and deferred tax liabilities and related valuation allowance requirements remained incomplete as of December 31, 2017 pending a full analysis of the provisions and their interpretations. As of September 30, 2018, the Company has not changed the provisional estimates recognized in 2017, and therefore no impact was reflected in the effective tax rate for the period ended September 30, 2018. Given the complexity of the Tax Act, the Company is still evaluating the tax impact and obtaining the information, including data from third parties and other items, required to complete the accounting. The date the Company expects to complete the accounting is not currently determinable while it continues to obtain the information required to complete the accounting.

The Tax Act also includes a provision to tax global intangible low-taxed income (GILTI) of foreign subsidiaries. Entities can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. Given the complexity of the GILTI provisions, the Company is still evaluating the tax impact and has not yet made the accounting policy election.

Recently Issued Accounting Standards

Except for the evaluation of recently issued accounting standards set forth below, there have been no changes to the Company's evaluation of other recently issued accounting standards disclosed in Note 2, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

In October 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities (ASU 2018-17). ASU 2018-17 requires reporting entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety for determining whether a decision-making fee is a variable interest. The standard is effective for all entities for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. Entities are required to apply the amendments in ASU 2018-17 retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

In October 2018, the FASB issued ASU 2018-16, Derivatives and Hedging (Topic ASC 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes (ASU 2018-16), which expands the list of U.S. benchmark interest rates permitted in the application of hedge accounting. The provisions of ASU 2017-12 (discussed below) and ASU 2018-16 are effective for fiscal years beginning after December 15, 2018, including interim periods, with early adoption permitted. Initial adoption of ASU 2017-12 is required to be reported using a modified retrospective approach, with the exception of the presentation and disclosure requirements which are required to be applied prospectively. The Company is currently in the process of determining the impact of adoption of the provisions of ASU 2017-12 and ASU 2018-16.

In August 2018, the FASB issued ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (ASU 2018-15), which amends alignment of the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these amendments. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is currently assessing the future impact of this update on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13), which amends changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty which should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. ASU 2018-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those periods. Early application is permitted. The Company is currently assessing the impact of changes to the disclosure requirements for fair value measurement.

In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12), which amends the presentation and disclosure requirements and changes how companies assess effectiveness. The amendments are intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. ASU 2017-12 is effective for annual periods beginning after December 15, 2018, including interim periods within those periods. Early application is permitted. The Company is currently assessing the future impact of this update on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which supersedes the revenue recognition requirements in Topic 605 "Revenue Recognition" (Topic 605) and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Company adopted ASU 2014-09 as of January 1, 2018 using the modified retrospective transition method. The adoption did not have material impact on the Company's consolidated financial statements, other than additional disclosures. See Note 3, Revenue for further details.

In February 2016, the FASB issued ASU 2016-02, Leases (ASU 2016-02), which requires lessees to recognize assets and liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statements of operations. Under the new guidance, lessor accounting is largely unchanged. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods.

The Company will adopt ASU 2016-02, as updated through various amendments, beginning January 1, 2019, using the modified retrospective approach. The modified retrospective approach provides a method applying the guidance to existing leases as of the adoption date with a cumulative-effect adjustment to the opening balance of retained earnings as of that date, which is not expected to be material. Prior comparative periods will not be adjusted under this method. The Company expects to elect the package of practical expedients permitted under the transition guidance within the new standard, which among other things, will allow the Company to carry forward prior conclusions related to contracts accounted for as leases, historical lease classification and initial direct costs. The Company will also elect the practical expedient related to land easements, allowing the Company to carry forward its accounting treatment for land easements on existing agreements as intangible assets. The Company has lease agreements with lease and non-lease components and is electing not to separate these and will treat as a single lease component. The Company will make an accounting policy election whereby short-term leases with an initial term of 12 months or less will not be recorded on the consolidated balance sheets. The Company will recognize those lease payments in the consolidated statements of operations on a straight-line basis over the lease term.

The Company is implementing a number of system enhancements to facilitate the identification, tracking and reporting of leases based upon the requirements of the new lease standard. The Company is also assessing the accounting impact of ASU 2016-02 as it applies to its power purchase agreements (PPAs), land leases, office leases and equipment leases. The Company is not yet able to quantify the impact on the financial statements of adopting this standard. The Company anticipates that certain PPAs entered into or acquired after January 1, 2019, will no longer be accounted for as leases.

3. Revenue

The Company sells electricity and related renewable energy credits (RECs) under the terms of power sale agreements (PSA) or at market prices. Depending on the terms of the PSAs, the Company may account for the contracts as operating leases pursuant to Accounting Standards Codification (ASC) 840, Leases (ASC 840), derivative instruments pursuant to ASC 815, Derivatives and Hedging (ASC 815) or contracts with customers pursuant to Topic 606. A majority of the Company's revenues are accounted for under ASC 840 or ASC 815.

On January 1, 2018, the Company adopted the new accounting standard ASC 606, Revenue from Contracts with Customers, and all the related amendments (Topic 606) and applied Topic 606 to its PSA contracts previously accounted for under Topic 605, using the modified retrospective method. Results of the reporting period beginning January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 605.

The Company did not record any adjustment to the opening retained earnings as of January 1, 2018 as a result of adopting Topic 606. Additionally, the adoption of Topic 606 does not materially change the presentation of revenue.

Revenue Recognition

Revenues from contracts with customers are recognized when control of promised goods and services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

The following table presents the Company's total revenue recognized and, for contracts with customers, disaggregated by revenue sources (in thousands).

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017[1]	2018	2017[1]
Revenue from contracts with customers				
Electricity sales				
Electricity sales under PSA	$16,633	$13,604	$54,733	$49,005
Electricity sales to market	5,562	3,915	12,291	10,430
REC sales	1,036	1,876	6,381	6,202
Electricity sales from contracts with customers	23,231	19,395	73,405	65,637
Other revenue				
Related party management service fees	2,040	1,883	6,820	5,888
Other revenue from contracts with customers	2,040	1,883	6,820	5,888
Total revenue from contracts with customers	25,271	21,278	80,225	71,525
Other electricity sales [2]	92,186	70,412	280,110	228,340
Other revenue	936	340	9,657	758
Total revenue	$118,393	$92,030	$369,992	$300,623

[1] As noted above, prior period amounts have not been adjusted under the modified retrospective method.

[2] Includes revenue from PSAs accounted for as leases and energy hedge contracts.

Electricity Sales

The Company generates revenues primarily by delivering electricity to customers under PSAs and market participants. The revenues are primarily determined by the price of the electricity under the PSAs or market price multiplied by the amount of electricity that the Company delivers.

The Company transfers control of the electricity over time and the customer simultaneously receives and consumes the benefits provided by the Company's performance as it performs. Accordingly, the Company has concluded that the sale of electricity over the term of the agreement represents a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. Each distinct transfer of electricity in megawatt hours (MWh) that the Company promises to transfer to the customer meets the criteria to be a performance obligation satisfied over time. The electricity sales are recognized based on an output measure, as each MWh is delivered to the customers. The Company recognizes revenue based on the amount invoiced on the basis of the prices multiplied by MWh delivered. The Company does not determine the total transaction price at contract inception, allocate the transaction price to performance obligations, or disclose the value of the variable portion of the remaining performance obligations for contracts for which it recognizes revenue as invoiced.

Renewable Energy Credits Sales

Each promise to deliver RECs is a distinct performance obligation that is satisfied at a point in time as none of the criteria are met to account for such promise as performance obligation satisfied over time. The Company either delivers RECs with electricity under PSAs or on a standalone basis (in a contract that does not include electricity). When RECs are sold on a standalone basis, the revenue related to the RECs is recognized at the point in time at which control of the energy credits is transferred to customers. RECs delivered under PSAs with electricity are immaterial in the context of the contracts with customers and therefore not separately accounted for.

Remaining performance obligations represent the transaction price of standalone RECs for which RECs have not been delivered to the customer's account. The transaction price is determined on the basis of the stated contract price multiplied by RECs to be delivered. As of September 30, 2018, approximately $20.4 million of revenue is expected to be recognized from remaining performance obligations associated with existing contracts for the standalone sale of RECs. The Company expects to recognize revenue on approximately half of these remaining performance obligations over the next 24 months, with the balance recognized thereafter.

Related party management service fees

Related party revenue management service fees represent revenue recognized from the services provided by the Company, under Management, Operations and Maintenance Agreements (MOMAs) and Project Administration Agreements (PAAs) with certain wind farms that are consolidated subsidiaries of Pattern Development Companies or entities the Company accounts for as equity investments. Under these agreements, the Company provides services to the various wind farms, typically for a fixed annual fee payable in monthly installments, which escalates with the consumer price index (CPI) on an annual basis. The services by the Company to the wind farm under the agreement each month represent a single performance obligation, which is delivered to the project over time and is invoiced at a fixed price per month and will be recognized over time as invoiced to the respective wind farm.

Remaining performance obligations represent the fixed monthly installments for which services have not been performed. The transaction price is determined on the basis of the stated contract price.

Transaction Price Allocated to the Remaining Performance Obligations

The Company expects to recognize revenue under PSAs and related party management service fees for the following amounts related to fixed consideration associated with remaining performance obligations in each of the future periods noted as of September 30, 2018 (in thousands):

	Amount
2018 (remainder)	$25,558
2019	80,147
2020	67,705
2021	67,837
2022	67,971
Thereafter	355,702
Total	$664,920

Contract Balances

The Company did not record any contract assets as none of its right to payment was subject to something other than passage of time. The Company also did not record any contract liabilities as it recognizes revenue only at the amount to which it has the right to invoice for the electricity and RECs delivered; therefore, there are no advanced payments or billings in excess of electricity or RECs delivered.

4. Divested Operations

Chilean Sale

On May 21, 2018, the Company, through its indirect wholly-owned subsidiaries, entered into a stock purchase agreement with a third party pursuant to which the Company agreed to sell, and the buyer agreed to purchase, certain subsidiaries which hold approximately a 71% interest in El Arrayán Wind and assets and rights relating to ownership and operation of an extension of the trunk transmission system in Chile (Chilean Sale). El Arrayán Wind is a wind electric generation facility located approximately 400 kilometers north of Santiago on the coast of Chile in which the Company had an owned interest of approximately 81 megawatts (MW).

On August 20, 2018, the Company completed the Chilean Sale for cash proceeds of $70.4 million. The Company measured impairment expense as the difference between the carrying amount of the net assets and fair value less estimated costs to sell. As a result, the Company recorded a total impairment expense of $2.3 million and $6.6 million for the three and nine months September 30, 2018, respectively, in the consolidated statements of operations due to current period earnings, additional contributions in the current quarter and changes in the fair value.

The operating results of El Arrayán Wind were included on the consolidated statements of operations through the date of sale.

5. Acquisitions

Business Combinations

Japan Acquisition

On March 7, 2018, pursuant to a series of purchase and sale agreements with Pattern Development 1.0 and GPI, the Company acquired Tsugaru Holdings which owns Tsugaru, a project company currently constructing a 122 MW name plate capacity wind facility in Aomori Prefecture, Japan expected to commence commercial operations in early to mid-2020; Ohorayama, a wind project located in Kochi Prefecture, Japan, with a name plate capacity of 33 MW that commenced commercial operations in March 2018; Kanagi, a solar project located in Shimane Prefecture, Japan, with a name plate capacity of 10 MW that commenced commercial operations in 2016; Otsuki, a wind project located in Kochi Prefecture, Japan, with a name plate capacity of 12 MW that commenced commercial operations in 2006; and Futtsu, a solar project located in Chiba Prefecture, Japan, with a name plate capacity of 29 MW that commenced commercial operations in 2016 (collectively referred to as the Japan Acquisition). The acquisition is in alignment with the Company's strategy to expand its portfolio of power generating projects.

Total consideration for the Japan Acquisition was $282.5 million, which consisted of approximately $176.6 million of cash and post-closing contingent payments with an acquisition date fair value of approximately $105.9 million. As part of the acquisition, the Company also assumed $181.3 million of debt. The Company incurred transaction-related expenses of $1.3 million which were recorded in net earnings (loss) on transactions in the consolidated statements of operations for the nine months ended September 30, 2018.

The identifiable assets, operating contracts and liabilities assumed for the Japan Acquisition were recorded at their fair values, which corresponded to the sum of the cash purchase price, contingent consideration payment, and the fair value of the other investor's noncontrolling interests.

The following table details the total consideration paid by the Company and the fair value of the assets acquired and liabilities assumed (in thousands):

	March 7, 2018
Consideration	$282,548
Cash and cash equivalents [1]	$10,100
Restricted cash [1]	8,890
Property, plant and equipment, net	263,281
Construction in progress	180,949
Goodwill	60,302
Finite-lived intangible assets	103,170
Other assets acquired	19,540
Long-term debt [1]	(173,828)
Deferred tax liabilities	(67,179)
Asset retirement obligations	(39,872)
Other liabilities assumed	(71,692)
Assets and liabilities assumed before noncontrolling interests	293,661
Less: noncontrolling interests	(11,113)
Consideration	$282,548

[1] Amounts recorded at carrying value which was representative of the fair value on the date of acquisition.

Property, plant and equipment, construction in progress, and finite-lived intangible assets were recorded at fair value estimated using the cost and income approach. The fair value of the asset retirement obligations was recorded at fair value using market data. The noncontrolling interest in Futtsu was recorded at fair value estimated using a projected cash flow stream of distributable cash, discounted to present value with a discount rate reflecting the cost of equity adjusted for control premium.

The predecessor's tax bases were carried forward for tax purposes. Accordingly, the Company recorded deferred tax liabilities on the bases differences arising from the step up to fair value for financial reporting purposes but not for tax purposes.

The Company assumed an existing $16.2 million contingent liability as part of the acquisition. The payment of this liability was subject to the completion of a construction milestone at Tsugaru and was calculated based on the nameplate capacity of Tsugaru. In September 2018, the Company paid $15.2 million which was the amount due for such contingent liability because of changes in foreign exchange rates, and the liability balance was reduced to zero.

Contingent purchase consideration with a fair value of $102.9 million, subject to foreign currency exchange rate changes, is contingent upon term conversion of the Tsugaru construction loan and to the extent such term conversion does not occur such consideration will be made upon the commencement of commercial operations of Tsugaru, both of which are expected to occur in 2020. Additionally, the Company was obligated to make a $3.0 million, subject to foreign currency exchange rate changes, cash distribution payment to Pattern Development 1.0 upon term conversion of the Ohorayama construction loan which occurred in June 2018. The Company paid this consideration in July 2018. See Note 14, Fair Value Measurements for further discussion on the fair value of the contingent consideration.

The accounting for this acquisition is preliminary. The fair value estimates for the assets acquired and liabilities assumed are based on preliminary calculations and valuations, and the estimates and assumptions are subject to change as additional information is obtained for the estimates during the measurement period (up to one year from the acquisition date). During the nine months ended September 30, 2018, the Company adjusted the initial valuation by increasing property, plant and equipment by $0.6 million and decreasing construction in progress by $0.6 million which are a result of the updated inputs used in determining the fair value of these assets and liabilities.

Broadview Project Acquisition

On April 21, 2017, pursuant to a Purchase and Sale Agreement with Pattern Development 1.0, the Company acquired a 100% ownership interest in Broadview Project which indirectly owns both 100% of the Class B membership interest in Broadview Energy Holdings LLC (Broadview Holdings) and a 99% ownership interest in Western Interconnect, a 35-mile 345 kV transmission line. Broadview Holdings owns 100% ownership interests that comprise the 324 MW Broadview wind power projects, which achieved commercial operations in the first quarter of 2017. The acquisition is in alignment with the Company's strategy to expand its portfolio of power generating projects. The Company's indirect Class B membership interest in Broadview Holdings represents an 84% initial interest in distributable cash flow from Broadview. Consideration consisted of $214.7 million of cash, a $2.4 million assumed liability and a post-closing payment of approximately $21.3 million contingent upon the commercial operation of the Grady Project (as defined below). As part of the acquisition, the Company also assumed $51.2 million of construction debt and related accrued interest outstanding at Western Interconnect which was immediately extinguished, and concurrently the Company entered into a variable rate term loan for $54.4 million. The Grady Wind Energy Center LLC (the Grady Project) is a wind power project being developed by Pattern Development 2.0 separately from Broadview, which is under construction, and which will be interconnected through Western Interconnect.

The identifiable assets, operating contracts and liabilities assumed for the Broadview Project were recorded at their fair values, which corresponded to the sum of the cash purchase price, contingent consideration payment, and the fair value of the other investors' noncontrolling interests. As described in the Company's Form 10-K for the year ended December 31, 2017, the accounting for the Broadview Project acquisition is final.

Asset Acquisitions

Mont Sainte-Marguerite

On August 10, 2018, pursuant to a Purchase and Sale Agreement by and among the Company, Pattern Development 1.0, and an affiliate of Public Sector Pension Investment Board (PSP), the Company subscribed for 50.99% of the limited partner interests in MSM LP Holdings LP (which holds 99.98% of the economic interests in MSM) and purchased, from an affiliate of Pattern Development 1.0, 70% of the issued and outstanding shares in the capital of Pattern MSM GP Holdings Inc. (Pattern MSM Corp) and 70% of the issued and outstanding shares in the capital of Pattern Development MSM Management ULC (MSM ULC), in exchange for aggregate consideration of $39.3 million. Concurrently, an affiliate of PSP subscribed for a 48.99% limited partner interest in MSM LP Holdings LP, and purchased, from an affiliate of Pattern Development 1.0, 30% of the issued and outstanding shares of Pattern MSM Corp, and 30% of the issued and outstanding shares in the capital of MSM ULC for a purchase price of $37.7 million. MSM operates the approximately 143 megawatt wind farm located in the Chaudière-Appalaches region south of Québec City, Canada, which achieved commercial operation in the first quarter of 2018. The acquisition is in alignment with the Company's strategy to expand its portfolio of power generating projects.

MSM was determined to be a variable interest entity (VIE), for which the Company is the primary beneficiary. The Company recorded the fair value of the individual assets, operating contracts and liabilities of the VIE, which did not meet the definition of a business. The noncontrolling interest was recorded at fair value estimated using the purchase price paid by PSP pursuant to the Purchase and Sale Agreement. No gain or loss was recognized upon acquisition. The Company incurred transaction-related expenses of $0.6 million which were recorded in net earnings (loss) on transactions in the consolidated statements of operations for the nine months ended September 30, 2018.

The following table details the total consideration paid by the Company and the fair value of the assets acquired and liabilities assumed (in thousands):

	August 10, 2018
Consideration	$39,252
Cash and cash equivalents [1]	$2,934
Restricted cash [1]	5,329
Property, plant and equipment, net	270,122
Other assets acquired	37,491
Long-term debt	(196,001)
Advanced lease revenue [1]	(29,157)
Other liabilities assumed	(13,759)
Assets and liabilities assumed before noncontrolling interests	76,959
Less: noncontrolling interests [1]	(37,707)
Consideration	$39,252

[1] Amounts recorded at carrying value which was representative of the fair value on the date of acquisition.

Meikle

On August 10, 2017, pursuant to a Purchase and Sale Agreement by and among the Company, Pattern Development 1.0, and an affiliate of PSP, the Company acquired 50.99% of the limited partner interests in Meikle and 70% of the issued and outstanding shares of Meikle Wind Energy Corp. (Meikle Corp) for a purchase price of $67.4 million, paid at closing, in addition to $1.1 million of capitalized transaction-related expenses. An affiliate of PSP acquired 48.99% of the limited partner interest in Meikle and 30% of the issued and outstanding shares of Meikle Corp for a purchase price of $64.8 million. Meikle operates the approximately 179 MW wind farm located in the Peace River Regional District of British Columbia, Canada, which achieved commercial operations in the first quarter of 2017. The acquisition is in alignment with the Company's strategy to expand its portfolio of power generating projects.

The fair value of the purchase consideration, including transaction-related expenses of the asset acquisition, and fair value of the noncontrolling interest is allocated to the relative fair value of the individual assets, operating contracts and liabilities assumed. The noncontrolling interest was recorded at fair value estimated using the purchase price paid by the affiliate of PSP pursuant to the Purchase and Sale Agreement.

Supplemental Pro Forma Data (unaudited)

Ohorayama commenced operations in March 2018 and until approximately one week before acquisition, Ohorayama was still under construction. In addition, Tsugaru is expected to commence commercial operations in early to mid-2020. Therefore, pro forma data for Ohorayama and Tsugaru have not been provided as there is no material difference between pro forma data that give effects to the Japan Acquisition as if it had occurred on January 1, 2017 and the actual data reported for the three and nine months ended September 30, 2018 and 2017.

Broadview reached commercial operations in March 2017 and until approximately three weeks before acquisition, Broadview was still under construction. Therefore, pro forma data for Broadview has not been provided as there is no material difference between pro forma data that give effect to the Broadview Project acquisition as if it had occurred on January 1, 2017 and actual data reported for the three and nine months ended September 30, 2018 and 2017.

The unaudited pro forma statement of operations data below gives effect to the Japan Acquisition, as if it had occurred on January 1, 2017. The 2018 pro forma net loss was adjusted to exclude nonrecurring transaction related expenses of $1.3 million. The unaudited pro forma data is presented for illustrative purposes only and is not intended to be indicative of actual results that would have been achieved had the acquisition been consummated as of January 1, 2017. The unaudited pro forma data should not be considered representative of the Company’s future financial condition or results of operations.

Unaudited pro forma data (in thousands)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Pro forma total revenue	$118,393	$98,149	$373,727	$320,377
Pro forma total expenses	(149,940)	(147,963)	(419,008)	(383,760)
Pro forma net loss	(31,547)	(49,814)	(45,281)	(63,383)
Less: pro forma net loss attributable to noncontrolling interest	(18,952)	(18,457)	(201,780)	(50,258)
Pro forma net income attributable to Pattern Energy	$(12,595)	$(31,357)	$156,499	$(13,125)

The following table presents the amounts included in the consolidated statements of operations for the business combinations discussed above since their respective dates of acquisition:

Unaudited data (in thousands)	Three months ended September 30, 2018	Nine months ended September 30, 2018
Total revenue	$ 23,123	$ 73,060
Total expenses	(26,253)	(73,082)
Net income	(3,130)	(22)
Less: net loss attributable to noncontrolling interest	(3,650)	(42,227)
Net income attributable to Pattern Energy	$ 520	$ 42,205

Unconsolidated Investments

Pattern Development 2.0

Under the Second Amended and Restated Agreement of Limited Partnership of Pattern Development 2.0 (A&R LPA), the Company has the right to contribute up to $300.0 million to Pattern Development 2.0 in one or more subsequent rounds of financing. On July 27, 2017, the Company funded an initial $60.0 million capital call. As of September 30, 2018, the Company has funded $153.6 million in aggregate and holds an approximately 29% ownership interest in Pattern Development 2.0. The Company is a noncontrolling investor in Pattern Development 2.0, but has significant influence over Pattern Development 2.0. Accordingly, the investment is accounted for under the equity method of accounting.

The Company capitalized $1.5 million of transaction costs associated with the initial investment. The Company's initial investment in Pattern Development 2.0 of $60.0 million was $40.6 million higher than the Company's underlying equity in the net assets of Pattern Development 2.0 at the time of the initial funding. This equity method basis difference was primarily attributable to equity method goodwill.

6. Property, Plant and Equipment

The following presents the categories within property, plant and equipment (in thousands):

	September 30, 2018	December 31, 2017
Operating wind farms	$4,889,281	$4,640,718
Transmission line	93,849	93,849
Furniture, fixtures and equipment	13,158	12,643
Land	245	141
Subtotal	4,996,533	4,747,351
Less: accumulated depreciation	(886,669)	(782,230)
Property, plant and equipment, net	$4,109,864	$3,965,121

The Company recorded depreciation expense related to property, plant and equipment of $54.2 million and $162.3 million for the three and nine months ended September 30, 2018, respectively, and recorded $51.4 million and $141.9 million for the same periods in the prior year.

7. Finite-Lived Intangible Assets and Liabilities and Goodwill

Finite-Lived Intangible Assets and Liabilities

The following presents the major components of the finite-lived intangible assets and liabilities (in thousands):

	September 30, 2018			
	Weighted Average Remaining Life	Gross	Accumulated Amortization	Net
Intangible assets				
Power purchase agreements	16	$222,827	$ (26,429)	$196,398
Industrial revenue bond tax savings	24	12,778	(741)	12,037
Other intangible assets	33	13,897	(1,210)	12,687
Leasehold interest	8	$66	$ (5)	$61
Total intangible assets		$249,568	$ (28,385)	$221,183
Intangible liabilities				
Power purchase agreement	14	$60,300	$ (11,707)	$48,593
Leasehold interest	22	8,661	(215)	8,446
Total intangible liabilities		$68,961	$ (11,922)	$57,039

	December 31, 2017			
	Weighted Average Remaining Life	Gross	Accumulated Amortization	Net
Intangible assets				
Power purchase agreement	15	$127,084	$ (17,611)	$109,473
Industrial revenue bond tax savings	24	12,778	(351)	12,427
Other intangible assets	34	15,234	(1,086)	14,148
Total intangible assets		$155,096	$ (19,048)	$136,048
Intangible liability				
Power purchase agreement	15	$60,300	$ (9,106)	$51,194

The Company presents amortization of the PPA assets and PPA liabilities as an offset to electricity sales in the consolidated statements of operations, which resulted in net expense of $2.4 million and $6.3 million for the three and nine months ended September 30, 2018, respectively, and net expense of $0.9 million and $2.4 million for the same periods in 2017, respectively. For other intangible assets, the Company includes the amortization in depreciation, amortization and accretion in the consolidated statements of operations and recorded amortization expense of less than $0.1 million and $0.2 million for the three and nine months ended September 30, 2018, respectively, and amortization expense of $0.1 million and $0.4 million for the same periods in 2017, respectively.

As part of the 2017 Broadview acquisition, the Company acquired an intangible asset related to future property tax savings resulting from the issuance of industrial revenue bonds during construction of the project. The intangible asset is being amortized to depreciation, amortization and accretion in the consolidated statements of operations. The Company recorded amortization expense of $0.1 million and $0.4 million for the three and nine months ended September 30, 2018, respectively, and $0.1 million and $0.2 million for the same periods in 2017, respectively, related to the industrial revenue bond tax savings intangible asset.

As a result of the Japan Acquisition, the Company recorded $103.2 million of intangible PPA assets resulting from market prices that are lower than the contractual prices. In addition, the Company recorded a $9.3 million intangible leasehold interest liability, as a result of higher market prices compared to the contractual prices, which is being amortized to depreciation, amortization and accretion in the consolidated statements of operations.

The following table presents estimated future amortization for the next five years related to the Company's finite-lived intangible assets and liabilities (in thousands):

Year ended December 31,	Power purchase agreements, net	Industrial revenue bond tax savings	Other intangible assets	Leasehold interests
2018 (remainder)	$ 2,411	$ 128	$ 139	$ (93)
2019	9,645	512	556	(370)
2020	9,645	512	556	(370)
2021	9,645	512	556	(370)
2022	9,645	512	556	(370)
Thereafter	106,876	9,862	10,278	(6,813)

Goodwill

In connection with the Japan Acquisition, the Company recognized goodwill of $60.3 million, which was allocated to the power projects reporting unit. The Company will perform an impairment test of its goodwill on at least an annual basis, starting in the fourth quarter 2018.

The following table presents a reconciliation of the beginning and ending carrying amounts of goodwill (in millions):

	Total
Balances at December 31, 2017	$—
Net additions during the period[(1)]	60.3
Foreign currency translation adjustment	(3.8)
Balances at September 30, 2018	$56.5

[(1)] The Company recorded goodwill on March 7, 2018 as a result of the Japan Acquisition.

8. Variable Interest Entities

The Company consolidates VIEs in which it holds a variable interest and is the primary beneficiary. The Company has determined that Logan's Gap, Panhandle 1, Panhandle 2, Post Rock, Amazon Wind, Broadview Energy Holdings LLC (a subsidiary of Broadview Project), and MSM are VIEs. The Company determined that as the managing member of the VIEs, it is the primary beneficiary by reference to the power and benefits criterion under ASC 810, Consolidation, and therefore, consolidates VIEs. The Company considered responsibilities within the contractual agreements, which grant it the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. Such activities include management of the wind farms' operations and maintenance, budgeting, policies and procedures. In addition, the Company has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIEs on the basis of the income allocations and cash distributions.

The Company’s equity method investment in Pattern Development 2.0 is considered to be a VIE primarily because the total equity at risk is not sufficient to permit Pattern Development 2.0 to finance its activities without additional subordinated financial support by the equity holders. The Company does not hold the power or benefits to be the primary beneficiary and does not consolidate the VIE. The carrying value of its unconsolidated investment in Pattern Development 2.0 was $134.7 million as of September 30, 2018. The Company's maximum exposure to loss is equal to the carrying value of the investment.

The following table summarizes the carrying amounts of major consolidated balance sheet items for consolidated VIEs as of September 30, 2018 and December 31, 2017. All assets (excluding deferred financing costs, net and finite-lived intangible assets, net) and liabilities of a consolidated VIE presented below are (1) assets that can be used only to settle obligations of the VIE or (2) liabilities for which creditors do not have recourse to the general credit of the primary beneficiary.

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 39,455	$ 33,273
Restricted cash	4,351	4,314
Trade receivables	11,967	12,769
Prepaid expenses	6,243	4,965
Other current assets	1,828	2,597
Deferred financing costs, net	141	150
Total current assets	63,985	58,068
Restricted cash	5,673	3,330
Property, plant and equipment, net	2,185,859	1,984,606
Deferred financing costs, net	1,686	1,549
Finite-lived intangible assets, net	11,750	12,210
Other assets	12,661	12,984
Total assets	$ 2,281,614	$ 2,072,747
Liabilities		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 31,993	26,826
Accrued construction costs	3,114	759
Accrued interest	175	78
Current portion of long-term debt, net	4,803	—
Other current liabilities	5,124	4,789
Total current liabilities	45,209	32,452
Long-term debt, net	158,092	—
Finite-lived intangible liability, net	48,593	51,194
Contingent liabilities	—	87
Asset retirement obligations	56,412	22,394
Other long-term liabilities	33,292	24,951
Advanced lease revenue	28,259	—
Total liabilities	$ 369,857	$ 131,078

9. Unconsolidated Investments

The Company's unconsolidated investments consist of the following for the periods presented below (in thousands):

			Percentage of Ownership	
	September 30,	December 31,	September 30,	December 31,
	2018	2017	2018	2017
South Kent	$ 7,983	$ 6,151	50.0 %	50.0 %
Grand	7,813	6,611	45.0 %	45.0 %
K2	96,118	103,328	33.3 %	33.3 %
Armow	125,802	132,890	50.0 %	50.0 %
Pattern Development 2.0	134,664	62,243	29.3 %	20.9 %
Unconsolidated investments	$ 372,380	$ 311,223		

Pattern Development 2.0

During the nine months ended September 30, 2018, the Company has funded $86.3 million into Pattern Development 2.0 of which approximately $27.0 million was used by Pattern Development 2.0 to fund the purchase of GPI. As of September 30, 2018, the Company has funded $153.6 million in aggregate and holds an approximately 29% ownership interest in Pattern Development 2.0.

Basis Amortization of Unconsolidated Investments

The cost of the Company’s investment in the net assets of unconsolidated investments was higher than the fair value of the Company’s equity interest in the underlying net assets of its unconsolidated investments. The basis differences were primarily attributable to property, plant and equipment, PPAs, and equity method goodwill. The Company amortizes the basis difference attributable to property, plant and equipment, and PPAs over their useful life and contractual life, respectively. The Company does not amortize equity method goodwill. For the three and nine months ended September 30, 2018, the Company recorded basis difference amortization for its unconsolidated investments of $2.9 million and $8.3 million, respectively, and for the same periods in 2017, the Company recorded basis difference amortization of $2.9 million and $8.5 million, respectively, in earnings in unconsolidated investments, net on the consolidated statements of operations.

Significant Equity Method Investees

The following table presents summarized statements of operations information for the three and nine months ended September 30, 2018 and 2017 as required for the Company's significant equity method investees, South Kent, Grand, K2, Armow and Pattern Development 2.0 pursuant to Regulation S-X Rule 10-01(b)(1) (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenue	$65,026	$45,008	$244,715	$228,111
Cost of revenue	29,017	31,550	89,183	89,288
Operating expenses	20,490	11,030	74,233	12,663
Other expense	17,434	12,062	57,118	50,038
Net income (loss)	$ (1,915)	$ (9,634)	$ 24,181	$ 76,122

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10. Debt

The Company's debt consists of the following for periods presented below (in thousands):

	September 30, 2018	December 31, 2017	As of September 30, 2018 Contractual Interest Rate	As of September 30, 2018 Effective Interest Rate	Maturity
Corporate-level					
Corporate Revolving Credit Facility	$ 186,372	$ —	varies [1]	3.68 %	November 2022
2020 Notes	225,000	225,000	4.00 %	6.60 %	July 2020
2024 Notes	350,000	350,000	5.88 %	5.88 %	February 2024
Project-level					
Fixed interest rate					
El Arrayán EKF term loan	—	99,112			
Santa Isabel term loan	100,969	103,878	4.57 %	4.57 %	September 2033
MSM medium term loan	66,940	—	3.97 %	3.97 %	December 2029
MSM long term loan	97,959	—	5.04 %	5.04 %	June 2042
Variable interest rate					
Japan Credit Facility	23,760	—	varies [5]	1.82 %	August 2022
Ocotillo commercial term loan	281,295	289,339	3.83 %	4.05 % [3]	June 2033
El Arrayán commercial term loan	—	90,102			
Spring Valley term loan	121,862	125,678	4.14 %	5.00 % [3]	June 2030
St. Joseph term loan [2]	162,645	171,487	3.64 %	3.95 % [3]	November 2033
Western Interconnect term loan [2]	52,160	54,395	2.39 %	2.56 % [3]	April 2027
Meikle term loan [2]	254,816	266,557	3.52 %	3.95 % [3]	May 2024
Futtsu term loan	73,185	—	1.07 %	1.85 % [3]	December 2033
Ohorayama term loan	89,550	—	0.87 %	0.88 % [3]	February 2036
Tsugaru Construction Loan	90,030	—	0.72 %	0.72 % [3]	March 2038
Tsugaru Holdings Loan Agreement	57,024	—	3.13 %	3.13 %	July 2022
Imputed interest rate					
Hatchet Ridge financing lease obligation	184,704	192,079	1.43 %	1.43 %	December 2032
	2,418,271	1,967,627			
Unamortized discount, net [4]	(12,375)	(13,470)			
Unamortized financing costs	(26,259)	(23,426)			
Total debt, net	2,379,637	1,930,731			
As reflected on the consolidated balance sheets					
Revolving credit facility, current	$ 186,372	$ —			
Revolving credit facility	23,760	—			
Current portion of long-term debt, net	63,671	51,996			
Long term debt, net	2,105,834	1,878,735			
Total debt, net	$ 2,379,637	$ 1,930,731			

(1) Refer to Corporate Revolving Credit Facility for interest rate details.

(2) The amortization for the St. Joseph term loan, the Western Interconnect term loan and the Meikle term loan are through September 2036, March 2036 and December 2038, respectively, which differs from the stated maturity date of such loans due to prepayment requirements.

(3) Includes impact of interest rate swaps. See Note 12, Derivative Instruments, for discussion of interest rate swaps.

(4) The discount relates to the 2020 Notes.

(5) Refer to Japan Credit Facility for interest rate details.

Interest and commitment fees incurred and interest expense for debt consisted of the following (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Corporate-level interest and commitment fees incurred	$10,014	$9,215	$28,234	$24,827
Project-level interest and commitment fees incurred	15,897	14,635	46,982	40,103
Capitalized interest, commitment fees, and letter of credit fees	(1,227)	—	(2,708)	—
Amortization of debt discount/premium, net	1,281	1,153	3,758	3,379
Amortization of financing costs	1,395	2,028	4,033	5,879
Other interest	100	116	314	353
Interest expense	$27,460	$27,147	$80,613	$74,541

Corporate Level Debt

Corporate Revolving Credit Facility

Certain of the Company's subsidiaries have entered into a Second Amended and Restated Credit and Guaranty Agreement to the Revolving Credit Facility (the Corporate Revolving Credit Facility). The Corporate Revolving Credit Facility provides for a revolving credit facility of $440.0 million. The facility has a five-year term and is comprised of a revolving loan facility, a letter of credit facility and a swingline facility. The facility is secured by pledges of the capital stock and ownership interests in certain of the Company's holding company subsidiaries, in addition to other customary collateral.

As of September 30, 2018, $213.2 million was available for borrowing under the $440.0 million Corporate Revolving Credit Facility. The Corporate Revolving Credit Facility contains a broad range of covenants that, subject to certain exceptions, restrict the Company’s holding company subsidiaries' ability to incur debt, grant liens, sell or lease assets, transfer equity interests, dissolve, pay distributions and change its business. As of September 30, 2018, the Company's holding company subsidiaries were in compliance with covenants contained in the Corporate Revolving Credit Facility.

As of September 30, 2018 and December 31, 2017, letters of credit of $40.4 million and $47.5 million, respectively, were issued under the Corporate Revolving Credit Facility.

2020 Notes

In July 2015, the Company issued $225.0 million aggregate principal amount of 4.00% convertible senior notes due 2020 (Convertible Senior Notes or 2020 Notes). The 2020 Notes bear interest at a rate of 4.00% per year, payable semiannually in arrears on January 15 and July 15 of each year, beginning on January 15, 2016. The 2020 Notes will mature on July 15, 2020. The 2020 Notes were sold in a private placement. The following table presents a summary of the equity and liability components of the 2020 Notes (in thousands):

	September 30, 2018	December 31, 2017
Principal	$ 225,000	$ 225,000
Less:		
Unamortized debt discount	(9,711)	(13,470)
Unamortized financing costs	(1,971)	(2,794)
Carrying value of convertible senior notes	$ 213,318	$ 208,736
Carrying value of the equity component [1]	$ 23,743	$ 23,743

(1) Included in the consolidated balance sheets as additional paid-in capital, net of $0.7 million in equity issuance costs.

Project Debt

Japan Credit Facility

In August 2018, GPG entered into a credit agreement for a revolving credit facility (the Japan Credit Facility). Under the Japan Credit Facility, GPG may borrow up to $30.8 million and the Japan Credit Facility matures in August 2022. The base rate is based on the Japan Credit Facility Tokyo Interbank Offered Rate (TIBOR) plus an applicable margin between 1.75% and 2.25% plus an annual commitment fee of 0.30%. As of September 30, 2018, $7.0 million was available for borrowing.

Tsugaru Facility

In March 2018, Tsugaru entered into a credit agreement for a construction facility (Tsugaru Construction Loan), a term facility, a letter of credit facility (the LC Facility) and a Japanese consumption tax facility (the JCT Facility) (collectively, the Tsugaru Facility). Under the Tsugaru Facility, up to $371.4 million may be borrowed to fund the construction of Tsugaru which automatically converts to a term facility upon the earlier of completion of construction of the project (expected to be March 2020) or September 2020 (the Term Conversion Date). The Tsugaru Construction Loan, including the term facility and LC Facility, mature 18 years following the Term Conversion Date, not later than March 2039. The interest rate on the Tsugaru Construction Loan and term facility is TIBOR plus 0.65%. The LC Facility establishes a $19.7 million debt service reserve account letter of credit and an $8.0 million operations and maintenance reserve account letter of credit with amounts outstanding under the letters of credit owing interest at a rate of 1.10% and fees on the undrawn amounts of 0.30%. The JCT Facility provides for up to $33.8 million to pay Japanese consumption taxes arising from payment of project costs, with an interest rate of TIBOR plus 0.30% and a maturity date corresponding to the Term Conversion Date. A commitment fee of 0.3% is owed on any available amounts under the Construction Facility and the JCT Facility and on any undrawn amounts on the letters of credit up to the Term Conversion Date. Collateral for the credit facility includes Tsugaru's tangible assets and contractual rights and cash on deposit with the depository agent. The credit agreement contains a broad range of covenants that, subject to certain exceptions, restrict Tsugaru's ability to incur debt, grant liens, sell or lease certain assets, transfer equity interests, dissolve, make distributions or change its business. As of September 30, 2018, outstanding borrowings under the Tsugaru Construction Loan totaled $90.0 million.

Tsugaru Holdings Loan Agreement

In March 2018, Tsugaru Holdings entered into a loan agreement (Tsugaru Holdings Loan Agreement) that provides for borrowings of up to $70.1 million during the Tsugaru construction period, until no later than September 2020. The interest rate on outstanding borrowings under the Tsugaru Holdings Loan Agreement is TIBOR plus 3.0% with principal due July 2022 and a commitment fee of 0.50% on the unused portion of the Tsugaru Holdings Loan Agreement. The Tsugaru Holdings Loan Agreement is subject to certain covenants and is secured by the membership interests and other rights. As of September 30, 2018, outstanding borrowings under the Tsugaru Holdings Loan Agreement totaled $57.0 million.

11. Asset Retirement Obligation

The Company's asset retirement obligations represent the estimated cost of decommissioning the turbines, removing above-ground installations and restoring the sites at the end of its estimated economic useful life.

In the third quarter of 2018, the Company committed to a plan to re-power its Gulf Wind project by the end of 2020, and as such, received new cost analyses for decommissioning of the Gulf Wind project. This initiated a new decommissioning cost study by the Company. As a result, the Company revised its estimated future cash flows to reflect the updated costs for its existing asset retirement obligations. The change in estimate did not result in any charge to net income (loss) for the three and nine months ended September 30, 2018.

The following table presents a reconciliation of the beginning and ending aggregate carrying amounts of asset retirement obligation (in thousands):

	Nine months ended September 30,	
	2018	2017
Beginning asset retirement obligations	$56,619	$44,783
Net additions during the period [1]	51,541	8,112
Foreign currency translation adjustment	(2,672)	233
Divested operations	(2,550)	—
Revision in estimated cash flows	86,314	