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Pattern Energy Group Inc.
Form 10-K
March 01, 2019

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 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 (I.R.S. Employer
incorporation or organization) Identification No.)
1088 Sansome Street, San Francisco, CA 94111
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (415) 283-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, par value \$0.01 per share	Nasdaq Global Select Market Toronto Stock Exchange

Securities registered pursuant to Section 12 (g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or 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

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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

The aggregate market value of the voting stock and non-voting stock held by non-affiliates of the registrant based upon the last trading price of the registrant's Class A common stock as reported on the Nasdaq Global Select Market on June 30, 2018 was approximately \$1.5 billion. This excludes 16,829,692 shares of Class A common stock held by directors, officers, Pattern Renewables LP and certain of its affiliates, and Public Sector Pension Investment Board. Exclusion of shares does not reflect a determination that persons are affiliates for any other purpose.

The registrant's Class A common stock is listed on the Nasdaq Global Select Market and on the Toronto Stock Exchange under the symbol "PEGI".

On February 22, 2019, the registrant had 98,077,874 shares of Class A common stock, \$0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2019 annual meeting of stockholders (the "2019 Proxy Statement") are incorporated by reference into Part III of this Form 10-K where indicated. The 2019 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K ("Form 10-K") contains statements that 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 our actual results to differ from those in the forward-looking statements, include but are not limited to, those summarized below and further described in Part I, Item 1A "Risk Factors:"

- our electricity generation, our projections thereof and factors affecting production, including wind, solar and other conditions, other weather conditions, availability and curtailment;
- our ability to manage exposure to project development risks;
- our ability to complete acquisitions and dispositions of power projects;
- our ability to complete construction of 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);
- 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 and the discontinuation of LIBOR;
- 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 power projects in development, 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 power projects;
- the value of collateral in the event of liquidation; and
- other factors discussed under "Risk Factors."

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.

Statistical Data

The statistical data used throughout this Form 10-K, other than data relating specifically solely to us, are based upon independent industry publications, government publications, reports by market research firms or other published independent sources. We did not commission any of these publications or reports. These publications generally state that they have obtained information from sources believed to be reliable, but do not guarantee the accuracy or completeness of such information. While we believe that each of these studies and publications is reliable, we have not independently verified such data and make no representation as to the accuracy of such information.

Currency Information

In this Form 10-K, reference to "C\$" and "Canadian dollars" are to the lawful currency of Canada, references to "JPY" and "Japanese Yen" are to the lawful currency of Japan and references to "\$", "US\$" and "U.S. dollars" are to the lawful currency of the United States. All dollar amounts herein are in U.S. dollars, unless otherwise noted.

MEANING OF CERTAIN REFERENCES

Unless the context provides otherwise, references herein to "we," "our," "us," "our company" and "Pattern" refer to Pattern Energy Group Inc., a Delaware corporation, together with its consolidated subsidiaries. In addition, unless the context requires otherwise, any reference in this Form 10-K to:

- "Amazon Wind" refers to Fowler Ridge IV Wind Farm LLC, a wind project located in Benton County, Indiana;
- "Armow" refers to SP Armow Wind Ontario LP, a wind project located in Kincardine, Ontario, Canada;
- "Broadview" collectively refers to Broadview Finco Pledgor LLC (Broadview Project), consisting of Broadview Energy KW, LLC and Broadview Energy JN, LLC, a wind project located in Curry County, New Mexico, and Western Interconnect;
- "El Arrayán" refers to Parque Eólico El Arrayán SpA, a wind farm located in Ovalle, Chile (we disposed of our interests in El Arrayán on August 20, 2018);
- "ERCOT" refers to the Electric Reliability Council of Texas;
- "FERC" refers to the U.S. Federal Energy Regulatory Commission;
- "FIT" refers to feed-in-tariff regime;
- "FPA" refers to the Federal Power Act;
- "Futtsu" refers to GK Green Power Futtsu, a solar project located in Chiba Prefecture, Japan;
- "GPG" refers to Green Power Generation GK which consists primarily of 100% ownership in Ohorayama, Otsuki and Kanagi, and a consolidated controlling interest in Futtsu;
- "GPI" refers to Green Power Investment Corporation;
- "Grand" refers to Grand Renewable Wind LP, a wind project located in Haldimand County, Ontario, Canada;
- "Gulf Wind" refers to Pattern Gulf Wind LLC, a wind project located in Kenedy County, Texas;
- "Hatchet Ridge" refers to Hatchet Ridge Wind, LLC, a wind project located in Shasta County, California;
- "Identified ROFO Projects" refers to projects that we have identified as development projects, owned by either of the Pattern Development Companies and subject to our Project Purchase Rights. See Identified ROFO Projects list in Item 1. Business;
- "IPPs" refers to independent power producers;
- "ISOs" refers to independent system organizations, which are organizations that administer wholesale electricity markets;
- "ITCs" refers to investment tax credits;

- “K2” refers to K2 Wind Ontario Limited Partnership, a wind project located in Ashfield-Colborne-Wawanosh, Ontario, Canada (we disposed of our interests in K2 on December 31, 2018);
- “Kanagi” refers to GK Green Power Kanagi, a solar wind project located in Shimane Prefecture, Japan;
- “kWh” refers to kilowatt hour;
- “Logan's Gap” refers to Logan's Gap Wind LLC, a wind project located Comanche County, Texas;
- “Lost Creek” refers to Lost Creek Wind, LLC, a wind project located in DeKalb County, Missouri;
- “Meikle” refers to Meikle Wind Energy L.P., a wind project located in Peace Region, British Columbia, Canada;
- “MSM” refers to Mont Sainte-Marguerite Wind Farm Limited Partnership, a wind project located in Chaudière-Appalaches, Quebec, Canada;
- “Multilateral Management Services Agreement” (MSA) refers to the amended and restated multilateral services agreement between us and each of the Pattern Development Companies;
- “MW” refers to megawatts;
- “MWh” refers to megawatt hours;
- “Non-Competition Agreement” refers to the second amended and restated non-competition agreement between us and each of the Pattern Development Companies in which we and each of the Pattern Development Companies have agreed to various arrangements with respect to how we may and may not compete with each other;
- “Ocotillo” refers to Ocotillo Express LLC, a wind project located in Imperial County, California;
- “Ohorayama” refers to GK Green Power Otsuki, a wind project located in Kochi Prefecture, Japan;
- “Otsuki” refers to GK Otsuki Wind Power (formerly known as Otsuki Wind Power Corporation), a wind project located in Kochi Prefecture, Japan;
- “Panhandle 1” refers to Pattern Panhandle Wind LLC, a wind project located in Carson County, Texas;
- “Panhandle 2” refers to Pattern Panhandle Wind 2 LLC, a wind project located in Carson County, Texas;
- “Pattern Canada Operations Holdings ULC” consists primarily of 100% ownership of St. Joseph, a consolidated controlling interest in Meikle and MSM, and a noncontrolling interest in Armow, Grand, K2 (which we disposed of on December 31, 2018) and South Kent, each of which are accounted for as unconsolidated investments;
- “Pattern Development” refers to Pattern Energy Group 2 LP, a Delaware limited partnership, and, where the context so requires, its subsidiaries. We hold an approximate 29% ownership interest in Pattern Development;
- “Pattern Development Companies” refers collectively to Pattern Energy Group LP and Pattern Development and their respective subsidiaries;
- “Pattern Development Companies Purchase Rights” refer collectively to our right to acquire Pattern Energy Group LP or substantially all of its assets, as contemplated by the Amended and Restated Purchase Rights Agreement between us and Pattern Energy Group LP (Pattern Energy Group LP Purchase Right) and to our right to acquire Pattern Development or substantially all of its assets, as contemplated by the Amended and Restated Purchase Rights Agreement between us and Pattern Development (Pattern Development Purchase Right);
- “Pattern Energy Group LP” refers to Pattern Energy Group LP, a Delaware limited partnership, and, where the context so requires, its subsidiaries;
- “Pattern US Operations Holdings LLC” consists primarily of 100% ownership interest of Gulf Wind, Hatchet Ridge, Lost Creek, Ocotillo, Santa Isabel and Spring Valley, and a consolidated controlling interest in Amazon Wind, Broadview, Logan's Gap, Panhandle 1, Panhandle 2, Post Rock, Stillwater and Western Interconnect;
- “Post Rock” refers to Post Rock Wind Power Project, LLC, a wind project located in Ellsworth and Lincoln counties, Kansas;
- “PPAs” refer to power purchase agreements;

“Project Purchase Rights” refers collectively to our right of first offer with respect to power projects that Pattern Energy Group LP decides to sell, as contemplated by the Amended and Restated Purchase Rights Agreement between us and Pattern Energy Group LP, and our right of first offer with respect to power projects that Pattern Development decides to sell, as contemplated by the Amended and Restated Purchase Rights Agreement between us and Pattern Development (in each case including any Identified ROFO Projects);

- “PSAs” or “power sale agreements” refer to PPAs and/or hedging arrangements, as applicable;

• “PSP Investments” refers to the Public Sector Pension Investment Board;

• “Purchase Rights” refers collectively to the Project Purchase Rights, and the Pattern Development Companies Purchase Rights, as contemplated by the Amended and Restated Purchase Rights Agreement between us and Pattern Energy Group LP and the Amended and Restated Purchase Rights Agreement between us and Pattern Development;

• “RECs” refers to renewable energy credits;

• “Riverstone” refers to Riverstone Holdings LLC;

• “ROFO” refers to right of first offer;

• “RPS” refers to Renewable Portfolio Standards;

• “Santa Isabel” refers to Pattern Santa Isabel LLC, a wind project located in Santa Isabel, Puerto Rico;

• “Sarbanes-Oxley Act” refers to the Sarbanes-Oxley Act of 2002;

• “South Kent” refers to South Kent Wind LP, a wind project located in Chatham-Kent, Ontario, Canada;

• “Spring Valley” refers to Spring Valley Wind LLC, a wind project located in White Pine County, Nevada;

• “St. Joseph” refers to St. Joseph Windfarm Inc., a wind project located in Montcalm, Manitoba, Canada;

• “Stillwater” refers to Stillwater Wind, LLC, a wind project located in Stillwater County, Montana;

• “Tsugaru” refers to Green Power Tsugaru GK, a wind project located in Aomori Prefecture, Japan;

• “Tsugaru Holdings” refers to Green Power Tsugaru Holdings GK, which consists primarily of 100% ownership of Tsugaru; and

• “Western Interconnect” refers to Western Interconnect LLC, a transmission line located in Curry County, New Mexico.

PART I

Item 1. Business.

Overview

We are a vertically integrated renewable energy company with a mission to transform the world to renewable energy. Our business consists of (i) an operating business segment which is comprised of a portfolio of high-quality renewable energy power projects located in many attractive markets that produces long-term stable cash flows and (ii) ownership interests in an upstream development platform aligned with our operating business which provides us access to a pipeline of projects and potential for higher returns through project development.

Through our operating business segment, we hold ownership interests in 24 renewable energy projects with an operating capacity that totals approximately 4 gigawatts (GW) which are located in the United States, Canada and Japan. Our projects use proven, best-in-class technology and have contracted to sell all or a majority of their output pursuant to long-term, fixed-price PSAs. Approximately 92% of the electricity expected to be generated by our projects in which we have an owned interest will be sold under PSAs that have a weighted average remaining contract life of approximately 13 years as of December 31, 2018.

We own an approximate 29% interest in Pattern Development which engages in the development of projects around the world primarily in the United States, Canada, Mexico and Japan. Pattern Development seeks to promote environmental stewardship and works closely with communities to create renewable energy projects. Our arrangements with Pattern Development include rights of first offer, shared services, and overlap of executive officers. We have sought to align our interests to provide us access to a pipeline of development projects that we have an ability to acquire to grow our business, or (through our approximate 29% interest) to share in returns realized by Pattern Development when it sells projects to third parties. Pattern Development has more than a 10 GW pipeline of development projects.

We were incorporated in the state of Delaware in October 2012 and conducted an initial public offering in October 2013.

Our Core Values and Financial Objectives

We intend to maximize long-term value for our stockholders in an environmentally responsible manner and with respect for the communities in which we operate. Our business is built around three core values of creative energy and spirit, pride of ownership, and a team-first attitude, which guide us in:

- creating a safe and high-integrity work environment for our employees;
- applying rigorous analysis to all aspects of our business in a timely, disciplined and functionally integrated manner to understand patterns in wind and solar regimes, technology developments, market trends and regulatory, financial and legal constraints; and
- working proactively with our stakeholders to address environmental and community concerns, which we believe is a socially responsible approach that also benefits our business by reducing operating risks at our projects.

Our financial objectives, which we believe will maximize long-term value for our stockholders, are to:

- produce stable and sustainable cash available for distribution;
- selectively grow our project portfolio and our dividend per Class A share of common stock; and
- maintain a strong balance sheet and flexible capital structure.

We accomplish our core values and financial objectives through delivering top-tier operating fleet performance, maintaining growth through acquisitions and development from Pattern Development Companies, continuing improvements in business strategy, and maintaining a prudent capital structure and financial flexibility, as discussed further below in "-Our Business Strategy."

Structure of Our Company

Our Operating Business Segment

Overview

We hold interests in 24 renewable energy projects and operate, on behalf of ourselves and others, an aggregate renewable energy portfolio of approximately 4 GW in the United States, Canada and Japan. Each of such projects use best-in-class equipment from top-tier suppliers and has contracted to sell all or a majority of its output pursuant to long-term, fixed-price PSAs. As a portfolio, as of December 31, 2018, our assets are characterized by:

- an approximate 13 year weighted average remaining contract life under our PSAs;

- 92% of electricity to be generated by our projects will be sold under PSAs;

- an 'A-' weighted average off-taker credit rating; and

- 4.9-year average age of fleet, primarily using GE and Siemens turbines.

We seek to own high quality projects that have gone through a rigorous review prior to construction. As a result, and in order to meet our own investment targets and our lenders' financing criteria, our projects generally have the following characteristics:

- multiple years of on-site wind and solar data tied to one or more long-term wind and solar energy reference sources;

- long-term contractually secured real estate property and easement rights;

- right to firm interconnection to the electricity grid;

- all requisite construction and operating permits and regulatory approvals;

fixed-price turbine supply and construction contracts with guaranteed completion dates;