Pattern Energy Group Inc.
Form 10-Q
October 31, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014.

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x	Smaller reporting company ¨

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

As of October 27, 2014, there were 46,530,876 shares of Class A common stock outstanding, $0.01 par value, and 15,555,000 shares of Class B common stock outstanding, $0.01 par value.

PATTERN ENERGY GROUP INC.

REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements and information in this Quarterly Report on Form 10-Q (Form 10-Q) may constitute forward-looking statements. The words believe, expect, anticipate, plan, intend, foresee, should, woul similar expressions are intended to identify forward-looking statements, which are generally not historical in nature. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. 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 construction of our construction projects and transition them into financially successful operating projects;
- our ability to complete the acquisition of power projects;
- fluctuations in supply, demand, prices and other conditions for electricity, other commodities and RECs;
- our electricity generation, our projections thereof and factors affecting production, including wind and other conditions, other weather conditions, 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 the potential expiration or extension of the U.S. federal PTC, ITC, and the related U.S. Treasury grants and potential reductions in 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 wind 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 wind power projects under construction and those in operation;

conditions in energy markets as well as financial markets generally, which will be affected by interest rates, currency exchange rate fluctuations and general economic conditions;

the effective life and cost of maintenance of our wind turbines and other equipment;

the increased costs of, and tariffs on, spare parts;

scarcity of necessary equipment;

negative public or community response to wind power projects;

the value of collateral in the event of liquidation; and

other factors discussed under Risk Factors.

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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 report and our Annual Report on Form 10-K for the year ended December 31, 2013 (as amended by the Form 10-K/A (Amendment No. 1) for the year ended December 31, 2013, the Annual Report on Form 10-K for the year ended December 31, 2013).

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.

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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, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 230,658	$ 103,569
Trade receivables	31,782	20,951
Related party receivable	345	167
Reimbursable interconnection costs	38	1,455
Derivative assets, current	13,918	13,937
Current deferred tax assets	573	573
Prepaid expenses and other current assets	17,985	13,927
Total current assets	295,299	154,579
Restricted cash	36,913	32,636
Property, plant and equipment, net of accumulated depreciation of $248,718 and $179,778 as of September 30, 2014 and December 31, 2013, respectively	2,072,449	1,476,142
Unconsolidated investments	40,626	107,055
Derivative assets	55,814	82,167
Deferred financing costs, net of accumulated amortization of $20,399 and $16,225 as of September 30, 2014 and December 31, 2013, respectively	32,178	35,792
Net deferred tax assets	6,969	2,017
Other assets	13,092	13,243
Total assets	$ 2,553,340	$ 1,903,631
Liabilities and equity		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 22,835	$ 15,550
Accrued construction costs	6,569	3,204
Related party payable	468	1,245
Accrued interest	1,350	495
Dividend payable	15,394	11,103

Derivative liabilities, current	17,612	16,171
Current portion of long-term debt	61,004	48,851
Total current liabilities	125,232	96,619
Long-term debt	1,349,079	1,200,367
Derivative liabilities	9,611	7,439
Asset retirement obligations	26,668	20,834
Net deferred tax liabilities	18,568	9,930
Other long-term liabilities	5,898	438
Total liabilities	1,535,056	1,335,627
Equity:		
Class A common stock, $0.01 par value per share: 500,000,000 shares authorized; 46,530,876 and 35,531,720 shares issued as of September 30, 2014 and December 31, 2013, respectively; 46,518,162 and 35,530,786 shares outstanding as of September 30, 2014 and December 31, 2013, respectively	465	355
Class B common stock, $0.01 par value per share: 20,000,000 shares authorized; 15,555,000 shares issued and outstanding as of September 30, 2014 and December 31, 2013	156	156
Additional paid-in capital	738,290	489,412
Accumulated loss	(24,234)	(13,336)
Accumulated other comprehensive loss	(30,367)	(8,353)
Treasury stock, at cost; 12,714 and 934 shares of Class A common stock as of September 30, 2014 and December 31, 2013, respectively	(404)	(24)
Total equity before noncontrolling interest	683,906	468,210
Noncontrolling interest	334,378	99,794
Total equity	1,018,284	568,004
Total liabilities and equity	$ 2,553,340	$ 1,903,631

See accompanying notes to consolidated financial statements.

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Pattern Energy Group Inc.

Consolidated Statements of Operations

(In thousands of U.S. Dollars, except share data)

(Unaudited)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenue:				
Electricity sales	$ 64,251	$ 37,950	$ 184,175	$ 130,533
Energy derivative settlements	2,591	2,656	9,309	12,873
Unrealized gain (loss) on energy derivative	3,139	6,659	(11,143)	(5,222)
Related party revenue	868	202	2,330	465
Other revenue	670	9,790	1,404	21,157
Total revenue	71,519	57,257	186,075	159,806
Cost of revenue:				
Project expense	23,835	14,592	56,609	42,061
Depreciation and accretion	30,015	21,194	72,476	61,758
Total cost of revenue	53,850	35,786	129,085	103,819
Gross profit	17,669	21,471	56,990	55,987
Operating expenses:				
General and administrative	5,772	214	15,963	563
Related party general and administrative	1,492	3,607	4,155	8,968
Total operating expenses	7,264	3,821	20,118	9,531
Operating income	10,405	17,650	36,872	46,456
Other income (expense):				
Interest expense	(17,999)	(14,695)	(48,427)	(48,169)
Equity in (losses) earnings in unconsolidated investments	(5,002)	1,845	(21,238)	5,188
Interest rate derivative settlements	(1,030)	(1,059)	(3,082)	(1,059)
Unrealized gain (loss) on derivatives	66	776	(6,599)	10,909
Related party income	664		1,736	
Net (loss) gain on transactions	(68)		14,469	7,200
Other income, net	145	321	751	2,123
Total other expense	(23,224)	(12,812)	(62,390)	(23,808)

Net (loss) income before income tax	(12,819)	4,838	(25,518)	22,648
Tax (benefit) provision	(3,538)	595	(1,505)	(6,799)
Net (loss) income	(9,281)	4,243	(24,013)	29,447
Net (loss) income attributable to noncontrolling interest	(2,073)	3,248	(13,115)	(690)
Net (loss) income attributable to controlling interest	$ (7,208)	$ 995	$ (10,898)	$ 30,137
Cash dividends declared on Class A common shares	(15,258)		(41,395)	
Deemed dividends on Class B common shares	(7,222)		(14,679)	
Net loss attributable to common stockholders	$ (29,688)		$ (66,972)	
Weighted average number of shares:				
Class A common stock - Basic	40,980,989		38,342,998	
Class A common stock - Diluted	56,860,637		54,201,701	
Class B common stock - Basic and diluted	15,555,000		15,555,000	
Earnings (loss) per share				
Class A common stock:				
Basic loss per share	$ (0.15)		$ (0.16)	
Diluted loss per share	$ (0.15)		$ (0.20)	
Class B common stock:				
Basic and diluted loss per share	$ (0.06)		$ (0.30)	
Cash dividends declared per Class A common share	$ 0.33		$ 0.96	
Deemed dividends per Class B common share	$ 0.46		$ 0.94	
2013 pro forma information:				
Unaudited pro forma net income after tax:				
Net income before income tax				*$ 22,648*
Pro forma tax benefit				*(2,232)*
Pro forma net income				*$ 24,880*

See accompanying notes to consolidated financial statements.

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Pattern Energy Group Inc.

Consolidated Statements of Comprehensive Loss

(In thousands of U.S. Dollars)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
Net (loss) income	$ (9,281)	$ 4,243	$ (24,013)	$ 29,447
Other comprehensive (loss) income:				
Foreign currency translation, net of tax impact of $0, $0, $0 and $0, respectively	(5,706)	2,377	(6,575)	(4,950)
Derivative activity:				
Effective portion of change in fair market value of derivatives, net of tax benefit of $1, $0, $30 and $0, respectively	5,356	5,220	444	36,166
Reclassifications to net loss, net of tax impact of $169, $0, $169 and $0, respectively	(3,658)	(3,321)	(10,215)	(8,680)
Total change in effective portion of change in fair market value of derivatives	1,698	1,899	(9,771)	27,486
Proportionate share of equity investee s other comprehensive (loss) income activity, net of tax benefit (provision) of $109, ($13), $1,914 and ($347), respectively	(275)	55	(4,558)	1,656
Total other comprehensive (loss) income, net of tax	(4,283)	4,331	(20,904)	24,192
Comprehensive (loss) income	(13,564)	8,574	(44,917)	53,639
Less comprehensive (loss) income attributable to noncontrolling interest:				
Net (loss) income attributable to noncontrolling interest	(2,073)	3,248	(13,115)	(690)
Derivative activity:				
Effective portion of change in fair market value of derivatives, net of tax benefit of $9, $0, $9 and $0, respectively	2,248	467	3,785	4,991
Reclassifications to net loss, net of tax impact of $50, $0, $50 and $0, respectively	(959)	(484)	(2,675)	(1,432)
Total change in effective portion of change in fair market value of derivatives	1,289	(17)	1,110	3,559

Comprehensive (loss) income attributable to noncontrolling interest		(784)		3,231		(12,005)		2,869
Comprehensive (loss) income attributable to controlling interest	$	(12,780)	$	5,343	$	(32,912)	$	50,770

See accompanying notes to consolidated financial statements.

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Pattern Energy Group Inc.

Consolidated Statement of Stockholders Equity

(In thousands of U.S. Dollars, except share data)

(Unaudited)

Controlling Interest									Noncontrolling Interest		
ass A on Stock		Class B Common Stock		Additional Paid-in		Accumulated Income	Accumulated Other Comprehensive Income			Accumulated Income	Accumulated Other Comprehensiv
s	Amount	Shares	Amount	Capital	Capital	(Deficit)	(Loss)	Total	Capital	(Deficit)	Income (Loss
100	$		$	$ 1	$ 545,471	$ 2,903	$ (34,264)	$ 514,111	$ 74,177	$ 12,366	$ (11,242)
					32,677			32,677			
					(104,634)			(104,634)	(1,426)		
				2				2			
						30,295		30,295		(690)	
							20,633	20,633			3,559
100				3	473,514	33,198	(13,631)	493,084	72,751	11,676	(7,683)
					(18,332)	(13,122)	2,870	(28,584)	18,332	13,122	(2,870)
					(4,207)			(4,207)			
000	194	15,555,000	156	470,701	(450,975)	(20,076)					

				(232,640)				(232,640)			
000	160			316,882				317,042			
183	1			155				156			
437				93				93			
934)				(24)				(24)			
				263				263			
				(11,103)				(11,103)			
				(54,942)			(2,910)	(57,852)			
									(866)		
						(13,336)		(13,336)		(6,197)	
							5,318	5,318			1,529
786	$ 355	15,555,000	$ 156	$ 489,388	$	$ (13,336)	$ (8,353)	$ 468,210	$ 90,217	$ 18,601	$ (9,024)
810	108			286,711				286,819			
915	2			2,669				2,671			

431	273	273	
780)	(380)	(380)	
	457	457	
	163	163	
	(41,395)	(41,395)	
	(21,901)	(21,901)	
	21,901	21,901	
	14,679	14,679	
	(14,679)	(14,679)	
			210,250
			35,259

									2,550		
									(1,470)		
						(10,898)		(10,898)		(13,115)	
							(22,014)	(22,014)			1,110
162	$ 465	15,555,000	$ 156	$ 737,886	$	$ (24,234)	$ (30,367)	$ 683,906	$ 336,806	$ 5,486	$ (7,914)

See accompanying notes to consolidated financial statements.

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Pattern Energy Group Inc.

Consolidated Statements of Cash Flows

(In thousands of U.S. Dollars)

(Unaudited)

	Nine months ended September 30, 2014	2013
Operating activities		
Net (loss) income	$ (24,013)	$ 29,447
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and accretion	72,476	61,758
Amortization of financing costs	4,246	5,428
Unrealized loss (gain) on derivatives	17,742	(5,687)
Stock-based compensation	3,128	
Net gain on transactions	(16,526)	(7,200)
Deferred taxes	(1,505)	(6,801)
Equity in losses (earnings) in unconsolidated investments	21,238	(5,188)
Changes in operating assets and liabilities:		
Trade receivables	(5,255)	(7,935)
Prepaid expenses and other current assets	13,139	(3,393)
Other assets (non-current)	(503)	(358)
Accounts payable and other accrued liabilities	1,514	4,862
Related party receivable/payable	(1,017)	(291)
Income taxes payable	128	
Accrued interest payable	(917)	857
Long-term liabilities	25	2,896
Net cash provided by operating activities	83,900	68,395
Investing activities		
Receipt of ITC Cash Grant		173,446
Cash paid for acquisitions, net of cash acquired	(167,585)	
Proceeds from sale of investments		14,254
Decrease in restricted cash	23,861	63,732
Increase in restricted cash	(10,406)	(80,567)
Capital expenditures	(18,615)	(120,965)
Deferred development costs		(528)
Distribution from unconsolidated investments	17,104	10,463
Contribution to unconsolidated investments	(2,320)	(8,737)
Reimbursable interconnection receivable	1,418	49,715
Other assets (non-current)	2,472	1,740

Net cash (used in) provided by investing activities	(154,071)	102,553

See accompanying notes to consolidated financial statements.

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Pattern Energy Group Inc.

Consolidated Statements of Cash Flows

(In thousands of U.S. Dollars)

(Unaudited)

	Nine months ended September 30, 2014	2013
Financing activities		
Proceeds from public offering, net of expenses	$ 287,107	$
Repurchase of shares for employee tax withholding	(380)	
Dividends paid	(37,104)	
Capital contributions - Pattern Development		32,679
Capital contributions - noncontrolling interest	2,550	
Capital distributions - Pattern Development		(98,886)
Capital distributions - noncontrolling interest	(1,470)	(1,426)
Decrease in restricted cash	13,508	116,654
Increase in restricted cash	(13,508)	(126,475)
Payment for deferred financing costs	(603)	(294)
Proceeds from revolving credit facility		56,000
Repayment of short-term debt	(14,840)	
Proceeds from short-term debt	1,087	
Repayment of long-term debt	(38,245)	(41,283)
Proceeds from long-term debt		138,620
Repayment of construction and grant loans		(114,056)
Net cash provided by (used in) financing activities	198,102	(38,467)
Effect of exchange rate changes on cash and cash equivalents	(842)	(966)
Net change in cash and cash equivalents	127,089	131,515
Cash and cash equivalents at beginning of period	103,569	17,574
Cash and cash equivalents at end of period	$ 230,658	$ 149,089
Supplemental disclosure		
Cash payments for interest and commitment fees	$ 42,084	$ 45,178
Acquired PP&E for El Arrayán and Panhandle 1	674,743	
Schedule of non-cash activities		
Change in fair value of interest rate swaps	(18,541)	38,266
Change in fair value of contingent liabilities		8,001
Amortization of deferred financing costs		175
Capitalized interest	2,320	3,230
Capitalized commitment fee		39

Change in property, plant and equipment	(97,051)	(160,021)
Transfer of capitalized assets to South Kent joint venture		49,275
Non-cash distribution to Pattern Development		(5,748)
Non-cash deemed dividends on Class B convertible common stock	14,679	

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 issued 100 shares on October 17, 2012 to Pattern Renewables LP, a 100% owned subsidiary of Pattern Energy Group LP (Pattern Development). On September 24, 2013, Pattern Energy s charter was amended, and the number of shares that Pattern Energy is authorized to issue was increased to 620,000,000 total shares; 500,000,000 of which are designated Class A common stock, 20,000,000 of which are designated Class B common stock, and 100,000,000 of which are designated Preferred Stock.

Pattern Energy is an independent energy generation company focused on constructing, owning and operating energy projects with long-term energy sales contracts located in the United States, Canada and Chile. The Company consists of the consolidated operations of certain entities and assets contributed by, or purchased from, Pattern Development. The Company owns 100% of Hatchet Ridge Wind, LLC (Hatchet Ridge), St. Joseph Windfarm Inc. (St. Joseph), Spring Valley Wind LLC (Spring Valley), Pattern Santa Isabel LLC (Santa Isabel) and Ocotillo Express LLC (Ocotillo). The Company owns a controlling interest in Pattern Gulf Wind Holdings LLC (Gulf Wind), Parque Eólico El Arrayán SpA (El Arrayán) and Panhandle Wind Holdings LLC (Panhandle 1), and noncontrolling interests in South Kent Wind LP (South Kent) and Grand Renewable Wind LP (Grand) and has agreed to acquire a controlling interest in Panhandle B Member 2 LLC (Panhandle 2). The principal business objective of the Company is to produce stable and sustainable cash flows through the generation and sale of energy and to selectively grow our project portfolio.

Initial Public Offering and Contribution Transactions

On October 2, 2013, Pattern Energy issued 16,000,000 shares of Class A common stock in an initial public offering (IPO) generating net proceeds of approximately $317.0 million. Concurrent with the IPO, Pattern Energy issued 19,445,000 shares of Class A common stock and 15,555,000 shares of Class B common stock to Pattern Development and utilized approximately $232.6 million of the net proceeds of the IPO as a portion of the consideration to Pattern Development for certain entities and assets contributed to Pattern Energy (Contribution Transactions) consisting of interests in eight wind power projects, including six projects in operation (Gulf Wind, Hatchet Ridge, St. Joseph, Spring Valley, Santa Isabel and Ocotillo), and two projects under construction (El Arrayán and South Kent). In accordance with ASC 805-50-30-5, *Transactions between Entities under Common Control*, Pattern Energy recognized the assets and liabilities contributed by Pattern Development at their historical carrying amounts at the date of the Contribution Transactions. On October 8, 2013, Pattern Energy s underwriters exercised in full their overallotment option to purchase 2,400,000 shares of Class A common stock from Pattern Development, the selling stockholder, pursuant to the overallotment option granted by Pattern Development.

In connection with the Contribution Transactions, Pattern Development retained a 40% portion of the interest in Gulf Wind previously held by it such that, at the completion of the IPO, Pattern Energy, Pattern Development and the joint venture partner held interests of approximately 40%, 27% and 33%, respectively, of the distributable cash flow of Gulf Wind, together with certain allocated tax items.

Effective with Pattern Energy s IPO, Pattern Development s project operations and maintenance personnel and certain of its executive officers became Pattern Energy employees and their employment with Pattern Development was terminated. Pattern Development retained those employees whose primary responsibilities relate to project development, legal, financial or other administrative functions. Pattern Energy entered into a bilateral services agreement with Pattern Development, or the Management Services Agreement , that provides for Pattern Energy and Pattern Development to benefit, primarily on a cost-reimbursement basis, from the respective management and other professional, technical and administrative personnel of the respective companies, all of whom report to and are managed by Pattern Energy s executive officers.

May 2014 Public Offering

On May 14, 2014, the Company completed an underwritten public offering of its Class A common stock. In total, 21,117,171 shares of its Class A common stock were sold. Of this amount, the Company sold 10,810,810 shares of Class A common stock and Pattern Development, the selling stockholder, sold 10,306,361 shares of Class A common stock, including 2,754,413 shares upon exercise in full of the underwriters overallotment option. Net proceeds generated for the Company were approximately $288.7 million before deduction of transaction expenses, which we estimate to be approximately $1.9 million. The Company did not receive any proceeds from the sale of the shares sold by Pattern Development.

As a result of the sale of the shares held by Pattern Development, its ownership interest in the Company was reduced from approximately 63% to 35%. Consequently, the Company is no longer subject to ASC 805-50-30-5, *Transactions between Entities under Common Control.* All future transactions with Pattern Development will be recognized at fair value on the measurement date in accordance with ASC 805 Business Combinations.

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Basis of Presentation

Pattern Energy was formed by Pattern Development for the purpose of an IPO. For periods prior to October 2, 2013, Pattern Energy was a shell company, with expenses of less than $10,000 for 2013 and 2012. In accordance with ASC 805-50-30-6, the historical financial statements of Pattern Energy s predecessor, which consist of the combined financial statements of a combination of entities and assets contributed by Pattern Development to Pattern Energy, are consolidated with Pattern Energy from the beginning of the earliest period presented.

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 presentation of the Company s financial position at September 30, 2014, the results of operations, comprehensive income (loss), and cash flows for the three and nine months ended September 30, 2014 and 2013, respectively. The consolidated balance sheet at December 31, 2013 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, 2013.

2. Summary of Significant Accounting Policies

As of September 30, 2014, there have been no material changes to the Company s significant accounting policies as compared to the significant accounting policies described in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with U.S. GAAP. They 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.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent 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.

Unaudited Pro Forma Income Tax

In order to present the tax effect of the Contribution Transactions, the Company has presented a pro forma income tax provision, for the nine months ended September 30, 2013, as if the Contribution Transactions occurred effective January 1, 2012 and as if the Company were under control of a Subchapter C-Corporation for U.S. federal income tax purposes.

Noncontrolling Interests

Noncontrolling interests represent the portion of the Company s net (loss) income, net assets and comprehensive (loss) income that is not allocable to the Company and is calculated based on ownership percentage using the equity method of accounting.

For the noncontrolling interests at the Company s Gulf Wind and Panhandle 1 projects, the Company has determined that the operating partnership agreements do not allocate economic benefits pro rata to its two classes of investors and has determined that the appropriate methodology for calculating the noncontrolling interest balance that reflects the substantive profit sharing arrangement is a balance sheet approach using the hypothetical liquidation at book value (HLBV) method.

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The following table presents the noncontrolling interest balances, reported in stockholders equity in the consolidated balance sheets by project as of September 30, 2014 and December 31, 2013 (in thousands):

			Noncontrolling Ownership Percentage	
Project	**September 30, 2014**	**December 31, 2013**	**September 30, 2014**	**December 31, 2013**
Gulf Wind	$ 89,139	$ 99,794	60%	60%
El Arrayan	37,262		30%	N/A
Panhandle 1	207,977		21%	N/A
	$ 334,378	$ 99,794		

Common Stock

The Company s Class B common stock is contingently convertible on a one-to-one basis into the Company s Class A common stock as of the later of December 31, 2014 or when the South Kent project achieves commercial operations. On March 28, 2014, the South Kent project commenced commercial operations and consequently the contingency on the conversion of the Class B common stock was removed, which resulted in the recognition of a beneficial conversion feature in the Company s additional paid-in capital account. The beneficial conversion feature represents the intrinsic value of the conversion feature, which is measured as the difference between the fair value of Class B common stock and the fair value of Class A common stock, into which the Class B common stock is convertible, as of October 2, 2013, which is the date of the Company s initial public offering. The beneficial conversion feature is accreted on a straight-line basis from March 28, 2014 to December 31, 2014 into the Company s additional paid-in capital account in the Consolidated Statements of Stockholders Equity, as there are no available retained earnings.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, trade receivables, derivative assets and liabilities. The Company places its cash and cash equivalents with high quality institutions.

The Company sells electricity and environmental attributes, including renewable energy credits, primarily to creditworthy utilities and other off-takers under long-term, fixed-priced Power Sale Arrangements (PPAs). During the second quarter of 2014, Standard & Poor s Rating Services (S&P) and Moody s Investor Service (Moody s) downgraded the credit rating of the Puerto Rico Electric Power Authority (PREPA) to BB from BBB and to Ba3 from Ba2, respectively. During the third quarter of 2014, Moody s and S&P each twice reduced their credit rating to Caa3 and CCC, respectively. As of September 30, 2014 and October 31, 2014, PREPA was current with respect to payments due under the PPA. The next payment will be due from PREPA under the PPA on approximately November 18, 2014.

The following table presents significant customers who accounted for the following percentages of total revenues during the three and nine months ended September 30, 2014 and 2013, respectively:

	Three months ended September 30,	Nine months ended September 30,

	2014	2013	2014	2013
Manitoba Hydro	10.96%	12.27%	14.24%	15.20%
San Diego Gas & Electric	23.34%	14.44%	26.37%	15.75%
Pacific Gas & Electric Company	9.78%	13.88%	10.81%	13.11%
Electric Reliability Council of Texas	15.17%	11.90%	13.40%	12.32%
NV Energy, Inc.	9.43%	12.18%	10.98%	11.61%
PREPA	10.90%	8.15%	11.04%	8.01%
Pelambres	12.66%	0.00%	4.31%	0.00%

The Company s derivative assets are placed with counterparties that are creditworthy institutions. A derivative asset was generated from Credit Suisse Energy LLC, the counterparty to a 10-year fixed-for-floating swap related to annual electricity generation at the Company s Gulf Wind project.

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Reclassification

Certain prior period balances have been reclassified to conform to current period presentation of the Company s consolidated financial statements and accompanying notes. Such reclassifications have no effect on previously reported balance sheet subtotals, results of operations or retained earnings.

Recently Issued Accounting Standards

In June 2014, the FASB issued Accounting Standards Update (ASU) 2014-12, Compensation Stock Compensation which requires an entity to treat a performance target that affects vesting that could be achieved after an employee completes the requisite service period as a performance condition. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. ASU 2014-12 is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted either prospectively or retrospectively to all prior periods presented. The Company does not anticipate a material impact on its financial condition, results of operations or cash flows.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers . The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company is currently assessing the future impact of this update on its consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Income Taxes Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists which requires an entity to present an unrecognized tax benefit as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain circumstances where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax laws of the applicable jurisdiction to settle any additional income taxes or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose. When those circumstances exist, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The Company is currently assessing the future impact of this update, but it does not anticipate a material impact on its financial condition, results of operations or cash flows.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income to amend the reporting of reclassifications out of accumulated other comprehensive income (AOCI) to require an entity to report the effect of significant reclassifications out of AOCI on the respective line items in net income if the amount reclassified is required under U.S. GAAP to be reclassified in its entirety to net income in the same reporting period. An entity shall provide this information together in one location, either on the face of the statement where net income is presented, or as a separate disclosure in the notes to the financial statements. The new disclosure requirements relating to this update are prospective and effective for interim and annual periods beginning after December 15, 2012, with early adoption permitted. For nonpublic companies, ASU 2013-02 is effective for fiscal years beginning after December 15, 2013. As a result of the JOBS Act enacted in April 2012, emerging growth companies can elect to delay the adoption of new or revised accounting standards for public companies until those standards would otherwise apply to private companies, as such, the Company adopted ASU 2013-02 on January 1, 2014. As this update only requires additional disclosures, adoption of this standard did not have a material impact on the Company s financial condition, results of operations or cash flows. See Note 11, *Accumulated Other Comprehensive Loss,* for disclosures on the effect of significant reclassifications out of AOCI on the respective line items on its consolidated statements of operations.

3. Acquisition

Panhandle 1 Acquisition

On June 30, 2014, the Company acquired 100% of the Class B membership interests in the Panhandle 1 wind project, representing a 79% initial ownership interest in the project s distributable cash flow, through the acquisition of Panhandle Wind Holdings LLC, from Pattern Development, for a purchase price of approximately $124.4 million. This represents a 172 MW interest in the 218 MW wind project, located in Carson County, Texas, which achieved commercial operations on June 25, 2014.

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Prior to the closing, certain tax equity investors made capital contributions to acquire 100% of the Class A membership interests in Panhandle 1 and have been admitted as noncontrolling members in the entity, with an ownership percentage of 21%, based on their initial interest in the project s distributable cash flow. The Company has determined that the operating partnership agreement does not allocate economic benefits pro rata to its two classes of investors and will use the HLBV method to calculate the noncontrolling interest balance that reflects the substantive profit sharing arrangement.

The Company acquired the assets and operating contracts for Panhandle 1, including assumed liabilities. The identifiable assets acquired and liabilities assumed were recorded at their fair values, which corresponded to the sum of the cash purchase price and the initial balance of the other investors noncontrolling interests.

The consolidated fair value of the assets acquired and liabilities assumed in connection with the Panhandle 1 acquisition are as follows (in thousands):

		June 30, 2014
Cash and cash equivalents	$	1,038
Trade receivables		1,850
Prepaid expenses and other current assets		71
Restricted cash		14,293
Property, plant and equipment		332,953
Accounts payable and other accrued liabilities		(148)
Accrued construction costs		(12,806)
Related party payable		(44)
Asset retirement obligation		(2,557)
Total consideration before non-controlling interest		334,650
Less: tax equity noncontrolling interest contributions		(210,250)
Total consideration after non-controlling interest	$	124,400

Current assets, restricted cash, current liabilities, accrued construction costs and related party payable were recorded at carrying value, which is representative of the fair value on the date of acquisition.

Property, plant and equipment were recorded at the cost of construction plus the developer s profit margin, which represents fair value. The asset retirement obligation was recorded at fair value using a combination of market data, operational data and discounted cash flows and was adjusted by a discount rate factor reflecting then current market conditions.

The accounting for this acquisition is preliminary. The fair value estimates for the assets acquired and liabilities assumed were 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 quarter, the Company increased property, plant, and equipment by $1.6 million related to accrued construction costs to reflect the fair value of property, plant, and equipment acquired.

The Company incurred $0.0 million and $0.7 million of transaction-related expense which was recorded in net (loss) gain on transactions in the consolidated statements of operations for the three and nine months ended September 30, 2014, respectively.

El Arrayán Acquisition

On June 25, 2014, the Company acquired 100% of the issued and outstanding common stock of AEI El Arrayán Chile SpA (AEI El Arrayán), an entity holding a 38.5% indirect interest in El Arrayán, for a total purchase price of $45.3 million, pursuant to the terms of a Stock Purchase Agreement (the Agreement). The Company owned a 31.5% indirect interest in El Arrayán prior to acquiring the additional 38.5% interest in order to obtain majority control (70%) of the project, as a part of its growth strategy. El Arrayán is a 115 MW wind power project company that recently completed construction of its wind facility, which is fully operational.

Prior to the acquisition, the Company accounted for the investment under the equity method of accounting. As the Company acquired an additional 38.5% indirect interest in El Arrayán, in accordance with ASC 805 *Business Combinations,* the acquisition was accounted for as a business combination achieved in stages . Accordingly, the Company remeasured the previously held equity

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interest in El Arrayán and adjusted it to fair value based on the Company s existing equity interest in the fair value of the underlying assets and liabilities of El Arrayán. The fair value of the Company s equity interest at the acquisition date was $37.0 million (31.5% of implied equity value of $117.5 million per below). The difference between the fair value of the Company s ownership in El Arrayán and the Company s carrying value of its investment of $19.1 million resulted in a gain of $0 and $17.9 million recorded in net (loss) gain on transactions in the consolidated statements of operations for the three and nine months ended September 30, 2014. The Company recognized additional deferred tax liability due to differences in accounting and tax bases resulting from the Company s existing ownership interest in El Arrayán, which has been included in the consolidated statements of operations. The Company now holds a 70% controlling interest in the wind project and consolidates the accounts of El Arrayán.

The Company acquired the assets and operating contracts for AEI El Arrayán, including assumed liabilities. The identifiable assets acquired and liabilities assumed were recorded at their fair values.

The consolidated fair value of the assets acquired and liabilities assumed in connection with the AEI El Arrayán acquisition are as follows (in thousands):

	Consolidated interest June 25, 2014
Cash and cash equivalents	$ 713
Trade receivables	3,829
Related party receivable	56
VAT receivable	17,031
Prepaid expenses and other current assets	174
Restricted cash	10,392
Property, plant and equipment	341,790
Intangible assets	1,121
Deferred tax assets	5,455
Accounts payable and other accrued liabilities	(6,830)
Accrued construction costs	(9,868)
Related party payable	(56)
Derivative liabilities, current	(1,942)
Current portion of long-term debt	(705)
Short-term debt	(15,881)
Accrued interest	(2,592)
Long-term debt	(209,295)
Derivative liabilities, non-current	(501)
Asset retirement obligation	(2,354)
Deferred tax liabilities	(13,001)
Total consideration	117,536
Less: non-controlling interest	(35,260)
Controlling interest	$ 82,276

Current assets, restricted cash, deferred tax assets, current liabilities, accrued construction costs, debt, accrued interest and deferred tax liabilities were recorded at carrying value, which is representative of the fair value on the date of acquisition. Derivative liabilities were recorded at fair value.

Property, plant and equipment were recorded at the cost of construction plus the developer s profit margin, which represents fair value. The asset retirement obligation was recorded at fair value using a combination of market data, operational data and discounted cash flows and was adjusted by a discount rate factor reflecting then current market conditions.

The Company recognized deferred tax liabilities due to differences in accounting and tax bases resulting from the Company s acquisition of incremental interest in El Arrayán and the remeasurement of the project s remaining noncontrolling interest at fair value.

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The accounting for this acquisition is preliminary. The fair value estimates for the assets acquired and liabilities assumed were 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). The primary areas of those preliminary estimates that are not finalized relate to the fair value of debt for which the Company is accumulating and analyzing additional market information and the fair value of property, plant and equipment for which the Company is finalizing inputs, assumptions and methodologies. During the quarter, the Company increased property, plant, and equipment by $2.0 million related to accrued construction costs and accrued interest of $1.5 million and $0.5 million, respectively, to reflect the fair value of property, plant, and equipment acquired.

The Company incurred $0.0 million and $0.4 million of transaction-related expenses which were recorded in net (loss) gain on transaction expenses in the consolidated statements of operations for the three and nine months ended September 30, 2014, respectively.

Supplemental pro forma data (unaudited)

The unaudited pro forma statement of operations data below gives effect to the Panhandle 1 and AEI El Arrayán acquisitions as if both had occurred on January 1, 2013. The 2014 pro forma net loss was adjusted to exclude nonrecurring transaction related expenses of $1.1 million and a nonrecurring $17.9 million gain on El Arrayán. 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 these acquisitions been consummated as of January 1, 2013. The unaudited pro forma data should not be considered representative of the Company s future financial condition or results of operations.

	Three months ended September 30,		Nine months ended September 30,	
Unaudited pro forma data (in thousands)	**2014**	**2013**	**2014**	**2013**
Pro forma total revenue	$ 71,519	$ 57,257	$ 188,489	$ 159,806
Pro forma total expenses	80,993	53,241	233,999	130,737
Pro forma net (loss) income	(9,474)	4,016	(45,510)	29,069
Less: pro forma net income (loss) attributable to noncontrolling interest	(2,120)	3,189	(13,614)	(885)
Pro forma net (loss) income attributable to controlling interest	$ (7,354)	$ 827	$ (31,896)	$ 29,954

Prior to the acquisition of AEI El Arrayan, net loss was recorded in equity in earnings on unconsolidated investments in the consolidated statement of operations. From January 1, 2014 to June 25, 2014, the Company recorded net loss of $0.4 million in equity in earnings on unconsolidated investments related to El Arrayán.

The following table presents the amounts included in the Consolidated Statements of Operations for Panhandle 1 and El Arrayán since their respective dates of acquisition.

Unaudited data (in thousands)

	Three months ended September 30, 2014	Nine months ended September 30, 2014
Total revenue	$ 13,516	$ 13,355
Total expenses	17,196	17,416
Net loss	(3,680)	(4,061)
Less: net loss attributable to noncontrolling interest	(2,666)	(2,785)
Net loss attributable to controlling interest	$ (1,014)	$ (1,276)

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4. Prepaid Expenses and Other Current Assets

The following table presents the components of prepaid expenses and other current assets (in thousands):

	September 30, 2014	December 31, 2013
Prepaid expenses	$ 12,999	$ 10,132
Sales tax	2,064	50
Interconnection network upgrade receivable	1,934	2,512
Other current assets	988	1,233
Prepaid expenses and other current assets	$ 17,985	$ 13,927

5. Property, Plant and Equipment

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

	September 30, 2014	December 31, 2013
Operating wind farms	$ 2,316,948	$ 1,652,119
Furniture, fixtures and equipment	4,136	3,785
Land	83	16
Subtotal	2,321,167	1,655,920
Less: accumulated depreciation	(248,718)	(179,778)
Property, plant and equipment, net	$ 2,072,449	$ 1,476,142

The Company recorded depreciation expense related to property, plant and equipment of $29.6 million and $71.4 million for the three months and nine months ended September 30, 2014, respectively, and recorded $20.9 million and $60.9 million of depreciation expense for the same periods in the prior year.

In June 2013, the Company received $115.9 million and $57.6 million for Ocotillo and Santa Isabel, respectively, under a cash grant in lieu of investment tax credit (Cash Grant) from the U.S. Department of the Treasury. The Company recorded the cash proceeds as a reduction of the carrying amount of the related wind farm assets which resulted in the assets being recorded at lower amounts.

The Cash Grants received for Ocotillo, Santa Isabel and Spring Valley reduced depreciation expense recorded in the consolidated statements of operations by approximately $3.2 million and $9.5 million for the three and nine months ended September 30, 2014, respectively, and reduced depreciation expense by $3.2 million and $9.8 million for the same periods in the prior year.

6. Unconsolidated Investments

The following presents projects that are accounted for under the equity method of accounting (in thousands):

			Percentage of Ownership	
	September 30, 2014	**December 31, 2013**	**September 30, 2014**	**December 31, 2013**
South Kent	$ 24,600	$ 59,488	50.0%	50.0%
El Arrayán		21,103	N/A	31.5%
Grand	16,026	26,464	45.0%	45.0%
Unconsolidated investments	$ 40,626	$ 107,055		

On June 25, 2014, the Company increased its total ownership interest in El Arrayán to 70%. See Note 3, *Acquisitions*, for disclosure on the acquisition of El Arrayán. As such, the Company has consolidated the operations of El Arrayán as of the acquisition date and is no longer accounting for this investment under the equity method of accounting.

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The following summarizes the aggregated operating results of the unconsolidated joint ventures for the three and nine months ended September 30, 2014 and 2013, respectively (in thousands):

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenue	$ 16,820	$	$ 45,516	$
Other (income) expense	27,025	(3,485)	89,347	(10,272)
Net loss	$ (10,205)	$ 3,485	$ (43,831)	$ 10,272

South Kent

The Company is a noncontrolling investor in a joint venture established to develop, construct, and own a wind power project located in Ontario, Canada. The project has a 20-year PPA, and commenced commercial operations on March 28, 2014.

Significant Subsidiary South Kent

The following table presents summarized statements of operations information as required for significant equity method investees, pursuant to Regulation S-X Rule 10-01(b)(1):

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenue	$ 16,820	$	$ 43,695	$
Operating expenses				
Assets operation	2,074		4,315	
General and administrative expenses	1,349	93	2,812	987
Depreciation, amortization	8,622	10	17,452	22
Operating income (loss)	4,775	(103)	19,116	(1,009)
Unrealized (loss) gain on derivatives	(4,039)	4,014	(33,466)	12,265
Other expense	(8,082)	(176)	(17,880)	(333)
Net (loss) income	$ (7,346)	$ 3,735	$ (32,230)	$ 10,923

Grand

The Company is a noncontrolling investor in a joint venture established to develop, construct, and own a wind power project located in Ontario, Canada. The project has a 20-year PPA and commenced construction in September 2013.

7. Accounts Payable and Other Accrued Liabilities

The following table presents the components of accounts payable and other accrued liabilities (in thousands):

	September 30, 2014	December 31, 2013
Accounts payable	$ 109	$ 168
Other accrued liabilities	9,999	7,282
Warranty settlement payments	972	2,187
Payroll liabilities	4,031	2,162
Property tax payable	4,865	3,490
Sales tax payable	2,859	261
Accounts payable and other accrued liabilities	$ 22,835	$ 15,550

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8. Long-term Debt

The Company s long-term debt, which consists of limited recourse or nonrecourse indebtedness, is presented below (in thousands):

	September 30, 2014	December 31, 2013	Interest Rate as of September 30, 2014	Interest Rate as of December 31, 2013	Interest Type	Maturity
Hatchet Ridge term loan	$ 232,741	$ 239,865	1.43%	1.43%	Imputed	December 2032
Gulf Wind term loan	156,612	166,448	3.23%	3.23%	Variable	March 2020
St. Joseph term loan	198,572	215,330	5.88%	5.88%	Fixed	May 2031
Spring Valley term loan	169,542	173,110	2.61%	2.63%	Variable	June 2030
Santa Isabel term loan	113,128	115,721	4.57%	4.57%	Fixed	September 2033
El Arrayan commercial term loan	99,665		3.08%	N/A	Variable	March 2029
El Arrayan EKF term loan	109,631		5.56%	N/A	Fixed	March 2029
Ocotillo commercial term loan	222,392	230,944	2.98%	3.00%	Variable	August 2020
Ocotillo development term loan	107,800	107,800	2.33%	2.35%	Variable	August 2033
	1,410,083	1,249,218				
Less: current portion	(61,004)	(48,851)				
	$ 1,349,079	$ 1,200,367				

Interest and commitment fees incurred, and interest expense recorded in the Company s consolidated statements of operations is as follows (in thousands):

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Interest and commitment fees incurred	$ 15,938	$ 14,858	$ 43,245	$ 43,584
Capitalized interest, commitment fees, and letter of credit fees	(440)	(2,372)	(2,320)	(3,269)
Letter of credit fees	1,103	852	3,256	2,426
Amortization of financing costs	1,398	1,357	4,246	5,428
Interest expense	$ 17,999	$ 14,695	$ 48,427	$ 48,169

El Arrayán

In May 2012, El Arrayán entered into a first lien senior secured credit agreement (El Arrayán Credit Agreement) which provides up to approximately $225.0 million in borrowings. Borrowings under the El Arrayán Credit Agreement were used to finance the construction of the El Arrayán wind project and are comprised of a commercial tranche of up to $100.0 million and an export credit agency tranche provided by Eksport Kredit Fonden of Denmark (EKF Tranche) of up to $110.0 million, and letter of credit facility in an amount of up to $15.0 million. The project commenced commercial operations in June 2014 and the construction loan converted into term loans on August 14, 2014.

The commercial tranche term loan is a LIBOR loan and accrues interest at LIBOR plus 2.75% per annum until the sixth anniversary of closing, 3.00% from the sixth anniversary to the tenth anniversary of closing, 3.25% from the tenth anniversary to the fourteenth anniversary of closing, and 3.50% after the fourteenth anniversary of closing. The EKF Tranche term loan accrues interest at a fixed rate of 5.56% plus a margin of 0.25% from the sixth anniversary to the tenth anniversary of the closing, 0.50% from the tenth anniversary to the fourteenth anniversary of closing, and 0.75% after the fourteenth anniversary of closing.

Value Added Tax (VAT) Facility

In addition to the El Arrayán Credit Agreement, in May 2012, El Arrayán entered into a $20.0 million VAT facility with Corpbanca. Under the VAT facility El Arrayán may borrow funds to pay for VAT payments due from the project. Drawdowns of the VAT facility must be repaid no later than 180 days. The VAT facility has an interest rate of Chilean Interbank Rate plus 1.00% and terminates in 2016. El Arrayán is also required to pay a commitment fee on the undrawn portion of the VAT facility. As of September 30, 2014, the outstanding balance on the VAT facility was $2.0 million.

Revolving Credit Facility

In November 2012, certain of the Company s subsidiaries entered into a $120.0 million revolving working capital facility with a four-year term, comprised of a revolving loan facility and a letter of credit facility (collectively, the revolving credit facility). The revolving credit facility has an accordion feature under which the Company had the right to increase available borrowings by up to $35.0 million if the Company s lenders or other additional lenders are willing to lend on the same terms and meet certain other conditions.

Collateral for the revolving credit facility consists of the Company s membership interests in certain of the Company s holding company subsidiaries. The revolving credit facility contains a broad range of covenants that, subject to certain exceptions, restrict the Company s ability to incur debt, grant liens, sell or lease assets, transfer equity interests, dissolve, pay distributions and change its business.

In March 2014, the Company exercised the accordion feature by increasing available borrowings by an additional $25.0 million, resulting in an aggregate facility amount of $145.0 million. Simultaneously, the Ocotillo project was added to the collateral pool that supports the revolving credit facility.

As of September 30, 2014 and December 31, 2013, letters of credit of $47.7 million and $44.8 million, respectively, have been issued and loans of $56.0 million were drawn and repaid during 2013. As of September 30, 2014 and December 31, 2013, there were no outstanding balances on the revolving credit facility.

9. Asset Retirement Obligations

The Company s asset retirement obligations represent the estimated cost, at all of its projects, of decommissioning the turbines, removing above-ground installations and restoring the sites at a date that is 20 years from the commencement of commercial operations of the facility.

The following table presents a reconciliation of the beginning and ending aggregate carrying amounts of asset retirement obligations as of September 30, 2014 and December 31, 2013 (in thousands):

	Nine months ended September 30, 2014	Twelve months ended December 31, 2013
Beginning asset retirement obligations	$ 20,834	$ 19,056
Additions during the period	4,912	767
Foreign currency translation adjustment	(135)	(172)
Accretion expense	1,057	1,183
Ending asset retirement obligations	$ 26,668	$ 20,834

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10. Derivative Instruments

The Company employs a variety of derivative instruments to manage its exposure to fluctuations in interest rates and electricity prices. The following tables present the amounts that are recorded in the Company s financial statements (in thousands):

Undesignated Derivative Instruments Classified as Assets (Liabilities):

			As of		For the period ended	
			Fair Market Value		QTD Gain (Loss)	YTD Gain (Loss)
Derivative Type	**Quantity**	**Maturity Dates**	**Current Portion**	**Long-Term Portion**	**Recognized into Income**	**Recognized into Income**
September 30, 2014						
Interest rate swaps	6	6/30/2030	$ (3,632)	$ 7,791	$ 105	$ (6,299)
Interest rate cap	1	12/31/2024		381	(39)	(300)
Energy derivative	1	4/30/2019	13,918	43,291	&nb	