Pattern Energy Group Inc.
Form 10-Q
May 09, 2016

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 March 31, 2016.
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 x Accelerated filer ¨
Non-accelerated filer ¨ 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 May 4, 2016, there were 74,930,648 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 MARCH 31, 2016
TABLE OF CONTENTS

	PART I. FINANCIAL INFORMATION	
Item 1.	Financial Statements	3
	Consolidated Balance Sheets as of March 31, 2016 (unaudited) and December 31, 2015	3
	Consolidated Statements of Operations for the Three Months Ended March 31, 2016 and 2015 (unaudited)	4
	Consolidated Statements of Comprehensive Loss for the Three Months Ended March 31, 2016 and 2015 (unaudited)	5
	Consolidated Statements of Stockholders' Equity for the Three Months Ended March 31, 2016 and 2015 (unaudited)	6
	Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015 (unaudited)	7
	Notes to Consolidated Financial Statements (unaudited)	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	35
Item 4.	Controls and Procedures	38
	PART II. OTHER INFORMATION	
Item 1.	Legal Proceedings	39
Item 1A.	Risk Factors	39
Item 6.	Exhibits	39
	Signatures	40

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 the acquisition 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 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 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 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, 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 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."

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, 2015.

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)

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents (Note 4)(1)	$90,624	$94,808
Restricted cash (Note 4)(1)	10,282	14,609
Funds deposited by counterparty	61,177	—
Trade receivables (Note 4)(1)	42,341	45,292
Related party receivable	674	734
Reimbursable interconnection costs	—	38
Derivative assets, current	22,028	24,338
Prepaid expenses (Note 4)(1)	13,173	14,498
Other current assets (Note 4)(1)	5,457	6,891
Deferred financing costs, current, net of accumulated amortization of $5,775 and $5,192 as of March 31, 2016 and December 31, 2015, respectively	2,156	2,121
Total current assets	247,912	203,329
Restricted cash (Note 4)(1)	16,835	36,875
Property, plant and equipment, net of accumulated depreciation of $455,523 and $409,161 as of March 31, 2016 and December 31, 2015, respectively (Note 4)(1)	3,264,632	3,294,620
Unconsolidated investments	99,996	116,473
Derivative assets	37,865	44,014
Deferred financing costs	4,106	4,572
Net deferred tax assets	10,159	6,804
Finite-lived intangible assets, net of accumulated amortization of $6,046 and $4,357 as of March 31, 2016 and December 31, 2015, respectively (Note 4)(1)	95,945	97,722
Other assets (Note 4)(1)	26,007	25,183
Total assets	$3,803,457	$3,829,592
Liabilities and equity		
Current liabilities:		
Accounts payable and other accrued liabilities (Note 4)(1)	$19,747	$42,776
Accrued construction costs (Note 4)(1)	4,854	23,565
Counterparty deposit liability	61,177	—
Related party payable	262	1,646
Accrued interest	2,859	9,035
Dividends payable	28,869	28,022
Derivative liabilities, current	16,364	14,343
Revolving credit facility	355,000	355,000
Current portion of long-term debt, net of financing costs of $3,677 and $3,671 as of March 31, 2016 and December 31, 2015, respectively	45,551	44,144
Other current liabilities (Note 4)(1)	2,340	2,156
Total current liabilities	537,023	520,687
Long-term debt, net of financing costs of $21,905 and $22,632 as of March 31, 2016 and December 31, 2015, respectively	1,174,833	1,174,380

Convertible senior notes, net of financing costs of $4,727 and $5,014 as of March 31, 2016 and December 31, 2015, respectively	198,733	197,362
Derivative liabilities	56,154	28,659
Net deferred tax liabilities	22,695	22,183
Finite-lived intangible liability, net of accumulated amortization of $3,035 and $2,168 as of March 31, 2016 and December 31, 2015, respectively	57,265	58,132
Other long-term liabilities (Note 4)[(1)]	54,891	52,427
Total liabilities	2,101,594	2,053,830
Commitments and contingencies (Note 14)		
Equity:		
Class A common stock, $0.01 par value per share: 500,000,000 shares authorized; 74,930,970 and 74,644,141 shares outstanding as of March 31, 2016 and December 31, 2015, respectively	750	747
Additional paid-in capital	955,455	982,814
Accumulated loss	(100,829)	(77,159)
Accumulated other comprehensive loss	(85,619)	(73,325)
Treasury stock, at cost; 66,376 and 65,301 shares of Class A common stock as of March 31, 2016 and December 31, 2015, respectively	(1,596)	(1,577)
Total equity before noncontrolling interest	768,161	831,500
Noncontrolling interest	933,702	944,262
Total equity	1,701,863	1,775,762
Total liabilities and equity	$ 3,803,457	$ 3,829,592

(1) See Note 4 for disclosure of Variable Interest Entities

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 March 31, 2016	2015
Revenue:		
Electricity sales	$85,663	$64,125
Related party revenue	1,215	803
Other revenue	761	(62)
Total revenue	87,639	64,866
Cost of revenue:		
Project expense	32,246	25,246
Depreciation and accretion	43,411	29,056
Total cost of revenue	75,657	54,302
Gross profit	11,982	10,564
Operating expenses:		
General and administrative	9,569	6,221
Related party general and administrative	1,897	1,808
Total operating expenses	11,466	8,029
Operating income	516	2,535
Other income (expense):		
Interest expense	(21,061)	(17,918)
Loss on undesignated derivatives, net	(13,631)	(3,400)
Earnings (losses) in unconsolidated investments, net	3,830	(3,082)
Related party income	1,007	668
Net gain (loss) on transactions	33	(1,284)
Other income (expense), net	1,556	(324)
Total other expense	(28,266)	(25,340)
Net loss before income tax	(27,750)	(22,805)
Tax provision (benefit)	1,298	(746)
Net loss	(29,048)	(22,059)
Net loss attributable to noncontrolling interest	(5,378)	(2,160)
Net loss attributable to Pattern Energy	$(23,670)	$(19,899)
Weighted average number of shares:		
Class A common stock - Basic and diluted	74,437,998	65,892,005
Loss per share		
Class A common stock:		
Basic and diluted loss per share	$(0.32)	$(0.30)
Dividends declared per Class A common share	$0.38	$0.34

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,	
	2016	2015
Net loss	$(29,048)	$(22,059)
Other comprehensive loss:		
Foreign currency translation, net of zero tax impact	10,862	(9,194)
Derivative activity:		
Effective portion of change in fair market value of derivatives, net of tax benefit of $2,723 and $684, respectively	(20,697)	(10,757)
Reclassifications to net loss, net of tax impact of $302 and $173, respectively	2,902	3,491
Total change in effective portion of change in fair market value of derivatives	(17,795)	(7,266)
Proportionate share of equity investee’s derivative activity:		
Effective portion of change in fair market value of derivatives, net of tax benefit of $2,673 and $866, respectively	(7,414)	(2,402)
Reclassifications to net loss, net of tax impact of $452 and $171, respectively	1,253	474
Total change in effective portion of change in fair market value of derivatives	(6,161)	(1,928)
Total other comprehensive loss, net of tax	(13,094)	(18,388)
Comprehensive loss	(42,142)	(40,447)
Less comprehensive loss attributable to noncontrolling interest:		
Net loss attributable to noncontrolling interest	(5,378)	(2,160)
Derivative activity:		
Effective portion of change in fair market value of derivatives, net of tax benefit of $343 and $205, respectively	(928)	(1,940)
Reclassifications to net loss, net of tax impact of $47 and $52, respectively	128	916
Total change in effective portion of change in fair market value of derivatives	(800)	(1,024)
Comprehensive loss attributable to noncontrolling interest	(6,178)	(3,184)
Comprehensive loss attributable to Pattern Energy	$(35,964)	$(37,263)

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 Loss	Accumulated Other Comprehensive Loss	Total	Noncontrolling Interest	Total Equity
Balances at December 31, 2014	62,088,306	$621	(25,465)	$(717)	$723,938	$(44,626)	$(45,068)	$634,148	$530,586	$1,164,734
Issuance of Class A common stock related to the public offering, net of issuance costs	7,000,000	70	—	—	196,091	—	—	196,161	—	196,161
Repurchase of shares for employee tax withholding	—	—	(10,089)	(281)	—	—	—	(281)	—	(281)
Stock-based compensation	—	—	—	—	815	—	—	815	—	815
Dividends declared	—	—	—	—	(23,624)	—	—	(23,624)	—	(23,624)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(748)	(748)
Net loss	—	—	—	—	—	(19,899)	—	(19,899)	(2,160)	(22,059)
Other comprehensive loss, net of tax	—	—	—	—	—	—	(17,364)	(17,364)	(1,024)	(18,388)
Balances at March 31, 2015	69,088,306	$691	(35,554)	$(998)	$897,220	$(64,525)	$(62,432)	$769,956	$526,654	$1,296,610
Balances at December 31, 2015	74,709,442	$747	(65,301)	$(1,577)	$982,814	$(77,159)	$(73,325)	$831,500	$944,262	$1,775,762
Issuance of Class A common stock under equity incentive award plan	287,904	3	—	—	(3)	—	—	—	—	—
Repurchase of shares for	—	—	(1,075)	(19)	—	—	—	(19)	—	(19)

employee tax withholding										
Stock-based compensation	—	—	—	—	1,195	—	—	1,195	—	1,195
Dividends declared	—	—	—	—	(28,567)	—	—	(28,567)	—	(28,567)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(3,917)	(3,917)
Other	—	—	—	—	16	—	—	16	(465)	(449)
Net loss	—	—	—	—	—	(23,670)	—	(23,670)	(5,378)	(29,048)
Other comprehensive loss, net of tax	—	—	—	—	—	—	(12,294)	(12,294)	(800)	(13,094)
Balances at March 31, 2016	74,997,346	$750	(66,376)	$(1,596)	$955,455	$(100,829)	$(85,619)	$768,161	$933,702	$1,701,863

See accompanying notes to consolidated financial statements.

6

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

	Three months ended March 31,	
	2016	2015
Operating activities		
Net loss	$(29,048)	$(22,059)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and accretion	43,411	29,056
Amortization of financing costs	1,746	1,743
Amortization of debt discount/premium, net	1,032	—
Amortization of power purchase agreements, net	753	—
Loss (gain) on derivatives, net	17,757	(531)
Stock-based compensation	1,195	815
Deferred taxes	1,143	(878)
(Earnings) losses in unconsolidated investments, net of distributions received	(3,517)	3,082
Other noncash transactions	(784)	354
Changes in operating assets and liabilities:		
Funds deposited by counterparty	(61,177)	—
Trade receivables	3,215	288
Prepaid expenses	1,360	5,089
Other current assets	1,022	118
Other assets (non-current)	(236)	(80)
Accounts payable and other accrued liabilities	(18,671)	(688)
Counterparty deposit liability	61,177	—
Related party receivable/payable	(1,292)	565
Accrued interest	(6,235)	(2,374)
Other current liabilities	166	593
Long-term liabilities	1,704	1,146
Net cash provided by operating activities	14,721	16,239
Investing activities		
Decrease in restricted cash	20,088	21,042
Increase in restricted cash	(51)	(5,055)
Capital expenditures	(24,084)	(63,956)
Distribution from unconsolidated investments	19,814	6,076
Reimbursable interconnection receivable	38	623
Other investing activities	(163)	—
Net cash provided by (used in) investing activities	15,642	(41,270)

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

	Three months ended March 31, 2016	2015
Financing activities		
Proceeds from public offering, net of issuance costs	$—	$196,923
Repurchase of shares for employee tax withholding	(19)	(281)
Dividends paid	(27,711)	(15,578)
Capital distributions - noncontrolling interest	(3,917)	(748)
Decrease in restricted cash	16,735	8,763
Increase in restricted cash	(12,405)	(12,062)
Refund of deposit for letters of credit	—	3,425
Proceeds from revolving credit facility	20,000	—
Repayment of revolving credit facility	(20,000)	(50,000)
Proceeds from construction loans	—	47,595
Repayment of long-term debt	(8,943)	(8,435)
Other financing activities	(124)	(4)
Net cash (used in) provided by financing activities	(36,384)	169,598
Effect of exchange rate changes on cash and cash equivalents	1,837	(2,893)
Net change in cash and cash equivalents	(4,184)	141,674
Cash and cash equivalents at beginning of period	94,808	101,656
Cash and cash equivalents at end of period	$90,624	$243,330
Supplemental disclosures		
Cash payments for income taxes	$97	$18
Cash payments for interest expense, net of capitalized interest	24,204	18,442
Schedule of non-cash activities		
Change in fair value of designated interest rate swaps	$(17,795)	$(7,266)
Change in property, plant and equipment	11,599	(23,061)
Amortization of deferred financing costs—included as construction in progress	—	2,515

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 located in the United States, Canada and Chile. Pattern Development owns a 23% interest in the Company. Pattern Development is a leading developer of renewable energy and transmission projects.

The Company consists of the consolidated operations of certain entities and assets contributed by, or purchased principally from, Pattern Development, 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 projects are consolidated into the Company's subsidiaries which are organized by geographic location 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), as well as the following consolidated controlling interest in Pattern Panhandle Wind LLC (Panhandle 1), Pattern Panhandle Wind 2 LLC (Panhandle 2), Post Rock Wind Power Project, LLC (Post Rock), Logan's Gap Wind LLC (Logan's Gap) and Fowler Ridge IV Wind Farm LLC (Amazon Wind Farm Fowler Ridge));
- Pattern Canada Operations Holdings ULC (which consists primarily of 100% ownership of St. Joseph Windfarm Inc. (St. Joseph) and noncontrolling interests in South Kent Wind LP (South Kent), Grand Renewable Wind LP (Grand) and K2 Wind Ontario Limited Partnership (K2), which are accounted for as equity method investments); and
- Pattern Chile Holdings LLC (which includes a controlling interest in Parque Eólico El Arrayán SpA (El Arrayán)).

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 presentation of the Company’s financial position at March 31, 2016, the results of operations and comprehensive loss for the three months ended March 31, 2016 and 2015, respectively, and the cash flows for the three months ended March 31, 2016 and 2015, respectively. The consolidated balance sheet at December 31, 2015 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, 2015.

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.

Funds Deposited by Counterparty

In January 2016, the Company received $61.2 million of cash collateral related to an energy derivative agreement, as discussed in Note 9. Derivative Instruments, as a result of the counterparty's credit rating downgrade. The Company does not have the right to pledge, invest, or use the cash collateral for general corporate purposes. The Company recorded the cash collateral as funds deposited by counterparty and a corresponding obligation to return the cash collateral to counterparty deposit liability on the consolidated balance sheet as of March 31, 2016. The cash was deposited into a separate custodial account for which the Company is not entitled to the interest earned on the cash collateral.

Recently Issued Accounting Standards

In addition to 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, 2015, the Company is evaluating or has adopted the following recently issued accounting standards.

In April 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-10, Revenue from Contracts with Customers (Topic 606) Identifying Performance Obligations and Licensing (ASU 2016-10), which clarifies two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The effective date and transition requirements for ASU 2016-10 are the same as the effective date and transition requirements in ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date. The Company is currently assessing the future impact of this update on its consolidated financial statements and related disclosures and expects to adopt this update beginning January 1, 2018.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09), which simplifies several aspects of the accounting for share-based payment award transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is currently assessing the future impact of this update on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (ASU 2016-08), which intends to improve the operability and understandability of the implementation guidance on principal versus agent considerations by amending certain existing illustrative examples and adding additional illustrative examples to assist in the application of the guidance. ASU 2016-08 is effective for annual periods beginning after December 15, 2017, including interim reporting periods therein. The Company is currently assessing the future impact of this update on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (ASU 2016-05), which clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria remain intact. ASU 2016-05 is effective for annual periods beginning after December 15, 2017, including interim reporting periods therein, with early adoption permitted. The adoption of ASU 2016-05 in the quarter ended March 31, 2016 had no impact on the Company's consolidated financial statements and related disclosures.

In September 2015, the FASB issued ASU 2015-16, Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments (ASU 2015-16), which requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments under ASU 2015-16 require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. ASU 2015-16 also requires an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods, if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those fiscal years. The amendments in this update should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The adoption of ASU 2015-16 in the quarter ended March 31, 2016 did not have a material impact on the Company’s consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis (ASU 2015-02), which modifies the analysis that companies must perform in order to determine whether a legal entity should be consolidated. ASU 2015-02 simplifies current guidance by reducing the number of consolidation models; eliminating the risk that a reporting entity may have to consolidate based on a fee arrangement with another legal entity; placing more weight on the risk of loss in order to identify the party that has a controlling financial interest; reducing the number of instances that related party guidance needs to be applied when determining the party that has a controlling financial interest; and changing rules for companies in certain industries that ordinarily employ limited partnership or variable interest entity (VIE) structures. ASU 2015-02 is effective for public companies for fiscal years beginning after December 15, 2015 and interim periods within those fiscal periods. The adoption of ASU 2015-02 in the quarter ended March 31, 2016 resulted in certain entities formerly consolidated under the voting interest consolidation model to be consolidated in accordance with the variable interest model as further described in Note 4, Variable Interest Entities. The adoption of ASU 2015-02 did not result in the deconsolidation of any previously consolidated entity or the consolidation of any previously unconsolidated entity and had no impact on the Company's results of operations, and cash flows.

In June 2014, the FASB issued ASU 2014-12, Compensation – Stock Compensation (ASU 2014-12), 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 adoption of ASU 2014-12 in the quarter ended March 31, 2016 had no impact on the Company's consolidated financial statements and related disclosures.

3. Property, Plant and Equipment

The table below presents the categories within property, plant and equipment as follows (in thousands):

	March 31, 2016	December 31, 2015
Operating wind farms	$3,715,959	$3,700,140
Furniture, fixtures and equipment	4,055	3,500
Land	141	141
Subtotal	3,720,155	3,703,781
Less: accumulated depreciation	(455,523)	(409,161)
Property, plant and equipment, net	$3,264,632	$3,294,620

The Company recorded depreciation expense related to property, plant and equipment of $42.7 million and $29.2 million for the three months ended March 31, 2016 and 2015, respectively.

4. Variable Interest Entities

As of January 1, 2016, certain operating entities that were formerly consolidated under the voting interest consolidation model are now consolidated in accordance with the VIE consolidation model as a result of the adoption of ASU 2015-02 as further discussed in Note 2, Summary of Significant Accounting Policies.

The operating entities determined to be VIEs by the Company are Logan's Gap, Panhandle 1, Panhandle 2, Post Rock and Amazon Wind Farm Fowler Ridge primarily because the tax equity interests lack substantive kick-out and participating rights. The Company determined that as the managing member it is the primary beneficiary of each VIE by reference to the power and benefits criterion under Accounting Standards Codification (ASC) 810, Consolidation. 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 following presents the carrying amounts of the consolidated VIEs' assets and liabilities included in the consolidated balance sheet (in thousands). Assets presented below are restricted for settlement of the consolidated VIEs' obligations and all liabilities presented below can only be settled using the VIE resources.

	March 31, 2016
Assets	
Current assets:	
Cash and cash equivalents	$8,316
Restricted cash	4,283
Trade receivables	9,118
Prepaid expenses	3,995
Other current assets	706
Total current assets	26,418
Restricted cash	6,385
Property, plant and equipment, net	1,473,993
Finite-lived intangible assets, net	2,199
Other assets	18,351
Total assets	$1,527,346
Liabilities	
Current liabilities:	
Accounts payable and other accrued liabilities	$5,920
Accrued construction costs	4,431
Other current liabilities	1,679
Total current liabilities	12,030
Other long-term liabilities	14,533
Total liabilities	$26,563

5. Unconsolidated Investments

The following projects are accounted for under the equity method of accounting and are presented in the Company's consolidated balance sheets for the periods below (in thousands):

			Percentage of Ownership	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
South Kent [1]	$ —	$ 6,185	50.0 %	50.0 %
Grand	2,376	5,735	45.0 %	45.0 %
K2	97,620	104,553	33.3 %	33.3 %
Unconsolidated investments	$ 99,996	$ 116,473		

[1]As of March 31, 2016, the equity method investment balance in South Kent was $0 due to cumulative equity method losses and cash distributions received in excess of carrying value. As a result, in accordance with ASC 323, Investments - Equity Method and Joint Ventures, the Company has suspended recognition of South Kent's equity method earnings or losses until such time as South Kent's subsequent cumulative equity method earnings exceed subsequent cumulative equity method losses and distributions received during the suspension period. During the periods when South Kent's equity method earnings or losses are suspended, the Company will record cash distributions received as gains in earnings (losses) in unconsolidated investments, net on the Company's consolidated statements of operations. For the three months ended March 31, 2016, equity method distributions in excess of the unconsolidated investment for South Kent were approximately $1.7 million.

The following table summarizes the aggregated operating results of the unconsolidated investments for the three months ended March 31, 2016 and 2015, respectively (in thousands):

	Three months ended March 31,	
	2016	2015
Revenue	$72,416	$44,631
Cost of revenue	19,727	12,315
Operating expenses	3,145	2,406
Other expense	38,090	35,291
Net income (loss)	$11,454	$(5,381)

6. Accounts Payable and Other Accrued Liabilities

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

	March 31, 2016	December 31, 2015
Accounts payable	$ 852	$ 625
Other accrued liabilities	7,238	9,583
Operating wind farm upgrade liability	835	4,909
Turbine operations and maintenance payable	732	985
Purchase agreement obligations	1,725	5,749
Land lease rent payable	1,256	2,513
Spare-parts inventory payables	668	1,181
Payroll liabilities	2,488	5,345
Property tax payable	2,939	11,145
Sales tax payable	1,014	741
Accounts payable and other accrued liabilities	$ 19,747	$ 42,776

7. Revolving Credit Facility

As of March 31, 2016, $113.3 million was available for borrowing under the $500 million Revolving Credit Facility. The Revolving Credit Facility is secured by pledges of the capital stock and ownership 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 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 March 31, 2016, the Company's holding company subsidiaries are in compliance with covenants contained in the Revolving Credit Facility.

As of March 31, 2016 and December 31, 2015, outstanding loan balances under the Revolving Credit Facility were $355.0 million and $355.0 million, respectively. In addition, as of March 31, 2016 and December 31, 2015, letters of credit of $31.7 million and $27.2 million, respectively, were issued under the Revolving Credit Facility.

8. Long-term Debt

The Company's long-term debt for the following periods is presented below (in thousands):

	March 31, 2016	December 31, 2015	As of March 31, 2016 Contractual Interest Rate	Effective Interest Rate	Maturity
Project-level					
Fixed interest rate					
El Arrayán EKF term loan	$105,262	$107,160	5.56%	5.56 %	March 2029
Santa Isabel term loan	109,130	109,973	4.57%	4.57 %	September 2033
Variable interest rate					
Ocotillo commercial term loan (1)	208,119	208,119	2.38%	3.77 % (2)	August 2020
Lost Creek term loan	107,324	110,846	2.57%	6.49 % (2)	September 2027
El Arrayán commercial term loan	95,692	97,418	3.18%	5.66 % (2)	March 2029
Spring Valley term loan	131,812	132,670	2.39%	4.89 % (2)	June 2030
Ocotillo development term loan	104,500	104,500	2.73%	4.37 % (2)	August 2033
St. Joseph term loan (1)	168,219	158,181	2.53%	3.84 %	November 2033
Imputed interest rate					
Hatchet Ridge financing lease obligation	214,580	214,580	1.43%	1.43 %	December 2032
	1,244,638	1,243,447			
Unamortized premium, net (3)	1,328	1,380			
Unamortized financing costs	(25,582)	(26,303)			
Current portion (4)	(45,551)	(44,144)			
Long-term debt, less current portion	$1,174,833	$1,174,380			

(1) The amortization for the Ocotillo commercial term loan and the St. Joseph term loan are through June 2030 and September 2036, respectively, which differs from the stated maturity date of such loans due to prepayment requirements.

(2) Includes impact of interest rate derivatives. Refer to Note 9, Derivative Instruments, for discussion of interest rate derivatives.

(3) Amount is related to the Lost Creek term loan.

(4) Amount is presented net of the current portion of unamortized financing costs of $3.7 million and $3.7 million as of March 31, 2016 and December 31, 2015, respectively.

Interest and commitment fees incurred and interest expense for long-term debt, the revolving credit facility and Convertible Senior Notes consisted of the following (in thousands):

	Three months ended March 31,	
	2016	2015
Interest and commitment fees incurred	$17,114	$16,487
Capitalized interest, commitment fees, and letter of credit fees	—	(1,318)
Letter of credit fees incurred	1,169	1,006
Amortization of debt discount/premium, net	1,032	—
Amortization of financing costs	1,746	1,743
Interest expense	$21,061	$17,918

Convertible Senior Notes due 2020

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):

	March 31, 2016	December 31, 2015
Principal	$225,000	$ 225,000
Less:		
Unamortized debt discount	(21,540)	(22,624)
Unamortized financing costs	(4,727)	(5,014)
Carrying value of convertible senior notes	$198,733	$ 197,362
Carrying value of the equity component [(1)]	$23,743	$ 23,743

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

During the three months ended March 31, 2016, in relation to the 2020 Notes, the Company recorded $2.2 million, $0.3 million and $1.1 million related to the contractual coupon interest, amortization of financing costs and amortization of debt discount, respectively, in interest expense in its consolidated statements of operations.

9. Derivative Instruments

The Company employs a variety of derivative instruments to manage its exposure to fluctuations in electricity prices, interest rates and foreign currency exchange rates. Energy prices are subject to wide swings as supply and demand are impacted by, among many other unpredictable items, weather, market liquidity, generating facility availability, customer usage, storage, and transmission and transportation constraints. Interest rate risk exists primarily on variable-rate debt for which the cash flows vary based upon movement in market prices. Additionally, the Company is exposed to foreign currency exchange rate risk primarily from its business operations in Canada and Chile. The Company's objectives for holding these derivative instruments include reducing, eliminating and efficiently managing the economic impact of these exposures as effectively as possible. The Company does not hedge all of its electricity price risk, interest rate risks, and foreign currency exchange rate risks, thereby exposing the unhedged portions to changes in market prices.

As of March 31, 2016, the Company had other energy-related contracts that did not meet the definition of a derivative instrument or qualified for the normal purchase normal sale scope exception and were therefore exempt from fair value accounting treatment.

The following tables present the fair values of the Company's derivative instruments on a gross basis as reflected on the Company's consolidated balance sheets (in thousands):

	March 31, 2016			
	Derivative Assets		Derivative Liabilities	
	Current	Long-Term	Current	Long-Term
Fair Value of Designated Derivatives:				
Interest rate swaps	$—	$ —	$11,416	$ 43,285
Fair Value of Undesignated Derivatives:				
Interest rate swaps	$—	$ —	$4,642	$ 12,290
Energy derivative	20,993	37,865	—	—
Foreign currency forward contracts	1,035	—	306	579
Total Fair Value	$22,028	$ 37,865	$16,364	$ 56,154

	December 31, 2015			
	Derivative Assets		Derivative Liabilities	
	Current	Long-Term	Current	Long-Term
Fair Value of Designated Derivatives:				
Interest rate swaps	$—	$ —	$10,034	$ 24,360
Fair Value of Undesignated Derivatives:				
Interest rate swaps	$—	$ 559	$4,309	$ 4,299
Energy derivative	20,856	42,827	—	—
Foreign currency forward contracts	3,482	628	—	—
Total Fair Value	$24,338	$ 44,014	$14,343	$ 28,659

The following table summarizes the notional amounts of the Company's outstanding derivative instruments (in thousands except for MWh):

	Unit of Measure	March 31, 2016	December 31, 2015
Designated Derivative Instruments			
Interest rate swaps	USD	$375,003	$ 379,808
Interest rate swaps	CAD	$196,875	$ 196,988
Undesignated Derivative Instruments			
Interest rate swaps	USD	$273,400	$ 275,424
Energy derivative	MWh	1,565,280	1,707,350
Foreign currency forward contracts	CAD	$58,800	$ 62,300

Derivatives Designated as Hedging Instruments

Cash Flow Hedges

The Company has interest rate swap agreements to hedge variable rate project-level debt. Under these interest rate swaps, the projects make fixed-rate interest payments and the counterparties to the agreements make variable-rate interest payments. For interest swaps that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive loss and reclassified into earnings in the period or periods during

which a cash settlement occurs. The designated interest rate swaps have remaining maturities ranging from approximately 11.5 years to 20.5 years.

The following table presents gains and losses on derivative contracts designated and qualifying as cash flow hedges recognized in accumulated other comprehensive loss, as well as amounts reclassified to earnings for the following periods (in thousands):

	Description	Three months ended March 31, 2016	2015
Gains (losses) recognized in accumulated OCI	Effective portion of change in fair value	$(20,697)	$(10,757)
Gains (losses) reclassified from accumulated OCI into:			
Interest expense	Derivative settlements	$(2,902)	$(3,491)
Gains (losses) recognized in interest expense	Ineffective portion	$(89)	$—

The Company estimates that $11.4 million in accumulated other comprehensive loss will be reclassified into earnings over the next twelve months.

Derivatives Not Designated as Hedging Instruments

The following table presents gains and losses on derivatives not designated as hedges (in thousands):

Derivative Type	Financial Statement Line Item	Description	Three months ended March 31, 2016	2015
Interest rate derivatives	(Loss) gain on undesignated derivatives, net	Change in fair value, net of settlements	$(8,881)	$(3,072)
Interest rate derivatives	(Loss) gain on undesignated derivatives, net	Derivative settlements	$(1,326)	$(959)
Energy derivative	Electricity sales	Change in fair value, net of settlements	$(4,825)	$2,972
Energy derivative	Electricity sales	Derivative settlements	$6,733	$6,169
Foreign currency forward contracts	(Loss) gain on undesignated derivatives, net	Change in fair value, net of settlements	$(3,961)	$631
Foreign currency forward contracts	(Loss) gain on undesignated derivatives, net	Derivative settlements	$537	$—

Interest Rate Swaps

The Company has interest rate swap agreements to hedge variable rate project-level debt. Under these interest rate swaps, the projects make fixed-rate interest payments and the counterparties to the agreements make variable-rate interest payments. For interest rate swaps that are not designated and do not qualify as cash flow hedges, the changes in fair value are recorded in (loss) gain on undesignated derivatives, net in the consolidated statements of operations as these hedges are not accounted for under hedge accounting. The undesignated interest rate swaps have remaining maturities ranging from approximately 5.0 years to 14.3 years.

Energy Derivative

In 2010, Gulf Wind acquired an energy derivative instrument to manage its exposure to variable electricity prices over the life of the arrangement. The energy price swap fixes the price for a predetermined volume of production (the notional volume) over the life of the swap contract, through April 2019, by locking in a fixed price per MWh. The notional volume agreed to by the parties is approximately 504,220 MWh per year. The energy derivative instrument does not meet the criteria required to adopt hedge accounting. As a result, changes in fair value are recorded in electricity sales in the consolidated statements of operations.

In January 2016, the Company received $61.2 million of cash collateral related to the energy derivative, as a result of the counterparty's credit rating downgrade. The Company does not have the right to pledge, invest, or use the cash collateral for general corporate purposes. The Company recorded the cash collateral as funds deposited by counterparty and a corresponding obligation to return the cash collateral to counterparty deposit liability on the consolidated balance sheet as of March 31, 2016. The cash was deposited into a separate custodial account for which the Company is not entitled to the interest earned on the cash collateral.

Foreign Currency Forward Contracts

The Company has established a currency risk management program. The objective of the program is to mitigate the foreign exchange rate risk arising from transactions or cash flows that have a direct or underlying exposure in non-U.S. dollar denominated currencies in order to reduce volatility in the Company's cash flow, which may have an adverse impact to our short-term liquidity or financial condition. A majority of the Company's power sale agreements and operating expenditures are transacted in U.S. dollars, with a growing portion transacted in currencies other than the U.S. dollar, primarily the Canadian dollar. The Company enters into foreign currency forward contracts at various times to mitigate the currency exchange rate risk on Canadian dollar denominated cash flows. These instruments have remaining maturities ranging from one to eighteen months. The foreign currency forward contracts are considered non-designated derivative instruments and are not used for trading or speculative purposes. As a result, changes in fair value and settlements are recorded in loss on undesignated derivatives, net in the consolidated statements of operations.

10. Accumulated Other Comprehensive Loss

The following tables summarize the changes in the accumulated other comprehensive loss balance, net of tax, by component as follows (in thousands):

	Foreign Currency	Effective Portion of Change in Fair Value of Derivatives	Proportionate Share of Equity Investee's OCI	Total
Balances at December 31, 2014	$(19,338)	$(26,672)	$(7,903)	$(53,913)
Other comprehensive loss before reclassifications	(9,194)	(10,757)	(2,402)	(22,353)
Amounts reclassified from accumulated other comprehensive loss	—	3,491	474	3,965
Net current period other comprehensive loss	(9,194)	(7,266)	(1,928)	(18,388)
Balances at March 31, 2015	$(28,532)	$(33,938)	$(9,831)	$(72,301)
Less: accumulated other comprehensive loss attributable to noncontrolling interest, March 31, 2015	—	(9,869)	—	(9,869)
Accumulated other comprehensive loss attributable to Pattern Energy, March 31, 2015	$(28,532)	$(24,069)	$(9,831)	$(62,432)

	Foreign Currency	Effective Portion of Change in Fair Value of Derivatives	Proportionate Share of Equity Investee's OCI	Total
Balances at December 31, 2015	$(48,285)	$(13,462)	$(12,131)	$(73,878)
Other comprehensive income (loss) before reclassifications	10,862	(20,697)	(7,414)	(17,249)
Amounts reclassified from accumulated other comprehensive loss	—	2,902	1,253	4,155
Net current period other comprehensive income (loss)	10,862	(17,795)	(6,161)	(13,094)
Balances at March 31, 2016	$(37,423)	$(31,257)	$(18,292)	$(86,972)
Less: accumulated other comprehensive loss attributable to noncontrolling interest, March 31, 2016	—	(1,353)	—	(1,353)
Accumulated other comprehensive loss attributable to Pattern Energy, March 31, 2016	$(37,423)	$(29,904)	$(18,292)	$(85,619)

Amounts reclassified from accumulated other comprehensive loss into net loss for the effective portion of change in fair value of derivatives is recorded to interest expense in the consolidated statements of operations. Amounts reclassified from accumulated other comprehensive loss into net loss for the Company's proportionate share of equity investee's other comprehensive loss is recorded to earnings (losses) in unconsolidated investments, net in the consolidated statements of operations.

11. Fair Value Measurements

The Company’s fair value measurements incorporate various factors, including the credit standing and performance risk of the counterparties, the applicable exit market, and specific risks inherent in the instrument. Nonperformance and credit risk adjustments on risk management instruments are based on current market inputs when available, such as credit default hedge spreads. When such information is not available, internal models may be used.

Assets and liabilities recorded at fair value in the consolidated financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels directly related to the amount of subjectivity associated with the inputs to valuation of these assets or liabilities are set forth below. Transfers between levels are recognized at the end of each quarter. The Company did not recognize any transfers between levels during the periods presented.

Level 1—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2—Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and which reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuations technique and the risk inherent in the inputs to the model.

Short-term Financial Instruments

Short-term financial instruments consist principally of cash and cash equivalents, restricted cash, funds deposited by counterparty, trade receivables, current portion of prepaid expenses, related party receivable/payable, reimbursable interconnection costs, accounts payable and other accrued liabilities, accrued construction costs, counterparty deposit liability, accrued interest, dividends payable and the revolving credit facility. Based on the nature and short maturity of these instruments, their carrying cost approximates their fair value, and they are presented in the Company's financial statements at carrying cost. The fair values of cash and cash equivalents and restricted cash are classified as Level 1 in the fair value hierarchy.

Financial Instruments Measured at Fair Value on a Recurring Basis

The Company's financial assets and liabilities which require fair value measurement on a recurring basis are classified within the fair value hierarchy as follows (in thousands):

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Energy derivative	—	—	58,858	58,858
Foreign currency forward contracts	—	1,035	—	1,035
	$—	$1,035	$58,858	$59,893
Liabilities				
Interest rate swaps	$—	$71,633	$—	$71,633
Foreign currency forward contracts	—	885	—	885
	$—	$72,518	$—	$72,518

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Interest rate swaps	$—	$559	$—	$559
Energy derivative	—	—	63,683	63,683
Foreign currency forward contracts	—	4,110	—	4,110
	$—	$4,669	$63,683	$68,352
Liabilities				
Interest rate swaps	$—	$43,002	$—	$43,002
	$—	$43,002	$—	$43,002

Level 2 Inputs

Derivative instruments subject to re-measurement are presented in the financial statements at fair value. The Company's interest rate swaps were valued by discounting the net cash flows using the forward LIBOR curve with the valuations adjusted by the Company’s credit default hedge rate. The Company’s foreign currency forward contracts were valued using the income approach based on the present value of the forward rates less the contract rates, multiplied by the notional amounts.

Level 3 Inputs

The fair value of the energy derivative instrument is determined based on a third-party valuation model. The methodology and inputs are evaluated by management for consistency and reasonableness by comparing inputs used by the third-party valuation provider to another third-party pricing service for identical or similar instruments and also agreeing inputs used in the third-party valuation model to the derivative contract for accuracy. Any significant changes are further evaluated for reasonableness by obtaining additional documentation from the third-party valuation provider.

The energy derivative instrument is valued by discounting the projected net cash flows over the remaining life of the derivative instrument using forward electricity prices which are derived from observable prices, such as forward gas curves, adjusted by a non-observable heat rate for when the contract term extends beyond a period for which market data is available. The significant unobservable input in calculating the fair value of the energy derivative instrument is forward electricity prices. Significant increases or decreases in this unobservable input would result in a significantly lower or higher fair value measurement.

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements were as follows (in thousands, for fair value):

March 31, 2016	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Energy derivative	$58,858	Discounted cash flow	Forward electricity prices	$10.44 - $67.99(1)
			Discount rate	0.63% - 0.97%

December 31, 2015	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Energy derivative	$63,683	Discounted cash flow	Forward electricity prices	$12.48 - $74.94(1)
			Discount rate	0.61% - 1.46%

(1) Represents price per MWh

The following table presents a reconciliation of the energy derivative contract measured at fair value on a recurring basis using significant unobservable inputs (in thousands):