Pattern Energy | Letter from the CEO

To Our Shareholders

With legislators in Washington, D.C. having passed the tax bill, I wanted to take a moment to outline its impact on Pattern Energy and on renewables in general.

We now know the final form of the bill and believe it provides the opportunity for continued expansion of the renewable power sector.

Utility-scale wind and solar power generation are now recognized as the lowest cost forms of new power generation in the United States[1]. We do not see that changing as a result of the tax bill. There are three primary categories of how the tax bill could affect our business and renewables in general:

1. Corporate taxes;
2. Tax credits for renewables, and
3. Tax equity investor market

Pattern Energy corporate taxes

As an owner and operator of renewable energy assets, the introduction of a lower corporate tax rate would generally benefit our business. While we do not expect to pay tax at the corporate level for a number of years, lower taxes – when we do pay taxes – increases the value of our operating portfolio. While certain components of the tax reform legislation can impact our tax liability, specifically the elimination of interest deductibility which we believe can be significantly mitigated through appropriate tax planning, the overall impact of the bill is a net benefit to our operating business.

Tax credits for renewables

The Production Tax Credit (PTC) and Investment Tax Credit (ITC), the key policy initiatives through which the federal government supports renewables, remain in place and unchanged. In 2015, the wind industry and legislators agreed to extend and incrementally phase down the PTC through 2019 and then let it expire. This agreement provided an unprecedented level of certainty to stakeholders, including turbine manufacturers, developers and operators, for investments that enable further technology efficiencies and new project development. With no changes to the PTC, the integrity of the investment decisions made by the industry remain intact.

In addition, the existing IRS guidance for start of construction projects also remains intact. This is a positive outcome as the availability of PTCs and ITCs for the renewable energy industry will continue unchanged.

Tax equity investor market

The primary form of project finance for utility-scale wind assets in the U.S. is tax equity, and we believe the introduction of the Base Erosion Anti-Abuse Tax (BEAT) provisions that are in the bill will impact the tax equity market. The implementation of the BEAT will likely narrow the pool of tax equity investors for renewables and potentially delay some projects for the next couple of months as tax equity investors analyze the impact of the BEAT on their expected current and future tax position. However, the legislators demonstrated a willingness to be flexible by accepting proposals from the financial services industry. These proposals are believed to allow continued participation in the tax equity market by some of the largest and most active domestic participants.

[1] Morgan Stanley and Lazard reports

As one of the most experienced participants in the tax equity market and with a development pipeline of scale, we believe Pattern Development is well positioned to continue to attract high-quality tax equity investors to its projects. While we will not know the full impact of the BEAT on the tax equity market until tax investors are able to evaluate the effect of the final tax bill, we are optimistic that it will remain the primary method of project finance for our U.S. development pipeline. There is also some likelihood that the tax bill could stimulate interest by new tax equity investors.

As with any piece of broad reaching legislation, nuances will surface over time. In recognition of that, the full implementation of the BEAT provisions will not take place until 2019. This timing provides our industry an opportunity to continue to work with legislators in a positive manner to eliminate any unintended consequences.

Our collective team, Pattern Energy and Pattern Development, has a track record of successful execution through multiple market cycles. Even in calm waters, the development, finance and operation of renewable energy assets can be competitive. Our team has shown an ability to successfully bring projects to market in both good markets, as well as in the face of challenging and disruptive markets. The implementation of the tax reform package is likely to cause some disruption, and we believe that creates opportunity for us. We believe the net outcome of the tax reform legislation will be beneficial to our business. We have secure access to a 10+ gigawatt pipeline of wind and solar assets. The changes we have made to our business in the past twelve months have improved alignment and set the stage for our next phase of growth. As legislators vote this week on the tax reform legislation, Pattern Energy is well positioned to continue its record of innovation as we transition the world to renewable energy.

Overall, the renewables industry and leading companies like Pattern Energy will continue to grow.

Sincerely,

Mike Garland
President & Chief Executive Officer
Pattern Energy Group Inc.