ATLANTIC POWER CORP
Form 10-Q
May 05, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10 Q

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
For the transition period from to

COMMISSION FILE NUMBER 001 34691

ATLANTIC POWER CORPORATION

(Exact name of registrant as specified in its charter)

British Columbia, Canada	55 0886410
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3 Allied Drive, Suite 220	
Dedham, MA	02026
(Address of principal executive offices)	(Zip code)

(617) 977 2400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically 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 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. (Check one):

Large accelerated filer	Accelerated filer	Non accelerated filer (Do not check if a smaller reporting company)	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

The number of shares outstanding of the registrant’s Common Stock as of May 2, 2016 was 122,083,528.

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THREE MONTHS ENDED MARCH 31, 2016

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GENERAL

In this Quarterly Report on Form 10 Q, references to “Cdn$” and “Canadian dollars” are to the lawful currency of Canada and references to “$” and “US$” and “U.S. dollars” are to the lawful currency of the United States. All dollar amounts herein are in U.S. dollars, unless otherwise indicated.

Unless otherwise stated, or the context otherwise requires, references in this Quarterly Report on Form 10 Q to “we,” “us,” “our,” “Atlantic Power” and the “Company” refer to Atlantic Power Corporation, those entities owned or controlled by Atlantic Power Corporation and predecessors of Atlantic Power Corporation.

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ATLANTIC POWER CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions of U.S. dollars)

	March 31, 2016 (unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 64.3	$ 72.4
Restricted cash	10.0	15.2
Accounts receivable	40.0	39.6
Current portion of derivative instruments asset (Note 7 and 8)	0.2	—
Inventory	14.1	16.9
Prepayments	8.7	8.3
Income taxes receivable	3.2	3.5
Other current assets	2.6	4.4
Total current assets	143.1	160.3
Property, plant, and equipment, net of accumulated depreciation of $255.6 million and $236.3 at March 31, 2016 and December 31, 2015, respectively	777.8	777.7
Equity investments in unconsolidated affiliates (Note 4)	292.6	286.2
Power purchase agreements and intangible assets, net of accumulated amortization of $257.2 million and $238.0 million at March 31, 2016 and December 31, 2015, respectively	299.9	308.9
Goodwill	134.5	134.5
Derivative instruments asset (Notes 7 and 8)	0.4	0.3
Other assets	11.7	6.7
Total assets	$ 1,660.0	$ 1,674.6
Liabilities		
Current liabilities:		
Accounts payable	$ 4.1	$ 6.9
Accrued interest	6.8	1.6
Other accrued liabilities	25.3	28.8
Current portion of long-term debt (Note 5)	15.7	15.8
Current portion of derivative instruments liability (Note 7 and 8)	35.5	36.7
Other current liabilities	1.7	2.5
Total current liabilities	89.1	92.3
Long-term debt, net of unamortized deferred financing costs (Note 5)	666.9	682.7
Convertible debentures, net of unamortized deferred financing costs (Note 5 and 6)	271.4	277.7
Derivative instruments liability (Note 7 and 8)	26.5	20.8
Deferred income taxes (Note 9)	85.5	85.7

Power purchase and fuel supply agreement liabilities, net of accumulated amortization of $14.9 million and $14.0 million at March 31, 2016 and December 31, 2015, respectively	27.4	27.0
Other long-term liabilities	55.0	53.2
Total liabilities	1,221.8	1,239.4
Equity		
Common shares, no par value, unlimited authorized shares; 122,083,528 and 122,153,082 issued and outstanding at March 31, 2016 and December 31, 2015	1,290.2	1,290.6
Accumulated other comprehensive loss (Note 2)	(121.2)	(139.3)
Retained deficit (Note 12)	(952.1)	(937.4)
Total Atlantic Power Corporation shareholders' equity	216.9	213.9
Preferred shares issued by a subsidiary company (Note 12)	221.3	221.3
Total equity	438.2	435.2
Total liabilities and equity	$ 1,660.0	$ 1,674.6

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions of U.S. dollars, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2016	2015
Project revenue:		
Energy sales	$ 52.5	$ 54.0
Energy capacity revenue	31.9	33.5
Other	22.0	23.8
	106.4	111.3
Project expenses:		
Fuel	38.9	46.2
Operations and maintenance	21.2	21.5
Development	—	1.1
Depreciation and amortization	24.8	28.0
	84.9	96.8
Project other income:		
Change in fair value of derivative instruments (Notes 7 and 8)	(1.2)	(1.7)
Equity in earnings of unconsolidated affiliates (Note 4)	10.7	10.8
Interest expense, net	(2.1)	(2.1)
Other income, net	(0.2)	—
	7.2	7.0
Project income	28.7	21.5
Administrative and other expenses (income):		
Administration	6.1	9.4
Interest, net	16.6	25.7
Foreign exchange loss (gain) (Note 8)	19.8	(32.2)
Other income, net (Note 6)	(2.5)	(1.4)
	40.0	1.5
(Loss) income from continuing operations before income taxes	(11.3)	20.0
Income tax expense (benefit) (Note 9)	1.6	(4.6)
Loss (income) from continuing operations	(12.9)	24.6
Net loss from discontinued operations, net of tax (Note 13)	—	(12.3)
Net (loss) income	(12.9)	12.3

Net loss attributable to noncontrolling interests	—	(7.5)
Net income attributable to preferred shares dividends of a subsidiary company	2.0	2.3
Net (loss) income attributable to Atlantic Power Corporation	$ (14.9)	$ 17.5
Basic and diluted (loss) income per share: (Note 11)		
(Loss) income from continuing operations attributable to Atlantic Power Corporation	$ (0.12)	$ 0.17
Loss from discontinued operations, net of tax	—	(0.03)
Net (loss) income attributable to Atlantic Power Corporation	$ (0.12)	$ 0.14
Weighted average number of common shares outstanding: (Note 11)		
Basic	121.9	121.5
Diluted	121.9	122.4
Dividends per common share:	$ 0.0	$ 0.02

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in millions of U.S. dollars)

(Unaudited)

	Three Months Ended March 31,			
	2016		2015	
Net (loss) income	$	(12.9)	$	12.3
Other comprehensive (loss) income, net of tax:				
Unrealized loss on hedging activities	$	(0.5)	$	(0.5)
Net amount reclassified to earnings		0.2		0.2
Net unrealized loss on derivatives		(0.3)		(0.3)
Foreign currency translation adjustments		18.5		(35.1)
Other comprehensive income (loss), net of tax		18.2		(35.4)
Comprehensive income (loss)		5.3		(23.1)
Less: Comprehensive income (loss) attributable to noncontrolling interests		2.0		(5.2)
Comprehensive income (loss) attributable to Atlantic Power Corporation	$	3.3	$	(17.9)

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of U.S. dollars)

(Unaudited)

	Three months ended March 31, 2016	2015
Cash provided by operating activities:		
Net (loss) income	$ (12.9)	$ 12.3
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	24.8	38.1
Gain on purchase and cancellation of convertible debentures	(2.5)	(1.4)
Loss on disposal of fixed assets	0.2	—
Stock-based compensation expense	0.6	0.4
Equity in earnings from unconsolidated affiliates	(10.7)	(9.9)
Distributions from unconsolidated affiliates	4.3	7.2
Unrealized foreign exchange loss (gain)	20.1	(32.8)
Change in fair value of derivative instruments	1.2	9.0
Change in deferred income taxes	0.1	(3.9)
Change in other operating balances		
Accounts receivable	(0.5)	6.0
Inventory	2.8	3.6
Prepayments, refundable income taxes and other assets	(10.4)	4.3
Accounts payable	1.4	(5.5)
Accruals and other liabilities	10.9	7.7
Cash provided by operating activities:	29.4	35.1
Cash provided by investing activities:		
Change in restricted cash	5.2	9.7
Capitalized development costs	—	(0.8)
Reimbursement of costs for third-party construction project	4.7	—
Purchase of property, plant and equipment	(0.7)	(1.3)
Cash provided by investing activities	9.2	7.6
Cash used in financing activities:		
Common share repurchases	(0.9)	—
Repayment of corporate and project-level debt	(27.5)	(32.8)

Repayment of convertible debentures	(16.3)	(5.7)
Dividends paid to common shareholders	—	(2.9)
Dividends paid to noncontrolling interests	—	(2.7)
Dividends paid to preferred shareholders	(2.0)	(2.3)
Cash used in financing activities	(46.7)	(46.4)
Net decrease in cash and cash equivalents	(8.1)	(3.7)
Less cash at discontinued operations	—	(6.2)
Cash and cash equivalents at beginning of period at discontinued operations	—	3.9
Cash and cash equivalents at beginning of period	72.4	106.1
Cash and cash equivalents at end of period	$ 64.3	$ 100.1
Supplemental cash flow information		
Interest paid	$ 8.9	$ 11.7
Income taxes paid, net	$ 0.9	$ 0.4
Accruals for construction in progress	$ 1.0	$ —

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions U.S. dollars, except per share amounts)

(Unaudited)

1. Nature of business

General

Atlantic Power owns and operates a diverse fleet of power generation assets in the United States and Canada. Our power generation projects sell electricity to utilities and other large commercial customers largely under long term power purchase agreements ("PPAs"), which seek to minimize exposure to changes in commodity prices. As of March 31, 2016, our power generation projects in operation had an aggregate gross electric generation capacity of approximately 2,138 megawatts ("MW") in which our aggregate ownership interest is approximately 1,500 MW. Our current portfolio consists of interests in twenty-three operational power generation projects across eleven states in the United States and two provinces in Canada. Eighteen of our projects are majority owned subsidiaries.

Atlantic Power is a corporation established under the laws of the Province of Ontario on June 18, 2004 and continued to the Province of British Columbia on July 8, 2005. Our shares trade on the Toronto Stock Exchange under the symbol "ATP" and on the New York Stock Exchange under the symbol "AT." Our registered office is located at 215-10451 Shellbridge Way, Richmond, British Columbia V6X 2W8 Canada and our headquarters is located at 3 Allied Drive, Suite 220, Dedham, Massachusetts 02026, USA. Our telephone number in Dedham is (617) 977 2400 and the address of our website is www.atlanticpower.com. Information contained on Atlantic Power's website or that can be accessed through its website is not incorporated into and does not constitute a part of this Quarterly Report on Form 10 Q. We have included our website address only as an inactive textual reference and do not intend it to be an active link to our website. We make available on our website, free of charge, our Annual Report on Form 10 K, Quarterly Reports on Form 10 Q, Current Reports on Form 8 K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Additionally, we make available on our website our Canadian securities filings, which are not incorporated by reference into our Exchange Act filings.

Basis of presentation

The interim consolidated financial statements included in this Quarterly Report on Form 10 Q have been prepared in accordance with the SEC regulations for interim financial information and with the instructions to Form 10 Q. The following notes should be read in conjunction with the accounting policies and other disclosures as set forth in the notes to our financial statements in our Annual Report on Form 10 K for the year ended December 31, 2015. Interim results are not necessarily indicative of results for the full year.

In our opinion, the accompanying unaudited interim consolidated financial statements present fairly our consolidated financial position as of March 31, 2016, the results of operations and comprehensive income (loss) for the three months ended March 31, 2016 and 2015, and our cash flows for the three months ended March 31, 2016 and 2015 in accordance with U.S generally accepted accounting policies. In the opinion of management, all adjustments (consisting of normal recurring accruals and other adjustments) considered necessary for a fair presentation have been included.

Use of estimates

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. During the periods presented, we have made a number of estimates and valuation assumptions, including the fair values of acquired assets, the useful lives and recoverability of property, plant and equipment, valuation of goodwill, intangible assets and liabilities related to PPAs and fuel supply agreements, the recoverability of equity investments, the recoverability of deferred tax assets, tax provisions, the fair value of financial instruments and derivatives, pension obligations, asset retirement obligations and equity based compensation. In addition, estimates are used to test long lived assets and goodwill for impairment and to determine the fair value of impaired assets. These estimates and valuation assumptions are based on present conditions and our planned course of action, as well as assumptions about future business and economic conditions. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our Annual Report on Form 10 K for the year ended December 31, 2015. As better information becomes available or actual amounts are determinable, the recorded estimates are revised. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

Recently issued accounting standards

Adopted

In January 2015, the Financial Accounting Standards Board ("FASB") issued changes to the presentation of extraordinary items. Such items are defined as transactions or events that are both unusual in nature and infrequent in occurrence, and, currently, are required to be presented separately in an entity's statement of operations, net of income tax, after income from continuing operations. The changes eliminate the concept of an extraordinary item and, therefore, the presentation of such items will no longer be required. Notwithstanding this change, an entity will still be required to present and disclose a transaction or event that is both unusual in nature and infrequent in occurrence in the notes to the financial statements. These changes became effective for us on January 1, 2016. The adoption of these changes did not have an impact on the consolidated financial statements.

In February 2015, the FASB issued changes to the analysis that an entity must perform to determine whether it should consolidate certain types of legal entities. These changes (i) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities, (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidation analysis of reporting entities that are involved with variable interest entities, particularly those that have fee arrangements and related party relationships, and (iv) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. These changes became effective for us on January 1, 2016. The adoption of these changes did not have an impact on the consolidated financial statements.

In April 2015, the FASB issued changes to the presentation of debt issuance costs. Currently, such costs are required to be presented as a noncurrent asset in an entity's balance sheet and amortized into interest expense over the term of the related debt instrument. The changes require that debt issuance costs be presented in an entity's balance sheet as a direct deduction from the carrying value of the related debt liability. The amortization of debt issuance costs remains unchanged. These changes became effective for us on January 1, 2016. As a result, we have presented $39.5 million and $42.5 million of deferred financing costs as a direct deduction from long-term debt and convertible debentures for the periods ended March 31, 2016 and December 31, 2015, respectively.

In September 2015, the FASB issued new guidance on adjustments to provisional amounts recognized in a business combination, which are currently recognized on a retrospective basis. Under the new requirements, adjustments will be recognized in the reporting period in which the adjustments are determined. The effects of changes in depreciation, amortization, or other income arising from changes to the provisional amounts, if any, are included in earnings of the reporting period in which the adjustments to the provisional amounts are determined. An entity is also required to present separately on the face of the statement of operations 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

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions U.S. dollars, except per share amounts)

(Unaudited)

adjustment to the provisional amounts had been recognized as of the acquisition date. The new requirements became effective for us beginning January 1, 2016. We will apply this new guidance to any future business combinations

Issued

In May 2014, the FASB issued new recognition and disclosure requirements for revenue from contracts with customers, which supersedes the existing revenue recognition guidance. The new recognition requirements focus on when the customer obtains control of the goods or services, rather than the current risks and rewards model of recognition. The core principle of the new standard is that an entity will recognize revenue when it transfers goods or services to its customers in an amount that reflects the consideration an entity expects to be entitled to for those goods or services. The new disclosure requirements will include information intended to communicate the nature, amount, timing and any uncertainty of revenue and cash flows from applicable contracts, including any significant judgments and changes in judgments and assets recognized from the costs to obtain or fulfill a contract. Entities will generally be required to make more estimates and use more judgment under the new standard. The new requirements will be effective for us beginning January 1, 2018, and may be implemented either retrospectively for all periods presented, or as a cumulative-effect adjustment as of January 1, 2018. Early adoption is permitted, but not before January 1, 2017. Management is currently evaluating the potential impact of this new guidance on our consolidated financial statements and which implementation approach to select.

In July 2015, the FASB issued changes to the subsequent measurement of inventory. Currently, an entity is required to measure its inventory at the lower of cost or market, whereby market can be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. The changes require that inventory be measured at the lower of cost and net realizable value, thereby eliminating the use of the other two market methodologies. Net realizable value is defined as the estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation. These changes become effective for us on January 1, 2017. Management has determined that the adoption of these changes will not have a material impact on the consolidated financial statements.

In November 2015, the FASB issued changes to the balance sheet classification of deferred taxes. These changes simplify the presentation of deferred income taxes by requiring all deferred income tax assets and liabilities, along with any related valuation allowance, to be classified as noncurrent in a classified balance sheet. The current requirement that deferred tax assets and liabilities of a tax-paying component of an entity be offset and presented as a single amount is not affected by these changes. The new guidance will be effective for us in fiscal years beginning after December 15, 2016 and is not expected to have a material impact on the consolidated financial statements.

In February 2016, the FASB issued authoritative guidance intended to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the new guidance, lessees will be required to recognize a right-of-use asset and a lease liability, measured on a discounted basis, at the commencement date for all leases with terms greater than twelve months. Additionally, this guidance will require disclosures to help investors and other financial statement users to better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. The guidance should be applied under a modified retrospective transition approach for leases existing at the beginning of the earliest comparative period presented in the adoption-period financial statements. Any leases that expire before the initial application date will not require any accounting adjustment. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the potential impact on our financial position and results of operations upon adoption of this guidance.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions U.S. dollars, except per share amounts)

(Unaudited)

In March 2016, the FASB issued authoritative guidance intended to simplify and improve several aspects of the accounting for share-based payment transactions. The new guidance includes amendments to share-based accounting for income taxes, including adjustments to how excess tax benefits and a company's payments for tax withholdings should be classified in the statement of cash flows. This guidance is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the potential impact on our financial position and results of operations upon adoption of this guidance.

2. Changes in accumulated other comprehensive loss by component

The changes in accumulated other comprehensive loss by component were as follows:

	Three Months Ended March 31,	
	2016	2015
Foreign currency translation		
Balance at beginning of period	$ (139.1)	$ (66.3)
Other comprehensive income (loss):		
Foreign currency translation adjustments(1)	18.4	(35.1)
Balance at end of period	$ (120.7)	