

BANKRUPTCY UPDATE

Expert Analysis

Energy Restructurings Affected by COVID-19 Pandemic

This issue of the Bankruptcy Update focuses on ongoing restructurings of Sanchez Energy and EP Energy as the energy sector debtors deal with the unprecedented effects of the global COVID-19 pandemic.

Sanchez Energy

On Aug. 11, 2019, oil and gas driller Sanchez Energy and affiliated debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of Texas. (Bankr. S.D. Tex. 19-03458).

Upon filing the company noted that low energy prices left it with insufficient liquidity to service interest expense obligations stemming from approximately \$2.27 billion in debt from recent acquisitions. While the company attempted to mitigate the liquidity crunch by reducing overhead by 30% and capital expenditures

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by 80%, the cuts were insufficient to generate sufficient cash to both satisfy impending interest payments and continue operations, prompting the bankruptcy filing.

To fund its operations under Chapter 11, the debtors secured \$350 million in debtor-in-possession financing from an ad hoc group of secured lenders. On Aug. 13, 2019, the debtors gained interim access to the DIP facility over the objection of an ad hoc group of unsecured noteholders who argued that the company had sufficient unencumbered cash to fund its operations without the need for DIP financing. However, both the unsecured creditors committee and the ad hoc unsecured noteholder group filed objections to final approval of the DIP financing facility. The objectors relied in part on an alternative

financing proposal from the ad hoc unsecured noteholder group which was rejected by the debtors despite its less onerous conditions. On Sept. 19, 2019, the court denied the debtors' request for final approval of the DIP facility sending the parties back to the drawing board. A revised and significantly reduced \$200 million DIP financing facility was ultimately approved on Jan. 22, 2020 following

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the announcement of an agreement among the company's DIP lenders, the unsecured creditors committee, the ad hoc unsecured noteholder group and the ad hoc group of secured noteholders.

Subsequently, the debtors sought to extend their exclusive time to file and solicit a plan of reorganization by

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90 days to June 8 from March 9 and to August 6 from May 8, respectively. The debtors sought the extension to advance negotiations with their key stakeholders and noted that they intended to file a plan and disclosure statement by March 9 consistent with a milestone in their DIP facility. However, the debtors were ultimately unable to meet this deadline. At the request of the debtors, on March 23, 2020 the court held an emergency telephonic hearing to address the unprecedented impact of the global COVID-19 pandemic. At the hearing, the debtors warned that the outcome of their Chapter 11 cases is now in grave doubt as a result of the coronavirus outbreak and related shuttered commodity prices.

EP Energy

On Oct. 3, 2019, EP Energy and affiliated debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of Texas. (Bankr. S.D. Tex. Case No. 19-35654).

The debtors entered Chapter 11 aiming to restructure by reducing prepetition funded debt by around \$3.3 billion and annual interest expenses by up to \$263 million in a move that would transfer majority ownership to the company's senior 1.5-lien noteholders led by Elliott Management. The proposed restructuring framework was generally comprised of (1) reinstatement of 1.125-lien notes claims, (2) reinstatement of 1.25-lien notes claims, (3) distributions in the form of ratable shares of 99% of common stock in reorganized debtors to 1.5-

lien notes claims which are subject to dilution by an equity rights offering backstopped by Apollo, Elliott and certain other 1.5-lien noteholders, (4) distributions in the form of ratable shares of 1% of common stock in reorganized debtors subject to dilution to holders of general unsecured claims, and (5) distributions in the form of ratable shares of a \$500,000 cash pool to existing Class A common stockholders as consideration for tax attributes of EP Energy that will be made available to reorganized debtors.

Initially, the debtors noted that they were holding approximately \$179 million in unencumbered cash as of the petition date and did not seek authority to obtain DIP financing at the outset of their cases. They subsequently sought approval of an approximately \$315 million DIP facility to be provided by certain of their prepetition RBL lenders.

On Nov. 18, 2019, the debtors filed their initial Chapter 11 plan and disclosure statement largely reflecting the terms of their prepetition restructuring deal announced at filing and outlined above. The plan was subsequently amended several times, with the most notable change involving a material increase in proposed plan distributions to unsecured claim holders—a move that ensured plan support by the official committee of unsecured creditors. The disclosure statement accompanying the plan was approved on Jan. 14, 2020 and the debtors commenced solicitation of plan votes.

On March 6, 2020, the court confirmed the debtors' fourth amended

Chapter 11 plan following a five-day trial. In confirming the plan, the court overruled an objection by the ad hoc group of 1.125-lien noteholders who argued, among other things, that the plan was not feasible due to the anticipated impact of the coronavirus pandemic and a recent price war between Saudi Arabia and Russia on declining world oil prices.

Those dire projections unfortunately proved accurate, as soon after confirmation the debtors filed a stipulation terminating their plan support agreement and related backstop commitment agreement with Elliot Management, Apollo Global Management, Avenue Capital Group and Access Industries that had formed the basis of the confirmed plan. Thereafter, on March 23, 2020 the court formally vacated the order confirming the fourth amended plan leaving the future of the case in serious doubt.