IN THE UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF OKLAHOMA

In re	:	Chapter 11
WHITE STAR PETROLEUM HOLDINGS, LLC, *et al.*,[1]	:	Case No. 19-12521-JDL
	:	Jointly Administered
Debtors.	:	

DEBTORS' OMNIBUS REPLY IN SUPPORT OF CONFIRMATION OF PLAN OF LIQUIDATION

White Star Petroleum Holdings, LLC and certain of its affiliated debtors and debtors-in-possession (collectively, the "Debtors") hereby submit this reply (the "Reply") in further support of confirmation of the *Joint Chapter 11 Plan of Liquidation of White Star Petroleum Holdings, LLC and its Debtor Affiliates* [Doc. 1020] (including the Plan Supplement and all other exhibits and schedules thereto, and as may be amended or supplemented, the "Plan").[2] Four parties filed timely limited objections to confirmation of the Plan (the "Limited Objections").[3] In response to the Limited Objections and in further support of confirmation the Plan, the Debtors respectfully state as follows:

[1] The Debtors in these chapter 11 cases, and the last four digits of their U.S. taxpayer identification numbers are: White Star Petroleum Holdings, LLC (0575) ("WSTR Holdings"), White Star Petroleum, LLC (0977) ("WSTR"), White Star Petroleum II, LLC (4347) ("WSTR II"), White Star Petroleum Operating, LLC (5387) ("WSTR Operating") and WSP Finance Corporation (9152) ("WSP Finance" and together with WSTR Holdings, WSTR, WSTR II and WSTR Operating, the "Debtors"). The Debtors' corporate headquarters is located at 301 N.W. 63rd Street, Suite 600, Oklahoma City, OK 73116.

[2] Capitalized terms not otherwise defined herein are to be given the meanings ascribed to them in the Plan.

[3] In addition, Jackson Electrical Construction, LLC filed an untimely limited objection that joined Baker Hughes' Limited Objection [Doc. 1109].

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Reply

1. The Plan is the result of months of negotiations and efforts by the Debtors to build consensus with their key stakeholders, and was filed and solicited with the support of the Committee and the RBL Agent. The consensus reflected in the Plan, and the path it provides to efficiently distribute the Contango sale proceeds and successfully liquidate the Debtors' Estates, is exhibited by the overwhelming creditor support in voting to confirm the Plan. Only four timely objections were filed, and each is styled as a "Limited Objection" that addresses only limited, discrete issues.

2. Importantly, none of the Limited Objections argues that the Plan cannot be confirmed. Rather, each seeks only clarifying language or to address creditor-specific issues. The Debtors have already resolved one Limited Objection and intend to attempt to resolve as many of the remaining Limited Objections as possible prior to the Confirmation Hearing. In any event, none of the Limited Objections present any obstacle to Plan confirmation. In addition, as explained below, out of an abundance of caution, the Debtors are making certain changes to the Plan to address particular concerns raised in the Limited Objections. Any remaining Limited Objections are wholly without merit and should be overruled, and the Plan confirmed.

A. Blue Mountain Does Not Actually Object Confirmation of the Plan.

3. The Limited Objection filed by Blue Mountain Exploration, LLC ("Blue Mountain") [Doc. 1100] does not assert that the Plan is unconfirmable. Instead, Blue Mountain merely expresses its preference that a Licensing Agreement (as defined in the Blue Mountain Limited Objection) be assumed and assigned to Contango. (*See* Blue Mountain Obj. at 3-4.) That is not happening, as Blue Mountain acknowledges by recognizing "that Debtor and Contango are exercising their business judgment with respect to rejecting the Licensing Agreement." (*Id.* at 4.) The Debtors carefully considered the issue of the Blue Mountain Licensing Agreement and

determined it should be rejected through their liquidating Plan after consultation with Contango, who confirmed that it does not want to take assignment of the Licensing Agreement. (*See Declaration of Steven P. Coverick in Support of Confirmation of Joint Chapter 11 Plan of Liquidation of White Star Petroleum Holdings, LLC and its Debtor Affiliates*, ¶ 19.)

4. Blue Mountain also does not argue that the Debtors lack the right to provide for rejection in the Plan because that right is plainly provided for in Section 1123(b)(2) of the Bankruptcy Code. Accordingly, the Licensing Agreement will be rejected. Such rejection is proper, consistent with the Debtors' authority pursuant to section 365 of the Bankruptcy Code and certainly does not serve as the basis for any objection to Plan confirmation.

5. Blue Mountain goes on to state that when the Licensing Agreement is rejected, it elects to retain its rights under section 365(n) of the Bankruptcy Code. (Blue Mountain Obj. at 5-6.) However, Blue Mountain does not point to anything in the Plan that would impede any such rights under section 365(n)—because there is none. Section 6.1 of the Plan simply provides for rejection pursuant to section 365 of the Bankruptcy Code, in accordance with section 1123(b)(2). Any rights that Blue Mountain has under section 365(n) are retained and unaffected by confirmation of the Plan. To whatever extent Blue Mountain is entitled to make an election pursuant to Section 365(n), it will retain that right following confirmation of the Plan. Therefore, there is no valid objection to the Plan and the Blue Mountain Limited Objection should be overruled.

B. The Plan Already Addresses WellBenders' Stated "Objection."

6. WellBenders Directional Services, LLC's ("WellBenders") Limited Objection [Doc. 1101] is based on a fundamental misunderstanding as to treatment of Claims under the Plan. WellBenders objects on the basis that "the Plan fails to consider that perfection of the

RBL Secured Claim is the subject of challenge" in various adversary proceedings. (WellBenders Obj. ¶ 7.)

7. WellBenders reaches this mistaken conclusion via a flawed understanding of the Plan's mechanics, which it describes as follows:

> "The Plan assumes that the RBL Secured Claim is properly perfected as to the Wells and the Debtors' other assets. . . . Further, the distribution scheme contained in the Plan is premised on this assumption in providing for distribution of the RBL Secured Claim first to Senior M&M Lien Claims, then to the RBL Secured Claim and then to Junior M&M Lien Claims, which are treated as unsecured."

(*Id.* ¶ 6.) This completely misses the mark.

8. As has been made repeatedly clear in these Chapter 11 Cases, the Plan does **not** determine the validity, priority or extent of the M&M Liens or the allowance of the M&M Lien Claims. Those issues are specifically pending before the Court in the M&M Lien Proceeding. Contrary to WellBenders' flawed assertions, the Plan *specifically provides for* the possibility that any M&M Lien Claim could be senior to the RBL Secured Claim with respect to any particular well by the establishment of the M&M Lien Reserve and providing for Class 2 (Other Secured Claims), which will ensure Allowed Senior M&M Lien Claims are paid in full.

9. The M&M Lien Reserve was established in the Sale Order with Cash equal to the amount set forth in the M&M Lien Reserve Schedule [Doc. 879], and will be available to pay *all* Allowed Senior M&M Lien Claims. (*See* Plan § 8.9.) Putting aside WellBenders' incorrect assertions about the scope of the claims in the pending but stayed individual adversary proceedings (WellBenders Obj. ¶ 7), if an M&M Lien Claim becomes Allowed as a Senior M&M Lien Claim through a final order of this Court—however achieved—it will be paid out of the M&M Lien Reserve as a Class 2 Claim. Stated simply, all Holders of an M&M Lien Claim are protected by

the Plan up to the full amount of their asserted M&M Lien Claims until there is an adjudication of the validity, priority and extent of their M&M Liens vis-à-vis the Liens securing the RBL Secured Claim.

10. The validity, priority and extent of M&M Liens is being adjudicated in the M&M Lien Proceeding. There, and not through the Plan, is where each M&M Lien Claim will be determined either a Senior M&M Lien Claim or a Junior M&M Lien Claim. Any issues or disputes with respect to the Liens securing the RBL Secured Claim will be adjudicated there. But critical to the issue of Plan confirmation before the Court is that the Plan protects all creditors and the Plan's mechanics provide for Distributions covering all possible scenarios.

11. Furthermore, WellBenders wrongly suggests that *all* Holders of M&M Lien Claims should "share pro rata in the RBL Secured Claim Distribution equally" in a hypothetical scenario where "the RBL Secured Claim [is] avoided." (WellBenders Obj. ¶ 9.) WellBenders' conclusion is again wrong. Even assuming it were possible to avoid the RBL Secured Claim—and there is no basis to suggest there is—a determination that the Lien securing the RBL Secured Claim is invalid with respect to a particular well would not automatically entitle a Holder of a Junior M&M Lien Claim against that well to recover, and particularly not Pro Rata with the Senior M&M Lien Claims against that same well. Rather, in such a hypothetical scenario, the Senior M&M Lien Claims against that well must and would be paid in full as Allowed Other Secured Claims before any Junior M&M Lien Claims against such well could receive a Distribution. If, and only if, the Holders of Senior M&M Lien Claims against a particular well are over-secured would Holders of Junior M&M Lien Claims against such well be entitled to Distribution.[4]

[4] WellBenders also curiously states that "[o]nly three (3) of the wells WellBenders filed liens against appear to be implicated by the Plan." (WellBenders Obj. ¶ 5.) This is wrong. The

12. In sum, WellBenders' desire to challenge the validity of the Liens securing the RBL Secured Claim will be addressed in the M&M Lien Proceeding. That is not a confirmation issue. Rather, the issue before the Court is confirmation of the Plan, and the Plan appropriately provides for payment in full for any M&M Lien Claim that is ultimately adjudicated to be an Allowed Senior M&M Lien Claim. As a result, WellBenders' Limited Objection is unfounded and should be overruled.

C. Baker Hughes' Limited Objection Should Be Overruled.

13. Baker Hughes Oilfield Operations LLC ("Baker Hughes") does not assert that the Plan should not be confirmed. Instead, Baker Hughes makes clear it is interposing its Limited Objection [Doc. 1103] "solely to address treatment of claims in Class 2 of the Proposed Plan." (BH Obj. at 2.) Upon examination, Baker Hughes' primary argument is not actually challenging the treatment of Class 2 (Other Secured Claims), but rather seeks assurances that payment of statutory trust funds that might be awarded under 42 O.S. § 144.2 ("Trust Funds") *beyond the scope of its Claims*, if any, would be distributed out of the M&M Lien Reserve. (*Id.* at 2-3.)

14. Baker Hughes' arguments, and its proposed resolution of the issue, conflate Trust Funds which, by definition, would be outside the Debtors' Estates, and any secured portion of M&M Lien Claims. The Plan provides for treatment of Claims against the Debtors' Estates and mechanics for making Distributions of the Debtors' assets to Holders of Allowed Claims. Therefore, Baker Hughes' concerns expressed with respect to Trust Funds are arguably beyond the scope of the Plan.

Plan addresses the classification and distribution on account of all Claims, including all M&M Lien Claims, irrespective of the well to which the M&M Lien purportedly attached.

15. Nonetheless, the Debtors recognize that there needs to be a source of payment for any Trust Funds that might ultimately be awarded to Holders of M&M Lien Claims. To address that concern, the Debtors have made changes included in the Amended Plan filed contemporaneously herewith, including to the definition of M&M Lien Reserve Amount and to Section 8.9, to provide that any Trust Funds on an applicable well that might ultimately be determined to be owing on account of any M&M Lien Claim will be paid out of the M&M Lien Reserve. These changes directly address and resolve any legitimate concern of Baker Hughes.

16. Second, Baker Hughes asserts that the Plan must be clarified to address the possibility that an M&M Lien may be partially senior to the Lien securing the RBL Secured Claim. While hypothetical, the Debtors accept it could be theoretically possible that an M&M Lien covers two wells with one adjudged to be senior and one junior to the RBL Parties' Liens. To address this scenario and Baker Hughes' stated concern, the Amended Plan modifies the definition of Senior M&M Lien to provide for this possibility.

17. While the Debtors do not believe either of Baker Hughes' objections pose true obstacles to Plan confirmation, the Debtors have nonetheless specifically addressed both of the issues raised in the Baker Hughes Limited Objection with language in the Amended Plan. The Debtors have provided this language to Baker Hughes in advance of filing the Amended Plan and are engaged in constructive discussions to resolve the Limited Objection in this manner. While resolution is close, regardless, any remaining portion of Baker Hughes' Limited Objection that remains unresolved should therefore be overruled.

D. Devon's Objection is Resolved.

18. Finally, Devon Energy Production Company, L.P. ("Devon") filed a Limited Objection [Doc. 1104] on the basis that it should have had an opportunity to vote on the Plan as a contingent Holder of a Claim in Class 4 (General Unsecured Claims) because some of or

all of its Claim may be unsecured. (*See* Devon Obj. at 4-5.) The Debtors have discussed this Limited Objection with Devon, including the Debtors' willingness to let Devon vote a contingent Claim in Class 4. Nevertheless, after constructive discussions with Devon's counsel, Devon and the Debtors have agreed that Devon will put certain reservations of rights with respect to its Claims that are acceptable to the Debtors on the record at the Confirmation Hearing. With that agreement, the Debtors understand that Devon's Limited Objection to confirmation of the Plan is resolved.

Conclusion

19. For the foregoing reasons the outstanding Limited Objections should be overruled and the Plan confirmed.

Dated: March 31, 2020
Oklahoma City, Oklahoma

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