IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	)	Chapter 11
SOUTHCROSS ENERGY PARTNERS, L.P., *et al.*,	)	Case No. 19-_____ (___)
Debtors.[1]	)	Joint Administration Requested

DECLARATION OF MICHAEL B. HOWE IN SUPPORT OF DEBTORS' CHAPTER 11 PROCEEDINGS AND FIRST DAY PLEADINGS

Michael B. Howe declares and says:

1. I have been Senior Vice President and Chief Financial Officer of each of the above-captioned debtors (collectively, the "**Debtors**" or "**Southcross**") since January 4, 2019. I most recently served as Chief Financial Officer of the Medical Benevolence Foundation. Prior to that, I was vice president of several departments at Ensco PLC (including strategic planning, finance and accounting, human resources, and treasury) and held positions at Devon Energy Corporation and Enron Corporation. I hold a master's degree in business administration from the University of Texas at Austin and a bachelor's degree in accounting from Oklahoma State

[1] The debtors and debtors in possession in these chapter 11 cases, along with the last four digits of their respective Employer Identification Numbers, are as follows: Southcross Energy Partners, L.P. (5230); Southcross Energy Partners GP, LLC (5141); Southcross Energy Finance Corp. (2225); Southcross Energy Operating, LLC (9605); Southcross Energy GP LLC (4246); Southcross Energy LP LLC (4304); Southcross Gathering Ltd. (7233); Southcross CCNG Gathering Ltd. (9553); Southcross CCNG Transmission Ltd. (4531); Southcross Marketing Company Ltd. (3313); Southcross NGL Pipeline Ltd. (3214); Southcross Midstream Services, L.P. (5932); Southcross Mississippi Industrial Gas Sales, L.P. (7519); Southcross Mississippi Pipeline, L.P. (7499); Southcross Gulf Coast Transmission Ltd. (0546); Southcross Mississippi Gathering, L.P. (2994); Southcross Delta Pipeline LLC (6804); Southcross Alabama Pipeline LLC (7180); Southcross Nueces Pipelines LLC (7034); Southcross Processing LLC (0672); FL Rich Gas Services GP, LLC (5172); FL Rich Gas Services, LP (0219); FL Rich Gas Utility GP, LLC (3280); FL Rich Gas Utility, LP (3644); Southcross Transmission, LP (6432); T2 EF Cogeneration Holdings LLC (0613); and T2 EF Cogeneration LLC (4976). The debtors' mailing address is 1717 Main Street, Suite 5300, Dallas, TX 75201.

University and am a Certified Public Accountant. I am familiar with Southcross's day-to-day operations, businesses and financial affairs.

2. I submit this declaration (a) in support of the Debtors' petitions for relief under chapter 11 of title 11 of the United States Code (the "**Bankruptcy Code**"), (b) in support of Southcross's contemporaneously-filed requests for relief in the form of motions and applications (collectively, the "**First Day Motions**"), and (c) to assist the Bankruptcy Court (the "**Court**") and other interested parties in understanding the circumstances giving rise to the commencement of Southcross's chapter 11 cases (the "**Chapter 11 Cases**"). I have reviewed the First Day Motions or have otherwise had their contents explained to me, and it is my belief that the expedited relief sought therein is essential to the uninterrupted operation of Southcross's businesses.

3. Except as otherwise indicated, the facts set forth in this declaration (the "**Declaration**") are based upon my personal knowledge, my review of the relevant documents, information provided to me by employees working under my supervision, or my opinion based upon experience, knowledge, and information concerning the operations of Southcross and the oil and gas industry as a whole. If called upon to testify, I would testify competently to the facts set forth in this Declaration. Unless otherwise indicated, the financial information contained herein is unaudited and provided on a consolidated basis.

COMMENCEMENT OF BANKRUPTCY PROCEEDINGS

4. On April 1, 2019, (the "**Petition Date**"), Southcross Energy Partners, L.P. (the "**Partnership**"), its general partner, and its wholly owned direct and indirect subsidiaries each filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code. The Debtors intend to continue in the possession of their respective properties and the management of their

respective businesses as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

5. Southcross commenced the Chapter 11 Cases to maximize its enterprise value for the benefit of its stakeholders. At present, Southcross intends to run a first-round marketing process for substantially all of its assets, after which it, in consultation with its prepetition and post-petition lenders, will determine whether to proceed further toward a sale under section 363 of the Bankruptcy Code, to proceed toward a sale pursuant to a chapter 11 plan, or to solicit votes for a chapter 11 plan.

6. Section I of this Declaration describes Southcross's businesses; Section II describes the circumstances giving rise to the commencement of the Chapter 11 Cases; Section III describes Southcross's prepetition restructuring initiatives, which culminated in Southcross's prepetition lenders committing to provide post-petition financing; and Section IV sets forth the relevant facts in support of the First Day Motions.

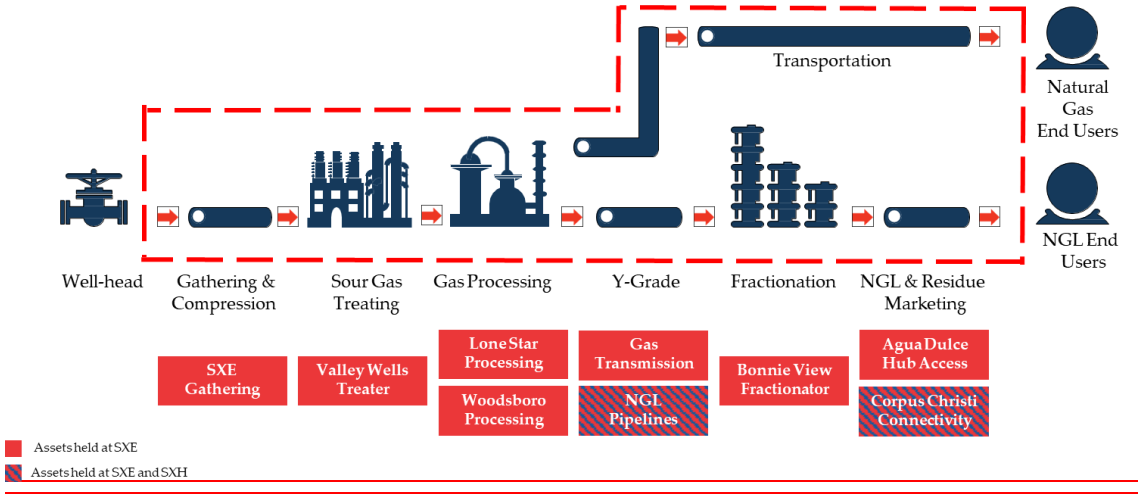
I.

THE DEBTORS' BUSINESSES

A. Operations

i. *Assets and Activities*

7. Southcross is a publicly traded company that provides midstream services to natural gas producers and customers, including natural gas gathering, processing, treatment and compression and access to natural gas liquid (NGL) fractionation and transportation services. Southcross also purchases and sells natural gas and NGLs. Southcross's roles in the natural gas industry are shown in the following diagram:



8. Southcross's assets and operations are concentrated in and near the resource-rich Eagle Ford Shale region of South Texas. The South Texas catchment area for Southcross's pipeline network includes multiple active and prospective production zones and its South Texas systems benefit from access to the large industrial market for natural gas and NGLs in and around Corpus Christi, Texas. Southcross's key assets in South Texas include the following:

(a) Approximately 2,016 miles of pipeline ranging in diameter from 2" to 24". Most of these pipelines feed rich gas from multiple producing fields, including the Eagle Ford Shale, to Southcross's processing and NGL fractionation facilities at Lone Star, Woodsboro, and Bonnie View. The residue gas pipelines from Southcross's processing plants and the remaining pipelines in lean gas service are used to serve multiple industrial and electric generation customers and to deliver gas to other intrastate and interstate pipelines. Additionally, these pipelines connect to approximately 805 miles of pipeline owned by Southcross Holdings LP and its non-Debtor subsidiaries ("**Holdings**").

(b) The Lone Star processing plant is a cryogenic processing plant located in Bee County, Texas, with a capacity of 300 million cubic feet per day. Southcross acquired Lone Star from Southcross TS Midstream Services, LP (at the time, a subsidiary

of Holdings) in August 2014. This plant is interconnected with other South Texas rich gas supply basins and with Woodsboro (see below) via the Bee Line pipeline, which was placed in service in 2013. Southcross also owns an electric generation plant that serves Lone Star processor.

(c) The Woodsboro processing plant is a cryogenic processing plant located in Refugio County, Texas, with a capacity of 200 million cubic feet per day.

(d) The Bonnie View NGL fractionation[2] plant is also in Refugio County and has a capacity of 22,500 barrels[3] per day. In June 2015, Southcross completed its system of NGL pipelines, which included a (i) propane pipeline from the Bonnie View fractionator to the Robstown fractionator formerly owned by a Holdings subsidiary and (ii) pipeline for Y-grade NGLs (i.e., a mixture of ethane, propane, isobutane, butane, and natural gasoline meeting certain specifications) that connects the Woodsboro plant to Robstown. The installation of these NGL pipelines improved Southcross's ability to sell Y-grade NGLs to the owner of Robstown and mitigated the financial impact of certain capacity reductions at Bonnie View.

(e) The Valley Wells system comprises gathering and treating facilities and has sour gas treating capacity of approximately 100 million cubic feet per day and is supported by a minimum volume commitment from Holdings for gathering and treating services. The Valley Wells system is also connected to Southcross's rich gas system for transport and processing services.

(f) Twenty natural gas compression stations.

[2] Fractionation is the process of separating NGLs into streams of ethane, propane, butane, and heavier molecules known as natural gasoline.

[3] One barrel is 42 gallons.

(g) Joint venture interests (partnered with affiliates of Targa Resources Corp.) in non-Debtor entities T2 Eagle Ford Gathering Company LLC and T2 LaSalle Gathering Company LLC, which operate pipelines.

9. Southcross is also a leading midstream service provider in the areas of Mississippi and Alabama in which it operates. Its pipelines provide critical supply to industrial, commercial and power generation customers and to wholesale markets via intrastate and interstate pipeline interconnects. In particular, several of the large gas-fired power plants across the southern portion of Mississippi access their primary source of natural gas through Southcross's system of pipelines. Key assets in these regions include the following:

(a) Approximately 611 miles of pipeline in southern Mississippi, ranging in diameter from 2" to 20" and with an estimated design capacity of 345 million cubic feet per day. This pipeline network can receive natural gas from three unaffiliated interstate pipelines—Southeast Supply Header, Southern Natural Gas Company, and Texas Eastern Company—to supplement supply on the Mississippi intrastate system or to market gas off the system.

(b) Two treating plants in Mississippi.

(c) Approximately 490 miles of pipeline in northwest and central Alabama, ranging in diameter from 2" to 16" and with an estimated design capacity of 375 million cubic feet per day. The primary gas supply to the system is coal bed methane gas from the Black Warrior Basin with other volumes gathered from conventional gas wells. The Alabama system receives natural gas from unaffiliated interstate pipelines and services markets along the system.

10. Overall, the South Texas assets accounted for 83% of revenue in 2018, Alabama for 5%, and Mississippi for 12%. Southcross's ten largest customers accounted for 41% of 2018 revenue.

11. For the three months ended September 30, 2018, Southcross reported total operating revenues of approximately $154.8 million, which represent an 11% decrease in revenue from the same three months during the previous fiscal year, mostly due to a change in Southcross's revenue recognition policies.

12. The natural gas and NGL industries in which Southcross operates are highly competitive. Our competitors include other midstream companies, producers, and intrastate and interstate pipeline owners, some of which are large companies with greater financial, managerial and other resources than we do. Competition for natural gas volumes is based primarily on commercial terms, reliability, service levels, flexibility, access to markets, location, available capacity, connection costs, and fuel efficiencies. In addition to competing for natural gas supply volumes, Southcross faces competition for customer markets in selling residue gas and NGLs. Competition is based primarily on the proximity of pipelines to the markets, price, and assurance of supply.

ii. *Employees and Shared Services*

13. Through the Partnership's general partner, Southcross Energy Partners GP, LLC (the "**General Partner**"), Southcross maintains a workforce of dedicated employees that has enabled it to continue to achieve its high standards of productivity, safety and environmental compliance despite difficult markets. As of today, the General Partner employs approximately 205 people in active status working in both full-time and part-time positions, including executives, engineers, plant technicians, administrative support staff, and other personnel

("**Employees**"). None of the General Partner's current Employees is represented by a union. The majority of the Employees (approximately 189) work in Texas, where Southcross's headquarters and principal operations are located; the remaining Employees generally work at one of Southcross's plants in Alabama or Mississippi.

14. Southcross and Holdings historically have been engaged in a shared services arrangement for the operations of their respective businesses (the "**Shared Services Arrangement**). Under the Shared Services Arrangement, now memorialized in the Shared Services Agreement attached as an exhibit to the Cash Management Motion, Southcross and Holdings generally pay their respective allocated portions of all shared service expenses, including general administration, human resources, technological support, accounting, and labor expenses.

iii. *Contracts with Holdings*

15. Southcross derives a material portion of its revenue through long-term, fixed-rate contracts with non-debtor subsidiaries of Holdings.

16. *First*, Debtor FL Rich Gas Services, LP ("**FL Services**") and Holdings' subsidiary Frio LaSalle Pipeline, LP ("**Holdings-Frio**") are party to a Gas Gathering and Processing Agreement (the "**Rich Gas Agreement**") dated August 1, 2014, pursuant to which FL Services provides processing and transportation services for rich natural gas (i.e., natural gas with high concentrations of methane and ethane) delivered from Holdings' Lancaster system. Holdings-Frio is not obligated to deliver to Southcross a minimum volume of gas from the Lancaster system for processing under the Rich Gas Agreement, but has historically taken advantage of the Rich Gas Agreement to satisfy its obligations to process and transport rich

natural gas that its own counterparties deliver. In 2018, Southcross earned $10.8 million in gross margin under the Rich Gas Agreement in connection with the Lancaster system.

17. *Second*, FL Services and Holdings-Frio amended the Rich Gas Agreement on January 1, 2015 to provide for the processing and transportation of rich natural gas at Southcross's Valley Wells system. As amended, the Rich Gas Agreement requires Holdings-Frio to deliver and pay for processing of a minimum of 35.0 million cubic feet of gas per day. In 2018, Southcross earned $11.9 million in gross margin under the Rich Gas Agreement in connection with the Valley Wells system.

18. *Third*, FL Services and Holdings-Frio are party to a Gas Gathering and Treating Agreement (the "**Sour Gas Agreement**"), dated May 1, 2015, pursuant to which FL Services provides gathering, treating and compression services for sour natural gas (i.e., natural gas with significant amounts of hydrogen sulfide) at Southcross's Valley Wells system. The Sour Gas Agreement requires Holdings-Frio to deliver and pay for (i) treatment and compression of 60.0 million cubic feet of gas per day and (ii) redelivery of 26.5 million cubic feet of treated natural gas per day. In 2018, Southcross earned $13.1 million in gross margin under the Sour Gas Agreement.[4]

19. Holdings-Frio's obligations—including its minimum volume commitments—under the Rich Gas Agreement run until August 1, 2024, and Holdings-Frio's obligations under the Sour Gas Agreement run until April 30, 2023. However, Holdings-Frio's own long-term gathering contracts with producers expire sooner than those dates, resulting in some degree of

[4] Debtor Southcross Marketing Company Ltd. is also party to a Gas Gathering and Treating Agreement with Holdings-Frio for the gathering, compression, and treatment of sour gas. This is a month-to-month agreement that provided $1.2 million in gross margin to Southcross in 2018.

uncertainty regarding its ability to replace or renew those contracts and continue to perform its obligations to FL Services.

20. *Fourth*, FL Services and Holdings subsidiaries are party to agreements related to gas compression equipment in the Lancaster system with a capacity of 32,757 horsepower, which Holdings sold to FL Services in May 2015. Under a Master Compression Services Agreement dated May 1, 2015, FL Services charges Holdings-Frio $21.31 per horsepower-month for use of the equipment to compress gas as part of Holdings' Lancaster system; under a separate Master Services also dated May 1, 2015, the General Partner charges FL Services $5.38 per horsepower-month for operating costs associated with the compression system. In 2018, Southcross earned $6.0 million in gross margin under the Lancaster compression agreements.

B. Corporate Structure

21. The Partnership is the direct or indirect parent company of each of the Debtors. The General Partner is the sole general partner in the Partnership, and its LLC units are held by non-Debtor Southcross Holdings Borrower LP ("**Holdings Borrower**"). As further described below in Section I.C, the Partnership's units are held by the General Partner, by Holdings Borrower, and by public investors who have traded the Partnership's common units on the OTCQX since February 28, 2019 under the ticker symbol "SXEE." (Previously, the Partnership's common units were listed on the New York Stock Exchange under the ticker symbol "SXE.")

22. The Partnership and the General Partner were each organized in Delaware on April 12, 2012. The Partnership's Debtor subsidiaries are each wholly owned, directly or indirectly, by the Partnership. Each Debtor is a limited liability company or a limited partnership formed in either Delaware or Texas. Furthermore, each Debtor is either (a) organized in Delaware, (b) a partnership whose general partner is an earlier-filed Debtor, or (c) a limited

liability company whose sole member is an earlier-filed Debtor. A chart showing the corporate structure of Southcross is attached hereto as Exhibit A.

23. Southcross is headquartered in Dallas, Texas, and the principal office of its Chief Executive Officer, James W. Swent III, is located in Houston, Texas. The board of directors of the General Partner is responsible for conducting the business of the Partnership and its Debtor subsidiaries.

C. Capital Structure[5]

24. As of today, the Partnership's equity interests are as follows:

(a) The General Partner holds all 1,644,111 of the general partnership units, which constitute 2.00% of all outstanding partnership units. The General Partner also holds incentive distribution units, which entitle the General Partner to receive certain percentages of distributions once cumulative distributions to the common and subordinated unitholders exceed certain thresholds.

(b) Holdings Borrower holds 26,492,074 common limited partnership units (32.23% of all outstanding partnership units) and public investors hold 22,202,817 common limited partnership units (27.01% of all outstanding partnership units). As a publicly traded company, Southcross files annual reports with, and furnishes other information to, the SEC.

(c) Holdings Borrower holds 19,652,831 Class B convertible limited partnership units (23.91% of all outstanding partnership units). These units entitle their

[5] The following summary is qualified in its entirety by reference to the operative documents, agreements, schedules, and exhibits.

holder to in-kind distributions of Class B convertible units on a quarterly basis and are convertible into common limited partnership units upon certain events.

(d) Holdings Borrower also holds 12,213,713 subordinated limited partnership units (14.86% of all outstanding partnership units). These units entitle their holder to receive distributions after common unitholders have received cumulative distributions over a certain threshold.

25. The General Partner is directly owned in its entirety by Holdings Borrower, which is indirectly owned approximately one-third each by affiliates of Tailwater Capital LLC ("**Tailwater**"), affiliates of EIG Global Energy Partners, LLC ("**EIG**" and, together with Tailwater, the "**Sponsors**"), and a group of financial institutions that were lenders to Holdings prior to its 2016 bankruptcy.

26. Each Debtor except the General Partner is an obligor of certain unsecured notes in the principal amount of approximately $17.4 million (the "**Unsecured Sponsor Notes**"). The Partnership issued $15 million of these notes on January 22, 2018 to affiliates of the Sponsors in consideration for cash that those Sponsor affiliates paid to the Partnership pursuant to a "Backstop Agreement" between Holdings, the Sponsors, and Wells Fargo Bank, N.A., in its capacity as administrative agent for the Secured Credit Facilities described below. The Unsecured Sponsor Notes mature on November 5, 2019, and bear interest at a rate of 12.5% per annum, which was paid in kind through December 31, 2018. The Unsecured Sponsor Notes are subordinated to both of the Secured Credit Facilities described below pursuant to a Subordination Agreement, dated as of January 22, 2018, between the Unsecured Sponsor Notes' initial holders and Wells Fargo Bank, N.A. (in its capacity as administrative agent for the Revolving Credit Facility).

27. The Partnership is the borrower, and each other Debtor other than the General Partner is a guarantor, under two *pari passu* secured credit facilities (together, the "**Secured Credit Facilities**"):

(a) The Third Amended & Restated Revolving Credit Agreement (the "**Revolving Credit Agreement**"), dated as of August 4, 2014, and amended six times through August 10, 2018, is a five-year revolving credit facility due August 4, 2019 (the "**Revolving Credit Facility**"). The administrative agent for the Revolving Credit Facility is Wells Fargo Bank, N.A. The Revolving Credit Facility was originally a $200 million facility with a $75 million sublimit for letters of credit (L/Cs); however, the lenders have reduced their commitments over time to $115 million, with a sublimit of $50 million for L/Cs. Approximately $81.1 million in principal of loans and $25.9 million of undrawn letters of credit are currently outstanding under the Revolving Credit Facility. Additionally, Southcross's obligations under three interest-rate caps with a notional value of $275 million are secured under the Revolving Credit Facility. Interest on money borrowed under the Revolving Credit Facility accrues at LIBOR plus a margin between 2.0% and 7.5% and is due quarterly. The Revolving Credit Agreement includes various financial covenants.

(b) The Term Loan Credit Agreement (the "**Term Loan Credit Agreement**" and, together with the Revolving Credit Agreement, the "**Credit Agreements**"), dated as of August 4, 2014, is a seven-year $450 million term loan facility due August 4, 2021 (the "**Term Loan Facility**" or "**Term Loans**"). The administrative agent for the Term Loan Facility is Wilmington Trust, N.A., which succeeded Wells Fargo Bank, N.A., as of March 3, 2016. Interest on the Term Loans accrues at LIBOR plus 4.25% per annum and

is due quarterly along with amortization of 1.0% per annum. Due to amortization, the outstanding principal of Term Loans is now $430.875 million.

28. Obligations under both Secured Credit Facilities are secured by first-priority liens on substantially all of Southcross's real, personal, and other property described in the Secured Credit Facilities' security documents (the "**Prepetition Collateral**"), which includes processing and other facilities, pipelines, cash, contracts, accounts, inventory, general intangibles, fixtures and various other assets. The Revolving Credit Agreement and Term Loan Credit Agreement contain similar covenant packages (although only the Revolving Credit Agreement benefits directly from its financial covenants), including a requirement that Southcross furnish audited financial statements on or before each annual SEC deadline (this year, by April 1), without a "going concern" or similar qualification or exception.

D. Cash Needs

29. Southcross's business is capital intensive and relies on its ability to use cash, among other things, (a) to satisfy payroll, pay suppliers, and meet overhead expenses, (b) to fund working capital needs and capital expenditures, (c) to pay for goods or services critical to the health and safety of employees and the communities in which they operate, (d) to pay property taxes and other taxes, and (e) for other general corporate purposes.

30. It is critical that Southcross have uninterrupted and unlimited access to its cash. Any limitation on Southcross's use of cash would have disastrous effects on Southcross's business and operations, threatening its ability to continue as a going concern, and resulting in the rapid deterioration of the value of the enterprise, as Southcross would likely lack sufficient working capital to make payments to employees, vendors, suppliers, and other key providers of goods and services.

31. In order to avoid any business disruption and to ensure a smooth transition into chapter 11, Southcross must signal to its constituents and counterparties that it continues to have access to sufficient liquidity to, among other things, continue the operation of its businesses, maintain relationships with customers, meet payroll, pay capital expenditures, procure goods and services from vendors and suppliers, and otherwise satisfy its working capital and operational needs, all of which are required to preserve and maintain its enterprise value.

E. Senior Management

32. James W. "Jay" Swent III was appointed Chairman of the General Partner and President and Chief Executive Officer of the General Partner and each of the Debtors in September 2018. Mr. Swent has over 35 years of experience in financial, operations, and international business, and served as President and Chief Executive Officer of Paragon Offshore prior to joining Southcross. Mr. Swent has managed large public company acquisitions, divestitures, joint ventures, large merger integration projects and a major tax redomestication from the United States to the United Kingdom. Mr. Swent also led tender offers, public debt and equity offerings, and managed complex international tax and treasury matters. In addition, Mr. Swent has served on Boards of public companies listed on the New York Stock Exchange, NASDAQ, and the London Stock Exchange, and has held the positions of Chairman, Lead Director, and Audit Committee Chairman. Mr. Swent holds a master's degree in business administration (in finance) and a bachelor's degree from the University of California, Berkeley. Mr. Swent holds no units of the Partnership.

33. As set forth above at paragraph 1, I am Senior Vice President and Chief Financial Officer of each of the Debtors. I hold no units of the Partnership.

34. Kelly J. Jameson, Esq., was appointed Senior Vice President, General Counsel and Secretary of each of the Debtors in September 2015. Prior to joining Southcross, Mr. Jameson was Associate General Counsel at USA Compression Partners, LP, having previously served as Senior Vice President, General Counsel, and Corporate Secretary of Crestwood Midstream Partners from 2010 to 2013. Mr. Jameson holds a bachelor's degree in business administration from Southern Methodist University and a juris doctor from Oklahoma City University. Mr. Jameson is a member of the Texas Bar. Mr. Jameson holds 23,935 common limited partnership units of the Partnership.

II.

EVENTS LEADING TO THE CHAPTER 11 CASES

35. Businesses throughout the natural gas industry came under intense pressure during 2015 and 2016, when gas prices (measured per million BTU at the Henry Hub) dropped from a high of $8.15 on February 10, 2014, to a low of $1.49 on March 4, 2016, and extracted gas volumes received at Southcross's gathering and processing facilities dropped from 494 million cubic feet per day in November 2015 to 281 million cubic feet per day in December 2016. Southcross's business depends almost entirely on the demand for processing of newly extracted natural gas, and its experience during the crash was no exception: the price of its common units plummeted from a peak of $24.79 on July 7, 2014, to a low of $0.38 on February 11, 2016. While dozens of its peers (including Holdings) filed for chapter 11 as a result of commodity declines, Southcross narrowly avoided a bankruptcy filing through operational cutbacks, several capital contributions from Holdings and the Sponsors, and a waiver of certain financial covenants under the Revolving Credit Agreement. (See Part III below.)

36. Despite avoiding chapter 11 during the crash, Southcross has continued to experience strong headwinds. Some of its major facilities have been permanently shut down.

The Bonnie View facility has only recently come back online after significant capital expenditures, and Southcross continued to labor under a heavier debt burden than competitors that equitized a substantial portion of their funded debt starting in 2015. Meanwhile, natural gas prices have stayed consistently low, with current prices below $3.00 per million BTU.

37. Southcross believes that an orderly sale of its assets will likely maximize value for its stakeholders. Without chapter 11 and the availability of post-petition financing, Southcross would likely be unable to execute on this strategy.

38. First, the Revolving Credit Facility matures on August 4, 2019. Southcross has been unable to negotiate an extension or refinancing and cannot pay off the balance when due. Accordingly, Southcross's audited financial statements, which will be released on April 1, 2019, will include a "going concern" qualification, giving rise to a default under both Credit Agreements. Furthermore, those audited financial statements will show that Southcross failed to meet certain of its financial covenants as of the end of 2018.

39. Perhaps more urgently, Southcross is experiencing an immediate liquidity crisis due to significant liquidity losses over the past quarter, included a scheduled reduction of commitments under the Revolving Credit Facility and requests from key counterparties for Southcross to provide additional credit support, such as cash prepayments and letters of credit. Meanwhile, Southcross has been unable to make certain representations regarding its financial condition that are necessary in order to borrow new money or obtain new letters of credit under the Revolving Credit Facility.

III.

PREPETITION RESTRUCTURING INITIATIVES

40. Southcross's management team has taken numerous actions in response to the challenges described above in order to enhance its operations, as well as to improve its liquidity profile and deleverage its balance sheet.

A. Operational Initiatives

41. In light of decreased demand, Southcross removed two major plants from service in the second half of 2016. First, Southcross shut down and dismantled the Conroe processing plant (capacity 50 million cubic feet per day) in South Texas. Second, Southcross idled the Gregory cryogenic processing plant (135 million cubic feet per day) and fractionator (4,800 barrels per day) and converted the facility into a compressor station. Gas that had been processed at Gregory has been diverted to the newer and more efficient Woodsboro plant.

42. By 2018, Southcross began to invest in new-growth capital expenditures in order to take advantage of increased fractionation margins (i.e., the difference in price between natural gas products before and after fractionation), successful drilling in the Permian Basin, and a generally improved commercial environment. Most notably, Southcross re-activated the Bonnie View fractionator in November at a cost of approximately $1.5 million.

B. Liquidity Initiatives

43. Southcross's management and the General Partner's board have explored several potential sources of liquidity.

44. First, in late 2017, Southcross negotiated and announced a merger with a publicly owned natural gas transportation company. Under the contemplated terms of this transaction, all of the debt under the Secured Credit Facilities would have been repaid in full. However,

Southcross terminated this merger agreement in July 2018 following a funding failure on the part of the potential counterparty.

45. Second, in mid-2018, Southcross engaged an investment banker to market its assets—either for a sale of the whole company or a sale of certain non-core assets in Mississippi and Alabama. This process led to discussions of a whole-company sale with a potential strategic purchaser that continued through March 2019. Ultimately, however, the General Partner's board of directors concluded, in consultation with certain of Southcross's lenders, that the potential purchaser's offer for an out-of-court transaction was unworkable. Furthermore, the Credit Agreements' constraints on asset sales made it difficult to conduct a sale process for the non-core Mississippi and Alabama assets on an out-of-court basis.

46. Third, in February 2019, Southcross successfully negotiated an infusion of $10 million from Holdings in the form of prepayments of certain amounts that would otherwise have become due following the second and third quarters of 2019 under the Rich Gas Agreement and Sour Gas Agreement described above.

47. Fourth, Southcross held discussions with certain of its lenders during the first quarter of 2019 regarding a potential extension of additional funded debt and letter of credit facilities. Combined with waivers, forbearances and/or releases of collateral under both Credit Agreements, new financing potentially could have allowed Southcross to continue its business and its asset sale process on an out-of-court basis. However, Southcross was unable to obtain agreement on a new out-of-court credit facility.

48. The results of these efforts led Southcross's management and the General Partner's board to believe that a sales process under the Bankruptcy Code could maximize value for all stakeholders.

C. Financial Restructuring Initiatives

49. In connection with Holdings' 2016 chapter 11 plan of reorganization,[6] Holdings entered into an Equity Cure Contribution Agreement, dated as of March 17, 2016, pursuant to which Holdings committed to fund up to $50 million in "equity cures" under the Revolving Credit Agreement.[7] Pursuant to the Equity Cure Contribution Agreement, Holdings contributed a total of approximately $532,000 in equity cures with respect to the first two quarters of 2016.

50. Southcross again failed to meet its financial covenants (specifically, the requirement to keep its "Consolidated Total Leverage Ratio" at most 5.00:1.00) with respect to the third quarter of 2016. After receiving two extensions of the equity cure deadline, Southcross entered into a more comprehensive waiver and amendment to the Revolving Credit Agreement (the "**Fifth Revolver Amendment**"), dated December 29, 2016. Among other things, the Fifth Revolver Amendment waived the third quarter's breach of the leverage ratio, suspended both leverage ratio tests through (and including) the fourth quarter of 2018, reduced the "Consolidated Interest Coverage Ratio" floor from 2.50:1.00 to 1.50:1.00 through (and including) the fourth quarter of 2018, immediately reduced commitments from $200 million to $145 million, provided for additional commitment reductions down to $115 million at the end of 2018, and reduced the L/C sublimit from $75 million to $50 million. In consideration for the waiver and covenant suspension, Holdings contributed $17 million to Southcross under an amendment to the Equity Cure Agreement (which Southcross used in part to pay down the Revolving Credit Facility) and

[6] Holdings' chapter 11 plan was confirmed on April 11, 2016, by the Honorable Marvin Isgur of the U.S. Bankruptcy Court for the Southern District of Texas (Case No. 16-20111) and became effective on April 13, 2016. Holdings' case is no longer open.

[7] The Revolving Credit Facility has certain leverage, coverage, and minimum EBITDA financial covenants that are calculated quarterly on the basis of Southcross's consolidated EBITDA. In the event that any of these covenants is breached, Southcross may cause the Sponsors or their affiliates to contribute cash into Southcross, the amount of which contribution is added to Southcross's consolidated EBITDA for purposes of measuring financial covenants for the given quarter. This avoidance of a breach by receiving an equity contribution is an "equity cure."

committed up to $15 million in additional contributions to be made upon certain triggering events (but no later than December 31, 2017), backstopped by the Sponsors.

51. On January 2, 2018, Southcross notified Holdings (and Holdings notified the Sponsors) of the obligation to contribute $15 million. Affiliates of the Sponsors timely funded $15 million into Southcross in exchange for the Unsecured Sponsor Notes described above.

52. Southcross again failed to meet its financial covenants (in this case, the amended "Consolidated Interest Coverage Ratio" floor of 1.50:1.00) in the second quarter of 2018, prompting a Sixth Amendment to the Revolving Credit Agreement that lowered the floor to 1.25:1.00 solely for that quarter.

53. In mid-October 2018, Southcross's management initiated discussions regarding the possibility of an amendment and extension of the Revolving Credit Facility, to avoid potential financial covenant defaults and the potential "going concern" default described above. Southcross retained Davis Polk & Wardwell LLP as counsel on October 25, 2018.

54. It became clear in December 2018 that Southcross would likely face a liquidity crunch in the first quarter 2019 following (a) the reduction of commitments under the Revolving Credit Facility, (b) material payments of property taxes in January, (c) year-end payments of interest, fees, and amortization under the Secured Credit Facilities, (d) historically low "frac spreads" (i.e., the price differentials between NGLs and raw natural gas), and (e) counterparties' requests for credit support.[8]

55. After an ad hoc group of lenders organized during the first quarter of 2019, Southcross entered into non-disclosure agreements and provided confidential information to

[8] Moreover, Southcross's unaudited financial statements for the third quarter showed it meeting its Consolidated Interest Coverage Ratio covenant by a narrow margin. Subsequently, Southcross's year-end financial audit revealed that its EBITDA was slightly less than originally calculated and that, based on corrected data, Southcross would have failed to meet its Consolidated Interest Coverage Ratio covenant by a narrow margin.

certain of those lenders and their professional advisors for the purpose of entering into negotiations over a potential restructuring of Southcross's debt. Likewise, Southcross provided similar information to the private-side lenders under the Revolving Credit Agreement and to the professional advisors of their administrative agent. On March 14, 2019, Southcross convened a meeting in New York with lenders holding majorities of the loans outstanding under both credit facilities. At that meeting, Mr. Swent and I delivered a presentation regarding Southcross's financial position and expected needs. Representatives of a prospective purchaser also delivered a proposal a potential out-of-court transaction.

56. Following that meeting, Southcross and its prepetition lender groups determined to proceed to negotiations over post-petition financing in order to support a post-petition asset sale process. Southcross believes that an orderly first-round marketing process will help it and its prepetition lenders determine whether a further sales process or confirmation of a non-sale plan is the value-maximizing approach to Southcross's restructuring. After intense arm's-length negotiations, Southcross secured from certain of its prepetition lenders commitments for $127.5 million of new-money post-petition financing, including $72.5 million in funded debt and $55 million in letter of credit capacity.[9] Furthermore, Southcross, the administrative agent for the Term Loan Facility, and certain lenders under that facility entered into a Second Amendment to the Term Loan Credit Agreement, dated as of March 29, 2019, for the purpose of facilitating the roll-up of certain pre-petition Term Loans into the post-petition financing.

[9] Further information regarding the post-petition financing is set forth in the *Motion of the Debtors for Entry of Interim and Final Orders (i) Authorizing the Debtors to Obtain Senior Secured Superpriority Post-Petition Financing, (ii) Granting Liens and Superpriority Administrative Expense Claims, (iii) Authorizing the Use of Cash Collateral, (iv) Granting Adequate Protection, (v) Modifying the Automatic Stay, (vi) Scheduling Final Hearing, and (vii) Granting Related Relief* and the associated *Declaration of Avinash D'Souza*.

IV.

FIRST DAY MOTIONS

57. Southcross filed the First Day Motions concurrently with the chapter 11 petitions and has requested that each of the First Day Motions be granted, as each is a critical element of a successful and smooth transition to chapter 11.

58. **Significantly, the First Day Motions collectively seek, with the support of the Prepetition Secured Parties, authority to pay all trade creditors in the ordinary course of the Debtors' businesses**. Those creditors include the following principal categories:

> *Post-petition deliveries of prepetition orders* – Southcross relies on many vendors to provide, among other things, raw natural gas, other hydrocarbons, parts, inventory, supplies, equipment, and related goods that are necessary for its regular operations. In order to ensure that vendors are willing to deliver goods that were ordered before the filing date, Southcross seeks in the Goods Motion (as defined below) authority to pay such vendors in the ordinary course for post-petition deliveries of prepetition orders. I estimate that such vendors have prepetition claims of approximately $3 million. (See below at Section IV.B.vi.)
>
> *Gas vendors* – Southcross purchases natural gas and NGLs from producers and other counterparties in South Texas, Mississippi, and Alabama. I understand that producers in South Texas may enjoy liens over natural gas and NGLs that they have sold to Southcross; Southcross seeks in the Lienholder Motion (as defined below) to pay such vendors up to $20 million. (See below at Section IV.B.vii.) Furthermore, I understand that other vendors—producers in Mississippi and Alabama and vendors on the secondary market—likely do not enjoy such liens. Nevertheless, Southcross has requested authority under the All Trade Motion (as defined below) to pay such gas vendors because failure to do so would potentially result in significant disruptions to the Debtors' businesses and additional expenses while Southcross located replacement sources for natural gas and NGLs. Such vendors have prepetition claims of approximately $5.7 million. (See below at Section IV.B.viii.)
>
> *Other lienholders* – Southcross seeks authority in the Lienholder Motion to pay certain other trade creditors that may hold liens against Southcross's assets. These creditors include certain shippers, contractors, specialty suppliers,

mechanics, laborers, and technical engineers that hold prepetition claims of approximately $3 million. (See below at Section IV.B.vii.)

Other critical vendors – Southcross seeks authority in the All Trade Motion to pay certain vendors and suppliers that are critical to Southcross's operations. These creditors include commodity vendors that sell NGLs and methane to Southcross, safety and regulatory compliance vendors, and suppliers of specialized materials. Collectively, these critical vendors hold prepetition claims of approximately $2.9 million. (See below at Section IV.B.viii.)

Residual trade creditors – Southcross seeks authority in the All Trade Motion to pay all of its remaining trade creditors. Although these creditors, considered separately, may not be critical to Southcross's operations, I believe that the ability to pay these creditors' claims while the Chapter 11 Cases are pending would (a) dramatically reduce the financial burden on the Debtors' estates and (b) maintain goodwill and positive relationships with all trade creditors, thereby maximizing value for the benefit of the Debtors' estates. Collectively, these residual trade creditors hold prepetition claims of approximately $1.8 million. (See below at Section IV.B.viii.)

59. Upon payment of the foregoing trade creditors and satisfaction of the claims and obligations covered by the other First Day Motions (e.g., Prepetition Employee Obligations, Insurance Obligation, and Covered Taxes and Fees), I expect that the Secured Credit Facilities and the Unsecured Sponsor Notes would be the sole remaining prepetition claims outstanding against the Debtors' estates.

60. For a more detailed description of the First Day Motions than set forth below, I respectfully refer the Court to the respective First Day Motions. To the extent that this Declaration and the provisions of any of the First Day Motions are inconsistent, the terms of the First Day Motions shall control. Capitalized terms that are used in this Part IV but not otherwise defined in this Declaration shall have the meanings ascribed to them in the relevant First Day Motion.

A. Administrative Motions

i. *Motion of Debtors for Entry of an Order Directing Joint Administration of Chapter 11 Cases (the "**Joint Administration Motion**")*

61. The Debtors seek entry of an order directing joint administration of these cases for procedural purposes only, pursuant to Rule 1015(b) of the Federal Rules of Bankruptcy Procedure and Rule 1015-1 of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware. Specifically, the Debtors request that the Court maintain one file and one docket for all of the chapter 11 cases under the lead case—that of Southcross Energy Partners, L.P.—and further, that an entry be made on the docket of each of the chapter 11 cases of the Debtors to indicate the joint administration of the estates. In addition, the Debtors request that the Court waive the requirement of section 342(c)(1) of the Bankruptcy Code and Bankruptcy Rules 1005 and 2002(n) to include the Debtors' full tax identification numbers in Southcross's caption and in notices sent to creditors.

62. Given the provisions of the Bankruptcy Code and the Debtors' affiliation, joint administration of these cases is warranted. Joint administration will avoid the preparation, replication, service and filing, as applicable, of duplicative notices, applications and orders, thereby saving Southcross considerable expense and resources. The Debtors' financial affairs and business operations are closely related. Many of the motions, hearings and orders in these chapter 11 cases will affect each Debtor and their respective estates. The rights of creditors will not be adversely affected, as the Joint Administration Motion requests only administrative, and not substantive, consolidation of the estates. Moreover, each creditor can still file its claim against a particular estate. In fact, all creditors will benefit by the reduced costs that will result from the joint administration of these chapter 11 cases. The Court also will be relieved of the burden of entering duplicative orders and maintaining duplicative files. Finally, supervision of

the administrative aspects of these chapter 11 cases by the United States Trustee for Region 3 will be simplified.

63. Furthermore, it is appropriate to waive the requirement of section 342(c)(1) of the Bankruptcy Code and Bankruptcy Rules 1005 and 2002(n) to include the Debtors' full tax identification numbers in Southcross's caption and in notices sent to creditors. This information is available on the Debtors' chapter 11 petitions. Waiver of this requirement is purely procedural in nature and will ease the administrative burden on Southcross.

64. I believe that the relief requested in the Joint Administration Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest and facilitates achieving a successful and smooth transition to chapter 11. Accordingly, on behalf of each the Debtors, I respectfully submit that the relief requested in the Joint Administration Motion should be granted.

ii. *Motion of Debtors for Entry of an Order (i) Waiving the Requirements to File Equity Lists and to Provide Notice to Equity Security Holders and (ii) Authorizing Debtors to File a Consolidated List of Debtors' 20 Largest Unsecured Creditors (the "**Consolidated Notice Motion**")*

65. The Debtors seek entry of an order (i) waiving the requirement to file a list of equity security holders for each Debtor and the requirement to give notice of the order for relief to all equity security holders of the Debtors and (ii) authorizing the Debtors to file a consolidated list of the Debtors' 20 largest unsecured creditors.

66. The Partnership is a public company with, as of March 19, 2019, approximately 48,694,891 shares of issued and outstanding publicly held common limited partnership units. Each of the Debtors other than the Partnership has disclosed each of its equity security holders in the corporate ownership statements filed with their respective petitions. Preparing a list of Southcross's equity security holders with last known addresses and sending notices to all parties

on that Equity List would be extremely expensive and time-consuming. Furthermore, to the extent that it is determined that equity security holders are entitled to distributions from the Debtors' estates, those parties will be provided with notice of the bar date and will then have an opportunity to assert their interests.

67. Many creditors are shared among certain of the Debtors, and requiring the Debtors to segregate and convert their records to Debtor-specific creditor matrices would be an unnecessarily burdensome task and result in duplicate mailings. I believe that permitting the Debtors to maintain a single consolidated list of creditors in lieu of a separate matrix for each Debtor will maximize the value of the Debtors' estates and is in the benefit of all of the Debtors' stakeholders. Accordingly, on behalf of each of the Debtors, I respectfully submit that the relief requested in the Consolidated Notice Motion should be granted.

iii. *Application of Debtors for Entry of an Order Authorizing Debtors To Employ and Retain Kurtzman Carson Consultants LLC as Notice and Claims Agent for Debtors Nunc Pro Tunc to the Petition Date (the "**KCC Application**")*

68. The Debtors seek entry of an order authorizing the Debtors to employ and retain Kurtzman Carson Consultants LLC ("**KCC**") as their notice and claims agent (the "**Notice and Claims Agent**") in the Chapter 11 Cases *nunc pro tunc* to the Petition Date. I believe that this retention is the most effective and efficient manner of noticing the creditors and parties in interest of the filing of the Chapter 11 Cases and other developments. In view of the number of anticipated claimants and the complexity of the Debtors' businesses, I believe that the appointment of a notice and claims agent is both necessary and in the best interests of the Debtors' estates and creditors because the Debtors will be relieved of the burdens associated with the notice and claims processing services to be provided by KCC. Relieved of such burdens, the

Debtors will be able to devote their full attention and resources to maximizing value for their stakeholders and facilitating the orderly administration of the Chapter 11 Cases.

69. In its capacity as Notice and Claims Agent, KCC will, among other things, distribute notices and transmit, receive, process, docket, and maintain proofs of claim filed in connection with the Chapter 11 Cases. Accordingly, on behalf of each of the Debtors, I respectfully submit that the relief requested in the KCC Application should be granted.

B. Operational Motions Requiring Immediate Relief

i. *Motion of Debtors for Entry of Interim and Final Orders Authorizing (i) Debtors to Continue to Maintain Existing Cash Management System, Bank Accounts, and Business Forms and (ii) Financial Institutions to Honor and Process Related Checks and Transfers (the "**Cash Management Motion**")*

70. The Debtors request entry of interim and final orders (a) authorizing, but not directing, the Debtors to (i) continue to operate their prepetition Cash Management System with respect to intercompany cash management, as further described in the Cash Management Motion, (ii) maintain their existing Bank Accounts, and (iii) maintain their existing business forms, (b) waiving the requirements of section 345(b) of the Bankruptcy Code on an interim basis, and (c) authorizing the Debtors' financial institutions to receive, process, honor, and pay all checks or wire transfers used by the Debtors to pay the foregoing.

71. In the ordinary course of business, the Debtors utilize the Cash Management System—including the Operating Account, the FL Rich Account for certain fee revenue from customers of FL Rich Gas Services, LP, a payroll account, and a medical claims account—to collect and disburse funds generated by the operations of the Debtors. Additionally, the Debtors maintain a purchase card program (the "**Purchase Card Program**") with JPMorgan. The Purchase Card Program is used by approximately 120 employees of the Debtors to pay for

authorized expenses incurred by such employees in the ordinary course of the Debtors' businesses.

72. As described above and in the Shared Services Agreement, the Debtors and Holdings generally pay their respective allocated pro rata portion of all shared services expenses, including, among other things, general administration, accounting, investor relations, legal and regulatory services, financial and treasury services, technological support, human resources, and labor. For all such services, other than labor, the Debtors pay the amounts due and Southcross Holdings reimburses the Debtors for its pro rata portion. Furthermore, each funds its respective portions of certain employee obligations into a payroll account located at Southcross GP, which in turn funds payroll to the payroll administrator. The Debtors carefully track all amounts due from Southcross Holdings and believe that, as of the Petition Date, any amount due to the Debtors from Southcross Holdings for accrued and unpaid shared services obligations is *de minimis*.

73. The basic structure of the Cash Management System constitutes the Debtors' ordinary, usual, and essential business practices. The Cash Management System is similar to those commonly employed by corporate enterprises comparable to the Debtors in size and complexity. The Cash Management System is integrated with the Debtors' accounting processes and software that produce the Debtors' financial statements, and the Cash Management System includes the necessary accounting controls to enable the Debtors, as well as other interested parties in the Chapter 11 Cases, to trace funds through the system. The design, development, testing, and implementation of this portion of the Debtors' accounting system, and its interfacing with the Cash Management System, require the dedicated efforts of a significant number of the Debtors' employees, supported by outside consultants. If the Debtors were required to dismantle

the Cash Management System, it would disrupt the Debtors' day-to-day operations and their accounting processes and software. Dismantling the Cash Management System would also gravely impair the Debtors' ability to generate timely reports of transactions and balances, as well as annual and quarterly SEC filings.

74. It would be very time consuming, difficult, and costly for the Debtors to establish an entirely new system of accounts and a new cash management system, and doing so would disrupt the Debtors' relationships with their key counterparties and suppliers. The attendant delays from opening new accounts, revising cash management procedures, and instructing their commercial counterparties and countless other entities to redirect payments would negatively impact the Debtors' ability to operate their businesses while pursuing these arrangements. Under the circumstances, maintenance of the Cash Management System is essential and clearly in the best interest of the Debtors' estates. Furthermore, preserving the "business as usual" atmosphere and avoiding the unnecessary and costly distractions that would inevitably be associated with any substantial disruption to the Cash Management System will facilitate the Debtors' efforts to maximize the value of their estates in the Chapter 11 Cases.

75. The Debtors also request that they be authorized to continue to use their Business Forms, substantially in the forms existing immediately before the Petition Date, without reference to their status as debtors in possession. As a result of the press releases issued by the Debtors and other press coverage, parties doing business with the Debtors undoubtedly will be aware of the Debtors' status as debtors in possession. In the absence of such relief, the Debtors' estates will be required to bear a potentially significant expense that the Debtors respectfully submit is unwarranted. Once the Debtors' existing checks have been used, the Debtors will, when reordering checks, ensure that the designation "Debtor in Possession" and the

corresponding bankruptcy case number will be printed on all checks. With respect to electronic checks and checks that the Debtors or their agents print themselves, the Debtors will begin printing the "Debtor in Possession" legend on such items within ten days of the date of entry of the interim order approving the relief requested herein.

76. If the Debtors are not permitted to maintain and use their Bank Accounts and continue to use their existing Business Forms as set forth herein, the resulting prejudice will include (a) disruption of the ordinary financial affairs and business operations of the Debtors, (b) delay in the administration of the Debtors' estates, (c) compromise of the Debtors' internal controls and accounting system, and (d) costs to the Debtors' estates to set up new systems, open new accounts, and print new business forms. Without the relief requested, the Debtors would have great difficulty maintaining their operations, which could cause material harm to the Debtors and their estates.

77. Cause also exists to waive the investment and deposit restrictions of section 345(b) of the Bankruptcy Code on an interim basis to the extent that the Debtors' cash management deposits do not comply with those restrictions. The Banks at which the Debtors maintain Bank Accounts are financially stable banking institutions and are FDIC insured (up to an applicable amount per account). Because the Debtors do not and do not plan to have any investments other than cash and cash equivalents, the Debtors do not believe that any additional guaranties or sureties are necessary.

78. I believe that the relief requested in the Cash Management Motion is in the best interests of the Debtors' estates, their creditors and all other parties in interest and constitutes a critical element in achieving a successful and smooth transition to chapter 11. Accordingly, on

behalf of the Debtors, I respectfully submit that the relief requested in the Cash Management Motion should be granted.

ii. *Motion of Debtors for Entry of Interim and Final Orders Authorizing (i) Debtors to (a) Pay Prepetition Employee Obligations and (b) Maintain Employee Benefits Programs and Pay Related Administrative Obligations, (ii) Current and Former Employees to Proceed with Outstanding Workers' Compensation Claims, and (iii) Financial Institution to Honor and Process Related Checks and Transfers (the "**Wages and Benefits Motion**")*

79. The Debtors seek relief (a) authorizing, but not requiring, the Debtors to (i) pay or cause to be paid, in their sole discretion, all or a portion of their Prepetition Employee Obligations and (ii) unless otherwise set forth herein, continue, in their sole discretion, their Employee Programs, as those Employee Programs were in effect as of the Petition Date and as may be modified, terminated, amended, or supplemented from time to time by the Debtors, and to make payments pursuant to the Employee Programs in the ordinary course of business, as well as to pay related administrative obligations, (b) permitting current and former Employees holding claims under the Workers' Compensation Program to proceed with such claims in the appropriate judicial or administrative fora, and (c) authorizing the Debtors' financial institutions to receive, process, honor, and pay all checks or wire transfers used by Debtors to pay the foregoing. The Debtors do not seek relief authorizing them to continue their Severance Program or any retention program with respect to Insiders.

80. The Debtors' Prepetition Employee Obligations include the following:

(a) Wages. Employees are generally paid bi-weekly, on Fridays, one week in arrears. The most recent payroll was paid to Employees on March 29, 2019. The Debtors' average gross payroll per payroll period is approximately $902,000, which is composed of approximately $820,000 in base compensation and approximately $82,000 in overtime pay. I estimate that, as of the Petition Date, the Debtors owe approximately

$451,000 in wages and salaries to Employees, which is comprised of approximately $410,000 in base compensation and $41,000 in overtime pay.

(b) Withholding Obligations. Southcross GP, on behalf of the Debtors and their non-Debtor affiliates, routinely withholds from Employees' Wages certain amounts required to be transmitted to third parties for such purposes as Social Security, Medicare, federal, and state income taxes, the Medical and Dental Plans, the vision plan, the 401(k) Plan, contributions and payroll deduction payment programs for various insurance programs, flexible savings accounts, child support payments, and other similar mandatory withholdings. The Debtors' average Withholdings Obligations are summarized below:

Withholding Obligation	**Estimated Amount Per Payroll Period**	**Estimated Amount Accrued & Unpaid as of the Petition Date**
Employee Taxes[10]	$180,000	$90,000
Medical and Dental	$33,000	$16,500
Vision	$1,000	$500
401(k)	$60,000	$30,000
Insurance	$5,000	$2,500
Flexible Savings Accounts	$2,400	$1,200
Child Support	$6,000	$3,000
Total	**$287,400**	**$143,700**

I believe that the Withholding Obligations, to the extent that they were in the Debtors' possession as of the Petition Date and/or remain in the Debtors' possession, are not property of the Debtors' bankruptcy estates under section 541 of the Bankruptcy Code.

(c) Business Expense Reimbursement. The Debtors customarily reimburse Employees who incur business expenses in the ordinary course of performing their business duties on behalf of the Debtors. These reimbursement obligations include,

[10] Excludes Employer Taxes, estimated at $80,000 per payroll period and $40,000 accrued and unpaid as of the Petition Date.

among other things, travel, business meals and entertainment, and office expenses. In 2018, the Reimbursement Obligations averaged approximately $22,500 per month, based on aggregate annual Reimbursement Obligations of approximately $270,000. I estimate that the Debtors owe approximately $22,500 related to Reimbursement Obligations as of the Petition Date.

(d) Relocation Obligations. The Debtors pay or reimburse Employees for relocation expenses incurred at the Debtors' request or for the Debtors' benefit on a case-by-case basis at the Debtors' discretion. The Relocation Obligations generally include amounts incurred for property rental assistance, temporary lodging and housing, moving expenses, travel expenses for housing services and visits, storage, lease termination, and sales and marketing assistance. As of the Petition Date, I believe that no Relocation Obligations remain outstanding.

(e) Health and Welfare Plan Obligation. The Debtors offer several health and welfare benefit plans to Employees, including, among other things, coverage for medical, dental, vision, flexible spending accounts, basic and voluntary supplemental life, basic and voluntary supplemental accidental death and dismemberment, short-term and long-term disability, and certain other insurance, employee assistance, and benefit programs. With respect to the Medical and Dental Plans:

(i) Administrative costs are funded in advance on the 15th of the month for the subsequent month, which averaged approximately $120,000 per month in 2018 for current Employees. The Medical and Dental Plans are insured by and administered through Cigna Health and Life Insurance Company.

(ii) Debtor Southcross GP has an imprest bank account at J.P. Morgan Chase Bank, N.A. that is used for employee medical claims. The Debtors maintain a balance of $300,000 in this account and fund the account at the end of the month. If medical costs exceed $300,000 for the month, then Cigna covers any excess costs. On average, the Debtors replenish this account with approximately $240,000 per month.

In 2018, payments on account of Health and Welfare Plans totaled approximately $4,731,000, comprised of (a) $4,320,000 for payments under the Medical and Dental Plans, (b) $62,000 for contributions to flexible savings accounts, (c) $32,000 for payments under the vision plans, (d) $312,000 for payments under the life and accidental death and dismemberment insurance plans, and (e) $5,000 for payments under the employee assistance plan (*i.e.*, counseling service for employees). The Debtors did not incur any expenses in 2018 in connection with a third party administrator's management, reporting, and processing of COBRA obligations. All Employees have the right under COBRA to elect to receive COBRA coverage, which extends medical, dental, and vision benefits to which an Employee was entitled immediately prior to termination for a specified post-termination period of 18 months. Employees who elect to receive COBRA coverage are required to pay 102% of the elected premiums. As of the Petition Date, one former Employee has elected to receive COBRA coverage. COBRA coverage is administered through Tri-Star Benefits Systems Inc. I estimate that the cost of the Health and Welfare Plan Obligations is approximately $390,000 per month, with no Health and Welfare Plan Obligations outstanding as of the Petition Date.

(f) Paid Time Off. Pursuant to the Debtors' paid time off policies, eligible Employees are paid their regularly scheduled full-time or part-time Wages for each PTO day, up to the maximum number of days accrued. In accordance with the applicable policy, each Employee may accrue up to 25 PTO days per calendar year. Employees also have paid time off for a set list of ten holidays. Upon termination of employment, all accrued and unused PTO is paid out. The Debtors have prepetition accrued PTO and holiday obligations for their Employees, which I understand that they intend to honor in the ordinary course of business.

(g) Disability Benefits. The Debtors offer disability benefits to their Employees, consisting of short-term and long-term disability benefits. In 2018, the Debtors' incurred expenses of approximately $156,000 on account of such obligations, and I estimate that they will pay approximately the same amount during calendar year 2019. I believe that, as of the Petition Date, no Disability Obligations remain outstanding.

(h) Retirement Plans. The Debtors maintain a single-employer, 401(k) retirement plan. The Debtors generally match an Employee's voluntary contributions dollar-for-dollar up to 6% of the Employee's compensation, subject to limits under the Internal Revenue Code. As of December 31, 2018, 146 of the Debtors' current and former Employees were participating in the 401(k) Plan. In 2018, the Debtors' 401(k) matching contributions averaged approximately $87,000 per month. I estimate that, as of the Petition Date, approximately $22,000 in 401(k) Plan matching obligations remain outstanding.

(i) Workers' Compensation Program. The Debtors are required to maintain a workers' compensation insurance program to cover Employees' workers' compensation claims arising from or related to their employment with the Debtors and to satisfy the Debtors' obligations arising under or related to the Workers' Compensation Program. For each claim under the Workers' Compensation Program, the Debtors file an injury report with a third party administrator, Hartford, which performs an independent investigation of whether the claim is eligible for coverage. Hartford administers and pays out eligible claims. The Debtors do not have any additional obligations outside of paying annual premiums to Hartford, which were prepaid in November 2018.

(j) Contingent Workers. The Debtors use Contingent Workers that include temporary office workers, administrative staff, and information technology specialists. Payments to the Contingent Workers vary according to the terms of the Contingent Workers' individual contracts with the Debtors or according to the terms of the Debtors' contracts with the appropriate staffing agencies. In 2018, the Debtors paid out approximately $4,220,000 on account of Contingent Workers Obligations. Although it is difficult to determine total accrued and unpaid prepetition obligations to the Contingent Workers because of the generally unpredictable and irregular nature of such obligations, I believe that, as of the Petition Date, accrued and unpaid Contingent Workers Obligations total approximately $450,000.

(k) Severance Program. The Debtors have certain obligations arising out of a severance plan maintained by the Debtors for the benefit of all of their Employees, some of whom may be considered insiders of the Debtors (as that term is defined in section 101(31) of the Bankruptcy Code). The Severance Program, adopted by the Debtors on

March 1, 2017 (*i.e.*, the Employee Protection Plan), provides Employees terminated with cash payments, depending on title and basis for termination, in accordance with the terms thereof and as summarized below:

Qualifying Change of Control Termination Severance Benefits

Title	Base Salary	Bonus Benefit	COBRA-Related Benefit
Vice President	12 months base salary	Prorated target bonus	Amount equal to employee-only monthly COBRA premium multiplied by 12
Division Director	9 months base salary	Prorated target bonus	Amount equal to employee-only monthly COBRA premium multiplied by 9
Manager/Supervisor	6 months base salary	Prorated target bonus	Amount equal to employee-only monthly COBRA premium multiplied by 6
Other Covered Employees	4 months base salary	Prorated target bonus	Amount equal to employee-only monthly COBRA premium multiplied by 4

Qualifying Reduction in Force Termination Severance Benefits

Title	Calculation	Minimum Payment	COBRA-Related Benefit
Vice President	9 months base salary		Amount equal to employee-only monthly COBRA premium multiplied by 9
Division Director	6 months base salary		Amount equal to

			employee-only monthly COBRA premium multiplied by 6
Other Covered Employees	2 weeks per year of service	12 weeks base salary	Amount equal to employee-only monthly COBRA premium multiplied by the number of whole months used to determine severance benefit

In 2018, the Debtors paid approximately $480,000 on account of Severance Obligations. I believe that, as of the Petition Date, no payments owed under the Severance Program are outstanding. For the avoidance of doubt, I understand that the Debtors are not seeking authority to continue the Severance Program with respect to Employees who are Insiders, but only with respect to all other Employees who are not Insiders and are eligible to receive payments pursuant to the Severance Program. I believe that the Debtors having the authority, in their sole discretion, to maintain the Severance Program for Eligible Non-Insider Employees is essential to their businesses in order to retain, and provide security to, Eligible Non-Insider Employees. Although it is difficult to estimate the average monthly cost of the Non-Insider Severance Obligations given the generally unpredictable and irregular nature of such obligations, I believe that the monthly cost of maintaining the Non-Insider Severance Program for Eligible Non-Insider Employees is negligible in the context of the Debtors' aggregate compensation and benefit obligations.

(l) Retention Program. The Debtors have certain obligations arising out of, among others, a retention program adopted by the Debtors for the benefit of certain designated division directors, managers, and other designated personnel, none of whom are considered Insiders. The Non-Insider Retention Program, adopted by the Debtors on February 11, 2019, provides each Employee with a lump sum payment equal to a

percentage of such Employee's base salary if such Employee remains employed by the Debtors until a designated distribution date with no clawback provision. As of the Petition Date, I believe that the Debtors have accrued approximately $2,600,000 in Non-Insider Retention Obligations on account of the Non-Insider Retention Program. I understand that the Debtors are seeking authority to pay these Non-Insider Retention Obligations in the following three installments: on June 30, 2019 (25%); September 30, 2019 (25%); and December 31, 2019 (50%). The Non-Insider Retention Program does not contain a change-of-control trigger that would otherwise accelerate payment of such obligations to Eligible Non-Insider Employees. I believe that the Debtors having the authority, in their sole discretion, to maintain the Non-Insider Retention Program for Eligible Non-Insider Employees is essential to their businesses in order to retain, and provide security to, Eligible Non-Insider Employees. In addition, in March 2019, the Debtors adopted a separate Retention Program for its Employees who are Insiders, which provided each such Insider Employee with a cash payment in lieu of any retention or severance obligations under any other program.[11] I believe that it was essential to pay such Retention Obligations to the Insider Employees to run the Debtors' business operations and to maximize value on behalf of the Debtors' estates and stakeholders. For the avoidance of doubt, the I understand that the Debtors are not seeking any form of relief with respect to payments related to the Insider Retention Program.

(m) Non-Insider Incentive Plan. The Debtors maintain incentive plans for the Employees. The incentive plans are carefully calibrated to ensure that eligible

[11] The Debtors filed a Form 8-K with the SEC disclosing the implementation of the Insider Retention Program and the payments made thereunder.

Employees are rewarded for their efforts toward the Debtors' financial performance and productivity, as well as their contributions to the Debtors' achievement of maximum workplace safety and environmental compliance. I understand that the Debtors are seeking authority to continue certain of these incentive plans with respect to Employees who are not Insiders, but not seeking to continue any incentive plans with respect to Insiders. In the ordinary course of business, the Debtors offer awards under a Short-Term Incentive Performance Plan to all full-time Employees for the purpose of providing Employees with a direct financial incentive in meeting certain financial goals and other departmental objectives identified by the Debtors. Each Employee's STIP opportunity is based on his or her role and position within the Debtors' businesses and is discretionary at the company-wide and individual employee levels. Indeed, certain minimum performance thresholds must be achieved prior to the payment of any compensation under the STIP. The STIP is earned over the course of a calendar year and paid in March of the following calendar year. The calendar year 2018 STIP that was paid in March of 2019 totaled approximately $3,550,000. I understand that the Debtors are seeking authority to make payments under the STIP to non-Insider Employees for employee performance during the calendar year 2019. I estimate that the Non-Insider STIP Obligations accrued thus far for the calendar year 2019 STIP paid in March of 2020 will total approximately $600,000. The Debtors also maintained, in the ordinary course of business, a Long-Term Incentive Performance Plan. The LTIP was available to approximately 37 Employees (including three Insiders) and provided for a variety of cash-based incentive awards to individual Employees at the discretion of the Debtors' Board of Directors. Under the LTIP, the Debtors paid approximately $450,000 in

Awards in 2019. I believe that the LTIP has expired in accordance with its terms and no Awards remain outstanding.

81. I believe that many of the Prepetition Employee Obligations constitute priority claims under sections 507(a)(4) and 507(a)(5) of the Bankruptcy Code. To the extent such Prepetition Employee Obligations constitute priority claims, the Debtors may be required to pay such claims in full to confirm a chapter 11 plan. Thus, granting the relief sought in the Wages and Benefits Motion would only cause such Employee claims to be paid in the initial stages of the Chapter 11 Cases, rather than at the plan confirmation stage.

82. Any delay in paying the Prepetition Employee Obligations or failure to maintain the Employee Programs and pay related administrative obligations will adversely impact the Debtors' relationships with their Employees and could irreparably impair Employees' morale, dedication, confidence, and cooperation. In addition, many Employees might immediately seek employment elsewhere. The Debtors' businesses hinge on their ability to deliver superior products and services. The Employees' support for the Debtors' restructuring efforts in the Chapter 11 Cases is critical to the success of those efforts. At this early stage, the Debtors simply cannot risk the substantial damage to their businesses that would inevitably accompanying any decline in their Employees' morale attributable to the Debtors' failure to pay the Prepetition Employee Obligations.

83. Absent an order granting the relief requested in the Wages and Benefits Motion, many Employees would undoubtedly suffer hardship and, in many instances, serious financial difficulties, as the amounts in question are needed to enable certain Employees to meet their own personal financial obligations. Without the requested relief, the safety and stability of the Debtors and their operations would be undermined, perhaps irreparably, by the possibility that

otherwise loyal Employees will seek other employment alternatives. Furthermore, the Debtors operate in locations with high concentrations of hydrogen sulfide (H_2S), a highly toxic and inflammable gas; without qualified Employees overseeing and managing this risk, there could be serious environmental impacts or even loss of human life. Consequently, all of the Debtors' creditors will benefit if the requested relief is granted.

84. It is also crucial for Employee morale and for the Debtors' operations that the Debtors be able to continue to (a) pay workers' compensation benefits and (b) honor the Workers' Compensation Obligations under the Workers' Compensation Program described in the Wages and Benefits Motion. To the extent that any current or former Employees hold claims pursuant to the Workers' Compensation Program, the Debtors seek authorization under section 362(d) of the Bankruptcy Code to permit such current or former Employees, in the Debtors' sole discretion, to proceed with such claims in the appropriate judicial or administrative fora. I believe that cause exists to grant them authority to modify the automatic stay, where the Debtors deem it appropriate to do so, because staying such claims could have a detrimental effect on the financial and medical well-being and morale of the Debtors' Employees.

85. I believe that the relief requested in the Wages and Benefits Motion is in the best interests of the Debtors' estates, their creditors and all other parties in interest and constitutes a critical element in achieving a successful and smooth transition to chapter 11. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Wages and Benefits Motion should be granted.

iii. *Motion of Debtors for Entry of Interim and Final Orders Authorizing (i) Debtors to Continue and Renew Their Liability, Property, Casualty, and Other Insurance Programs and Honor All Obligations in Respect Thereof and (ii) Financial Institutions to Honor and Process Related Checks and Transfers (the "**Insurance Motion**")*

86. The Debtors seek entry of interim and final orders (a) authorizing, but not directing, them to maintain, continue, and renew, in their sole discretion, their various Insurance Programs in the ordinary course of their businesses through several private Insurance Carriers on an uninterrupted basis and in accordance with the same practices and procedures as were in effect before the Petition Date and (b) authorizing the Debtors' financial institutions to receive, process, honor, and pay checks or wire transfers used by the Debtors to pay the foregoing. This would include (y) paying all Insurance Obligations arising under the Insurance Programs, including, but not limited to, any Brokers' Fees, whether due and payable before, on, or after the Petition Date and (z) renewing or obtaining new insurance policies as needed in the ordinary course of business.

87. The Debtors maintain various Insurance Programs through the Insurance Carriers. A summary of the Debtors' principal Insurance Programs is set forth on Exhibit A attached to the Insurance Motion. The Insurance Programs include coverage for, among other things, personal injury, property damage, operation of vehicles, crime, business interruption, breach of duty by officers or directors, the Debtors' development and production facilities, and various other property-related and general liabilities. As part of the Insurance Programs, the Debtors also maintain a workers' compensation policy (described above and in the Wages and Benefits Motion). All of the Insurance Programs are essential to the ongoing operation of the Debtors' businesses and the preservation of the value of the Debtors' estates.

88. The Debtors employ McGriff, Seibels, & Williams, Inc. and Marsh USA Inc. (the "**Brokers**") to assist them with the procurement and management of the Insurance Programs.

Specifically, McGriff, Seibels, & Williams, Inc. assists the Debtors with the procurement of the Insurance Programs related to (a) general liability, (b) automobile, (c) property, (d) pollution, and (e) workers' compensation, and was paid a flat annual fee of $200,000 in 2018. Marsh USA Inc., on the other hand, assists the Debtors with the procurement of the Insurance Programs related to (y) directors' and officers' liability and (z) employee crime, and receives compensation in the form of a percentage of the insurance premiums paid by the Debtors with respect to such Insurance Programs. In 2018, the Debtors paid Marsh USA Inc. approximately $82,000 in fees. The Debtors estimate that they pay Brokers' Fees in the approximate amount of $282,000 in the aggregate annually. The employment of the Brokers allows the Debtors to obtain and manage the Insurance Programs in a reasonable and prudent manner and to realize considerable savings in the procurement of such policies. Accordingly, I believe that it is in the best interest of the creditors and estates to continue their business relationships with the Brokers. As of the Petition Date, no Brokers' Fees remain outstanding. The Insurance Programs renew on various dates throughout the year. The premiums for most of the Insurance Programs (collectively, the "**Insurance Premiums**") are determined annually and are due either in their entirety at policy inception or in periodic installments throughout the policy term. The Debtors make such payments to various parties, including directly to the Insurance Carriers and indirectly to the Insurance Carriers through the Brokers.

89. The Debtors' aggregate annual Insurance Premiums under the Insurance Programs total approximately $5,890,000. I believe that all material Insurance Premiums that were due and payable on or prior to the Petition Date have been fully paid.

90. Pursuant to the Insurance Programs, the Debtors may be required to pay various Insurance Deductibles, depending upon the type of claim and insurance policy involved. Under

certain policies, the Insurance Carriers and third party administrators may pay claimants and then invoice the Debtors or draw funds directly from the Debtors' bank accounts for reimbursement for claims paid within any Insurance Deductible. In such situations, the Insurance Carriers may have prepetition claims against the Debtors. As of the Petition Date, I do not believe that there are any material prepetition obligations owed to Insurance Carriers relating to Insurance Deductibles.

91. In the ordinary course of business, the Debtors are required to provide surety bonds to certain third parties, often governmental units or other public agencies, to secure the Debtors' payment or performance of certain obligations. These obligations include eight performance bonds with the Railroad Commission of Texas. The Railroad Commission of Texas requires individuals who operate a pipeline to post a surety bonds in varying amounts prior to conducting business.

92. The Debtors have eight primary surety bonds with RLI Insurance Company in the aggregate amount of approximately $200,000. The premiums for the surety bonds are generally determined on an annual basis and are paid by the Debtors when the bond is issued or renewed. The Debtors pay approximately $11,000 annually in premiums on account of the Surety Bond Program and are currently in the process of renewing all of the surety bonds. A schedule of the surety bonds currently maintained by the Debtors is attached to the Insurance Motion in Exhibit A.

93. The nature of the Debtors' businesses makes it essential for the Debtors to maintain their Insurance Programs on an ongoing and uninterrupted basis. The non-payment of any premiums, deductibles, or related fees under the Insurance Programs could result in one or more of the Insurance Carriers terminating or declining to renew their insurance policies or

refusing to enter into new insurance policies with the Debtors in the future. If any of the Insurance Programs lapse without renewal, the Debtors could be in violation of state and/or federal law and be exposed to substantial liability for personal and/or property damages, to the detriment of all parties in interest.

94. Moreover, pursuant to contractual obligations with numerous third party property owners, customers, suppliers, distributors, contractors, and lenders, the Debtors are obligated to remain current with respect to certain of the Insurance Programs. Furthermore, the Debtors must maintain the Insurance Programs to comply with the operating guidelines of the Office of the United States Trustee for Region 3. Thus, in order for the Debtors to maintain their operations in compliance with various legal and contractual obligations, the Debtors must be able to continue the Insurance Programs without disruption.

95. Even where coverage is not expressly required by applicable law, the Debtors are nevertheless compelled by sound business practice to maintain essential insurance coverage. Any interruption in such coverage would expose the Debtors to a variety of risks, including the possible (a) incurrence of direct liability for the payment of claims that otherwise would have been covered by the Insurance Programs, (b) incurrence of material costs and other losses that otherwise would have been reimbursed, such as attorneys' fees for certain covered claims, (c) inability to obtain similar types and levels of insurance coverage, and (d) incurrence of higher costs for reestablishing lapsed policies or obtaining new insurance coverage.

96. The Debtors' ability to maintain and honor their Insurance Programs in a timely manner is critical to the ongoing operation of their businesses, as discussed above, and therefore necessary to their successful reorganization. The Debtors believe that any prepetition amounts that they will pay in respect of Insurance Programs would be small relative to the size of the

Debtors' estates and the critical benefits provided by the Insurance Programs. As noted above, interruption of the Debtors' insurance coverage could, among other things, cause the Debtors to violate state and/or federal law and expose the Debtors to direct liability for significant claims that otherwise would be covered by insurance, thus potentially substantially diminishing the value of the Debtors' estates. For the Debtors to pay what would be relatively small prepetition amounts under the Insurance Programs to avoid such an occurrence is in the best interests of the Debtors, their estates, and all of the Debtors' stakeholders and other parties in interest. Accordingly, the continuation of the Insurance Programs and the payment of prepetition Insurance Premiums, including any payments to the Brokers, falls within the sound business judgment of the Debtors and will benefit, rather than prejudice, the Debtors' creditors by preserving the property of the Debtors' estates.

97. I believe that the relief requested in the Insurance Motion is in the best interests of the Debtors' estates, their creditors and all other parties in interest and constitutes a critical element in achieving a successful and smooth transition to chapter 11. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Insurance Motion should be granted.

iv. *Motion of Debtors for Entry of Interim and Final Orders (i) Prohibiting Utilities from Altering, Refusing, and Discontinuing Service, (ii) Deeming Utilities Adequately Assured of Future Performance, and (iii) Establishing Procedures for Determining Requests for Additional Adequate Assurance (the "**Utilities Motion**")*

98. The Debtors seek entry of interim and final orders (a) prohibiting the Utilities from altering, refusing, or discontinuing any Utility Services on account of prepetition amounts outstanding or on account of any perceived inadequacy of the Debtors' proposed adequate assurance, (b) determining that the Debtors' proposed offer of deposits, as set forth herein, provides the Utilities with adequate assurance of payment within the meaning of section 366 of

the Bankruptcy Code, and (c) approving procedures for resolving requests by Utilities for additional or different assurances beyond those set forth in this Motion.

99. In connection with the operation of their businesses and management of their properties, the Debtors obtain Utility Services, including electricity, natural gas, telephone, sewage, telecommunications, waste removal, water, and other similar services from dozens of Utilities, as the term "utilities" is used in section 366 of the Bankruptcy Code. The Debtors have made an extensive and good faith effort to identify all of the Utilities that provide them Utility Services and to include them on the Utilities List attached as Exhibit A to the Utilities Motion.

100. Uninterrupted Utility Services are essential to the Debtors' ongoing operations and, therefore, the preservation of the value of the Debtors' estates. The Debtors' businesses are supported by two corporate offices, six field offices, and eight processing, compression, and fractionation plants, all of which depend on reliable delivery of power and other Utility Services. Should any Utility alter, refuse, or discontinue service, even for a brief period, the Debtors' operations could be severely disrupted. The impact of this disruption on the Debtors' business operations and revenue would be extremely harmful and could jeopardize the value of the Debtors' estates.

101. The relief requested in the Utilities Motion will ensure that the Debtors' operations will not be disrupted. Furthermore, the relief requested provides the Utilities with a fair and orderly procedure for addressing requests for additional or different adequate assurance. Without the Adequate Assurance Procedures, the Debtors could be forced to address numerous requests by the Utilities in a disorganized manner at a critical period in the Chapter 11 Cases and during a time when the Debtors' efforts could be more productively focused on the continuation of the Debtors' operations for the benefit of all parties in interest.

102. I believe that the Utilities have "adequate assurance of payment" even without the proposed Adequate Assurance Deposit. Contemporaneously herewith, the Debtors are seeking authorization to use cash collateral and enter into the DIP Facility, which will enable them to pay their operating costs, including any utility costs, as they come due. The Debtors, thus, anticipate having sufficient resources to pay, and intend to pay, any and all valid post-petition obligations for Utility Services in a timely manner. In addition, the Debtors' reliance on Utility Services for the operation of their businesses provides them with a powerful incentive to stay current on their utility obligations.

103. Notwithstanding the foregoing, the Debtors believe that the Proposed Adequate Assurance and the Adequate Assurance Procedures are reasonable, satisfy the requirements of section 366 of the Bankruptcy Code, and are necessary for the Debtors to carry out their reorganization efforts. If they are not approved, the Debtors could be forced to address payment requests by any Utility in a disorganized manner, which would distract management from focusing on the Debtors' reorganization. Moreover, on the 30th day following the Petition Date, the Debtors could be surprised by a Utility unilaterally (a) deciding that it is not adequately protected, (b) discontinuing service, or (c) making an exorbitant demand for payment to continue service. Such discontinuation of Utility Service could put the Debtors' reorganization efforts in jeopardy.

104. I believe that the relief requested in the Utilities Motion is in the best interests of the Debtors' estates, their creditors and all other parties in interest and constitutes a critical element in achieving a successful and smooth transition to chapter 11. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Utilities Motion should be granted.

v. *Motion of Debtors for Entry of Interim and Final Orders Authorizing (i) Debtors to Pay Certain Prepetition Taxes, Governmental Assessments, and Fees and (ii) Financial Institutions to Honor and Process Related Checks and Transfers (the "**Taxes Motions**")*

105. The Debtors seek entry of interim and final orders (a) authorizing, but not directing, them to pay, in their sole discretion, Covered Taxes and Fees as described in the Taxes Motion, whether asserted prior to, on, or after the Petition Date and (b) authorizing the Debtors' financial institutions to receive, process, honor, and pay checks or wire transfers used by the Debtors to pay the foregoing.

106. In the ordinary course of the Debtors' businesses, the Debtors collect, withhold, and incur (a) Environmental and Safety Fees and Assessments, (b) Sales and Use Taxes, (c) Franchise Taxes and Fees, (d) Property Taxes, and (e) Other Taxes. The Debtors remit the Covered Taxes and Fees to various federal, state, and local Governmental Authorities, including taxing and licensing authorities. The Debtors may also incur taxes based on or measured by their net income, but have not sought relief with respect to such taxes. Furthermore, withholding of employment and wage-related taxes is addressed in the Wages and Benefits Motion. I believe that, as of the Petition Date, none of the Covered Taxes and Fees is past due or delinquent.

107. Debtors may incur various fees, penalties, and assessments in connection with environmental, health, and safety laws and regulations, business licensing and permits, and participation in state regulatory agencies and boards (collectively, "**Environmental and Safety Fees and Assessments**"). Certain of the Environmental and Safety Fees and Assessments carry substantial administrative, civil, or criminal penalties in the event that the Debtors fail to comply with such Environmental and Safety Fees and Assessments.

108. The Debtors are required to remit these Environmental and Safety Fees and Assessments to the relevant Governmental Authorities on a periodic basis. As of the Petition

Date, I am unaware of any Environmental and Safety Fees and Assessments not yet remitted to the relevant Governmental Authorities.[12] Over the last 12 months, the Debtors incurred approximately $812,000 in Environmental and Safety Fees and Assessments for permits, in addition to periodic application fees incurred on an as-needed basis. I am not aware of any outstanding amounts for alleged violations of health and safety laws as of the Petition Date. In addition, the Debtors estimate that approximately $254,000 of Environmental and Safety Fees and Assessments have accrued as of the Petition Date. The Debtors further estimate that $205,000 of such accrued prepetition Environmental and Safety Fees and Assessments will become payable during the first 30 days of the Chapter 11 Cases.

109. On occasion, the Debtors incur various Sales and Use Taxes. The Debtors remit these Sales and Use Taxes to the applicable Governmental Authorities. Over the last 12 months, the Debtors paid approximately $22,000 in Sales and Use Taxes. As of the Petition Date, none of the Debtors have accrued any Sales and Use Taxes and the Debtors believe that any Sales and Use Taxes that may come due in the interim period would be *de minimis*.

110. The Debtors are required to pay various Franchise Taxes and Fees in order to continue conducting their businesses within particular jurisdictions. Over the last 12 months, the Debtors paid Franchise Taxes and Fees in Texas, Alabama, Delaware, and Mississippi of approximately $81,000 in the aggregate. In addition, approximately $40,000 of Franchise Taxes and Fees have accrued as of the Petition Date, of which approximately $16,000 of such accrued prepetition Franchise Taxes and Fees will become payable during the first 30 days of the Chapter

[12] Currently, there is an ongoing audit in Alabama relating to a business licensing tax. I believe that any tax ultimately due would be *de minimis*.

11 Cases. Failure to pay these Franchise Taxes and Fees would cause the Debtors to lose the ability to conduct their businesses in such jurisdictions.

111. The Debtors have Property Tax obligations to certain Governmental Authorities. Over the last 12 months, the Debtors paid Property Taxes of approximately $9,400,000 in the aggregate. As of the Petition Date, the Debtors have accrued but not remitted approximately $2.6 million of Property Taxes on account of real and personal property. It is critical that the Debtors are authorized to pay any Property Taxes where under applicable law the failure to pay gives rise to a secured state law lien. The Debtors' current practice generally is to pay such amounts to the appropriate Governmental Authorities on various dates during the year, and no later than when they come due. Interest and penalties accrue if such Property Taxes are not timely paid. Paying these Property Taxes, therefore, will reduce costs by minimizing interest and penalty charges.

112. The Debtors also collect various Other Taxes. The Debtors are required to remit these Other Taxes to the appropriate Governmental Authorities on a periodic basis. Over the last 12 months, the Debtors incurred approximately $66,000 in Other Taxes. In addition, approximately $21,000 of Other Taxes have accrued as of the Petition Date, of which approximately $15,000 will become payable during the first 30 days of the Chapter 11 Cases.

113. I believe that payment of the prepetition Covered Taxes and Fees is critical to the Debtors' continued, uninterrupted operations and to avoid immediate and irreparable harm to the Debtors' estates. Nonpayment of the Covered Taxes and Fees may cause certain Governmental Authorities to take precipitous action, including conducting audits, filing liens, pursuing payment of the Covered Taxes and Fees from the Debtors' directors, officers, and other employees, and seeking to lift the automatic stay, any of which would disrupt the Debtors' day-to-day operations

and could potentially impose significant costs and burdens on the Debtors' estates. Further, failure to satisfy the Covered Taxes and Fees may jeopardize the Debtors' maintenance of good standing to operate in the jurisdictions in which they conduct business. Prompt payment of the Covered Taxes and Fees will avoid these unnecessary and potentially costly and burdensome governmental actions.

114. I believe that the relief requested in the Taxes and Fees Motion is in the best interests of the Debtors' estates, their creditors and all other parties in interest and constitutes a critical element in achieving a successful and smooth transition to chapter 11. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Taxes and Fees Motion should be granted.

vi. *Motion of Debtors for Entry of Interim and Final Orders (i) Granting Administrative Expense Status to Debtors' Undisputed Obligations to Vendors Arising from the Post-Petition Delivery of Goods Ordered Prepetition, (ii) Authorizing Debtors to Pay Those Obligations in the Ordinary Course of Business, (iii) Authorizing Debtors to Return Goods, and (iv) Authorizing Financial Institutions to Honor and Process Related Checks and Transfers (the "**Goods Motion**")*

115. The Debtors seek entry of interim and final orders (a) granting the Vendors administrative priority status under sections 503(b) and 507(a)(2) of the Bankruptcy Code for undisputed obligations arising from the Debtors' outstanding Prepetition Orders received and accepted by the Debtors on or after the Petition Date, (b) authorizing the Debtors to pay, in their sole discretion, such obligations in the ordinary course of business under section 363 of the Bankruptcy Code, (c) authorizing the Debtors, in their sole discretion, under section 546(h) of the Bankruptcy Code, to return Goods purchased from Vendors by the Debtors prior to the Petition Date for credit against such Vendors' prepetition claims, and (d) authorizing the Debtors' financial institutions to receive, process, honor, and pay all checks or wire transfers used by the Debtors to pay the foregoing.

116. In connection with the normal operation of their businesses, the Debtors rely on many Vendors to provide them with, among other things, raw natural gas, other hydrocarbons, parts, inventory, supplies, equipment, and related goods necessary for the Debtors' regular midstream operations.[13] These Goods are generally shipped on an as-needed basis directly to the Debtors' operations, all as directed by the Debtors.

117. I believe that, as a consequence of the commencement of the Chapter 11 Cases, many of the Vendors may be concerned that they will not be paid for the delivery or shipment of Goods after the Petition Date if such delivery or shipment was based on a Prepetition Order, or that their claims arising from the Prepetition Orders will be treated as general unsecured claims. Accordingly, Vendors may refuse to provide Goods to the Debtors (or may recall shipments thereof) unless the Debtors issue substitute purchase orders post-petition or obtain the relief requested in the Goods Motion.

118. While it is difficult to estimate the total amount due and owing to Vendors under the Prepetition Orders for Goods for which delivery will not occur until after the Petition Date, I believe that the total amount to be paid to the Vendors in connection with the Prepetition Orders is approximately $3,000,000.

119. I believe that the relief requested in the Prepetition Goods Motion is in the best interests of the Debtors' estates, their creditors and all other parties in interest and constitutes a critical element in achieving a successful and smooth transition to chapter 11. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Prepetition Goods Motion should be granted.

[13] In many instances, the Debtors receive invoices from Vendors covering Goods and related services, such as when a Vendor both sells a Good and installs it at one of the Debtors' locations. To the extent that the Debtors in good faith are unable to ascertain the portion of such invoices that is on account of Goods and the portion that is on account of services, the Debtors have requested authority to pay the full amount of such invoices.

vii. *Motion of Debtors for Entry of Interim and Final Orders Authorizing (i) Debtors to Pay Certain Prepetition Claims of Gas Vendors and Other Lien Claimants and (ii) Financial Institutions to Honor and Process Related Checks and Transfers (the "**Lienholder Motion**")*

120. The Debtors seek entry of interim and final orders (a) authorizing, but not directing, the Debtors to pay, in their sole discretion, all or a portion of the Lienholder Claims and (b) authorizing the Debtors' financial institutions to receive, process, honor, and pay checks or wire transfers used by the Debtors to pay the foregoing.

121. In operating their businesses, the Debtors use and make payments to (a) natural gas producers in Texas (the "**Gas Vendors**") and (b) shippers, contractors, specialty suppliers, mechanics, laborers, and technical engineers (the "**Lien Claimants**") that repair, maintain, equip, supply, transport, and otherwise service necessary equipment and machinery.[14] As of the Petition Date, I estimate that the Debtors owe approximately $20,000,000 to Gas Vendors and approximately $3,000,000 to Lien Claimants on account of Lienholder Claims.

122. The Debtors seek to pay prepetition charges of certain Gas Vendors. The Gas Vendors sell to the Debtors natural gas and NGLs that they extract from the ground in Texas. Certain of these Gas Vendors are also customers of the Debtors—i.e., some of the upstream producers both sell to the Debtors natural gas and NGLs and contract for midstream services.

123. I understand that applicable Texas state law and contractual agreements may afford the Gas Vendors a variety of remedies, including the right to assert liens on natural gas and NGLs in the Debtors' possession. The Gas Vendors' ability to assert liens on the Debtors' gas and NGLs would be severely disruptive to the Debtors' businesses as midstream services

[14] The Debtors have requested authority to identify specific Gas Vendors and Lien Claimants over time in the ordinary course of business. I believe that identifying these vendors now in this Declaration or the Lienholder Motion would likely cause all such creditors to demand immediate payment in full.

providers that purchase the vast majority of their gas and NGLs from producers in Texas.[15] Additionally, if they are not paid, the Gas Vendors may refuse to continue doing business with the Debtors, resulting in significant additional expenses because the Debtors would have to locate replacement sources for natural gas and NGLs. Indeed, the Debtors may not be able to find replacement sources for natural gas and NGLs at the pricing or in the locations provided by the Gas Vendors in the volumes required. The Debtors are party to numerous contracts to sell certain volumes of natural gas and NGLs at various delivery points on their systems and, without their supply of natural gas and NGLs from the Gas Vendors, the Debtors may become operationally unbalanced. If purchases and sales are unbalanced, the Debtors face increased exposure to commodity price risks, which in turn could result in increased volatility in revenue, gross operating margin, and cash flows. Thus, the benefits of having the ability to pay the Gas Vendors substantially outweigh any associated costs given the crucial roles that the Gas Vendors play in the ongoing viability of the Debtors' businesses.

124. The Debtors also seek authority to pay the prepetition charges of the Lien Claimants who, like the Gas Vendors, under applicable law have the potential to assert statutory liens against property of the Debtors if the Debtors fail to pay for goods provided or services rendered before the Petition Date. In order to ensure efficient operations and safe and orderly working conditions at their operating locations, the Debtors at times hire third party service providers or purchase goods to care for the pipeline and processing facilities. These services include, among others, (a) common carrier and freight transport, (b) engine, compressor, and turbine services, (c) pipeline construction, maintenance, and repair, (d) pump and valve repair,

[15] The Debtors also purchase natural gas and NGLs from producers in Mississippi and Alabama, as well as vendors in the secondary marketplace. The Debtors are not seeking any relief in the Lienholder Motion relating to such purchases, as they are addressed in the All Trade Motion.

(e) instrument installation and repair, and (f) electrical construction services. If these costs are not paid, then there could be significant negative repercussions affecting the safety of the businesses. To assure regulatory compliance and protect the environment around their work sites, the Debtors contract with specialized vendors providing environmental services. Any disruption in the flow of the aforementioned services, parts, equipment, shipping, or supplies would immediately affect on-time delivery and production volume of products and byproducts. Further, any disruption in the flow of parts or services would cause the Debtors immediate and substantial economic harm and erode their ability to meet delivery obligations.

125. Much of the production equipment in use by the Debtors is highly customized and industry specific, and the available pool of experienced Lien Claimants is therefore limited, particularly in the Debtors' more remote pipeline sites. Furthermore, the technical knowledge of the Debtors' engineers and information technology suppliers is unique to the midstream natural gas industry and, in many cases, specially tailored to the Debtors' businesses.

126. Although some of the relevant equipment can in theory be obtained elsewhere, doing so economically and with new providers that are located far from the relevant sites represents a significant logistical and financial hurdle. The benefits of paying these equipment providers significantly outweigh the long term costs of failing to pay them for prepetition debts owed by the Debtors.

127. While the Debtors employ on-site mechanics and engineers at many of their sites, it would be impracticable to employ sufficient mechanics to repair and maintain all the specialized equipment the Debtors operate at all locations where service might be required. Accordingly, in many cases, the Debtors have service agreements or longstanding business relationships with third-party maintenance Lien Claimants and individuals trained and licensed

to provide maintenance services at various sites across southern Texas, Mississippi, and Alabama. The Debtors have, over the years, developed relationships with these Lien Claimants and have come to rely on the high-quality and priority service they receive. In addition, these Lien Claimants have developed in depth knowledge of the mechanical and engineering requirements of the plants and/or other equipment. It is essential to the continuity of the Debtors' operations, and the preservation of value of the Debtors' estates, that the Debtors maintain their relationships with these Lien Claimants.

128. I believe that the relief requested in the Lienholder Motion represents a sound exercise of the Debtors' business judgment and is necessary to avoid immediate and irreparable harm. The relief sought in the Lienholder Motion is amply justified by importance to Debtors of natural gas, NGLs and other Goods that Gas Vendors or Lien Claimants may hold on the Petition Date or assert liens over. Unless the Debtors have the authority to pay for their hydrocarbons and essential services, their businesses will suffer irreparable harm.

129. I believe that the relief requested in the Lienholder Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest and constitutes a critical element in achieving a successful and smooth transition to chapter 11. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Lienholder Motion should be granted.

viii. *Motion of Debtors for Entry of Interim and Final Orders Authorizing (i) Debtors to Pay Prepetition Trade Claims and (ii) Financial Institutions to Honor and Process Related Checks and Transfers (the "**All Trade Motion**")*

130. The Debtors seek entry of interim and final orders (a) authorizing, but not directing, the Debtors to pay, in their sole discretion, all or a portion of their prepetition obligations to certain Trade Vendors up to the Trade Claims Cap and (b) authorizing the

Debtors' financial institutions to receive, process, honor, and pay checks or wire transfers used by the Debtors to pay the foregoing.

131. The Debtors purchase goods and services from certain vendors and independent contractors that are unaffiliated with the Debtors and are, by and large, sole source or limited source suppliers provide unique materials or services, provide services needed for compliance with certain laws and regulations, or provide a material economic or operational advantage when compared to other available vendors; without these Trade Vendors, the Debtors could not operate. Many of these suppliers are in the position of holding a virtual monopoly over the goods and services they provide. As discussed in further detail below, the Critical Vendors are so essential to the Debtors' businesses that the lack of any of their particular goods or services, even for a short duration, could significantly disrupt the Debtors' operations and cause irreparable harm to the Debtors' businesses, goodwill, and market share.

132. The Debtors' Trade Vendors include the following:

(a) Gas Vendors. The Debtors purchase natural gas and NGLs from a number of upstream producers in Mississippi and Alabama, as well as sellers in the secondary commodities market (the "**Gas Vendors**").[16] If the Gas Vendors are not paid, they may refuse to continue doing business with the Debtors, resulting in significant disruptions to the Debtors' businesses and additional expenses because the Debtors would have to locate replacement sources for natural gas and NGLs. Indeed, the Debtors may not be able to find replacement sources for natural gas and NGLs at the pricing and locations provided by the Gas Vendors in the volumes required. The Debtors are party to

[16] The Debtors also purchase natural gas and NGLs from producers in Texas. The Debtors are not seeking any relief in the All Trade Motion relating to such purchases, as they are addressed in the Lienholder Motion.

numerous contracts to sell certain volumes of natural gas at various delivery points on their systems and, without their supply of natural gas and NGLs from the Gas Vendors, the Debtors may become operationally unbalanced. If purchases and sales are unbalanced, the Debtors face increased exposure to commodity price risks, which in turn could result in increased volatility in revenue, gross operating margin, and cash flows. Thus, the benefits of paying the Gas Vendors substantially outweigh any associated costs given the crucial roles that the Gas Vendors play in the ongoing viability of the Debtors' businesses. In addition, the Debtors operate in locations with high concentrations of hydrogen sulfide (H_2S), a highly toxic and inflammable gas. Without qualified Safety and Compliance Vendors assisting the Debtors in managing this risk, there could be serious environmental impacts or even loss of life. As of the Petition Date, I estimate that the Gas Vendors have prepetition claims of approximately $5,700,000.

(b) Safety and Regulatory Compliance Vendors. Natural gas and NGL pipelines are regulated according to the U.S. Department of Transportation, Pipeline and Hazardous Materials Safety Administration Pipeline Safety Regulations Part 191 and Part 192. The Debtors employ various skilled Safety and Regulatory Compliance Vendors to ensure that the Debtors' operations and pipelines fully comply with the foregoing safety and regulatory requirements and to provide the Debtors' employees with a safe work environment. Specifically, the Safety and Compliance Vendors provide services that include, among other things, (i) specialty pipeline and pressure valve testing, (ii) plant inspections and maintenance, and (iii) compliance and employee certification recordkeeping. Failure to comply with such regulations could result in injuries, fines, and potential interruption of operations. Accordingly, the benefits of paying the Safety and

Regulatory Compliance Vendors significantly outweigh any associated costs given the critical roles that the Safety and Regulatory Compliance Vendors play in the safety of the Debtors' employees and the ongoing viability of the Debtors' businesses. As of the Petition Date, the Debtors estimate that the Safety and Regulatory Compliance Vendors have prepetition claims of approximately $500,000.

(c) Pipeline Commodity Vendors. The Debtors purchase various other commodities from Pipeline Commodity Vendors for use in their businesses as sources of additional revenue. One category of such purchases is unfractionated Y-grade NGLs for fractionation and/or transport. Another category of purchases is methane, which is then resold to customers at an incremental margin. As of the Petition Date, the Debtors estimate that the Pipeline Commodity Vendors have prepetition claims of approximately $1,900,000.

(d) Specialty Materials. The Debtors also purchase various specialty materials required for the operation of their natural gas and NGL processing plants and safe operation of their pipelines from Specialty Material Vendors. These materials include specialty chemicals for sour gas treatment and specialty oils, anti-foam agents, tools, and chemicals for their processing equipment. As of the Petition Date, the Debtors estimate that the Specialty Material Vendors have prepetition claims of approximately $500,000.

(e) Residual Trade Creditors. The Debtors purchase miscellaneous goods and services from a variety of other vendors not described in the above paragraph 132(a)-(d) in order to operate their businesses. As of the Petition Date, I estimate that these Residual Trade Creditors have prepetition claims of approximately $1.8 million. I

believe that this amount constitutes the remainder of all prepetition trade creditor claims, and I submit that paying such claims post-petition and in the ordinary course of business would (a) dramatically reduce the financial burden on the Debtors' estates and (b) maintain goodwill and positive relationships with all trade creditors, thereby maximizing value for the benefit of the Debtors' estates.[17]

133. I estimate that the maximum amount needed to pay the prepetition claims of Trade Vendors is approximately $10.4 million (the "**Trade Claims Cap**"). The Debtors are not seeking to pay these amounts immediately or in one lump sum. Rather, the Debtors intend to pay these amounts as they become due and payable in the ordinary course of business operations. I believe that the Debtors' cash on hand, the cash generated by the Debtors' business, and the proceeds of the post-petition credit facility will provide ample liquidity for payment of the Trade Claims and continued operations in the ordinary course during the pendency of the Chapter 11 Cases.

134. I strongly believe that the uninterrupted supply of goods and services, on Customary Trade Terms, and the continuing support of their customers are imperative to the ongoing operations and viability of the Debtors. The continued availability of trade credit, in amounts and on terms consistent with those the Debtors have worked hard to obtain over the years, is clearly advantageous to the Debtors. It allows the Debtors to maintain and enhance necessary liquidity and to focus on returning to profitability. I believe that preserving working capital through the retention and reinstatement of the Debtors normally advantageous trade credit

[17] I understand that a significant portion of the Trade Claims would be entitled to administrative expense status under section 503(b)(9) of the Bankruptcy Code, as such Trade Claims are on account of goods received by the Debtors in the ordinary course of their businesses during the 20-day period prior to the Petition Date (the "**20-Day Administrative Claims**"). As they are administrative claims incurred in the ordinary course of the Debtors' businesses, I believe that the Debtors should be authorized to pay the 20-Day Administrative Claims of Trade Creditors pursuant to section 363(c)(1) of the Bankruptcy Code.

terms will enable the Debtors to stabilize business operations at this critical time, to maintain their competitiveness, and to maximize the value of their businesses for the benefit of all interested parties. Indeed, the lenders under the prepetition secured facilities support payment of the Trade Claims to effectuate the deleveraging of the Debtors' balance sheet with minimal interruption to their operations. Conversely, any deterioration of trade credit, or disruption or cancellation of deliveries of goods or provision of essential services, could spell disaster for the Debtors' restructuring efforts. Furthermore, if the relief sought herein is not granted, Trade Creditors will have no incentive to continue to supply goods or services to the Debtors on Customary Trade Terms.

135. I believe that the relief requested in the All Trade Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest and constitutes a critical element in achieving a successful and smooth transition to chapter 11. The need for the flexibility to pay such claims is particularly acute in the period immediately following the Petition Date to afford the Debtors, their attorneys and financial advisors, and other professionals the opportunity to stabilize the businesses in chapter 11. In light of the foregoing, I believe that payment of Trade Claims owed to Trade Creditors will be necessary to preserve operations, dramatically reduce the financial burden on the Debtors' estates, maintain goodwill and positive relationships with all trade creditors, and maximize the value of the Debtors' assets for the benefit of all stakeholders. Accordingly, on behalf of each the Debtors, I respectfully submit that the relief requested in the All Trade Motion should be granted.

[*Signature page follows*]

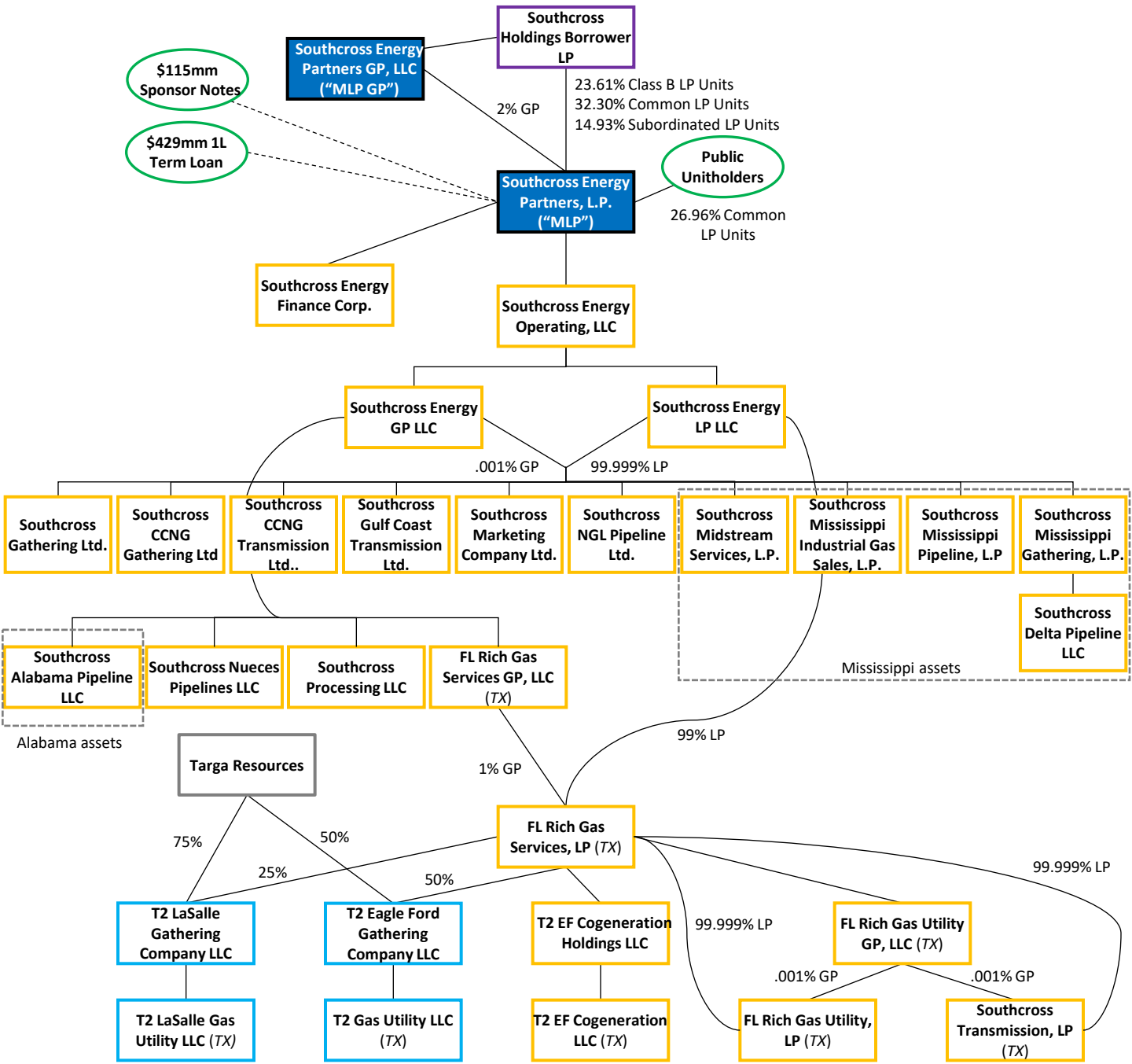
I, the undersigned Chief Financial Officer of Southcross Energy Partners, L.P., declare under penalty of perjury that the foregoing is true and correct.

Dated: April 1, 2019

/s/ Michael B. Howe
Michael B. Howe
Chief Financial Officer

Exhibit A to Howe Declaration

Corporate Structure Chart



Key:

Holdings Entities	MLP Operating Subs
MLP Top-Cos	JVs
Public and Non-Insider Investors	JV Partners

Unless otherwise noted, "Corp.," "LLC," and "LP" entities organized in Delaware; "Ltd." entities organized in Texas.